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Management's Discussion and Analysis

Year-ended December 31, 2011

March 27, 2012

Dear Shareholders,

Looking back at 2011, it was a year characterized by volatility and government intervention in the financial markets. For the Sprott organization, it was a year of contrasts. While we made great progress building our investment team and increasing the diversity of our business, our investment performance did not meet our expectations.

Our views on economic weakness and the dangers inherent in the financial system are well publicized and our funds were defensively positioned throughout 2011. For the first nine months of the year this positioning served us well, as we were able to deliver relatively strong results while markets see-sawed due to the European debt crisis. In August, the Standard & Poor's ("S&P") downgrade of U.S. treasury debt led to a broad market decline that negatively impacted most asset classes with the exception of, ironically, U.S. Treasury bonds. Central banks were active providing liquidity measures to financial institutions but precious metals sold off in the rush to liquidity. Our performance suffered due to the declines of gold, silver, and energy equities, which accelerated into year-end.

For most of the year, investors shunned risk and capital flowed into investment grade bonds. The S&P/TSX Composite Index fell by 11.1% in 2011, while the DEX Universe Bond Index gained 9.7%. The mining and small cap sectors were hit particularly hard, with the S&P Global Gold Index falling by 14.3% on the year and the S&P/TSX Small Cap Total Return Index posting a loss of 16.4%.

The end result for Sprott was that, despite our accurate assessment of the macro-economic environment, many of our funds finished 2011 in negative territory. Our financial results were affected accordingly, as performance fees fell to a net $4.0 million from $200 million the prior year and our net income decreased by 75%.

Despite these declines, we continued to see the benefits of the increased scale of our organization. Base EBITDA, which we consider to be an important gauge of the growth of our core business, increased and our Assets Under Management ("AUM") grew to $9.1 billion as of December 31, 2011 from $8.5 billion the prior year. Our expanded product offering was received well by clients and helped us generate $1.4 billion in net sales, driven largely by the success of our physical bullion products and our fixed-income product line.

Our investment philosophy is guided by a commitment to long-term, secular themes. We believe that by continuing to focus on strategic asset and sector allocations, and recruiting leading analysts and portfolio managers, we will be successful in delivering superior long-term performance to our clients and investors.

Building a Global Alternative Asset Manager

Our goal is to build Sprott into a global alternative asset manager. This commitment is underscored by our ongoing investments in our business. Most importantly, we continue to add to our investment team and expertise with the objective of enhancing future performance. The latest addition to the team is John Wilson, who joined us in February of this year as Senior Portfolio Manager. John has a history of delivering superior performance to investors and fits in well with our team and culture. He is an independent thinker with a high conviction style of investing and a strong focus on protecting capital. John's core expertise and strategy fall within the asset class categories that represent the largest pools of invested capital in Canada. John was recently appointed lead portfolio manager on the Sprott Opportunities Funds and, looking ahead, we expect to launch new investment options with Canadian equity and Canadian balanced mandates for which John will serve as the lead manager.

In 2011, we completed the acquisition and integration of the Global Group of Companies (the "Global Companies") into our organization. We are pleased with the progress we have made so far at our U.S. operations, launching our first Sprott-branded products through Sprott Asset Management USA Inc. and bringing on Paul Meehl as CEO of our U.S. broker dealer.

Through the acquisition of the "Global Companies", we also bolstered our resource expertise with the addition of Rick Rule and his team of resource specialists. We recently made a key hire to further strengthen this group with Neil Adshead joining as Investment Strategist. Neil brings deep technical expertise in evaluating resource investments and will assist Rick Rule in managing the Exploration Partnerships.

During the year and subsequent to year end, we were active in launching several new precious metal, fixed income, and enhanced equity products. In keeping with our commitment to offering our clients innovative investment solutions, we also introduced the Sprott Corporate Class of tax-efficient mutual funds, which includes the Sprott Silver Equities Class, the first fund of its kind in Canada.

In 2012, we will continue to launch new products. Building on the success of our Physical Bullion franchise, we have filed a preliminary prospectus for a new Physical Platinum and Palladium Trust. We are also close to launching a new team-based, offshore fund geared to international institutional investors.

Our Physical Gold and Physical Silver Trusts, which are traded on both the TSX and NYSE Arca exchanges, continue to grow, both through asset appreciation and follow-on offerings. Combined, the two Trusts now account for more than $3.5 billion in AUM. These products provide us with valuable brand exposure in the U.S. and internationally, as well as a stable and growing EBITDA contribution.

To support our recent and planned product launches, we have made commensurate investments in our sales and client service teams. We hired J.D. Rothstein as National Sales Manager with a mandate to improve our sales reach and ability to service the growing number of independent financial advisors who distribute Sprott funds. Under James Fox, we are building our Offshore and Institutional sales team to support the launches of new Institutional products.

Sprott Consulting

Our direct investing business, Sprott Consulting, continues to grow and to seek new investment opportunities.

Sprott Resource Corp. has built an impressive portfolio of investments concentrated in the energy and agriculture sectors. In 2011, the team was again successful in advancing the development of its investments and creating value for their shareholders. Sprott Resource Corp. continues to increase its AUM, which now stands at more than $500 million, most of which has been generated by its outstanding record of compounding its retained earnings.

Sprott Resource Lending Corp. continues to build its business with the objective of becoming a preferred lender to the resource industry. Since commencing resource lending activities, it has successfully initiated over $650 million of loans and currently holds over $100 million of such loans as well as a substantial cash balance.

Sprott Power Corp. has made steady progress since listing on the TSX in February of 2011. Over the last twelve months, the company has grown its portfolio of renewable energy projects and expects to double its revenue run rate to over $20 million during the second quarter of 2012.

Strategic Acquisitions

We are committed to evaluating acquisition opportunities to build out new areas of expertise. In keeping with this strategy, we recently announced a Letter of Intent to acquire Toscana Capital Corporation and Toscana Energy Corporation (the "Toscana Companies"), a Calgary-based group that helps finance energy companies and invests in the oil and gas sector. We expect the transaction to close sometime in the second quarter of 2012. The Toscana Companies bring to us a leading team of energy specialists and lenders as well as a Calgary presence that will help us accelerate our activities in the energy sector.

We believe that the alternative asset management area offers good opportunities for growth, acquisition and consolidation. Sprott is well-positioned to consider such opportunities due to the quality and breadth of our operational platform, in addition to our financial strength.

Market Outlook

Our outlook for the remainder of 2012 remains cautious. Governments globally are using market intervention and loose monetary policies in an effort to defer taking the difficult actions required to deal with their long term debt issues. As our founder, Eric Sprott, recently wrote: "The scale and frequency of their maneuvering seems to increase with every passing week and speaks to the fragility that continues to define much of the financial system today."

In this environment, we expect to maintain our defensive positioning for the foreseeable future. We continue to believe that investments in hard assets remain the best means to preserve and grow our clients' wealth.

Despite our views on the structural failings of the financial system, we see good investment opportunities in certain sectors. We believe the potential for precious metals to outperform has never been better and we note that gold and silver-related equities are trading at historically low multiples. Fuelled by ongoing strength of oil prices, the long term fundamentals for the energy sector remain compelling. We will continue to build our investments in energy, agriculture and other defensive areas.

In closing, I would like to first thank you, our shareholders and clients, for your continued support. I would also like to thank all of our employees for their commitment and our Board of Directors for their ongoing counsel and guidance. We look forward to reporting to you on our progress in the quarters to come.

Sincerely,

Peter Grosskopf
Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion & Analysis ("MD&A") of financial condition and results of operations, dated March 27, 2012, presents an analysis of the financial condition of Sprott Inc. (the "Company") and its subsidiaries as of December 31, 2011 compared with December 31, 2010, and results of operation for the year ended December 31, 2011, compared with the year ended December 31, 2010. The Board of Directors approved this MD&A on March 27, 2012.

The Company was incorporated under the Business Corporations Act (*Ontario*) on February 13, 2008.

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. ("GRIL"), Sprott Asset Management USA Inc. ("SAM US") (formerly Terra Resource Investment Management, Inc.) and Resource Capital Investment Corporation ("RCIC") (collectively, the "Global Companies")).

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 27, 2012 (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 March 27, 2012 and will not be updated or revised except as required by applicable securities law. For a more complete discussion of the risk factors that impact actual results, please refer to the "Risk Factors" section of the Company's most recent Annual Information Form which is available at www.sedar.com.

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 year ended December 31, 2011, including the required comparative information, have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). Previously, the Company prepared annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP").

The preparation of these annual audited 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 year ended December 31, 2010 issued under Canadian GAAP. The adoption of IFRS has not had an impact on the Company's operations, strategic decisions or cash flow.

An explanation of the transition to IFRS is presented in note 16 to these 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 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"), RCIC and SAM US and managed companies ("Managed Companies") managed by Sprott Consulting LP ("SC") on which management fees ("Management Fees"), performance fees ("Performance Fees") and/or carried interests ("Carried Interests") are calculated. We believe that AUM is an important measure as we earn Management Fees, calculated as a percentage of AUM, and may earn Performance Fees or Carried Interests, calculated as a percentage of: (i) our Funds', Managed Accounts' and Managed Companies' excess performance over the relevant benchmark; (ii) the increase in net asset values of our Funds over a predetermined hurdle, if any; or (iii) the net profit in our Funds over the performance period. We monitor the level of our AUM because they drive our level of Management Fees. The amount of Performance Fees and Carried Interests we earn is related to both our investment performance and our AUM.

Assets Under Administration

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

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

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

Net Sales

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

EBITDA

Our method of calculating EBITDA is defined as earnings before interest expense, income taxes, amortization of property and equipment, amortization of intangible assets and non-cash stock-based 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 and certain accounts managed by SAM. 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 December 31, 2011 have an average remaining life of approximately 6 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 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, SPW, SC 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 whereby the prior business was dissolved and its operations were separated into three business lines: discretionary portfolio management by SAM, broker-dealer services by SPW and consulting services by SC. SAM is registered with the Ontario Securities Commission ("OSC") as an investment fund manager ("IFM"), portfolio manager ("PM") and exempt market dealer ("EMD"). SPW is an investment dealer and a member of the Investment Industry Regulatory Organization of Canada ("IIROC"). SC provides active management, consulting and administrative services to other companies. Currently SC 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. GRIL is a California limited partnership that operates as a securities broker-dealer and is registered with the Financial Industry Regulatory Authority ("FINRA") and SAM US, 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.

The majority of the Company's revenues are earned through SAM in the form of Management Fees and Performance Fees earned from the management of the Funds and Managed Accounts; SPW earns most of its revenues via intercompany trailer fee payments from SAM (these intercompany fees are eliminated on consolidation) and from commissions earned on new and follow-on offerings of Funds managed by SAM and through various private placements. SC 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; GRIL 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. SAM US earns revenue in the form of Management Fees from the management of Managed Accounts.

SPW 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. SC enables us to benefit from our expertise in managing other companies, both public and private. SC provides us with a competitive advantage by providing SPW and GRIL 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 GRIL, the Company now derives additional revenue from fees associated with its AUA. Commission and other income is generated from the sale and purchase of stocks by GRIL's clients, and to a lesser extent SPW, and from the sale of private placements to their clients. As at December 31, 2011, we managed approximately $9.1 billion in assets among our various Funds, Managed Accounts and Managed Companies. AUA in client assets totaled to approximately $4.4 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 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, equity mutual Funds have the highest rate of Management Fees, followed by hedge Funds and offshore Funds. We have introduced a suite of income Funds that have lower Management Fees than equity mutual Funds and hedge Funds. In addition, we have a substantial amount of our total AUM in bullion Funds that 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 and GRIL 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, RCIC or SC, and through private placements of unrelated companies to clients of SPW and GRIL. Commission income is recorded in the financial statements in the month in which the service is rendered.

The majority of 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 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 for the appropriate month. At SC, 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 either a base salary and/or commissions based on sales, trading revenues or other measurable activities. In addition, employees 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, expenses absorbed by SAM on behalf of certain Funds that it manages, as well as charitable donations and amortization.

BUSINESS HIGHLIGHTS AND GROWTH INITIATIVES

We continued to be active in 2011 executing 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 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 were committed to employees of the Global Companies. Subsequent to the year end, on February 4, 2012, 177,500 of the committed shares were issued to employees of the Global Companies. 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 providing benefits across the Company, including the Global Companies, through the sharing of intellectual capital, the development of new products, beneficial exchange of investment theses and ideas between investment managers and analysts, 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 respected natural resources investor with over 35 years of experience in the investment industry, and have developed a 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.

Acquisition of the Toscana Companies

Subsequent to the year end, on February 29, 2012, the Company announced the signing of a non-binding letter of intent ("LOI") reflecting an agreement in principle to acquire Toscana Capital Corporation and Toscana Energy Corporation (collectively "Toscana").

It is anticipated that the acquisition will provide benefits across the Company through the sharing of investment ideas, deal origination, the development of new products, and by leveraging Toscana's and the Company's products and brands in the oil and gas sector.

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. 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'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 June 2011, Paul Meehl joined the Company as the CEO of GRIL and Jeff Howard assumed the role of CEO of SAM US. Both Paul and Jeff are focusing their efforts under the leadership of Rick Rule to implement the Company's growth strategy in the U.S.

In September 2011, John David (J.D.) Rothstein joined SAM as Senior Vice President and National Sales Manager. Mr. Rothstein is playing a key role in strengthening and expanding SAM's sales team to increase the number of third party investment advisors that sell our Funds and to better service the needs of our growing client base.

Subsequent to the year end, Dr. Neil Adshead joined the Company as an Investment Strategist with specific responsibilities for the Exploration Capital Partners Limited Partnerships managed by RCIC. Dr. Adshead will use his skills and industry experience to identify, analyze and monitor public and private investment opportunities .

Also, subsequent to the year end, John Wilson joined SAM as a Senior Portfolio Manager. In the coming months, Sprott expects to launch new investment solutions with core Canadian equity and core Canadian balanced mandates for which Mr. Wilson will serve as a lead manager.

In order to motivate and retain key employees and to further align the interests of employees and those of our shareholders, the Company adopted an Employee Profit Sharing Plan ("EPSP") for Canadian employees and an Equity Incentive Plan ("EIP") for U.S. employees. These plans were approved by the Company's shareholders at our 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

In January 2011, we introduced our second flow-through fund, the Sprott 2011 Flow-Through Limited Partnership. The initial and follow-on offering raised total 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, respectively, were added.

In April 2011, we completed a follow-on offering of the Sprott Physical Gold Trust units, raising gross proceeds of US$341 million. On July 20, 2011, we completed another follow-on offering of the Sprott Physical Gold Trust units and together with the exercise of the over-allotment option in August 2011, raised gross proceeds of US$306 million.

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

In July 2011, we completed the initial public offering of 22 million units of the Sprott Strategic Fixed Income Fund raising gross proceeds of $220 million. This fund was created to provide exposure, on a tax advantaged basis, to an actively managed portfolio comprised primarily of long and short positions in fixed income securities from across the globe.

In September 2011, SAM US launched its managed accounts platform for US investors. These products allow US investors to access the investment expertise of the combined portfolio management teams in Canada and the US by selecting among four investment programs specifically tailored to meet investor needs.

In October 2011, we launched the Sprott Corporate Class Inc. ("Corporate Class"), a mutual fund corporation designed to provide greater tax-efficiency for investors. Corporate Class offers eleven share classes, six of which invest in an underlying Sprott fund, one of which closely mirrors the Sprott Tactical Balanced Fund and a new Resource Class Fund. Subsequent to the year end, three new share classes including Sprott Silver Equities Class, Sprott Silver Bullion Class and Sprott Gold Bullion Class were added to the Corporate Class.

Subsequent to the year end, in January 2012, we completed a follow-on offering of the Sprott Physical Silver Trust units, raising gross proceeds of US$349 million.

Subsequent to the year end, in February 2012, we completed a follow-on offering of the Sprott Physical Gold Trust units and together with the exercise of the over-allotment option, raised gross proceeds of US$349 million.

Subsequent to the year end, we introduced our third flow-through fund, the Sprott 2012 Flow-Through Limited Partnership. The initial and follow-on offering raised gross proceeds of $30 million in total.

We continue to develop new products and investment vehicles that will be available in 2012. The addition of these products 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.

FINANCIAL HIGHLIGHTS

Financial highlights for the year ended December 31, 2011 are:

- AUM at December 31, 2011 were $9.1 billion. This reflects an increase of $0.6 billion (6.9%) from $8.5 billion at December 31, 2010. Average AUM for 2011 was $9.8 billion compared to $5.9 billion in 2010, an increase of 66.7%. For the year ended December 31, 2011, AUM of RCIC and SAM US at the date of their acquisition added $0.7 billion to AUM. This AUM combined with net subscriptions of $1.4 billion and offset by a net depreciation of market value of portfolios totaling $1.5 billion, resulted in an increase of $0.6 billion in AUM for the year.
- AUA at December 31, 2011 were $4.4 billion. This reflects an increase of $0.8 billion (22.7%) from $3.6 billion at December 31, 2010. For the year ended December 31, 2011, AUA of GRIL added $1.5 billion to these assets.
- Management Fees for the year ended December 31, 2011 were $146.8 million, representing an increase of $43.1 million (41.6%) over the year ended December 31, 2010.
- Gross Performance Fees for the year ended December 31, 2011 were $5.3 million ($4.1 million after related payments to sub-advisors) representing a decrease of $194.8 million (97.3%) over the year ended December 31, 2010.
- Base EBITDA for the year ended December 31, 2011 was $69.4 million representing an increase of $26.0 million (59.9%)compared with the year ended December 31, 2010.
- EBITDA for the year ended December 31, 2011 was $64.5 million representing a decrease of $138.0 million (68.2%) compared with the year ended December 31, 2010.
- Cash flow from operations for the year ended December 31, 2011 was $47.9 million ($0.29 per share) representing a decrease of $144.4 million (75.1%) from $192.3 million ($1.28 per share) for the year ended December 31, 2010.
- Net income for the year ended December 31, 2011 decreased by 75.1% to $33.0 million as compared with the previous year, and represents basic and diluted earnings per share of $0.20. Net income for the year ended December 31, 2010 was $132.7 million, representing basic and diluted earnings per share of $0.88.

SUMMARY FINANCIAL INFORMATION

Key Performance Indicators

($ in thousands, except per share amounts)	For the year ended **December 31, 2011**	December 31, 2010	December 31, 2009 (Canadian GAAP)
Assets Under Management	**9,137,084**	8,545,276	4,773,789
Assets Under Administration	**4,398,554**	3,584,115	2,485,551
Net Sales (Redemptions)	**1,418,045**	1,448,419	(571,153)
EBITDA	**64,473**	202,437	48,450
Base EBITDA	**69,387**	43,384	33,682
Cash Flow from Operations	**47,905**	192,273	30,683
EBITDA Per Share - basic and fully diluted	**0.38**	1.35	0.32
Base EBITDA Per Share - basic and fully diluted	**0.41**	0.29	0.22
Cash Flow From Operations Per Share - basic and fully diluted	**0.29**	1.28	0.20

Summary Balance Sheet

($ in thousands)	As at **December 31, 2011**	December 31, 2010	January 1, 2010 2010
Total Assets	**400,536**	342,767	97,947
Total Liabilities	**99,095**	128,505	21,585
Shareholders' Equity	**301,441**	214,262	76,362

Summary Income Statement and Reconciliation to EBITDA and Base EBITDA

($ in thousands, except per share amounts)	For the year ended December 31, 2011	2010
Total revenue	**161,252**	323,501
Total expenses	**117,283**	148,946
Income before income taxes	**43,969**	174,555
Provision for income taxes	**10,931**	41,854
Net income	**33,038**	132,701
Other expenses [(1)]	**20,504**	27,882
Provision for income taxes	**10,931**	41,854
EBITDA	**64,473**	202,437
Unrealized and realized (gains) losses on proprietary investments	**7,986**	(9,013)
Performance fees net of performance fee related compensation and other performance fee related expenses [(2)]	**(3,072)**	(150,040)
Base EBITDA	**69,387**	43,384
Earnings Per Share - basic and fully diluted	**0.20**	0.88
EBITDA Per Share - basic and fully diluted	**0.38**	1.35
Base EBITDA Per Share - basic and fully diluted	**0.41**	0.29

(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 thousands, except per share amounts)	For the year ended December 31, 2011	2010
Operating activities		
Net income for the year	**33,038**	132,701
Non-cash items	**36,589**	60,069
Income taxes paid	**(21,722)**	(497)
Cash flow from operations	**47,905**	192,273
Non-cash balances relating to operations	**154,683**	(131,188)
Cash provided by operating activities	**202,588**	61,085
Cash used in investing activities	**(33,866)**	(7,136)
Cash used in financing activities	**(130,425)**	(21,750)
Net increase in cash and cash equivalents during the year	**38,297**	32,199
Cash and cash equivalents, beginning of the year	**81,209**	49,010
Cash and cash equivalents, end of the year	**119,506**	81,209
Cash flow from operations per share - basic	**0.29**	1.28
Cash flow from operations per share - fully diluted	**0.28**	1.28

RESULTS OF OPERATIONS

Year ended December 31, 2011 compared to year ended December 31, 2010

Overall Performance

AUM increased to $9.1 billion at December 31, 2011 compared with $8.5 billion at December 31, 2010. Net sales for the year ended December 31, 2011 were $1.4 billion, together with the addition of the acquired AUM of the Global Companies of $0.7 billion, offset partially by market depreciation of $1.5 billion resulted in a $0.6 billion increase in AUM for the year. Average AUM for the year ended December 31, 2011 was $9.8 billion compared with $5.9 billion for the year ended December 31, 2010, an increase of 66.7%.

Total revenues decreased by $162.2 million or 50.2% from $323.5 million in the year ended December 31, 2010 to $161.3 million in the year ended December 31, 2011. Management Fees for the year ended December 31, 2011 were $146.8 million, representing an increase of $43.1 million (41.6%) over the year ended December 31, 2010. Gross Performance Fees for the year ended December 31, 2011were $5.3 million, compared to $200.1 million in the year ended December 31, 2010. Unrealized and realized losses on proprietary investments totaled $8.0 million for the year ended December 31, 2011 compared to unrealized and realized gains of $9.0 million for the year ended December 31, 2010. Commissions increased by $8.0 million to $14.2 million in the year ended December 31, 2011 when compared to $6.2 million in the year ended December 31, 2010. Other income decreased by $1.6 million to $2.9 million in the year ended December 31, 2011, when compared to $4.5 million in the year ended December 31, 2010.

Expenses totaled $117.3 million for the year ended December 31, 2011, which is a decrease of $31.7 million or 21.3% from $148.9 million in the year ended December 31, 2010.

Net income of $33.0 million for the year ended December 31, 2011, decreased by $99.7 million (75.1%) when compared with net income of $132.7 million for the year ended December 31, 2010.

Assets Under Management, Investment Performance and Net Sales

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

	December 31, 2011		December 31, 2010	
Product Type	**$ (in millions)**	**% of AUM**	$ (in millions)	% of AUM
Mutual Funds	**2,497**	**27.3%**	3,429	40.1%
Bullion Funds	**2,971**	**32.5%**	2,025	23.7%
Domestic Hedge Funds	**1,717**	**18.8%**	1,739	20.4%
Offshore Hedge Funds	**566**	**6.2%**	686	8.0%
Direct Management (Managed Companies)	**700**	**7.7%**	513	6.0%
Managed Accounts	**288**	**3.2%**	153	1.8%
Fixed Term Limited Partnerships	**398**	**4.3%**	—	—
Total	**9,137**	**100%**	8,545	100%

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

	For the year ended December 31,	
($ in millions)	**2011**	2010
AUM, beginning of year	**8,545**	4,774
Net sales	**1,418**	1,448
Business acquisition	**695**	—
Market value appreciation (depreciation) of portfolios	**(1,521)**	2,323
AUM, end of year	**9,137**	8,545

The performance of our Funds and Managed Accounts for the year ended December 31, 2011 resulted in AUM decreasing by $1.5 billion or 17.8% of opening AUM. All but a few of our Funds generated negative performance for the year ended December 31, 2011. Our Managed Companies added $187 million to our AUM at December 31, 2011.

Net sales for the year ended December 31, 2011 were $1.4 billion. The initial and follow-on offering of Sprott 2011 Flow-Through LP, follow-on offerings of Sprott Physical Gold Trust, the launch of Sprott Silver Bullion Fund and Sprott Strategic Fixed Income Fund and the addition of a new managed account, added approximately $1.2 billion to sales for the year. Collectively, our other mutual Funds and domestic hedge Funds experienced net sales of approximately $171 million. Similarly our offshore Funds had net subscriptions resulting in net inflows of approximately $43 million or 6.2% of opening offshore AUM.

The acquisition of the Global Companies during the year added $695 million to the Company's AUM, representing 8.1% of opening AUM.

Revenues

During the year ended December 31, 2011, total revenues decreased by $162.2 million (50.2%) from $323.5 million in the year ended December 31, 2010 to $161.3 million in the year ended December 31, 2011.

Management Fees increased by $43.1 million or 41.6% from $103.7 million in the year ended December 31, 2010 to $146.8 million in the year ended December 31, 2011, as average AUM increased by approximately 66.7% over the same period. In addition, the Company recognized approximately $3.2 million of Management Fees from SRLC as management determined it was probable that the Management Fees would be received. This recognition of revenue represents approximately 16 months of Management Fees from this Managed Company. Management Fee margins (defined as Management Fees as a percentage of AUM) fell to 1.5% in 2011 from 1.8% in 2010. The decrease in Management Fee margins is mainly due to the addition of fixed income Funds and bullion Funds that have lower average Management Fees than most of our other Funds. Average AUM for fixed income Funds and bullion Funds increased by $1.1 billion to $2.0 billion for the year ended December 31, 2011, compared to $0.9 billion for the year ended December 31, 2010.

Gross Performance Fees were $5.3 million ($4.1 million net Performance Fees) for the year ended December 31, 2011 versus $200.1 million for the year ended December 31, 2010. All but a few of our Funds and Managed Accounts underperformed in 2011 resulting in lower Performance Fees in the current year as compared to the previous year.

Losses from our capital that is invested in our proprietary investments (realized and unrealized) for the year ended December 31, 2011 totaled $8.0 million, compared with gains of $9.0 million for the year ended December 31, 2010. During the year ended December 31, 2011, sales of proprietary investments resulted in a net realized gain of $0.2 million and the market value of proprietary investments depreciated by $8.2 million. The unrealized losses in 2011 were driven predominantly by declines in the market value of most of our proprietary investments despite an increase in the value of our gold bullion holdings. The realized gains in the year ended December 31, 2010 were primarily due to the sale of publicly traded equities in the gold sector and the unrealized gains were driven by market appreciation in virtually all of the Company's proprietary investments.

Commission revenue for the year ended December 31, 2011, was $14.2 million compared to $6.2 million during the year ended December 31, 2010. In the year ended December 31, 2011, commission revenue was mainly due to commissions generated by GRIL and to a lesser extent, SPW. During the year ended December 31, 2010, SPW earned commissions primarily from the sale of Sprott sponsored Funds and shares of Managed Companies to SPW clients in 2010.

Other income decreased by $1.6 million from $4.5 million in the year ended December 31, 2010 to $2.9 million in the year ended December 31, 2011. The main components of other income include interest income and redemption fee revenue.

Expenses

Total expenses for the year ended December 31, 2011 were $117.3 million a decrease of $31.7 million or 21.3%, compared with $148.9 million for the year ended December 31, 2010.

Changes in specific categories are described in the following discussion:

Compensation & Benefits

Compensation and benefits expense for the year ended December 31, 2011 amounted to $48.7 million, including contributions to the discretionary employee bonus pool of $21.6 million. For the year ended December 31, 2010, compensation and benefits expense was $83.7 million, with contributions to the discretionary employee bonus pool amounting to $60.5 million. Excluding the discretionary employee bonus pool, compensation and benefits for the year ended December 31, 2011 increased by $3.9 million from $23.2 million in 2010 to $27.1 million in 2011. This is primarily due to the increase in headcount of the Company with the average number of employees increasing from 95 for the year ended December 31, 2010 to 154 for the year ended December 31, 2011, which includes the headcount added through the acquisition of the Global Companies in 2011. The discretionary employee bonus pool decreased in 2011 mainly due to lower Performance Fees earned in the current year.

Stock-based compensation

Stock-based compensation was $4.4 million for the year ended December 31, 2011, a decrease of $22.5 million, compared to $26.9 million in 2010. The decrease from 2010 is mostly the result of a share incentive program personally funded by Mr. Sprott for the benefit of the Company's new Chief Executive Officer and the Company's President in the amount of $25.7 million in 2010. Excluding this one-time share incentive program, there was an increase in stock-based compensation expense in 2011 resulting from the accounting for the earn-out shares (see note 8 to the annual audited consolidated financial statements) in the amount of $3.9 million for the 11 months since the acquisition of the Global Companies.

At January 1, 2010, a reduction of $1.6 million to retained earnings relating to stock-based compensation (stock options) 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 (stock options) 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. The impact to the comparative periods is explained further under Highlights of the Impact of IFRS later on in this MD&A.

Trailer Fees

Trailer fees are somewhat correlated with AUM and with Management Fees. For the year ended December 31, 2011 trailer fees were $25.7 million versus $21.6 million, an increase of 18.8% over the corresponding period of 2010. This increase is reflective of the significant year-over-year increase in the average 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 year ended December 31, 2011 have decreased to 17.5% from 20.9% for the year ended December 31, 2010. This decline is due to the addition of AUM of the Global Companies along with AUM of the Managed Companies which do not have an associated trailer fee obligation and the increase in the AUM of bullion Funds and our family of fixed income Funds, which pay no or lower trailer fees. In addition, and as mentioned in the Revenues section earlier in this MD&A, a Management Fee representing approximately 16 months of Management Fees was recognized in the year as management determined it was probable that the Management Fees would be received. This recognition of revenue reduced trailer fees as a percentage of Management Fees for the year ended December 31, 2011 as there are no trailer fees associated with that revenue.

General & Administrative

General and administrative expenses increased by $8.0 million, (59.5%) to $21.3 million for the year ended December 31, 2011 when compared to the year ended December 31, 2010. General and administrative expenses consist primarily of rent, marketing, regulatory fees, sub-advisory fees, fund expenses absorbed by SAM on behalf of certain Funds that it manages, legal, insurance, trading costs and professional fees as well as miscellaneous costs such as quote and news services, printing and systems maintenance. The increase in general and administrative expenses in 2011 is partially due to the addition of the Global Companies. 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 GRIL and SPW. In the second quarter of 2010, the Company launched Sprott Private Credit Fund LP and retained a third party to provide investment advisory services to that Fund. The year ended December 31, 2011 includes full year sub-advisory fees and Performance Fee related sub-advisory fees when compared to 2010.

Charitable Donations

In 2008, the Company 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. The donation expense in the year ended December 31, 2011 decreased by $1.4 million from the corresponding year ended December 31, 2010 mainly due to the decrease in Performance Fees realized in 2011.

Amortization

Amortization expense of intangibles is composed of (i) the amortization of deferred sales commissions and (ii) the amortization of fund management contracts and carried interests, the latter of which was the result of the acquisition of the Global Companies. Amortization expense also includes impairments losses on the intangible assets. This amortization expense increased by $14.7 million in 2011 when compared to 2010 due to (i) the amortization of the intangible assets arising on the acquisition of the Global Companies, (ii) an increase in the payment of deferred sales commissions resulting in higher amortization, and (iii) impairment losses realized on fund management contracts and carried interests. The identified intangible assets relating to the Global Companies' acquisition are being amortized on a straight-line basis over 7 years which reflects the average remaining useful life of the Funds (at the time of acquisition) on which these intangible assets are based. At December 31, 2011, management determined that the carrying value of the fund management contracts and carried interests were in excess of their respective recoverable amounts. As a result, an impairment charge was recorded in the amount of $7.7 million. Management will continue to monitor the recoverable amount of these intangible assets on a quarterly basis and, if appropriate, may reverse all or part of these impairment losses in future periods. Amortization of property and equipment increased by $0.5 million in 2011 when compared to 2010 as a result of investments in leasehold improvements, office furniture and computer hardware and software.

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 year ended December 31, 2011, EBITDA was $64.5 million, compared with $202.4 million for the year ended December 31, 2010. EBITDA decreased for the year ended December 31, 2011 when compared to the year ended December 31, 2010 mainly as a result of (i) lower Performance Fees and (ii) losses on proprietary investments. Basic and diluted EBITDA per share for the year ended December 31, 2011 was $0.38 compared to $1.35 for the year ended December 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 year ended December 31, 2011 Base EBITDA was $69.4 million compared with $43.4 million in the year ended December 31, 2010, representing an increase of $26.0 million (59.9%). Base EBITDA for 2011 increased when compared to 2010 based predominantly on higher Management Fees. Base EBITDA excludes (i) unrealized and realized gains and losses on proprietary investments and (ii) Performance Fees net of Performance Fee related compensation and other expenses. In the year ended December 31, 2011, unrealized and realized losses on proprietary investments were $8.0 million, compared to unrealized and realized gains of $9.0 million in the year ended December 31, 2010. In the year ended December 31, 2011, Performance Fees net of Performance Fee related compensation and other Performance Fee related expenses were $3.1 million compared to $150.0 million in the year ended December 31, 2010. Base EBITDA per share for the year ended December 31, 2011 was $0.41 compared to $0.29 for the year ended December 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 year ended December 31, 2011 was $47.9 million, a decrease of $144.4 million from the $192.3 million reported in the year ended December 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. For the year ended December 31, 2010, income taxes of $0.5 million was paid and for the year ended December 31, 2011, income taxes of $21.7 million was paid. Cash Flow from Operations per share for the year ended December 31, 2011 was $0.29 versus $1.28 for the year ended December 31, 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 year ended December 31, 2011 was $44.0 million compared with a pre-tax income of $174.6 million for the year ended December 31, 2010. The effective tax rate of 24.9% was marginally higher for the year ended December 31, 2011 when compared to 24.0% for the year ended December 31, 2010 primarily as a result of higher tax rates in the US despite 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. At December 31, 2011, management determined that the carrying value of these identified intangible assets were in excess of their respective recoverable amounts. As a result, an impairment charge was recorded resulting in a further drawdown of the deferred income tax liability of $3.1 million. 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 year ended December 31, 2011 was $33.0 million compared to net income of $132.7 million for the year ended December 31, 2010. The decrease in 2011 as compared to 2010 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 year ended December 31, 2011 was $0.20, versus $0.88 for the year ended December 31, 2010.

Balance Sheet

Total assets at December 31, 2011 increased by $57.8 million to $400.5 million. Cash and cash equivalents were $119.5 million, an increase of $38.3 million from December 31, 2010 due to cash inflows, including higher Management Fees, the monetization of prior year's accrued Performance Fees and the collection of commissions by GRIL and SPW that more than offset the cash outflow from operating expenses, purchase of proprietary investments and the payment of bonuses, taxes and dividends.

Proprietary investments are comprised of investments in various Funds that we manage, including those managed by RCIC, notes receivable, equities and warrants, including an investment in SRLC and gold and silver bullion. Proprietary investments are discussed in more detail in the Revenue section of this MD&A.

Fees receivable at December 31, 2011 were $10.2 million, which is a decrease of $198.9 million since 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.

Intangible assets as at December 31, 2011 of $39.9 million consist of finite and indefinite life intangible assets. Intangible assets with indefinite useful lives relate to costs incurred to create fund management contracts between SAM and certain Funds managed by SAM. 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. At December 31, 2011, management determined that the carrying value of the finite life fund management contracts and carried interests were in excess of their respective recoverable amounts. As a result, an impairment charge was recorded in the amount of $7.7 million. Management will continue to monitor the recoverable amount of these intangible assets on a quarterly basis and, if appropriate, may reverse all or part of these impairment losses in future periods. Deferred sales commissions are recorded at cost and amortized on a straight line basis over a maximum of three years. Deferred sales commissions at December 31, 2011 of $2.2 million were $1.3 million more than at December 31, 2010. During 2011, $2.1 million in commissions were paid for low load funds partially offset by amortization of $0.8 million.

The acquisition of the Global Companies in the first quarter of 2011 resulted in goodwill of $125.7 million at December 31, 2011. Included in goodwill is $3.6 million of foreign exchange differences which form part of other comprehensive income. 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. As at December 31, 2011, the goodwill recorded by the Company was not impaired.

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 $10.4 million at December 31, 2011, which is a decrease of $6.6 million from December 31, 2010. This 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 $24.2 million at December 31, 2011 compared to $61.6 million at December 31, 2010. The decrease from December 31, 2011 primarily reflects the payment of the fiscal 2010 year-end bonus during 2011.

RESULTS OF OPERATIONS - REPORTABLE SEGMENTS

SAM Segment

The SAM segment provides asset management services to the Company's branded Funds and Managed Accounts and includes the operating results of SAM.

Results of operations - SAM Segment

For the year ended December 31 ($ in thousands)	**2011**	2010
Revenue		
Management fees	**125,838**	97,661
Performance fees	**5,303**	200,054
Other	**1,762**	629
Total revenue	**132,903**	298,344
Expenses		
General and administrative	**41,979**	83,749
Trailer fees	**37,058**	30,857
Amortization of intangibles, property and equipment	**1,813**	934
Total expenses	**80,850**	115,540
Income before income taxes for the year	**52,053**	182,804
EBITDA	**54,100**	184,767
Base EBITDA	**51,168**	34,585

Year ended December 31, 2011 compared to year ended December 31, 2010

Revenues

During the year ended December 31, 2011, total revenues decreased by $165.4 million (55.5%) from $298.3 million in the year ended December 31, 2010 to $132.9 million in the year ended December 31, 2011.

Revenues from Management Fees were $125.8 million for the year ended December 31, 2011, an increase of 28.9% from the year ended December 31, 2010. The increase was mainly attributable to 56.9% increase in the average AUM from 2010.

Revenues from gross Performance Fees were $5.3 million for the year ended December 31, 2011 versus $200.1 million for the year ended December 31, 2010. The decline was due to negative performance in most of our funds in 2011.

Other revenues were $1.8 million for the year ended December 31, 2011, an increase of $1.1 million from the year ended December 31, 2010. The largest components of other revenue are interest income and early redemption fees.

Expenses

Total expenses for the year ended December 31, 2011 were $80.9 million a decrease of $34.7 million or 30.0%, compared with $115.5 million for the year ended December 31, 2010.

General and administrative (including compensation and benefits) expense for the year ended December 31, 2011 amounted to $42.0 million versus $83.7 million for the year ended December 31, 2010. The largest component of the decrease from the prior year relates to the discretionary employee bonus pool. This was partially offset by increases in various other expenses resulting from the net increase in headcount during the year. Increases in 2011 were also experienced in sub-advisory fees, marketing, trading costs and Fund expenses due to the business expansion resulting from the launch of new Funds. Excluding the discretionary employee bonus pool, compensation and benefits for the year ended December 31, 2011 decreased by $2.6 million from the year ended December 31, 2010, primarily as a result of the formal establishment of a shared services group of employees at Corporate that were transferred from SAM.

Trailer fees for the year ended December 31, 2011 were $37.1 million versus $30.9 million, an increase of 20.1% over the corresponding period of 2010. The increase was attributable to the increase in the average AUM of our mutual Funds and domestic hedge Funds which are the primary products to which trailer fees relate.

Amortization of intangibles increased by $0.9 million for the year ended December 31, 2011 when compared to the year ended December 31, 2010, mostly due to an increase in the payout of deferred sales commissions resulting in higher amortization and nominal increases to the amortization of property and equipment during the year ended December 31, 2011 when compared to the year ended December 31, 2010.

EBITDA and Base EBITDA

For the year ended December 31, 2011, EBITDA was $54.1 million compared with $184.8 million for the year ended December 31, 2010. The decrease in EBITDA in 2011 when compared to 2010 is mainly a result of lower Performance Fees reported in the current year.

For the year ended December 31, 2011, Base EBITDA was $51.2 million compared with $34.6 million in the year ended December 31, 2010. Base EBITDA for 2011 increased when compared to 2010 mostly due to higher Management Fees generated on a higher level of average AUM in the current year.

Global Companies Segment

The Global Companies segment provides asset management services to the Company's branded Funds in the US and also provides securities trading services to its clients and includes the operating results of GRIL, RCIC and SAM USA.

Results of operations - Global Companies Segment

For the 11 months ended December 31 (in $ thousands)	**2011**	2010
Revenue		
Management fees	**9,676**	—
Commissions	**12,649**	—
Other	**(2,288)**	—
Total revenue	**20,037**	—
Expenses		
General and administrative	**16,394**	—
Amortization of intangibles, property and equipment	**14,199**	—
Total expenses	**30,593**	—
Loss before income taxes for the year	**(10,556)**	—
EBITDA	**7,559**	—
Base EBITDA	**9,808**	—

Year ended December 31, 2011

Revenues

The acquisition of the Global Companies added $20.0 million in total revenues for the 11 months ended December 31, 2011.

Revenues from Management Fees were $9.7 million for the 11 months ended December 31, 2011 on average AUM of $524.3 million.

Revenue from Commissions were $12.6 million for the 11 months ended December 31, 2011. These commissions were generated by GRIL from the trading of securities by clients and from the sale to clients of new and follow-on offerings of products or shares of companies managed by SAM, or SC, and through private placements of unrelated companies.

Losses from our capital that is invested in our proprietary investments (realized and unrealized) make up the majority of the Other revenue category of negative $2.3 million for the 11 months ended December 31, 2011.

Expenses

The acquisition of the Global Companies added $30.6 million in total expenses for the 11 months ended December 31, 2011.

General and administrative (including compensation and benefits) expenses for the 11 months ended December 31, 2011 were $16.4 million. The largest component of general and administrative is compensation and benefits followed by stock-based compensation relating to earn-out shares (see note 8) with other significant expenses consisting of rent, professional fees and expenses relating to its brokerage business.

Amortization of intangibles, property and equipment of $14.2 million relates primarily to those intangible assets identified as part of the acquisition of the Global Companies. At December 31, 2011, management determined that the carrying value of the fund management contracts and carried interests were in excess of their respective recoverable amounts. As a result, an impairment charge was recorded in the amount of $7.7 million ($4.6 million after tax). Management will continue to monitor the recoverable amount of these intangible assets on a quarterly basis and, if appropriate, may reverse all or part of these impairment losses in future periods. The intangible assets are amortized on a straight-line basis over 7 years.

EBITDA and Base EBITDA

For the 11 months ended December 31, 2011, acquisition of Global Companies contributed $7.6 million to EBITDA and $9.8 million to Base EBITDA.

Corporate Segment

The Corporate segment provides treasury and common shared services to the Company's business units and includes the operating results of Sprott Inc. without the effect of consolidating its subsidiaries.

Results of operations - Corporate Segment

For the year ended December 31 ($ in thousands)	**2011**	2010
Revenue		
Other	**(4,732)**	13,057
Total revenue	**(4,732)**	13,057
Expenses		
General and administrative	**3,710**	29,400
Amortization of property and equipment	**70**	—
Total expenses	**3,780**	29,400
Loss before income taxes for the year	**(8,512)**	(16,343)
EBITDA	**(8,200)**	9,578
Base EBITDA	**(2,317)**	687

Year ended December 31, 2011 compared to year ended December 31, 2010

Revenues

During the year ended December 31, 2011, total revenues decreased by $17.8 million from $13.1 million in the year ended December 31, 2010 to negative $4.7 million in the year ended December 31, 2011.

Losses from our capital that is invested in our proprietary investments (realized and unrealized) offset partially by interest income make up the majority of Other revenue. For the year ended December 31, 2011, the Corporate segment recorded net realized and unrealized losses on proprietary investments compared to net realized and unrealized gains recorded for the year ended December 31, 2010.

Expenses

Total expenses for the year ended December 31, 2011 were $3.8 million, a decrease of $25.6 million or 87.1%, compared with $29.4 million for the year ended December 31, 2010.

General and administrative (including compensation and benefits) expenses decreased by $25.7 million to $3.7 million for the year ended December 31, 2011 when compared to the year ended December 31, 2010. Included in this expense category is stock-based compensation. In 2010, a share incentive program was personally funded by Mr. Sprott for the benefit of the Company's new Chief Executive Officer and the Company's President for $25.7 million. In addition, and despite an increase in the level of business activities, general and administrative expenses declined (excluding the effect of stock-based compensation) mostly due to the recovery of general and administrative costs from the other reporting segments in 2011. General and administrative costs were not recovered from the other reporting segments in 2010.

EBITDA and Base EBITDA

For the year ended December 31, 2011, EBITDA was negative $8.2 million compared with positive $9.6 million for the year ended December 31, 2010. EBITDA decreased for the year ended December 31, 2011 when compared to the year ended December 31, 2010, mainly as a result of realized and unrealized losses previously discussed. Base EBITDA was negative $2.3 million for the year ended December 31, 2011 compared with positive $0.7 million in the year ended December 31, 2010, predominately as a result of the formal establishment of a shared services group of employees during 2011 that did not exist in 2010.

Other Segment

The Other segment includes the operations of SC and SPW, our consulting and private wealth businesses, respectively.

Results of operations - Other Segment

For the year ended December 31 ($ in thousands)	**2011**	2010
Revenue		
Management fees	**11,311**	6,025
Commissions	**1,530**	6,211
Other	**11,786**	9,112
Total revenue	**24,627**	21,348
Expenses		
General and administrative	**13,595**	13,215
Trailer fees	**—**	40
Amortization of property and equipment	**30**	(1)
Total expenses	**13,625**	13,254
Income before income taxes for the year	**11,002**	8,094
EBITDA	**11,032**	8,093
Base EBITDA	**10,746**	8,113

Year ended December 31, 2011 compared to year ended December 31, 2010

Revenues

During the year ended December 31, 2011, total revenues increased by $3.3 million from $21.3 million in the year ended December 31, 2010 to $24.6 million in the year ended December 31, 2011.

Revenues from Management Fees were $11.3 million for the year ended December 31, 2011, an increase of 87.7% from the year ended December 31, 2010. The increase was mainly attributable to a 69.9% increase in the average AUM on which management fees are earned and the recognition of Management Fees from SRLC that included 4 months of revenue from fiscal 2011.

Commission revenue for the year ended December 31, 2011, was $1.5 million compared to $6.2 million during the year ended December 31, 2010. The decline in Commissions was mainly due to substantial commissions earned by SPW on the sale of units of Sprott Physical Gold Trust and Sprott Physical Silver Trust to its clients in 2010.

Trailer fee income received from SAM is the significant component of Other revenue and increased during the current year as a result of the increase in the average trailer paying AUA of SPW. This inter-company revenue received is eliminated upon consolidation.

Expenses

General and administrative (including compensation and benefits) expenses for the year ended December 31, 2011 were $13.6 million, a slight increase from the prior year of $13.2 million. The largest component of general and administrative is compensation and benefits which decreased in the current year but was offset by increases in costs attributable to shared services charged previously explained under the Corporate segment.

EBITDA and Base EBITDA

For the year ended December 31, 2011, EBITDA was $11.0 million compared with $8.1 million for the year ended December 31, 2010. The increase in EBITDA in 2011 when compared to 2010 is mainly a result of higher Management Fees and trailer fee income partially offset by lower Commission revenue.

For the year ended December 31, 2011, Base EBITDA was $10.7 million compared with $8.1 million for the year ended December 31, 2010. Base EBITDA for 2011 increased when compared to 2010 for the same reasons indicated in the previous paragraph.

SUMMARY OF QUARTERLY RESULTS

($ in thousands)	As at 31-Mar-10	As at 30-Jun-10	As at 30-Sep-10	As at 31-Dec-10	As at 31-Mar-11	As at 30-Jun-11	As at 30-Sep-11	As at 31-Dec-11
Assets Under Management	5,155,224	5,546,430	6,513,445	8,545,276	9,677,558	9,292,186	9,881,291	**9,137,084**

($ in thousands, except per share amounts)	3 Months ended 31-Mar-10	3 Months ended 30-Jun-10	3 Months ended 30-Sep-10	3 Months ended 31-Dec-10	3 Months ended 31-Mar-11	3 Months ended 30-Jun-11	3 Months ended 30-Sep-11	3 Months ended 31-Dec-11
Income Statement Information								
Revenue								
Management fees	23,248	24,212	24,692	31,534	35,547	37,228	40,350	**33,700**
Performance fees	—	196	719	199,139	170	615	1,990	**2,528**
Commissions	2,577	432	326	2,876	3,027	4,864	3,427	**2,861**
Unrealized and realized gain (loss) on proprietary investments	(427)	949	2,852	5,639	362	(3,996)	(2,389)	**(1,963)**
Other income	334	812	501	2,890	409	582	953	**987**
Total revenue	25,732	26,601	29,090	242,078	39,515	39,293	44,331	**38,113**
Net income	6,427	7,766	9,954	108,554	10,566	7,489	10,358	**4,625**
EBITDA	9,913	11,381	13,746	167,397	17,400	14,606	17,389	**15,078**
Base EBITDA	10,340	10,285	10,355	12,404	16,911	18,141	18,285	**16,050**
Basic and diluted earnings per share	0.04	0.05	0.07	0.72	0.07	0.04	0.06	**0.03**

Performance Fees are earned on the last day of the fiscal year other than for the Funds that are managed by RCIC and a Managed Account that was opened during 2011. As a result, quarters ending December 31 are significantly more variable than other quarters during the year.

In the fourth quarter of 2011, Performance Fees in the amount of $2.5 million were accrued. In the fourth quarter of 2010, total Performance Fees of $199.1 million were recorded. Of the $2.5 million (2010 - $199.1 million), $2.5 million (2010 - $192.8 million) of Performance Fees were generated from Funds, $nil (2010 - $6.3 million) from Managed Accounts and $nil (2010 - $nil) from Managed Companies.

There is generally no other seasonality to our earnings and the trends in fees and expenses relate primarily to the level of our AUM.

At December 31, 2011, management determined that the carrying value of the fund management contracts and carried interests were in excess of their respective recoverable amounts. As a result, an impairment charge was recorded in the amount of $7.7 million ($4.6 million after tax). Management will continue to monitor the recoverable amount of these intangible assets on a quarterly basis and, if appropriate, may reverse all or part of these impairment losses in future periods.

The fourth quarter of 2011 saw AUM decrease by $744 million from $9,881 million at September 30, 2011 to $9,137 million at December 31, 2011. The decrease reflects a combination of net redemptions of $59 million and net market value depreciation of $685 million primarily from the Company's Funds and Managed Accounts.

Pursuant to the acquisition of the Global Companies as explained in greater detail earlier in this MD&A, on February 4, 2011, the Company issued 19,467,500 common shares from treasury (see note 3 to the audited consolidated financial statements) increasing the number of common shares outstanding of the Company to 169,467,500. Prior to this, the Company had 150,000,000 issued and outstanding common shares. The consolidated results shown in the table above include the results of the Global Companies from the date of that acquisition.

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.

On June 1, 2011, a dividend of $0.03 per common share was declared for the quarter ended March 31, 2011. This dividend was paid on June 27, 2011 to shareholders of record at the close of business on June 10, 2011.

On August 9, 2011, a dividend of $0.03 per common share was declared for the quarter ended June 30, 2011. This dividend was paid on September 2, 2011 to shareholders of record at the close of business on August 18, 2011.

On November 8, 2011, a dividend of $0.03 per common share was declared for the quarter ended September 30, 2011. This dividend was paid on December 2, 2011 to shareholders of record at the close of business on November 17, 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 December 31, 2011, capital stock had increased by $168.3 million to $208.4 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 and the purchase of 385,423 common shares by the Trust for the EPSP. As at December 31, 2011, the Company had 169,467,500 common shares issued and outstanding.

Pursuant to the Share Purchase agreement relating to the Global Companies acquisition, an additional 532,500 common shares of the Company 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 over a period not exceeding five years from the date of the acquisition of the Global Companies.

Earnings per share as at December 31, 2011 and December 31, 2010 have been calculated using the weighted average number of shares outstanding during the respective periods. Basic and diluted earnings per share were $0.20 for the year ended December 31, 2011 and $0.88 for the year ended December 31, 2010. For the current year, diluted earnings per share reflects the dilutive effect of in-the-money stock options, shares held for the equity incentive plan 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 canceled 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 December 31, 2011, 2,516,667 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. 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 December 31, 2011, the Company had not drawn down any part of this credit facility.

SPW is a member of IIROC and a registered investment dealer and SAM is an OSC registrant in the category of IFM, PM and EMD, and as such each of SPW and SAM 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, GRIL 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 year ended December 31, 2011, SAM, SPW and GRIL were in compliance with specified capital requirements.

Critical Accounting Estimates

These audited consolidated financial statements were prepared in accordance with IFRS, using the accounting policies the Company adopted in its audited 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.

The preparation of the financial statements in conformity with IFRS requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may vary from the current estimates. Items that require the use of estimates and assumptions include income taxes, share-based payments and the valuation of goodwill, intangible assets and certain proprietary investments.

A portion of Performance Fee revenue is earned by a wholly-owned subsidiary that acts as the general partner to the domestic limited partnerships managed by us. For income tax purposes, as at the end of each income tax year these Performance Fees are an allocation of partnership income and, for the purposes of calculating taxable income, consists of capital gains and/or losses, interest income, dividend income, carrying charges and other types of income and expenses allocated to the general partner. We work with third party advisors to calculate allocations of partnership income, however, such allocations involve a certain degree of estimation. Income tax estimates could change as a result of change 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.

Stock-based compensation expense is estimated based on the value of the option on its grant date. Management adopted a fair value-based valuation methodology as required by IFRS that will best determine the value of options and the cost over the vesting period of the option. The valuation model utilizes multiple observable market inputs including interest rates, however the model requires judgment and assumptions be applied in determining certain inputs including expected volatility and expected option life. Management reviews all inputs on a regular basis to ensure consistency of application and reasonableness. Details regarding stock options granted, including key inputs and assumptions are contained in note 8 to the Company's audited consolidated financial statements.

As a result of the acquisition of the Global Companies in 2011, finite life intangible assets and goodwill were identified. The values associated with goodwill and intangibles involve estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates, asset lives and the future stock price of the Company. These estimates require significant judgment regarding market growth rates, fund flow assumptions, expected margins and costs which could affect the Company's future results if the current estimates of future performance and fair value change. These determinations also affect the amount of amortization expense on fund management contracts with finite lives recognized in future periods. Management monitors for indicators of impairment on a regular basis and performs thorough valuations to verify the value of the intangibles and goodwill should an indicator of impairment exist.

The Company's proprietary investments are designated as fair value through profit or loss. Some of these investments are generally not traded in an active market. Management monitors all proprietary investments on a regular basis and makes all reasonable efforts to obtain publicly available information related to such investments. However, since the amount of information for investments that are not publicly traded is often limited, fair value of these investments could subsequently prove to differ from amounts at which they are carried on the balance sheet.

Certain fees recoverable from Funds or third parties relate to new investment products and are contingent upon a successful completion of such product launches. Management evaluates such assets on a regular basis and only capitalizes the portion of the recoverable that is more likely than not to be recovered.

We review all estimates periodically and, as adjustments become necessary, they are reported in income in the period in which they become known.

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 consolidated financial statements for the year ended December 31, 2011. In addition, note 16 to these consolidated financial statements presents reconciliations between the Company's 2010 Canadian 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 $417 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 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 year ended December 31, 2010 increased by $1.5 million to $132.7 million under IFRS from $131.2 million under Canadian GAAP. The change in net income increased the earnings per share by $0.01 to $0.88 under IFRS from $0.87 under Canadian GAAP.

EBITDA for the year ended December 31, 2010 increased by $0.5 million from $201.9 million under Canadian GAAP to $202.4 million under IFRS. Base EBITDA remained consistent at $43.4 million under Canadian GAAP and IFRS. EBITDA per share for the year ended December 31, 2010 remained consistent at $1.35 under Canadian GAAP and IFRS. Base EBITDA per share for the year ended December 31, 2010 remained consistent at $0.29 under Canadian GAAP and IFRS.

Impact of IFRS on earnings volatility

In the periods where the company issues 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 audited 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 16 to the audited 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, the CEO of the Company and Mr. Bambrough, the President of the Company, 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 8 of the Company's audited consolidated financial statements for additional information.

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 and AUA; insufficient insurance coverage; possible volatility of the share price; and control by a principal shareholder. A full description of the Company's risks are discussed in the Company's Annual Information Form dated March 27, 2012 and is available on SEDAR.

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, RCIC and SAM US, 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 and GRIL, 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, SPW, GRIL and SAM US 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 December 31, 2011 and concluded that the controls have been properly designed and are operating effectively.

During 2011, the Company acquired the Global Companies which required the Company to develop and implement additional internal controls over financial reporting to reflect (i) the location of the Global Companies in California and (ii) the goodwill and intangible assets identified as a result of the acquisition. There were no other changes in the Company's internal control over financial reporting that occurred during fiscal 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, including the Company's Annual Information Form is available on SEDAR at www.sedar.com.

Consolidated Financial Statements

Year-ended December 31, 2011

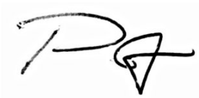
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements, which consolidate the financial results of Sprott Inc. (the "Company"), were prepared by management, who are responsible for the integrity and fairness of all information presented in the consolidated financial statements and management's discussion and analysis ("MD&A") for the year ended December 31, 2011. The consolidated financial statements were prepared by management in accordance with International Financial Reporting Standards. Financial information presented in the MD&A is consistent with that in the consolidated financial statements.

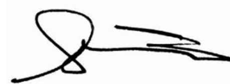
In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized in note 2 of the consolidated financial statements. Management maintains a system of internal controls to meet its responsibilities for the integrity of the consolidated financial statements.

The board of directors (the "Board of Directors") of the Company appoints the Company's audit committee (the "Audit Committee") annually. Among other things, the mandate of the Audit Committee includes the review of the consolidated financial statements of the Company on a quarterly basis and the recommendation to the Board of Directors for approval. The Audit Committee has access to management and the auditors to review their activities and to discuss the external audit program, internal controls, accounting policies and financial reporting matters.

Ernst & Young LLP performed an independent audit of the consolidated financial statements, as outlined in the auditors' report contained herein. Ernst & Young LLP had, and has, full and unrestricted access to management of the Company, the Audit Committee and the Board of Directors to discuss their audit and related findings and have the right to request a meeting in the absence of management at any time.



Peter Grosskopf
Chief Executive Officer



Steven Rostowsky
Chief Financial Officer

March 27, 2012

INDEPENDENT AUDITORS' REPORT

To the shareholders of Sprott Inc.

We have audited the accompanying consolidated financial statements of Sprott Inc. ("Sprott"), which comprise the consolidated balance sheets as at December 31, 2011 and 2010 and January 1, 2010, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

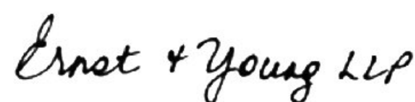
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sprott as at December 31, 2011 and 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Toronto, Canada
March 27, 2012



Chartered Accountants
Licensed Public Accountants

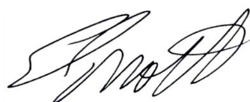
CONSOLIDATED BALANCE SHEETS

As at *($ in thousands of Canadian dollars)*		**December 31, 2011**	December 31, 2010	January 1, 2010
Assets				
Current				
Cash and cash equivalents		**119,506**	81,209	49,010
Fees receivable		**10,199**	209,078	12,751
Other assets	*(Note 7)*	**2,800**	2,025	2,248
Total current assets		**132,505**	292,312	64,009
Proprietary investments	*(Note 4)*	**78,484**	42,614	28,257
Property and equipment, net	*(Note 5)*	**5,126**	3,705	4,298
Goodwill and intangibles	*(Note 6)*	**165,655**	2,201	94
Deferred income taxes	*(Note 9)*	**18,766**	1,935	1,289
		268,031	50,455	33,938
Total assets		**400,536**	342,767	97,947
Liabilities and Shareholders' Equity				
Current				
Accounts payable and accrued liabilities		**10,404**	17,010	4,546
Compensation and employee bonuses payable		**24,199**	61,644	9,192
Income taxes payable		**47,503**	47,991	7,323
Total current liabilities		**82,106**	126,645	21,061
Deferred income taxes	*(Note 9)*	**16,989**	1,860	524
Total liabilities		**99,095**	128,505	21,585
Shareholders' equity				
Capital stock	*(Note 8)*	**208,413**	40,105	40,105
Contributed surplus	*(Note 8)*	**40,857**	32,406	5,457
Retained earnings		**47,038**	141,751	30,800
Accumulated other comprehensive income		**5,133**	—	—
Total shareholders' equity		**301,441**	214,262	76,362
Total liabilities and shareholders' equity		**400,536**	342,767	97,947

See accompanying notes

Events after the reporting period (Note 18)

On behalf of the Board



Eric Sprott
Director,
Chairman

James Roddy
Director,
Chair of Audit Committee

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31 ($ in thousands of Canadian dollars, except for per share amounts)		**2011**	2010
Revenue			
Management fees		**146,825**	103,686
Performance fees		**5,303**	200,054
Commissions		**14,179**	6,211
Unrealized and realized gains (losses) on proprietary investments		**(7,986)**	9,013
Other income	*(Note 7)*	**2,931**	4,537
Total revenue		**161,252**	323,501
Expenses			
Compensation and benefits		**48,711**	83,664
Stock-based compensation		**4,391**	26,949
Trailer fees		**25,716**	21,649
General and administrative		**21,326**	13,369
Donations		**1,027**	2,382
Amortization of intangibles	*(Note 6)*	**14,900**	176
Amortization of property and equipment		**1,212**	757
Total expenses		**117,283**	148,946
Income before income taxes for the year		**43,969**	174,555
Provision for income taxes	*(Note 9)*	**10,931**	41,854
Net income for the year		**33,038**	132,701
Basic earnings per share		**$ 0.20**	$ 0.88
Diluted earnings per share		**$ 0.20**	$ 0.88

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31 ($ in thousands of Canadian dollars)	**2011**	2010
Net income for the year	**33,038**	132,701
Other comprehensive income		
Foreign currency translation gain on foreign operations, before taxes	**5,133**	—
Total other comprehensive income	**5,133**	—
Comprehensive income	**38,171**	132,701

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

($ in thousands of Canadian dollars, other than number of shares)		Number of Shares Outstanding	Capital Stock	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
At January 1, 2011		**150,000,000**	**40,105**	**32,406**	**141,751**	**—**	**214,262**
Business acquisition	*(Note 3)*	**19,467,500**	**168,783**	**—**	**—**	**—**	**168,783**
Shares held for equity incentive plan	*(Note 8)*	**(385,423)**	**(475)**	**(2,199)**	**—**	**—**	**(2,674)**
Foreign currency translation gain on foreign operations		**—**	**—**	**—**	**—**	**5,133**	**5,133**
Additional purchase consideration	*(Note 3)*	**—**	**—**	**4,753**	**—**	**—**	**4,753**
Stock-based compensation		**—**	**—**	**4,391**	**—**	**—**	**4,391**
Deferred tax asset on stock-based compensation		**—**	**—**	**1,506**	**—**	**—**	**1,506**
Special dividends paid		**—**	**—**	**—**	**(108,000)**	**—**	**(108,000)**
Regular dividends paid		**—**	**—**	**—**	**(19,751)**	**—**	**(19,751)**
Net income		**—**	**—**	**—**	**33,038**	**—**	**33,038**
Balance, December 31, 2011		**169,082,077**	**208,413**	**40,857**	**47,038**	**5,133**	**301,441**
At January 1, 2010		**150,000,000**	**40,105**	**5,457**	**30,800**	**—**	**76,362**
Stock-based compensation		**—**	**—**	**1,242**	**—**	**—**	**1,242**
Share incentive program		**—**	**—**	**25,707**	**—**	**—**	**25,707**
Regular dividends paid		**—**	**—**	**—**	**(15,750)**	**—**	**(15,750)**
Special dividend paid		**—**	**—**	**—**	**(6,000)**	**—**	**(6,000)**
Net income		**—**	**—**	**—**	**132,701**	**—**	**132,701**
Balance, December 31, 2010		**150,000,000**	**40,105**	**32,406**	**141,751**	**—**	**214,262**

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 ($ in thousands of Canadian dollars)	**2011**	2010
Operating Activities		
Net income for the year	**33,038**	132,701
Add (deduct) non-cash items:		
Unrealized and realized (gains) losses on proprietary investments	**7,986**	(9,013)
Stock-based compensation	**4,391**	26,949
Amortization of property and equipment	**1,212**	757
Amortization of intangible assets	**14,900**	176
Income taxes	**21,068**	41,164
Deferred income taxes (recovery)	**(10,137)**	690
Other items	**(2,831)**	(654)
Income taxes paid	**(21,722)**	(497)
Changes in:		
Fees receivable	**201,630**	(196,327)
Other assets	**(1,322)**	223
Accounts payable and accrued liabilities	**(8,077)**	12,464
Compensation and employee bonuses payable	**(37,912)**	52,452
Effect of foreign exchange on cash balances	**364**	—
Cash provided by operating activities	**202,588**	61,085
Investing Activities		
Purchase of proprietary investments	**(38,377)**	(25,432)
Sale of proprietary investments	**2,785**	20,743
Purchase of property and equipment	**(2,569)**	(164)
Deferred sales commissions paid	**(2,122)**	(913)
Indefinite life fund management contracts	**—**	(1,370)
Cash acquired on acquisition	**6,417**	
Cash used in investing activities	**(33,866)**	(7,136)
Financing Activities		
Acquisition of common shares for long-term incentive plan	**(2,674)**	—
Dividends paid	**(127,751)**	(21,750)
Cash used in financing activities	**(130,425)**	(21,750)
Net increase in cash and cash equivalents during the year	**38,297**	32,199
Cash and cash equivalents, beginning of the year	**81,209**	49,010
Cash and cash equivalents, end of the year	**119,506**	81,209
Cash and cash equivalents:		
Cash	**26,038**	15,341
Short-term deposits	**93,468**	65,868
	119,506	81,209

See accompanying notes

1. CORPORATE INFORMATION

Sprott Inc. (the "Company") was incorporated under the Business Corporations Act (Ontario) on February 13, 2008. Its registered office is at Royal Bank Plaza, South Tower, 200 Bay Street, Suite 2700, Toronto, Ontario, M5J 2J2.

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. ("GRIL"), Sprott Asset Management USA Inc. ("SAM US") (formerly Terra Resource Investment Management, Inc.) and Resource Capital Investment Corporation ("RCIC") (collectively, the "Global Companies")). GRIL is a California limited partnership that operates as a securities broker-dealer and SAM US 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). As these are the first financial statements presented in accordance with IFRS, disclosures are in note 16 to describe how the Company adopted IFRS as required by IFRS 1 - *First-Time Adoption of IFRS*.

The consolidated financial statements of the Company for the year ended December 31, 2011 were authorized for issue by a resolution of the Board of Directors on March 27, 2012.

Basis of pr esentation

These consolidated financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities designated as held for trading or held at fair value through profit or loss both of which have been measured at fair value. The consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand ($000), except when otherwise indicated.

Principles of consolidation

These consolidated financial statements comprise those 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 limited partnerships are Sprott Asset Management LP ("SAM"), Sprott Private Wealth LP ("SPW") and Sprott Consulting LP ("SC") while material 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, other than the Sprott Inc. 2011 Employee Profit Sharing Plan Trust (the "Trust"), which the Company is deemed to control.

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 and dividends are eliminated in full.

Recognition of income

The Company earns management fees from the funds, managed accounts and companies that it manages. 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 and GRIL 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 and GRIL and, particularly with respect to GRIL, from trading in stocks by clients of GRIL. 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, 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 those designated as fair value through income or loss are measured at fair value using quoted market prices in an active market. Changes in fair value of financial instruments 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 loans and receivables 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 notes receivable, gold and silver bullion) are designated as HFT or fair value through income or loss.
- Fees receivable and notes 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 consolidated balance sheets 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 instr uments

Financial assets and financial liabilities are offset and the net amount reported in the 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 is 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 and any impairment losses on intangible assets with finite lives is recognized in the 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 and certain of the funds managed by SAM 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, finite 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. Acquisition costs incurred are expensed and included in general and administrative expenses.

Goodwill, which is measured at cost less any accumulated impairment losses, 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 recoverable amount of the gash generating unit to which goodwill is allocated to its carrying value including the allocated goodwill. If the recoverable amount is less than its carrying value, an impairment loss is recognized in the consolidated statement of income in the period in which it occurs. Impairment losses on goodwill cannot be subsequently reversed. Goodwill is allocated to the appropriate cash-generating unit for the purpose of impairment testing.

Income taxes

Income tax is comprised of current and deferred tax. Income tax is recognized in the Consolidated Statement of Income except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the related taxes are also recognized in other comprehensive income or directly in equity respectively as part of a purchase transaction or to the extent it relates to items directly in other comprehensive income, or equity.

Deferred taxes are recognized using the liability method for temporary differences that exist between the carrying amounts of assets and liabilities in the Consolidated Balance Sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax assets and liabilities are determined based on the enacted or substantively enacted tax rates that are expected to apply when the assets or liabilities are reported for tax purposes such differences are expected to reverse in the future. Deferred tax assets are recognized only when it is probable that there are sufficient taxable profit will be available or taxable temporary differences reversing in future periods against which deductible temporary differences may be utilized.

Deferred taxes liabilities are not recognized on the following temporary differences:

- Temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Taxable temporary differences related to investments in subsidiaries, associates or joint to the extent they are controlled by the Company and they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

The Company records a provision for uncertain tax positions if it is probably that the Company will have to make a payable to tax authorities upon their examination of a tax position. This provision is measured at the Company's best estimate of the amount expected to be paid. Provisions are reversed to income in the period in which management assesses they are no longer required or determined by statute.

The measurement of tax assets and liabilities requires an assessment of the potential tax consequences of items that can only be resolved through agreement with the tax authorities. While the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred taxes.

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 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 8). Compensation expense for the earn-out shares is determined using an appropriate valuation model (see note 8). The amount of compensation expense is recognized over the vesting period with a corresponding increase to contributed surplus. 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 and unvested shares purchased for the Employee Profit Sharing Plan by the Trust. The treasury stock method determines the number of incremental common shares by assuming that the number of shares the Company has granted to employees have been issued.

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, 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 dates of the consolidated balance sheets. Revenue and expenses are translated at the average rate over the reporting period. 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.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to management. Management is responsible for allocating resources and assessing performance of the operating segments to make strategic decisions.

Significant accounting judgments 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 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. Impairment of goodwill and intangible assets

Goodwill and indefinite life intangible assets are reviewed for impairment annually or more frequently if changes in circumstances indicate that the carrying value may be impaired. The values associated with goodwill and intangibles involve estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates, asset lives and the future stock price of the Company. These estimates require significant judgment regarding market growth rates, fund flow assumptions, expected margins and costs which could affect the Company's future results if the current estimates of future performance and fair value change. These determinations also affect the amount of amortization expense on fund management contracts with finite lives recognized in future periods.

ii. Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the 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 10.

iii. 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 on 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.

iv. 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.

v. 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

The Company is currently evaluating the impact the following new standards issued or amended by the IASB will have on its financial statements. The Company has not yet determined whether to early adopt any of the new or amended standards.

International Accounting Standard	*Issue Date / Amendment Date*	*Effective Date*
IAS 1 - Presentation of Financial Statements	June 16, 2011	July 1, 2012
IFRS 10 - Consolidated Financial Statements	May 12, 2011	January 1, 2013
IFRS 12 - Disclosures of Interests in Other Entities	May 12, 2011	January 1, 2013
IFRS 13 - Fair Value Measurement	May 12, 2011	January 1, 2013
IFRS 9 - Financial Instruments	November 12, 2009	January 1, 2015

IAS 1, *Presentation of Financial Statements,* was amended to require entities to group together items within other comprehensive income (loss) that may be reclassified to net income (loss).

IFRS 10, *Consolidated Financial Statements* ("IFRS 10"), replaces the consolidation requirements in SIC-12, *Consolidation - Special Purpose Entities* and IAS 27, *Consolidated and Separate Financial Statements.* IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.

IFRS 12, *Disclosures of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interest in other entities.

IFRS 13, *Fair Value Measurements,* establishes the definition of fair value and sets out a single IFRS framework for measuring fair value and the required disclosures.

IFRS 9, *Financial Instruments* (“IFRS 9”), will replace IAS 39 *Financial Instruments: Recognition and Measurement* (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules presently in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

There are no other IFRSs interpretations that are not yet effective that would be expected to have a material impact on the financial statements.

3. BUSINESS ACQUISITION

On February 4, 2011, the Company acquired all of the outstanding stock of Rule Investments, Inc. (the owner of GRIL), SAM US 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 a commitment to issue 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	10,081
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	122,129
Purchase consideration	173,400

Purchase consideration transferred	168,783
Additional purchase consideration (note 8)	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 $122.1 million, 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.

For the period January 1, 2011 to February 4, 2011, prior to the acquisition date, the Global Companies held excess net assets of the prior owner which were not purchased by the Company. The effects of the transactions relating to these excess net assets on the reported operations of the Global Companies for the period January 1, 2011 to February 4, 2011 is not representative of the operations of the Global Companies beginning on February 4, 2011. As a result, it is not practical or meaningful to report what the Company's net income would have been if the acquisition of the Global Companies occurred on January 1, 2011.

4. PROPRIETARY INVESTMENTS

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

	December 31, 2011	December 31, 2010	January 1, 2010
Gold bullion	**13,305**	7,931	6,435
Silver bullion	**9,776**	6,788	—
Public equities and share purchase warrants	**22,101**	21,387	4,674
Mutual funds and hedge funds	**14,936**	4,627	831
Private equities	**2,400**	1,881	1,979
Secured notes receivable	**15,966**	—	14,338
Total proprietary investments	**78,484**	42,614	28,257

As at December 31, 2011, investments in public equities and share purchase warrants consisted primarily of companies in the resource sector. These investments include $12.6 million in common shares of Sprott Resource Lending Corp., a public company listed on the TSX and NYSE Amex that is managed by a subsidiary of SC under a management services agreement.

Investments in mutual funds and hedge funds consist entirely of investments in mutual funds and hedge funds managed by SAM or RCIC.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following ($ in thousands):

	Artwork	Furniture and fixtures	Computer hardware and software	Leasehold improvements	Total
Cost					
At January 1, 2010	1,691	1,739	1,039	3,068	7,537
Additions	—	12	116	36	164
At December 31, 2010	1,691	1,751	1,155	3,104	7,701
Business acquisition	—	291	169	15	475
Additions	—	506	444	1,619	2,569
Net exchange differences	—	9	5	1	15
At December 31, 2011	**1,691**	**2,557**	**1,773**	**4,739**	**10,760**
Accumulated amortization					
At January 1, 2010	—	(1,077)	(1,016)	(1,146)	(3,239)
Charge for the period	—	(269)	(45)	(443)	(757)
At December 31, 2010	—	(1,346)	(1,061)	(1,589)	(3,996)
Business acquisition	—	(250)	(150)	(12)	(412)
Charge for the period	—	(280)	(237)	(695)	(1,212)
Net exchange differences	—	(3)	(10)	(1)	(14)
At December 31, 2011	**—**	**(1,879)**	**(1,458)**	**(2,297)**	**(5,634)**
Net Book Value at:					
January 1, 2010	1,691	662	23	1,922	4,298
December 31, 2010	1,691	405	94	1,515	3,705
December 31, 2011	**1,691**	**678**	**315**	**2,442**	**5,126**

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						
At January 1, 2010	—	—	—	—	98	98
Additions	—	1,370	—	—	913	2,283
At December 31, 2010	—	1,370	—	—	1,011	2,381
Business acquisition	122,129	—	20,399	28,821	—	171,349
Additions	—	—	—	—	2,122	2,122
Net exchange differences	3,601	—	602	850	—	5,053
At December 31, 2011	**125,730**	**1,370**	**21,001**	**29,671**	**3,133**	**180,905**
Accumulated amortization and impairment losses						
At January 1, 2010	—	—	—	—	(4)	(4)
Charge for the period	—	—	—	—	(176)	(176)
At December 31, 2010	—	—	—	—	(180)	(180)
Charge for the period	—	—	(4,713)	(9,398)	(789)	(14,900)
Net exchange differences	—	—	(76)	(94)	—	(170)
At December 31, 2011	**—**	**—**	**(4,789)**	**(9,492)**	**(969)**	**(15,250)**
Net Book Value at:						
January 1, 2010	—	—	—	—	94	94
December 31, 2010	—	1,370	—	—	831	2,201
December 31, 2011	**125,730**	**1,370**	**16,212**	**20,179**	**2,164**	**165,655**

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 evaluates 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.

i. Cash-generating units

The Company has five cash-generating units ("CGU") for the purpose of assessing the carrying value of the allocated goodwill, being SAM, Global Companies, Corporate and Other (includes two CGUs) operating segments as described in note 15.

ii. *Impairment testing of goodwill*

As at December 31, 2011, the Company had goodwill allocated across its CGUs as follows ($ in millions):

CGU	Allocated Goodwill
SAM	19.2
Global Companies	95.3
Corporate	—
SC	—
SPW	7.6
	122.1

The recoverable amount of goodwill for each of the five CGUs as at December 31, 2011 has been calculated at fair value less costs to sell, using a valuation multiple applied to a measure of earnings.

These methodologies are commonly used in the marketplace by independent equity research analysts.

The Global Companies' recoverable amount is valued at $162.1 million which is $18.9 million greater than its carrying value. Management has applied an estimated earnings multiple of 14.1 to fair value these earnings. A decrease in this earnings multiple by 1.6 to 12.5 would result in the recoverable amount of the Global Companies CGU equaling the carrying amount of the Global Companies CGU.

The calculation of the recoverable amounts exceeds the carrying amount of goodwill for each of the identified CGUs. Recent equity market performance, recent market transactions and the Company's current market capitalization provide additional evidence that the recoverable amount of goodwill is in excess of the carrying amount.

iii. *Impairment testing of indefinite life fund management contracts*

As at December 31, 2011 and December 31, 2010, the Company had indefinite life fund management contracts within the SAM CGU of $1.4 million. These are contracts for the management of exchange listed funds which have no expiry or termination provisions. The recoverable amount of indefinite life intangibles for the SAM operating segment as at December 31, 2011 and December 31, 2010 has been determined from a value in use calculation, by discounting, at 10%, a perpetuity based on the most recent estimated pre-tax cash flows to the Company by the applicable exchange listed funds.

The calculation of the recoverable amounts exceeds the carrying amount of indefinite life fund management contracts as at December 31, 2011 and December 31, 2010. Recent equity market performance provides additional evidence that the recoverable amount of indefinite life fund management contracts is in excess of the carrying amount.

iv. *Impairment testing of finite life fund management contracts*

As at December 31, 2011, the Company had finite life fund management contracts of $16.2 million within the Global Companies CGU. These are contracts for the management of funds that have a fixed termination date. The recoverable amount of these finite life fund management contracts as at December 31, 2011 has been determined from a value in use calculation, by discounting, at 15%, the most recent estimated net cash flows to the Company by these funds.

The calculated recoverable amount of these finite life fund management contracts required management to recognize an impairment loss of $2.0 million as the calculated recoverable amount resulted in a value greater than its carrying value. Management has assumed an annual rate of return of 24% for these funds to fair value these cash flows. A decrease in this rate of return by 1.5% to 22.5% would result in the recoverable amount of these finite life fund management contracts equaling the carrying amount.

The calculation of the recoverable amounts exceeds the carrying amount of finite life fund management contracts as at December 31, 2011.

v. *Impairment testing of finite life carried interests*

As at December 31, 2011, the Company had carried interests of $20.2 million within the Global Companies CGU. These are rights to participate in the profits of the funds managed by the Global Companies that have a fixed termination date. The recoverable amount of these carried interests as at December 31, 2011 has been determined from a value in use calculation, by discounting, at 35%, the most recent estimated net cash flows to the Company by these funds.

The calculated recoverable amount of these carried interests required management to recognize an impairment loss of $5.7 million as the calculated recoverable amount resulted in a value greater than its carrying value. Management has assumed an annual return rate of 24% for these funds to fair value these cash flows. A decrease in this rate of return by 0.5% to 23.5% would result in the recoverable amount of these carried interests equaling the carrying amount.

The calculation of the recoverable amounts exceeds the carrying amount of carried interests as at December 31, 2011.

7. OTHER ASSETS AND OTHER INCOME

Other assets consist primarily of prepaid expenses of the Company and receivables from our funds and managed companies for which the Company has incurred expenses on their behalf.

Other income consists primarily of interest income on cash and cash equivalent balances, income generated by our secured notes receivable and redemption fee revenue.

8. 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)
At January 1, 2010 and December 31, 2010	150,000,000	40,105
Issuance of share capital on business acquisition (Note 3)	19,467,500	168,783
Held for equity incentive plan	(385,423)	(475)
At December 31, 2011	**169,082,077**	**208,413**

Contributed surplus consists of the following:

i. stock option expense;

ii. equity incentive plans' expense;

iii. share incentive program expense;

iv. earn-out shares expense; and

v. additional purchase consideration.

	Stated value ($ in thousands)
At January 1, 2010	5,457
Expensing of 2,550,000 Sprott Inc. stock options over the vesting period	1,242
Expensing of share incentive program	25,707
At December 31, 2010	32,406
Expensing of 2,650,000 Sprott Inc. stock options over the vesting period	476
Expensing of earn-out shares over the vesting period	3,915
Deferred tax asset on earn-out shares	1,506
Additional purchase consideration	4,753
Excess on repurchase of common shares for equity incentive plan *	(2,199)
At December 31, 2011	**40,857**

* The excess on repurchase of common shares represents amounts paid to shareholders by the Company on repurchase of their shares in excess of the book value of those shares at the time of repurchase.

Stock option plan and share incentive program

Stock option plan

On June 2, 2011, the Company adopted an amended and restated 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 and under all other securities based compensation arrangements (including the EPSP and the EIP as defined below) shall not exceed 10% of the issued and outstanding shares of the Company as at the date of such grant. 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 year ended December 31, 2011 (200 thousand - December 31, 2010).

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)	9.06
Options outstanding, December 31, 2010	2,650	9.71
Options exercisable, December 31, 2010	1,633	10.00
Options outstanding, December 31, 2011	**2,650**	**9.71**
Options exercisable, December 31, 2011	**2,517**	**9.90**

Options outstanding and exercisable as at December 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	6.4	2,450
4.85	50	8.0	17
6.60	150	8.9	50
4.85 to 10.00	**2,650**	**6.5**	**2,517**

Equity incentive plan

On June 2, 2011, the Company adopted an Employee Profit Sharing Plan ("EPSP") for Canadian employees and an Equity Incentive Plan ("EIP") for its US employees. For employees in Canada, an employee benefit trust (the "Trust") has been established and the Company will fund the Trust with cash, which will be used by the trustee to purchase (a) on the open market, common shares of the Company that will be held in a trust by the trustee until the awards vest and are distributed to eligible members or (b) from treasury, common shares of the Company that will be held in trust by the trustee until the awards vest and are distributed to eligible members. For employees in the US, the Company will allot common shares of the Company as either (i) restricted stock, (ii) unrestricted stock or (iii) restricted stock units ("RSUs"), the resulting common shares of which will be issued from treasury.

There were no restricted stock, unrestricted stock or RSUs issued during the year ended December 31, 2011 (nil- December 31, 2010). The Trust purchased 385.4 thousand common shares for the year ended December 31, 2011 (nil-December 31, 2010).

	Number of common shares
Common shares held by the Trust, January 1, 2011	—
Acquired	385,423
Released on vesting	—
Common shares held by the Trust, December 31, 2011	**385,423**

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 a 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. 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 3), 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 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 3), 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. On February 6, 2012, 177,500 common shares of the Company were issued to employees of the Global Companies.

For the year ended December 31, 2011, the Company recorded share-based compensation expense of $4.4 million in aggregate (2010 - $26.9 million), with a corresponding increase to contributed surplus. Of the $4.4 million compensation expense, $3.9 million (2010 - $nil) relates to the earn-out shares, $0.5 million (2010 - $1.2 million) to the stock option plan and $nil (2010 - $25.7 million) to the share incentive program.

b. Basic and diluted earnings per share

The following table presents the calculation of basic and diluted earnings per common share:

For the year ended		December 31, 2011		December 31, 2010
Numerator ($ in thousands):				
Net income - basic and diluted		**33,038**		132,701
Denominator (Number of shares in thousands):				
Weighted average number of common shares		**167,601**		150,000
Weighted average number of unvested shares purchased by the Trust		**(36)**		—
Weighted average number of common shares - basic		**167,565**		150,000
Weighted average number of dilutive stock options *		**48**		—
Weighted average number of additional purchase consideration		**464**		—
Weighted average number of unvested shares purchased by the Trust		**36**		—
Weighted average number of common shares - diluted		**168,113**		150,000
Net income per common share				
Basic	**$**	**0.20**	$	0.88
Diluted	**$**	**0.20**	$	0.88

* 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 year ended December 31, 2011 (2,500 thousand for the year ended December 31, 2010)

c. Maximum share dilution

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

Shares outstanding at March 27, 2012 *	169,645
Additional purchase consideration	355
Options to purchase shares	2,650
Earn-out shares	8,000
	180,650

* 178 thousand shares of additional purchase consideration were issued on February 6, 2012.

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 is a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), SAM is a registrant of the Ontario Securities Commission ("OSC") and GRIL 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 year ended December 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 December 31, 2011, the Company had not accessed this Credit Facility. The Credit Facility is guaranteed by SAM and is secured by a general security agreement with SAM. 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.

9. INCOME TAXES

The major components of income tax expense is as follows ($ in thousands):

For the year ended	**December 31, 2011**	December 31, 2010
Current income tax expense		
Based on taxable income of the current year	**21,980**	41,147
Adjustments in respect of previous years	**(912)**	17
	21,068	41,164
Deferred income tax expense		
Origination and reversal of temporary differences	**(10,098)**	561
Impact of change in tax rates	**(39)**	129
	(10,137)	690
Income tax expense reported in the income statement	**10,931**	41,854

The tax on the Company's earnings before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to earnings of the Company as follows ($ in thousands):

For the year ended	**December 31, 2011**	December 31, 2010
Income before income taxes	**43,969**	174,555
Tax calculated at domestic tax rates applicable to profits in the respective countries	**10,105**	49,609
Tax effects of:		
Non-taxable stock-based compensation	**1,130**	7,659
Non-taxable portion of capital gains and unrealized gains	**786**	(12,301)
Non-taxable foreign affiliate income	**(170)**	(2,130)
Adjustments in respect of previous years	**(912)**	17
Rate differences and other	**(8)**	(1,000)
Tax charge	**10,931**	41,854

The weighted average applicable tax rate was 22.98% (2010 - 28.42%). The decrease is caused by a change in the profitability of the Company's subsidiaries in the respective countries because of the addition of the Global Companies resident in the US.

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 is as follows ($ in thousands):

Year ended December 31, 2011

	At January 1, 2011	Recognized in income	Recognized in other comprehensive income	Recognized in contributed surplus	Business acquisition	At December 31, 2011
Deferred income tax liabilities						
Fund management contracts	342	(1,921)	214	—	8,312	6,948
Carried interests	—	(3,829)	309	—	11,743	8,223
Deferred sales commissions	210	352	—	—	—	562
Unrealized gains	1,308	(51)	—	—	—	1,257
Total deferred income tax liabilities	**1,860**	**(5,449)**	**523**	**—**	**20,055**	**16,989**
Deferred income tax assets						
Unrealized losses	1,935	4,089	460	—	8,200	14,684
Additional purchase consideration	—	—	55	—	1,881	1,936
Earn-out shares	—	—	22	1,506	—	1,528
Other	—	599	19	—	—	617
Total deferred income tax assets	**1,935**	**4,688**	**556**	**1,506**	**10,081**	**18,766**
Net deferred income tax assets (liabilities)	**75**	**10,137**	**33**	**1,506**	**(9,974)**	**1,776**

Year ended December 31, 2010

	At January 1, 2010	Recognized in income	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 Company has unused foreign accrual property losses of approximately $19.1 million which have not been recognized and expire between 2012 and 2015, as it is not probable that taxable profits will be available against which they can be utilized.

As at December 31, 2011, the Company had approximately $5.4 million of unused capital losses realized on the disposition of a subsidiary by means of a dividend-in-kind and do not expire.

The Company did not record a deferred tax liability with respect to cumulative translation gains of $5.1 million as at December 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.

10. 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			
December 31, 2011	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	119,506	—	—	119,506
Public equities	17,149	259	—	17,408
Private equities	—	—	2,400	2,400
Common share purchase warrants	—	4,693	—	4,693
Mutual funds	6,061	—	—	6,061
Hedge funds	—	8,875	—	8,875
Total	**142,716**	**13,827**	**2,400**	**158,943**

	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
Public equities	1,440	1,444	—	2,884
Private equities	—	—	1,979	1,979
Common share purchase warrants	—	1,790	—	1,790
Mutual funds	503	—	—	503
Hedge funds	—	328	—	328
Total	**50,953**	**3,562**	**1,979**	**56,494**

During the year ended December 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.

Financial instruments not carried at fair value

For fees receivable, secured notes 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.

11. 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 8).

The remuneration of directors and other key management personnel of the Company for employment services rendered are as follows ($ in thousands):

For the year ended	**December 31, 2011**	December 31, 2010
Fixed salaries and benefits	**4,511**	3,369
Variable incentive-based compensation	**15,587**	34,960
Share-based compensation	**243**	25,921
	20,341	64,250

12. DIVIDENDS

The following dividends were declared and paid by the Company during the year ended December 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
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
June 10, 2011 - regular dividend Q1- 2011	June 27, 2011	0.03	5,084
August 18, 2011 - regular dividend Q2- 2011	September 2, 2011	0.03	5,084
November 17, 2011- regular dividend Q3- 2011	December 2, 2011	0.03	5,083
Dividends paid			127,751

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

13. COMMITMENTS

Future minimum annual rental payments under non-cancellable leases, including operating costs, are as follows ($ thousands):

2012	3,531
2013	3,673
2014	3,753
2015	3,767
2016	4,021
Thereafter	27,807
	46,552

14. RISK MANAGEMENT ACTIVITIES

The Company's financial instruments present a number of specific risks as identified below.

(a) Market risk

Market risk refers to the risk that a change in the level of one or more of market prices, interest rates, foreign exchange rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in a change in the fair value of a financial instrument. The Company's financial instruments are designated as held for trading, fair value through profit or loss, held-to-maturity or loans and receivables. Therefore, changes in fair value or permanent impairment, if any, affect reported earnings as they occur. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments classified as held for trading and available for sale and for those classified as held-to-maturity or loans and receivables at amortized cost. The Company manages market risk by regular monitoring of its proprietary investments.

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

Price risk

Price risk arises from the possibility that changes in the price of the Company's proprietary investments will result in changes in carrying value. For more details about the Company's proprietary investments, refer to note 4.

If the market values of proprietary investments that are held for trading increased by 5%, with all other variables held constant , this would have increased net income by approximately $1.7 million (December 31, 2010 - $1.2 million); conversely, if the value of proprietary investments decreased by 5%, this would have decreased net income by the same amount.

If the market value of gold and silver bullion increased by 5%, with all other variables held constant, this would have increased net income by approximately $1.0 million (December 31, 2010 - $0.6 million); conversely, if the value of gold and silver bullion decreased by 5%, this would have decreased net income by the same amount.

The Company's revenues are also exposed to price risk since management fees, performance fees and carried interests are correlated with assets under management, which fluctuates with changes in the market values of the assets in the funds and managed accounts managed by SAM, SC, RCIC and SAM US. Assets under management refer to the total net assets of Sprott funds and managed accounts, on which management fees, performance fees and carried interests are calculated.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company does not hedge its exposure to interest rate risk as such risk is minimal. As part of its cash management program, the Company primarily invests in short-term debt securities issued by the Government of Canada with maturities of less than three months.

During 2011, the Company, through its wholly-owned subsidiary, SAMGENPAR Ltd., invested approximately $15.8 million in two secured notes bearing a weighted average interest rate of 8.90% per annum and secured against the assets of the issuers. There is no interest rate risk that could immediately affect earnings associated with these investments as it is carried at amortized cost and management intends to hold the investment to maturity.

Foreign exchange risk

Foreign exchange risk arises from the possibility that changes in the price of foreign currencies will result in changes in carrying value. The Company holds assets denominated in currencies other than the Canadian dollar. The Global Companies' assets are all denominated in USD. The Company is therefore exposed to currency risk, as the value of investments denominated in other currencies and its net investment in the Global Companies will fluctuate due to changes in exchange rates. The Company does not enter into currency hedging transactions.

As at December 31, 2011, approximately $26.2 million or 6.7% (2010 - $15.6 million or 4.5%) of total assets was invested in proprietary investments priced in U.S. dollars ("USD"). Furthermore, a total of $1.0 million (2010 - $1.2 million) of cash, $0.5 million (2010 - $51.0 million) of accounts receivable and $0.2 million (2010 - $0.2 million) of other assets were denominated in USD. As at December 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 would have amounted to approximately $1.2 million (2010 - $2.5 million).

As at December 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 approximately $8.5 million respectively as a result of the Global Companies impact on the Company.

(b) Credit risk

Credit risk arises from the potential that counterparties will fail to satisfy their obligations as they come due. The Company incurs credit risk when entering into, settling and financing various proprietary transactions. As at December 31, 2011, the Company's most significant counterparty is Penson Financial Services Canada Inc. ("Penson"), the carrying broker of SPW, which also acts as a custodian for most of the Company's proprietary investments. Penson is registered as an investment dealer subject to regulation by the IIROC; as a result, it is required to maintain minimal levels of regulatory capital at all times.

The Company's main exposure to credit risk relates to the secured notes receivable, as disclosed in note 4. The credit risk is managed by the terms of agreement, in particular, the notes are secured and the issuer is subject to a number of financial covenants, which are monitored on a regular basis.

Credit risk is also managed by dealing with counterparties that the Company believes to be creditworthy and by actively monitoring credit exposure and the financial health of the counterparties. The majority of accounts receivable relate to management and performance fees receivable from the funds, managed accounts and managed companies managed by the Company.

The Global Companies incur credit risk when entering into, settling and financing various proprietary transactions. As at December 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

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. The Company's exposure to liquidity risk is minimal as it maintains sufficient levels of liquid assets to meet its obligations as they come due. As at December 31, 2011, the Company had $119.5 million or 29.8% of its total assets in cash and cash equivalents. The majority of current assets reflected on the consolidated balance sheets are highly liquid. Approximately $57.6 million or 73.3% of proprietary investments held by the Company are readily marketable and are recorded at their fair value. Financial liabilities, including accounts payable and accrued liabilities and compensation and employee bonuses payable, are short-term in nature and are generally due within a year. The Company's management is responsible for reviewing liquidity resources to ensure funds are readily available to meet its financial obligations as they come due, as well as ensuring adequate funds exist to support business strategies and operations growth. The Company manages liquidity risk by monitoring cash balances on a daily basis.

15. SEGMENTED INFORMATION

For management purposes the Company is organized into business units based on its products, services and geographical location and has four reportable segments, as follows:

a. SAM, which provides asset management services to the Company's branded Funds and Managed Accounts.

b. Global Companies, which provides asset management services to the Company's branded Funds and Managed Accounts in the US and also provides securities trading services to its clients.

c. Corporate, which provides treasury and common shared services to the Company's business units.

d. Other, which includes its consulting business through SC and its private wealth business through SPW.

Due to their relatively small size, two operating segments have been aggregated to form the Other reportable segment as described in point (d) above.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on (i) earnings before interest expense, income taxes, amortization and stock-based non-cash compensation ("EBITDA") and (ii) Base EBITDA which refers to EBITDA after adjusting for the exclusion (i) of gains (losses) on our proprietary investments as if such gains (losses) had not been incurred and (ii) performance fees, performance fee related compensation and other performance fee related expenses. Income taxes are managed on a consolidated basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

EBITDA and Base EBITDA 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.

The following tables present the operations of the Company's reportable segments ($ in thousands):

For the year ended	December 31, 2011					
	SAM	Global Companies	Corporate	Other	Adjustments and Eliminations	Consolidated
Revenue						
Management fees	125,838	9,676	—	11,311	—	146,825
Performance fees	5,303	—	—	—	—	5,303
Commissions	—	12,649	—	1,530	—	14,179
Other	1,762	(2,288)	(4,732)	11,786	(11,583)	(5,055)
Total revenue	**132,903**	**20,037**	**(4,732)**	**24,627**	**(11,583)**	**161,252**
Expenses						
General and administrative	41,979	16,394	3,710	13,595	(223)	75,455
Trailer fees	37,058	—	—	—	(11,342)	25,716
Amortization of intangibles, property and equipment	1,813	14,199	70	30	—	16,112
Total expenses	**80,850**	**30,593**	**3,780**	**13,625**	**(11,565)**	**117,283**
Income (loss) before income taxes for the year	**52,053**	**(10,556)**	**(8,512)**	**11,002**	**(18)**	**43,969**
Provision for income taxes						10,931
Net income for the year						**33,038**
Income (loss) before income taxes for the year, from above	**52,053**	**(10,556)**	**(8,512)**	**11,002**	**(18)**	**43,969**
EBITDA adjustments	2,047	18,115	312	30	—	20,504
EBITDA	**54,100**	**7,559**	**(8,200)**	**11,032**	**(18)**	**64,473**
Base EBITDA adjustments	(2,932)	2,249	5,883	(286)	—	4,914
Base EBITDA	**51,168**	**9,808**	**(2,317)**	**10,746**	**(18)**	**69,387**

For the year ended	December 31, 2010					
	SAM	Global Companies	Corporate	Other	Adjustments and Eliminations	Consolidated
Revenue						
Management fees	97,661	—	—	6,025	—	103,686
Performance fees	200,054	—	—	—	—	200,054
Commissions	—	—	—	6,211	—	6,211
Other	629	—	13,057	9,112	(9,248)	13,550
Total revenue	**298,344**	**—**	**13,057**	**21,348**	**(9,248)**	**323,501**
Expenses						
General and administrative	83,749	—	29,400	13,215	—	126,364
Trailer fees	30,857	—	—	40	(9,248)	21,649
Amortization of intangibles, property and equipment	934	—	—	(1)	—	933
Total expenses	**115,540**	**—**	**29,400**	**13,254**	**(9,248)**	**148,946**
Income (loss) before income taxes for the year	**182,804**	**—**	**(16,343)**	**8,094**	**—**	**174,555**
Provision for income taxes						41,854
Net income for the year						**132,701**
Income (loss) before income taxes for the year, from above	**182,804**	**—**	**(16,343)**	**8,094**	**—**	**174,555**
EBITDA adjustments	1,963		25,921	(1)	—	27,883
EBITDA	**184,767**	**—**	**9,578**	**8,093**	**—**	**202,438**
Base EBITDA adjustments	(150,182)	—	(8,891)	20	—	(159,053)
Base EBITDA	**34,585**	**—**	**687**	**8,113**	**—**	**43,385**

Inter-segment revenues are eliminated upon consolidation and reflected in the "Adjustments and Eliminations" column.

Included in Other revenue for the year ended December 31, 2011 is trailer fee income totaling $11.3 million (December 31, 2010 - $9.2 million) which reflects substantially all of the Company's inter-segment revenue.

Included in Amortization of intangibles, property and equipment for the Global Companies segment for the year ended December 31, 2011 are impairment losses on finite life intangible assets totaling $7.7 million (December 31, 2010 - $nil).

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 year ended	**December 31, 2011**	December 31, 2010
Canada	**141,215**	323,501
United States	**20,037**	—
	161,252	323,501

16. TRANSITION TO IFRS

The Company adopted IFRS effective January 1, 2011. Prior to the adoption of IFRS the Company prepared its consolidated financial statements in accordance with previous Canadian GAAP. The Company's consolidated financial statements for the year ended December 31, 2011 are its first annual consolidated financial statements that comply with IFRS. 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 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 has used the standards in effect as at December 31, 2011.

In preparing these 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 previous 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 r eported under Canadian GAAP to IFRS ($ in thousands):

As at	December 31, 2010	January 1, 2010
Shareholders' equity under Canadian GAAP	213,623	76,140
Differences increasing reported shareholders' equity:		
(i) Proprietary investments re-designation, net of income taxes	639	222
(ii) Share-based payments	—	—
Shareholders' equity under IFRS	214,262	76,362

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

For the year ended	December 31, 2010
Net income and comprehensive income under Canadian GAAP	131,232
Differences increasing reported net income and comprehensive income	
(i) Proprietary investments re-designation, net of income taxes	417
(ii) Share-based payments	1,052
Net income and comprehensive income under IFRS	132,701

Reconciliation of cash flow acti vities 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 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 16.

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 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.

17. 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.

18. EVENTS AFTER THE REPORTING PERIOD

On February 29, 2012, the Company announced the signing of a letter of intent reflecting an agreement in principle to acquire Toscana Capital Corporation and Toscana Energy Corporation (collectively, the "Toscana Companies"). Upon closing of the proposed transaction, the Company will pay approximately $14 million in cash and common shares of the Company in consideration for the acquisition of the Toscana Companies, with the possibility of up to an additional approximately $5.25 million in common shares of the Company to be issued as additional consideration in three years upon the attainment of certain financial performance hurdles.

On March 27, 2012, a dividend of $0.03 per common share was declared for the quarter ended December 31, 2011.

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

For the three months ended December 31 ($ in thousands of Canadian dollars, except for per share amounts)		**2011**		2010
Revenue				
Management fees		**33,700**		31,534
Performance fees		**2,528**		199,139
Commissions		**2,861**		2,876
Unrealized and realized gains (losses) on proprietary investments		**(1,963)**		5,639
Other income		**987**		2,890
Total revenue		**38,113**		242,078
Expenses				
Compensation and benefits		**10,774**		61,515
Stock-based compensation		**1,135**		25,944
Trailer fees		**5,816**		6,337
General and administrative		**6,203**		5,249
Donations		**243**		1,580
Amortization of intangibles		**9,751**		74
Amortization of property and equipment		**364**		206
Total expenses		**34,286**		100,905
Income before income taxes for the period		**3,827**		141,173
Provision for income taxes		**(798)**		32,619
Net income for the period		**4,625**		108,554
Basic earnings per share	**$**	**0.03**	$	0.72
Diluted earnings per share	**$**	**0.03**	$	0.72