Sprott Inc.

Report to Shareholders

MARCH 31,

2011

June 2, 2011

Dear Shareholders,

I'm pleased to report to you on a productive first quarter where we began to see the impacts of our organization's evolution over the past 18 months. As we have previously stated, our goal is to build Sprott into a leading global alternative asset manager. In pursuit of this goal, we continue to add new platforms for growth, highlighted this quarter by the acquisition of the Global Group of Companies, which was completed earlier this year. This transaction added $0.7 billion to our Assets Under Management ("AUM") and $1.8 billion to our Assets Under Administration ("AUA") and provides us with an important foothold in the U.S. We are excited to have Rick Rule join our senior management team. Rick is one of North America's preeminent resource investors, and we look forward to working with him to launch new Sprott-branded products targeted to U.S. investors.

One of our key priorities for the year is to continue to offer innovative investment vehicles to our clients. We worked actively towards this objective in the early months of 2011, launching two new products. During the first quarter, we raised $91 million through our second flow-through offering, the Sprott 2011 Flow-Through Limited Partnership. Subsequent to the end of the quarter, we also launched the Sprott Silver Bullion Fund, an open ended mutual fund designed to give investors another way to invest in physical silver. Our specialty products franchise continues to grow and, in May, we successfully completed a $340 million follow-on offering of Sprott Physical Gold Trust units. We are also pleased with the growth and performance of our fixed income products.

Throughout our history, much of the success of our investment team has been the result of our portfolio managers' ability to correctly make long-term secular calls based on their intensive research of the macroeconomic environment. In recent weeks, we experienced a correction in precious metals prices that caused some to speculate that further upside may be limited. We do not subscribe to this viewpoint and remain committed to the view that now, more than ever, investments in hard assets are the best means of preserving and growing wealth. Governments around the world continue to struggle with debt concerns and inflation is driving food and energy prices higher. In these times, investors have traditionally looked to precious metals as a store of value. We believe the fundamentals for physical gold and physical silver remain compelling and expect this correction to be short-lived, with prices recovering in the second half of the year.

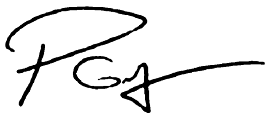
Sprott Consulting LP ("SCLP") continues to successfully execute its private equity-like mandate to develop its portfolio of managed companies. In the first quarter, growth at Sprott Resource Corp. and Sprott Resource Lending Corp. combined to increase SCLP's AUM by more than $90 million to a total of more than $600 million. With the ongoing growth of its managed companies and the ability to act quickly to add new direct investments, SCLP has the potential to generate substantial performance fee revenue for Sprott.

During the quarter, we posted significant year-over-year increases in key metrics with a 52% increase in management fees and a 75% improvement in base EBITDA. Our AUM has increased by 87% since the end of the first quarter of 2010 and stood at $9.7 billion as of March 31, 2011.

Through investments in operations, systems, marketing, compliance and infrastructure we have built a platform that gives us the capacity to manage significantly more assets than our current AUM. We continue to add new talent to support our growth, with our most recent addition being Paul Wong who joined us in March as a portfolio manager. Paul brings with him an excellent long-term track record and a focus on resource-oriented investments. We have also been successful in cultivating talent internally with David Franklin having been recently named Chief Executive Officer of Sprott Private Wealth. David has made many key contributions to Sprott in his role as Market Strategist and we look forward to him accelerating the growth of our unique private client business.

Finally, on behalf of everyone at Sprott, I would like to thank our clients and shareholders for your ongoing support. As always, our entire team is focused on delivering superior performance to you, our shareholders. We look forward to reporting to you on our progress in the quarters ahead.

Sincerely,



Peter Grosskopf
Chief Executive Officer
Sprott Inc.

Management's Discussion & Analysis

This Management's Discussion & Analysis ("MD&A") of financial condition and results of operations presents an analysis of the financial condition of Sprott Inc. (the "Company") and its subsidiaries as of March 31, 2011 compared with December 31, 2010, and results of operation for the quarter ended March 31, 2011, compared with the quarter ended March 31, 2010. The Board of Directors approved this MD&A on June 1, 2011.

The Company was incorporated under the Business Corporations Act (Ontario) on February 13, 2008. The Company was incorporated to acquire, through an exchange of shares, all of the shares of Sprott Asset Management Inc. ("SAMI"). On May 8, 2008, the Company filed a prospectus in each of the provinces and territories of Canada in respect of an initial public offering of 20,000,000 common shares to be effected via a secondary offering by certain shareholders of the Company.

On February 4, 2011, the Company completed the acquisition, through its wholly-owned subsidiary Sprott U.S. Holdings Inc., of all of the outstanding stock of Rule Investments, Inc. (the owner of Global Resource Investments, Ltd. ("Global"), Terra Resource Investment Management, Inc. ("Terra") and Resource Capital Investment Corporation ("RCIC") (collectively, the "Global Companies")).

The preparation of these interim consolidated financial statements under IFRS has resulted in certain changes to the Company's accounting policies as compared to those disclosed in the Company's annual audited consolidated financial statements for the period ended December 31, 2010 issued under Canadian GAAP. Information relating to the impact of the adoption of IFRS is provided in the notes to the consolidated financial statements for the period ended March 31, 2011 and elsewhere in this MD&A. The adoption of IFRS has not had an impact on the Company's operations, strategic decisions or cash flow.

FORWARD LOOKING STATEMENTS

This MD&A 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 the Company's annual information form dated March 22, 2011 (the "AIF"). 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 MD&A. These forward looking statements are made as of June 1, 2011 and will not be updated or revised except as required by applicable securities law.

PRESENTATION OF FINANCIAL INFORMATION

On January 1, 2011, the Company adopted International Financial Reporting Standards ("IFRS") for financial reporting purposes, using a transition date of January 1, 2010. The financial statements for the three months ended March 31, 2011, including the required comparative information, have been prepared in accordance with IFRS 1, *First time Adoption of International Financial Reporting Standards,* and with International Accounting Standards ("IAS") 34, *Interim Financial Reporting,* as issued by the International Accounting Standards Board ("IASB"). These interim consolidated financial statements do not include all the necessary annual disclosures in accordance with IFRS. Previously, the Company prepared its interim and annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP").

An explanation of the transition to IFRS is presented in note 3 to these interim consolidated financial statements and includes an explanation of initial elections made upon first-time adoption of IFRS, changes to accounting policies, and a reconciliation of amounts previously reported under Canadian GAAP to amounts reported under IFRS for comparative financial information.

Financial results, including related historical comparatives, contained in this MD&A, unless otherwise specified herein, are based on these interim consolidated financial statements. The Canadian dollar is our functional and reporting currency for purposes of preparing the

Company's consolidated financial statements, given that we conduct most of our operations in that currency. Accordingly, all dollar references in this MD&A are in Canadian dollars, unless otherwise specified herein.

KEY PERFORMANCE INDICATORS (NON-IFRS FINANCIAL MEASURES)

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

Our key performance indicators include:

Assets Under Management

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

Assets Under Administration

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

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

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

Net Sales

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

EBITDA

Our method of calculating EBITDA is defined as earnings before interest expense, income taxes, amortization of property and equipment, amortization of deferred sales charges, amortization of intangible assets and stock-based non-cash compensation. We believe that this is an important measure as it allows us to assess our ongoing business without the impact of interest expense, income taxes, amortization and non-cash compensation, and is an indicator of our ability to pay dividends, invest in our business and continue operations. EBITDA is a measure commonly used in the industry by management, investors and investment analysts in understanding and comparing results by factoring out the impact of different financing methods, capital structures, the amortization of deferred sales charges and income tax rates between companies in the same industry. While other companies may not utilize the same method of calculating EBITDA as we do, we believe it enables a better comparison of the underlying operations of comparable companies and we believe that it is an important measure in assessing our ongoing business operations.

Base EBITDA

Base EBITDA refers to EBITDA after adjusting for: (i) the exclusion of any gains (losses) on our proprietary investments including our initial contributions to our Funds on their inception, as if such gains (losses) had not been incurred and (ii) Performance Fees, Performance Fee related compensation and other Performance Fee related expenses. With the exception of Performance Fees attributable to redeemed units (termed as "Crystallized Performance Fees"), Performance Fees are earned on the last day of the fiscal year other than for the Funds that are managed by RCIC. Performance Fees are not as predictable and stable as Management Fees and therefore Base EBITDA enables us to evaluate the day-to-day results of operations throughout the year and is meaningful for the same reason.

RCIC manages a family of Funds whereby performance fees are earned by way of Carried Interests. Carried Interests are often realized towards the end of the life of these fixed term Funds which, as at March 31, 2011 have an average remaining life of approximately 7 years. The Carried Interests relating to these Funds will be earned once management is assured of their realization.

Base EBITDA also allows us to assess our ongoing business operations, with adjustments for non-recurring items as well as items that are not related to our core operations, such as income or losses relating to our investment in proprietary investments.

Cash Flow from Operations

Our method of calculating cash flow from operations is defined as cash provided by operating activities adjusted for the impact of the net change in non-cash balances relating to operations.

This is a relevant measure in the investment management business since it represents cash available for distribution to our shareholders and for general corporate purposes.

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

OVERVIEW

The Company operates through four wholly-owned subsidiaries, SAM LP, Sprott Private Wealth LP ("SPW LP"), SCLP and Sprott U.S. Holdings Inc., the parent of the Global Companies. Through these four subsidiaries, the Company is an independent asset management company dedicated to achieving superior returns for our clients over the long term. Our business model is based foremost on delivering excellence in investment management services to our clients.

On June 1, 2009 we completed a corporate reorganization of SAMI whereby SAMI was dissolved and its operations were separated into three business lines: discretionary portfolio management by SAM LP, broker-dealer services by SPW LP, and consulting services by SCLP. SAM LP is registered with the Ontario Securities Commission ("OSC") as a portfolio manager ("PM") and exempt market dealer ("EMD"). SPW LP is an investment dealer and a member of the Investment Industry Regulatory Organization of Canada ("IIROC"). SCLP provides active management, consulting and administrative services to other companies. Currently SCLP provides these services to Sprott Resource Corp. ("SRC"), Sprott Resource Lending Corp. ("SRLC") and Sprott Power Corp. ("SPC").

On February 4, 2011 we completed the acquisition of the Global Companies, based in Carlsbad, California, through Sprott U.S. Holdings Inc. Global is a California limited partnership registered with the Financial Industry Regulatory Authority ("FINRA") that operates as a securities broker-dealer and Terra, registered with the U.S. Securities and Exchange Commission, provides discretionary investment management services. RCIC is the general partner and discretionary asset manager to the Exploration Capital Partners family of limited partnerships.

Effective February 4, 2011, the accounts of the Global Companies have been consolidated with those of the Company and reported with the Company's first quarter 2011 report.

Management's Discussion & Analysis

The majority of the Company's revenues are earned through SAM LP in the form of Management Fees and Performance Fees earned through the management of the Funds and Managed Accounts; SPW LP earns most of its revenues via intercompany trailer fee payments from SAM LP (these intercompany fees are eliminated on consolidation) and from commissions earned on new and follow-on offerings of Funds managed by SAM LP and through various private placements. SCLP earns the majority of its revenues through the management of its Managed Companies in the form of Management Fees and Performance Fees. RCIC earns revenue in the form of Management Fees and Carried Interests through the management of the Funds; Global earns commissions and other fees from the sale and purchase of stocks by its clients and from the sale of private placements to its clients. Terra earns revenue in the form of Management Fees from the management of Managed Accounts.

SPW LP provides us with a competitive advantage by providing a unique distribution channel for our Fund products and other investment opportunities that we are able to make available to our private clients; as well, it serves as a platform to brand and grow our wealth management business. SCLP enables us to benefit from our expertise in managing other companies, both public and private. SCLP provides us with a competitive advantage by providing SPW LP and Global clients access to merchant banking and private equity-style investments.

While we operate through several operating companies, all are focused on growing the AUM or AUA of the Funds, Managed Accounts and Managed Companies that we manage for the benefit of the unitholders, shareholders and partners of those entities and the AUA of our clients, ultimately for the benefit of our shareholders.

The most significant factor that drives our business results continues to be the performance of the assets that we manage. Absolute returns generate growth in AUM, and hence Management Fees while absolute and/or relative returns may result in the receipt of Performance Fees and/or Carried Interests. While there are many factors that influence sales and redemptions of our Funds and Managed Accounts such as general investor sentiment towards certain asset classes and the global economic environment, past investment returns play an important part in an investment decision to buy, hold or sell a particular investment product.

The Company derives revenue primarily from Management Fees earned from the management of our Funds, Managed Accounts and Managed Companies and from Performance Fees earned from the investment of the AUM of our Funds, Managed Accounts and Managed Companies. 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, Managed Accounts and Managed Companies. Our Carried Interests are calculated as a percentage of profits earned by monetizing events at our Funds managed by RCIC. Accordingly, the growth in our fees is based on both the growth in AUM and the absolute or relative return, as applicable, earned by our Funds, Managed Accounts and Managed Companies. With the addition of Global, the Company now derives additional revenue from advisory fees associated with its AUA. Commission and other income is generated from the sale and purchase of stocks by Global's clients, and to a lesser extent SPW LP, and from the sale of private placements to its clients. As at March 31, 2011, we managed approximately $9.7 billion in assets among our various Funds, Managed Accounts and Managed Companies and AUA in client assets totaled to approximately $5.9 billion.

Management Fees are less variable and more predictable than Performance Fees and Carried Interests. Management Fees are generally closely correlated with changes in AUM. However, the rate of change in our Management Fees may not exactly mirror the rate of change in our AUM, primarily a result of two factors. First, multi-series or multi-class structures are offered in some of our Funds whereby the Management Fee differs among the applicable series or classes. Second, mutual Funds have the highest rate of Management Fees, followed by hedge Funds and offshore Funds, while bullion Funds have the lowest rate of Management Fees. Fees for managing the various Managed Accounts and Managed Companies are negotiated on a case by case basis. Therefore, the weighting of AUM among our various Funds, Managed Accounts and Managed Companies impacts Management Fees as a percentage of AUM.

Commission income is specific to SPW LP and Global and is generated from the trading of securities by clients and from the sale of new and follow-on offerings of products or companies managed by SAM LP, RCIC or SCLP, and through private placements of unrelated companies to clients of SPW LP and Global. Commissions income is recorded in the financial statements in the month in which the service is rendered.

Performance Fees are determined as of December 31 each year. However, Performance Fees are accrued in the relevant Funds, Managed Accounts and Managed Companies, as applicable, to properly reflect the Performance Fee that would be payable, if any, based on the Net

Asset Value of that Fund, Managed Account or Managed Company. Where an investor redeems a domestic hedge Fund or an offshore Fund, any Performance Fee attributable to those units redeemed is paid to SAM LP as manager of the Funds. These Crystallized Performance Fees, as well as the related allocation to the employee bonus pool, are accrued for in the financial statements of SAM LP for the appropriate month. At SCLP, Performance Fees are generated from time-to-time and are usually based on monetizing events at the Managed Companies. These Performance Fees can be significant when realized. At RCIC, Carried Interests are accrued in the Funds, as applicable, to properly reflect the Carried Interest that would be payable, if any, based on the Net Asset Value of that Fund. The Carried Interests are usually realized towards the end of the term of the Fund and can be significant when realized.

Our most significant expenses include compensation and benefits and trailer fees. With respect to compensation and benefits, employees are paid a base salary and may be eligible to share in a bonus pool, with the size of such discretionary bonuses being tied to both individual performance and the overall financial performance of the Company. Trailer fees are paid to dealers that distribute units of a Fund. Such dealers may receive a trailer fee (annualized but paid monthly or quarterly) of up to 1% of the value of the assets held in the respective Fund by the dealer's clients. Both the employee bonus pool component of compensation and trailer fees are correlated with Management Fees whereas only the employee bonus pool component of compensation is correlated with realized Performance Fees and Carried Interests. Changes in levels of trailer fees are generally a reflection of changes in domestic Fund sales through the advisor and dealer channel as well as changes in Management Fees.

In 2009 we introduced a low load sales charge option for some of our Funds. The commissions for these sales have been financed from internal cash flow. Other expenses incurred by our business are general and administration costs, including sales and marketing costs, occupancy, regulatory and professional fees as well as charitable donations and amortization.

BUSINESS HIGHLIGHTS AND GROWTH INITIATIVES

The first quarter of 2011 was, once again, an extremely active period as we continue to execute on various growth and development initiatives across the organization:

Acquisition of the Global Companies

On February 4, 2011, the Company completed the acquisition of the Global Companies. As consideration, the Company issued 19,467,500 common shares from treasury and will issue a further 532,500 common shares from treasury. The common shares of the Company issued, and to be issued, as consideration were valued at $8.67 per share using the closing price of the Company's common shares on February 4, 2011, for a total consideration of $173.4 million. As previously mentioned and in accordance with the terms of the Share Exchange Agreement, an additional 532,500 common shares of the Company will be provided to employees of the Global Companies during 2011. In addition, the seller and certain current and future employees of the Global Companies will be eligible to earn up to an additional 8 million common shares of the Company with the achievement of certain financial targets by the Global Companies over a period of up to five years.

The acquisition is expected to provide benefits across the Company, including the Global Companies through the sharing of intellectual capital, the development of new products, and by leveraging the Company's products and brands in the United States and internationally.

The Global Companies are experts in the natural resource investing sector providing both investment management and specialized broker services. The Global Companies are led by Rick Rule, a highly respected natural resources investor with over 35 years of experience in the investment industry, and have developed a highly specialized team of resource investing experts, including geologists and mining engineers. They offer their expertise through pooled investment vehicles, managed accounts and brokerage accounts and have delivered strong investment performance to their clients. The Global Companies are based in Carlsbad, California but invest globally.

Effective February 4, 2011, the accounts of the Global Companies have been consolidated with those of the Company and are reported with the Company's first quarter 2011 report.

Hiring and Retention of Top Talent

In February 2011, Rick Rule joined the Company as a condition of the acquisition of the Global Companies. Mr. Rule is CEO of Sprott U.S. Holdings Inc., the parent of the Global Companies.

In March 2011, David Franklin assumed the role of CEO of SPW LP. Mr. Franklin joined the Company in 2008 and has been a key contributor in his role as Market Strategist by helping guide the portfolio management team's investment decisions.

In March 2011, Paul Wong joined SAM LP's investment team as a Portfolio Manager. Mr. Wong is an industry veteran with specialization in natural resource investing, asset allocation and capital market research.

In order to motivate and retain key employees and to further align the interest of employees and those of our shareholders, we have proposed introducing an Employee Profit Sharing Plan ("EPSP") for Canadian employees and an Equity Incentive Plan ("EIP") for U.S. employees. These plans will be voted on by the Company's shareholders at our next Annual General Meeting on June 2, 2011, We are focused on rewarding the types of performance that increase long-term shareholder value, including growing our AUM and AUA, retaining investors in our Funds, developing new investor relationships, improving operational efficiency and managing risks. Pursuant to the EPSP and the EIP, a portion of the bonus allocated to certain employees will be paid by way of the Company's common shares. The shares will either be issued from treasury or purchased in the open market and will be available to the relevant employees over a specified vesting period.

Product and Business Line Expansion

We continue to add products to better serve our clients and to take advantage of those opportunities that we have identified to generate returns to add value for our shareholders over time.

In January 2011, we introduced our second flow-through fund, the Sprott 2011 Flow-Through Limited Partnership. The initial and follow-on offering raised gross proceeds of $90.7 million in total.

In February 2011, as a result of the acquisition of the Global Companies, new AUM and AUA of $0.7 billion and $1.8 billion were added.

Subsequent to the end of the first quarter, in April 2011, we completed a follow-on offering of the Sprott Physical Gold Trust units, raising gross proceeds of US$340.7 million.

On May 9, 2011, we launched the Sprott Silver Bullion Fund, an open-ended mutual fund trust that will invest primarily in unencumbered, fully allocated silver bullion.

The addition of these products, business lines and the acquisition of the Global Companies has required, and will require, us to make investments in technology, infrastructure and resources in order to continue to be able to provide effective and efficient service to our clients and to the Funds, Managed Accounts and Managed Companies that we manage and to realize the synergies that we expect from the acquisition of the Global Companies.

FINANCIAL HIGHLIGHTS

Financial highlights for three months ended March 31, 2011 are:

- AUM at March 31, 2011 were $9.7 billion. This reflects an increase of $4.5 billion (87.7%) from $5.2 billion at March 31, 2010. Average AUM for in the first quarter of 2011 was $8.8 billion compared to $4.9 billion in the first quarter of 2010, an increase of 81.1%. During the first quarter of 2011, AUM of RCIC and TRIM added $0.7 billion to AUM and along with market value increases of $0.2 billion and positive net subscriptions of $0.3 billion, resulted in an increase of $1.2 billion in AUM in the quarter.
- AUA at March 31, 2011 were $5.9 billion. This reflects an increase of $3.6 billion (151.2%) from $2.3 billion at March 31, 2010. During the first quarter of 2011, AUA of Global added $2.0 billion including market appreciation in these assets.
- Management Fees for the quarter ended March 31, 2011 were $35.5 million, representing an increase of $12.3 million (52.9%) over the quarter ended March 31, 2010.

- Crystallized Performance Fees for the quarter ended March 31, 2011 were $0.2 million. There were no Crystallized Performance Fees earned in the quarter ended March 31, 2010.
- Base EBITDA for the quarter ended March 31, 2011 was $16.9 million representing an increase of $6.6 million or 63.5% compared with the quarter ended March 31, 2010.
- EBITDA for the quarter ended March 31, 2011 was $17.4 million, $7.5 million (75.5%) higher than the quarter ended March 31, 2010.
- Cash flow from operations for the quarter ended March 31, 2011 was $11.3 million ($0.07 per share) representing an increase of $3.3 million (42.8%) from $8.0 million ($0.05 per share) for the quarter ended March 31, 2010.
- Net income for the quarter ended March 31, 2011 increased by 64.4% to $10.6 million as compared with the corresponding quarter in the previous year, and represents basic and diluted earnings per share of $0.07. Net income for the quarter ended March 31, 2010 was $6.4 million, representing basic earnings per share of $0.04.

SUMMARY FINANCIAL INFORMATION
KEY PERFORMANCE INDICATORS

	As at March 31	
(In $000's, except per share amounts)	**2011**	2010
Assets Under Management	**9,677,558**	5,155,225
Assets Under Administration	**5,918,048**	2,355,734
Net Sales	**259,709**	417,764
EBITDA	**17,400**	9,913
Base EBITDA	**16,911**	10,340
Cash Flow from Operations	**11,316**	7,995
EBITDA Per Share – basic and fully diluted	**0.11**	0.07
Base EBITDA Per Share – basic and fully diluted	**0.10**	0.07
Cash Flow From Operations Per Share – basic and fully diluted	**0.07**	0.05

SUMMARY BALANCE SHEET

(In $000's)	March 31, **2011**	December 31, 2010
Total Assets	**399,034**	342,767
Total Liabilities	**115,849**	128,505
Shareholders' Equity	**283,185**	214,262

SUMMARY INCOME STATEMENT AND RECONCILIATION TO EBITDA AND BASE EBITDA

(In $000's, except per share amounts)	For three months ended March 31, 2011	For three months ended March 31, 2010
Revenue		
Management fees	**35,547**	23,248
Crystallized performance fees	**170**	–
Commissions	**3,027**	2,577
Unrealized and realized gains (losses) on proprietary investments	**362**	(427)
Other income	**409**	334
Total revenue	**39,515**	25,732
Expenses		
Compensation and benefits	**10,669**	7,700
Stock-based compensation	**896**	476
Trailer fees	**6,679**	5,070
General and administrative	**4,478**	2,591
Donations	**289**	458
Amortization	**1,547**	192
Total expenses	**24,558**	16,487
Income before income taxes	**14,957**	9,245
Provision for income taxes	**4,391**	2,818
Net income	**10,566**	6,427
Other expenses[1]	**2,443**	668
Provision for income taxes	**4,391**	2,818
EBITDA	**17,400**	9,913
Unrealized and realized (gains) losses on proprietary investments	**(362)**	427
Performance fees net of performance fee related compensation and other performance fee related expenses[2]	**(127)**	–
Base EBITDA	**16,911**	10,340
Base EBITDA Per Share – basic and fully diluted	**0.10**	0.07
EBITDA Per Share – basic and fully diluted	**0.11**	0.07
Net Earnings Per Share – basic and fully diluted	**0.07**	0.04

[1] Includes amortization of property and equipment, amortization of intangibles and non-cash stock-based compensation expense.

[2] Performance Fee related compensation is equal to 25% of Performance Fee revenue.

SUMMARY CASH FLOW STATEMENTS AND RECONCILIATION TO CASH FLOW FROM OPERATIONS

(In $000's, except per share amounts)	For three months ended March 31, 2011	For three months ended March 31, 2010
Operating activities		
Net income for the period	**10,566**	6,427
Non-cash items	**750**	1,568
Cash flow from operations	**11,316**	7,995
Non-cash balances relating to operations	**134,509**	8,883
Cash provided by operating activities	**145,825**	16,878
Cash provided by (used in) investing activities	**4,009**	(604)
Cash used in financing activities	**(90,000)**	(9,750)
Net increase in cash and cash equivalents during the period	**59,834**	6,524
Cash and cash equivalents, beginning of the period	**81,209**	49,010
Cash and cash equivalents, end of the period	**141,043**	55,534
Cash flow from operations per share – basic	**0.07**	0.05
Cash flow from operations per share – fully diluted	**0.07**	0.05

RESULTS OF OPERATIONS

Three months ended March 31, 2011 compared to three months ended March 31, 2010

Overall Performance

AUM increased to $9.7 billion at March 31, 2011 compared with $5.2 billion at March 31, 2010. Net sales for the quarter ended March 31, 2011 were $0.3 billion, combined with market value appreciation of $0.2 billion and the addition of the acquired AUM of the Global Companies of $0.7 billion resulted in a $1.2 billion increase in AUM for the quarter. Monthly average AUM for the quarter ended March 31, 2011 was $8.8 billion compared with $4.9 billion for the quarter ended March 31, 2010, an increase of 81.1%.

Total revenues increased by $13.8 million or 53.6% from $25.7 million in the quarter ended March 31, 2010 to $39.5 million in the quarter ended March 31, 2011. Management fees for the quarter ended March 31, 2011 were $35.5 million, representing an increase of $12.3 million (52.9%) over the quarter ended March 31, 2010. Crystallized Performance fees for first quarter of 2011 were $0.2 million, compared to $nil in the first quarter of 2010. Unrealized and realized gains on proprietary investments were $0.8 million higher for the quarter ended March 31, 2011 when compared to the first quarter of the prior year. Commissions increased by $0.4 million to $3.0 million in the quarter ended March 31, 2011 when compared to $2.6 million in the quarter ended March 31, 2010. Other income increased by $0.1 million to $0.4 million in the first quarter of 2011, when compared to $0.3 million in the first quarter of 2010.

Expenses totaled $24.6 million for the quarter ended March 31, 2011, which is an increase of $8.1 million or 49.0% from $16.5 million in the quarter ended March 31, 2010.

Net income of $10.6 million for the quarter ended March 31, 2011 increased by $4.1 million or 64.4% when compared with net income of $6.4 million for the quarter ended March 31, 2010.

Assets Under Management, Investment Performance and Net Sales

The breakdown of AUM by investment product type as at March 31, 2011 and March 31, 2010 was as follows:

	March 31, 2011		March 31, 2010	
Product Type	$(in millions)	% of AUM	$(in millions)	% of AUM
Mutual Funds	3,408	35.2%	2,308	44.8%
Bullion Funds	2,122	21.9%	519	10.1%
Domestic Hedge Funds	1,813	18.7%	1,326	25.7%
Offshore Hedge Funds	750	7.8%	484	9.4%
Direct Management (Managed Companies)	604	6.2%	335	6.5%
Managed Accounts	432	4.5%	183	3.5%
Fixed Term Limited Partnerships	549	5.7%	–	–
Total	**9,678**	**100%**	**5,155**	**100%**

The table below summarizes the changes in AUM for the relevant periods.

$ millions	Three months ended March 31, 2011	Three months ended March 31, 2010
AUM, beginning of period	8,545	4,774
Net sales	260	417
Business acquisition	695*	–
Market value appreciation (depreciation) of portfolios	178	(36)
AUM, end of period	**9,678**	**5,155**

* These represent the AUM of Terra and RCIC as at March 31, 2011. Although the acquisition closed on February 4, 2011, there is no material difference between the AUM of RCIC and Terra at February 4, 2011 and March 31, 2011.

Performance of our Funds, Managed Accounts and Managed Companies for the quarter ended March 31, 2011 resulted in AUM increasing by $178 million or 2.1% of opening AUM. All but a few of our Funds, Managed Accounts and Managed Companies generated positive, albeit modest, performance through the first quarter of 2011. SRC and SRLC added $91 million to our AUM at March 31, 2011.

Net sales for the quarter ended March 31, 2011 were $260 million. The initial and follow-on offering of Sprott 2011 Flow-Through LP added approximately $85 million to sales for the quarter. Collectively, our other mutual Funds and domestic hedge Funds experienced net sales of approximately $110 million. Similarly our offshore Funds had net subscriptions resulting in net inflows of $65 million or 9.5% of opening offshore AUM.

The acquisition of the Global Companies in the current quarter added $695 million to the Company's AUM, representing 8.4% of opening AUM.

Revenues

During the first quarter of 2011, total revenues increased by $13.8 million (53.6%) from $25.7 million in the first quarter of 2010 to $39.5 million in the quarter ended March 31, 2011.

Management Fees increased by $12.3 million or 52.9% from $23.2 million in the first quarter of 2010 to $35.5 million in the first quarter of 2011, as the monthly average AUM increased by approximately 81.1% over the same period. Management Fees from the Global Companies totaled to approximately $2.1 million for the 2 months from the date of acquisition to March 31, 2011. Management Fee margins (defined as Management Fees as a percentage of AUM) fell to 1.5% in 2011 from 1.9% in 2010. The decrease in Management Fee margins is mainly due to an increase of approximately $1.6 billion in assets of bullion Funds, which have lower Management Fees than most of our other Funds.

In the first quarter of 2011, Crystallized Performance Fees were $170 thousand resulting from lower redemptions and strong performance of the Funds in that three month period. There were no Crystallized Performance Fees for three months ending March 31, 2010 because virtually all of the Funds were not in a position to generate performance fees that would have resulted in Crystallized Performance Fees when such Funds were redeemed.

Gains from our capital that is invested in our proprietary investments (realized and unrealized) totaled $0.4 million for the quarter ended March 31, 2011. This is an increase of $0.8 million when compared to a loss of $0.4 million for the quarter ended March 31, 2010. These unrealized gains in 2011 were driven predominantly by market value appreciation of silver bullion despite declines in the value of gold bullion, public equities and share purchase warrants. During the quarter ended March 31, 2010, the unrealized losses were mainly due to the decline in the value of warrants in a company in the gold mining sector.

Commission revenue for the quarter ended March 31, 2011, was $3.0 million compared to $2.6 million during the quarter ended March 31 2010. In the first quarter of 2011, commission revenue was mainly due to commissions generated by Global and to a lesser extent, SPW LP. During the first quarter of 2010, SPW LP earned commissions from the sale of units of Sprott Power Corp., Sprott Flow-Through 2010 LP and Sprott Physical Gold trust to clients of SPW LP.

Other income increased by $0.1 million from $0.3 million in the quarter ended March 31, 2010 to $0.4 million in the quarter ended March 31, 2011. The main components of other income include interest income, early redemption fees and foreign exchange.

Expenses

Total expenses for the quarter ended March 31, 2011 were $24.6 million, an increase of $8.1 million or 49.0%, compared with $16.5 million for 2010.

Changes in specific categories are described in the following discussion:

Compensation & Benefits

Compensation and benefits expense for the quarter ended March 31, 2011 amounted to $10.7 million, including contributions to the discretionary employee bonus pool of $4.5 million. For the three months ended March 31, 2010, compensation and benefits expense was $7.7 million, with contributions to the discretionary employee bonus pool amounting to $2.5 million. Excluding the discretionary employee bonus pool, compensation and benefits increased by $1.0 million from $5.2 million in 2010 to $6.2 million in 2011. This is primarily due to the increase in headcount of the Company with the average number of employees increasing from 83 in the first quarter of 2010 to 121 in the first quarter of 2011 which includes the headcount added through the acquisition of the Global Companies in 2011. The increase in the discretionary employee bonus pool of approximately $2.0 million (76.5%) from $2.5 million in 2010 to $4.5 million in 2011 is a result of higher net operating income in the current year's quarter.

Stock-based compensation

Stock-based compensation was $0.9 million for the quarter ended March 31, 2011, an increase of $0.4 million, compared to $0.5 million in 2010. The increase from 2010 is mostly the result of the introduction of stock-based compensation expense relating to the earn-out shares (see note 7) in the amount of $0.7 million. At January 1, 2010, a reduction of $1.6 million to retained earnings relating to stock-based compensation was made with a corresponding increase of $1.6 million to contributed surplus. The transition to IFRS required a retrospective adjustment to opening retained earnings of the prior year. This adjustment was required to reflect the accounting treatment of share-based payments under IFRS which results in the expensing of such awards on a graded basis unlike the straight-line methodology previously followed by the Company. The impact of this change results in a tapering effect of expensing the Company's stock options with a greater proportion of the expense being charged to income in earlier years.

Trailer Fees

Trailer fees are somewhat correlated with AUM and with Management Fees. For the quarter ended March 31, 2011 trailer fees of $6.7 million were 31.7% higher than trailer fees of $5.1 million in 2010. This increase is reflective of the significant year-over-year increase in the AUM of our Mutual Funds and Domestic Hedge Funds which are the primary products to which trailer fees relate. Trailer fees as a percentage of Management Fees for the quarter ended March 31, 2011 have decreased to 18.8% from 21.8% for the quarter ended March 31, 2010. This decline is due to the addition of AUM at the Global Companies which do not have an associated trailer fee obligation and the increase in AUM of bullion Funds and our family of fixed income funds, which pay no or low trailer fees.

General & Administrative

General and administrative expenses increased by $1.9 million, or 72.8% to $4.5 million for the quarter ended March 31, 2011 when compared to the quarter ended March 31, 2010. General and administrative expenses consist primarily of rent, marketing, regulatory fees, sub-advisory fees, fund-related costs, legal, insurance, trading costs and professional fees as well as miscellaneous costs such as quote and news services, printing and system maintenance. The increase in general and administrative expenses in 2011 is partially due to the addition of the Global Companies during the quarter. The Company also experienced increases in most of the expense categories listed above as a result of an increase in the level of business activity including more employees, additional space, new funds and new streams of expenses resulting from the brokerage activities at Global. In the second quarter of 2010, the Company launched Sprott Private Credit Fund LP and retained a third party to provide the investment advisory services. The quarter ending March 31, 2011 includes sub-advisory fees, whereas no such fees were paid in the first quarter of 2010.

Charitable Donations

In 2008 SAMI introduced a charitable donations program in terms of which 1% of the previous year's net income before tax, as may be adjusted from time to time based on profitability, cash flow and other similar measures is donated to children's' charities. In order to better match the charitable donations expense with the associated income, the Company changed the calculation methodology of the donation policy in the fourth quarter of 2010. Previously, the charitable donation accrual was calculated on 1% of the previous year's pre tax income. Beginning in 2010, we accrued 1% of the current year's income before taxes. In addition to donations under the program described above, we make other corporate donations to selected causes. As a result of these other corporate donations, the donation expense in the quarter ending March 31, 2010 was higher than in current year despite a higher net income before income taxes in the quarter ending March 31, 2011.

Amortization

Amortization expense is composed of amortization of property and equipment and the amortization of intangible assets. Amortization expense is higher in 2011 when compared to 2010 primarily due to the amortization of intangible assets arising on the acquisition of the Global Companies. The identified intangible assets relating to the Global acquisition are being amortized on a straight-line basis over 7 years which reflect the average remaining useful life of the Funds on which these intangible assets are based.

EBITDA, Base EBITDA, Cash Flow from Operations and Net Income

As discussed earlier, there are a number of non-IFRS measures we use to evaluate the success of our business.

EBITDA allows us to assess our ongoing business without the impact of interest expense, income taxes and certain non-cash expenses, such as amortization and stock-based compensation. EBITDA is an indicator of our ability to pay dividends, invest in our business and continue operations.

For the quarter ended March 31, 2011, EBITDA was $17.4 million compared with $9.9 million for the quarter ended March 31, 2010. The increase in EBITDA in 2011 when compared to 2010 is mainly a result of higher Management Fees, Crystallized Performance Fees, higher gains on proprietary investments and higher commissions due to the addition of Global, partially offset by higher trailer fees, general and administrative expenses and compensation and benefits. The Global Companies contributed approximately $2.8 million to EBITDA and base EBITDA during the quarter. EBITDA per share for the quarter ended March 31, 2011 was $0.11 versus $0.07 for the quarter ended

March 31, 2010. For further clarity, EBITDA is reconciled to Net Income in the Summary Financial Information table earlier in this MD&A.

Base EBITDA, as previously defined in this MD&A, allows us to assess our ongoing business operations, with adjustments for non-recurring items as well as items that are not related to our core operations. For the quarter ended March 31, 2011 Base EBITDA was $16.9 million compared with $10.3 million in the quarter ended March 31, 2010, representing an increase of $6.6 million or 63.5%. Base EBITDA for the first quarter of 2011 increased when compared to the first quarter of 2010 based predominantly on higher Management Fees. Base EBITDA excludes (i) unrealized and realized gains on proprietary investments and (ii) Performance Fees net of Performance Fee related compensation and other Performance Fee related expenses. In the first quarter of 2011, unrealized and realized gains on proprietary investments were $0.4 million versus unrealized and realized losses of $0.4 million in the first quarter of 2010. In the quarter ended March 31, 2011, Performance Fees net of Performance Fee related compensation and other Performance Fee related expenses were $0.1 million compared to $nil in the quarter ended March 31, 2010. Base EBITDA per share for the quarter ended March 31, 2011 was $0.10 versus $0.07 for the quarter ended March 31, 2010. For further clarity, Base EBITDA is reconciled to Net Income in the Summary Financial Information table earlier in this MD&A.

The Company also assesses its performance using Cash Flow from Operations. Previously defined in this MD&A, this metric helps to assess the ability of the Company to generate cash to fund day-to-day operations, pay dividends, pay sales commissions and support any other capital requirements of the Company.

Cash Flow from Operations for the quarter ended March 31, 2011 was $11.3 million, up from $8.0 million in the quarter ended March 31, 2010. Similar to EBITDA and Base EBITDA, the primary contributor to this was the increase in the general business of the Company coupled with the cash flow produced by the Global Companies since their acquisition on February 4, 2011. A significant difference between this measure and EBITDA and Base EBITDA is that it takes into consideration the income taxes paid or payable by the Company. In the prior year's quarter, the provision for income taxes was $2.8 million and in this quarter, the provision for income taxes was $4.4 million. Cash Flow from Operations per share for 2011 was $0.07 versus $0.05 for 2010. For further clarity, Cash Flow from Operations is reconciled to Net Income in the Summary Financial Information table earlier in this MD&A.

Income before taxes for the quarter ended March 31, 2011 was $15.0 million compared with a pre-tax net income of $9.2 million for the quarter ended March 31, 2010. The effective tax rate at 29.4% was marginally lower for the quarter ended March 31, 2011 when compared to 30.5% for the quarter ended March 31, 2010 primarily as a result of the partial drawdown of the deferred tax liability arising on the acquisition of the Global Companies. The acquisition of the Global Companies resulted in a deferred income tax liability of $20.1 million relating to the identified intangible assets which is being drawn down over 7 years; the same period over which the associated intangible assets are being amortized to income. The drawdown of the deferred tax liability results in a reduction to the provision for income taxes on the consolidated statement of income. This deferred tax liability is not a cash liability of the Company but is an accounting item resulting from the accounting for the acquisition.

Net income for the quarter ended March 31, 2011 was $10.6 million compared to net income of $6.4 million for the quarter ended March 31, 2010. The increase in the quarter reflects the net effect of the changes previously discussed in this MD&A including the addition of the operations of the Global Companies since February 4, 2011. Basic and diluted net income per share for the quarter ended March 31, 2011 was $0.07 versus $0.04 for the quarter ended March 31, 2010.

Balance Sheet

Total assets at March 31, 2011 of $399.0 million were $56.3 million more than at December 31, 2010. Cash and cash equivalents of $141.0 million were $59.8 million higher than at December 31, 2010 due to cash inflows, including higher Management Fees, the monetization of prior year accrued Performance Fees and the collection of commissions by Global and SPW LP that more than offset the cash out flow from the operating expenses, payment of bonuses and dividends.

Proprietary investments are discussed in more detail in the Revenue section of this MD&A.

Fees receivable at March 31, 2011 were $16.4 million, which is $192.7 million lower than at December 31, 2010 as approximately $197 million of year end Performance Fees that were outstanding at the end of 2010, were received in early 2011. Other assets increased by $3.6 million to $5.6 million from $2.0 million mainly due to broker warrants that are payable to employees of Global. There is an equal an offsetting amount relating to these broker warrants included in compensation and employee bonuses payable of the Company.

Intangible assets as at March 31, 2011 of $49.9 million consist of finite and indefinite intangible assets. Intangible assets with indefinite useful lives relate to costs incurred to create fund management contracts between SAM LP and certain Funds managed by SAM LP. Intangible assets with finite lives relate to (i) the costs assigned to management contracts and carried interests as a result of the acquisition of the Global Companies and, (ii) deferred sales commissions the Company pays to brokers and dealers on the sale of mutual Fund securities. Deferred sales commissions are recorded at cost and amortized on a straight line basis over a maximum of three years. Deferred sales commissions at March 31, 2011 of $1.5 million were $0.6 million more than at December 31, 2010. During the first quarter of 2011, $0.7 million in commissions were paid for low load funds partially offset by amortization of $0.1 million.

The acquisition of the Global Companies resulted in goodwill of $121.6 million in the first quarter of 2011. The Company had not recorded any goodwill prior to the acquisition of the Global Companies. Goodwill is not amortized, but is subject to impairment tests on at least an annual basis.

Net tangible assets acquired as a result of the Global Companies acquisition amounted to approximately $12.3 million which included cash of approximately $6.4 million. There were no fair value adjustments made to the net tangible assets acquired.

Accounts payable and accrued liabilities were $11.2 million at March 31, 2011, which is $5.8 million lower than at December 31, 2010. This decrease is primarily due to the remittance of the Harmonized Sales Tax to the Government of Canada that was due as a result of Performance Fees charged to certain Funds and Managed Accounts as of December 31, 2010.

Compensation and employee bonuses payable were $15.1 million at March 31, 2011 compared to $61.6 million at December 31, 2010. The decrease from December 31, 2011 primarily reflects the payment of a large portion of the fiscal 2010 year end bonus during the first quarter of 2011. In addition, as previously noted in the "Fees Receivable" explanation above, compensation and employees bonus payable also include broker warrants payable to employees of Global. There is an equal an offsetting amount relating to these broker warrants included in other assets of the Company.

DIVIDENDS

On January 10, 2011, a special dividend in the amount of $0.60 per common share was declared. The special dividend related to Performance Fees received for 2010 and was paid on February 3, 2011 to shareholders of record at the close of business on January 19, 2011.

On March 22, 2011, the Company declared a second special dividend of $0.12 per common share related to Performance Fees received for 2010. This second special dividend was paid April 15, 2011 to shareholders of record at the close of business on March 31, 2011.

On March 22, 2011, the Company declared a regular dividend of $0.03 per common share for the quarter ended December 31, 2010. This dividend was paid on April 15, 2011 to shareholders of record at the close of business on March 31, 2011.

The shares issued from treasury on February 4, 2011 as a result of the acquisition of the Global Companies were not eligible to receive any of the aforementioned dividends.

In June 2011, a dividend of $0.03 per common share was declared for the quarter ended March 31, 2011.

CAPITAL STOCK

The capital stock at the end of 2010 was $40.1 million with 150,000,000 common shares issued and outstanding. As at March 31 2011, capital stock had increased by $168.8 million to $208.9 million as a result of the issuance of 19,467,500 common shares in connection with the acquisition of the Global Companies on February 4, 2011. As at March 31, 2011, the Company had 169,467,500 common shares issued and outstanding.

An additional 532,500 common shares of the Company will be provided to employees of the Global Companies during 2011. In addition, the seller and certain current and future employees will be eligible to earn up to an additional 8 million common shares of the Company with the achievement of certain earnings targets by the Global Companies over a period not exceeding five years from the date of the acquisition of the Global Companies.

Earnings per share as at March 31, 2011 and March 31, 2010 have been calculated using the weighted average number of shares outstanding during the respective periods. Basic and diluted earnings per share were $0.07 for the three months ended March 31, 2011 and $0.04 for the three months ended March 31, 2010. For the current year's quarter, diluted earnings per share reflects the dilutive effect of in-the-money stock options and the additional 532,500 common shares to be issued by the Company to certain current and future employees of the Global Companies.

A total of 2,650,000 stock options have been issued pursuant to our incentive stock option plan. In the first quarter of 2010, 100,000 options were cancelled and 50,000 new options were granted. In the fourth quarter of 2010, 150,000 new options were granted, bringing the stock option balance to 2,650,000 options outstanding. As at March 31, 2011, 1,650,000 of those stock options were exercisable.

LIQUIDITY AND CAPITAL RESOURCES

Management Fees can be projected and forecasted with a higher degree of certainty than Performance Fees and Carried Interests, and are therefore used as a base for budgeting and planning in our business. Management Fees are collected monthly or quarterly, which assists our ability to manage cash flow. We believe that Management Fees will continue to be sufficient to satisfy our ongoing operational needs, including expenditure on our corporate infrastructure, business development and information systems. The nature of our operations ensures that the largest outflows, such as trailer fees and monthly compensation, are correlated with cash inflows, in the form of Management Fees. Fixed costs, such as rent, base payroll and general and administrative expenses are managed to comprise a relatively low percentage of monthly Management Fees.

We do not have off-balance sheet contractual arrangements and no material contractual obligations other than our long-term lease agreement expiring on December 31, 2013. During the quarter ended March 31, 2011 we established a revolving term credit facility with a Canadian chartered bank in the amount of $50 million. As at March 31, 2011, the Company had not drawn down any part of this credit facility.

SPW LP is a member of IIROC and a registered investment dealer and SAM LP is an OSC registrant in the category of PM and EMD, and as such each of SPW LP and SAM LP is required to maintain a minimum amount of regulatory capital calculated in accordance with the rules of IIROC and of the OSC, respectively. In addition, Global is registered with FINRA in the United States and is required to maintain a minimum amount of regulatory capital calculated in accordance with the rules of FINRA. During the quarter ended March 31, 2011, SAM LP, SPW LP and Global were in compliance with the specified capital requirements.

CRITICAL ACCOUNTING ESTIMATES

These interim consolidated financial statements were prepared in accordance with IAS 34, using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the year ending December 31, 2011. In preparing the Company's first annual financial statements under IFRS, the Company is required to use the standards in effect as at December 31, 2011, which may differ from the policies the Company currently expects to adopt and used in the current interim financial statements. Differences may arise as a result of new standards being issued, with an effective date of December 31, 2011 or prior, before the preparation of the Company's 2011 annual financial statements. Accordingly, to the extent that new standards are issued with an effective date of December 31, 2011 or prior, the accounting policies used in these interim consolidated financial statements may differ from those used in the Company's 2011 annual financial statements.

Please see note 2 to the interim consolidated financial statements for the Company's significant accounting policies. Accounting policies that require management's judgment and estimates are described in note 2 to the interim consolidated financial Statements.

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company adopted IFRS effective January 1, 2011 with a transition date of January 1, 2010. The adoption of IFRS has not had a material impact on the Company's operations, strategic decisions and cash flow. The Company's IFRS accounting policies are provided in note 2 to the Interim Consolidated Financial Statements. In addition, note 3 to the Interim Consolidated Financial Statements presents reconciliations between the Company's 2010 GAAP results and the 2010 IFRS results and explanation of the adjustments to transition to IFRS.

HIGHLIGHTS OF THE IMPACT OF IFRS

The following adjustments were made to the financial statements as a result of transition to IFRS:

- The value of proprietary investments have increased by $254 thousand as at January 1, 2010 and by $730 thousand as at December 31, 2010, as a result of re-designating financial assets classified as available-for-sale under Canadian GAAP to fair value through profit or loss under IAS 39. The impact of this adjustment was not material to the opening balance sheet but has increased the net income for the year ended December 31, 2010 by $165 thousand and increased the net income for the three months ended March 31, 2010 by $411 thousand.
- For equity instruments, such as stock options, the timing of expense recognition differs between Canadian GAAP and IFRS. While the total stock option expense calculation is similar under the two sets of standards, under IFRS, the expense is recognized on a graded vesting schedule as compared with straight line vesting under Canadian GAAP. This results in a larger portion of the expense being recognized earlier in the vesting period. An adjustment of $1.6 million was recorded as at January 1, 2010 to account for the difference which had no impact to the Company. This adjustment was a reclassification between contributed surplus and opening retained earnings on January 1, 2010. For the three months ended March 31, 2010, the transition to IFRS resulted in an increase of $0.1 million to net income. For the year ended December 31, 2010, the transition to IFRS resulted in an increase of $1.1 million to net income.

As a result of the above mentioned adjustments, net income for the quarter ended March 31, 2010 increased by $0.5 million to $6.4 million under IFRS from $5.9 under Canadian GAAP. The change in net income had no impact on earnings per share.

EBITDA for the quarter ended March 31, 2010 increased by $0.5 million from $9.4 million under Canadian GAAP to $9.9 million under IFRS. Base EBITDA remained consistent at $10.3 million under Canadian GAAP and IFRS. EBITDA per share increased to $0.07 from $0.06 for the quarter ended March 31, 2010. Base EBITDA per share remained consistent at $0.07 under Canadian GAAP and IFRS.

IMPACT OF IFRS ON EARNINGS VOLATILITY

In the periods where the company will issue stock-based compensation to its employees and directors, the Company's earnings will fluctuate as the timing of the expense recognition differs between Canadian GAAP and IFRS. While the total stock option expense calculation is similar under the two sets of standards, under IFRS, the expense is recognized on a graded vesting schedule as compared with straight line vesting under Canadian GAAP.

In the periods where the Company faces an increase in legal claims or litigation, the Company's earnings will become more volatile. This is primarily as a result of recording changes to contingent liabilities each quarter, where IFRS has a lower probability threshold for recording a provision than under Canadian GAAP.

ALTERNATIVE AND POLICY CHOICES UNDER IFRS

A summary of the Company's significant accounting policies under IFRS are provided in note 2 to the interim consolidated financial statements. These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1 as disclosed in note 3 to the interim consolidated financial statements.

Exemptions applied

IFRS 1 *First-Time Adoption of International Financial Reporting Standards* allows first-time adopters certain exemptions from the general requirement to apply IFRS as effective for December 31, 2011 year ends retrospectively.

The Company has applied the following exemptions:

- IFRS 3 *Business Combinations* has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before January 1, 2010.
- IFRS 2 *Share-based Payment* has not been applied to equity instruments that were granted on or before November 7, 2002, nor has it been applied to equity instruments granted after November 7, 2002 that vested before January 1, 2010.
- IAS 39 *Financial Instruments: Recognition and Measurement* – The Company has re-designated financial assets classified as available-for-sale under Canadian GAAP as fair value through profit or loss under IAS 39. These financial assets are managed and their performance is evaluated on a fair value basis, in accordance with a documented investment strategy.

RELATED PARTY TRANSACTIONS

In September 2010, Mr. Sprott, Chairman of the Company, personally funded a share incentive program through his personal holding company. The program provided Mr. Grosskopf and Mr. Bambrough with a total of 8 million common shares of the Company. This arrangement did not result in the issuance of common shares from the treasury of the Company. See note 7(a) of the Company's interim consolidated financial statements for additional information.

At March 31, 2011, the Company owed approximately $4.2 million to the previous owner of the Global Companies who is now a senior employee of the Company. The amount relates to certain revenues earned by the Global Companies prior to the acquisition date and compensation payable as at the date of the acquisition.

MANAGING RISK

There are certain risks inherent in the activities of the Company, including risks related to general market conditions; changes in the financial markets; failure to retain and attract qualified staff; poor investment performance; changes in the investment management industry; competitive pressures; failure to manage risks; rapid growth; regulatory compliance; public company reporting and other regulatory obligations; historical financial information not necessarily indicative of future performance; failure to execute our succession plan; conflicts of interest; litigation risk; employee errors or misconduct; effectiveness of information security policies, procedures and capabilities; failure to develop effective business continuity plans; entering new lines of business; fluctuations in Performance Fees and Carried Interests; rapid growth or decline in our AUM; insufficient insurance coverage; possible volatility of the share price; and control by a principal shareholder.

We have processes and procedures in place to monitor and mitigate these risks to the extent reasonable and practicable within the framework of our overall strategic objectives of delivering excellence in investment performance.

Certain key risks are managed as described below:

Market Risk

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

Internal Controls and Procedures

SAM LP, SPW LP, Global and Terra operate in regulated environments and are subject to business conduct rules and other rules and regulations. We have internal control policies related to our business conduct. They include controls required to ensure compliance with the rules and regulations of relevant regulatory bodies including the OSC, IIROC, FINRA and the SEC.

Disclosure Controls and Procedures ("DC&P") and Internal Control over Financial Reporting ("ICFR")

Management is responsible for the design and operational effectiveness of DC&P and ICFR in order to provide reasonable assurance regarding the disclosure of material information relating to the Company and information required to be disclosed in our annual filings, interim filings and other reports filed under securities legislation, as well as the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Consistent with *National Instrument 52-109*, the Company's CEO and CFO have evaluated the DC&P and ICFR as of March 31, 2011 and concluded that the controls have been properly designed and are operating effectively.

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Conflicts of Interest

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 before they are permitted to buy or sell securities. Speculative trading is strongly discouraged. While employees are permitted to have investments managed by third parties on a discretionary basis, they generally choose to invest in the Funds. All of our employees must comply with our Code of Ethics. This Code establishes strict rules for professional conduct and management of conflicts of interest.

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. 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 in respect of its functions.

Confidentiality of Information

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.

Insurance

We maintain appropriate insurance coverage for general business and liability risks as well insurance coverage required by regulation. We review our insurance coverage periodically to ensure continued adequacy.

Additional information relating to the Company is available on SEDAR at www.sedar.com.

Sprott Inc.

Unaudited Interim Consolidated Financial Statements

March 31, 2011 and 2010

Interim Consolidated Balance Sheets (Unaudited)

($ in thousands of Canadian dollars)	As at March 31 2011	As at December 31 2010	As at January 1 2010
	$	$	$
Assets			
Current			
Cash and cash equivalents	**141,043**	81,209	49,010
Fees receivable	**16,409**	209,078	12,751
Other assets	**5,642**	2,025	2,248
Total current assets	**163,094**	292,312	64,009
Proprietary investments *(Note 5)*	**48,177**	42,614	28,258
Property and equipment, net	**5,264**	3,705	4,298
Goodwill and intangibles *(Note 6)*	**171,474**	2,201	94
Deferred income taxes *(Note 8)*	**11,025**	1,935	1,289
	235,940	50,455	33,939
Total assets	**399,034**	342,767	97,948
Liabilities and Shareholders' Equity			
Current			
Accounts payable and accrued liabilities	**11,235**	17,010	4,546
Compensation and employee bonuses payable	**15,061**	61,644	9,192
Dividends payable *(Note 11)*	**22,500**	–	–
Income taxes payable	**45,729**	47,991	7,323
Total current liabilities	**94,525**	126,645	21,061
Deferred income taxes *(Note 8)*	**21,324**	1,860	524
Total liabilities	**115,849**	128,505	21,585
Shareholders' equity			
Capital stock *(Note 7)*	**208,888**	40,105	40,105
Contributed surplus *(Note 7)*	**37,827**	32,406	5,457
Retained earnings	**39,817**	141,751	30,801
Accumulated other comprehensive loss	**(3,347)**	–	–
Total shareholders' equity	**283,185**	214,262	76,363
Total liabilities and shareholders' equity	**399,034**	342,767	97,948

See accompanying notes

Sprott Inc.

Interim Consolidated Statements of Income (Unaudited)

($ in thousands of Canadian dollars, except for per share amounts)	For the three months ended March 31 2011	For the three months ended March 31 2010
	$	$
Revenue		
Management fees	35,547	23,248
Crystallized performance fees	170	–
Commissions	3,027	2,577
Unrealized and realized gains on proprietary investments	362	(427)
Other income	409	334
Total revenue	39,515	25,732
Expenses		
Compensation and benefits	10,669	7,700
Stock-based compensation	896	476
Trailer fees	6,679	5,070
General and administrative	4,478	2,591
Donations	289	458
Amortization of intangibles	1,278	20
Amortization of property and equipment	269	172
Total expenses	24,558	16,487
Income before income taxes for the period	14,957	9,245
Provision for income taxes *(Note 8)*	4,391	2,818
Net income for the period	10,566	6,427
Basic earnings per share	$0.07	$0.04
Diluted earnings per share	$0.07	$0.04

See accompanying notes

Sprott Inc.

Interim Consolidated Statements of Comprehensive Income (Unaudited)

($ in thousands of Canadian dollars)	For the three months ended March 31 2011	For the three months ended March 31 2010
	$	$
Net income	10,566	6,427
Other comprehensive loss		
Foreign currency translation loss on foreign operations	(3,347)	–
Total other comprehensive loss	(3,347)	–
Comprehensive income	7,219	6,427

See accompanying notes

Interim Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

($ in thousands of Canadian dollars, other than number of shares)	Number of Shares Outstanding	Capital Stock	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Equity
		$	$	$	$	$
At January 1, 2011	150,000,000	40,105	32,406	141,751	–	214,262
Business acquisition *(Note 4)*	19,467,500	168,783	–	–	–	168,783
Foreign currency translation loss on foreign operations	–	–	–	–	(3,347)	(3,347)
Additional purchase consideration *(Note 4)*	–	–	4,525	–	–	4,525
Stock-based compensation	–	–	896	–	–	896
Special dividend paid	–	–	–	(90,000)	–	(90,000)
Special dividend declared	–	–	–	(18,000)	–	(18,000)
Common dividend declared	–	–	–	(4,500)	–	(4,500)
Net income	–	–	–	10,566	–	10,566
Balance, March 31, 2011	169,467,500	208,888	37,827	39,817	(3,347)	283,185
At January 1, 2010	150,000,000	40,105	5,457	30,801	–	76,363
Stock-based compensation	–	–	476	–	–	476
Common dividend paid	–	–	–	(3,750)	–	(3,750)
Special dividend declared	–	–	–	(6,000)	–	(6,000)
Net income	–	–	–	6,427	–	6,427
Balance, March 31, 2010	150,000,000	40,105	5,933	27,478	–	73,516

See accompanying notes

Interim Consolidated Statements of Cash Flows (Unaudited)

($ in thousands of Canadian dollars)	*For the three months ended* March 31 2011	*For the three months ended* March 31 2010
	$	$
OPERATING ACTIVITIES		
Net income for the period	10,566	6,427
Add (deduct) non-cash items:		
Unrealized and realized gains on proprietary investments	(362)	427
Stock-based compensation	896	476
Amortization of property and equipment	269	172
Amortization of intangible assets	1,278	20
Deferred income taxes	(1,258)	534
Other items	(73)	(61)
Fees receivable	195,420	10,212
Other assets	(3,177)	(261)
Accounts payable and accrued liabilities	(8,213)	124
Compensation and employee bonuses payable	(47,049)	(3,479)
Income taxes payable	(2,339)	2,287
Effect of foreign exchange on cash balances	(133)	–
Cash provided by operating activities	145,825	16,878
INVESTING ACTIVITIES		
Purchase of proprietary investments	(56)	–
Sale of proprietary investments	157	731
Purchase of property and equipment	(1,766)	(28)
Deferred sales commissions paid	(743)	(220)
Indefinite life fund management contracts	–	(1,087)
Cash acquired on acquisition	6,417	
Cash provided by (used in) investing activities	4,009	(604)
FINANCING ACTIVITIES		
Dividends paid	(90,000)	(9,750)
Cash used in financing activities	(90,000)	(9,750)
Net increase in cash and cash equivalents during the period	59,834	6,524
Cash and cash equivalents, beginning of the period	81,209	49,010
Cash and cash equivalents, end of the period	141,043	55,534
Cash and cash equivalents:		
Cash	141,043	11,148
Short-term deposits	–	44,386
	141,043	55,534
SUPPLEMENTAL CASH FLOW INFORMATION		
Income taxes paid	8,008	–
Interest paid	–	–

See accompanying notes

Sprott Inc.
Notes to the Unaudited Interim Consolidated Financial Statements *For the three months ended March 31, 2011 and 2010*

1. Corporate Information

Sprott Inc. (the "Company") was incorporated under the Business Corporations Act (Ontario) on February 13, 2008. The Company was incorporated to acquire, through an exchange of shares, all of the shares of Sprott Asset Management Inc. ("SAMI"). Its registered office is at Royal Bank Plaza, South Tower, 200 Bay Street, Suite 2700, Toronto, Ontario, M5J 2J2.

On May 8, 2008, the Company filed a prospectus in each of the provinces and territories of Canada in respect of the initial public offering of 20 million common shares to be effected via a secondary offering by certain shareholders of the Company. Common shares of the Company are traded on the Toronto Stock Exchange ("TSX") under the symbol SII.

On June 1, 2009, SAMI completed a corporate reorganization and transferred its discretionary portfolio management business to Sprott Asset Management LP ("SAM LP") and its broker dealer services to Sprott Private Wealth LP ("SPW LP"). After the reorganization, SAMI was wound up into the Company. As a result of the reorganization, the Company is now the sole limited partner of SAM LP, SPW LP and Sprott Consulting LP ("SCLP"). The reorganization had no impact on the consolidated financial statements. SCLP provides management and administrative services to other companies.

On February 4, 2011, the Company completed an acquisition, through its wholly-owned subsidiary Sprott U.S. Holdings Inc., of all of the outstanding stock of Rule Investments, Inc. (the owner of Global Resource Investments, Ltd. ("Global"), Terra Resource Investment Management, Inc. ("Terra") and Resource Capital Investment Corporation ("RCIC") (collectively, the "Global Companies")). Global is a California limited partnership that operates as a securities broker-dealer and Terra provides discretionary investment management services. RCIC is the general partner and discretionary asset manager to the Exploration Capital Partners family of limited partnerships.

2. Summary of Significant Accounting Policies

Statement of compliance

These unaudited interim consolidated financial statements have been prepared by management to comply with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the year ending December 31, 2011.

As these unaudited interim consolidated financial statements are the Company's first financial statements prepared using International Financial Reporting Standards ("IFRS"), certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS have been included in these financial statements for the comparative annual period. Previously, the Company prepared interim and annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP").

These unaudited interim consolidated financial statements should be read in conjunction with the Company's audited annual financial statements as at and for the year ended December 31, 2010 ("2010 Annual Financial Statements") and in consideration of the IFRS transition disclosures included in note 3 to these unaudited interim consolidated financial statements and the additional annual disclosures included herein. All defined terms used herein are consistent with those terms as defined in the 2010 Annual Financial Statements.

The consolidated financial statements of the Company for the three months ended March 31, 2011 were authorized for issue by a resolution of the Board of Directors on June 1, 2011.

Basis of presentation

The unaudited interim consolidated financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities held at fair value through profit or loss and available-for-sale investments both of which have been measured at fair value.

Sprott Inc.
Notes to the Unaudited Interim Consolidated Financial Statements *For the three months ended March 31, 2011 and 2010*

Principles of consolidation

The unaudited interim consolidated balance sheet comprises the balance sheet of the Company and its subsidiaries as well as three limited partnerships in which the Company is the sole limited partner as at January 1, 2010.

The three material limited partnerships are SAM LP, SPW LP and SCLP and the materially wholly-owned subsidiaries are Sprott U.S. Holdings Inc., Sprott Genpar Ltd. and SAMGENPAR Ltd. These are entities over which the Company has control, where control is defined as the power to govern the financial and operating policies of an entity so as to obtain significant benefits from its activities. Generally, control is presumed to exist when the Company owns more than one half of the voting rights of an entity. The Company does not control any entities for which it owns less than one half of the voting rights of an entity.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany balances, income and expenses and unrealized gains and losses resulting from intercompany transactions are eliminated in full.

Recognition of income

The Company earns management fees from the funds, managed accounts and companies that it manages at annual rates ranging from 0.35% to 2.50% per annum of the respective net assets. The management fees are recognized on an accrual basis over the period during which the related services are rendered and are collected monthly, quarterly or annually.

The Company also earns performance fees, calculated for each relevant fund, managed account and/or managed company as a percentage of: (i) the fund's/managed account'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. Performance fee revenue is recognized when earned, according to agreements in the underlying funds, managed accounts and managed companies.

Fees arising from carried interest entitlements are recorded on an accrual basis following disposition of underlying portfolio investments.

The Company, through SPW LP and Global, primarily earns trailer fee income, fees and commissions from the sale of new and follow-on offerings of products managed by the Company, through advisory services, through private placements to clients of SPW LP and Global and, particularly with respect to Global, from trading in stocks by clients of Global. Trailer fee income and commission income are recognized on an accrual basis over the period during which the related service is rendered.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit with banks and with carrying brokers, which are not subject to restrictions, and short-term interest bearing notes and treasury bills with a term to maturity of less than three months from the date of purchase.

Proprietary investments

Securities transactions and related revenue and expenses are accounted for on a trade-date basis.

Precious metal bullion

Precious metal bullion includes investments in gold and silver bullion. Investments in gold and silver bullion are measured at fair value determined by reference to published price quotations, with unrealized and realized gains and losses recorded in income based on the IAS 40 *Investment Property* fair value model as IAS 40 is the most relevant standard to apply. Investment transactions in physical gold and silver bullion are accounted for on the business day following the date the order to buy or sell is executed.

Financial instruments

Financial assets may be classified as held-for-trading **["HFT"]**, designated at fair value through income or loss, available-for-sale **["AFS"]**, held-to-maturity **["HTM"]** or loans and receivables. Financial liabilities may be classified as either HFT or other. All financial instruments are initially measured at fair value. After initial recognition, financial instruments classified as HFT or AFS are measured at fair value using quoted market prices in an active market. For AFS investments where there is no active market, the fair value is determined using valuation techniques. Changes in fair value of financial assets classified as AFS are reflected in other comprehensive income until the financial asset is disposed of or becomes impaired. Changes in fair value of financial instruments, other than those classified as AFS, are reflected in net income. All other financial instruments, which include those classified as HTM investments, loans and receivables and other financial liabilities, are measured at amortized cost using the effective interest rate method. Transaction costs related to financial assets at fair value through profit or loss are expensed as incurred.

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets classified as AFS or HTM is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets and it can be reliably estimated.

Financial instruments included in the Company's accounts have the following classifications:

- Cash and cash equivalents and all proprietary investments (excluding gold and silver bullion) are designated as HFT or fair value through income or loss.
- Fees receivable are classified as loans and receivables.
- Accounts payable and accrued liabilities, provisions and compensation and employee bonuses payable are classified as other financial liabilities.

Fair value hierarchy

All financial instruments recognized at fair value in the unaudited interim consolidated balance sheet are classified into three fair value hierarchy levels as follows:

Level 1: valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;

Level 2: valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived from or corroborated by observable market data by correlation or other means;

Level 3: valuation techniques with significant unobservable market inputs.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the unaudited interim consolidated balance sheets if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Property and equipment

Property and equipment are recorded at cost and are amortized on a declining balance basis at rates ranging from 0% to 100% per annum. Leasehold improvements are amortized on a straight-line basis over the term of the respective lease. The artwork is not amortized since it does not have a determinable useful life.

Assets residual values, useful lives and methods of amortization are reviewed at each reporting date, and adjusted prospectively if appropriate.

Deferred sales commissions

Sales commissions paid on the sale of mutual fund securities are recorded at cost and amortized on a straight-line basis over a maximum of three years. Unamortized deferred sales commissions are written down to the extent that the carrying value exceeds the expected future revenue on an undiscounted basis.

Intangible assets

The useful life of intangible assets is assessed as either finite or indefinite. Following the initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the unaudited interim consolidated statements of income in the expense category consistent with the function of the intangible asset.

The costs incurred to create fund management contracts between SAM LP and certain of the funds managed by SAM LP are recognized as intangible assets with an indefinite life. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

At each balance sheet date, definite life intangible assets are assessed for indicators of impairment. If indicators are present, these assets are subject to an impairment review. Any loss resulting from impairment of intangible assets is expensed in the period the impairment is identified.

Business combinations and goodwill

The purchase price of an acquisition accounted for under the acquisition method is allocated based on the fair values of the net identifiable assets acquired. The excess of the purchase price over the values of such assets, including identifiable intangible assets, is recorded as goodwill.

Goodwill, which is measured at cost, is not amortized, but is subject to impairment tests on at least an annual basis. For the purpose of impairment testing, goodwill acquired in a business acquisition is allocated to each of the Company's cash generating units that are expected to benefit from the acquisition. Goodwill is assessed for impairment annually or more frequently if events or circumstances suggest that there may be impairment. If any impairment is indicated, then it is quantified by comparing the carrying value of goodwill to its fair value, based on the fair value of the related assets and liabilities and cannot be subsequently reversed. Goodwill is allocated to the appropriate cash-generating unit for the purpose of impairment testing. Acquisition costs incurred are expensed and included in general and administrative expenses.

Income taxes

The Company records current tax assets and liabilities for the current and prior year by measuring the amounts expected to be recovered from, or paid to, the taxation authorities. The current tax payable is based on taxable income for the year. This may differ from income reported on the Company's unaudited interim consolidated statements of income since taxable income excludes certain items that are taxable or deducible in other years and also excludes items that are never taxable or deductible for tax purposes. Enacted or substantively enacted tax rates and laws are used to compute both current and deferred tax assets and liabilities. Changes in taxes arising from a change in tax rates and laws will be recognized in the period when the tax rate or law is substantively enacted. Deferred tax assets and liabilities reflect temporary differences between the accounting and tax basis of an asset and/or liability. Current and deferred tax assets and liabilities relating to items recognized in shareholders' equity are also recorded in shareholders' equity and not in the unaudited interim consolidated statements of income. Deferred tax assets and liabilities are only offset if a legally enforceable right exists to offset the related current tax asset and liability and the deferred tax relates to the same taxable entity and taxation authority.

Share-based payments

The Company uses the fair value method to account for equity settled share-based payments with employees and directors. Compensation expense is determined using the Black-Scholes option valuation model for incentive stock options. Compensation expense for the share incentive program is determined based on the fair value of the benefit conferred on the employee (see note 7). Compensation expense for the earn-out shares is determined using an appropriate valuation model (see note 7). The amount of compensation expense is recognized over the vesting period with a corresponding increase to contributed surplus. Incentive stock options vest in installments which require a graded vesting methodology to account for these share-based awards. On the exercise of stock options for shares, the contributed surplus previously recorded with respect to the exercised options and the consideration paid is credited to capital stock. On the issuance of the earn-out shares, the contributed surplus previously recorded with respect to the issued earn-out shares is credited to capital stock.

Earnings per share

Basic and diluted earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during the year.

The Company applies the treasury stock method to determine the dilutive impact, if any, of stock options, assuming they were exercised in a reporting period. The treasury stock method assumes that all proceeds received by the Company when in-the-money options are exercised will be used to purchase Company shares at the average market price during the year.

Foreign currency translation

Items in the financial statements of the Company's subsidiaries are measured using their functional currency, being the currency of the primary economic environment in which the entity operates. The Company's performance is evaluated and its liquidity is managed in Canadian dollars. Therefore, the Canadian dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The functional currency of the Company and all its subsidiaries, with the exception of Sprott U.S. Holdings Inc. and the Global Companies, is the Canadian dollar. The functional currency of Sprott U.S. Holdings Inc. and the Global Companies is the US dollar, and accordingly, monetary assets and liabilities of Sprott U.S. Holdings Inc. and the Global Companies are translated into Canadian dollars using the rate in effect on the date of the consolidated balance sheet. Revenue and expenses are translated at the average rate over the reporting period. Non-monetary items are translated at exchange rates prevailing at the transaction dates. Foreign currency translation gains and losses arising from the Company's translation of its net investment in Sprott U.S. Holdings Inc., including goodwill and the identified intangible assets, are included in accumulated other comprehensive income or loss as a separate component within shareholders' equity until there has been a realized reduction in the value of the underlying investment.

Non-monetary assets and liabilities are measured at historical cost using the historical exchange rates in place at the time of the initial transaction. Monetary assets and liabilities are measured at the rate in effect on the date of the unaudited interim consolidated balance sheets. All other foreign currency denominated amounts are translated into Canadian dollars using average rates over the reporting period with translation gains and losses included in the unaudited interim consolidated statements of income.

Segment reporting

Management has determined that the Company's dominant industry segment is investment management services. Following the integration of the Global Companies and as the Company continues to evolve, other segments may be indentified and reported in future periods.

Significant accounting judgements and estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the unaudited interim consolidated financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

i. Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the unaudited interim consolidated balance sheets cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The valuation of financial instruments is described in more detail in note 9.

ii. Share-based payments

The Company measures the cost of share-based payments to employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, probability of a subsidiary attaining certain earnings targets, the future stock price of the Company and the future employment of a senior employee and making assumptions about them.

iii. Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. In addition, taxable income is subject to estimation as a portion of performance fee revenue is an allocation of partnership income. This allocation consists of capital gains and/or losses, interest income, dividend income, carrying charges and other types of income and expenses. Such allocations involve a certain degree of estimation and income tax estimates could change as a result of changes in taxation laws and regulations, both domestic and foreign, an amendment to the calculation of allocation of partnership income and/or a change in foreign affiliate rules. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

iv. Provisions

Due to the nature of provisions, a considerable part of their determination is based on estimates and judgments, including assumptions concerning the future. The actual outcome of these uncertain factors may be materially different from the estimates, causing differences with the estimated provisions.

Future changes in accounting policies

Financial Instruments

In November 2009, the IASB issued IFRS 9 *Financial Instruments* ("IFRS 9") which will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39").

In October 2010, the IASB issued a revised version of IFRS 9. The revised standard adds guidance on the classification and measurement of financial liabilities and supersedes IFRS 9.

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 *Separate Financial Statements*, IFRS 13 *Fair Value Measurement* and amended IAS 28, *Investments in Associates and Joint Ventures*.

Each of the aforementioned new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

3. Transition to IFRS

The Company has adopted IFRS effective January 1, 2011. Prior to the adoption of IFRS the Company prepared its consolidated financial statements in accordance with Canadian GAAP. The Company's consolidated financial statements for the year ending December 31, 2011 will be the first annual consolidated financial statements that comply with IFRS. Accordingly, the Company will make an unreserved statement of compliance with IFRS beginning with its 2011 annual consolidated financial statements. The Company's transition date is January 1, 2010 ("Transition Date") and the Company has prepared its IFRS opening consolidated balance sheet at that date. These unaudited interim consolidated financial statements have been prepared in accordance with the accounting policies described in note 2. In preparing the Company's first annual consolidated financial statements under IFRS, the Company is required to use the standards in effect as at December 31, 2011, which may differ from the policies the Company currently expects to adopt and used in these unaudited interim consolidated financial statements. Differences may arise as a result of new standards being issued, with an effective date of December 31, 2011 or prior, before the preparation of the Company's 2011 annual consolidated financial statements. Accordingly, the 2011 annual consolidated financial statements may differ from these unaudited interim consolidated financial statements.

In preparing these unaudited interim consolidated financial statements, the Company has adjusted certain previously reported amounts prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has impacted the Company's consolidated financial statements is set out in the following notes.

Initial elections on first-time adoption of IFRS

As a general rule, IFRS requires full retrospective application of applicable accounting standards. IFRS 1 *First-Time Adoption of International Financial Reporting Standards* ("IFRS 1") does, however, provide entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions to this general requirement.

Elected exemptions from full retrospective application

- IFRS 1 provides the option to apply IFRS 3 *Business Combinations*, retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its Transition Date.
- IFRS 2 *Share-based Payments*, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company did not apply IFRS 2 *Share-based Payments* to equity instruments that were granted on or before November 7, 2002, nor has it been applied to equity instruments granted after November 7, 2002 that vested before January 1, 2010.
- The Company has re-designated financial assets designated as available-for-sale under Canadian GAAP as fair value through profit or loss under IAS 39 *Financial Instruments: Recognition and Measurement* at the Transition Date. These financial assets are managed and their performance is evaluated on a fair value basis, in accordance with a documented investment strategy.

Mandatory exceptions to full retrospective application

In accordance with the mandatory exceptions to retrospective restatement under IFRS 1, hindsight was not used to create or revise estimates at the Transition Date and, accordingly, the estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRS, except where necessary to reflect any difference in accounting policies.

First IFRS financial statements

The first date at which IFRS was applied was January 1, 2010. In accordance with IFRS, the Company has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented;
- retrospectively applied all effective IFRS standards as of January 1, 2011, as required; and
- applied certain optional exemptions and certain mandatory exceptions as applicable for first time IFRS adopters.

Reconciliations of Canadian GAAP to IFRS

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. These reconciliations along with the explanation of the differences are presented as follows:

Reconciliation of equity as reported under Canadian GAAP to IFRS ($ in thousands):

	As at December 31, 2010	*As at March 31,* 2010	*As at January 1,* 2010
Shareholders' equity under Canadian GAAP	213,623	72,882	76,140
Differences increasing reported shareholders' equity:			
(i) Proprietary investments re-designation, net of income taxes	639	634	223
(ii) Share-based payments	–	–	–
Shareholders' equity under IFRS	214,262	73,516	76,363

Reconciliation of net income and comprehensive income as reported under Canadian GAAP to IFRS ($ in thousands):

	For the Year ended December 31, 2010	*For the Three months ended* March 31, 2010
Net income and comprehensive income under Canadian GAAP	131,232	5,925
Differences increasing reported net income and comprehensive income		
(i) Proprietary investments re-designation, net of income taxes	165	411
(ii) Share-based payments	1,052	91
Net income and comprehensive income under IFRS	132,449	6,427

Reconciliation of cash flow activities as reported under Canadian GAAP to IFRS:

The transition from Canadian GAAP to IFRS has not had a significant impact on the presentation of the Company's consolidated statement of cash flows for the three months ended March 31, 2010 and the year ended December 31, 2010. Adjustments include changes in share-based payments and unrealized and realized gains on proprietary investments balances in non-cash operating items as a result of the transition adjustments described in note 3.

Notes to the reconciliations

i. The Company has elected to re-designate certain financial assets that were classified as available-for-sale securities under Canadian GAAP to fair value through income or loss under IFRS. The re-designated financial assets had been carried at cost less impairment under Canadian GAAP. Changes in fair value subsequent to the Transition Date are reflected in the unaudited interim consolidated statements of income.

ii. IFRS requires the use of a graded vesting method to account for share-based awards that vest in installments over the vesting period as opposed to straight-line recognition applied under Canadian GAAP, resulting in accelerated compensation expense. An estimate of the number of awards expected to be vested at each balance sheet date is also required under IFRS instead of recognizing any forfeitures as they occur as required under Canadian GAAP. This difference in measurement resulted in a net reclassification between contributed surplus and retained earnings and an increase to net income resulting from the transition to accelerated share-based payments expense recognition.

4. Business Acquisition

On February 4, 2011, the Company acquired all of the outstanding stock of Rule Investments, Inc. (the owner of Global), Terra and RCIC. The purchase price was satisfied by the issue of 19,467,500 common shares of the Company with a value of $8.67 per share, being the closing price of the Company's shares on the TSX on February 4, 2011 and in fiscal 2011 an additional 532,500 common shares of the Company which will be provided to employees of the Global Companies. In addition, the seller and certain current and future employees will be eligible to earn up to an additional 8 million common shares of the Company with the achievement of certain earnings targets by the Global Companies.

The Company accounted for the acquisition using the acquisition method and the results of operations have been consolidated from the date of the transaction.

Details of the net assets acquired, at fair value, are as follows ($ in thousands):

	February 4, 2011
Cash and cash equivalents	6,417
Fees receivable and other assets	11,470
Proprietary investments	5,337
Deferred tax assets	8,200
Fund management contracts and carried interests	49,220
Accounts payable and accrued liabilities	(449)
Compensation and employee bonuses payable	(981)
Other long-term liabilities	(9,769)
Deferred tax liabilities	(20,055)
Goodwill on acquisition	124,010
Purchase consideration	173,400
Purchase consideration transferred	168,783
Additional purchase consideration *(note 7)*	4,617
Purchase consideration	173,400

The fund management contracts and carried interests acquired are recognized as intangible assets with a finite life. Amortization is computed on a straight-line basis based on the estimated useful lives of these assets, which is 7 years for both fund management contracts and carried interests. The goodwill acquired of $124,010, which is not tax deductible, relates to the expected synergies and/or intangible assets that do not qualify for separate recognition. The acquisition is expected to provide benefits across the organization and throughout the Global Companies through the sharing of intellectual capital, the development of new products and by leveraging the Company's products and brands in the United States and internationally. The additional purchase consideration refers to the additional 532,500 common shares of the Company to be provided to employees of the Global Companies. As part of the acquisition, the Company assumed operating leases for premises totaling $0.5 million expiring in 2012.

Predominantly all transaction costs associated with the acquisition were expensed in the prior year.

The amounts assigned to the assets acquired and liabilities assumed and associated goodwill and intangible assets may be adjusted when the allocation process has been finalized. The allocation of the purchase price is expected to be completed in 2011.

5. Proprietary Investments

Proprietary investments consist of the following ($ in thousands):

	March 31, 2011	*December 31,* 2010
Gold bullion	7,786	7,931
Silver bullion	7,922	6,788
Public equities and share purchase warrants	20,568	21,387
Mutual funds and hedge funds	10,020	4,627
Private equities	1,881	1,881
Total proprietary investments	48,177	42,614

As at March 31, 2011, investments in public equities and share purchase warrants consisted primarily of companies in the resource sector. These investments include $15.4 million in common shares of Sprott Resource Lending Corp. (formerly Quest Capital Corp.), a public company listed on the TSX and NYSE Amex that is managed by a subsidiary of SCLP under a management services agreement.

Investments in mutual funds and hedge funds consisted entirely of investments in mutual funds and hedge funds managed by SAM LP and RCIC.

6. Goodwill and Intangibles

Goodwill and intangibles consist of the following ($ in thousands):

	Goodwill	Fund management contracts – indefinite life	Fund management contracts – finite life	Carried interests	Deferred sales commissions	Total
Cost						
As at January 1, 2010	–	–	–	–	98	98
Additions	–	1,370	–	–	913	2,283
As at December 31, 2010	–	1,370	–	–	1,011	2,381
Business acquisition	124,010	–	20,399	28,821	–	173,230
Additions	–	–	–	–	743	743
Net exchange differences	(2,455)	–	(404)	(570)	–	(3,429)
As at March 31, 2011	**121,555**	**1,370**	**19,995**	**28,251**	**1,754**	**172,925**
Accumulated amortization and impairment losses						
As at January 1, 2010	–	–	–	–	(4)	(4)
Charge for the period	–	–	–	–	(176)	(176)
As at December 31, 2010	–	–	–	–	(180)	(180)
Charge for the period	–	–	(476)	(673)	(122)	(1,271)
As at March 31, 2011	**–**	**–**	**(476)**	**(673)**	**(302)**	**(1,451)**
Net Book Value at:						
January 1, 2010	–	–	–	–	94	94
December 31, 2010	–	1,370	–	–	831	2,201
March 31, 2011	**121,555**	**1,370**	**19,519**	**27,578**	**1,452**	**171,474**

As a result of the acquisition of the Global Companies by the Company on February 4, 2011, intangible assets consisting of fund management contracts with a finite life and carried interests were identified. Amortization is computed on a straight-line basis based on the estimated useful lives of these assets, which is 7 years for both fund management contracts and carried interests. The Company will evaluate goodwill and indefinite life fund management contracts for impairment annually or more often if events or circumstances indicate there may be impairment. These intangible assets would be impaired if the carrying value of a cash-generating unit including the allocated intangible assets exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell or value in use.

For the 2010 intangible asset impairment test, the model used to determine the recoverable amount of the fund management contracts with indefinite lives was calculated by discounting, at 15%, a perpetuity based on the most recent estimated pre-tax cash flows to the Company by certain underlying funds of the Company.

7. Shareholders' Equity

a. Capital stock and contributed surplus

The authorized and issued share capital of the Company consists of an unlimited number of common shares, without par value.

	Number of shares	Stated value ($ in thousands)
Balance, December 31, 2009 and 2010	150,000,000	40,105
Issuance of share capital on business acquisition (note 4)	19,467,500	168,783
Balance, March 31, 2011	**169,467,500**	**208,888**

Contributed surplus consists of the following:

i. stock option expense;

ii. share incentive program expense;

iii. earn-out shares expense; and

iv. additional purchase consideration.

	Stated value ($ in thousands)
Balance, January 1, 2010	5,457
Expensing of fair value of 2,550,000 Sprott Inc. stock options over the vesting period	1,242
Expensing of share incentive program	25,707
Balance, December 31, 2010	32,406
Expensing of fair value of 2,650,000 Sprott Inc. stock options over the vesting period	243
Expensing of fair value of earn-out shares over the vesting period	653
Additional purchase consideration	4,525
Balance, March 31, 2011	**37,827**

Stock option plan and share incentive program

Stock option plan

On April 3, 2008, the Company adopted an option plan (the "Plan") to provide incentives to directors, officers, employees and consultants of the Company and its wholly-owned subsidiaries. The aggregate number of shares issuable upon the exercise of all options granted under the Plan shall not exceed 10% of the issued and outstanding shares of the Company as at the date of grant of each option under the Plan. The options may be granted at a price that is not less than the market price of the Company's common shares at the time of the grant. The options vest annually over a three-year period and may be exercised during a period not to exceed 10 years from the date of grant.

There were no options issued during the three months ended March 31, 2011.

For valuing share option grants, the fair value method of accounting is used. The fair value of option grants is estimated using the Black-Scholes option-pricing model. Compensation expense is recognized over the three-year vesting period, assuming an estimated forfeiture rate, with an offset to contributed surplus. When exercised, amounts originally recorded against contributed surplus as well as any consideration paid by the option holder is credited to capital stock.

A summary of the changes in the Plan is as follows:

	Number of options (in thousands)	Weighted average exercise price ($)
Options outstanding, December 31, 2009	**2,550**	**9.96**
Options exercisable, December 31, 2009	**850**	**9.96**
Options granted	200	6.16
Options cancelled	(100)	9.96
Options outstanding, December 31, 2010	**2,650**	**9.68**
Options exercisable, December 31, 2010	**1,633**	**10.00**
Options outstanding, March 31, 2011	**2,650**	**9.68**
Options exercisable, March 31, 2011	**1,650**	**9.95**

Options outstanding and exercisable as at March 31, 2011 are as follows:

Exercise price ($)	Number of outstanding options (in thousands)	Weighted average remaining contractual life (years)	Number of options exercisable (in thousands)
10.00	2,450	7.1	1,633
4.85	50	8.8	17
6.60	150	9.6	–
4.85 to 10.00	**2,650**	**7.3**	**1,650**

Share incentive program

In September 2010, Eric Sprott, Chairman of the Company, personally funded a share incentive program through his personal holding company ("Holdco"). The program provided the Company's new Chief Executive Officer and the Company's President (together, the "Executives") with a total of 8 million common shares (the "Shares") of the Company. This arrangement did not result in the issuance of shares from the treasury of the Company.

In accordance with IFRS 2 *Share-based Payment*, this transaction was considered share-based payment expense of the Company for the year ended December 31, 2010 and recorded as an offset to contributed surplus to reflect the capital contribution made by Holdco. There was no transition adjustment as a result of adopting IFRS. Total shareholders' equity of the Company was unaffected. The transaction was valued at $25.7 million reflecting the maximum benefit conferred to the Executives as a result of the arrangement and was fully expensed in the year ended December 31, 2010 with a corresponding increase to contributed surplus. The Shares are freely tradable and carry no restrictions.

Earn-out shares

In connection with the acquisition of the Global Companies (see note 4), up to an additional 8 million common shares of the Company may be issued with the achievement of certain earnings targets by the Global Companies. In accordance with IFRS 2 *Share-based Payment*, this potential award carries a service condition without a performance condition of equal term. As a result, the accounting guidance under IFRS 2 requires the Company to estimate the fair value of the potential share-based award on the business acquisition date. The fair value settled upon by the Company of $13.0 million was determined using an acceptable valuation model that utilized several significant assumptions including the probability of continued employment of a senior employee on or after February 4, 2014, the stock price of the Company on February 4, 2016 and the cumulative earnings of the Global Companies for the five year period ending February 4, 2016. The fair value of this share-based award is being charged to the unaudited interim consolidated statements of income equally over the period of the service condition, being 3 years and can only be adjusted upon forfeiture of the share-based award. Forfeiture can only happen if the Company does not employ the senior employee on February 4, 2014.

Additional purchase consideration

In connection with the acquisition of the Global Companies (see note 4), an additional 532,500 common shares of the Company have been committed for issuance to employees of the Global Companies. The common shares are not considered compensation but form part of the business acquisition. This additional consideration is recorded at fair value based on the market price of the Company's common shares as at February 4, 2011. Upon issuance of the common shares, the amount originally recorded against contributed surplus is credited to capital stock.

For the three months ended March 31, 2011, the Company recorded share-based compensation expense of $0.9 million in aggregate (for the three months ended March 31, 2010 – $0.5 million), with a corresponding increase to contributed surplus. Of the $0.9 million compensation expense, $0.7 million (2010 – $nil) relates to the earn-out shares and the remaining $0.2 million (2010 – $0.5 million) to the stock option plan.

b. Basic and diluted earnings per share

The following table presents the calculation of basic and diluted earnings per common share for the three months ended March 31:

	2011	2010
Numerator ($ in thousands):		
Net income – basic and diluted	10,566	6,427
Denominator (Number of shares in thousands):		
Weighted average number of common shares – basic	161,897	150,000
Weighted average number of dilutive stock options *	63	–
Weighted average number of additional purchase consideration	322	–
Weighted average number of common shares – diluted	162,282	150,000
Net income per common share		
Basic	$0.07	$0.04
Diluted	$0.07	$0.04

* The determination of the weighted average number of common shares – diluted excludes 2,450 thousand shares related to stock options that were anti-dilutive for the three months ended March 31, 2011 (2,500 thousand for the three months ended March 31, 2010)

c. Maximum share dilution

The following table presents the maximum number of common share that would be outstanding if all options were exercised and all earn-out shares were issued (in thousands):

Shares outstanding at June 1, 2011	169,468
Additional purchase consideration	532
Options to purchase shares	2,650
Earn-out shares	8,000
	180,650

d. Capital management

The Company's objectives when managing capital are:

- To meet regulatory requirements and other contractual obligations;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders;
- To provide financial flexibility to fund possible acquisitions;
- To provide adequate seed capital for the Company's new product offerings; and,
- To provide an adequate return to shareholders through the growth in assets under management and growth in management fees and performance fees that will result in dividend payments to shareholders.

The Company's capital is comprised of equity, including capital stock, contributed surplus, retained earnings and accumulated other comprehensive income (loss). SPW LP is a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), SAM LP is a registrant of the Ontario Securities Commission ("OSC") and Global is a member of the Financial Industry Regulatory Authority ("FINRA"); as a result, all of these entities are required to maintain a minimum level of regulatory capital. To ensure compliance, senior management monitors regulatory and working capital on a regular basis. For the period ended March 31, 2011, all entities were in compliance with their respective capital requirements.

In February 2011, the Company established a revolving term credit facility ("Credit Facility") with a Canadian chartered bank in the amount of $50 million. The Company is able to draw down on the Credit Facility by way of demand indebtedness with interest based either on the bank's prime rate or bankers' acceptances. As at March 31, 2011, the Company had not accessed this Credit Facility. The Credit Facility is guaranteed by SAM LP and is secured by a general security agreement with SAM LP. The Credit Facility contains a number of financial covenants that require the Company to meet certain financial ratios and financial condition tests. The Company is within its financial covenants with respect to its Credit Facility.

In the normal course of business, the Company, through its limited partnerships and wholly-owned subsidiaries, generates adequate operating cash flow and has limited capital requirements.

The Company may adjust its capital levels in light of changes in business-specific circumstances as well as overall economic conditions.

8. Income Taxes

Income tax expense comprises the following ($ in thousands):

	For the three months ended **March 31 2011**	March 31 2010
Current income tax expense	**5,649**	2,284
Deferred income tax expense (recovery)	**(1,258)**	534
	4,391	2,818

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The movement in significant components of the Company's deferred income tax assets and liabilities for the three month period ended March 31, 2011 and the year ended December 31, 2010 is as follows ($ in thousands):

Period ended March 31, 2011

	As at January 1, 2011	Recognized in income	Recognized in other comprehensive income	Business acquisition	As at March 31, 2011
Deferred income tax liabilities					
Fund management contracts	342	(195)	(163)	8,312	8,296
Carried interests	–	(276)	(231)	11,743	11,236
Deferred sales commissions	210	164	–	–	374
Unrealized gains	1,308	110	–	–	1,418
Total deferred income tax liabilities	**1,860**	**(197)**	**(394)**	**20,055**	**21,324**
Deferred income tax assets					
Unrealized losses	1,935	961	(170)	8,200	10,926
Other	–	99	–	–	99
Total deferred income tax assets	**1,935**	**1,060**	**(170)**	**8,200**	**11,025**
Net deferred income tax assets (liabilities)	**75**	**1,257**	**(224)**	**(11,855)**	**(10,299)**

Year ended December 31, 2010

	As at January 1, 2010	Recognized in income	As at December 31, 2010
Deferred income tax liabilities			
Fund management contracts	–	342	342
Deferred sales commissions	–	210	210
Unrealized gains	524	784	1,308
Total deferred income tax liabilities	**524**	**1,336**	**1,860**
Deferred income tax assets			
Unrealized losses	1,260	675	1,935
Other	29	(29)	–
Total deferred income tax assets	**1,289**	**646**	**1,935**
Net deferred income tax assets (liabilities)	**765**	**(690)**	**75**

The ultimate realization of deferred tax assets is dependent upon future taxable profits during the periods in which those temporary differences become deductible. Management considers the expected reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is probable that the Company will realize the benefits of these deductible differences.

The Company did not record a deferred tax asset with respect to cumulative translation losses of $3.3 million as at March 31, 2011. The Company does not recognize deferred taxes when it can control the timing of the reversal of the temporary differences and when it is probable that it will not reverse in the foreseeable future.

9. Financial Instruments

IFRS 7 *Financial Instruments: Disclosures* as issued by the IASB requires disclosure of a three-level hierarchy for fair value measurement based upon transparency of inputs to the valuation of an asset or liability as of the measurement date.

The following tables present the level within the fair value hierarchy for each of the financial assets and liabilities carried at fair value ($ in thousands):

	Financial instruments at fair value			
March 31, 2011	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	141,043	–	–	141,043
Public equities	17,447	119	–	17,566
Private equities	–	–	1,881	1,881
Common share purchase warrants	–	3,001	–	3,001
Mutual funds	1,951	–	–	1,951
Hedge funds	–	8,070	–	8,070
Total	**160,441**	**11,190**	**1,881**	**173,512**

	Financial instruments at fair value			
December 31, 2010	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	81,209	–	–	81,209
Public equities	1,906	15,894	–	17,800
Private equities	–	–	1,881	1,881
Common share purchase warrants	–	3,587	–	3,587
Mutual funds	1,950	–	–	1,950
Hedge funds	–	2,677	–	2,677
Total	85,065	22,158	1,881	109,104

	Financial instruments at fair value			
January 1, 2010	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	49,010	–	–	49,010
Secured note receivable	14,338	–	–	14,338
Public equities	1,440	1,444	–	2,884
Private equities	–	–	1,980	1,980
Common share purchase warrants	–	1,790	–	1,790
Mutual funds	503	–	–	503
Hedge funds	–	328	–	328
Total	65,291	3,562	1,980	70,833

Effective January 1, 2010, the Company has re-designated securities as available-for-sale under Canadian GAAP as fair value through profit or loss under IAS 39. As a result, previous securities measured at cost, less any impairment in value are now fair valued and are presented as Level 3 financial instruments in the above table. During the three months ended March 31, 2011, $15.4 million was transferred from Level 2 to Level 1. This transfer represented the expiry on January 7, 2011 of the trading restriction on the common shares of Sprott Resource Lending Corp. (formerly Quest Capital Corp.).

Financial instruments not carried at fair value

For fees receivable, other assets, accounts payable and accrued liabilities and compensation and employee bonuses payable, the carrying amount represents a reasonable approximation of fair value due to their short term nature.

10. Related Party Transactions

Share incentive program

In September 2010, Eric Sprott, Chairman of the Company, personally funded a share incentive program through Holdco. The program provided the Executives with a total of 8 million common shares of the Company. This arrangement did not result in the issuance of common shares from the treasury of the Company (see note 7).

As at March 31, 2011, $4.2 million was due to the previous owner of the Global Companies who is now a senior employee of the Company. The amount relates to certain revenues earned by the Global Companies prior to the acquisition date and compensation payable as at the date of the acquisition.

The remuneration of directors and other key management personnel of the Company for employment services rendered for the year ended December 31, 2010 is as follows ($ in thousands):

For the year ended December 31	2010
Fixed salaries and benefits	3,369
Variable incentive-based compensation	34,960
Share-based compensation	25,921
	64,250

11. Dividends

The following dividends were declared by the Company during the three months ended March 31, 2011:

Record date	Payment Date	Cash dividend per share $	Total dividend amount ($ in thousands)
January 19, 2011 – special dividend	February 3, 2011	0.60	90,000
Dividends paid			**90,000**
March 31, 2011 – special dividend *	April 15, 2011	0.12	18,000
March 31, 2011 – regular dividend Q4 - 2010 *	April 15, 2011	0.03	4,500
Dividends payable			**22,500**
			112,500

* – the shares issued from treasury on February 4, 2011 as a result of the acquisition of the Global Companies were not eligible to receive this dividend.

12. Risk Management Activities

The Company's financial instruments present a number of specific risks. Identified below are those risks which have materially changed since December 31, 2010 as a result of the acquisition of the Global Companies (see note 4).

(a) Market risk

The Company separates market risk into three categories: price risk, interest rate risk and foreign exchange risk.

Price risk

The Company's revenues are exposed to price risk since management fees and carried interests are correlated with assets under management, which fluctuates with changes in market values of the assets in the funds and managed accounts managed by RCIC and Terra.

Interest rate risk

The Global Companies have minimal exposure to interest rate risk.

Foreign exchange risk

The Global Companies' assets are all denominated in USD. The Company is therefore exposed to currency risk because of its net investment in the Global Companies. The Company does not undertake any hedging of its net investments in its foreign subsidiaries.

As at March 31, 2011, had the exchange rate between the USD and the Canadian dollar increased or decreased by 5% (relative to the Canadian dollar), with all other variables held constant, the increase or decrease, respectively, in net income and other comprehensive income would have amounted to a nominal amount and $8 million respectively as a result of the Global Companies impact on the Company.

(b) Credit risk

The Global Companies incur credit risk when entering into, settling and financing various proprietary transactions. As at March 31, 2011, the Global Companies' most significant counterparty is RBC Capital Markets ("RBC Capital"), the carrying broker of Global and custodian of the net assets of the funds managed by RCIC. RBC Capital is registered as a broker dealer and registered investment advisor subject to regulation by the FINRA and the SEC; as a result, it is required to maintain minimal levels of regulatory capital at all times.

(c) Liquidity risk

The Global Companies exposure to liquidity risk is minimal as it maintains sufficient levels of liquid assets to meet its obligations as they come due.

13. Segmented Information

For management purposes, the Company is organized into one business unit based on its services. For geographic reporting purposes, transactions are primarily recorded in the location that corresponds with the entity's country of domicile that generates the revenue. The following table presents the revenue of the Company by geographic location ($ in thousands):

	For the three months ended	
	March 31 2011	March 31 2010
Canada	**34,881**	25,732
United States	**4,634**	–
	39,515	25,732

14. Events After the Reporting Period

On June 1, 2011, a dividend of $0.03 per common share was declared for the quarter ended March 31, 2011.

15. Provisions

The Company is engaged in litigation arising in the ordinary course of business relating to claims for additional compensation by former employees. The Company has made provisions based on current information and the probable resolution of any such proceedings and claims.

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