



ANNUAL INFORMATION FORM
For the year ended December 31, 2011

March 27, 2012

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As used in this annual information form, unless the context indicates or requires otherwise, the following terms:

- “Corporation”, “we”, “our” or “us” mean Sprott Inc.
- “SAM” means Sprott Asset Management LP, a wholly owned subsidiary of the Corporation, registered as a portfolio manager (“PM”), an investment fund manager (“IFM”) and an exempt market dealer (“EMD”).
- “SPW” or “Sprott Private Wealth” means Sprott Private Wealth LP, a wholly owned subsidiary of the Corporation, registered as an investment dealer and a member of the Investment Industry Regulatory Organization of Canada (“IIROC”).
- “SC” or “Sprott Consulting” means Sprott Consulting LP (and its subsidiaries), a wholly owned subsidiary of the Corporation which provides active management, consulting and administrative services to other companies.
- “Sprott U.S.” means Sprott U.S. Holdings Inc. (and its subsidiaries), a wholly-owned subsidiary of the Corporation through which the Corporation acquired Resource Capital Investments Corp. (“RCIC”), Global Resource Investment Ltd.. (“GRIL”) and Sprott Asset Management USA Inc. (formerly, Terra Resource Investment Management) (“SAM USA” and together with RCIC and GRIL, the “Global Companies”).
- “SAMI”, means Sprott Asset Management Inc., the former principal operating subsidiary of the Corporation, which was reorganized into SAM and SPW on June 1, 2009. Refer to the “Corporate Structure” section for further details on the corporate reorganization.

In this annual information form, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars, references to “\$” are to Canadian dollars and references to “U.S.\$” are to United States dollars.

Forward Looking Statements

This annual information form contains “forward-looking statements” which reflect the current expectations of management regarding our future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as “may”, “would”, “could”, “will”, “anticipate”, “believe”, “plan”, “expect”, “intend”, “estimate”, “aim”, “endeavour” and similar expressions have been used to identify these forward-looking statements. These statements reflect our current beliefs with respect to future events and are based on information currently available to us. Forward-looking statements involve significant known and unknown risks, uncertainties and assumptions. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements including, without limitation, those listed in the “Risk Factors” section of this annual information form. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results, performance or achievements could vary materially from those expressed or implied by the forward-looking statements contained in this annual information form. These factors should be considered carefully and undue reliance should not be placed on these forward-looking statements. Actual results could differ materially from those estimates. Although the forward-looking statements contained in this annual information form are based upon what we currently believe to be reasonable assumptions, we cannot assure that actual results, performance or

achievements will be consistent with these forward-looking statements. Certain totals, subtotals and percentages may not reconcile due to rounding. These forward-looking statements are made as of the date of this annual information form and will not be updated or revised except as may be required by applicable securities law. See “Risk Factors”.

Key Performance Indicators (Non-IFRS Financial Measures)

We measure the success of our business using a number of key performance indicators that are not measurements in accordance with IFRS and should not be considered as an alternative to net income or any other measure of performance under IFRS. Non-IFRS financial measures do not have a standardized meaning prescribed by IFRS and are therefore likely to be different from similar measures presented by other issuers.

Our key performance indicators include:

Assets Under Management

Assets Under Management or AUM refers to the total net assets of our public mutual funds, hedge funds, offshore funds and bullion funds, managed accounts, which include the accounts managed by SAM, RCIC and SAM U.S., and companies managed by SC on which management fees (“Management Fees”), performance fees (“Performance Fees”) and/or carried interests (“Carried Interests”) are calculated. We believe that AUM is an important measure as we earn Management Fees, calculated as a percentage of AUM, and may earn Performance Fees or Carried Interests, calculated as a percentage of: (i) our Funds’, Managed Accounts’ and Managed Companies’ excess performance over the relevant benchmark; (ii) the increase in net asset values of our Funds over a predetermined hurdle, if any; or (iii) the net profit in our Funds over the performance period. We monitor the level of our AUM because they drive our level of Management Fees. The amount of Performance Fees and Carried Interests we earn is related to both our investment performance and our AUM.

Assets Under Administration

Assets Under Administration or AUA refers to client assets held in accounts at SPW or GRIL. AUA is a measure used by management to assess the performance of the broker-dealer companies within the group.

Investment Performance (Market Value Appreciation (Depreciation) of Investment Portfolios)

Investment performance is a key driver of AUM. Our investment track record through varying economic conditions and market cycles has been and will continue to be an important factor in our success. Growth in AUM resulting from positive investment performance increases the value of the assets that we manage for our clients and we, in turn, benefit from higher fees. Alternatively, poor absolute and/or relative investment performance will likely lead to a reduction in our AUM and, hence, our fee revenue.

Net Sales

AUM fluctuates due to a combination of investment performance and net sales (gross sales net of redemptions). Net sales, together with investment performance determine the level of AUM which, as discussed above, is the basis on which Management Fees are charged and to which Performance Fees or Carried Interests may be applied.

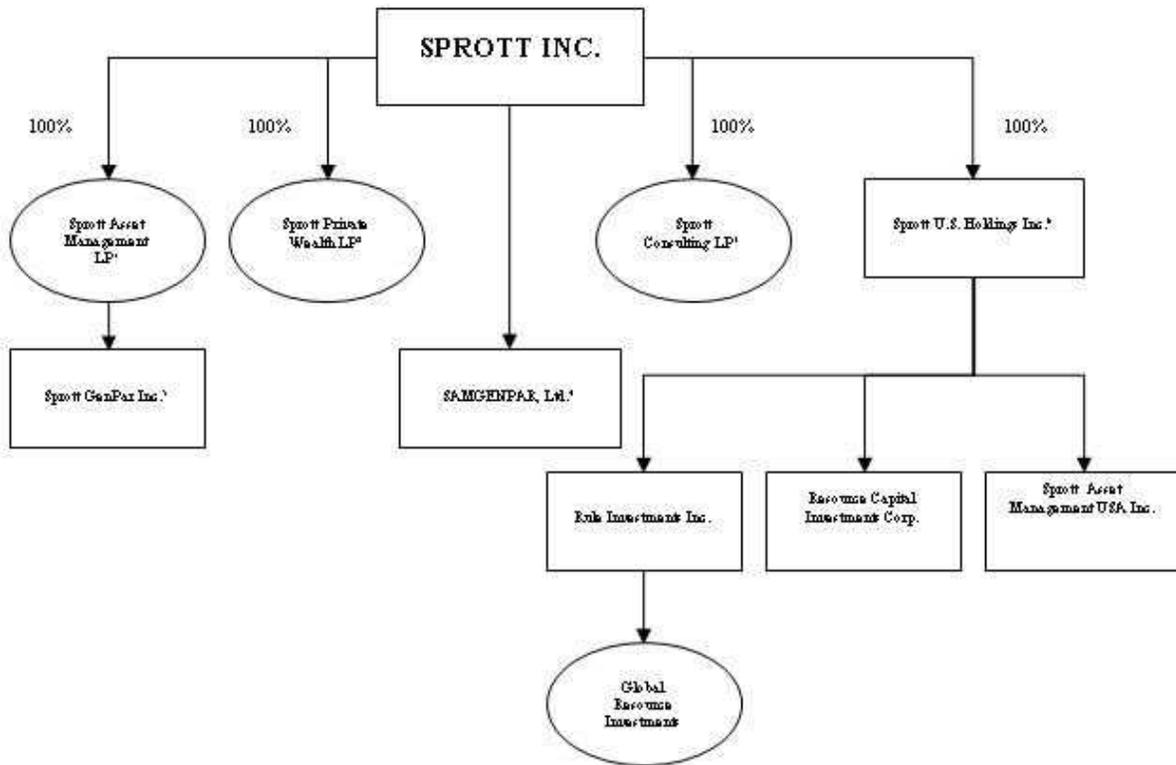
Cash Flow from Operations

Our method of calculating cash flow from operations is defined as cash provided by operating activities adjusted for the impact of the net change in non-cash balances relating to operations. This is a relevant measure in the investment management business since it represents cash available for distribution to our shareholders and for general corporate purposes.

We believe that these Key Performance Indicators are important for a more meaningful presentation of our results of operations.

Corporate Structure

Sprott Inc. was incorporated under the Business Corporations Act (Ontario) by Articles of Incorporation dated February 13, 2008. Our registered and head office is located at Suite 2700, South Tower, Royal Bank Plaza, 200 Bay Street, Toronto, Ontario, M5J 2J1. The corporate structure of the Corporation is as indicated in the following chart:



Notes:

- (1) Sprott Asset Management GP Inc. is the general partner of Sprott Asset Management LP. (See “Description of Business — Sprott Asset Management LP”).
- (2) Sprott Private Wealth GP Inc. is the general partner of Sprott Private Wealth LP. (See “Description of Business — Sprott Private Wealth LP”).
- (3) Sprott Consulting GP Inc. is the general partner of Sprott Consulting L.P. (See “Description of Business — Sprott Consulting L.P.”).
- (4) SAMGENPAR, Ltd. is the general partner of Sprott Capital L.P. and Sprott Capital L.P. II.
- (5) Sprott GenPar Inc. is the general partner of Sprott Hedge Fund L.P., Sprott Hedge Fund L.P. II and Sprott Opportunities Hedge Fund L.P.
- (6) Sprott U.S. Holdings Inc. was formed to acquire Rule Investments Inc. (which in turn owns Global Resource Investments Ltd), Terra Resource Investment Management Inc. (now Sprott Asset Management USA Inc.), and Resource Capital Investments Corp. from the Rule Family Trust. See “Description of the Business”.

On May 15, 2008, the Corporation acquired 100% of SAMI, a leading independent asset management company, with a history of offering investment management services to high net worth individuals and institutions for almost 30 years. The Corporation acquired all of the outstanding shares of SAMI pursuant to the terms of a share exchange agreement dated May 15, 2008, among SAMI, the shareholders of SAMI and the Corporation (the “Share Exchange Agreement”). The Corporation issued an aggregate of 150,000,000 common shares (“Common Shares”) to the shareholders of SAMI.

On June 1, 2009, we completed a corporate reorganization of SAMI whereby SAMI was dissolved and its operations were separated into three business lines: discretionary portfolio management by SAM, broker-dealer services by SPW, and consulting services by SC. The reorganization had no impact on the consolidated financial statements. SAM is a portfolio manager, an investment fund manager and an exempt market dealer. SPW is an investment dealer and a member of IIROC. SC provides active management, consulting and administrative services to other companies. Currently SC provides these services to Sprott Resource Corp., Sprott Resource Lending Corp. and Sprott Power Corp.

On February 4, 2011, Sprott Inc. completed the acquisition the Global Companies from Arthur Richards (“Rick”) Rule IV and the Rule Family Trust.

Description of the Business

Through SAM, SPW, SC and Sprott U.S., we are an independent asset management company dedicated to achieving superior returns for our clients over the long term. Our business model is based foremost on delivering excellence in investment management to our clients.

SAM is registered as a portfolio manager and an exempt market dealer in Ontario, British Columbia, Alberta, Saskatchewan, Manitoba, New Brunswick, Nova Scotia, Newfoundland and Labrador and as an investment fund manager in Ontario. The majority of the Corporation’s revenues are earned through SAM in the form of Management Fees and Performance Fees earned through the management of the funds and managed accounts. As at December 31, 2011, we managed approximately \$7.9 billion in assets among our investment funds (“Funds”) and discretionary managed accounts (“Managed Accounts”).

SPW is a member of IIROC and the Canadian Investor Protection Fund (“CIPF”). SPW is registered as an investment dealer in Ontario, British Columbia, Alberta, Saskatchewan, Manitoba, New Brunswick, Nova Scotia, and Newfoundland and Labrador. With our history of offering investment management services to

high net worth individual and institutions which extends back nearly 30 years, SPW provides us with a competitive advantage by providing a unique distribution channel for our fund products; as well, it serves as a platform to brand and grow our wealth management business.

SC provides active management, consulting and administrative services to various companies. SC provides active management services to public and private companies and partnerships that it has formed to capitalize on unique business opportunities. Currently, SC manages Sprott Resource Corp. (TSX: SCP), which invests and operates through its subsidiaries in the natural resource sector, Sprott Resource Lending Corp. (TSX: SIL, AMEX: SILU), which provides bridge and mezzanine financing to the resource sector, and Sprott Power Corp. (TSX: SPZ), which is an operator and developer of renewable energy projects. SC also provides our funds and our wealth management business access to merchant banking and private equity style investments. Revenues are earned through Management Fees and Performance Fees generated by the companies and partnerships SC manages.

The Global Companies that comprise Sprott U. S. are leading experts in the natural resource investing sector providing both investment management and specialized broker services. The Global Companies are led by Rick Rule, a natural resources investor with over 35 years of experience in the investment industry, and have developed a team of resource investing experts, including geologists and mining engineers. They offer their expertise through pooled investment vehicles, managed accounts and brokerage accounts. The Global Companies are based in Carlsbad, California but invest globally. Together, the Global Companies administer approximately \$1.5 billion and manage over U.S.\$500 million in client assets across three business lines:

- RCIC was founded in 1998 and manages assets for pooled investment vehicles that invest in natural resource companies. The pooled investment vehicles managed by RCIC generate management and Performance Fees and have an average remaining duration of seven years.
- SAM USA (formerly Terra Resource Investment Management) was founded in 2006 and is a registered investment advisor that provides segregated managed accounts for institutions and high-net worth individuals.
- GRIL was founded in 1993 and is a full service U.S. brokerage firm that specializes in natural resource companies in the United States, Canada and Australia. GRIL has approximately 5,000 client accounts.

Summary of AUM/ AUA by business line (in \$ millions as at December 31, 2011):

<u>AUM</u>	
Mutual Funds	2,497
Bullion Funds	2,971
Domestic Hedge Funds	1,717
Offshore Hedge Funds	566
Managed Companies	700
Managed Accounts	288
Fixed Term Limited Partnerships	398
TOTAL	9,137

<u>AUA</u>	
SPW – SAM-managed funds	1,903
– Other	1,007
GRIL	1,488
TOTAL	<u><u>4,398</u></u>

Our business model is based foremost on delivering excellence in investment management to our clients. As of December 31, 2011, we had approximately 125,000 unitholders comprised primarily of retail, high net worth and, to a lesser extent, institutional investors who subscribe to our investing strategy and process. Currently, we have 166 employees.

Assets Under Management

The following table provides the AUM of our Funds and our Managed Accounts as at December 31, 2011:

Distribution of Assets Under Management by Product

(in \$ 000's, as at December 31, 2011)

Product	Assets Under Management	% of Total SAM AUM
Public Mutual Funds, Flow-Through LPs and Corporate Class (excluding Bullion Funds)		
Sprott Canadian Equity Fund	\$1,356,588	14.8%
Sprott Gold and Precious Minerals Fund	\$559,440	6.1%
Sprott Energy Fund	\$131,901	1.4%
Sprott Small Cap Equity Fund	\$195,418	2.1%
Sprott All Cap Fund	\$14,039	0.2%

Sprott Diversified Yield Fund	\$120,948	1.3%
Sprott Short-Term Bond Fund	\$33,484	0.4%
Sprott Tactical Balanced Fund (<i>formerly Sprott Multi-Manager Fund</i>) ⁽¹⁾	\$46,512	-
Sprott Resource Class ⁽²⁾	\$2,040	0.0%
Sprott 2010 Flow-Through LP ⁽³⁾	\$37,473	0.4%
Sprott 2011 Flow-Through LP	\$45,653	0.5%
Public Mutual Funds, Flow-Through LPs and Corporate Class Total	\$2,496,984	27.3%
Domestic Hedge Funds		
Sprott Hedge Fund L.P.	\$506,710	5.5%
Sprott Hedge Fund L.P. II	\$556,579	6.1%
Sprott Bull/Bear RSP Fund	\$159,984	1.8%
Sprott Opportunities Hedge Fund L.P. (<i>including Sprott Opportunities RSP Fund</i>)	\$99,002	1.1%
Sprott Small Cap Hedge Fund	\$47,123	0.5%
Sprott Absolute Return Income Fund	\$45,139	0.5%
Sprott Private Credit Fund L.P.	\$106,351	1.2%
Sprott Strategic Fixed Income Fund	\$195,726	2.1%
Domestic Hedge Funds Total	\$1,716,614	18.8%
Bullion Funds		
Sprott Gold Bullion Fund	\$231,788	2.5%
Sprott Silver Bullion Fund	\$148,897	1.6%
Sprott Physical Gold Trust	\$1,957,626	21.4%
Sprott Physical Silver Trust	\$633,051	6.9%
Bullion Funds Total	\$2,971,362	32.5%

Offshore Funds		
Sprott Offshore Fund, Ltd.	\$254,377	2.8%
Sprott Offshore Fund II, Ltd.	\$148,522	1.6%
Sprott Capital, L.P.	\$70,981	0.8%
Sprott Capital, L.P. II	\$92,460	1.0%
Offshore Funds Total	\$566,340	6.2%
Managed Companies		
Sprott Resource Corp.	\$506,018	5.5%
Sprott Resource Lending Corp.	\$194,164	2.1%
Managed Companies Total	\$700,182	7.7%
Managed Accounts		
Sprott Asset Management USA	\$112,420	1.2%
Exploration Limited Partnerships (RCIC)	\$397,358	4.3%
SAM Managed Accounts	\$175,824	2.0 %
Managed Accounts Total	\$685,602	7.5%
Total	\$9,137,084	100.0%

- (1) Not included in AUM totals to avoid double-counting as this Fund invests in other Sprott mutual funds.
- (2) Launched on October 17, 2011.
- (3) On February 3, 2012, Sprott 2010 Flow-Through Limited Partnership completed the tax-deferred transfer of the assets of the Partnership into the Resource Class and was dissolved on February 6, 2012.

Changes in AUM reflect net contributions and withdrawals of capital from new and existing clients and from net market appreciation or depreciation. The following table and chart illustrate the sources of growth of our AUM from January 1, 2007 to December 31, 2011, on an annual basis.

AUM Growth

(In \$ Millions)

	Twelve Month Period Ended December 31,				
	2007	2008	2009	2010	2011
Opening Assets Under Management ⁽¹⁾⁽²⁾	\$4,239.3	\$6,215.3	\$4,448.7	\$4,773.8	\$8,545.3
Net Sales	\$1,350.2	\$95.2	\$(571.2)	\$1,448.4	\$1,418.0
Market Appreciation (Depreciation)	\$625.7	\$(1,861.8)	\$896.2	\$2,323.1	\$(1,542.5)
Acquisition	-	-	-	-	716.3
Closing Assets Under Management ⁽¹⁾⁽³⁾	\$6,215.3	\$4,448.7	\$4,773.8	\$8,545.3	\$9,137.1

- (1) Net of fees and other expenses.
(2) At the beginning of the period.
(3) At the end of the period.

We derive our revenue principally from Management Fees earned from the management of our Funds and Managed Accounts and from Performance Fees earned from the investment of the AUM of our Funds and Managed Accounts. Our Management Fees are calculated as a percentage of AUM. Our Performance Fees are calculated as a percentage of the return earned by our Funds and Managed Accounts. Accordingly, the growth in our Management Fees is based on growth in AUM while growth in our Performance Fees is based on both the growth in AUM and the absolute or relative return, as applicable, earned by our Funds, Managed Accounts and Managed Companies. As at December 31, 2011, of the approximately \$9.1 billion in AUM we managed, approximately 67% was subject to a Performance Fee component. Approximately \$3.2 billion (35%) of AUM was subject to a Performance Fee contingent upon surpassing the return for a defined benchmark index, approximately \$1.4 billion (16%) of AUM was subject to a Performance Fee contingent on achieving a positive return, and (approximately \$1.5 billion or 16% of AUM as at December 31, 2011) has a Performance Fee contingent on achieving a return greater than a specified percentage return hurdle.

Sprott Asset Management LP

At SAM, our team of portfolio managers, investment strategists and market strategists, together with the support of our research team, consider themselves “investment opportunists” who are committed to seeking out optimal investments for our clients. By taking a consistent, disciplined approach to investing, based on sound fundamental analysis and independent research, our investment management team carefully explores, analyzes and selects what they consider to be a portfolio of the best ideas that equity markets have to offer in the current and forecasted economic environment. See “– Our Investment Team”.

Our Investment Team

We have attracted a deep pool of investment management talent consisting of portfolio managers, analysts and investment strategists. We believe that our investment professionals have proven abilities to manage our Funds and Managed Accounts, and to appeal to clients across a broad spectrum of strategies. See “Our Funds”. Eric Sprott as Chief Executive Officer and Chief Investment Officer provides overall leadership to SAM and is one of the most recognized market strategists globally. Since our portfolio managers and investment strategists have on average over 20 years of investment management experience, we believe our investment management team is proven and well positioned to respond and adapt to various investment climates and market conditions.

Our portfolio managers and market strategists are supported by a talented group of market analysts, each of whom concentrates on a different area of expertise. Our investment team believes this level and quality of analyst support is valuable and somewhat unique within the Canadian asset management industry. Each portfolio manager or market strategist uses this support group at his or her discretion to identify opportunities which best suit the relevant Fund’s investment portfolio and strategy.

Eric Sprott, CA

Chairman, Sprott Inc.

Chief Executive Officer, Chief Investment Officer and Senior Portfolio Manager

Eric Sprott has over 40 years of experience in the investment industry and has managed client funds for much of that time. Eric entered the investment industry as a research analyst at Merrill Lynch Canada, Inc. In 1981, he founded Sprott Securities Limited (a predecessor to Sprott Securities Inc., now Cormark Securities). After establishing SAMI in December 2001 as a separate entity, Eric divested his entire stake in Sprott Securities Inc. to its employees. Eric’s investment abilities are demonstrated by the track record of various Sprott Hedge Funds (both domestic and offshore), Sprott Canadian Equity Fund, and certain Managed Accounts.

In October 2006, Eric was the recipient of the 2006 Ernst & Young Entrepreneur of the Year Award (Financial Services) and the 2006 Ernst & Young Entrepreneur of the Year for Ontario. Eric was also honoured as Investment Executive’s “Fund Manager of the Year” for 2007. In March 2011 Eric Sprott was named “Top Financial Visionary in Canada” by Advisor.ca. Eric graduated with a Bachelor of Commerce from Carleton University in 1965 and was awarded an Honorary Doctorate from Carleton University in 2003. He received his Chartered Accountant designation in 1968 and was awarded the FCA designation in 2011.

John Embry

Chief Investment Strategist

John Embry joined SAMI as Chief Investment Strategist in March of 2003 as a member of SAM’s investment team with a focus on the Sprott Gold and Precious Minerals Fund. John is known as an industry expert in precious metals, has researched the gold sector for over 30 years and has accumulated industry experience as a portfolio management specialist since 1963. John began his investment career with Great-West Life Assurance Corporation where he advanced from stock selection analyst to Portfolio Manager and Vice-President of Pension Investments over a term of 23 years. John then left to become a partner at United Bond and Share, an investment counselling firm which was acquired by Royal Bank in 1987. John was Vice-President, Equities and Portfolio Manager at RBC Global Investment Management Inc. where he oversaw \$5 billion in assets, including the flagship Royal Canadian Equity Fund and the Royal Precious Metals Fund. John graduated from the University of Manitoba with a Bachelor of Commerce degree.

Scott Colbourne, CFA
Senior Portfolio Manager

Scott Colbourne joined SAM in March 2010 as a senior portfolio manager and has almost 25 years of global fixed income and currency market experience. He is the lead portfolio manager for the Sprott Diversified Yield Fund, Sprott Short-Term Bond Fund and the Sprott Absolute Return Income Fund. Previously, Scott was senior Vice President and portfolio manager at AGF Funds Inc. where he managed all of the fixed income mandates and co-managed balanced funds. He was also a managing director and partner at a Canadian hedge fund focusing on global fixed income and currency management. Prior to joining SAM, Scott was a senior fixed income portfolio manager at TD Asset Management, where he was part of a team that managed all the firm's active fixed income institutional, retail and private client assets. Scott began his career at the Bank of Canada where he worked in both research and trading which assisted in the execution of monetary policy. He is a four time winner of the Best Foreign Bond Fund at the Morningstar Canadian Investment Awards. Scott is a CFA Charter holder and has an MBA from University of Toronto and an Honours BA from Queens University.

Michael Craig, CFA
Portfolio Manager

Michael Craig joined SAM in May 2010 as a portfolio manager and brings more than ten years of experience developing fixed income analytics, tactical asset allocation and fixed income management. Along with Scott Colbourne, Michael manages the Sprott Diversified Yield Fund, Sprott Short-Term Bond Fund and the Sprott Absolute Return Income Fund. Previously Mr. Craig worked at Phillips, Hager and North where he developed the analytics and research systems used by the fixed income team. Prior to joining SAM, Michael was a Vice President at TD Asset Management where he was a portfolio manager for the Managed Asset Programs and as well led the portfolio analytics group. Michael is a CFA Charter holder and obtained his Masters in Financial Risk Management from Simon Fraser University in 2006 and his Bachelor of Commerce from the University of British Columbia in 1999.

Jamie Horvat, LIFA
Senior Portfolio Manager

Jamie Horvat joined SAM in January 2008 with a focus on the Sprott Gold and Precious Minerals Fund. In September, 2008, Jamie, along with Charles Oliver, started the Sprott All Cap Fund. In 2009, Jamie and Charles also assumed lead portfolio manager responsibilities on the Opportunities Funds. Prior to joining the Corporation, Jamie was a co-manager of the Canadian Small Cap, Global Resources, Canadian Resources and Precious Metals funds at AGF Management Limited. He was also the Associate Portfolio Manager of the AGF Canadian Growth Equity Fund, as well as an instrumental contributor to a number of structured products and institutional mandates while at AGF. He joined AGF in 2004 as a Canadian Equity Analyst with a special focus on Canadian and Global resources, as well as Canadian small cap companies. Prior to joining AGF he spent five years at another large Canadian mutual fund company as an Investment Analyst. Jamie holds a diploma in Mechanical Engineering Technology (honours) from Mohawk College, and an Honours B.Comm from McMaster University. He is a member of the International Research Association and is a Licensed International Financial Analyst. He is also a member of the Ontario Association of Certified Engineering Technicians & Technologists, as well as the Toronto CFA Society and the CFA Institute.

Peter Imhof
Investment Strategist

Peter Imhof joined SAM in August 2007 as an Investment Strategist and member of SAM's small cap team. Peter has almost 15 years of experience in the investment industry. Prior to joining SAM, Peter worked at Sceptre Investment Counsel as a member of the Canadian Equity Small Cap Team and was appointed a Managing Director in December 2006. Peter began his investment career at Sceptre in March 1998. From 1998 to 2000 he was involved in quantitative analysis and portfolio construction in Canadian Equities.

Allan Jacobs
Senior Portfolio Manager, Director of Small Cap Investments

Allan Jacobs joined SAM in August 2007 as Director of Small Cap Investments with focus on the Sprott Small Cap Funds. He is also a co-lead portfolio manager for the Sprott Flow-Through Limited Partnerships. Allan has over 24 years of experience in the investment industry. Prior to joining us, Allan was head of Canadian Small Cap equities at Sceptre Investment Counsel Limited, where he was employed for the previous 14 years. He was also the Portfolio Manager of the Sceptre Equity Growth Fund, as well as Portfolio Manager of the Sceptre Canadian Equity Small Cap Pooled Fund and the Canadian small cap component of all other institutional portfolios. He currently manages the Sprott Small Cap Hedge Fund which was launched on January 31, 2007 (formerly called the Sceptre Small Cap Opportunities Fund). He was an integral part of the Canadian Equity team at Sceptre since 1993 and was appointed a Managing Director of Sceptre in 1996.

Eric Nuttall
Portfolio Manager

Eric joined the firm in February 2003 as a research associate and was subsequently promoted to the position of research analyst in 2005, associate portfolio manager in 2008, and then to portfolio manager in January 2010. With a focus on oil and gas investments, Eric supports all portfolio managers at Sprott with identifying top performing oil and gas investment opportunities. Eric is the lead portfolio manager on the Sprott Energy Fund and is also the co-manager of the Sprott Flow-Through Limited Partnerships and the Sprott 2011 Flow-Through Limited Partnership along with Allan Jacobs. Further, Eric contributes towards internal macro energy forecasts, and his insight into emerging unconventional plays has been covered in several financial journals such as The Wall Street Journal Asia and Barron's. Eric graduated with high honors from Carleton University with an Honors Bachelor of International Business.

Charles Oliver, HBSc Geology, CFA
Senior Portfolio Manager

Charles Oliver joined SAM in January 2008 with a focus on the Sprott Gold and Precious Minerals Fund. In September 2008, Charles, along with Jamie Horvat, started the Sprott All Cap Fund. In 2009, Jamie and Charles also assumed lead portfolio manager responsibilities on the Sprott Global Equity Fund and the Opportunities group of Funds. Charles began his investment career with Midland Doherty in 1987 and later joined AGF's Fund Management department in 1999. In 2002 he was named co-manager of the AGF Precious Metals Fund, the AGF Global Resources Fund and the AGF Canadian Resources Fund. In 2004 he was named Manager of the AGF Canadian Small Cap Fund. In 2006 he became co-manager of the AGF Growth Equity Fund and co-advisor on the Oil Sands Sector Fund. Charles also helped manage institutional funds and funds domiciled in Japan, Ireland, and the UK. Charles obtained his Honours Bachelor of Science degree in Geology from the University of Western Ontario in 1987 and obtained his CFA designation in 1998.

John Wilson
Senior Portfolio Manager

In February 2012, John Wilson joined SAM as Senior Portfolio Manager. John has over 25 years of investment and business experience. From 2009 to 2012, he was Chief Investment Officer of Cumberland Private Wealth Management. Previously, he was the founder of DDX Capital Partners, an alternative investment manager from 2004 to 2008. From 2000 to 2003, John was Managing Director and a top-rated technology analyst at RBC Capital Markets; and previously, a Director at UBS Canada. John is an MBA graduate of The Wharton School, University of Pennsylvania and has also earned a Bachelor of Science degree in Electrical Engineering from Queen's University.

Paul Wong, CFA
Portfolio Manager

In March 2011 Paul Wong joined SAM as a Portfolio Manager. Paul has more than 20 years of experience in the investment industry. From January 2008 to March 2011, he was a Portfolio Manager with Natcan Investment Management, where he managed three natural resource related funds with more than \$350 million in combined assets. From May 2002 to January 2008, Paul was a proprietary trader with Scotia Capital, managing the bank's capital on a long/short basis. Prior to joining Scotia Capital, he held portfolio management positions with both TAL Global Asset Management and Jones Heward Investment Counsel. Paul earned his Bachelor of Science (specializing in petroleum geology) from the University of Toronto and holds a Chartered Financial Analyst designation.

Our Investment Philosophy and Styles

As at December 31, 2011, SAM managed a family of Funds consisting of Canadian public mutual funds, Canadian hedge funds, offshore funds within master-feeder fund structures, exchange-traded Trusts that hold physical gold or silver bullion, and flow-through limited partnerships. SAM also manages a number of Managed Accounts, primarily for institutional clients. We intend to continue to increase our investment product offerings as necessary to better serve our clients in a continuously evolving financial landscape, both in Canada, in the U.S. and globally.

Historically we have focused on introducing investment products that are based on our macroeconomic view of a new opportunity at the early stages of a possible major market move. We believe we have a history of early recognition of investment themes and trends established through an innovative investment approach. We also believe that we are known among sophisticated investors to have a "willingness to be different" as we do not necessarily adopt the most popular investment themes, which is demonstrated by early investments in precious metals, energy, uranium, other resources and commodities, and short positions in U.S. home-building, financial and consumer companies.

Our management style and expertise have evolved over our history. Over our formative years, we focused on emerging growth and small capitalization investments within a strong macroeconomic framework. While we have consistently focused on the mining and energy resource sectors, we believe this expertise has strengthened over time. We then added precious metals, small-cap and additional energy specialists and in 2010, fixed income specialists, to our team, often by hiring managers with leading track records from other fund management companies. In early 2012 we further broadened our investment expertise by adding a larger cap manager. These additions have had the effect of significantly broadening our capabilities and Fund offerings. We intend to continue to invest in the growth of our franchise and expand our product offerings.

We take a consistent, disciplined approach to investing based on sound fundamental analysis and independent research. We have a team-based approach to our investment decision-making process. Themes and opportunities are discussed daily among our investment team. We identify North American and international investment themes and then conduct a rigorous research and search process in order to focus on specific ideas which we feel represent outstanding opportunities for investment. We carefully explore, analyze and select what we consider to be an investment portfolio of the “best ideas” that markets have to offer in the current economic environment. Our macroeconomic research and outlook combined with detailed analysis is the foundation for our determination of sector weightings and subsequent stock or bond selections within our investment portfolios.

While our investment professionals are guided by the same fundamental investment discipline, our Funds reflect the individual investment styles and philosophies of the portfolio managers and investment strategists who are involved in their management.

Our Funds (as at December 31, 2011)

Sprott Canadian Equity Fund

The Sprott Canadian Equity Fund is a Canadian equity, growth and value mutual fund launched on September 26, 1997. The investment objective of this Fund is to outperform the broad Canadian equity market as measured by the S&P/TSX Composite Total Return Index (or its successor index) over the long term (greater than five years), providing long-term capital appreciation and value by investing primarily in small-to-mid capitalization stocks of Canadian issuers. The Performance Fee payable to us is calculated as 10% of that portion of the annual return of the Fund which is greater than the S&P/TSX Composite Total Return Index. If the performance of the Fund in any year is less than the performance of the benchmark index, then no Performance Fee will be payable in any subsequent year until the performance on a cumulative basis calculated from the first of such subsequent years has exceeded any such deficiency.

Sprott Gold and Precious Minerals Fund

The Sprott Gold and Precious Minerals Fund is a gold and precious minerals mutual fund launched on November 15, 2001. The investment objective of this Fund is to provide long-term capital growth through individual stock selection as well as portfolio diversification. In order to achieve its investment objective, the Fund invests primarily in gold, gold certificates, other precious metals and minerals, the certificates relating to such metals and minerals and/or in equity securities of companies that are directly or indirectly involved in the exploration, mining, production or distribution of gold and precious metals and minerals. The Performance Fee payable to us is calculated as 10% of that portion of the annual return of the Fund which is greater than the S&P/TSX Global Gold Index. If the performance of the Fund in any year is less than the performance of the benchmark index, then no Performance Fee will be payable in any subsequent year until the performance on a cumulative basis calculated from the first of such subsequent years has exceeded any such deficiency.

Sprott Energy Fund

The Sprott Energy Fund is an energy sector mutual fund launched on April 15, 2004. This Fund seeks to achieve long-term capital growth through individual stock selection as well as portfolio diversification. The Fund invests primarily in equity and equity-related securities of companies that are involved directly or indirectly in the exploration, development, production and distribution of oil, gas, coal, uranium and other related activities in the energy and resource sector. The Performance Fee payable to us is calculated as 10% of that portion of the annual return of the Fund which is greater than the S&P/TSX Capped

Energy Total Return Index. If the performance of the Fund in any year is less than the performance of the benchmark index, then no Performance Fee will be payable in any subsequent year until the performance on a cumulative basis calculated from the first of such subsequent years has exceeded any such deficiency.

Sprott Hedge Fund L.P.

The Sprott Hedge Fund L.P. was launched on November 7, 2000, and closed to new investment on July 31, 2002. The investment objective of this long/short equity hedge fund is to maximize absolute returns on investments. The Fund seeks to accomplish its objective through superior securities selection by taking both long and short investment positions. The allocation of long and short positions in the Fund will vary depending upon the investment team's view of the domestic and international economy and market trends. The Performance Fee payable to us is calculated as 20% of that portion of the annual return of the Fund which is greater than 10% in any fiscal year. To the extent that the Fund generates a negative return in any fiscal year, such negative return will be carried forward for one year, i.e. any such negative return will be added to the 10% hurdle in the subsequent year.

Sprott Hedge Fund L.P. II

The Sprott Hedge Fund L.P. II is a long/short equity hedge fund launched on August 31, 2002. The investment objective of this Fund is to maximize absolute returns on investments. The Fund seeks to accomplish its objective through superior securities selection by taking both long and short investment positions. The allocation of long and short positions in the Fund will vary depending upon the investment team's view of the domestic and international economy and market trends. The Performance Fee payable to us is calculated as 20% of the annual return of the Fund. To the extent the Fund incurs net losses in any fiscal year such losses will be carried forward to effectively offset profits on which our share of income would otherwise be calculated in any subsequent year.

Sprott Bull/Bear RSP Fund

The Sprott Bull/Bear RSP Fund is a long/short equity hedge fund launched on November 12, 2002. The investment objective of this Fund is to maximize absolute returns on investments by taking both long and short investment positions. The allocation of long and short positions in the Fund will vary depending upon the investment team's view of the domestic and international economy and market trends. The investment team intends to invest in opportunities that provide what they, at the time of the investment, believe to be the best reward per unit of risk. The Performance Fee payable to us is calculated as 20% of the annual return of the Fund. The calculation of positive and negative performance will accumulate on a monthly basis and if positive at the end of the year, the accrued Performance Fee will be paid. Negative returns will be carried forward indefinitely until the cumulative return becomes positive.

Sprott Opportunities Hedge Fund L.P.

The Sprott Opportunities Hedge Fund L.P. is a long/short equity hedge fund launched on April 7, 2004. The investment objective of this Fund is to provide long-term capital appreciation through fundamental securities selection by taking both long and short investment positions in equity, debt and derivative securities, and through strategic trading. The allocation of long and short positions will vary depending on the opportunities the investment team believes have the best reward per unit of risk. The Performance Fee payable to us is calculated as 20% of the annual return of the Fund. No Performance Fee will be paid with respect to a fiscal year until any net loss previously incurred has been offset by subsequent net profits.

Sprott Opportunities RSP Fund

The Sprott Opportunities RSP Fund is a long/short equity hedge fund launched on September 30, 2005. This Fund invests directly in units of the Sprott Opportunities Trust, which in turn invests in units of the Sprott Opportunities Hedge Fund L.P. The Performance Fee payable to us is calculated as 20% of the annual return of the Fund. To the extent that the Fund incurs net losses in any fiscal year, such losses will be carried forward to effectively offset profits on which our Performance Fee would otherwise be calculated in any subsequent year.

Sprott Small Cap Equity Fund

The Sprott Small Cap Equity Fund is a Canadian small cap equity mutual fund launched on August 23, 2007. The objective of this Fund is to achieve long-term capital growth by investing primarily in small capitalization equity and equity-related securities listed in Canada, with some exposure to global small capitalization equities. The Performance Fee payable to us is calculated as 10% of that portion of the annual return of the Fund which is greater than the S&P/TSX Small Cap Total Return Index. If the performance of the Fund in any year is less than the performance of the benchmark index, then no Performance Fee will be payable in any subsequent year until the performance on a cumulative basis calculated from the first of such subsequent years has exceeded any such deficiency.

Sprott Small Cap Hedge Fund

The Sprott Small Cap Hedge Fund (formerly the Sceptre Small Cap Opportunities Fund) is a long/short equity hedge fund. We became the successor manager of this Fund on October 12, 2007. The investment objective of the Fund is to achieve long-term capital growth primarily through the selection and management of long and short positions in equity securities and through strategic trading. The investment team manages the Fund with a general bias towards a net long position. The Fund's portfolio will consist primarily of investments that generate capital gains, but could also include investments and strategies that generate income in accordance with the Fund's objective. The Performance Fee payable to us is calculated at the unit level and is equal to 20% of the amount by which the net asset value of each unit exceeds the greater of (i) the purchase price of such unit, and (ii) if a Performance Fee was paid, the net asset value of such unit immediately following the last date on which a Performance Fee was so paid. Any decline in the net asset value of the Fund's units must be recouped before we are paid any Performance Fee on the units in any given fiscal year.

Sprott All Cap Fund

The Sprott All Cap Fund is an RRSP eligible mutual fund launched on September 18, 2008. The Fund is designed to capitalize on growth oriented opportunities in any sector or industry unhindered by market capitalization constraints. The objective of the Fund is to achieve long-term capital growth by investing primarily in equity and equity related securities of small, medium and large capitalized companies that have the potential to produce above average growth. The Fund's investments will include primarily small, medium and large cap Canadian companies. The Performance Fee payable to us is calculated as 10% of that portion of the annual return of the Fund which is greater than the S&P/TSX Composite Total Return Index. If the performance of the Fund in any year is less than the performance of the benchmark index, then no Performance Fee will be payable in any subsequent year until the performance on a cumulative basis calculated from the first of such subsequent years has exceeded any such deficiency.

Effective November 30, 2010, the Sprott Global Equity Fund was merged into the Sprott All Cap Fund. The holders of units of each series of Sprott Global Equity Fund received units of the equivalent series of

Sprott All Cap Fund, determined on a dollar-for-dollar basis. At the time of the merger, the total net asset value of the Sprott Global Equity Fund was \$7.6 million.

Sprott Gold Bullion Fund

Sprott Gold Bullion Fund was launched on March 17, 2009. The investment objective of the Sprott Gold Bullion Fund is to seek to provide a secure, convenient alternative for investors seeking to hold gold. The Fund will invest primarily in unencumbered, fully allocated gold bullion, permitted gold certificates and/or closed-end funds and the underlying interest of which is gold. The Fund may also invest a portion of its assets in cash, money market instruments and/or treasury bills. The fund does not have a Performance fee component.

Sprott Tactical Balanced Fund (formerly Sprott Multi-Manager Fund)

FNSSC Multi-Manager Fund was launched on April 2, 2009 and renamed to Sprott Multi-Manager Fund on November 2, 2009. Effective November 30, 2010, SAM, with unitholder approval, changed the investment objective of Sprott Multi-Manager Fund and the Fund's name was changed to Sprott Tactical Balanced Fund. Sprott Tactical Balanced Fund continues to provide exposure to a mix of investment strategies, but with greater asset class diversification by including SAM's fixed income funds. In addition, the Fund employs a more flexible and opportunistic asset allocation approach to seek to improve risk-adjusted return potential in a variety of market environments.

Sprott Physical Gold Trust

Sprott Physical Gold Trust was established on August 28, 2009 under the laws of the Province of Ontario. The Fund was created to invest and hold substantially all of its assets in physical gold bullion. The Fund seeks to provide a secure, convenient and exchange-traded investment alternative for investors interested in holding physical gold bullion without the inconvenience that is typical of a direct investment in physical gold bullion. The Fund invests primarily in long-term holdings of unencumbered, fully allocated, physical gold bullion and will not speculate with regard to short-term changes in gold prices. The Fund does not anticipate making regular cash distributions to unitholders. SAM is entitled to receive a monthly Management Fee equal to 1/12 of 0.35% of the value of the net assets of the Fund, plus any applicable taxes. The Management Fee is calculated and accrued daily and payable monthly in arrears on the last day of each month.

Sprott Diversified Yield Fund

The Sprott Diversified Yield Fund was launched on August 5, 2010. The investment objective of the Fund is to maximize the total return of the Fund and to provide income by investing primarily in debt and debt-like securities of corporate and government issuers from around the world. To achieve the Fund's investment objective, the Fund takes a flexible approach in investing in debt instruments and the allocation will depend on the portfolio advisor's view of economic and market conditions. In addition, SAM selects the Fund's investments in an effort to take advantage of the credit cycle and the difference in currencies, interest rates and credits between countries based on a global macroeconomic and political analysis. As part of its investment strategy, the Fund may engage in short selling up to 20% of the Fund's total net assets as a result of special relief it obtained from Canadian securities regulators. The Fund has an annual Performance Fee equal to a percentage of the average daily net asset value of the applicable series of the Fund. Such percentage will be equal to 10% of the difference by which the return in the net asset value per unit of the applicable series of the Fund from January 1 to December 31 exceeds the percentage return of the blended benchmark index. The blended benchmark index return consists of the following: 75% of the daily return of the BofA Merrill Lynch U.S. High Yield Index, hedged to Canadian

dollars (or any successor index to such index), and 25% of the daily return of the DEX Universe Bond Index (or any successor index to such index). If the performance of a series of the Fund in any year is less than the performance of the blended benchmark index, then no Performance Fee will be payable in any subsequent year until the performance of the applicable series of the Fund, on a cumulative basis calculated from the first of such subsequent years has exceeded the amount of the deficiency.

Sprott Short-Term Bond

The Sprott Short-Term Bond Fund was launched on August 5, 2010. The investment objective of the Fund is to provide regular income while preserving capital and maintaining liquidity through investing primarily in short-term debt securities issued by Canadian federal, provincial and municipal governments as well as corporate issuers. To achieve the Fund's investment objective, the Fund employs investment strategies based upon economic research, quantitative and technical analysis, the analysis of credit quality pertaining to prospective investments and establishing an evolving asset allocation containing government and corporate bonds. The Fund may invest a portion of its assets in short-term debt securities of foreign issuers. As part of its investment strategy, the Fund may engage in short selling when it is permitted by applicable securities legislation. There is no Performance Fee component for the Fund.

Sprott 2011 Flow-Through LP and Sprott 2012 Flow-Through LP

Sprott 2011 and 2012 Flow-Through Limited Partnerships (the "Partnerships") are non-redeemable investment funds. The investment objective of each Partnership is to provide for a tax-assisted investment in a diversified portfolio of flow-through shares and other securities, if any, of resource issuers with a view to achieving capital appreciation and significant tax benefits for their limited partners.

The Partnerships' investment strategy is to invest in flow-through shares and other securities, if any, of lower risk resource issuers whose principal business will be: (i) primarily, oil and gas exploration, development, and/or production and certain energy production that may incur Canadian renewable and conservation expense, and (ii) to a lesser extent, mining exploration, development, and/or production. To accomplish this strategy, a strong preference will be given to companies with existing production, which SAM believes should mitigate downside risk relative to investing in earlier stage companies. Limited partners with sufficient income are entitled to claim deductions for Canadian federal income tax purposes in respect of Canadian exploration expense incurred and renounced to the respective Partnership and may be entitled to certain investment tax credits deductible from tax payable. SAM is entitled to an annual Management Fee equal to 2% of the net asset value calculated and payable monthly in arrears. SAM is also entitled to an additional distribution of Partnership property (Performance Fee) upon dissolution of the Partnership in an amount equal to 20% of the amount by which the net asset value per unit exceeds \$28.00, multiplied by the number of units outstanding at that date.

Sprott Absolute Return Income Fund

The Sprott Absolute Return Income Fund was launched on August 31, 2010. The investment objective of the Fund is to maximize absolute total returns on investments with low volatility by primarily investing in fixed income securities, currencies, derivatives and other instruments from around the world. The Fund seeks to accomplish its objectives by taking both long and short investment positions, which provide exposure to fixed income securities, currencies, derivatives and other instruments from around the world. In addition to a Management Fee, SAM is entitled to receive from the Fund an annual Performance Fee equal to 20% of the difference by which the return in the net asset value per unit for the year exceeds the percentage return of the 3-month Canadian Bankers' Acceptance Rate (Canadian Dealer Offered Rate) (being CDOR) plus 3% for the same period. If the performance of a particular class of units in any year is positive but less than the performance of CDOR plus 3%, then no Performance Fee will be payable in that

year for that class of Units, however, the difference between the return of the Fund and CDOR plus 3% is not carried forward. If the performance of a particular class of units in any year is negative, such negative return will be added to the subsequent year's CDOR plus 3% when calculating the Performance Fee for that class of units.

Sprott Private Credit Fund LP

The Sprott Private Credit Fund LP was launched on May 10, 2010. The investment objective of the Fund is to achieve superior risk-adjusted returns with minimal volatility and low correlation to most traditional asset classes, primarily by investing in asset-based loans of Canadian companies. The Fund focuses on identifying short-term opportunities primarily in Canadian companies that are otherwise unable to access financing. These companies are often overlooked or underappreciated by the general financial community due to size, perceived riskiness, complexity or timing. The Fund is sub-advised by Third Eye Capital Management Inc. Third Eye advises the Fund in the execution of its investment strategies - capital preservation through senior liens on collateral assets with visible potential cash flows and/or liquidation or break-up values; rigorous, bottom-up fundamental analysis that emphasizes asset-level overcollateralization based on liquidation value, identifying good companies that are overlooked or out-of-favour; and diversification based on asset-type, investment size, as well as company and industry exposures. Each potential investment must also have an identifiable catalyst that will enable the borrower to retire the loan within a reasonable period of time, usually within one year. SAM is entitled to an annual Management Fee equal to 2.3% on the Class A units, 2.3% on the Class D units, and 1.8% on the Class F units calculated on the net asset value calculated and payable monthly in arrears. There are no fees payable on the Class E units. From the Management Fees received, SAM pays sub-advisory fees to Third Eye Capital. SAM is also entitled to an annual Performance Fee equal to 20% of net profits in the Fund to the extent that such profits exceed an 8% annual preferred rate. Any such Performance Fees are also shared with Third Eye Capital.

Sprott Physical Silver Trust

Sprott Physical Silver Trust was established on June 30, 2010, under the laws of the Province of Ontario. The Fund was created to invest and hold substantially all of its assets in physical silver bullion. The Fund seeks to provide a secure, convenient and exchange-traded investment alternative for investors interested in holding physical silver bullion without the inconvenience that is typical of a direct investment in physical silver bullion. The Fund invests primarily in long-term holdings of unencumbered, fully allocated, physical silver bullion and will not speculate with regard to short-term changes in silver prices. The Fund does not anticipate making regular cash distributions to unitholders. SAM is entitled to receive a monthly Management Fee equal to 1/12 of 0.45% of the value of the net assets of the Fund, plus any applicable taxes. The Management Fee is calculated and accrued daily and payable monthly in arrears on the last day of each month.

Sprott Silver Bullion Fund

Sprott Silver Bullion Fund was launched on May 9, 2011. The investment objective of the Sprott Silver Bullion Fund is to seek to provide a secure, convenient alternative for investors seeking to hold silver. The Fund will invest primarily in unencumbered, fully allocated silver bullion, permitted silver certificates and/or closed-end funds and the underlying interest of which is silver. The Fund may also invest a portion of its assets in cash, money market instruments and/or treasury bills. SAM is entitled to an annual Management Fee of 1.3% on Class A units and 0.85% on Class F units calculated on the net asset value calculated and payable monthly in arrears. The Fund does not have a Performance Fee component.

Sprott Private Credit Trust

On January 3, 2012, SAM launched Sprott Private Credit Trust, a tax-efficient version of Sprott Private Credit Fund LP. As with the Sprott Private Credit Fund LP, the Fund focuses on identifying short-term opportunities primarily in Canadian companies that are otherwise unable to access financing, whether due to size, perceived riskiness, complexity or timing. The Fund is sub-advised by Third Eye in the execution of its investment strategies - capital preservation through senior liens on collateral assets with visible potential cash flows and/or liquidation or break-up values; rigorous, bottom-up fundamental analysis that emphasizes asset-level overcollateralization based on liquidation value, identifying good companies that are overlooked or out-of-favour; and diversification based on asset-type, investment size, as well as company and industry exposures. Each potential investment must also have an identifiable catalyst that will enable the borrower to retire the loan within a reasonable period of time, usually within two years. SAM is entitled to an annual Management Fee equal to 2.6% on the Class A units, 2.6% on the Class D units, and 1.6% on the Class F units calculated on the net asset value calculated and payable monthly in arrears. From the Management Fees received, SAM pays sub-advisory fees to Third Eye Capital. SAM is also entitled to an annual Performance Fee equal to 20% of net profits in the Fund to the extent that such profits exceed an 8% annual preferred rate. Any such Performance Fees are also shared with Third Eye Capital.

Sprott Corporate Class Inc.

On October 17, 2011, SAM launched Sprott Corporate Class Inc. ("Corporate Class"), a mutual fund corporation designed to provide greater tax-efficiency for investors with a suite of different mutual funds set up within a corporate structure. Each investment fund is offered as a separate class of shares within the corporation. This permits investors to switch between classes without triggering an immediate taxable event. Any unrealized capital gains is allowed to continue to grow and compound within Corporate Class on a tax-deferred basis. On February 28, 2012 SAM launched an additional three classes. Corporate Class offers 11 different share classes, nine of which are patterned after existing Sprott funds.

Each of the following Classes invests in the "I-Class" of an existing Sprott Fund:

Sprott Canadian Equity Class

Sprott Diversified Yield Class

Sprott Energy Class

Sprott Gold and Precious Minerals Class

Sprott Short-Term Bond Class

Sprott Small Cap Equity Class

Sprott Tactical Balanced Class

Sprott Silver Bullion Class

Sprott Gold Bullion Class

Management Fees and Performance Fees for each of these Classes are charged at the underlying Fund. See "-- Our Revenues".

Sprott Resource Class

As part of the Corporate Class launch, a new fund, Sprott Resource Class was also created. The investment objective of the Fund is to seek to achieve long-term capital growth. The Fund invests primarily in equity and equity-related securities of companies in Canada and around the world that are involved directly or indirectly in the natural resource sector. The Resource Class investment team is comprised of a number of Sprott's resource experts including: Eric Sprott, Rick Rule, Paul Wong, Charles Oliver, Jamie Horvat and Eric Nuttall. Paul Wong oversees the Fund's overall allocations to resource sub-sectors and companies, consistent with the team's macro and sector views. The Class has a Management Fee of up to 2.5% and a Performance Fee equal to 10% of the excess over a blended benchmark consisting of 50% of S&P/TSX Capped Materials TRI; 50% of S&P/TSX Capped Energy TRI. The Resource Class also serves as the rollover vehicle for Sprott's Flow-Through LPs. On February 3, 2012, Sprott 2010 Flow-Through Limited Partnership completed the tax-deferred transfer of the assets of the Partnership into the Resource Class and was dissolved on February 6, 2012.

Sprott Silver Equities Class

A first of its kind in Canada, the Silver Equities Class, the investment objective of this Class is to seek to achieve long-term capital growth by investing primarily in equity securities that are directly or indirectly involved in the exploration, mining, production or distribution of silver. The Class may also invest in physical silver bullion and silver certificates. Managed by Eric Sprott, Charles Oliver and Maria Smirnova, the Class has a Management Fee of up to 2.5% for the Series A shares and up to 1.5% for the Series F shares. SAM is also entitled to a Performance Fee equal to 10% of the excess over the MSCI ACWI Select Silver Miners Investable Market Index.

Sprott Offshore Funds

We currently manage four feeder funds within two master-feeder fund structures. A master-feeder fund structure is a structural separation of the master fund's investment portfolio from its investors. Generally, a single investment portfolio is maintained at the master fund level and its participants are feeder funds which are funds that hold the investors and "feed" the capital to the master fund. Separate feeder funds are usually established for investors that are residents of the same country and/or have a similar tax status. For example, we have U.S. feeder funds which are intended for U.S. taxable investors and offshore feeder funds which are intended for non-U.S. investors and for U.S. and Canadian tax-exempt investors. Each of our four feeder Funds invests substantially all of its assets in one of the two master Funds we manage. We will continue to devote resources to building our profile globally as we believe the products we offer are innovative and attractive to investors outside of Canada. These offshore sales are direct to investors and we incur no trailer fee expenses in connection with such sales.

Sprott Offshore Fund, Ltd.

Sprott Offshore Fund, Ltd. is an exempted company organized under the Companies Law (2007 Revision) of the Cayman Islands and commenced operations on December 31, 2001. This Fund invests substantially all of its assets in the Sprott Master Fund, Ltd. The objective of the Fund is to maximize absolute returns on investments while attempting to mitigate market risk. The Performance Fee payable to us is calculated as 20% of the annual return of the Fund. No Performance Fee will be paid with respect to a fiscal year until any net loss previously incurred has been offset by subsequent net profits.

Sprott Capital, L.P.

Sprott Capital, L.P. is a limited partnership organized under the laws of Delaware that commenced operations on December 31, 2001. This Fund invests substantially all of its assets in the Sprott Master Fund, Ltd. The objective of the Fund is to maximize absolute returns on investments while attempting to mitigate market risk. The Performance Fee payable to us is calculated as 20% of the annual return of the Fund. No Performance Fee will be paid with respect to a fiscal year until any net loss previously incurred has been offset by subsequent net profits.

Sprott Offshore Fund II, Ltd.

Sprott Offshore Fund II, Ltd. is an exempted company organized under the Companies Law (2007 Revision) of the Cayman Islands and commenced operations in October 2007. This Fund invests substantially all of its assets in the Sprott Master Fund II, Ltd. The objective of the Fund is to maximize absolute returns on investments while attempting to mitigate market risk. The Performance Fee payable to us is calculated as 20% of the annual return of the Fund. No Performance Fee will be paid with respect to a fiscal year until any net loss previously incurred has been offset by subsequent net profits.

Sprott Capital, L.P. II

Sprott Capital, L.P. II is a limited partnership organized under the laws of Delaware that commenced operations in December 2007. This Fund invests substantially all of its assets in Sprott Master Fund II, Ltd. The objective of the Fund is to maximize absolute returns on investments while attempting to mitigate market risk. The Performance Fee payable to us is calculated as 20% of the annual return of the Fund. No Performance Fee will be paid with respect to a fiscal year until any net loss previously incurred has been offset by subsequent net profits.

Managed Accounts

Generally, our view is that our portfolio of Funds provides a sufficiently diverse range of investment objectives and strategies from which to choose. However, SAM does from time to time enter into managed account agreements with larger institutional clients.

Our Revenues

All of our products, except for the bullion mutual funds and trusts as well as the Short-Term Bond Fund, have a fee structure that consists of both a Management Fee component and a Performance Fee component. We collect Management Fees calculated as a percentage of AUM, and may earn Performance Fees, calculated, depending on the Fund or Managed Account, as a percentage of: (i) excess performance over the relevant benchmark; (ii) the increase in net asset values over a predetermined hurdle, if any; or (iii) the net profit over the performance period.

Management Fees

Units of our Funds are sold to investors by way of prospectus offering or private placement to accredited or otherwise eligible investors. Class A or Series A units, Class D and Class T units, where applicable, of our Funds are sold to qualified purchasers. Class F or Series F units of our Funds are sold to: (i) purchasers who participate in fee-based programs through eligible registered dealers; (ii) qualified purchasers in respect of whom the Fund does not incur distribution costs; and (iii) qualified individual purchasers in our sole discretion. Class I or Series I units are issued to institutional investors at our discretion.

Management Fees are earned and payable at the end of each month, calculated based on the net asset value of the Fund at each relevant valuation date. Each class and/or series of units in our Funds may pay a different Management Fee rate, expressed as a percentage of the net asset value of the Fund. The Management Fee rates range from 0.5% to 2.5% per annum for our public mutual funds, 1.0% to 2.0% per annum for our Canadian hedge funds, 1.0% to 1.5% per annum for our offshore funds and 0.35% - 0.45% for our exchange-traded physical bullion funds. We do not require our clients to pay an initial sales charge or commission when purchasing units in one of our Funds.

Performance Fees

The Performance Fees for each of our Funds are not accrued by and payable to the Corporation until the end of the performance period is reached and the performance of the Fund (i) exceeds the Fund's predetermined annual performance hurdle rate, (ii) exceeds the relevant benchmark index return, or (iii) the Fund generates a positive return for the performance period (a "Performance Hurdle"). The performance period for all of our Funds is a 12-month period ended December 31.

The Performance Fees for all except one of our Funds are subject to a loss carry-forward. For most of our Funds that have a Performance Fee component, if the performance of a Fund in any year is less than the Fund's Performance Hurdle (the difference being the "Deficiency"), then no Performance Fee will be payable in any subsequent year until the performance of the applicable Fund, on a cumulative basis calculated from the first of such subsequent years, has exceeded the amount of the Deficiency. For the Sprott Hedge Fund L.P., the Deficiency is reset to nil for the following year; however, any negative fund return is carried forward for one year and is added to the hurdle rate for that year.

None of our loss carry-forwards contain a "clawback" provision. Accordingly, once a Performance Fee is received by us, we are not subject to a future obligation to return such fees. Thus, while we measure Performance Fees notionally earned on a regular basis (and such fees are accrued in the Funds), they are not accrued in our financial statements until they are payable at the end of the relevant performance period. Where an investor redeems units in a Hedge Fund that has an accrued Performance Fee at the redemption date, the proportion of the accrued Performance Fee that equates to the proportion of the redemption in relation to the total units of the Fund, will become "crystallized" and will be payable to SAM.

There is no guarantee that we will receive any Performance Fees until a performance period is successfully completed. See "Risk Factors".

The table below summarizes the calculation of the Management Fee payable by the Class A (or benchmark Series for offshore funds) and Class F holders of each of our Funds as well as the benchmark relevant to the calculation of the Performance Fee and the percentage of the portion of the return over the benchmark which we are entitled to earn as a Performance Fee.

Product	Management Fee (% of NAV) ⁽¹⁾		Performance Fee	
	Class A	Class F	Benchmark	% ⁽²⁾
Public Mutual Funds, Flow Through LPs and Corporate Class Funds				
Sprott Canadian Equity Fund (Sprott Canadian Equity Class)	2.5%	1.5%	S&P/TSX Composite Total Return Index	10%
Sprott Gold and Precious Minerals Fund (Sprott Gold and Precious Minerals Class)	2.5%	1.5%	S&P Global Gold Index	10%
Sprott Energy Fund (Sprott Energy Corporate Class)	2.5%	1.5%	S&P/TSX Capped Energy Total Return Index	10%
Sprott Small Cap Equity Fund (Sprott Small Cap Equity Class)	2.5%	1.5%	S&P/TSX Small Cap Total Return Index	10%
Sprott All Cap Fund	2.5%	1.5%	S&P/TSX Composite Total Return Index	10%
Sprott Gold Bullion Fund	0.8%	0.5%	n/a	n/a
Sprott Diversified Yield Fund (Sprott Diversified Yield Class)	1.65%	1.0%	10% over blended benchmark index 75% BofA Merrill Lynch U.S. High Yield Index; 25% DEX Universe Bond Index	10%
Sprott Short-Term Bond Fund (Sprott Short-Term Bond Class)	0.75%	0.5%	n/a	n/a

Sprott Tactical Balanced Fund (formerly Sprott Multi-Manager Fund) (Sprott Tactical Balanced Class)	2.5%	1.5%	Specific to the underlying funds held	10%
Sprott Private Credit Fund ⁽³⁾	2.3%	1.8%	Net profits exceeding an 8% annual preferred rate	20%
Sprott Private Credit Trust ⁽³⁾	2.6%	1.6%	Net profits exceeding an 8% annual preferred rate	20%
Sprott Silver Bullion Fund	1.3%	0.85%	n/a	n/a
Sprott Resource Class	2.5%	n/a	excess over a blended benchmark consisting of 50% of S&P/TSX Capped Materials TRI; 50% of S&P/TSX Capped Energy TRI	10%
Sprott Silver Equities Class	2.5%	1.5%	excess over the MSCI ACWI Select Silver Miners Investable Market Index	10%
Sprott 2011 Flow-Through Partnership	Limited 2%	n/a	Excess of NAV over \$28 on dissolution date	20%
Sprott 2012 Flow-Through Partnership	Limited 2%	n/a	Excess of NAV over \$28 on dissolution date	20%
Canadian Hedge Funds				
Sprott Hedge Fund L.P.	2.0%	n/a	10% Hurdle	20%
Sprott Hedge Fund L.P. II	2.0%	n/a	Positive Return	20%

Sprott Bull/Bear RSP Fund	2.0%	n/a	Positive Return	20%
Sprott Opportunities Hedge Fund L.P.	2.0%	1.0%	Positive Return	20%
Sprott Opportunities RSP Fund ⁽⁴⁾	2.0%	n/a	Positive Return	20%
Sprott Small Cap Hedge Fund	2.0%	n/a	Positive Return	20%
Sprott Absolute Return Income Fund ⁽⁵⁾	2.0%	1.0%	3-month Canadian Bankers Acceptance Rate + 3%	20%
Sprott Strategic Fixed Income Fund	1.0%	n/a	3-month Canadian Bankers Acceptance Rate + 3.8%	15%
Offshore Funds				
Sprott Offshore Fund, Ltd	1.0%	n/a	Positive Return	20%
Sprott Offshore Fund II, Ltd.	1.0%	n/a	Positive Return	20%
Sprott Capital, L.P.	1.0%	n/a	Positive Return	20%
Sprott Capital, L.P. II	1.0%	n/a	Positive Return	20%

- (1) In addition, our Funds may issue Class I or Series I units to institutional investors. The Management Fees in respect thereof are determined on a case by case basis and generally do not exceed the fees payable in respect of Class F or Series F units.
- (2) Subject to loss carry forward provisions. See “— Our Funds”.
- (3) Management Fee on the Class D units is the same as Class A units. There are no fees payable on Class E units. Management fees and Performance Fees are shared with Third Eye Capital Management Inc., the sub-advisor to these Funds.
- (4) Sprott Opportunities RSP Fund invests in units of Sprott Opportunities Hedge Fund L.P. Performance Fees are charged at the Sprott Opportunities Hedge Fund LP level.
- (5) Class T – 2% Management Fee.

Managed Accounts

Our Managed Accounts pay a Management Fee, based on AUM, and may pay a Performance Fee, based on the performance of the Managed Account over the relevant benchmark during the performance period. Management Fees are earned and payable at the end of each month, calculated based on the AUM of the Managed Account at each AUM tier, where applicable. If a Managed Account invests in a Sprott Fund, the applicable Fund fee structure applies and we do not charge an additional fee.

Product	Management Fee (% of NAV)		Performance Fee	
	Class A	Class F	Benchmark	%
Managed Accounts	0.8%-2.5%		S&P/TSX Composite Total Return Index or as per the relevant Managed Account Agreement	10% - 20%

Exchange-Traded Physical Bullion Funds

The Sprott Physical Gold Trust charges an annual Management Fee of 0.35% calculated daily and paid monthly based on the daily net asset value of the Trust.

The Sprott Physical Silver Trust charges an annual Management Fee of 0.45% calculated daily and paid monthly based on the daily net asset value of the Trust.

There are no Performance Fees associated with either the Sprott Physical Gold Trust or the Sprott Physical Silver Trust.

Selling and Distribution

We have a multichannel approach to fund sales and marketing. We have concentrated on building our brand both through SAM and SPW as well as through third-party sales channels.

Our sales force at both SAM (through our wholesaler network) and SPW (through our private client representatives) has enabled us to add momentum to private client sales and service, and to establish a marketing presence for the launch of our mutual funds and hedge funds through the Canadian financial advisor and dealer channels. Subject to applicable securities legislation, our Canadian investment products are directly sold to, or distributed through: (i) Canadian high net worth investors; (ii) Canadian institutional investors (e.g. pension plans, fund of funds, etc.); (iii) registered investment dealers, retail financial advisors, and financial planners; and (iv) electronic platforms.

SAM's distribution platform is based on our wholesale sales force, distribution of our offshore products as well as a strong presence in the media.

In 2011 we hired a Senior Vice-President, National Sales Manager to lead and to grow our wholesaling capabilities within the Canadian retail fund marketplace. Our national wholesale force, established in May of 2007, now consists of nine regional sales managers with five supporting inside sales representatives. In early 2012, a Senior Vice President, Sales & Service was hired to manage the inside sales representatives and to help to improve the client experience, particularly for independent advisors who sell our funds. We believe that having dedicated sales representatives to market and distribute our investment products to retail financial advisors, registered dealers and financial planners across Canada will help increase our brand awareness, aid with ongoing client maintenance, increase sales of our Funds and other investment

products, and improve our platform for launching additional investment products. To support third-party sales of our Fund products, in 2009 we introduced a new purchase option for the majority of our domestic mutual funds – a Low Load Option. Under the Low Load Option, SAM will pay a commission to the investor’s dealer when the investor subscribes for Series A units.

Another key aspect of SAM’s sales and marketing strategy is the distribution of our offshore products. Unlike many traditional Canadian fund companies, we also offer four feeder hedge Funds (through two master-feeder fund structures) that are tailored to U.S. and foreign investors. We believe our investment philosophies in the absolute return strategies that we follow have particular appeal to a global clientele. Subject to applicable securities legislation, our U.S. and offshore investment products are directly sold to U.S. and foreign high net worth investors as well as U.S. and foreign institutional investors. See “– Our Investment Philosophy and Styles” and “– Our Funds”.

Finally, to ensure continuous development and recognition of our brand, members of our investment management team often conduct interviews for publications, appear on business news programs on a regular basis and participate in selected investment industry conferences. Our monthly Markets at a Glance, regular articles in Investors Digest and other publications provide additional visibility for the firm on a cost-effective basis.

Sprott Private Wealth LP

Through SPW, we provide investment management and administrative services to high net worth individuals and institutions. SPW strives to be a leading investment advisor to high net worth clients by offering a premier client experience, leading to increased sales. SPW provides unique access to the SAM portfolio managers and enables SPW to construct diversified portfolios tailored to the individual needs of each client. We focus on providing a high level of service to our direct private clients. Our private client base, representing approximately \$3.0 billion of client assets, has been developed through direct relationships. The primary drivers of our private client asset growth have been performance and word-of-mouth referrals.

Our Management Team

We currently have ten registered investment professionals who deal directly with our high net worth and institutional investors. Whether dealing with a high net worth individual, institutional investor, retail investment advisor, or financial planner, we attempt to inform the holders of our Funds of our market outlook as well as each investment professional’s approach to allocating capital within their respective Fund strategies. We provide investors with monthly reports, email updates, and web postings. Clients also have the ability to contact an informed customer service representative.

David Franklin
Chief Executive Officer

David was named CEO of Sprott Private Wealth in March 2011. A frequent guest speaker at conferences across the globe, David has also been featured in numerous newspaper articles and television shows, providing insights on the ever changing financial landscape. David is also a former director of a publicly listed Australian gold company. David previously worked at Integral Wealth Securities and Toll Cross Securities in Institutional Equity Sales. He has an Honours Degree in Economics from Wilfrid Laurier University and has almost ten years of experience in the financial industry.

Our Revenues

Historically, SPW has been an important distribution channel for SAM-managed Funds. As a result, the majority of SPW revenue is in the form of “trailer fees” paid by such Funds. The rates paid to SPW are consistent with those paid to external brokers who sell the same Funds. SPW also earns commission and other income from the sale of new issues and private placements to our clients.

Sprott Consulting LP

SC provides active management, consulting and administrative services to its Managed Companies. At SC our professionals are dedicated to generating consistently superior returns on capital for the shareholders of the companies and partnerships we manage. Our team of professionals seek to accomplish these objectives by acquiring or starting attractive businesses at the right time, growing their value organically or through accretive acquisitions and by maintaining financial flexibility to be responsive to the needs of the companies’ businesses and to capitalize on new opportunities.

Our Management Services Team

We have attracted a deep pool of management talent, who have the experience and knowledge to manage our Managed Companies. Kevin Bambrough and Peter Grosskopf deliver active management services to public and private companies and partnerships that SC has formed to capitalize on unique business opportunities. They have a proven track record of assembling experienced management teams, committed to the successful growth of the companies in which they form or invest. See “– Our Managed Companies”.

They are supported by a dedicated group of professionals with financial, legal, management and consulting expertise. We believe the quality of support we have is valuable and unique in the active management business.

Peter Grosskopf

Chief Executive Officer, Sprott Inc.

Chief Executive Officer, Sprott Resource Lending Corp and President of SC

Mr. Grosskopf assumed the role of Chief Executive Officer of Sprott in September 2010. Mr. Grosskopf has nearly 25 years of experience in the financial services industry and an extensive background as an advisor and underwriter to companies in a wide variety of sectors. In addition to his role at Sprott, he also serves as Chief Executive Officer of Sprott Resource Lending Corp. and President of Sprott Consulting. Prior to joining Sprott, he was President of Cormark Securities Inc. since 2004. Prior to joining Cormark Securities Inc., Mr. Grosskopf was one of the co-founders of Newcrest Capital Inc., which was acquired by the TD Bank Financial Group in 2000. Mr. Grosskopf holds a Bachelor of Arts degree and a Masters of Business Administration from the University of Western Ontario.

Kevin Bambrough

President, Sprott Inc.

Chief Executive Officer, Sprott Resource Corp. and SC

Mr. Bambrough joined SAM in 2002 as a Research Analyst and subsequently assumed the role of a Market Strategist in 2006. Mr. Bambrough was instrumental in the creation and development of SC and currently also serves as the President of Sprott Inc., the President and Chief Executive Officer of Sprott Resource Corp., and as the Chief Executive Officer of SC. Mr. Bambrough has over a decade of

investment industry experience. Since 2003, Mr. Bambrough has focused his analysis for SAM on the resource sector with a particular focus towards coal and uranium mining and, in his role as a Market Strategist, he also spends a significant portion of his time examining global economic activity, geopolitics, and commodity markets.

Our Managed Companies

SC has entered into management services agreements with the following companies to provide active management, consulting and administrative services:

Sprott Resource Corp. (TSX: SCP)

Sprott Resource Corp. invests and operates through its subsidiaries in the natural resource sector. Sprott Resource Corp. is committed to building world class resource companies by working with experienced management teams whose goals are aligned with those of its shareholders. Upon acquiring a business (or making an investment), it becomes actively involved in the enterprise by providing strategic advice and direction. Sprott Resource Corp. provides input on practices, and ensures that the necessary decisions are made to maximize the value of the particular business for its shareholders.

Sprott Resource Corp. is involved in the exploration and production of oil and gas in Western Canada and the Northern United States through One Earth Oil and Gas Corporation and Waseca Energy Inc. Through Stonegate Agricom Ltd. Sprott Resource Corp. is involved in mineral exploration and development in Peru and Idaho and through One Earth Farms Corp. it farms on First Nations' farmland in the Canadian Prairie Provinces.

SC began providing management services to Sprott Resource Corp. pursuant to a management services agreement on September 5, 2007 and is led by Chief Executive Officer Kevin Bambrough. At that time Sprott Resource Corp. had a net asset value of approximately \$77.6 million. As of December 31, 2011, Sprott Resource Corp. had a net asset value of \$506 million. See “– Our Revenue” for a description of how the Management Fees and Performance Fees are calculated.

Sprott Resource Lending Corp. (TSX: SIL, AMEX: SILU)

Sprott Resource Lending Corp. is a natural resource lender focused on providing bridge and mezzanine financing to mining and oil and gas companies. Its leadership team has significant lending experience and deep expertise investing in the natural resource sector and applies conservative lending practices and careful asset evaluation to generate shareholder value. Accessing capital from Sprott Resource Lending Corp. allows mid cap and junior resource companies to execute on their strategic plans through increasing their enterprise value or restructuring their capital base.

SC began providing management services to Sprott Resource Lending Corp. pursuant to a management services agreement on September 7, 2010 and is led by Chief Executive Officer Peter Grosskopf. See “– Our Revenue” for a description of how the Management Fees and Performance Fees are calculated.

Sprott Power Corp. (TSX: SPZ)

Sprott Power Corp. is an operator and developer of renewable energy projects. Sprott Power Corp. has 45.7 megawatts (MW) of operational wind assets, 67.0 MW of capacity accepted for long-term PPAs, and 223.6 MW in its development portfolio.

SC began providing management services to Sprott Power Corp. pursuant to a management services agreement on June 14, 2010 and is led by a team of experienced energy industry executives recruited by SC. See “– Our Revenue” for a description of how the Management Fees and Performance Fees are calculated.

Our Revenue

SC or its subsidiaries have entered into management services agreements with Sprott Resource Corp., Sprott Resource Lending Corp. and Sprott Power Corp. In addition, a subsidiary of SC, Sprott Resource Consulting LP, is the managing partner of Sprott Resource Partnership, through which it receives distributions as outlined below, a subsidiary of SC, Sprott Lending Consulting LP, is the managing partner of Sprott Resource Lending Partnership, through which it receives distributions as outlined below, and a subsidiary of SC, Sprott Power Consulting LP, is the general partner of SP Development LP and SP Operating LP, through which it receives distributions as outlined below.

SC receives an annual management fee of 2% of the net asset value of Sprott Resource Corp. calculated on the average quarter-end net asset value of Sprott Resource Corp. during each calendar quarter. Sprott Resource Partnership also pays Sprott Resource Consulting LP a management profit distribution (the “Management Profit Distribution”) equal to the difference (if positive) between: (i) the sum of the net profits of Sprott Resource Partnership and net losses of Sprott Resource Partnership since the fiscal year in respect of which the last Management Profit Distribution was made; and (ii) the sum of the a specified hurdle rate for each fiscal year since the fiscal year in respect of which the last Management Profit Distribution was made.

Sprott Lending Consulting LP receives an annual Management Fee of 2% of the net asset value of Sprott Resource Lending Partnership calculated on the average quarter-end net asset value of Sprott Resource Lending Partnership during each calendar quarter. Sprott Resource Lending Partnership also pays Sprott Lending Consulting LP an incentive fee equal to 20% of: (a) the net profits of Sprott Resource Lending Partnership for the year less the amount to paid Sprott Lending Consulting LP and the costs incurred by Sprott Resource Lending Corp. in carrying out its public company business (the “Adjusted Net Profits of the Partnership”), minus (b) a specified hurdle rate (the “Annual Hurdle”). If in any year no Performance Fee is payable to Sprott Lending Consulting LP , then before any Performance Fee is payable in a subsequent year, the Adjusted Net Profits of the Partnership for such year, together with the Adjusted Net Profits of the Partnership for the period(s) in which no Performance Fee was payable, must exceed the Annual Hurdle for that subsequent year, together with the Annual Hurdle(s) for the period(s) in which no Performance Fee was payable, and then the Performance Fee shall be equal to 20% of the difference.

At Sprott Power Corp., Sprott Power Consulting LP receives a Management Fee of 0.01% of the distributable net cash (as defined in the respective partnership agreements) of SP Development LP and SP Operating LP. In addition, for development activities at SP Development LP, Sprott Power Consulting LP receives 20% of all operating cash flow once an annual rate of return on capital invested exceeds 18% on an annual basis and 25% of all operating cash flow once an annual rate of return on capital invested exceeds 25% on an annual basis, each after a 10% priority return. For operating activities at SP Operating LP, Sprott Power Consulting LP receives 2% of the revenue of any operating subsidiaries.

Product	Management Fee	Performance Fee	
		Benchmark	% ⁽¹⁾
Managed Companies			
Sprott Resource Corp.	2.0% of NAV	Canadian 30- Year Generic Bond Index ⁽²⁾	20%
Sprott Resource Lending Corp.	2.0% of NAV	Canadian 30- Year Generic Bond Index	20%
Sprott Power Corp.	0.01% of distributable net cash of SP Development LP	18% and 25% ⁽³⁾	20% and 25%
	2.0% of distributable net cash of SP Operating LP	n/a	n/a

(1) Subject to annual hurdle carry forward provisions. See “— Our Managed Companies”.

(2) Return of this benchmark index is capped at 12%.

(3) After 10% priority return.

Sprott U.S. Holdings Inc.

Our Management Team

Rick Rule

Chief Executive Officer

Rick has dedicated his entire career to all aspects of the natural resource industry. At GRIL he leads a team that features professionals trained in resource related disciplines, such as geology and engineering, who work together to evaluate investment opportunities. Rick is the lead portfolio manager for the RCIC limited partnerships and also advises some of the SAM USA investment platforms. Rick began his career in the securities business in 1974, and has been principally involved in natural resource security investments ever since. He is a leading American retail broker specializing in mining, energy, water utilities, forest products and agriculture.

Jeffrey Howard

Chief Executive Officer, SAM USA

Jeff Howard joined the Global Companies in 1992 building and servicing the largest client group at GRIL. Jeff has acted as Chief Executive Officer of GRIL for nearly nine years, and now acts as Chief

Executive Officer and adviser to Sprott Asset Management USA. Prior to that since 1985, Jeff produced and marketed a unique set of research reports covering over 200 publicly traded oil and gas companies. This was done at first through his own company and then in conjunction with an investment banking boutique based in Denver, Colorado that specialized in the oil and gas industry. Prior thereto, Jeff worked for Santa Fe International Corp., one of the largest oil and gas drilling contractors in the world, as the acquisitions manager in the company's exploration and production division and was engaged in the evaluation and acquisition of over \$1 billion of producing properties for the company. Jeff graduated from the University of Arizona in 1975 with a degree in accounting.

Paul Meehl
Chief Executive Officer, GRIL

Paul joined GRIL in 2011 and has worked in the financial services industry since 1987, most recently as Senior Operations Manager and Senior Relationship Manager at RBC Capital Markets LLC, GRIL's custody and clearing services provider. Paul has spent his entire career in the securities industry, primarily in operations and clearing, working with independent broker-dealers such as GRIL on a daily basis. He has worked closely with GRIL since 2002, when he joined RBC's correspondent clearing division. In 2010, he became their dedicated Senior Relationship Manager. Paul graduated from the University of Minnesota in 1992 and is a licensed securities and options principal (Series 4, 7, and 24) with FINRA.

Global Resource Investments Ltd.

GRIL is a broker-dealer regulated by the Financial Industry National Regulatory Authority ("FINRA"). Its sole focus is helping investors and speculators make money in the natural resource business - mining, oil and gas, alternative energy, forestry, agriculture or water. Many of GRIL's financial advisors worked in various natural resource industries before they began their financial services career, enabling them to provide specialized advice.

GRIL generates revenue primarily by way of commissions from the sale and purchase of securities on behalf of its clients as well as finder's fees earned from the sale of private placements to clients. At December 31, 2011, GRIL had approximately \$1.5 billion of AUA.

Sprott Asset Management USA Inc. (formerly Terra Resource Investment Management)

SAM USA offers a managed account program for investors looking for distinctive and personalized wealth management. Clients the opportunity to choose from two different types of managed accounts: Traditional or Premium.

Traditional account: This managed account is open to all U.S. and international investors (with the exception of Canadian Residents). This account requires a US\$100,000 minimum account value and is charged a 2% Management Fee for account values below US\$250,000. For any cash and securities above US\$250,000 in the account, investors are charged a reduced fee of 1.5%.

Premium account: This managed account is open to those investors with a net worth of more than US\$2 million. The account requires a US\$250,000 minimum account value and is charged a 1.5% Management Fee and a 10% Performance Fee (subject to a high water mark). These accounts offer investors access to private placements, which gives the accounts added performance potential.

SAM USA does not charge commissions on trades, and Management Fees are annualized, accrued daily and payable quarterly, in advance.

SAM USA offers clients the option of investing in four different platforms:

Sprott Global Diversified Resource (Co-Advisors: Rick Rule and Jeff Howard)

Utilizing a value-oriented approach, this portfolio offers broad exposure to exploration, development and production companies operating in a variety of resource-based sectors. Investors who choose this portfolio will be purchasing securities in a variety of resource-based sectors. This platform is offered as a Traditional account or a Premium account.

Sprott Global Precious Metals (Co-Advisors: Rick Rule and Jeff Howard, Sub-Advisor: Eric Sprott)

Catering to investors who are looking to gain precious metals exposure, this program invests in securities of companies with producing or development stage gold, silver, or platinum group metal deposits. This program may also invest in physical bullion. This platform is only offered as a Premium account.

Sprott Global Energy (Co-Advisors: Rick Rule and Jeff Howard, Sub-Advisor: Eric Nuttall)

This portfolio invests primarily in small-to-mid capitalization companies engaged in the production and development of oil, natural gas, uranium, coal, alternative energy and the companies that service those sectors. This platform is only offered as a Premium account.

Sprott Global Resource Income (Co-Advisors: Rick Rule and Jeff Howard)

For investors seeking growth and income, this program invests primarily in mid-to-large capitalization resource companies and utilizes covered put and call option writing strategies to enhance income and provide downside protection. This platform is only offered as a Traditional account.

Resource Capital Investment Corporation

RCIC manages six fixed-term limited partnerships (the “Limited Partnerships”) with an average remaining life of approximately six years. These Funds earn a Management Fee, usually 2%, and have the potential to earn Carried Interests which are accrued as a percentage of profits earned by monetizing events in the Funds. The percentage of profits earned by RCIC ranges from 25%-30%. At December 31, 2011, the six limited partnerships had a total AUM of approximately \$400 million.

Competition And Industry Outlook

The Corporation is fairly unique as an alternative asset management organization in terms of the breadth of our various investing platforms. However, each business segment operates in a very competitive environment where there is much competition for investors’ assets.

SAM - SAM manages mutual funds, hedge funds (domestic and offshore), exchange-traded funds that hold physical gold or silver bullion, flow-through limited partnerships and managed accounts.

Canada’s mutual fund industry is highly competitive and is dominated by a small number of larger players. As at December 31, 2011, total mutual fund industry AUM was approximately \$700 billion and SAM managed approximately \$2.5 billion of AUM. SAM has historically been a manager of specialized, focused funds where we believe that we have a competitive advantage due to our investment management expertise and that we are able to add value as compared to a benchmark or index. As a result, most of our mutual funds are charged a performance fee where the performance of that fund exceeds a relevant

benchmark or index. While we are broadening our product offering, we will generally continue to only add funds where we believe that we have specific expertise and can add value.

In Canada, the majority of mutual funds are distributed through various financial advisor/dealer channels. Most of the funds sold directly to investors include a trailer fee which is an embedded cost for ongoing services provided by the financial advisor to the investor and is paid by the fund company (manufacturer) to the financial advisor/dealer (distributor). All of the SAM-managed mutual funds have a trailer fee-paying class for retail distribution through a financial advisor/dealer channel.

SAM's hedge funds compete with other alternative investment products both in Canada and globally. Hedge funds are offered on a private placement basis by offering memorandum and are available to qualified/accredited investors in Canada, the U.S., and globally, as applicable. As at December 31, 2011, the global hedge fund industry had approximately \$2 trillion of AUM.

SAM is one of the largest hedge fund managers in Canada. In Canada our hedge funds have been sold largely to accredited investors and other qualified investors through SPW or by other dealers. Offshore, our hedge funds are sold largely through institutional channels such as fund-of-fund and similar platforms. We believe that our hedge funds' macro-economic positioning and our longer term investment track record has positioned us well to sell more of our hedge funds globally. We are looking to expand our product line and our institutional sales capability to increase our offshore assets.

SPW - The private client segment is expected to benefit from economic and demographic trends over the next decade. SPW has primarily been a distribution channel for SAM-managed products. While that will continue to be the case, SPW has more recently enabled clients to participate in private placement transactions and in offerings of certain funds managed by SAM and companies managed by SC. SPW plans to expand the number of advisors as well as to introduce discretionary asset management services and to work with SAM to develop products that will help SPW to garner a greater share of clients' investable assets.

Sprott U.S. - The U.S. asset management industry – both broker-dealers and asset managers – is highly competitive but very fragmented. Both GRIL and SAM USA operate very specialized “niche” businesses. GRIL provides brokerage services to clients focused on small capitalization stocks in the natural resource sector. SAM USA offers a managed account program for investors looking for a personalized wealth management program focused on investments in natural resources.

We believe that the specialized focus that both GRIL and SAM USA offer to clients is a distinct competitive advantage for both GRIL and SAM USA. Both of these companies will be looking to increase their client bases through expanded marketing and sales efforts across selected geographic markets in the U.S.

Risk Management

We monitor, evaluate and manage the principal risks associated with the conduct of our business. These risks include external market risks to which all investors are subject and internal risk resulting from the nature of our business. In SAM, at the investment product level, we manage risk through the selection, weighting and monitoring of individual investments based on stated investment objectives and strategies. See also “Risk Factors - Risks Related to Our Funds”. At SPW, we manage risk at the asset allocation level, by focusing on mitigating risk through the appropriate selection and weighting of portfolio models for each client to reflect their suitability and risk tolerance.

We have internal control policies related to our business conduct. They are intended to ensure conformity with the rules and regulations of the Ontario Securities Commission and IIROC. The policies focus on five areas: capital adequacy, insurance, segregation of clients' securities, safeguarding of securities and cash, and pricing of securities. Each policy has a defined control objective and applicable procedures to ensure adherence to sound business practices and high ethical standards.

Internally, we have established a number of policies with respect to our employees' personal trading. Employees may not trade any of the securities held or being considered for investment by any of our Funds without prior approval. In addition, employees must receive prior approval of our Chief Compliance Officer before they are permitted to buy or sell securities. Speculative trading is strongly discouraged. All of our employees must comply with the Corporation's written policies and procedures which establish strict rules for professional conduct and management of conflicts of interest.

We believe that confidentiality is essential to the success of our business, and we strive to consistently maintain the highest standards of trust, integrity and professionalism. Account information is kept under strict control in compliance with all applicable laws, and physical, procedural, and electronic safeguards are maintained in order to protect this information from access by unauthorized parties. We keep the affairs of our clients confidential and do not disclose the identities of our clients (absent express client consent to do so). If a prospective client requests a reference, we will not furnish the name of an existing client before receiving permission from that client to reveal their business relationship with us. See “– Regulatory Matters - Privacy Policy”.

Regulatory Matters

SPW is registered as an investment dealer in Ontario, British Columbia, Alberta, Saskatchewan, Manitoba, New Brunswick, Nova Scotia, and Newfoundland and Labrador. SPW is also a member of IIROC. SAM is registered with the securities regulatory authorities in the same provinces as a portfolio manager, and an exempt market dealer and as an investment fund manager in Ontario.

We are subject to extensive regulation in Canada. As a matter of public policy, regulatory bodies in Canada are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of investors participating in those markets. Our operations are subject to the securities legislation of eight Canadian provinces, the Universal Market Integrity Rules, and the rules, regulations and by-laws of IIROC. The distribution of our Funds is also subject to regulations under the securities legislation of those jurisdictions where our Funds are sold.

Securities brokerage, trading, advisory and investment banking activities are conducted in GRIL, a U.S.-registered broker-dealer affiliate. The U.S. Securities and Exchange Commission (SEC), state securities regulators, and the Financial Industry Regulatory Authority (FINRA) regulate this broker-dealer affiliate.

SAM and Sprott USA are involved in the business of investment management in the U.S. or to U.S. persons. These activities require that SAM and Sprott USA be registered with the SEC as investment advisers under the U.S. Investment Advisers Act of 1940 (Advisers Act). The Advisers Act and related rules regulate the registration and activities of investment advisers. Certain activities of SAM are also subject to regulation by the U.S. Commodity Futures Trading Commission and the National Futures Association.

We are subject to regulations that cover all aspects of the securities business, including sales methods, trading practices among investment dealers, use and safekeeping of funds and securities, capital structure, record-keeping, conflicts of interest and the conduct of directors, officers and employees. The various government agencies and self-regulatory organizations having jurisdiction over registrants are empowered

to conduct administrative proceedings that can result in censure, fine, the issuance of cease-and-desist orders or the suspension or expulsion of a registrant or its directors, officers or employees. A registrant is subject to rules respecting the maintenance of minimum regulatory capital. Compliance with regulatory capital requirements can limit a registrant's operations and also restrict its ability to withdraw capital from its regulated affiliates, which in turn can limit its ability to repay debt or pay dividends on its shares.

Since our ability to carry on our business is dependent upon our continued registration under applicable laws, we regularly review our policies, practices and procedures to ensure that they comply with current regulatory requirements and employees are routinely updated on all relevant legal requirements. In addition, external legal advice is obtained, as required, to ensure that we are informed of new regulatory requirements that may be applicable. All of our registrations are in good standing. We have retained Penson Financial Services Canada Inc. ("Penson") under a written introducing/carrying broker agreement to provide certain record-keeping and operational services in respect of our client accounts which may include execution and settlement of securities transactions, custody of securities and cash balances, and extension of credit on margin transactions. The fees payable to Penson as carrying broker are not considered material for us or Penson.

There are certain regulatory restrictions on the ownership and holding of shares of investment dealers and their parent companies. Notably, the direct or indirect ownership or holding of an interest in an investment dealer by the public is subject to approval by IIROC, other self-regulatory organizations, stock exchanges and certain securities commissions. See "Risk Factors" and "Capital Structure".

Privacy Policy

We are also subject to Canadian federal and provincial privacy laws regarding the collection, use, disclosure and protection of client information. The Personal Information Protection and Electronic Documents Act ("PIPEDA"), the federal privacy legislation governing the private sector, requires that organizations only use personal information for purposes that a reasonable person would consider appropriate in the circumstances and for the purposes for which it is collected. Each of our Funds complies with the applicable requirements of PIPEDA and all applicable provincial personal information laws. We collect personal information directly from the Fund investors or through their financial advisor and/or dealer in order to provide such investor with services in connection with his or her investment, to meet legal and regulatory requirements and for any other purposes to which such investor may consent.

We do not sell, lease, barter or otherwise deal with personal information collected by us with third parties. We carefully safeguard all personal information collected and retained by us and, to that end, restrict access to personal information to those employees and other persons who need to know the information to enable us to provide our services. Our employees are responsible for ensuring the confidentiality of all personal information they may access. Annually, each of our employees is required to sign a code of conduct, which contains policies on the protection of personal information.

Our Privacy Policy is provided to every prospective purchaser of a Fund's securities and sets out our commitment to the protection of the privacy of our clients.

Anti-Money Laundering Laws

In order to comply with federal legislation aimed at the prevention of money laundering, we sometimes require additional information concerning a purchaser of securities of any of our Funds. If, as a result of any information or other matter which comes to the attention of any of our directors, officers or employees, or our professional advisors, knows or suspects that an investor is engaged in money laundering, we are required to report such information or other matter to the Financial Transactions and

Reports Analysis Centre of Canada and such report shall not be treated as a breach of any restriction upon the disclosure of information imposed by law or otherwise.

Risk Factors

An investment in the securities of the Corporation involves a number of risks. In addition to the other information contained in this annual information form, you should carefully consider the risks described below before making an investment decision. Our business, financial condition, revenues and profitability could be materially adversely affected by any of these risks. The trading price of the Common Shares could decline due to any of these risks, and you may lose all or part of your investment. The risks described below are not the only ones facing the Corporation and holders of Common Shares. Additional risks not currently known to us or that we currently deem immaterial may also impair our business operations.

This annual information form contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this annual information form. See “Forward-Looking Statements.”

Risks Related to Our Business

Difficult market conditions can materially adversely affect our business in many ways, including by reducing the value or performance of the investments made by our Funds, which could materially reduce our revenue and cash flow and materially adversely affect our financial condition.

The success of our business is highly dependent upon conditions in the Canadian and global equity and financial markets and economic conditions throughout the world that are outside our control and difficult to predict. Factors such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls, and national and international political circumstances (including wars, terrorist acts or security operations) can have a material negative impact on the value of our Funds’ portfolio investments, which in turn would reduce our revenues and profitability.

Unpredictable or unstable market conditions and adverse economic conditions may result in reduced opportunities to find suitable risk-adjusted investments to deploy capital and make it more difficult to exit and realize value from our existing investments, which could materially adversely affect our ability to raise new funds and sustain our profitability and growth.

Change(s) in the financial markets have led and may continue to lead to a decline in our Management Fee, Performance Fee and Carried Interest revenues. Poor performance of our Funds and Limited Partnerships would cause a decline in our AUM, revenue, income and cash flow and could materially adversely affect our ability to raise additional capital in our Funds and Limited Partnerships and make dividend payments.

Our revenues are dependent upon our Management Fees, which are based on the market value of our AUM, and our Performance Fees and Carried Interest, which are based on a combination of the market value of our AUM and the increase in value of our Funds, Managed Accounts and Limited Partnerships above pre-specified performance benchmarks or hurdles. See “Description of the Business”.

The market value of our AUM and our ability to achieve returns above the pre-specified performance hurdles are impacted by factors beyond our control, such as the policies and performance of businesses, governments and the financial community. A decline in the prices of the securities our Funds, Managed Accounts and Limited Partnerships invest in could result in lower Management Fees, Performance Fees and Carried Interest as a result of one or more of the following:

- the value of our AUM may decrease;
- the returns realized on our AUM may decrease or even be negative; and
- our clients may withdraw funds for any number of reasons, including their perception that Investments in other markets offer greater opportunity that are not served by us.

Furthermore, the Performance Fees we earn from our Funds, Managed Accounts and Managed Companies are generally received only once per portfolio performance year and are generally determined based on the difference between the net asset value of our Fund, Managed Account or Managed Companies on the first day of its performance year and on the last day of its performance year. In addition, the Carried Interest we earn from our Limited Partnerships is generally received upon certain monetizing events in the Limited Partnership. Our Performance Fees and Carried Interest could be significantly impacted by events or factors beyond our control that affect the net asset value on one of those days. For example, the markets generally could suffer a significant decline in value on or near the last day of a performance year as a result of a market or world event that could cause us to earn lower or no Performance Fees for that performance year despite a prior overall increase in the net asset value of those Funds, Managed Accounts or Managed Companies over the course of the year. Moreover, the negative performance of individual investments which are significant for any of our Funds, Managed Accounts, Managed Companies or Limited Partnerships may significantly adversely impact the net asset value of such Funds, Managed Accounts, Managed Companies and Limited Partnership and consequently may significantly adversely impact on our Management Fees, Performance Fees and Carried Interest for the relevant period. In addition, we calculate our Performance Fees for all of our Funds, Managed Accounts and Managed Companies on December 31 of each year. Our Funds and Managed Companies also have provisions whereby we will not earn Performance Fees in respect of a Fund or Managed Company for a particular year despite positive returns for such Fund or Managed Company in that year, as may be applicable, if the Fund or Managed Company had greater losses in prior years or quarters, as may be applicable. Therefore, if a Fund or Managed Company experiences losses in a year, we will not be able to earn a Performance Fee from that Fund or Managed Company until its return exceeds any losses carried forward. The Sprott Hedge Fund L.P. carries any losses forward for one year whereas all the other Funds have an indefinite loss carry forward.

In the event that any of our Funds, Managed Accounts, Managed Companies or Limited Partnerships were to perform poorly, our revenue, income and cash flow would decline because the value of our AUM would decrease, which would result in a reduction in Management Fees. Moreover, we could experience losses in our proprietary investments as a result of poor investment performance by our Funds, Managed Companies or Limited Partnerships. Poor performance of our Funds, Managed Accounts, Managed Companies or Limited Partnerships would make it more difficult for us to raise new capital. Investors in our Funds, Managed Accounts, Managed Companies or Limited Partnerships might decline to invest in future Funds, Managed Accounts, Managed Companies or Limited Partnerships we manage and investors in our Funds, Managed Accounts, Managed Companies or Limited Partnerships might redeem their investments as a result of poor performance of our Funds, Managed Accounts, Managed Companies or Limited Partnerships in favour of investments which are perceived to have a lower risk or greater opportunity for returns. Investors and potential investors in our Funds, Managed Accounts, Managed Companies or Limited Partnerships continually assess our Funds', Managed Accounts', Managed Companies' or Limited Partnerships' performance, and our ability to raise capital for existing and future

Funds, Managed Accounts, Managed Companies or Limited Partnerships and avoid excessive redemption levels will depend on our Funds', Managed Accounts', Managed Companies' or Limited Partnerships' continued satisfactory performance.

Change(s) in the investment management industry could result in a decline in our revenues.

Our ability to generate revenues has been significantly influenced by the growth of assets under management experienced by the investment management industry and by our relative performance within the investment management industry. The historical growth of the investment management industry may not continue and adverse economic conditions and other factors, including a protracted or precipitous decline in the financial markets or a change in the acceptance of fees typically charged by industry participants, could affect the popularity of our services or result in clients withdrawing from the markets or decreasing their level and/or rate of investment. A decline in the growth of the investment management industry or other changes to the industry that discourage investors from using our services could affect our ability to attract clients or could lead to redemptions of our Funds, Managed Accounts, Managed Companies or Limited Partnerships for reasons that may be unrelated to the performance of our Funds, Managed Accounts, Managed Companies or Limited Partnerships but would result in a decline in our revenues.

Poor investment performance could lead to a loss of clients, lower AUM and a decline in our revenues.

We believe that our investment performance is one of the most important factors explaining the historical growth of our AUM. Poor investment performance (relative to our competitors or otherwise) could impair our revenues and growth as existing clients might withdraw funds in favour of better performing products and we might not be able to attract funds from existing and new clients. All of the foregoing could result in lower AUM and could impact our ability to earn Management Fees. In addition, our ability to earn Performance Fees and Carried Interest is directly related to our investment performance and therefore poor investment performance may cause us to earn lower Performance Fees and Carried Interest.

There is no assurance that we will be able to achieve or maintain any particular level of AUM, which may have a material negative impact on our ability to attract and retain clients and on our Management Fees, our potential Performance Fees and Carried Interest and our overall profitability. Our Funds, Managed Accounts, Managed Companies and Limited Partnerships tend to be more volatile than general market indices as our investment team strives for exceptional performance and returns rather than attempting to mirror or follow the market indices. This volatility combined with negative or poor performance could combine to lead to a reduction in AUM and lower Management Fees, Performance Fees and Carried Interest.

Fluctuations in Performance Fees and Carried Interest will increase earnings volatility, which could decrease the price of the Common Shares.

A material portion of our revenues has historically been derived from Performance Fees and may in the future be derived from Carried Interest. We are entitled to Performance Fees and Carried Interest only if our performance exceeds pre-specified performance hurdles. If we do not exceed these hurdles, we will not generate Performance Fees and Carried Interest for that period. Moreover, any failure to meet or exceed a performance hurdle is carried forward indefinitely until such time as such deficit is made up. Performance Fees and Carried Interest will vary from period to period in relation to, among other things, volatility in investment returns, causing our revenues to be more volatile than if we did not manage assets on a Performance Fee and Carried Interest basis. The volatility in our revenues may decrease our share price. In addition, all but one of our Funds, Managed Accounts, and Managed Companies have a December 31 performance year end, at which time Performance Fees (other than crystallized Performance

Fees) for that 12-month period are determined. Our Limited Partnerships have a Carried Interest is generally received upon certain monetizing events in the Limited Partnership. Therefore, there may be increased volatility in price of Common Shares during the period leading up to the announcement of our Performance Fees, Carried Interest and/or the declaration by the Corporation's Board of Directors of any special dividends.

Failure to continue to retain and attract qualified staff could lead to a loss of key employees and clients and could lead to a decline in our revenues.

Our business is dependent on the highly skilled and often highly specialized individuals we employ. The contribution of these individuals to our investment management, client service, and sales and marketing teams is important to attracting and retaining clients. We devote considerable resources to recruiting, training and compensating these individuals. However, the growth in total assets under management in the investment management industry, the number of new firms entering the industry and the reliance on performance results to sell financial products have increased the demand for high-quality investment and client service professionals. Compensation packages for these professionals have a tendency to increase at a rate well in excess of the rate of inflation and above the rates observed in other industries. We expect that these costs will continue to represent a significant portion of our expenses.

We have taken, and will continue to take, steps to encourage our key employees to remain in our employ, including incentive programs such as the Corporation's employee bonus pool, the Corporation's stock option plan, employee profit sharing plan and equity incentive plan (the "Plans"). We have also entered into employment agreements with certain key employees. While we have historically experienced limited turnover in professional employees, there can be no assurance that losses of key employees will not occur in the future. There can be no assurance that the steps we have taken to retain these individuals will be sufficient in light of the increasing competition for experienced professionals in the industry or that we will be able to recruit a sufficient number of new employees with the desired qualifications in a timely manner, if required. The Corporation's employee bonus pool and the Corporation's Plans may not be attractive to our key employees if we are not able to generate meaningful Performance Fees or Carried Interest or the value of our Common Shares declines or fails to appreciate sufficiently to be a competitive source of a portion of professional compensation. Furthermore, there can be no assurances that our key employees will not leave to pursue other opportunities, including those with our competitors. Not all of our investment professionals have employment agreements or are subject to non-competition or non-solicitation restrictions. The failure to retain key employees and to recruit new employees could lead to a loss of clients and a decline in our revenues.

Competitive pressures could reduce our revenues.

The investment management industry is highly competitive. Some of our competitors have, and potential future competitors could have, substantially greater technical, financial, marketing, distribution and other resources than we do. There can be no assurance that we will be able to achieve or maintain any particular level of AUM, AUA or revenues in this competitive environment. Competition could have a material adverse effect on our profitability and there can be no assurance that we will be able to compete effectively. In addition, our ability to maintain our Management Fee, Performance Fee and Carried Interest structure (which is generally among the higher of the fees charged by our competitors) is dependent on our ability to provide clients with products and services that are competitive. Mutual fund investors have recently become more price and value conscious for a variety of reasons, including the current state of the capital markets, low interest rates and reduced investment return expectations, increased regulatory and media focus on mutual fund fees, inconsistent investment performance and the availability of lower cost investment products. There can be no assurance that we will not come under competitive pressures to lower the fees we charge or that we will be able to retain our fee structure or,

with such fee structure, retain our clients in the future. A significant reduction in our Management Fees, Performance Fees or Carried Interest would have an adverse effect on our revenues.

A failure in our ability to manage risks in our Funds, Managed Accounts ,Managed Companies or Limited Partnerships could materially adversely affect our business, financial condition or profitability.

We use our best efforts to monitor, evaluate and manage the principal risks associated with the conduct of our business. These risks include external market risks to which all investors are subject and internal risks resulting from the nature of our business. See “Risk Management”. Some of our methods of managing risk are based upon the use of observed historical market behaviour. As a result, these methods may not predict future risk exposures, which may be significantly greater than the historical measures indicated. Other risk management methods depend upon evaluation of information regarding markets, clients or other matters that is publicly available or otherwise accessible by us. This information may not in all cases be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risk requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective. A failure in our ability to manage risks in our Funds, Managed Accounts, Managed Companies or Limited Partnerships could materially adversely affect our business, financial condition or profitability.

Rapid growth in our Assets Under Management could adversely affect our investment performance.

An important component of investment performance is the availability of appropriate investment opportunities for new client assets. If we are not able to find sufficient investments for new client assets in a timely manner, our investment performance could be materially adversely affected. Alternatively, if we do not have sufficient investment opportunities for new client assets, we may elect to limit our growth and reduce the rate at which we receive new client assets. Historically, depending on, among other factors, prevailing market conditions, we have taken opportunities to invest in smaller market capitalization companies and other more thinly traded securities in which relatively smaller investments are typically made. If our AUM increases rapidly, we may not be able to exploit the investment opportunities that have historically been available to us or find sufficient investment opportunities for producing the absolute returns we target. If we are not able to identify sufficient appropriate investment opportunities for new client assets, our investment performance and our decision to continue to grow may be materially adversely affected.

Rapid growth may also be difficult to sustain and may place significant demands on our administrative, operational and financial resources.

Our growth to date has caused, and if it continues will continue to cause, significant demands on our legal, accounting and operational infrastructure, and increased expenses. The complexity of these demands, and the expense required to address them, is a function not simply of the amount by which our AUM grows, but of significant differences in the investing strategies of our different Funds, Managed Accounts Managed Companies and Limited Partnerships. In addition, we are required to continuously develop our systems and infrastructure in response to the increasing sophistication of the investment management market and legal, accounting and regulatory developments.

Our future growth will depend, among other things, on our ability to maintain an operating platform and management systems sufficient to address our growth and will require us to incur additional expenses and to commit additional senior management and operational resources. As a result, we face challenges in: (i) maintaining adequate financial and business controls; (ii) implementing new or updated information and financial systems and procedures; and (iii) training, managing and appropriately sizing our work force and other components of our business on a timely and cost-effective basis.

There can be no assurance that we will be able to manage our expanding operations effectively or that we will be able to continue to grow, and any failure to do so could adversely affect our ability to generate revenue and control our expenses.

We may not successfully integrate acquired companies, leading to higher costs and operational inefficiencies.

As part of our business strategy, we may make acquisitions of assets of businesses related to, or complementary to, our current operations. Any acquisitions will be accompanied by certain risks, including exposure to unknown liabilities of acquired companies, higher than anticipated acquisition costs and expenses, increased investments in management and operational personnel, financial management systems and facilities, the difficulty and expense of integrating operations and personnel of acquired companies, disruption of ongoing business, diversion of management's time and attention and possible dilution to shareholders. We may not be able to successfully address these risks and other problems associated with acquisitions, which could adversely affect business.

Our business is subject to risks relating to regulatory compliance relating to investment advisors, investment dealers and the securities business generally.

Our ability to carry on our business is dependent upon our compliance with and continued registration under securities legislation in the jurisdictions in which we carry on business. See "Risk Management - Regulatory Matters". The securities business is subject to extensive regulation under securities laws in Canada, the United States and elsewhere. Compliance with many of the regulations applicable to us involves a number of risks, particularly in areas where applicable regulations may be subject to interpretation. In the event of non-compliance with an applicable regulation, securities regulators and IROC and FINRA may institute administrative or judicial proceedings that may result in censure, fine, civil penalties, issuance of cease-and-desist orders, deregistration or suspension of the non-compliant investment dealer or investment adviser, suspension or disqualification of the investment dealer's officers or employees, or other adverse consequences. The imposition of any such penalties or orders on us could have a material adverse effect on our operating results and financial condition.

The rapidly changing securities regulatory environment and the rise of investment management industry standards for operational efficiencies, as well as competitive pressures for the implementation of innovative products and services may require additional human resources. The implementation of additional reporting obligations and other procedures for investment funds may require additional expenditures. Any change in the securities regulatory framework or failure to comply with any of these laws, rules or regulations could have an adverse effect on our business. Failure to comply with these regulations could result in fines, temporary or permanent prohibitions on our activities or the activities of some of our personnel or reputational harm, which could materially adversely affect our business, financial condition or profitability.

The current environment of increased scrutiny may reasonably be expected to lead to increasingly stringent interpretation and enforcement of existing laws and rules. Once again, we may be materially adversely affected by changes in the interpretation or enforcement of existing laws and rules by securities regulatory authorities in Canada and the United States.

In recent years, there has been debate about new rules or regulations to be applicable to hedge funds or other alternative investment products. We may be materially adversely affected if new or revised legislation or regulations are enacted, or by changes in the interpretation or enforcement of existing rules and regulations imposed by the Ontario Securities Commission or the U.S. Securities and Exchange Commission or other Canadian, U.S. or foreign governmental regulatory authorities or self-regulatory

organizations that supervise the financial markets. Such changes could place limitations on the type of investor that can invest in our Funds, Managed Accounts Managed Companies and Limited Partnerships or on the conditions under which such investors may invest. Further, such changes may limit the scope of investing activities that may be undertaken by alternative asset managers. Any such changes could increase our costs of doing business or materially adversely affect our profitability.

Additional regulation, changes in existing laws and rules, or changes in interpretations or enforcement of existing laws and rules often affect directly the method of operation and profitability of securities firms. We cannot predict what effect any such changes might have on our business. Furthermore, our business may be materially affected not only by regulations applicable to us as a financial market intermediary, but also by regulations of general application. For example, returns on our investments in a given time period could be affected by, among other things, existing and proposed tax legislation, competition policy and other governmental regulations and policies, including the interest rate policies of the Bank of Canada, the Federal Reserve or other global central banks and changes in interpretation or enforcement of existing laws and rules that affect the business and financial communities or industry-specific legislation or regulations.

Failure to comply with government regulations could result in fines or temporary or permanent prohibitions on our activities, which could materially adversely affect our business, financial condition or profitability.

Fulfilling our public company financial reporting and other regulatory obligations is expensive and time consuming.

As a public entity, the Corporation is subject to the reporting requirements and related rules and regulations of the Canadian Securities Administrators, as well as the rules of the TSX. These requirements may place a strain on our systems and resources. The Securities Act (Ontario) and other applicable securities legislation require that the Corporation file annual, quarterly and current reports with respect to its business and financial condition and operations and require that the Corporation maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures, significant resources and management oversight are required. The Corporation has implemented procedures and processes for the purpose of addressing the standards and requirements applicable to public companies. In addition, sustaining our growth will also require us to commit additional management, operational and financial resources to identify new professionals to join our firm and to maintain appropriate operational and financial systems to adequately support expansion. These activities may divert management's attention from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The historical financial information included in the Corporation's financial statements is not necessarily indicative of our future performance.

The historical consolidated financial information included in the Corporation's financial statements is not necessarily indicative of our future financial results. The historical growth rates in our revenue, Net Income and AUM is not necessarily indicative of future growth rates. The historical returns of our Funds, Managed Accounts, Managed Companies and Limited Partnerships should not be considered indicative of the future results that should be expected from such Funds, Managed Accounts, Managed Companies and Limited Partnerships or from any future Funds, Managed Accounts, Managed Companies and Limited Partnerships we may manage. Our Funds', Managed Accounts', Managed Companies' and Limited Partnerships returns have benefited from investment opportunities and general market conditions that may not repeat themselves, and there can be no assurance that our current or future Funds, Managed Accounts,

Managed Companies and Limited Partnerships will be able to avail themselves of profitable investment opportunities. The rates of return reflect our historical cost structure, which may vary in the future due to factors beyond our control, including changes in law. In addition, future returns will be affected by the applicable risks described elsewhere in this annual information form, including risks of the industries and businesses in which a particular Fund, Managed Account, Managed Company or Limited Partnerships invests.

Failure to execute our succession plan could lead to a loss of clients and employees and a decline in our revenues.

Eric Sprott is the founder of the Corporation and the Chief Executive Officer and Chief Investment Officer of SAM. Some of our clients have invested with us because of the personal reputation of Mr. Sprott who is committed to continuing to have an active portfolio management role at the Corporation. At the same time, we believe Mr. Sprott has created a strong team at SAM. However, if Mr. Sprott retires, suffers from a long-term disability or dies, we may not be able to retain some of our existing clients or employees, which could lead to a decline in our revenues.

Rick Rule is the founder of GRIL, SAM USA and RCIC and the Chief Executive Officer of Sprott U.S. Some of our clients have invested with us because of the personal reputation of Mr. Rule who is committed to continuing to have an active portfolio management and leadership role at Sprott U.S. Holdings. At the same time, we believe Mr. Rule has created a strong team at Sprott U.S. Holdings. However, if Mr. Rule retires, suffers from a long-term disability or dies, we may not be able to retain some of our existing clients or employees, which could lead to a decline in our revenues.

Our failure to deal appropriately with conflicts of interest could damage our reputation and materially adversely affect our business.

As we have expanded the scope of our business, we increasingly confront potential conflicts of interest relating to our Funds', Managed Accounts', Managed Companies' and Limited Partnerships' investment activities. Certain of our Funds, Managed Accounts, Managed Companies and Limited Partnerships have overlapping investment objectives and potential conflicts may arise with respect to our decisions regarding how to allocate investment opportunities among those Funds, Managed Accounts, Managed Companies and Limited Partnerships. Pursuant to our fair allocation policy, if an investment opportunity is suitable for more than one Fund, Managed Account, Managed Company or Limited Partnership, we will allocate such investment opportunities equitably in order to ensure that our Funds, Managed Accounts, Managed Companies and Limited Partnerships have equal access to the same quality and quantity of investment opportunities. We consistently seek to negotiate the best possible price through a broker, and when allocating block trades, allocations are made on a pro rata basis, with consideration given to the objective, strategy, restriction, portfolio composition and cash availability of each Fund Managed Account, Managed Company and Limited Partnership. Therefore a Fund, Managed Account, Managed Company or Limited Partnership may not be able to participate fully in an investment opportunity, which may have a negative impact on its investment strategy.

It is possible that actual, potential or perceived conflicts could give rise to investor dissatisfaction or litigation or regulatory enforcement actions. Appropriately dealing with conflicts of interest is complex and difficult and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with one or more potential or actual conflicts of interest. Regulatory scrutiny of, or litigation in connection with, conflicts of interest would have a material adverse effect on our reputation which would materially adversely affect our business in a number of ways, including as a result of redemptions by our investors from our Funds, an inability to raise additional funds and a reluctance of counterparties to do business with us.

We are subject to litigation risk which could result in significant liabilities and reputational harm which could materially adversely affect our results of operations, financial condition and liquidity.

In general, we will be exposed to risk of litigation by our clients if our management of any Fund, Managed Account, Managed Company or Limited Partnership is alleged to constitute gross negligence or wilful misconduct. Clients could sue us to recover amounts lost by our Funds, Managed Accounts, Managed Companies or Limited Partnerships due to our alleged gross negligence or misconduct, up to the entire amount of loss. Further, we may be subject to litigation arising from client dissatisfaction with the performance of our Funds, Managed Accounts, Managed Companies or Limited Partnerships or from allegations that we improperly exercised control or influence over companies in which our Funds, Managed Accounts, Managed Companies or Limited Partnerships have large investments. We may also be exposed to risks of litigation or investigation relating to transactions which presented conflicts of interest that were not properly addressed. In such actions we would be obligated to bear legal, settlement and other costs (which may be in excess of available insurance coverage). In addition, although we are indemnified by the Funds, Managed Accounts, Managed Companies and Limited Partnerships we manage, our rights to indemnification may be challenged. If we are required to incur all or a portion of the costs arising out of litigation or investigations as a result of inadequate insurance proceeds or failure to obtain indemnification from our Funds, Managed Accounts, Managed Companies or Limited Partnerships, our results of operations, financial condition and liquidity would be materially adversely affected.

We are exposed to the risk of litigation if our Funds, Managed Account, Managed Companies or Limited Partnerships suffer catastrophic losses due to the failure of a particular investment strategy or due to the trading activity of an employee who has violated market rules and regulations. Any litigation arising in such circumstances is likely to be protracted, expensive and surrounded by circumstances which are materially damaging to our reputation and our business.

Employee errors or misconduct could result in regulatory sanctions or reputational harm, which could materially adversely affect our business, financial condition or profitability.

There have been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry in recent years and, notwithstanding the extensive measures we take to deter and prevent such activity, we run the risk that employee misconduct could occur. Misconduct by employees could include binding us to transactions that exceed authorized limits or present unacceptable risks, or concealing from us unauthorized or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks or losses. Employee misconduct could also involve the improper use of confidential information, which could result in regulatory sanctions and serious reputational harm. We are also susceptible to loss as a result of employee error. It is not always possible to deter employee misconduct or prevent employee error and the precautions we take to prevent and detect this activity may not be effective in all cases, which could materially adversely affect our business, financial condition or profitability.

Failure to implement effective information security policies, procedures and capabilities could disrupt operations and cause financial losses that could materially adversely affect our business, financial condition or profitability.

We are dependent on the effectiveness of our information security policies, procedures and capabilities to protect our computer and telecommunications systems, and the data that resides on or is transmitted through them. An externally caused information security incident, such as a hacker attack or a virus or worm, or an internally caused issue, such as failure to control access to sensitive systems, could materially interrupt our business operations or cause disclosure or modification of sensitive or

confidential information and could result in material financial loss, regulatory actions, breach of client contracts, reputational harm or legal liability, which, in turn, could materially adversely affect our business, financial condition or profitability.

Failure to develop effective business resiliency plans could disrupt operations and cause financial losses, which could materially adversely affect our business, financial condition or profitability.

We are dependent on the availability of our personnel, our office facilities and the proper functioning of our computer and telecommunications systems. We have implemented a business continuity program, which we review and update annually. Business continuity during a disaster recovery period is a high priority for us. Our policy is to ensure our continued ability to serve clients and protect their assets and account information, in addition to the people and assets of the Corporation and its subsidiary companies. Our business continuity program has been developed to provide reasonable assurance of business continuity in the event that there are disruptions of normal operations at our office premises. Regardless, a disaster could materially interrupt our business operations and if our disaster recovery plans prove to be ineffective, it could cause material financial loss, loss of human capital, reputational harm or legal liability, which, in turn, could materially adversely affect our business, financial condition or profitability.

Our organizational documents do not limit our ability to enter into new lines of business, and we may enter into new businesses, make future strategic investments or acquisitions or enter into joint ventures, each of which may result in additional risks and uncertainties in our business.

We intend, to the extent that market conditions warrant, grow our business by increasing AUM and creating new investment products and businesses. Accordingly, we may pursue growth through strategic investments, acquisitions or joint ventures, which may include entering into new lines of business. To the extent we make strategic investments or acquisitions or enter into a new line of business, we will face numerous risks and uncertainties, including risks associated with (i) the required investment of capital and other resources, (ii) the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk, (iii) combining or integrating operational and management systems and controls and (iv) loss of investors in our Funds, Managed Accounts, Managed Companies or Limited Partnership or other direct clients due to the perception that we are no longer focusing on our core business lines. Entry into certain lines of business may subject us to new laws and regulations with which we are not familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk. If a new business generates insufficient returns or if we are unable to efficiently manage our expanded operations, our results of operations will be materially adversely affected.

The acquisition of more than 10% of voting shares of the Corporation requires regulatory approval

We may not, without the approval of IROC, permit an investor, alone or together with its associates and affiliates, to own voting securities carrying 10% or more of the votes carried by all voting securities in the Corporation, 10% or more of the outstanding participating securities of the Corporation, or an interest of 10% or more in the total equity of the Corporation. As a result of these restrictions, the market for significant blocks of shares may be limited.

We may not be able to obtain sufficient insurance coverage on favourable economic terms.

We have various types of insurance, including general commercial liability insurance and financial institution bonds. The adequacy of insurance coverage is evaluated on an ongoing basis, including the cost relative to the benefits. However, there can be no assurance that claims will not exceed the limits of available insurance coverage or that any claim or claims will be ultimately satisfied by an insurer. A

judgment against us in excess of available insurance or in respect of which insurance is not available could have a material adverse effect on our business, financial condition or profitability. There can be no assurance that we will be able to obtain insurance coverage on favourable economic terms in the future.

We are subject to foreign exchange risk relating to the relative value of the U.S. dollar.

Some of our expenses and revenues are denominated in U.S. dollars. As a result, we are subject to foreign exchange risks relating to the relative value of the U.S. dollar as compared to the Canadian dollar. A decline in the U.S. dollar would result in a decrease in the real value of our revenues and adversely impact our financial performance.

Risks Related to Our Funds, Managed Accounts and Limited Partnerships (collectively “Funds”)

Our results of operations are dependent on the performance of our Funds. Poor Fund performance will result in reduced Management Fee, Performance Fee and Carried Interest revenues and reduced returns on our proprietary investments in our Funds. Poor performance of our Funds will make it difficult for us to retain or attract investors to our Funds and grow our business. The performance of each Fund we manage is subject to some or all of the following risks:

- (a) external market and economic conditions beyond our control such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, and national and international political circumstances, have an effect on the performance and net asset value of our Funds;
- (b) fluctuation in the frequency and size of redemptions could have an impact on the value of our Funds including substantial redemptions of units, which could require Funds to liquidate positions more rapidly than otherwise desirable in order to raise the necessary cash to fund redemptions and achieve a market position appropriately reflecting a smaller asset base. A significant amount of redemptions can materially adversely affect a Fund, which in turn will affect the Management Fees, Performance Fees and Carried Interest payable to us;
- (c) certain of our Funds have a limited operating history, and historical performance of our Funds may not be indicative of future performance of our Funds or return on investment in our Common Shares;
- (d) our Funds’ investment strategies and portfolios are subject to changes over time;
- (e) the investments of some of our Funds are focused primarily or exclusively on small capitalization companies, which tend to be less stable and potentially less able to withstand market fluctuations;
- (f) the inability of a Fund to pay the expenses of one class or series of units may result in an increase in the expenses of the other classes or series of such Fund, the effect of which could be to lower the investment returns of the other class(es) or series that have been affected, even though the value of the investments of the Fund may have increased;
- (g) our Funds may experience difficulty in selling due to illiquidity of the securities they have invested in;

- (h) there is uncertainty as to whether certain of our Funds will qualify as mutual fund trusts and this may result in certain adverse tax consequences to the Fund if certain investment strategies are employed;
- (i) there are various expenses incurred by our Funds from time to time regardless of whether our Funds realize profits and such expenses or costs may negatively impact the net asset value of a Fund, which in turn will affect the Management Fees, Performance Fees and Carried Interest payable to us;
- (j) our Funds may be subject to losses due to indemnification obligations for which they are not insured;
- (k) the success of our Funds depends on our ability to manage the investments and assets of our Funds. There is no guarantee that our strategies will be successful, or that we will continue to be able to rely on the key personnel we depend on in this role;
- (l) there is no guarantee that foreign jurisdictions will recognize the limited liability of limited partners or unitholders of our Funds;
- (m) the valuation of our Funds' investments is subject to uncertainty. Our Funds may hold investments which by their nature may be difficult to value accurately, such as investments in private companies. Independent pricing information may not always be available in relation to certain of the Funds' securities and other investments. While the Funds are audited by independent auditors in order to assess whether the Funds' financial statements are fairly stated in accordance with Canadian generally accepted accounting principles, valuation of some of the managed Funds' securities and other investments may involve uncertainties and judgment determinations and, if such valuations should prove to be incorrect, the NAV of a Fund could be misstated. The Corporation may incur substantial costs in rectifying pricing errors caused by the misstatement of such investment values;
- (n) some of our Funds invest in commodities, the prices of which are subject to fluctuation and potential declines in value;
- (o) our Funds are exposed to currency risk and foreign investment risk when they invest in securities that are denominated in foreign currencies and/or in securities of foreign issuers;
- (p) to the extent any of our Funds invest in bonds, preferred shares and money market securities, they will be affected by changes in the general level of interest rates;
- (q) our Funds are subject to numerous legal and regulatory regimes and as a result, our Funds are at risk of lawsuits and changes in laws and regulations governing the affairs of our Funds;
- (r) some of our Funds (in particular, our mutual funds) may engage in securities lending, which involves risk of potential loss if the other party to such lending transactions is unable to fulfil its obligations;

- (s) some of the special investment techniques that we may use with respect to our Funds' investments include short sales, leveraging, hedging, using derivatives or options, and concentration of investment holdings, all of which are subject to their own inherent risks;
- (t) the due diligence process that we undertake in connection with investments by our Funds may not reveal all facts that may be relevant in connection with an investment;
- (u) our Funds make investments in companies that we do not control so those investments will be subject to the risk that the company in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve our interests;
- (v) if our risk management systems are ineffective, we may be exposed to material unanticipated losses; and
- (w) administrative services provided by the Corporation depend in some cases on software and services provided by third parties. The loss of these suppliers' products or services, or problems or errors related to such products could have an adverse effect on the ability of the Corporation to provide these administrative services to the Funds. Significant changes to the pricing arrangements with such third parties could also have an adverse effect on the Funds' operating results. There can be no assurance that the systems of key third party service providers will operate without interruption or that those providers will be able to prevent extended service interruptions in the event of a systems failure, natural disaster or utility outage. Systems failures that cause interruptions in the operations of the Funds could have a material adverse effect on the Corporation's operating results.

Risks Related to Our Managed Companies

Performance of our Managed Companies

Our results of operations are dependent on the performance of our Managed Companies. Poor performance will result in reduced Management Fee and Performance Fee revenues and reduced returns on our proprietary investments in our Managed Companies. Poor performance of our Managed Companies will make it difficult for us to retain or attract investors to our Managed Companies and grow our business. The performance of each Managed Company we manage is subject to some or all of the following risks:

- (a) external market and economic conditions beyond our control such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, and national and international political circumstances;
- (b) certain of our Managed Companies have a limited operating history, and historical performance of our Managed Companies may not be indicative of future performance of our Managed Companies' share price or return on investment in our Common Shares;
- (c) the success of our Managed Companies depends on our ability to manage their operations, investments and assets. There is no guarantee that our strategies will be successful, or that we will continue to be able to rely on the key personnel we depend on in this role;

- (d) some of our Managed Companies invest in commodities, the prices of which are subject to fluctuation and potential declines in value; and
- (e) some of our Managed Companies are exposed to currency risk and foreign investment risk when they invest in securities that are denominated in foreign currencies and/or in securities of foreign issuers.

Management Services Agreements

Our Managed Companies may terminate our management services agreements and our ability to manage the partnerships or limited partnerships of our Managed Companies. The termination may occur with prior written notice and in certain cases would include a termination fee. A termination by any of the Managed Companies would result in decreased Management Fees and Performance fees and therefore would have a material adverse effect on our business, financial condition or profitability.

Lack of Diversification

SC currently manages three companies, Sprott Resource Corp., Sprott Resource Lending Corp. and Sprott Power Corp. The performance of the Corporation would be adversely affected by the unfavourable performance of one company. As well, the Managed Companies' investments and projects are concentrated in the natural resource sector. As a result, the Managed Companies' performance will be disproportionately subject to adverse developments in this particular sector.

Risks Related to Our Organization, Structure and Common Shares

Control by a controlling shareholder of the Common Shares may give rise to conflicts of interests.

Eric Sprott exercises control or direction over 55.6% of the issued and outstanding Common Shares. Accordingly, Mr. Sprott will have the ability to elect all of the members of the Board of Directors and thereby control the management and affairs of the Corporation. In addition, he will be able to determine the outcome of all matters requiring shareholder approval and will be able to cause or prevent a change of control of the Corporation or a change in the composition of the Board of Directors, and could preclude any unsolicited acquisition of the Corporation. The control of voting power by Mr. Sprott could deprive holders of Common Shares of an opportunity to receive a premium for their Common Shares as part of a sale of the Corporation, and might ultimately affect the market price of the Common Shares.

The market price of the Common Shares may fluctuate widely and rapidly.

The market price of the Common Shares could fluctuate significantly as a result of many factors, including the following: (i) economic and stock market conditions generally and specifically as they may impact participants in the investment management industry; (ii) our earnings and results of operations and other developments affecting our business; (iii) sales of additional Common Shares into the market by the Management Shareholders, other employees of the Corporation; (iv) changes in financial estimates and recommendations by securities analysts following our Common Shares; (v) earnings and other announcements by, and changes in market evaluations of, participants in the investment management industry; (vi) changes in business or regulatory conditions affecting participants in the investment management industry; and (vii) trading volume of the Common Shares.

In addition, the financial markets have experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been

unrelated to the operating performance of such companies. Accordingly, the market price of the Common Shares may decline even if our operating results or prospects have not changed.

Potential future sales of Common Shares by the Management Shareholders could adversely affect prevailing market prices for the Common Shares.

Subject to compliance with applicable securities laws and the applicable escrow restrictions, the Management Shareholders may sell some or all of their Common Shares in the future. See “Escrow Arrangements”. No prediction can be made as to the effect, if any, such future sales of Common Shares will have on the market price of the Common Shares prevailing from time to time. However, the future sale of a substantial number of Common Shares by the Management Shareholders, or the perception that such sales could occur, could adversely affect prevailing market prices for the Common Shares.

DIVIDENDS

All dividends are subject to declaration by the Corporation’s Board of Directors. Whether to declare any dividends and the amount of any such dividends are determined by the Board of Directors, in its sole discretion, after considering general business conditions, the Corporation’s financial results, including the level of Performance Fees paid to the Corporation, and other factors it determines to be relevant at the time. The Corporation’s dividend policy currently provides that the Board of Directors will declare, and the Corporation will pay, quarterly dividends on its Common Shares in the amount of \$0.03 per Common Share. In addition, the Corporation expects that the Board of Directors will annually declare a special dividend on each of its Common Shares following receipt of Performance Fees, if any. The amount and timing of such special dividend, if any, will be determined by the Board of Directors in its sole discretion. All dividends are subject to declaration by the Board of Directors who will consider, among other things, the Corporation’s risk adjusted capital and working capital requirements. There is no certainty that any such dividends will be declared or paid. Any dividend policy established by the Board of Directors can be changed at any time and such policy is not binding on the Corporation.

On June 1, 2011, the Board of Directors declared an eligible dividend in the amount of \$0.03 per Common Share for the quarter ended March 31, 2011, payable on June 27, 2011 to shareholders of record at the close of business on June 10, 2011.

On August 9, 2011, the Board of Directors declared an eligible dividend in the amount of \$0.03 per Common Share for the quarter ended June 30, 2011, payable on September 2, 2011 to shareholders of record at the close of business on August 18, 2011.

On November 8, 2011, the Board of Directors declared an eligible dividend in the amount of \$0.03 per Common Share for the quarter ended September 30, 2011, payable on December 2, 2011 to shareholders of record at the close of business on November 17, 2011.

On March 27, 2012, the Board of Directors declared an eligible dividend in the amount of \$0.03 per Common Share for the quarter ended December 31, 2011, payable on April 20, 2012 to shareholders of record at the close of business on April 5, 2012.

No special dividend was declared in relation to Performance Fees earned in 2011.

CAPITAL STRUCTURE

The authorized share capital of the Corporation consists of an unlimited number of common shares, issuable in series, of which 169,645,000 Common Shares are issued and outstanding as of the date hereof.

Common Shares

Each Common Share entitles the holder thereof to receive notice of any meetings of shareholders of the Corporation, to attend and to cast one vote per Common Share at all such meetings. Holders of Common Shares do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of a majority of the Common Shares of the Corporation entitled to vote in any election of directors may elect all directors standing for election. Holders of Common Shares are entitled to receive on a pro-rata basis such dividends, if any, as and when declared by the Board of Directors at its discretion from funds legally available therefore and upon the liquidation, dissolution or winding up of the Corporation are entitled to receive on a pro rata basis the net assets of the Corporation after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to or on a pro rata basis with the holders of Common Shares with respect to dividends or liquidation. The Common Shares do not carry any pre-emptive, subscription, redemption or conversion rights, nor do they contain any sinking or purchase fund provisions. See also "Dividends".

Restriction on Share Ownership

We may not, without regulatory approval, permit an investor, alone or together with its associates and affiliates, to own voting securities carrying 10% or more of the votes carried by all voting securities in SAM, SPW or the Corporation, 10% or more of the outstanding participating securities of SAM, SPW or the Corporation, or an interest of 10% or more in the total equity of the Corporation.

MARKET FOR SECURITIES

On May 15, 2008, the Common Shares were listed and posted for trading on the TSX under the stock symbol "SII". The price ranges and volume traded of the Common Shares on the TSX for each applicable month of the most recently completed financial year are set out below:

Month	High	Low	Monthly volume
	\$	\$	# of shares
January-11	9.65	7.86	3,020,491
February-11	9.25	8.10	1,036,053
March-11	9.96	8.02	3,422,647
April-11	9.41	8.90	1,700,070
May-11	9.37	8.11	2,089,198
June-11	9.07	7.21	3,240,892

Month	High	Low	Monthly volume
July-11	9.26	7.41	1,499,467
August-11	9.31	7.86	2,246,602
September-11	8.66	6.29	2,073,295
October-11	7.47	5.75	1,645,953
November-11	7.87	6.41	1,245,318
December-11	7.48	5.00	2,380,364

On February 4, 2011, we completed the acquisition of the Global Companies for which we issued 19,467,500 Common Shares (the “Sale Shares”) to the Rule Family Trust at a deemed price of \$8.67 per share pursuant to a share exchange agreement dated as of January 24, 2011 (the “Share Exchange Agreement”) among Sprott Inc., Sprott U.S. Holdings Inc., Rule Family Trust U/A/D 12/17/98, Rick Rule, and Bonnie Rule (the “Rule Family Trust”). Pursuant to the Share Exchange Agreement the Rule Family Trust is also entitled to receive up to 8 million additional Common Shares (the “Contingent Payment Shares”) upon the attainment of certain financial performance hurdles on February 4, 2016.

SECURITIES SUBJECT TO CONTRACTUAL RESTRICTIONS ON TRANSFER

In connection with the acquisition of the Global Companies, the Rule Family Trust entered into a lock-up agreement with the Corporation (the “Lock Up Agreement”) pursuant to which the Rule Family Trust may not, without the prior written consent of the Corporation or unless certain events occur, directly or indirectly, during the Restricted Period (as defined below) (i) offer, issue, assign, pledge, hypothecate, grant a security interest in, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, make any short sale, or otherwise transfer, encumber or dispose of any legal or beneficial interest in any of the Sale Shares received by the Rule Family Trust, (ii) enter into any swap or other agreement or arrangement (including a monetization arrangement or hedging or similar transaction) that transfers, in whole or in part, any of the economic consequences of ownership of the Sale Shares.

The “Restricted Period” means (i) with respect to one-third (1/3rd) of the Sale Shares and one-third of any Contingent Payment Shares, the period commencing on the date such applicable shares were issued to Seller (the “Issuance Date”) and ending on the twelve-month anniversary of the Issuance Date, (ii) with respect to one-third (1/3rd) of the Sale Shares and one-third (1/3rd) of any Contingent Payment Shares issued to the Rule Family Trust, the period commencing on the date such applicable shares were issued and ending on the twenty four (24) month anniversary of the Issuance Date, and (iii) with respect to the remaining portion of the Sale Shares and of any Contingent Payment Shares issued, the period commencing on the date such applicable shares were issued and ending on the thirty six (36) month anniversary of the Issuance Date. Notwithstanding the foregoing, the Rule Family Trust may transfer of any or all of the Sale Shares or Contingent Payment Shares to a beneficiary of Rule Family Trust; provided, however, that in each and any such event it shall be a condition to such transfer that the transferee execute a lock-up agreement in favor of the Corporation substantially in the form of as the Lock Up Agreement.

Designation of Class	Number of Securities Subject to Contractual Restriction on Transfer	Percentage of Class as of December 31, 2011
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Common Shares	19,467,500	11.5%
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DIRECTORS AND OFFICERS

The Board consists of seven directors. Each of the directors of the Corporation was first elected to the Board on March 10, 2008, with the exception of Mr. Sprott who was elected to the Board on February 13, 2008, Dr. Marc Faber who was elected to the Board on January 19, 2010 and Mr. Peter Grosskopf who was appointed to the Board effective September 7, 2010. All directors were elected to serve until the next annual meeting of shareholders of the Corporation, subject to earlier resignation or removal. On February 6, 2012, we announced that Mark McCain had resigned as a director of the Corporation due to due to other personal and business commitments. The following table sets forth the names, municipalities of residence, positions held with the Corporation and principal occupations for the directors and executive officers of the Corporation as of the date hereof.

Name and Municipality of Residence	Position with the Corporation	Principal Occupation
Eric S. Sprott Oakville, Ontario	Chairman	Chief Executive Officer, Chief Investment Officer and Director of SAM
Jack C. Lee ⁽¹⁾⁽²⁾⁽³⁾ Calgary, Alberta	Lead Director	Private Investor; President of Facet Resources Ltd.
Marc Faber ⁽¹⁾ Ampur Chaingmai, Thailand	Director	Managing Director, Marc Faber Ltd.
Peter Grosskopf Toronto, Ontario	Chief Executive Officer and Director	Chief Executive Officer of the Corporation, Chief Executive Officer, Sprott Resource Lending Corp.
James T. Roddy ⁽¹⁾⁽²⁾⁽³⁾ Toronto, Ontario	Director	Corporate Director
Rick Rule Carlsbad, California	Director	Chief Executive Officer, Sprott US Holdings Inc.
Kevin Bambrough Toronto, Ontario	President	President of the Corporation, President and Chief Executive Officer, Sprott Resource Corp., Chief Executive Officer, SC and Market Strategist, SAM
Steven Rostowsky Thornhill, Ontario	Chief Financial Officer	Chief Financial Officer of the Corporation, Chief Financial Officer of SAM
Arthur Einav Toronto, Ontario	General Counsel and Corporate Secretary	General Counsel and Corporate Secretary of the Corporation and SC

- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) Member of the Corporate Governance and Nominating Committee

The directors and executive officers of the Corporation, as a group directly or indirectly, beneficially own, or control or direct 122,814,984 Common Shares of the Corporation, being 72.4% of the total issued and outstanding Common Shares of the Corporation.

Except as noted below, each of the foregoing directors and officers has held the same principal occupation for the previous five years. The following is a brief biographical description of the directors and officers of the Corporation other than Eric Sprott, Rick Rule, Peter Grosskopf and Kevin Bambrough whose biographies are under “Description of the Business – Sprott Asset Management LP– Our Management Services Team”, “Description of the Business – Sprott US Holdings Inc. – Our Management Services Team”, “Description of the Business – Sprott Consulting LP – Our Management Services Team”, respectively.

Jack C. Lee

Mr. Lee has nearly 40 years of experience in the oil and gas industry. He is currently Lead Director of the Corporation and serves as Chairman of Alaris Royalty Corp., Ithaca Energy Inc., CanEra Energy Inc., and Gryphon Petroleum Corp. He was previously Vice Chairman of Penn West Energy Trust, Chairman of Canetic Resources Trust and President and Chief Executive Officer of Acclaim Energy Inc. (“Acclaim”), a predecessor of Canetic. Prior thereto, Mr. Lee was President and Chief Executive Officer of Danoil Energy Ltd., a predecessor of Acclaim. Mr. Lee has a Bachelor of Arts and a Bachelor of Commerce and is a member of the Institute of Corporate Directors.

Marc Faber

Dr. Faber is the Managing Director of Marc Faber Ltd., an investment advisory and fund management firm. He also acts as a director of Ivanhoe Mines Ltd, an international mining company with operations focused on the Asia Pacific region, and as a director and advisor to a number of private investment funds. Dr. Faber publishes a widely read monthly investment newsletter entitled “The Gloom, Boom & Doom Report” and is the author of several books including “Tomorrow’s Gold – Asia’s Age of Discovery”. He is a regular contributor to several leading financial publications around the world, including Barron’s. Dr. Faber has over 36 years of experience in the finance industry, including acting as manager of an investment bank in the U.S. where he routinely performed financial analysis on a range of companies. Dr. Faber received his PhD in Economics magna cum laude from the University of Zurich. He is a member of the Institute of Corporate Directors.

James T. Roddy

Mr. Roddy has held a number of senior positions and directorships with companies in various industries. He served as President and CEO and Director of Ontario Bus Industries Inc. in 1994, and from 1989 to 1993 was President and Chief Operating Officer and Director of Slater Industries Inc. From 1985 to 1989 he held various positions with Campeau Corporation, including President, Chief Financial Officer and Chief Operating Officer and Director, and served in the roles of Chief Financial Officer, Executive Vice President and Chief Operating Officer and Director of Peoples Jewellers Limited between 1967 and 1984. Mr. Roddy has also held directorships with numerous public and not-for-profit corporations. He received his Chartered Accountant designation in 1967 and is a member of the Institute of Corporate Directors.

Steven Rostowsky

Mr. Rostowsky joined the Corporation in March 2008 as the Chief Financial Officer. Prior to that, he was Senior Vice-President, Finance & Administration at the IDA (a predecessor to IIROC). As a member of the IDA's senior management team, Mr. Rostowsky had responsibility for non-regulatory functional areas including Finance, Human Resources, Information Technology and the Association Secretary. Prior to joining the IDA in January 2005, Mr. Rostowsky was Chief Financial Officer and Chief Compliance Officer of Guardian Group of Funds ("GGOF") since July 2001 when GGOF was acquired by Bank of Montreal. At that time he was Vice-President, Finance for Guardian Capital Group, GGOF's former parent company. Mr. Rostowsky is a Chartered Accountant and a Chartered Financial Analyst, and holds a Bachelor of Business Science (Finance) and a post-graduate accounting degree, both from the University of Cape Town, South Africa.

Arthur Einav

Arthur Einav joined the Corporation in May 2010. Prior to joining the Corporation, Mr. Einav was at Davis Polk & Wardwell LLP, New York, New York from 2005 to 2010. From 2002 to 2005 Mr. Einav was at McCarthy Tetrault LLP in Toronto. He holds a Bachelor of Law degree and a Masters in Business Administration from Osgoode Hall Law School and the Schulich School of Business. He also holds a Bachelor of Science degree from the University of Toronto.

Corporate Cease Trade Orders or Bankruptcies

No director, officer or other member of management of the Corporation is, or within the ten years prior to the date hereof has been, a director, chief executive officer or chief financial officer of any company that was the subject of a cease trade order or similar order or an order that denied the company access to any statutory exemptions for a period of more than thirty consecutive days issued while that person was acting in such capacity or issued thereafter but resulted from an event that occurred while that person was acting in such capacity. No director, officer or other member of management of the Corporation is now, or within the ten years prior to the date hereof, has been a director or executive officer of any company while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, other than Jack C. Lee who is a director of an Alberta-based private company that has sought protection under the Companies' Creditors Arrangement Act.

Penalties or Sanctions and Personal Bankruptcies

No director, officer, or other member of management of the Corporation has, during the ten years prior to the date hereof, been subject to any penalties or sanctions imposed by a court or securities regulatory authority relating to trading in securities, promotion, formation or management of a publicly traded company, or involving fraud or theft.

No director, officer or other member of management of the Corporation has, during the ten years prior to the date hereof, been bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or has been subject to or instituted any proceedings, arrangement, or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold his or her assets.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Our directors and officers are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosure by directors and officers of conflicts of interest and the fact that we will rely upon such laws in respect of any director's or officer's conflicts of interest or in respect of breaches of duty by any of our directors or officers. All such conflicts must be disclosed by such directors or officers in accordance with the Business Corporations Act (Ontario), and they will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Shares is Equity Financial Trust Company at its principal office located at 200 University Avenue, Suite 400, Toronto, Ontario M5H 4H1.

MATERIAL CONTRACTS

The only material contract entered into by us to which we are a party to since January 1, 2011 or before such date but still in effect is the Share Exchange Agreement. A copy of the Share Exchange Agreement is available at www.sedar.com.

AUDIT COMMITTEE INFORMATION

The Corporation's Board of Directors has established an audit committee (the "Audit Committee") comprised of James T. Roddy (Chair), Jack C. Lee and Marc Faber. All members of the Audit Committee are independent and non-executive directors of the Corporation. All members of the Audit Committee meet the independence and financial literacy requirements of National Instrument 52-110 Audit Committees. See the biographical descriptions under "Directors and Officers" for a biographical description of each member of the Audit Committee.

The Board has adopted a written mandate for the Audit Committee, which sets out the Audit Committee's responsibility in overseeing the accounting and financial reporting processes of the Corporation, audits of the financial statements of the Corporation, and the appointment, compensation, and oversight of the work of any registered external auditor employed by the Corporation for the purpose of preparing or issuing an audit report or related work. This mandate is reviewed and assessed at least annually or otherwise, as deemed appropriate, by the Board with the assistance of the Corporate Governance and Nominating Committee of the Board and the Audit Committee. A copy of this mandate is attached hereto as Appendix A.

External Auditor Fees

Ernst & Young LLP were appointed as Auditors of the Corporation on February 13, 2008. For the fiscal years ended December 31, 2011 and December 31, 2010, the fees paid to Ernst & Young LLP are summarized below for each category:

<u>Service⁽⁴⁾</u>	<u>Fees Incurred</u> <u>2011</u>	<u>Fees Incurred</u> <u>2010</u>
Audit and Audit-Related Fees ⁽¹⁾	\$628,200	\$318,300
Tax Fees ⁽²⁾	\$17,700	\$55,700
All Other Fees ⁽³⁾	\$44,400	\$295,900
Total Fees Paid	\$690,300	\$669,900

- (1) Audit-related services included quarterly reviews, audit fees, consultation work, audit-related procedures relating to the acquisition of the Global Companies, and IFRS Opening Balance Sheet audit.
- (2) Tax services included tax return review, tax planning, GST work, tax research and other tax services.
- (3) All other fees relate to transfer pricing and related economic analyses.
- (4) Fees do not include any fees related to services provided with respect to the Funds managed by SAM.

ADDITIONAL INFORMATION

Additional financial information relating to the Corporation is available in its financial statements and management's discussion and analysis for the financial year ended December 31, 2011. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans, is contained in the Corporation's management information circular for its annual and special meeting of shareholders scheduled for May 9, 2012. All of these documents, as well as additional information relating to the Corporation, are available on SEDAR at www.sedar.com.

**APPENDIX A
SPROTT INC.**

AUDIT COMMITTEE MANDATE

General

The Board of directors (the “Board”) of Sprott Inc. (the “Corporation”) has delegated the responsibilities, authorities and duties described below to the audit committee (the “Committee”). For the purpose of these terms of reference, the term “Corporation” shall include the Corporation and its subsidiaries.

The Committee shall be directly responsible for overseeing the accounting and financial reporting processes of the Corporation and audits of the financial statements of the Corporation, and the Committee shall be directly responsible for the appointment, compensation, and oversight of the work of any registered external auditor employed by the Corporation (including resolution of disagreements between management of the Corporation and the external auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. In so doing, the Committee will comply with all applicable Canadian securities laws, rules and guidelines, any applicable stock exchange requirements or guidelines and any other applicable regulatory rules.

Members

1. The Committee will be comprised of a minimum of three directors. Each Committee member shall satisfy the independence, financial literacy and experience requirements of applicable Canadian securities laws, rules and guidelines, any applicable stock exchange requirements or guidelines and any other applicable regulatory rules. In particular, each member shall be “independent” and “financially literate” within the meaning of Multilateral Instrument 52-110 Audit Committees (except as otherwise set forth in the limited exemptions contained therein). Determinations as to whether a particular director satisfies the requirements for membership on the Committee shall be made by the Board. Members of the Committee shall be appointed annually by the Board at the first meeting of the Board after the annual general meeting of shareholders. Each member shall serve until such member’s successor is appointed, unless that member resigns or is removed by the Board or otherwise ceases to be a director of the Corporation. The Board shall fill any vacancy if the membership of the Committee is less than three directors.
2. The Chair of the Committee will be designated by the Board, on the recommendation of the Corporate Governance and Nominating Committee, or, if it does not do so, the members of the Committee may elect a Chair by vote of a majority of the full Committee membership. The Chair of the Committee shall be responsible for overseeing the performance by the Committee of its duties, for assessing the effectiveness of the Committee and individual Committee members and for reporting periodically to the Board.

Meetings

3. The Committee will meet at least quarterly and at such times and at such locations as the Chair of the Committee shall determine, provided that meetings shall be scheduled so as to permit the timely review of the Corporation’s quarterly and annual financial statements and related management discussion and analysis, if applicable. Notice of every meeting shall be given to the external auditor, who shall, at the expense of the Corporation, be entitled to attend and to be heard thereat. The external auditor or any member of the Committee may also request a meeting of the

Committee. The Committee shall have an in-camera session without non-independent directors and management as a regular feature of each regularly scheduled meeting. The external auditor and management employees of the Corporation shall, when required by the Committee, attend any meeting of the Committee. Any director of the Corporation may request the Chair of the Committee to call a meeting of the Committee and may attend at such meeting or inform the Committee of a specific matter of concern to such director, and may participate in such meeting to the extent permitted by the Chair of the Committee.

4. Meetings of the Committee shall be validly constituted if a majority of the members of the Committee is present in person or by telephone conference. A resolution in writing signed by all the members of the Committee entitled to vote on that resolution at a meeting of the Committee is as valid as if it had been passed at a meeting of the Committee.
5. The Committee shall submit the minutes of all meetings to the Board, and when requested to, shall discuss the matters discussed at each Committee meeting with the Board.

Committee Charter and Performance

6. The Committee shall have a written charter that sets out its mandate and responsibilities and the Committee shall review and assess the adequacy of such charter and the effectiveness of the Committee at least annually or otherwise, as it deems appropriate, and propose recommended changes to the Corporate Governance and Nominating Committee who will do same and recommend changes to the Board for its approval. Unless and until replaced or amended, this mandate constitutes that charter.

Committee Authority and Responsibilities

7. General

The overall duties of the Committee shall be to:

- (i) assist the Board in the discharge of its duties relating to the Corporation's accounting policies and practices, reporting practices and internal controls;
- (ii) establish and maintain a direct line of communication with the Corporation's external auditor and assess their performance;
- (iii) oversee the work of the external auditor engaged to prepare or issue an auditor's report or to prepare other audit, review or attest services for the Corporation, including resolution of disagreements between management and the external auditor regarding financial reporting;
- (iv) ensure that management has designed, implemented and is maintaining an effective system of internal controls and disclosure controls and procedures;
- (v) monitor the credibility and objectivity of the Corporation's financial reports;
- (vi) report regularly to the Board on the fulfillment of the Committee's duties, including any issues that arise with respect to the quality or integrity of the Corporation's financial statements, the Corporation's compliance with legal or regulatory requirements, the performance and independence of the external auditor or the internal audit function;

- (vii) assist, with the assistance of the Corporation's legal counsel, the Board in the discharge of its duties relating to the Corporation's compliance with legal and regulatory requirements; and
- (viii) assist the Board in the discharge of its duties relating to risk assessment and risk management.

8. *External Auditor*

The external auditor will report directly to the Committee and the Committee should have a clear understanding with the external auditor that such auditor must maintain an open and transparent relationship with the Committee and that ultimate accountability of the auditor is to the shareholders of the Corporation. The duties of the Committee as they relate to the external auditor shall be to:

- (i) review management's recommendations for the appointment of the external auditor, and in particular their qualifications and independence, and recommend to the Board a firm of external auditors to be engaged and the compensation of such external auditor;
- (ii) review the performance of the external auditor, including the fee, scope and timing of the audit, and make recommendations to the Board regarding the appointment or termination of the external auditor;
- (iii) review, where there is to be a change of external auditor, all issues related to the change, including the information to be included in the notice of change of auditor called for under National Instrument 51-102 Continuous Disclosure Obligations or any successor legislation ("NI 51-102"), and the planned steps for an orderly transition;
- (iv) review all reportable events, including disagreements, unresolved issues and consultations, as defined in NI 51-102, on a routine basis, whether or not there is to be a change of external auditor;
- (v) ensure the rotation of partners on the audit engagement team of the external auditor in accordance with applicable law, standards or rules;
- (vi) review and pre-approve non-audit services to be provided to the Corporation by the external auditor;
- (vii) review and approve the engagement letters of the external auditor, both for audit and permissible non-audit services, including the fees to be paid for such services;
- (viii) review the nature of and fees for any non-audit services performed for the Corporation by the external auditor and consider whether the nature and extent of such services could detract from the external auditor's independence in carrying out the audit function; and
- (ix) meet with the external auditor, as the Committee may deem appropriate, to consider any matter which the Committee or external auditor believes should be brought to the attention of the Board or shareholders of the Corporation.

9. *Audits and Financial Reporting*

The duties of the Committee as they relate to audits and financial reporting shall be to:

- (i) review the audit plan with the external auditor and management;
- (ii) review with the external auditor and management all critical accounting policies and practices of the Corporation (including any proposed changes in accounting policies), the presentation of the impact of significant risks and uncertainties, all material alternative accounting treatments that the external auditor has discussed with management, other material written communications between the external auditor and management (such as any management letter or schedule of unadjusted differences), and key estimates and judgments of management that may in any such case be material to financial reporting;
- (iii) review the contents of the audit report;
- (iv) question the external auditor and management regarding significant financial reporting issues discussed during the fiscal period and the method of resolution;
- (v) review the scope and quality of the audit work performed;
- (vi) review the adequacy of the Corporation's financial and auditing personnel;
- (vii) review the co-operation received by the external auditor from the Corporation's personnel during the audit, any problems encountered by the external auditor and any restrictions on the external auditor's work;
- (viii) review the evaluation of internal controls by the persons performing the internal audit function and the external auditor, together with management's response to the recommendations, including subsequent follow-up of any identified weaknesses. Particular emphasis will be given to the adequacy of internal controls to prevent or detect any payments, transactions or procedures that might be deemed illegal or otherwise improper;
- (ix) review the appointments of the Chief Financial Officer, persons performing the internal audit function and any key financial executives involved in the financial reporting process;
- (x) review with management and the external auditor the Corporation's interim unaudited financial statements and the annual audited financial statements in conjunction with the report of the external auditor thereon, and obtain an explanation from management of all significant variances between comparative reporting periods before recommending approval by the Board and the release thereof to the public; and
- (xi) review the terms of reference for an internal auditor or internal audit function.

10. *Accounting and Disclosure Policies*

The duties of the Committee as they relate to accounting and disclosure policies and practices shall be to:

- (i) review the effect of regulatory and accounting initiatives and changes to accounting principles of the Canadian Institute of Chartered Accountants or any successor thereto, which would have a significant impact on the Corporation's financial reporting as reported to the Committee by management and the external auditor;
- (ii) review the appropriateness of the accounting policies used in the preparation of the Corporation's financial statements and consider recommendations for any material change to such policies;
- (iii) review the status of material contingent liabilities as reported to the Committee by management;
- (iv) review the status of income tax returns and potentially significant tax problems as reported to the Committee by management;
- (v) review any errors or omissions in the current or prior years' financial statements;
- (vi) review and recommend approval by the Board before their release all public disclosure documents containing audited or unaudited financial results, including all press releases containing financial results, offering documents, annual reports, annual information forms and management's discussion and analysis containing such results; and
- (vii) satisfy itself that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements other than the public disclosure referred to in clause (vi), above, and periodically assess the adequacy of these procedures.

11. *Other*

The other duties of the Committee shall include:

- (i) reviewing any inquiries, investigations or audits of a financial nature by governmental, regulatory or taxing authorities;
- (ii) reviewing annual operating and capital budgets;
- (iii) reviewing and reporting to the Board on difficulties and problems with regulatory agencies which are likely to have a significant financial impact;
- (iv) establishing procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
- (v) reviewing and approving the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Corporation;
- (vi) inquiring of management and the external auditor as to any activities that may be or may appear to be illegal or unethical; and

- (vii) at the request of the Board, investigating and reporting on such other matters as it considers necessary or appropriate in the circumstances.

Authority to engage independent counsel and outside advisors

- 12. The Committee has the authority to engage independent counsel and other advisors it determines necessary to carry out its duties, to set and pay the compensation for any advisors employed by the Committee and to communicate directly with the internal and external auditors.
- 13. The Corporation shall provide appropriate funding, as determined by the Committee, in its capacity as a committee of the Board, for payment (a) of compensation to the external auditors employed by the issuer for the purposes of rendering or issuing an audit report and to any advisors engaged by the committee, and (b) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.