

# Annual Report of the Independent Review Committee of the Sprott Group of Funds

February 12, 2009

IRC Annual Report to: Securityholders in the Sprott Group of Funds (the "Funds") as listed at the end of this report

Dear Securityholder,

In accordance with National Instrument 81-107 *Independent Review Committee for Investment Funds* ("NI 81-107" or the "Instrument"), the Manager established an Independent Review Committee (the "Committee" or "IRC") for the Funds. The IRC became fully operational on October 23, 2007 and, after that date, has functioned in accordance with the applicable securities laws, including NI 81-107. The IRC is composed of three individuals, each of whom is independent of the Funds, the Manager and each entity related to the Manager (as defined in the Instrument).

In accordance with the Instrument, the mandate of the IRC is to consider and provide recommendations to the Manager on conflicts of interest to which the Manager may be subject when managing the Funds. The Manager is required under the Instrument to identify potential conflicts of interest inherent in its management of the Funds, develop written policies and procedures guiding its management of those conflicts and request input from the IRC on those written policies and procedures, hereinafter referred to as the Conflict of Interest Matters manual.

When a conflict matter arises, the Manager must refer its proposed course of action in respect of such conflict to the IRC for its review. While certain matters require the IRC's prior approval, in most cases the IRC will provide a recommendation to the Manager as to whether or not, in the opinion of the IRC, the Manager's proposed action provides a fair and reasonable result for the Funds. For recurring conflict of interest matters, the IRC can provide the Manager with Standing Instructions ("SIs") that enable the Manager to proceed with certain matters without having to refer them to the IRC each time for approval, providing the Manager deals with the conflicts in accordance with the SIs.

The IRC is empowered to represent the best interest of the Funds in any matter where the Manager has referred a conflict of interest matter to the IRC. In those cases, it has sought to ensure that the Manager's proposed course of action represents a fair and reasonable result for the Funds.

The IRC is pleased to publish its annual report to the Securityholders, to describe the IRC and its activities during the year ended December 31, 2008 ("the Reporting Period") and on behalf of the Sprott Funds looks forward to assisting the Manager in dealing with any conflict matters that it faces in these unprecedented times.

## Composition of the IRC

The current members of the IRC, and their principal occupations, are as follows:

<i>Name and municipality of residence</i>	<i>Principal Occupation</i>	<i>Term of Office</i>
Lawrence A. Ward, Chair, Toronto, Ontario	Consultant, retired partner of PricewaterhouseCoopers, LLP	Three years from May 1, 2007
Eamonn B.P. McConnell, Toronto, Ontario	Consultant, former Managing Director of Deutsche Bank, Europe and Asia	Two years from May 1, 2007
W. William Woods, Toronto, Ontario	Consultant, Lawyer, Independent Director, former CEO of the Bermuda Stock Exchange	Two years from May 1, 2007

There have been no changes to the IRC composition since these members were first appointed by the Manager on May 1, 2007.

## Compensation and Indemnification

### **Members' Fees**

In aggregate the IRC members were paid \$80,000 in 2008, plus applicable taxes. The IRC has engaged Independent Review Inc. to assist it in its duties in accordance with the provisions of the Instrument and the IRC's written charter, to provide certain administrative and record keeping functions, and to act as the IRC's independent secretariat.

### **Indemnities Granted**

The Funds and the Manager have provided each IRC Member with a contractual indemnity in keeping with NI 81-107. No indemnities were paid to the IRC Members by the Funds or the Manager during the financial year.

## Disclosure of IRC Members' Holdings

As at December 31, 2008, the IRC Members did not beneficially own, directly or indirectly:

- more than .1% of the units in any of the Funds;
- any interests in the Manager; or
- any interests in a company or person that provides services to the Manager or any Fund.

## Recommendations and Approvals

On December 1, 2008 the Manager requested a recommendation from the IRC to conduct trades of a number of securities ("the Trades") from certain Spratt non-prospectus funds to a Spratt prospectus fund. The Manager indicated that it had received a written legal opinion indicating that the Trades were not inter-fund trades. Accordingly, it was not necessary for the Manager to obtain an approval from the IRC. Notwithstanding that approval of the IRC was not required, the Manager considered the Trades to constitute a "conflict of interest matter" for the purposes of NI 81-107. The IRC thoroughly reviewed all aspects of the trades and after reasonable inquiry, concluded that the trades achieved a fair and reasonable result for the Spratt prospectus fund.

There were no other recommendations or approvals requested by the Manager during the Reporting Period.

The IRC is not aware of any instance in which the Manager acted in a Conflict Of Interest Matter referred to the IRC for which the IRC did not give a positive recommendation or approval during the Reporting Period.

The IRC is not aware of any instance in which the Manager acted in a Conflict Of Interest Matter but did not meet a condition imposed by the IRC in its recommendation or approval during the Reporting Period.

### **Standing Instructions Approved**

The IRC has approved four Standing Instructions (SIs), which constitute a written approval or recommendation from the IRC that permit the Manager to proceed with the specific action(s) set out in the SI on an ongoing basis, without having to refer the conflict of interest matter or its proposed action to the IRC, provided that the Manager complies with the terms and conditions of the SI.

#### **Standing Instruction No. 1: Omnibus.**

The Manager relied on SI No. 1 during the Reporting Period. In each case, the SI required the Manager to comply with its related policy and procedures and to report periodically to the IRC. This SI deals with a number of conflict of interest matters including:

1. Expenses charged to the Funds policy
2. Expense allocations policy between prospectus funds
3. Expense allocations policy between prospectus and non-prospectus funds
4. Short-term trading and late trading policy
5. Trade allocations policy
6. Net asset value error correction policy
7. Other material transaction error policy
8. Best execution policy
9. Soft dollar policy
10. Favouritism policy
11. Proxy voting policy
12. Changing service providers policy
13. Employee Personal Trading Policy
14. Sub-advisors personal trading policy
15. Short term trading policy
16. Complaint handling policy
17. Service providers related to the Manager policy
18. Affiliate dealer policy

**Standing Instruction No. 2: Portfolio Pricing Issues: Fair Valuing Securities**

**Standing Instruction No. 3: Related Party Issues: Inter Fund Trades**

**Standing Instruction No. 4: Related Party Issues: A Fund Purchases Securities (Whether Debt or Equity) Issued by a Company Related to a Sub-Advisor**

The Manager relied on SIs Nos. 2, and 4 during the Reporting Period.

### **Manager's Report on Standing Instructions**

As required by NI 81-107, the Manager provided a written report to the IRC on January 28, 2009 describing its reliance on the SIs during the Reporting Period.

## Annual Assessment

In accordance with NI 81-107, the IRC conducted an annual assessment which consisted of the following elements:

- 1) Review of its Written Charter;
- 2) Review of the SIs and the Manager's Conflict of Interest Matters manual, and
- 3) A self-assessment review.

### **Review of the Written Charter**

As part of the IRC's annual assessment process, it reviewed the adequacy and effectiveness of the Written Charter. Several minor amendments to the Written Charter were reviewed and adopted on January 28, 2009.

### **Review of the SIs and the Manager's Conflict of Interest Matters Manual**

The annual assessment process with the Manager consisted of the following:

1. *A review of the adequacy and effectiveness of the Manager's written policies and procedures concerning conflict of interest matters;*

As part of its annual assessment process the IRC chose to review two of the Manager's written conflict of interest policies in detail with the Manager; i) Fair Valuations and ii) Best Execution. At a meeting of the IRC on January 28, 2009 these two policies were discussed in detail with the Manager. The Manager's written conflict of interest matters policies and procedures were reviewed and several amendments were recommended. As a result of these recommendations, the Manager adopted a revised Conflict of Interest Matters manual on that date.

2. *A review of the adequacy and effectiveness of the SIs the IRC has provided to the Manager;*

Four SIs were adopted on October 23, 2007. **Standing Instruction No. 1: Omnibus**, was revised on January 17, 2008. **Standing Instruction No. 2: Portfolio Pricing Issues: Fair Valuing Securities**, was revised on June 25, 2008.

All of the SIs were reviewed on January 28, 2009 and after consultation with the Manager, several minor amendments were adopted by the IRC on that date.

3. *A review of the adequacy and effectiveness of the Manager's and each Fund's compliance with any conditions imposed by the IRC in a recommendation or approval it has provided to the Manager;*

The Manager has complied with all the conditions imposed by the IRC in the SIs granted. No conditions were attached to any of the approvals granted.

### **Self-Assessment Review**

The self-assessment review conducted subsequent to the Reporting Period consisted of the following steps;

1. *A review of compensation*

The initial compensation of the IRC was set by the Manager. At least annually, the IRC reviews its compensation giving consideration to the following:

- i. the best interests of the Funds;
- ii. that compensation paid to the IRC by each Fund should fairly and reasonably reflect the general and specific benefits accruing to that Fund; and

iii. the nature and extent of the workload of each member of the IRC.

The IRC reviewed comparable benchmarks and has determined not to make any changes in the member's compensation at this stage.

2. *The completion of questionnaires and an annual written declaration of independence.*

Each IRC member completed an individual questionnaire and a group questionnaire related to the performance of the IRC over the Reporting Period and the IRC's interaction with the Manager. The Manager also completed a questionnaire regarding its interaction with the IRC. Each IRC member also completed the annual declaration of independence wherein he re-asserted his independence within the meaning of the Instrument.

The self assessment review was conducted at a meeting of the IRC on January 28, 2009. After the completion of all of the above elements the IRC prepared its annual assessment report to the Manager which set out the results of the IRC's annual assessment review.

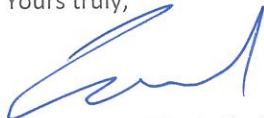
The IRC's annual assessment report would have included any details of any breaches by the Manager of its conflict of interest matters policies and procedures, had there been any. It would also have included any breaches of any conditions imposed by the IRC, of which the IRC was aware, and the IRC's recommendations for changes in the Manager's conflict of interest matters policies and procedures as noted above. There were no conditions imposed by the IRC other than those contained in the Standing Instructions.

### **Funds served by the IRC**

Sprott Molybdenum Participation Corporation  
Sprott Canadian Equity Fund  
Sprott Gold and Precious Minerals Fund  
Sprott Energy Fund  
Sprott Growth Fund  
Sprott Global Equity Fund  
Sprott Small Cap Equity Fund  
Sprott All Cap Fund  
FNSSC – Multi Manager Fund

This report is available on the Manager's website at [www.sprott.com](http://www.sprott.com) or you may request a copy, at no cost to you, by contacting the Sprott Funds at (416) 943 6707 or 1- 866 299 9906 or email the Sprott Funds at [invest@sprott.com](mailto:invest@sprott.com). This document and other information about the Sprott Funds are available on [www.sedar.com](http://www.sedar.com).

Yours truly,



Lawrence A. Ward, Chair

## **Schedule of IRC Members who sit on IRCs for other Fund Families**

**Eamonn McConnell serves as a member of the Independent Review Committees for the following funds:**

Investment funds that are reporting issuers managed by Integra Capital Limited;  
Investment funds that are reporting issuers managed by Northwest & Ethical Investments L.P.;  
Investment funds that are reporting issuers managed by Gencap Funds LP;  
The Goodwood Capital Fund;  
Investment funds that are reporting issuers managed by Russell Investments Canada Limited;  
and  
Investment funds that are reporting issuers managed by Webb Asset Management Canada Inc.

**Lawrence A. Ward serves as a member of the Independent Review Committees for the following funds:**

The Acker Finley Canada Focus Fund;  
Investment funds that are reporting issuers managed by Northwest & Ethical Investments L.P.;  
The Goodwood Capital Fund; and  
Investment funds that are reporting issuers managed by Russell Investments Canada Limited.

**W. William Woods serves as a member of the Independent Review Committees for the following funds:**

Investment funds that are reporting issuers managed by Integra Capital Limited;  
The Acker Finley Canada Focus Fund;  
Investment funds that are reporting issuers managed by Gencap Funds LP;  
The Goodwood Capital Fund;  
Investment funds that are reporting issuers managed by Russell Investments Canada Limited;  
Investment funds that are reporting issuers managed by The International Scholarship Foundation;  
The Bayshore Floating Rate Senior Loan Fund; and  
Investment funds that are reporting issuers managed by Webb Asset Management Canada Inc.