



ANNUAL INFORMATION FORM
For the year ended December 31, 2008

March 24, 2009

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As used in this annual information form, unless the context indicates or requires otherwise, the term “Corporation” means Sprott Inc., and “SAM”, “we”, “our” or “us” mean the principal operating subsidiary of the Corporation, Sprott Asset Management Inc.

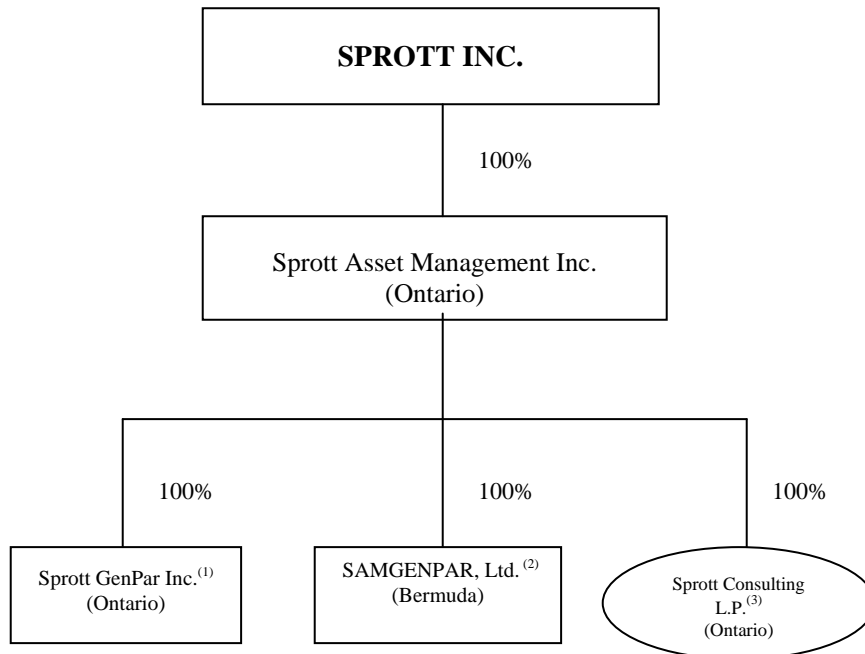
In this annual information form, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars, references to “\$” are to Canadian dollars and references to “U.S.\$” are to United States dollars.

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”.

CORPORATE STRUCTURE

Sprott Inc. was incorporated under the *Business Corporations Act* (Ontario) (the “OBCA”) by Articles of Incorporation dated February 13, 2008 and currently has one directly wholly-owned subsidiary, SAM, incorporated under the OBCA by Articles of Incorporation dated August 31, 2000. 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:



- (1) 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.
- (2) SAMGENPAR, Ltd. is the general partner of Sprott Capital L.P., Sprott Strategic Gold Fund L.P., Sprott Capital L.P. II and Sprott Opportunities Capital Fund L.P.
- (3) Sprott Consulting GP Inc. is the general partner of Sprott Consulting L.P. (See “Our Business — Our Investment Philosophy and Styles and Our Funds — Sprott Consulting L.P.”).

We are currently undergoing a restructuring of our subsidiaries in order to separate our operations into three distinct business lines: portfolio management; broker-dealer activities; and consulting services. This restructuring will provide us with the opportunity to separately brand and market the three areas of our operations. It will also create tax efficiencies for the Corporation. The intended restructuring is subject to obtaining all necessary regulatory approvals.

GENERAL DEVELOPMENT OF THE BUSINESS

On May 15, 2008, the Corporation acquired 100% of SAM, a leading independent asset management company, with a history of offering investment management services to high net worth individuals and institutions for more than 27 years. SAM manages the Sprott family of funds and discretionary managed accounts. The Corporation acquired all of the outstanding shares of SAM pursuant to the terms of a share exchange agreement dated May 15, 2008 among SAM, the shareholders of SAM and the Corporation (the “Share Exchange Agreement”). The Corporation issued an aggregate of 150,000,000 common shares (“Common Shares”) to the shareholders of SAM. See “Interest of Management and Others in Material Transactions”. A

Form 51-102F4 business acquisition report in respect of the share exchange transaction was filed with the applicable securities regulatory authorities on June 27, 2008 and was amended on July 18, 2008. Also on May 15, 2008, the Corporation completed an initial public offering by way of a secondary offering of Common Shares. Pursuant to the offering, certain shareholders of the Corporation sold 20,000,000 Common Shares at an offering price of \$10.00 per share for aggregate proceeds of \$200 million. The Common Shares are listed on the Toronto Stock Exchange (“TSX”) under the symbol “SII”.

As at December 31, 2008, we managed approximately \$4.4 billion in assets among our 20 investment funds (“Funds”), and discretionary managed accounts and management of certain public companies (together, “Managed Accounts”). During the past three years, we have launched the following funds:

Fund	Launch Date
Sprott Growth Fund	January 16, 2006
Sprott Opportunities Offshore Fund, Ltd.	February 1, 2006
Sprott Opportunities Capital Fund, L.P.	February 1, 2006
Sprott Global Equity Fund	April 25, 2007
Sprott Small Cap Equity Fund	August 23, 2007
Sprott Offshore Fund II, Ltd.	September 30, 2007
Sprott Capital, L.P. II	December 31, 2007
Sprott Global Market Neutral Fund	January 31, 2008
Sprott All Cap Fund	September 18, 2008

On October 12, 2007, we became the successor manager to the Sprott Small Cap Hedge Fund (formerly, Sceptre Small Cap Opportunities Fund). See “Description of the Business – Our Funds”.

We are one of three portfolio managers of the Star Hedge Managers Corp., a closed-end investment fund that completed its initial public offering on September 29, 2008. The fund was created to provide long-term capital growth by investing in a portfolio consisting of private investment funds or portfolios managed by the three managers.

In April 2007, we entered into a management services agreement (the “Moly Management Agreement”) with Sprott Molybdenum Participation Corporation (“Sprott Moly”), an investment holding company listed on the TSX. Pursuant to that management services agreement, we provided management, administrative and investment management services in respect of the molybdenum assets held by Sprott Moly. On January 9, 2009, Sprott Moly announced that given recent developments in the molybdenum market and the fact that Sprott Moly’s shares were trading at a significant discount to net asset value, substantially all assets of Sprott Moly would be distributed to its shareholders.

In 2007, through Sprott Consulting L.P. (“Sprott Consulting”), we introduced into our business operations the concept of providing management and administrative services to public companies. We believe that Sprott Consulting offers us the opportunity to manage corporate assets on a permanent basis, and to enter into private equity style investments and participate as a manager in corporate transactions. Sprott Consulting provides management personnel and services to these companies in exchange for fees very similar to our traditional Fund Management Fees and Performance Fees. On September 5, 2007, Sprott Consulting entered into a management services agreement (the “SR Management Agreement”) with Sprott Resource Corp. (“Sprott Resource”), a publicly traded company listed on the TSX.

DESCRIPTION OF THE BUSINESS

SAM is an independent asset management company dedicated to achieving superior returns for our clients over the long term. We have a history of offering investment management services to high net worth individuals and institutions which extends back over 27 years. We are registered as an investment dealer for equities and managed accounts, in Ontario, British Columbia, Alberta, Saskatchewan, Manitoba, New Brunswick, Nova Scotia, and Newfoundland and Labrador. We are members of the Investment Industry Regulatory Organization of Canada (“IIROC”) and the Canadian Investor Protection Fund (“CIPF”). In 2004, we became a member of the Canadian chapter of the Alternative Investment Managers Association (“AIMA”). Our predecessor company, Sprott Securities Limited, was founded by Eric Sprott in 1981 and gradually grew into: (i) an institutional investment dealer consisting of research, sales, trading and investment banking; (ii) a retail business focused on high net worth individuals; (iii) an asset management business managing, on a discretionary basis, individual accounts and public mutual funds; and (iv) proprietary trading operations. In 2000, Eric Sprott made the decision to focus solely on the asset management business and a corporate reorganization was effected pursuant to which Sprott Securities Inc. (now Cormark Securities Inc. (“Cormark”)) was created. The asset management business of Sprott Securities Inc. began to be segregated from the core brokerage activities and Eric Sprott reduced his ownership in Cormark to a minority position. As the asset management business grew and matured, SAM was launched in October 2001 as a separate entity. The final stage in the reorganization of Sprott Securities Inc. took effect on January 1, 2002, when Mr. Sprott divested his remaining interest in and any connection to Cormark.

Our business model is based foremost on delivering excellence in investment management to our clients. As of December 31, 2008, we had approximately 90,000 client accounts 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 80 employees. 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”.

We derive our revenue principally from management fees earned from the management of our Funds and Managed Accounts (“Management Fees”) and from performance fees earned from the investment of the assets under management (“AUM”) of our Funds and Managed Accounts (“Performance Fees”). 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 and Managed Accounts. As at December 31, 2008, of the approximately \$4.4 billion in AUM we managed, 99% was subject to a Performance Fee component. Approximately \$1.9 billion (44%) of AUM was subject to a Performance Fee contingent upon surpassing the return for a defined benchmark index, and approximately \$1.9 billion (43%) of AUM was subject to a Performance Fee contingent on achieving a positive return. Sprott Hedge Fund L.P. (approximately \$0.5 billion or 12% of AUM as at December 31, 2008) has a Performance Fee contingent on achieving a return greater than 10%. See “Our Revenues”.

Our Investment Team

We have attracted a deep pool of investment management talent consisting of 19 investment professionals, including 10 portfolio managers 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 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. We have not experienced a portfolio manager departure since inception.

*Eric Sprott, CA
President and Chief Executive Officer*

Eric Sprott has over 40 years of experience in the investment industry and has managed client funds for 35 years. 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). After establishing SAM 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 the Sprott Hedge Fund L.P., Sprott Hedge Fund L.P. II, Sprott Offshore Fund, Sprott Canadian Equity Fund, Sprott Energy Fund and the 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. 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.

*John Embry
Chief Investment Strategist, SAM*

John Embry joined SAM 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 and the Sprott Strategic Offshore Gold Fund, Ltd. 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 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.

Peter J. Hodson, CFA
Senior Portfolio Manager, SAM

Peter Hodson joined SAM in January 2006 and is currently the Lead Portfolio Manager for the Sprott Growth Fund. Peter has over 22 years of experience in the investment industry. Peter began his career as a Managing Director with Dominion Bond Rating Service, and later became Associate Director of Equities at Mutual Asset Management where he managed over \$1 billion in assets in its small cap fund. He later joined Synergy Mutual Funds in 1997 and moved to CI Investments when it acquired Synergy in 2003. Peter worked for Waterfall Investments Inc. for a period before returning to CI in 2005. At CI, he was Vice President Portfolio Management where he was responsible for overseeing the management of various funds. Peter graduated with a Bachelor of Arts in Economics from the University of Western Ontario in 1985 and received his Chartered Financial Analyst designation in 1991.

Jamie Horvat, LIFA
Senior Portfolio Manager, SAM

Jamie Horvat joined the Corporation in January 2008 with a focus on the Sprott Gold and Precious Minerals Fund. Prior to joining the Corporation, Jamie was 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, SAM

Peter Imhof joined the Corporation in August 2007 as an Investment Strategist and member of SAM's small cap team. Peter has over 10 years of experience in the investment industry. Prior to joining the Corporation, 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, CA (S.A.)
Director of Small Cap Investments, SAM

Allan Jacobs joined the Corporation in August 2007 as Director of Small Cap Investments with focus on the Sprott Small Cap Funds. 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 managed the Sceptre Small Cap Opportunities Fund (a hedge fund), which was launched on January 31, 2007 (now called the Sprott Small Cap Hedge 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.

*Charles Oliver, HBSc Geology, CFA
Senior Portfolio Manager, SAM*

Charles Oliver joined the Corporation in January 2008 with a focus on the Sprott Gold and Precious Minerals Fund. 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.

*Anne L. Spork, CIM
Vice President, Senior Portfolio Manager, SAM*

Anne Spork has accumulated over 28 years of experience in the investment industry. Anne joined Sprott Securities Inc. shortly after its formation in 1981 and was instrumental in helping the firm develop into one of the most successful institutional brokerage firms in Canada. As of 2000, Anne became Vice President and Senior Portfolio Manager of SAM, while continuing her role as Eric Sprott's co-manager on the Fund portfolios and the Managed Accounts under his purview. During the past 23 years, Anne directly participated in all aspects of sales and trading functions of both the institutional equities and sales departments of Sprott Securities Inc. and SAM, respectively, including direct sales coverage of institutional clients and high net worth individuals. Anne graduated with a Bachelor of Business Administration from Walsh College of Accountancy and Business Administration in 1979 and received her Canadian Investment Manager designation in 1997.

*Jean-François Tardif, CFA
Senior Portfolio Manager, SAM*

Jean-François Tardif joined us in November 2001 as co-manager of the Sprott Canadian Equity Fund and is now the Lead Portfolio Manager for the Sprott Opportunities Funds. Jean-François was recruited to SAM based on his stock picking abilities and portfolio management successes which were demonstrated throughout his 15 years in the financial industry, in particular, as a Portfolio Manager for various funds at ING Investment Management and Montreal-based Cote 100. Jean-François graduated with a Bachelor of Business Administration from Sherbrooke University in 1991 and received his Chartered Financial Analyst designation in 1996.

Our Investment Philosophy and Styles

Currently, we manage 20 Funds consisting of seven Canadian public mutual funds, seven Canadian hedge funds and six offshore funds within three master-feeder fund structures. We continue to provide investment management and administrative services to high net worth

individuals and institutions on an individual Managed Account basis. We intend to continue to increase our investment product offerings as necessary to better serve our clients in a continuously evolving financial landscape.

Historically we have focused on introducing investment products which 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, long/short and additional energy specialists to our team, often by hiring managers with leading track records from other fund management companies. This has had the effect of significantly broadening our capabilities and Fund offerings. We intend to continue to invest in the growth of our franchise and grow our product offerings to include more global and large capitalization themes, including in the resources, long/short and international macroeconomic areas.

Our Funds are guided by an investment discipline focused on balancing risk to achieve outstanding returns. Accordingly, we have a “defensive” style and while we have the ability to use leverage in our Funds, we typically choose not to do so other than short sales in certain of our Funds within specified limits. We consider ourselves “investment opportunists”. Our primary objective is to achieve long-term capital appreciation by investing in equities with superior risk/reward characteristics and by capitalizing on undervalued investment opportunities. We strive for exceptional performance and returns rather than attempting to mirror or follow the market indices.

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 equity 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 selections within our investment portfolios.

In making investment decisions for our Funds and Managed Accounts, our investment professionals identify investments which demonstrate a combination of characteristics, including: businesses active in favourable sectors; low price earnings and cash flow multiples; superior cash flow and earnings growth; businesses that demonstrate market leadership and strong niche products or services; businesses with new product or service development capabilities; and companies with strong management teams.

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.

The investment team for the Sprott Canadian Equity Fund, Sprott Gold and Precious Minerals Fund, Sprott Energy Fund, Sprott Hedge Fund L.P., Sprott Hedge Fund L.P. II, Sprott Bull/Bear RSP Fund, Sprott Offshore Fund Ltd., Sprott Capital L.P., Sprott Capital L.P. II, and Sprott Offshore Fund II Ltd. includes Eric Sprott, John Embry, Anne Spork, Charles Oliver and Jamie Horvat. These Funds are guided principally by our firm's macroeconomic research. The portfolio managers concentrate on one to three major global investment themes and constantly evaluate their progress. Within these macroeconomic themes, they then seek to uncover equities that could benefit most, irrespective of market capitalization. Holdings in these Funds have ranged from large percentage investments in very small emerging exploration companies to large dollar investments in industry leading companies in a particular sector.

The investment team for the Sprott Opportunities Hedge Fund L.P., Sprott Opportunities RSP Fund, Sprott Opportunities Offshore Fund, Ltd., and Sprott Opportunities Capital Fund L.P. is headed by Jean-François Tardif. Mr. Tardif has focused his efforts on strategic investments in emerging and small capitalization companies. His style is to select small capitalization stocks that offer compelling growth prospects and value. He is willing to assume the role of becoming the largest, and sometimes only, institutional holder of a company where he believes in its management and fundamentals. These Funds are long/short equity hedge funds focused on uncovering value and providing downside protection.

The investment team for the Sprott Growth Fund is headed by Peter Hodson. Mr. Hodson's investment style is to focus on growth stocks at the leading edge of perceived major market moves. The investment team for this Fund employs fundamental analysis to identify superior investment opportunities with the potential for above average capital appreciation over the long term. The team seeks out inefficiently priced companies backed by strong management teams and solid business models that can benefit from both industry and macroeconomic trends. The investment team identifies ideas and opportunities whose growth potential has yet to be realized.

The investment team for the Sprott Small Cap Equity Fund and the Sprott Small Cap Hedge Fund is headed by Allan Jacobs and Peter Imhof. Messrs. Jacobs and Imhof employ an investment style based on a combination of value and growth. Profitability and good management are critical in assessing the investments of these Funds. They seek to select a broadly diversified portfolio of securities that they believe offer a good balance between reasonable valuations and attractive growth prospects relative to their peers. These Funds focus on identifying undervalued companies with strong management teams and financial strength. Messrs. Jacobs and Imhof seek out above-average earnings growth at relatively low valuation from within a wide range of companies.

The investment team for the Sprott Global Equity Fund is headed by Charles Oliver and Jamie Horvat. To achieve the Fund's investment objective, the team at SAM utilizes an investment style which employs the GARP (growth at a reasonable price) approach. We primarily use a combination of a top down sector analysis of the current economic environment and a bottom up screening process for companies to seek to compose a broadly diversified portfolio. SAM focuses on seeking out companies with the potential for above average earnings, sales and cash flow. Positions are sought within sectors and countries that SAM believes are positioned to do well within the current economic environment. The Fund's investments will include small, medium and large cap companies located around the world. The Fund may also invest in debt securities

and convertible debentures. The Fund may also choose other permitted investments such as cash when considered appropriate.

The investment team for the Sprott All Cap Fund is Charles Oliver and Jamie Horvat. Messrs Oliver and Horvat employ an investment style which employs the GARP (growth at a reasonable price) approach. The team primarily uses a bottom up screening process for companies and a top down sector analysis of the current economic environment to seek to compose a broadly diversified portfolio of stocks with superior fundamental characteristics. The Fund focuses on seeking out undervalued companies, with strong management teams, defined strategies, the potential for above average earnings, sales and cash flow. The Fund may also choose other permitted investments such as cash when considered appropriate. The Fund's investments include primarily small, medium and large cap Canadian companies.

Our Funds

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. See "Our Revenues".

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. See "Our Revenues".

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. See “Our Revenues”.

Sprott Hedge Fund L.P.

The Sprott Hedge Fund L.P., our flagship hedge fund, 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. See “Our Revenues”.

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. See “Our Revenues”.

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. See “Our Revenues”.

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 and was closed to new investment on February 28, 2006. The investment objective of this Fund is to provide long-term capital growth through fundamental securities selection by taking both long and short investment positions primarily in equity securities. 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. See “Our Revenues”.

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. See “Our Revenues”.

Sprott Growth Fund

The Sprott Growth Fund is a growth-focused mutual fund launched on January 16, 2006. This Fund’s investment objective is to achieve long-term capital growth by investing in growth-oriented equities. The Fund invests primarily in equity and equity-related securities of North American companies. The Performance Fee payable to us is calculated as 10% of the annual return of the Fund over 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. See “Our Revenues”.

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. See “Our Revenues”.

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 and are responsible for the day-to-day business and affairs of the Fund. 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. See "Our Revenues".

Sprott Global Equity Fund

The Sprott Global Equity Fund is a global equity mutual fund launched on April 25, 2007. The primary objective of this Fund is to achieve long-term capital growth by investing primarily in equity and equity-related securities of companies around the world. The investment team identifies investments with the potential to outperform from a wide variety of global investment opportunities. The Performance Fee payable to us is calculated as 10% of the annual return of the Fund over the MSCI World 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. See "Our Revenues".

Sprott Global Market Neutral Fund

The Sprott Global Market Neutral Fund is a long/short equity hedge fund launched on January 31, 2008. The investment objective of this Fund is to provide long-term capital appreciation by investing in long and short positions in equity and equity-related securities of companies around the world, while taking a neutral approach. The Performance Fee payable to us is calculated as equal to 20% of the amount by which the performance of the Fund exceeds the highest net asset value achieved in prior calendar quarters by the Fund. If the net asset value of the Fund as at a valuation date is less than the prior period's net asset value, then no Performance Fee will be payable in a subsequent quarter until the performance of the Fund has exceeded such deficiency. See "Our Revenues".

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. To achieve the Fund's investment objective, the investment team utilizes an investment style which employs the GARP (growth at a reasonable price) approach. The investment team primarily uses a bottom up screening process for companies and a top down sector analysis of the current economic environment to seek to compose a broadly diversified portfolio of stocks with superior fundamental characteristics. The Fund focuses on seeking out undervalued companies, with strong management teams, defined strategies, the potential for above average earnings, sales and cash flow. The Fund may also choose other permitted investments such as cash when considered appropriate. 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. See "Our Revenues".

Offshore Funds

We currently manage six feeder funds within three 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 six feeder Funds invests substantially all of its assets in one of the three 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 some 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. See "Our Revenues".

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 some 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. See "Our Revenues".

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 some 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. See "Our Revenues".

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 some 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. See “Our Revenues”.

Sprott Opportunities Offshore Fund, Ltd.

Sprott Opportunities Offshore Fund, Ltd. is an exempted company organized under the Companies Law (2007 Revision) of the Cayman Islands and commenced operations on February 1, 2006. This Fund invests substantially all of its assets in the Sprott Opportunities Master Fund, Ltd. The objective of the Fund is to provide shareholders with long-term capital growth through fundamental securities selection by taking both long and short investment positions in equity, debt and derivative securities, and through strategic trading. 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. See “Our Revenues”.

Sprott Opportunities Capital Fund, L.P.

Sprott Opportunities Capital Fund L.P. is a limited partnership organized under the laws of Delaware that commenced operations on February 1, 2006. This Fund invests substantially all of its assets in the Sprott Opportunities Master Fund, Ltd. The objective of the Fund is to provide shareholders with long-term capital growth through fundamental securities selection by taking both long and short investment positions in equity, debt and derivative securities, and through strategic trading. 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. See “Our Revenues”.

Sprott Strategic Offshore Gold Fund, Ltd.

Sprott Strategic Offshore Gold Fund, Ltd. is an exempted company organized under the Companies Law (2007 Revision) of the Cayman Islands and was launched on December 31, 2003. This Fund invests substantially all of its assets in the Sprott Strategic Gold Master Fund Ltd. (the “Master Fund”) The objective of the Fund is to maximize absolute returns on investments through enhanced securities selection by taking both long and short investment positions in gold equities, gold bullion and precious minerals related investments, which includes the securities of companies that explore for, mine and process precious minerals. 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. See “Our Revenues”. As of December 31, 2008, the Master Fund had less than U.S.\$12 million (CAD\$13.2 million) in AUM. The Master Fund was liquidated and the shares of this feeder Fund were redeemed on a mandatory basis as at December 31, 2008. See “Our Revenues”.

Sprott Strategic Gold Fund, L.P.

Sprott Strategic Gold Fund, L.P. is a limited partnership organized under the laws of Delaware that commenced operations on December 31, 2003. This Fund invests substantially all of its assets in the Sprott Strategic Gold Master Fund Ltd. The objective of the Fund is to maximize absolute returns on investments through enhanced securities selection by taking both long and short investment positions in gold equities, gold bullion and precious minerals related investments, which includes the securities of companies that explore for, mine and process

precious minerals. 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. See “Our Revenues”. As of December 31, 2008, the Master Fund had less than U.S.\$12 million (CAD\$13.2 million) in AUM. The Master Fund was liquidated and the units of this Fund were redeemed on a mandatory basis as at December 31, 2008.

Managed Accounts

We began by providing investment management services to high net worth individuals and institutions on an individual managed account basis with such services tailored specifically to each Managed Account and based on our Canadian Equity Fund strategies. We continue to provide such services to our existing Managed Accounts but do not actively solicit clients on this basis as we feel that our portfolio of Funds provides a sufficiently diverse range of investment objectives and strategies from which to choose.

Assets Under Management

The following table and chart provides the AUM of our 20 Funds and our Managed Accounts as at December 31, 2008:

Distribution of Assets Under Management by Product
(In \$ 000's, as at December 31, 2008)

Product	Assets Under Management	% of Total AUM
Public Mutual Funds		
Sprott Canadian Equity Fund	\$1,125,004	25.3%
Sprott Gold and Precious Minerals Fund.....	\$230,708	5.2%
Sprott Energy Fund.....	\$63,625	1.4%
Sprott Growth Fund.....	\$89,379	2.0%
Sprott Global Equity Fund.....	\$24,415	0.6%
Sprott Small Cap Equity Fund.....	\$75,904	1.7%
Sprott All Cap Fund ⁽¹⁾	\$5,036	0.1%
Public Mutual Funds Total	\$1,615,071	36.3%
Canadian Hedge Funds		
Sprott Hedge Fund L.P.	\$526,035	11.8%
Sprott Hedge Fund L.P. II	\$554,577	12.5%
Sprott Bull/Bear RSP Fund	\$137,789	3.1%
Sprott Opportunities Hedge Fund L.P.	\$284,127	6.4%
Sprott Opportunities RSP Fund	\$91,191	2.1%
Sprott Small Cap Hedge Fund	\$21,607	0.5%
Sprott Global Market Neutral Fund ⁽²⁾	\$15,402	0.3%
Canadian Hedge Funds Total	\$1,630,728	36.7%
Offshore Funds		
Sprott Offshore Fund, Ltd.	\$353,445	7.9%
Sprott Offshore Fund II, Ltd.....	\$210,170	4.7%
Sprott Capital, L.P.	\$141,825	3.2%
Sprott Capital, L.P. II	\$19,796	0.4%
Sprott Strategic Offshore Gold Fund, Ltd ⁽³⁾	\$11,943	0.3%
Sprott Strategic Gold Fund, L.P ⁽³⁾	\$1,215	0.0%
Sprott Opportunities Offshore Fund, Ltd.....	\$72,208	1.6%
Sprott Opportunities Capital Fund, L.P.	\$13,988	0.3%

Offshore Funds Total	<u>\$824,590</u>	<u>18.5%</u>
Managed Accounts		
Sprott Molybdenum Participation Corporation ⁽⁴⁾	\$6,947	0.2%
Sprott Resource Corp.	\$273,178	6.1%
Other	<u>\$98,194</u>	<u>2.2%</u>
Total Managed Accounts	<u>\$378,319</u>	<u>8.5%</u>
Total	<u>\$4,448,708</u>	<u>100.0%</u>

(1) Launched on September 18, 2008.
(2) Launched on January 31, 2008.
(3) All the outstanding securities of the Sprott Strategic Offshore Gold Fund, Ltd. and the Sprott Strategic Gold Fund, L.P. were redeemed on a mandatory basis as at December 31, 2008.
(4) Sprott Molybdenum Participation Corp. pays Management Fees only on Portfolio Investments as defined in the Management Service Agreement between Sprott Moly and SAM.

Changes in AUM reflect net contributions of capital from new and existing clients and from net market appreciation. The following table and chart illustrate the sources of growth of our AUM from January 1, 2004 to December 31, 2008 on an annual basis.

SAM AUM Growth
(In \$ Millions)

	<u>Twelve Month Period Ended December 31,</u>				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Opening Assets Under Management ⁽¹⁾⁽²⁾	\$1,374.6	\$2,071.7	\$2,859.2	\$4,239.3	\$6,215.3
Total Sales ⁽³⁾	\$856.3	\$984.6	\$1,220.3	\$2,166.9	\$2,067.8
Total Redemptions ⁽³⁾	\$(485.2)	\$(590.6)	\$(831.8)	\$(816.7)	\$(1,972.6)
Net Sales.....	\$371.1	\$393.9	\$388.4	\$1,350.2	\$95.2
Market Appreciation (Depreciation)	\$326.0	\$393.6	\$991.6	\$625.7	\$(1,861.8)
Closing Assets Under Management ⁽¹⁾⁽⁴⁾ ..	<u>\$2,071.7</u>	<u>\$2,859.2</u>	<u>\$4,239.3</u>	<u>\$6,215.3</u>	<u>\$4,448.7</u>

- (1) Net of fees and other expenses.
(2) At the beginning of the period.
(3) Includes switches by investors from one Fund into another Fund.
(4) At the end of the period.

Our Revenues

All of our products 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) the Fund's excess performance over the relevant benchmark; (ii) the increase in net asset values over a predetermined hurdle, if any; or (iii) the net profit in the Fund over the performance period (see “- Our Investment Philosophy and Styles” and “- Our Funds”).

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 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 1.5% to 2.5% per annum for our public mutual funds, 1.0% to 2.0% per annum for our Canadian hedge funds, and 1.0% to 1.5% per annum for our offshore 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 but one of our Funds is the year ended December 31. For the Sprott Global Market Neutral Fund, the performance periods are the three months ending March 31, June 30, September 30 and December 31.

The Performance Fees for each of our Funds are subject to a loss carry-forward. For all but two of our Funds, 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. For the Sprott Global Market Neutral Fund, if the performance of the Fund results in a Deficiency as at any valuation date, then no Performance Fee will be payable in a subsequent quarter until the performance of the Fund has exceeded the amount of the Deficiency.

None of our loss carry-forwards contain a "clawback" provision. Accordingly, unlike a number of funds managed by public North American fund managers, 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 .

In addition, we are unable to allocate Performance Fees earned to individual security positions due to the complexity of allocating expenses including Management Fees, realized and unrealized gains or losses, redemptions, and other expenses, all of which accrue or are recognized on a daily basis, to daily asset valuations. Accordingly, we do not calculate the contribution of individual investments to our Performance Fees.

Since we plan, create and manage our own Funds, we retain the ability to control the design of our products thus allowing for flexibility in establishing performance thresholds. 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 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				
			S&P/TSX Composite Total Return Index	10%
Sprott Canadian Equity Fund	2.5%	1.5%		
			S&P Global Gold Index	10%
Sprott Gold and Precious Minerals Fund.....	2.5%	1.5%		
			S&P/TSX Capped Energy Total Return Index	10%
Sprott Energy Fund	2.5%	1.5%		
			S&P/TSX Composite Total Return Index	10%
Sprott Growth Fund.....	2.5%	1.5%		
			MSCI World Index (C\$)	10%
Sprott Global Equity Fund.....	2.5%	1.5%		
			S&P/TSX Small Cap Total Return Index	10%
Sprott Small Cap Equity Fund.....	2.5%	1.5%		
			S&P/TSX Composite Total Return Index	10%
Sprott All Cap Fund	2.5%	1.5%		
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 ⁽³⁾	2.0%	n/a	Positive Return	20%
Sprott Small Cap Hedge Fund.....	2.0%	n/a	Positive Return	20%
Sprott Global Market Neutral Fund.....	2.0%	1.0%	Positive Return	20%
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%
Sprott Strategic Offshore Gold Fund, Ltd ⁽⁴⁾	1.5%	n/a	Positive Return	20%
Sprott Strategic Gold Fund, L.P. ⁽⁴⁾	1.5%	n/a	Positive Return	20%
Sprott Opportunities Offshore Fund, Ltd.....	1.5%	n/a	Positive Return	20%
Sprott Opportunities Capital Fund, L.P.	1.5%	n/a	Positive Return	20%
Managed Accounts				
			S&P/TSX Composite Total Return Index	20%
Sprott Molybdenum Participation Corporation ...	2.0%	n/a		

Sprott Resource Corp.	2.0%	n/a	Canadian 30- Year Generic Bond Index ⁽⁵⁾ S&P/TSX Composite Total Return Index	20%
Other ⁽⁶⁾	1.0%-2.5%	n/a		10%

- (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 Investment Philosophy and Styles and Our Funds — Our Funds”.
- (3) 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.
- (4) All of the outstanding securities of the Sprott Strategic Offshore Gold Fund, Ltd. and the Sprott Strategic Gold Fund, L.P. were redeemed on a mandatory basis as at December 31, 2008
- (5) Return of this benchmark index is capped at 12%.
- (6) Approximately 0.8% of total AUM is not subject to a Performance 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.

Sprott Consulting L.P. and Sprott Molybdenum Participation Corporation

In consideration for the services provided by Sprott Consulting to Sprott Resource, Sprott Resource pays an annual services fee equal to 2% of the net asset value of Sprott Resource calculated on the average month-end net asset value of Sprott Resource during each calendar quarter. Sprott Resource also pays Sprott Consulting an incentive fee equal to 20% of: (a) the pre-tax profits of Sprott Resource for the year, minus (b) a specified hurdle rate (the “Sprott Resource Hurdle”). If in any year no incentive fee is payable to Sprott Consulting, then before any incentive fee is payable in a subsequent year, the aggregate pre-tax profits of Sprott Resource for such year, together with the pre-tax profits of Sprott Resource for the period(s) in which no incentive fee was payable, must exceed the Sprott Resource Hurdle (as defined in the SR Management Agreement) for that subsequent year, together with the Sprott Resource Hurdle(s) for the period(s) in which no incentive fee was payable, and then the incentive fee shall be equal to 20% of the difference. See also “General Development of the Business”.

In consideration for the services provided by us to Sprott Moly pursuant to the Moly Management Agreement, Sprott Moly pays us: (i) an annual management fee equal to 2% of the average daily fair market value (“FMV”) of the Portfolio Investments (as defined in the Moly Management Agreement) held by Sprott Moly calculated and accrued daily and payable at the beginning of each month based on the average daily FMV of the Portfolio Investments held by Sprott Moly throughout the immediately preceding month; and (ii) an annual incentive fee. No incentive fee was payable in respect of 2008. On January 9, 2009, Sprott Moly announced that given recent developments in the molybdenum market and the fact that Sprott Moly’s shares were trading at a significant discount to net asset value, substantially all assets of Sprott Moly would be distributed to its shareholders. It is anticipated that the distribution will be completed in 2009.

Selling and Distribution

Overview

We have a unique multichannel approach to fund sales and marketing with the common element being an internally managed selling process. Rather than focusing on third-party sales motivated by up-front commissions, we have purposely concentrated on building our brand and fund sales through word-of-mouth referrals and through a competent internal sales force. This strategy has limited our selling expenses and provided us with the additional benefits of direct contact with our clients and control over our distribution. Accordingly, we expect that our sales expenses will continue to remain at the low end of industry comparables.

Internal Sales Force

We have built an internal sales force which 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.

We are also focused on providing a high level of service to our direct private clients. Our private client base, representing approximately \$1.3 billion of AUM, has been developed through direct relationships. The primary drivers of our private client AUM growth have been performance and word-of-mouth referrals. We currently have seven 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 quarterly reports, email updates, and web postings. Clients also have the ability to contact an informed customer service representative.

To date, we have not undertaken any sizable or significant broad-based marketing or advertising campaigns with respect to our Funds, although 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*, *Investors Digest*, Peter Hodson's regular *National Post* column and our publications provide additional visibility for the firm on a cost-effective basis.

Wholesale Strategy

Due to the expansion of the range of our investment products, we established our own national wholesale sales force in May 2007. Currently, four sales representatives form our wholesale sales team. We expect this sales team to grow in the near future. We believe that having dedicated sales representatives to market and distribute our investment products and services 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 in Canada and internationally in the future.

Offshore Investors

Unlike many traditional Canadian mutual fund companies, we also offer six feeder Funds (through three master-feeder fund structures) that are tailored to U.S. and foreign investors. We believe our strategy in the gold and absolute return themes 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”.

Competition and Industry Outlook

While there are relatively few economic barriers to entry in the investment management industry, companies that succeed and obtain critical mass generally have a history of solid investment performance and strong client relationships. Full-service brokers, specialized money managers and private client segments of financial institutions typically offer discretionary portfolio management services to high net worth clients. In recent years, there has been an increase in the number, type and innovative features of products and services offered by market participants as they attempt to differentiate themselves in a competitive environment. Discretionary services offered to high net worth clients include advisor managed and in-house managed wrap accounts, separately managed wrap accounts, commingled funds, hedge funds, and estate-planning and trust advice.

The investment management industry is highly competitive and has relatively low barriers to entry. Accordingly, there are many new entrants into the Canadian industry every year. Niche participants have emerged offering specialized services, and foreign firms increasingly enter the Canadian marketplace. Key competitive advantages of leading high net worth private client investment managers are: (i) solid investment performance; (ii) a high level of personalized service to clients; and (iii) high quality, dedicated, client-oriented professionals. The institutional segment of the Canadian investment management industry is also very competitive. These mandates are often secured by a track record of successful investment performance, asset class expertise, and a competitive fee structure.

In the mutual fund segment, independent fund companies have experienced increased competition from the Canadian “Schedule A” banks as the banks have successfully captured a growing percentage of industry net sales through their large scale retail sales networks. In addition, the importance of access to distribution for wealth managers has resulted in the convergence of asset management and distribution among industry competitors looking to acquire multiple distribution channel capabilities. In this increasingly competitive environment, the critical success factors continue to be consistent investment performance and access to distribution.

In order to grow our business, we must be able to compete effectively to maintain our existing AUM and attract additional AUM. Historically we have achieved our AUM growth primarily on the basis of: the performance of our investment strategies; our clients’ commitment to our investment strategies and willingness to retain their holdings for a longer term; the quality of service and duration of our relationships with them; our brand recognition and reputation within the investing community; and the diversity of Funds we offer. Our ability to continue to compete effectively will also depend upon our ability to attract and retain highly qualified investment professionals. We compete in all aspects of our business with numerous investment management firms, banks, investment dealers and other financial institutions. See also “Risk Factors”.

RISK MANAGEMENT

We approach investment risk management for our clients on two levels: on the asset allocation level and on the investment product level. At the asset allocation level, we focus on mitigating risk through the appropriate selection and weighting of portfolio models for each client to reflect their suitability and risk tolerance. At the investment product level, we manage risk through the selection, weighting and monitoring of individual investments based on stated investment objectives and strategies.

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. See also “Risk Factors - Risks Related to Our Funds”.

We have internal control policies related to our business conduct. They are intended to ensure conformity with the rules and regulations of 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 SAM’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”.

Fair Allocation

We believe that our investors have the right to be assured that Fund interests will take precedence over the personal trading activities of investment professionals and other access persons. We strive to ensure the fair treatment of our Funds through the highest standards of integrity and ethical business conduct. The principle of fair treatment is recognized by all of our employees, officers and directors. In order to ensure fairness in the allocation of investment opportunities among our Funds, we will allocate investment opportunities with consideration to the suitability of such investments to each Fund’s objective and strategy, portfolio composition, Fund restrictions and cash availability (even though the investment objectives and strategies are substantially the same for some of our Funds, cash flows of each of our Funds can be substantially different given daily/monthly subscriptions and redemptions). If an investment opportunity is suitable for more than one Fund, we will allocate such investment opportunities equitably in order to ensure that our Funds have equal access to the same quality and quantity of

investment opportunities. We consistently seek to negotiate the best possible price through a broker.

Independent Review Committee

National Instrument 81-107 - *Independent Review Committee for Investment Funds* (“NI 81-107”) requires all publicly offered investment funds to establish an independent review committee to whom all conflicts of interest matters must be referred for review or approval. We have established one independent review committee for all of our public mutual Funds and Sprott Moly. As required by NI 81-107 we have established written policies and procedures for dealing with conflict of interest matters, and we maintain records in respect of these matters and provide assistance to the independent review committee in carrying out its functions. The independent review committee is comprised of three independent members, and is subject to requirements to conduct regular assessments and provide reports to us and to the holders of interests in our public mutual Funds or Sprott Moly in respect of its functions.

Regulatory Matters

We are registered as an investment dealer, equities and managed accounts, in Ontario, British Columbia, Alberta, Saskatchewan, Manitoba, New Brunswick, Nova Scotia, and Newfoundland and Labrador. We are also a member of IIROC.

As an investment dealer, 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 of Market Regulation Services Inc., 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.

As an investment dealer, 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 investment dealers 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 an investment dealer or its directors, officers or employees. An investment dealer is subject to rules respecting the maintenance of minimum regulatory capital. Compliance with regulatory capital requirements can limit an investment dealer’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 that 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 Cormark 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 Cormark as carrying broker are not considered material for SAM or Cormark.

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 and Performance Fee revenues. Poor performance of our Funds 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 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, which are based on a combination of the market value of our AUM and the increase in value of our Funds and Managed Accounts above pre-specified performance benchmarks or hurdles. See “Description of the Business - Revenues”.

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, as well as the policies and performance of businesses, governments and the financial community. A decline in the prices of the securities our Funds and Managed Accounts invest in could result in lower Management Fees and Performance Fees 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 and Managed Accounts 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 or Managed Account on the first day of its performance year and on the last day of its performance year. Our Performance Fees 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 or Managed Accounts over the course of the year. Moreover, the negative performance of individual investments which are significant for any of our Funds or Managed Accounts may significantly adversely impact on the net asset value of such Funds and Managed Accounts and consequently may significantly adversely impact on our Management Fees and Performance Fees for the relevant period. In addition, we calculate our Performance Fees for all but one of our Funds and Managed Accounts on December 31 of each year. Our Funds also have provisions whereby we will not earn Performance Fees in respect of a Fund for a particular year (or calendar quarter in the case of the Sprott Global Market Neutral Fund) despite positive returns for such Fund in that year or quarter, as may be applicable, if the Fund had greater losses in prior years or quarters, as may be applicable. Therefore, if a Fund experiences losses in a year (or quarter in the case of the Sprott Global Market Neutral Fund), we will not be able to earn a Performance Fee from that Fund 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 addition, the Funds structured as limited partnerships have the ability to defer the payment of Performance Fees.

In the event that any of our Funds 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. Poor performance of our Funds would make it more difficult for us to raise new capital. Investors in our Funds might decline to invest in future Funds we manage and investors in our Funds might redeem their investments as a result of poor performance of our Funds in favour of investments which are perceived to have a lower risk or greater opportunity for returns. Investors and potential investors in our Funds continually assess our Funds' performance, and our ability to raise capital for existing and future Funds and avoid excessive redemption levels will depend on our Funds' 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 for reasons that may be unrelated to the performance of our Funds 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 is directly related to our investment performance and therefore poor investment performance may cause us to earn lower Performance Fees.

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 our overall profitability. Our Funds 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 and Performance Fees.

Fluctuations in Performance Fees 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. We are entitled to Performance Fees only if our performance exceeds pre-specified performance hurdles. If we do not exceed these hurdles, we will not generate Performance Fees 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 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 basis. The volatility in our revenues may decrease our share price. In addition, all but one of our Funds and Managed Accounts have a December 31 performance year end, at which time Performance Fees (other than crystallized Performance Fees) for that 12-month period are determined. Therefore, there may be increased volatility in price of Common Shares during the period leading up to the announcement of our Performance Fees 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 SAM's employee bonus pool and the Corporation's stock option plan. We have also entered into employment agreements with certain key employees. While we have historically experienced little 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. SAM's employee bonus pool and the Corporation's stock option plan may not be attractive to our key employees if we are not able to generate meaningful Performance Fees 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. Moreover, 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 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 and Performance Fee 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 or Performance Fees would have an adverse effect on our revenues.

A failure in our ability to manage risks in our Funds or Managed Accounts 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 and/or Managed Accounts 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. 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.

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 IIROC 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 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 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 should not be considered indicative of the future results that should be expected from such Funds or from any future Funds we may manage. Our Funds' 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 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 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 SAM and is our Chief Executive Officer. 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 executive and portfolio management role at SAM. 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.

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' investment activities. Certain of our Funds have overlapping investment objectives and potential conflicts may arise with respect to our decisions regarding

how to allocate investment opportunities among those Funds. Pursuant to our fair allocation policy, if an investment opportunity is suitable for more than one Fund, we will allocate such investment opportunities equitably in order to ensure that our Funds 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. Therefore a Fund 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 is alleged to constitute gross negligence or wilful misconduct. Clients could sue us to recover amounts lost by our Funds 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 or from allegations that we improperly exercised control or influence over companies in which our Funds 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 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, our results of operations, financial condition and liquidity would be materially adversely affected.

We are exposed to the risk of litigation if our Funds 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. In compliance with IIROC By-law 17.16, 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, to 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 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 SAM or the Corporation requires regulatory approval.

We may not, without the approval of IIROC, 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 or the Corporation, 10% or more of the outstanding participating securities of the Corporation or its parent company, 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 a financial institution bond. 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.

Risks Related to Our Funds

Our results of operations are dependent on the performance of our Funds. Poor Fund performance will result in reduced Management Fee and Performance Fee 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 and Performance Fees 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 and Performance Fees 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) valuation of our Funds' investments is subject to uncertainty and judgment determinations and, if such valuations should prove to be incorrect, the net asset value of a Fund could be adversely affected;
- (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; and
- (v) if our risk management systems are ineffective, we may be exposed to material unanticipated losses.

Risks Related to Our Organization, Structure and Common Shares

Control by the Management Shareholders of the combined voting power of the Common Shares may give rise to conflicts of interests.

A "Management Shareholder" means: (i) each director and each executive officer of the Corporation and SAM, and (ii) each of our portfolio managers, market strategists and investment strategists. The Management Shareholders control approximately 83.9% of the combined voting power of the Common Shares and Eric Sprott exercises control or direction over 68.09% of the issued and outstanding Common Shares. Accordingly, the Management Shareholders 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, they 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 the Management Shareholders 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 SAM employees or 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 provides that the Board of Directors will declare, and the Corporation will pay, quarterly dividends on its Common Shares in the amount of \$0.025 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 July 29, 2008, the Board of Directors declared an eligible dividend in the amount of \$0.025 per Common Share for the quarter ended June 30, 2008, payable on August 29, 2008 to shareholders of record at the close of business on August 11, 2008.

On October 28, 2008, the Board of Directors declared an eligible dividend in the amount of \$0.025 per Common Share for the quarter ended September 30, 2008, payable on November 28, 2008 to shareholders of record at the close of business on November 10, 2008.

On February 9, 2009, the Board of Directors declared an eligible dividend in the amount of \$0.025 per Common Share for the quarter ended December 31, 2008, payable on March 9, 2009 to shareholders of record at the close of business on February 20, 2009.

On March 10, 2009, the Board of Directors declared a special eligible dividend in the amount of \$0.15 per Common Share for the fiscal year ended December 31, 2008, payable on April 6, 2009 to shareholders of record at the close of business on March 20, 2009.

CAPITAL STRUCTURE

The authorized share capital of the Corporation consists of an unlimited number of common shares, issuable in series, of which 150,000,000 Common Shares are issued and outstanding on 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 therefor 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 the approval of IIROC, 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 or the Corporation, 10% or more of the outstanding participating securities of SAM 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:

<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Monthly Volume</u>
May 2008	\$10.01	\$8.70	22,079,788
June 2008	\$10.10	\$9.08	7,125,662
July 2008	\$9.99	\$7.75	4,557,395
August 2008	\$8.05	\$6.31	5,189,047
September 2008	\$6.78	\$4.64	4,536,951
October 2008	\$5.17	\$2.49	5,534,036
November 2008	\$3.75	\$2.32	2,530,741
December 2008	\$4.35	\$2.70	2,401,413

ESCROW ARRANGEMENTS

Designation of Class	Number of securities held in escrow	Percentage of Class
Common Shares	125,894,015	83.93%

Prior to the closing of the initial public offering of the Corporation on May 15, 2008 (the “IPO”), each of the Management Shareholders (as defined below) entered into an escrow agreement dated May 15, 2008 as amended and restated on August 8, 2008 with the Corporation and Equity Transfer & Trust Company, acting as escrow agent (the “Escrow Agreement”), and deposited into escrow an aggregate of 125,894,015 Common Shares (or 83.93% of the issued and outstanding Common Shares upon closing of the IPO), being all of the Common Shares held by the Management Shareholders which were not sold in the IPO. The Management Shareholders agreed to the terms of the escrow to demonstrate their continuing commitment to the Corporation. One-third of the Common Shares held by each of the Management Shareholders and deposited in escrow shall be released on each of May 15, 2009, 2010 and 2011. Notwithstanding the foregoing, all Common Shares belonging to a Management Shareholder shall be released from escrow upon the death, permanent disability, voluntary retirement (except in the case of Mr. Sprott) or involuntary termination (other than for cause) of that holder or upon a change of control of the Corporation. The Escrow Agreement will permit the pledge of or grant of a security interest in a Management Shareholder’s Common Shares to a bona fide financial institution or similar lender provided that the pledgee or beneficiary of such security interest agrees with the escrow agent to be bound by the Escrow Agreement.

DIRECTORS AND OFFICERS

The Board currently 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. All directors were elected to serve until the next annual meeting of shareholders of the Corporation, subject to earlier resignation or removal. The following table sets forth the names, municipalities of residence, positions held with the Corporation and principal occupations for the current directors and executive officers of the Corporation.

Name and Municipality of Residence	Position with the Corporation	Principal Occupation
Eric S. Sprott Oakville, Ontario	President, Chief Executive Officer and Director	President, Chairman, Chief Executive Officer and Director of SAM
Jack C. Lee ⁽¹⁾⁽²⁾⁽³⁾ Calgary, Alberta	Chairman	Corporate Director
Peter Hodson Kitchener, Ontario	Director	Senior Portfolio Manager and Director of SAM
Allan Jacobs Toronto, Ontario	Director	Director of Small Cap Investments of SAM
Mark McCain, ⁽²⁾⁽³⁾ Toronto, Ontario	Director	Private Investor, Principal of Bulawayo Holdings Inc.
James T. Roddy ⁽¹⁾⁽²⁾⁽³⁾ Toronto, Ontario	Director	Corporate Director
Ian W. Telfer ⁽¹⁾ Vancouver, British Columbia	Director	Chairman of the Board, Goldcorp Inc.
Steven Rostowsky Thornhill, Ontario	Chief Financial Officer	Chief Financial Officer of the Corporation
Kirstin McTaggart Mississauga, Ontario	Corporate Secretary	Chief Compliance Officer and Director of SAM

(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 108,887,040 Common Shares of the Corporation, being 72.59% 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, Peter Hodson, and Allan Jacobs whose biographies are under “Description of the Business - Our Investment Team”.

Jack C. Lee

Mr. Lee has over 35 years experience in the oil and gas industry. He is currently Chairman of the Corporation, Alaris Royalty Corp., CanEra Resources Inc., and Gryphon Petroleum Corp. In addition, he is a director of Ithaca Energy Inc. and Darian Resources Ltd. He was previously Vice Chairman of Penn West Energy Trust, the largest conventional oil and gas trust in Canada and prior thereto, Chairman of Canetic Resources Trust and President and Chief Executive Officer of Acclaim Energy Inc., a predecessor of Canetic. Prior thereto, Mr. Lee was President and Chief Executive Officer of Danoil Energy Ltd, a predecessor of Acclaim. He participated in the start up of Gane Energy Ltd, a predecessor to Northstar Energy Ltd, and was President and Chief Executive Officer. In 1994, he co-founded Independent Energy Inc.

Mark McCain

Mr. McCain has been a private investor through Bulawayo Holdings Inc. since September 2006. Prior to that Mr. McCain was a Business Analyst with McCain Foods Ltd. since March 1998. Mr. McCain has been a director of McCain Foods Ltd. for the past eight years and a director of the McCain Foods Group Inc. for over ten years.

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 including Sprott Molybdenum Participation Corporation. He received his Chartered Accountant designation in 1967.

Ian W. Telfer

Mr. Telfer is currently Chairman of Goldcorp Inc., and was Chief Executive Officer and President of Goldcorp Inc. prior to November 2006 and Chairman and Chief Executive Officer of Wheaton River Minerals Ltd. prior to its merger with Goldcorp in February/March 2005. Mr. Telfer is also the Chairman of Uranium One Inc. and has over 25 years experience as an executive in the mining industry.

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.

Kirstin McTaggart

Ms. McTaggart joined SAM in April 2003 as a compliance officer and is currently the Chief Compliance Officer of SAM. Prior to April 2003, Ms. McTaggart spent five years as a Senior Manager at Trimark Investment Management Inc., where her focus was the development of formal compliance and internal control policies and procedures. Ms. McTaggart has accumulated over 21 years of experience in the financial and investment industry.

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 Mr. Telfer, who was vice chairman of a technology company when it made an assignment in bankruptcy in July 2001.

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

On May 15, 2008, all of the shareholders of SAM, including all of the officers and directors of SAM and the Corporation, acquired ownership of Common Shares in exchange for common shares of SAM (the “Share Exchange”) pursuant to the Share Exchange Agreement. As a result, SAM became a wholly-owned subsidiary of the Corporation. Immediately thereafter, in connection with the IPO, certain shareholders of the Corporation sold Common Shares, priced at \$10.00 per Common Share. The following table sets out the number of Common Shares acquired by each of the senior officers and directors of SAM and the Corporation through the Share Exchange, the number of Common Shares sold by such officer or director through the IPO and number of Common Shares currently owned by such officer or director.

<u>Name</u>	<u>Number of Common Shares Owned After Giving Effect to the Share Exchange</u>	<u>Percentage of Common Shares Issued and Outstanding After Giving Effect to the Share Exchange</u>	<u>Number of Common Shares Sold Pursuant to the IPO</u>	<u>Number of Common Shares Currently Owned</u>	<u>Percentage of Common Shares Issued and Outstanding</u>
Eric Sprott CEO, Sprott Inc.	117,131,373	78.09%	14,990,103	102,141,270	68.09%
Peter J. Hodson Director, Sprott Inc.	3,334,979	2.22%	--	3,349,979	2.23%
Allan Jacobs Director, Sprott Inc.	3,471,428	2.31%	754,659	2,716,769	1.81%
Kevin Bambrough President, Sprott Consulting LP	2,491,175	1.66%	550,086	1,941,089	1.29%
Anne Spork, Vice- President Secretary, Treasurer SAM	2,342,624	1.56%	142,624	2,203,000	1.47%
James Fox Vice-President, Sales and Marketing, SAM	1,444,663	0.96%	96,250	1,348,413	0.90%
Scott Dexter Head of Trading, SAM	1,294,628	0.86%	172,618	1,122,010	0.75%
Kirstin McTaggart Corporate Secretary, Sprott Inc.	253,287	0.17%	68,387	187,900	0.12%
Steven Rostowsky CFO, Sprott Inc.	137,632	0.09%	32,026	118,106	0.07%
Iryna Gordiyenko Acting Chief Financial Officer, SAM	82,513	0.06%	82,513	6,000	0.004%
Jack C. Lee Director, Sprott Inc.	27,504	0.02%	--	177,504	0.02%
Mark McCain Director, Sprott Inc.	27,504	0.02%	--	77,504	0.02%

James T. Roddy Director, Sprott Inc.	27,504	0.02%	--	77,504	0.02%
Ian W. Telfer Director, Sprott Inc.	27,504	0.02%	--	77,504	0.02%

Certain of the Corporation's shareholders, including all the senior officers and the directors of the Corporation, have entered into the Escrow Agreement See "Escrow Arrangements".

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 Transfer & Trust Company at its principal office located at 200 University Avenue, Suite 400, Toronto, Ontario M5H 4H1.

MATERIAL CONTRACTS

The only material contracts entered into by us to which we are a party to in the most recently completed financial year are as follows:

1. the underwriting agreement dated May 8, 2008 between the Corporation and Cormark Securities Inc., TD Securities Inc, CIBC World Markets Inc., RBC Dominion Securities Inc., Scotia Capital Inc., BMO Nesbitt Burns Inc., GMP Securities L.P., Canaccord Capital Corporation, National Bank Financial Inc., Jennings Capital Inc., Paradigm Capital Inc. and Clarus Securities Inc. in connection with the IPO;
2. the Share Exchange Agreement; and
3. the Escrow Agreement.

Copies of these material contracts are 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 Ian W. Telfer. 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 year ended December 31, 2008, the fees paid to Ernst & Young LLP are summarized below for each category:

<u>Service</u>	<u>Fees Incurred</u> <u>2008</u>
Audit and Audit-Related Fees ⁽¹⁾	\$494,863
Tax Fees ⁽²⁾	\$174,494
All Other Fees	NIL
Total Fees Paid	<u>\$669,357</u>

- (1) Audit-related services included review of prospectus and offering memorandums for new Sprott Funds, compilation report in connection with the ongoing internal reorganization and National Instrument 52-109 advisory work.
- (2) Tax services included tax return preparation, tax planning, GST work, tax research and other tax services.

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, 2008. 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 7, 2009. 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.
2. 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.
3. 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

4. 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.
5. 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.
6. 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

7. 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

8. *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.

9. *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.

10. *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.

11. *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.

12. *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

13. 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.
14. 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.