

# Sprott Inc.

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*Report to Shareholders*

JUNE 30,

2013



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August 7, 2013

Dear Shareholders,

The financial markets endured a volatile second quarter as investors struggled to understand the U.S. Federal Reserve's timetable to end its quantitative easing programs. This uncertainty impacted virtually all asset classes and precious metals and their related equities fell steeply on the prospect of the Fed "tapering" its stimulus programs. As a result, the majority of our funds recorded losses during the period with the largest declines coming from our strategies with significant exposure to precious metals and their related equities.

During the quarter, our Assets Under Management declined from \$9.1 billion as of June 30, 2013 to \$7.1 billion as of June 30, 2013. In July, subsequent to quarter end, bullion prices stabilized and gold and silver equities began to recover as the Fed was forced to calm the markets by toning down its rhetoric on an imminent end to its bond-buying programs.

We continue to believe in the long-term fundamentals for precious metals investments. We continue to improve our investment management processes in order that we can select the best possible investments for the upcoming recovery. We are actively exploring the launch of new investment funds that will be well positioned to invest in the sector at what we believe will prove to be an advantageous time. Some of our new initiatives include our joint venture to launch a hedge fund in the Chinese marketplace, and new private equity and lending funds.

Another of our key priorities is furthering the diversification of our product shelf and adding new investment capabilities. During the first half of 2013, one of the bright spots has been the success of our Enhanced Funds, managed by John Wilson. These funds have delivered strong sales by resonating with investors seeking to protect their capital through unpredictable markets. In addition to generating consistently strong sales, these funds continue to deliver excellent results, with both the Sprout Enhanced Balanced Fund and the Sprout Opportunities Hedge Fund LP generating returns of more than 10% year-to-date\*.

In July, we completed the acquisition of Sprout Resource Lending Corp. in a transaction that further strengthens our balance sheet and provides us with the ability to reposition our business to thrive in a changing asset management landscape. We now have more than \$350 million in available capital on our balance sheet that we will actively deploy to launch new products and pursue synergistic acquisition opportunities. We will also re-launch our successful resource lending strategy through one or more new limited partnerships that we expect to be attractive to both institutional and retail investors.

Going forward, the deployment of our balance sheet capital will be governed by a disciplined capital allocation framework that will include the alignment of compensation with the achievement of certain hurdles.

This transaction has transformed Sprout into a larger, more liquid company with a substantially expanded shareholder base. To support this evolution, over the next six months, we intend to study measures to protect and enhance shareholder value.

In closing, on behalf of our employees and the Board of Directors, I would like to thank you for your continued support. We look forward to reporting to you on our progress throughout the year.

Sincerely,

A handwritten signature in black ink, appearing to read "PG", written in a cursive style.

Peter Grosskopf  
Chief Executive Officer

\* as of August 7, 2013

*Management's Discussion and Analysis*

Three and six months ended June 30, 2013



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This Management's Discussion & Analysis ("MD&A") of financial condition and results of operations, dated August 7, 2013, presents an analysis of the financial condition of Sprott Inc. (the "Company") and its subsidiaries as of June 30, 2013 compared with December 31, 2012, and results of operations for the three and six months ended June 30, 2013, compared with the three and six months ended June 30, 2012. The Board of Directors approved this MD&A on August 7, 2013. All note references in this MD&A are to the notes to the Company's 2013 unaudited interim condensed consolidated financial statements, unless otherwise noted.

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

This MD&A and unaudited interim condensed consolidated financial statements should be read in conjunction with the MD&A and annual financial statements for the year ended December 31, 2012.

## **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 26, 2013 (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 August 7, 2013 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](http://www.sedar.com).

## **PRESENTATION OF FINANCIAL INFORMATION**

The unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2013, including the required comparative information, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Financial results, including related historical comparatives, contained in this MD&A, unless otherwise specified herein, are based on these unaudited interim condensed consolidated financial statements. The Canadian dollar is our functional and reporting currency for purposes of preparing the Company's unaudited interim condensed 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, alternative investment strategies, offshore funds and bullion funds (the "Funds"), managed accounts ("Managed Accounts"), which include the accounts managed by Sprott Asset Management LP ("SAM"), Resource Capital Investment Corporation ("RCIC") and Sprott Asset Management USA Inc. ("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 Sprott Private Wealth LP ("SPW") or Sprott Global Resource Investments, Ltd. ("SGRIL"). 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 and impairment of intangible assets, gains and losses on our proprietary investments (as if such gains and losses had not been incurred) and non-cash stock-based compensation. Stock-based compensation relating to the Company's Employee Profit Sharing Plan ("EPSP") is treated as a cash expense for the purposes of calculating EBITDA. EBITDA includes Performance Fees, Performance Fee related compensation and other Performance Fee related expenses. We believe that EBITDA is an important measure as it allows us to assess our ongoing business without the impact of interest expense, income taxes, amortization, gains and losses on proprietary investments 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. 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.

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 June 30, 2013 have an average remaining life of approximately 5 years. The Carried Interests relating to these Funds will be earned once management is assured of their realization.

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 investment management operations, such as income or losses relating to our proprietary investments.

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 operating businesses, SAM, SPW, SC and Sprott U.S. Holdings Inc., the parent of the Global Companies which comprises of SGRIL, RCIC and SAM US. 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.

SAM offers discretionary portfolio management, SPW provides broker-dealer services and SC offers consulting services. 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 Toscana Energy Income Corporation ("TEIC").

On February 4, 2011 we completed the acquisition of the Global Companies, based in Carlsbad, California, through Sprott U.S. Holdings Inc. SGRIL 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 and Resource Income Partners families of limited partnerships.

Effective February 4, 2011, the accounts of the Global Companies have been consolidated with those of the Company.

On July 3, 2012, the Company completed its acquisition of Toscana Capital Corporation ("TCC") and Toscana Energy Corporation ("TEC") (collectively, the "Toscana Companies"). The Toscana Companies are based in Calgary. TCC manages the Toscana Financial Income Trust ("TFIT"), a private mutual fund trust, which provides mezzanine debt financing to mid-sized private and public oil and gas companies. TEC manages Toscana Energy Income Corporation ("TEIC") (formerly Toscana Resource Corporation), a public company, which is focused on investing in medium and long-term oil and gas assets, unitized production interests and royalties along with acting as a technical advisor to and co-manager of the Energy Income Fund limited partnerships.

Effective July 3, 2012, the accounts of the Toscana 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; SGRIL earns commissions and other fees from the sale and purchase of stocks by its clients, new and follow-on offerings of Funds managed by SAM 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 also provides us with a competitive advantage by providing SPW and SGRIL 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. Commission and other income is generated from the sale and purchase of stocks by SGRIL's clients, and to a lesser extent SPW, and from the sale of private placements to their clients. As at June 30, 2013, we managed approximately \$7.1 billion in assets among our various Funds, Managed Accounts and Managed Companies. AUA in client assets totaled to approximately \$2.6 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 Alternative Investment Strategies and offshore Funds. We have introduced a suite of income Funds that have lower Management Fees than equity mutual Funds, Alternative Strategies and Offshore 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 SGRIL 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 SGRIL. 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 an Alternative Investment Strategy 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 which are 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. Beginning in 2012, a portion of the bonus pool may be paid in equity of the Company through the Company's EPSP and Equity Incentive Plan ("EIP") (see note 8). 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.

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 amortization.



## BUSINESS HIGHLIGHTS AND GROWTH INITIATIVES

### *Investment Performance*

Our AUM declined sharply during the quarter with most of our Funds, Managed Accounts and Managed Companies experiencing negative investment performance. Net market depreciation of all our AUM totaled to approximately \$1.8 billion in the quarter. In addition, we experienced net redemptions totaling nearly \$0.2 billion.

Overall, AUM decreased by approximately \$2.0 billion (21.5%) to \$7.1 billion at June 30, 2013 from \$9.1 billion at March 31, 2013. AUM at December 31, 2012 were \$9.9 billion.

The difficult environment translated into weak quarterly results with EBITDA falling by \$2.3 million (22.0%) to \$8.1 million (\$0.05 per share) from \$10.4 million (\$0.06 per share) in 2012.

Despite the performance of the majority of our Funds, Managed Accounts and Managed Companies, the second quarter of 2013 continued to be active as we executed on various growth and development initiatives across the organization:

### *Product and Business Line Expansion*

Effective April 1, 2013, the Company seeded a new institutional based alternative product with \$25 million. The objective of the Fund is to provide superior risk-adjusted returns to investors. Seeding of this investment fund was financed by issuing 7.6 million shares of the Company to an institutional investor on a private placement basis.

The Company has entered into a joint venture agreement with Zijin Mining Group ("Zijin") of China, one of the largest gold and copper producers, to set up an offshore global mining fund. The target size of this fund is US\$500 million and it will focus primarily on investment opportunities in equities and debt instruments of precious metals producers. It will be co-managed by affiliates of the Company and of Zijin.

We continue to develop new products and investment vehicles that will be available in 2013. The addition of these products may 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.

### *Acquisition of Sprott Resource Lending Corp.*

Subsequent to the quarter end, effective July 23, 2013, the Company acquired all of the outstanding common shares of Sprott Resource Lending Corp. ("SRLC"). The Company acquired SRLC because it is expected that the capital acquired will be used to seed and launch new initiatives, while enabling us to continue to grow our private lending business through one or more new lending partnerships expected to launch later this year.

As consideration, the Company paid \$20.7 million cash and issued 69.0 million common shares from treasury valued at \$166.3 million, excluding costs, for total consideration of \$187.0 million. For accounting purposes and as a result of the Company's prior equity ownership in SRLC, the total purchase price is expected to be reflected at approximately \$199.2 million. The common shares of the Company issued as consideration were valued at \$2.41 per share using the closing price of the Company's common shares on July 23, 2012.

## OUTLOOK

Uncertainty related to the U.S. Federal Reserve's timetable to end its quantitative easing programs negatively impacted virtually all asset classes and precious metals and their related equities fell sharply on the prospect of the Fed "tapering" its stimulus programs. As a result, the majority of our funds recorded losses during the period with the largest declines coming from our strategies with significant exposure to precious metals and their related equities.

The steep decrease in our Assets Under Management impacts Management Fees and reduces the near-term ability to earn Performance Fees from many of our Funds. In July, subsequent to quarter end, bullion prices stabilized and gold and silver equities began to recover as the Fed was forced to calm the markets by toning down its rhetoric on an imminent end to its bond-buying programs. Nonetheless, until we see a dramatic turnaround in the prices of precious metals and their related equities, we will continue to focus on diversifying our range of products and on prudent expense management.

In July, we completed the acquisition of Sprott Resource Lending Corp. in a transaction that further strengthens our balance sheet and provides us with the ability to reposition our business to thrive in a changing asset management landscape. We now have more than \$350 million in available capital on our balance sheet that we will actively deploy to launch new products and pursue synergistic acquisition opportunities. We also intend to re-launch our successful resource lending strategy through one or more new limited partnerships that we expect to be attractive to both institutional and retail investors.

## FINANCIAL HIGHLIGHTS

Financial highlights for the three and six months ended June 30, 2013 are:

- AUM at June 30, 2013 were \$7.1 billion. This reflects a decrease of approximately \$1.3 billion (15.8%) from \$8.5 billion of AUM at June 30, 2012 and a decrease of approximately \$2.0 billion (21.5%) from \$9.1 billion of AUM at March 31, 2013. Average AUM for the second quarter of 2013 were \$8.0 billion compared to \$9.0 billion in the second quarter of 2012, a decrease of 10.8%. Decreases in AUM from declines in market values of \$1.8 billion and net redemptions of nearly \$0.2 billion, resulted in an overall decrease of approximately \$2.0 billion in AUM for the quarter.
- Management fees as a percentage of average AUM for the three and six months ended June 30, 2013 were 1.1%, a decrease from 1.2% and 1.3% respectively, for the three and six months ended June 30, 2012 as the composition of the Company's AUM continued to change with lower fee products comprising a greater percentage of AUM for the periods ended June 30, 2013.
- AUA at June 30, 2013 were \$2.6 billion. This reflects a decrease of \$1.2 billion from \$3.8 billion of AUA at June 30, 2012 and a decrease of \$0.7 billion from \$3.3 billion of AUA at March 31, 2013.
- Management Fees for the three and six months ended June 30, 2013 were \$21.5 million and \$47.4 million, respectively, representing a decrease of \$6.6 million (23.6%) and \$13.7 million (22.4%) over the three and six months ended June 30, 2012.
- Gross Performance Fees for the three and six months ended June 30, 2013 were \$0.1 million and \$1.5 million, respectively, representing an increase of \$0.1 million and \$1.4 million over the corresponding periods in 2012. The majority of the 2013 fees represents a greater than expected amount received from a Managed Company that relates to the year ended December 31, 2012.
- Commissions for the three and six months ended June 30, 2013 were \$1.6 million and \$3.6 million, respectively. This reflects a decrease of \$0.4 million (21.4%) and \$4.2 million (54.3%) compared with the three and six months ended June 30, 2012.
- Unrealized and realized losses on proprietary investments for the three and six months ended June 30, 2013 were \$9.5 million and \$12.5 million, respectively, representing an increase of \$5.5 million from the unrealized and realized losses on proprietary investments of \$4.0 million and a decrease of \$12.8 million from unrealized and realized gains of \$0.3 million for the three and six months ended June 30, 2012.
- EBITDA for the three and six months ended June 30, 2013 were \$8.1 million and \$18.5 million, respectively, representing a decrease of \$2.3 million (22.0%) and \$8.0 million (30.3%) compared with the three and six months ended June 30, 2012.
- Excluding the impacts of Performance Fees and performance fee related expenses, EBITDA was \$8.0 million and \$17.5 million for the three and six months ended June 30, 2013, respectively, compared to \$10.4 million and \$26.6 million for the three and six months ended June 30, 2012.
- Net loss for the three months ended June 30, 2013 was \$6.7 million (negative \$0.04 per share) compared to net income of \$0.7 million (\$0.00 per share) for the three months ended June 30, 2012. Net loss for the six months ended June 30, 2013 was \$4.6 million (negative \$0.03 per share) compared to net income of \$17.7 million (\$0.10 per share) for the six months ended June 30, 2012.

## SUMMARY FINANCIAL INFORMATION

### Key Performance Indicators

(\$ in thousands, except per share amounts)	As at and for the three months ended		As at and for the six months ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Assets Under Management	7,146,770	8,485,400	7,146,770	8,485,400
Assets Under Administration	2,625,989	3,788,070	2,625,989	3,788,070
Net Sales (Redemptions)	(143,798)	(158,244)	(418,375)	387,377
EBITDA	8,120	10,407	18,519	26,567
EBITDA Per Share - basic and fully diluted	0.05	0.06	0.11	0.16

### Summary Balance Sheet

(\$ in thousands)	As at	
	June 30,	December 31,
	2013	2012
Total Assets	376,593	375,250
Total Liabilities	35,861	57,541
Shareholders' Equity	340,732	317,709

### Summary Income Statement and Reconciliation to EBITDA

(\$ in thousands, except per share amounts)	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2013	2012	2013	2012
<b>Total revenue</b>	16,571	27,441	44,132	71,831
<b>Total expenses</b>	26,690	26,241	50,410	49,425
Income (loss) before income taxes	(10,119)	1,200	(6,278)	22,406
Provision for income taxes	(3,409)	464	(1,658)	4,727
<b>Net income (loss)</b>	(6,710)	736	(4,620)	17,679
Other expenses <sup>(1)</sup>	8,773	5,223	12,282	4,418
Unrealized and realized (gains) losses on proprietary investments	9,466	3,984	12,515	(257)
Provision for income taxes	(3,409)	464	(1,658)	4,727
<b>EBITDA</b>	8,120	10,407	18,519	26,567
<b>Earnings (Loss) Per Share - basic and fully diluted</b>	(0.04)	0.00	(0.03)	0.10
<b>EBITDA Per Share - basic and fully diluted</b>	0.05	0.06	0.11	0.16

(1) Includes amortization of property and equipment, amortization and impairment of intangibles and non-cash stock-based compensation expense other than stock-based compensation expense related to the EPSP.

## RESULTS OF OPERATIONS

*Three and six months ended June 30, 2013 compared to three and six months ended June 30, 2012*

### Overall Performance

AUM at June 30, 2013 of \$7.1 billion represents a decrease of 15.8% when compared with \$8.5 billion at June 30, 2012. When compared to the AUM of \$9.1 billion at March 31, 2013, AUM at June 30, 2013 decreased by 21.5%. Net redemptions for the quarter ended June 30, 2013 were nearly \$0.2 billion along with a net market value depreciation of \$1.8 billion, resulted in decreased AUM of approximately \$2.0 billion for the quarter. Average AUM for the three and six months ended June 30, 2013 were \$8.0 billion and \$8.8 billion, respectively, compared with \$9.0 billion and \$9.6 billion in the corresponding periods of 2012.

Total revenues for three and six months ended June 30, 2013 decreased by \$10.9 million (39.6%) to \$16.6 million and by \$27.7 million (38.6%) to \$44.1 million, respectively, when compared with the three and six months ended June 30, 2012. Management Fees for the three and six months ended June 30, 2013 were \$21.5 million and \$47.4 million, respectively, representing a decrease of \$6.6 million (23.6%) and \$13.7 million (22.4%) from the corresponding three and six months ended June 30, 2012. Gross Performance Fees for the three and six months ended June 30, 2013 were \$0.1 million and \$1.5 million, respectively, compared to \$17 thousand and \$93 thousand, respectively, in the three and six months ended June 30, 2012. Commissions decreased by \$0.4 million and \$4.2 million for the three and six months ended June 30, 2013, respectively, when compared with the three and six months ended June 30, 2012. Unrealized and realized losses on proprietary investments totaled \$9.5 million and \$12.5 million for the three and six months ended June 30, 2013, respectively, compared to unrealized and realized losses of \$4.0 million and gains of \$0.3 million, for the three and six months ended June 30, 2012, respectively. Other income increased by approximately \$1.6 million for the three and six months ended June 30, 2013, when compared with the three and six months ended June 30, 2012.

Expenses totaled \$26.7 million and \$50.4 million for the three and six months ended June 30, 2013, which is an increase of \$0.5 million (1.7%) and \$1.0 million (2.0%), respectively, when compared with the three and six months ended June 30, 2012.

The net loss of \$6.7 million and \$4.6 million for the three and six months ended June 30, 2013 is in contrast to the net income of \$0.7 million and \$17.7 million for the three and six months ended June 30, 2012.

### Assets Under Management, Investment Performance and Net Sales

The breakdown of AUM by investment product type as at June 30, 2013 and June 30, 2012 was as follows:

Product Type	June 30, 2013		June 30, 2012	
	\$ (in millions)	% of AUM	\$ (in millions)	% of AUM
Bullion Funds	3,679	51.5%	3,648	43.0%
Mutual Funds	1,346	18.8%	1,950	23.0%
Alternative Investment Strategies	842	11.8%	1,397	16.5%
Offshore Funds	81	1.1%	307	3.6%
Direct Management (Managed Companies)	708	9.9%	627	7.4%
Managed Accounts	125	1.8%	182	2.1%
Fixed Term Limited Partnerships	366	5.1%	374	4.4%
<b>Total</b>	<b>7,147</b>	<b>100%</b>	<b>8,485</b>	<b>100%</b>

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

(\$ in millions)	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2013	2012	2013	2012
AUM, beginning of period	9,110	9,683	9,931	9,137
Net sales (redemptions)	(144)	(158)	(418)	387
Market value depreciation of portfolios	(1,819)	(1,040)	(2,366)	(1,039)
<b>AUM, end of period</b>	<b>7,147</b>	<b>8,485</b>	<b>7,147</b>	<b>8,485</b>

For the three months ended June 30, 2013, the majority of our Mutual Funds, Alternative Investment Strategies, Fixed Term Limited Partnerships, Managed Companies and Managed Accounts experienced negative performance resulting in an overall market value depreciation of our AUM, partially offset by positive performance from a few Mutual Funds.

Net redemptions for the three and six months ended June 30, 2013 were \$0.1 billion and \$0.4 billion, respectively. Collectively, our Mutual Funds, Bullion Funds, Managed Accounts and Alternative Investment Strategies experienced net redemptions of approximately \$0.1 billion and \$0.4 billion, respectively, for the three and six months ended June 30, 2013. This includes approximately \$0.1 billion of Funds previously managed by Flatiron Capital Management Partners ("Flatiron"), a former subsidiary of the Company. Flatiron was terminated in January 2013. On April 1, 2013, the Company seeded a new Offshore Fund with \$25 million. Excluding the new seeded Offshore Fund, our Offshore Funds collectively, had redemptions for the three and six months ended June 30, 2013 of approximately \$24.6 million or 21.3% and \$73.2 million or 38.6% of offshore AUM at the beginning of the quarter and year, respectively. The launch of Exploration Capital Partners 2012 Limited Partnership in the first quarter of 2013, a fixed term limited partnership, together with the Sprott Enhanced Funds and a Toscana Companies' Managed Company added over \$125 million to our AUM.

### Revenues

Total revenue decreased by approximately \$10.9 million or 39.6% from \$27.4 million in the three months ended June 30, 2012 to \$16.6 million in the three months ended June 30, 2013 and decreased by \$27.7 million or 38.6% from \$71.8 million in the six months ended June 30, 2012 to \$44.1 million in the six months ended June 30, 2013.

Management Fees decreased by \$6.6 million or 23.6% from \$28.1 million in the three months ended June 30, 2012 to \$21.5 million in the three months ended June 30, 2013, even though average AUM decreased by approximately 10.8% over the same period. Management Fees as a percentage of average AUM fell to 1.1% in the three months ended June 30, 2013 from 1.2% in the three months ended June 30, 2012. Management Fees decreased by \$13.7 million or 22.4% from \$61.1 million in the six months ended June 30, 2012 to \$47.4 million in the six months ended June 30, 2013, even though average AUM decreased by approximately 8.2% over the same period. Management Fees as a percentage of average AUM fell to 1.1% in the six months ended June 30, 2013 from 1.3% in the six months ended June 30, 2012. These decreases are mainly due to an increase in the proportion of AUM of our 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 approximately \$0.5 billion to \$4.6 billion for the three months ended June 30, 2013 and by \$0.8 billion to \$4.9 billion for the six months ended June 30, 2013, compared to \$4.1 billion and \$4.2 billion, respectively, for the corresponding periods in 2012. The three and six months ended June 30, 2013 includes Management Fees from the Toscana Companies, whereas the three and six months ended June 30, 2012 does not include any Management Fees from the Toscana Companies as they were acquired in the third quarter of 2012.

Gross Performance Fees were \$0.1 million and \$1.5 million for the three and six months ended June 30, 2013 versus \$17 thousand and \$93 thousand for the three and six months ended June 30, 2012. The majority of the gross Performance Fees were a result of greater than expected Performance Fees for the year ended December 31, 2012 received in the first quarter of 2013 from a Managed Company and to a lesser extent from the inclusion of Performance Fees from the Toscana Companies for the three and six months ended June 30, 2013.

Commission revenue for the three and six months ended June 30, 2013, was \$1.6 million and \$3.6 million, respectively, compared to \$2.1 million and \$7.8 million, for the three and six months ended June 30, 2012. During the three and six months ended June 30, 2013, SGRIL and SPW earned fewer commissions from the sale and purchase of stocks by its clients, particularly private placements and from sales of Sprott sponsored Funds to SGRIL and SPW clients as weak equity markets contributed to difficulties for junior resource companies to raise capital.

Losses from our capital that is invested in our proprietary investments (realized and unrealized) for the three months ended June 30, 2013 totaled \$9.5 million, compared with \$4.0 million for the three months ended June 30, 2012. The losses in the three months ended June 30, 2013 were driven mostly by declines in the market values of most of our proprietary investments resulting in unrealized losses of \$8.8 million and realized losses of \$0.7 million. Losses for the six months ended June 30, 2013 totaled \$12.5 million compared with gains of \$0.3 million for the six months ended June 30, 2012. During the six months ended June 30, 2013, sales of proprietary investments resulted in net realized losses of \$1.0 million and the market value of most of our remaining proprietary investments depreciated resulting in net unrealized losses of \$11.5 million. During the six months ended June 30, 2012, sales of proprietary investments resulted in net realized gains of \$2.7 million and depreciation in the value of most of our remaining proprietary investments resulted in net unrealized losses of \$2.4 million.

Other income increased by approximately \$1.6 million from \$1.3 million in the three months ended June 30, 2012 to \$2.8 million in the three months ended June 30, 2013 and increased by \$1.6 million from \$2.6 million in the six months ended June 30, 2012 to \$4.2 million in the six months ended June 30, 2013. The main components of other income include interest income, revenue from the early redemption of a secured note receivable, redemption fee revenue, expense recovery from managed companies and managed accounts, dividend income and foreign exchange gains and losses. The main contributor to other income was revenue from the early redemption of a secured note receivable and the interest income generated by the secured notes receivable that we include in our proprietary investments.

### **Expenses**

Total expenses for the three and six months ended June 30, 2013 were \$26.7 million and \$50.4 million, respectively, an increase of \$0.5 million or 1.7% and \$1.0 million or 2.0% compared with \$26.2 million and \$49.4 million for the three and six months ended June 30, 2012.

Changes in specific categories are described in the following discussion:

#### *Compensation and Benefits*

Compensation and benefits expense for the three and six months ended June 30, 2013 amounted to \$8.3 million and \$18.1 million, respectively, including contributions to the discretionary employee bonus pool of \$1.3 million and \$3.5 million respectively. In addition, for the three and six months ended June 30, 2013, \$0.7 million and \$1.4 million, respectively, relating to the equity component of the discretionary employee bonus pool is included in stock-based compensation. For the three and six months ended June 30, 2012, compensation and benefits expense was \$8.6 million and \$19.7 million, respectively, including contributions to the discretionary employee bonus pool amounting to \$2.2 million and \$6.1 million respectively. For the three and six months ended June 30, 2012, \$0.9 million and \$1.7 million, respectively, relating to the equity component of the discretionary employee bonus pool is included in stock-based compensation. Excluding the discretionary employee bonus pool, compensation and benefits increased by \$0.5 million from \$6.4 million during the second quarter of 2012 to \$6.9 million during the second quarter of 2013 and increased by \$1.0 million from \$13.6 million during the six months ended June 30, 2012 to \$14.6 million during the six months ended June 30, 2013. This is primarily due to an increase in headcount of the Company with the number of average employees increasing from 172 at June 30, 2012 to 191 at June 30, 2013, largely as a result of the acquisition of the Toscana Companies in the third quarter of 2012. The discretionary employee bonus pool decreased in 2013 compared to 2012 mainly due to lower EBITDA. Beginning in 2012, a portion of the discretionary employee bonus pool was paid in equity of the Company through the Company's EPSP and EIP (see note 8). The shares are either issued from treasury or purchased in the open market and are available to the relevant employees over a specified vesting period. The three and six months ended June 30, 2013 included compensation and benefits from the Toscana Companies since their acquisition in the third quarter of 2012.

#### *Stock-based compensation*

Stock-based compensation for the three and six months ended June 30, 2013 was \$2.4 million and \$5.1 million, respectively, a decrease of \$0.5 million and \$0.4 million, respectively, compared to \$2.9 million and \$5.5 million in the comparative periods of 2012. The decline is mainly due to lower equity-based compensation accrued for employees in 2013 as compared to 2012 which is partially offset by the expensing of earn-out shares for the Toscana Companies. Stock-based compensation is composed of i) a portion of the discretionary employee bonus pool that is equity-based, ii) the expensing of earn-out shares for the Global Companies and the Toscana Companies, and iii) other stock-based compensation relating to new hires.

#### *Trailer Fees*

Trailer fees are somewhat correlated with AUM and with Management Fees. For the three and six months ended June 30, 2013 trailer fees were \$2.9 million and \$6.3 million, respectively, versus \$4.5 million and \$10.1 million for the three and six months ended June 30, 2012, a decrease of 36.2% and 37.7%, respectively. This decrease is a result of the reduction in trailer fee paying AUM during 2013. Trailer fees as a percentage of Management Fees for the three and six months ended June 30, 2013 have decreased to 13.5% and 13.3% from 16.2% and 16.6%, respectively, for the three and six months ended June 30, 2012. This decline is a result of the reduction in trailer fee paying AUM relative to total AUM which comprises a higher proportion of AUM on which no or lower trailer fees are payable.

### *General and Administrative*

General and administrative expenses decreased by \$0.4 million (7.2%) to \$5.7 million for the three months ended June 30, 2013 and decreased by \$0.4 million (3.7%) to \$11.5 million for the six months ended June 30, 2013 when compared to the comparable periods of the prior year. 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, donations, directors fees and professional fees as well as miscellaneous costs such as quote and news services, printing and systems maintenance. The decrease in general and administrative expenses for the three and six months ended June 30, 2013 is primarily due to decreases in transaction charges resulting from the reduction in trading activities by SGRIL and SPW and the reduction in several general and administrative expenses, particularly marketing and general office expenses reflecting our efforts to reduce discretionary spending. Partially offsetting these decreases is an increase in professional fees a result of the SRLC acquisition which closed subsequent to the quarter end, increases in rent as we took on additional leased space during the third quarter of 2012 and sub-advisory expenses. The three and six months ended June 30, 2013 also include general and administrative expenses from the Toscana Companies since their acquisition in the third quarter of 2012.

### *Amortization of Intangibles*

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. Amortization expense decreased by \$0.1 million from \$1.9 million for the three months ended June 30, 2012 to \$1.8 million for the three months ended June 30, 2013 and decreased by \$0.1 million from \$3.7 million for the six months ended June 30, 2012 to \$3.6 million for the six months ended June 30, 2013, mainly due to lower amortization of carried interests in 2013 as compared to 2012.

### *Impairment of Goodwill and Intangibles*

Impairment of goodwill and intangibles is composed of (i) those amounts in excess of the recoverable amount when compared to the carrying value of fund management contracts and carried interests, net of any reversals and (ii) those amounts in excess of the recoverable amount when compared to the carrying value of goodwill. As at June 30, 2013, the recoverable amount of fund management contracts approximated its carrying value, therefore no impairment charge or impairment charge reversal relating to fund management contracts was recognized for the three months ended June 30, 2013. Similarly, there was no impairment charge or impairment charge reversal relating to fund management contracts for the six months ended June 30, 2013. As at June 30, 2012, the recoverable amount of fund management contracts was in excess of its carrying value, therefore a reversal of a previous impairment charge of \$1.8 million was recognized for the three months ended June 30, 2012. As a result of no previous impairment charges or impairment charge reversals of fund management contracts, the total impairment charge reversal for fund management contracts for the six months ended June 30, 2012 was \$1.8 million. As at June 30, 2013, the carrying value of carried interests was in excess of its recoverable amount, therefore an impairment charge of \$5.4 million was recognized. As a result of no previous impairment charges or impairment charge reversals of carried interests, the total impairment charge for carried interests for the six months ended June 30, 2013 was \$5.4 million. As at June 30, 2012, the carrying value of carried interests was in excess of its recoverable amount, therefore an impairment charge of \$3.8 million was recognized. As a result of a previous impairment charge reversal of carried interests in the amount of \$4.0 million, the total net impairment charge reversal for carried interests for the six months ended June 30, 2012 was \$0.2 million. As a result of the acquisition of the Toscana Companies, indefinite life fund management contracts totaling \$12.8 million were identified. These fund management contracts are not amortized, but instead are reviewed for indicators of impairment. In the event that these fund management contracts are impaired, an impairment loss will be charged against earnings in the period in which the impairment occurs. As at June 30, 2013, management determined that there were no indicators of impairment that required management to reassess the recoverable amount of the indefinite life fund management contracts.

The underlying inputs and assumptions that determine the recoverable amounts of fund management contracts and carried interests are related to the resource sector and commodity prices which can exhibit significant volatility. As a result, the recoverable amounts of both the fund management contracts and carried interests may demonstrate significant fluctuations in value from quarter to quarter. Management will continue to monitor the recoverable amount of these intangible assets on a quarterly basis and, if appropriate, may record impairment losses and/or reverse all or part of any previously recorded impairment losses in future periods.

### *Amortization of Property and Equipment*

Amortization expense of \$0.2 million and \$0.5 million for the three and six months ended June 30, 2013, was similar to \$0.2 million and \$0.5 million for the three and six months ended June 30, 2012.

## **EBITDA and Net Income**

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

Beginning in 2013, management redefined its definition of EBITDA and has applied it retrospectively. In addition, other non-IFRS earnings measures previously reported by the Company are no longer presented.

EBITDA allows us to assess our ongoing business without the impact of interest expense, gains and losses on proprietary investments, 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 three and six months ended June 30, 2013, EBITDA was \$8.1 million and \$18.5 million, respectively, compared with \$10.4 million and \$26.6 million, respectively, for the three and six months ended June 30, 2012. EBITDA decreased for the three and six months ended June 30, 2013 when compared to the three and six months ended June 30, 2012 mainly as a result of lower Management Fees. Basic and diluted EBITDA per share for the three and six months ended June 30, 2013 was \$0.05 and \$0.11, respectively, compared to \$0.06 and \$0.16 for the three and six months ended June 30, 2012. For further clarity, EBITDA is reconciled to Net Income in the Summary Financial Information table earlier in this MD&A.

Excluding the impacts of Performance Fees and performance fee related expenses, EBITDA was \$8.0 million (\$0.05 per share) and \$17.5 million (\$0.10 per share) for the three and six months ended June 30, 2013, respectively, compared to \$10.4 million (\$0.06 per share) and \$26.6 million (\$0.16 per share) for the three and six months ended June 30, 2012.

Loss before taxes for the three and six months ended June 30, 2013 was \$10.1 million and \$6.3 million compared with pre-tax income of \$1.2 million and \$22.4 million for the three and six months ended June 30, 2012. The effective tax rate of 33.7% for the three months ended June 30, 2013 was lower compared to 38.7% for the three months ended June 30, 2012 primarily as a result of favorable differences arising on the filing of the Company's 2012 corporate taxes compared to the estimates calculated at December 31, 2012 and to the negative earnings of the US operations that carry a higher corporate tax rate than the Canadian operations. The effective tax rate of 26.4% for the six months ended June 30, 2013 was higher compared to 21.1% for the six months ended June 30, 2012, primarily as a result of the lower tax rate applied against unrealized and realized losses on proprietary investments. Unrealized and realized losses result in the Company's effective tax rate increasing when compared to results in the absence of unrealized and realized losses. Similarly, unrealized and realized gains result in the Company's effective tax rate decreasing when compared to results in the absence of unrealized and realized gains. The accounting for acquisitions has resulted in significant deferred income tax liabilities relating to the identified intangible assets which are being drawn down over the same period in which the associated intangible assets are being amortized. These deferred tax liabilities are not cash liabilities of the Company but are accounting items resulting from the accounting for the acquisitions.

Net loss for the three and six months ended June 30, 2013 was \$6.7 million and \$4.6 million compared to net income of \$0.7 million and \$17.7 million for the three and six months ended June 30, 2012. The decrease in 2013 as compared to 2012 reflects the net effect of the changes previously discussed in this MD&A. Basic and diluted earnings per share for the three and six months ended June 30, 2013 was negative \$0.04 and negative \$0.03, versus \$0.00 and \$0.10 for the three and six months ended June 30, 2012.



## **Balance Sheet**

Total assets at June 30, 2013 increased by \$1.3 million to \$376.6 million from \$375.3 million at December 31, 2012. Cash and cash equivalents were \$81.6 million, an increase of \$4.2 million from December 31, 2012 primarily due to the receipt of cash from the early redemption of a secured note receivable mostly offset by cash outflows relating to income tax payments, dividend payments and the purchase of proprietary investments.

Proprietary investments are comprised of investments in various Funds that we manage, including those managed by RCIC, secured notes receivable, equities and warrants, including an investment in SRLC and gold bullion. During the quarter, the Company seeded a \$25 million new institutional based Offshore Fund, the objective of which is to provide superior risk-adjusted returns to investors. Proprietary investments are discussed in more detail in the Revenue section of this MD&A.

Fees receivable at June 30, 2013 were \$10.8 million, which is a decrease of \$6.5 million since December 31, 2012 primarily reflecting the Company's reduced AUM since then.

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.

Intangible assets as at June 30, 2013 of \$39.2 million consist of finite and indefinite life intangible assets. Intangible assets with indefinite useful lives relate to (i) costs incurred to create fund management contracts between SAM and certain Funds managed by SAM and (ii) fund management contracts identified as a result of the acquisition of the Toscana Companies (see note 3). Intangible assets with finite lives relate to (i) the costs assigned to fund 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. Intangible assets decreased by approximately \$6.0 million during 2013 primarily as a result of the impairment of carried interests offset partially by the purchase of additional carried interest rights relating to two new limited partnerships launched by RCIC.

At June 30, 2013, we determined that the carrying value of carried interests exceeded its recoverable amount. As a result, an impairment charge in the amount of \$5.4 million was recognized for the three months ended June 30, 2013. At June 30, 2013, we also determined that the recoverable amount of the fund management contracts approximated its carrying value. As a result, no impairment charge or impairment charge reversal for the fund management contracts was recorded for the three months ended June 30, 2013. As a result of the acquisition of the Toscana Companies in 2012, indefinite life fund management contracts totaling \$12.8 million were identified. These fund management contracts are not amortized, but instead are reviewed for indicators of impairment. In the event that these fund management contracts are impaired, an impairment charge will be recorded against earnings in the period in which the impairment occurs. As at June 30, 2013, management concluded that there were no indicators of impairment during the second quarter of fiscal 2013 that required management to reassess the recoverable amount of these fund management contracts.

The underlying inputs and assumptions that determine the recoverable amounts of fund management contracts and carried interests are related to the resource sector and commodity prices which can exhibit significant volatility. As a result, the recoverable amounts of both the finite life fund management contracts and carried interests may demonstrate significant fluctuations in value from quarter to quarter. Management will continue to monitor the recoverable amount of these intangible assets on a quarterly basis and, if appropriate, may record impairment losses and/or may reverse all or part of any previously recorded 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 June 30, 2013 of \$2.0 million were slightly lower than \$2.1 million at December 31, 2012. During the six months ended June 30, 2013, \$0.6 million in commissions were paid for low load funds and were offset by amortization of \$0.7 million.

The acquisition of the Global Companies resulted in goodwill of \$129.7 million at June 30, 2013 including \$7.6 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 in 2011. The subsequent acquisition of the Toscana Companies in 2012 resulted in additional goodwill of \$3.2 million at June 30, 2013. Goodwill is not amortized, but is subject to impairment tests on at least an annual basis. Management last performed its impairment test of goodwill in the fourth quarter of 2012. As at June 30, 2013, management concluded that there were no indicators of impairment at June 30, 2013 that required management to reassess the recoverable amount of goodwill. However, if the financial markets (specifically precious metals and energy) further deteriorate through the third quarter of fiscal 2013 and into the fourth quarter of fiscal 2013, a goodwill impairment charge is possible in a future quarter.

Accounts payable and accrued liabilities were \$6.6 million at June 30, 2013, which is a decrease of \$7.1 million from December 31, 2012. The decrease is mainly a result of the payment of year-end performance fees to a sub-advisor of the Company, the payment of higher year-end harmonized sales tax and the payment of 2012 fund operating expenses by SAM on behalf of certain Funds that it manages.

Compensation and employee bonuses payable were \$5.0 million at June 30, 2013 compared to \$10.2 million at December 31, 2012. The decrease from December 31, 2012 primarily reflects the payment of fiscal 2012 year-end bonuses during the first quarter of 2013.

## 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

(\$ in thousands)	For the three months ended		For the six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
<b>Revenue</b>				
Management fees	16,254	23,718	36,556	52,119
Performance fees	4	17	4	93
Other	(2,508)	329	(3,419)	946
<b>Total revenue</b>	<b>13,750</b>	<b>24,064</b>	<b>33,141</b>	<b>53,158</b>
<b>Expenses</b>				
General and administrative	8,620	10,698	19,009	21,988
Trailer fees	3,954	6,526	8,793	14,550
Amortization and impairment of intangibles, property and equipment	552	432	1,093	960
<b>Total expenses</b>	<b>13,126</b>	<b>17,656</b>	<b>28,895</b>	<b>37,498</b>
<b>Income before income taxes for the period</b>	<b>624</b>	<b>6,408</b>	<b>4,246</b>	<b>15,660</b>
<b>EBITDA</b>	<b>4,072</b>	<b>7,123</b>	<b>9,472</b>	<b>16,897</b>

*Three months ended June 30, 2013 compared to three months ended June 30, 2012*

### Revenues

During the three months ended June 30, 2013, total revenues decreased by \$10.3 million (42.9%) from \$24.1 million in the three months ended June 30, 2012 to \$13.8 million in the three months ended June 30, 2013.

Revenues from Management Fees were \$16.3 million for the three months ended June 30, 2013, a decrease of 31.5% from the three months ended June 30, 2012 mainly attributable to the different composition of SAM's AUM and to the lower level of average AUM.

Revenues from Gross Performance Fees were \$4 thousand for the three months ended June 30, 2013 versus \$17 thousand for the three months ended June 30, 2012.

Other revenues were negative \$2.5 million for the three months ended June 30, 2013, a decrease of \$2.8 million from the three months ended June 30, 2012 reflecting higher unrealized losses on proprietary investments in 2013 compared to 2012. The largest components of other revenue are unrealized gains and losses on proprietary investments, interest income, short term trading fees and early redemption fees.

## Expenses

Total expenses for the three months ended June 30, 2013 were \$13.1 million, a decrease of approximately \$4.5 million or 25.7%, compared with \$17.7 million for the three months ended June 30, 2012.

General and administrative (including compensation and benefits) expense for the three months ended June 30, 2013 amounted to \$8.6 million versus \$10.7 million for the three months ended June 30, 2012. The largest components of the decrease from the prior year relate to a reduction in the bonus pool accrual, decreased stock-based compensation, decrease in marketing and professional fees offset slightly by an increase in rent.

Trailer fees for the three months ended June 30, 2013 were \$4.0 million versus \$6.5 million, a decrease of 39.4% over 2012. The decrease was attributable to the decrease in the average AUM of our Mutual Funds and Alternative Investment Strategies which are the primary products to which trailer fees relate.

Amortization and impairment of intangibles, property and equipment increased slightly by \$0.1 million for the three months ended June 30, 2013 when compared to the three months ended June 30, 2012. This is mainly due to increased amortization of deferred sales commissions during the period.

## EBITDA

For the three months ended June 30, 2013, EBITDA was \$4.1 million compared with \$7.1 million for the three months ended June 30, 2012. The decrease in EBITDA in 2013 when compared to 2012 is mainly a result of lower Management Fees earned in the current quarter offset partially by lower trailer fees in the current quarter.

### *Six months ended June 30, 2013 compared to six months ended June 30, 2012*

## Revenues

During the six months ended June 30, 2013, total revenues decreased by approximately \$20.0 million (37.7%) from \$53.2 million in the six months ended June 30, 2012 to \$33.1 million in the six months ended June 30, 2013.

Revenues from Management Fees were \$36.6 million for the six months ended June 30, 2013, a decrease of 29.9% from the six months ended June 30, 2012 mainly attributable to the the different composition of SAM's AUM and to the lower level of average AUM.

Revenues from gross Performance Fees were \$4 thousand for the six months ended June 30, 2013 versus \$93 thousand for the six months ended June 30, 2012.

Other revenues were negative \$3.4 million for the six months ended June 30, 2013, a decrease of approximately \$4.4 million from the six months ended June 30, 2012 reflecting higher unrealized losses on proprietary investments in 2013 compared to 2012. The largest components of other revenue are unrealized gains and losses on proprietary investments, interest income, short term trading fees and early redemption fees.

## Expenses

Total expenses for the six months ended June 30, 2013 were \$28.9 million, a decrease of \$8.6 million or 22.9%, compared with \$37.5 million for the six months ended June 30, 2012.

General and administrative (including compensation and benefits) expense for the six months ended June 30, 2013 amounted to \$19.0 million versus \$22.0 million for the six months ended June 30, 2012. The largest components of the decrease from the prior year relate to a reduction in the bonus pool accrual, decreased stock-based compensation, decrease in marketing and professional fees offset slightly by increases in sub-advisor fees and rent.

Trailer fees for the six months ended June 30, 2013 were \$8.8 million versus \$14.6 million, a decrease of 39.6% over 2012. The decrease was attributable to the decrease in the average AUM of our Mutual Funds and Alternative Investment Strategies which are the primary products to which trailer fees relate.

Amortization of intangibles, property and equipment increased slightly by \$0.1 million for the six months ended June 30, 2013 when compared to the six months ended June 30, 2012. This is mainly due to increased amortization of deferred sales commissions during the period.

## EBITDA

For the six months ended June 30, 2013, EBITDA was \$9.5 million compared with \$16.9 million for the six months ended June 30, 2012. The decrease in EBITDA in 2013 when compared to 2012 is mainly a result of lower Management Fees earned in the current period offset partially by lower trailer fees in the current period.

## Global Companies Segment

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

Results of operations

(in \$ thousands)	For the three months ended		For the six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
<b>Revenue</b>				
Management fees	2,351	2,311	4,978	4,806
Commissions	1,355	1,525	2,702	4,407
Other	(1,147)	(749)	(1,347)	312
<b>Total revenue</b>	<b>2,559</b>	<b>3,087</b>	<b>6,333</b>	<b>9,525</b>
<b>Expenses</b>				
General and administrative	3,667	3,696	7,458	8,135
Amortization of intangibles, property and equipment	6,829	3,644	8,286	1,168
<b>Total expenses</b>	<b>10,496</b>	<b>7,340</b>	<b>15,744</b>	<b>9,303</b>
<b>Income (loss) before income taxes for the period</b>	<b>(7,937)</b>	<b>(4,253)</b>	<b>(9,411)</b>	<b>222</b>
<b>EBITDA</b>	<b>1,124</b>	<b>1,216</b>	<b>2,435</b>	<b>3,249</b>

*Three months ended June 30, 2013 compared to three months ended June 30, 2012*

### Revenues

Total revenues decreased by \$0.5 million (17.1%) from \$3.1 million in the three months ended June 30, 2012 to \$2.6 million in the three months ended June 30, 2013. The decrease is due primarily to a reduction in the volume of transactions that generate commission revenue (primarily private placements) and to realized and unrealized losses on proprietary investments in 2013 compared to the same period of 2012.

Revenue from Management Fees was \$2.4 million for the three months ended June 30, 2013 compared to \$2.3 million for the corresponding Period. The slight increase is due to higher Management Fees generated on a higher level of average AUM at RCIC and SAM US.

Revenue from Commissions was approximately \$1.4 million for the three months ended June 30, 2013, a decrease of approximately \$0.2 million when compared to \$1.5 million in the three months ended June 30, 2012. These commissions were generated by SGRIL from the trading of securities by clients and from the sale to clients of new and follow-on offerings of products and through private placements of unrelated companies. The decrease is due to fewer transactions that generated commission revenue (primarily private placements) in the three months ended June 30, 2013 compared to the three months ended June 30, 2012.

Gains and losses from our capital that is invested in proprietary investments (realized and unrealized) make up the majority of the Other revenue category. For the three months ended June 30, 2013, Other revenue was negative \$1.1 million compared to negative \$0.7 million for the three months ended June 30, 2012.

### Expenses

Total expenses increased by \$3.2 million (43.0%) to \$10.5 million in the three months ended June 30, 2013 from \$7.3 million in the corresponding comparative period. The increase is due primarily to the impairment charge for carried interests of \$5.4 million recorded in the three months ended June 30, 2013, compared to an impairment charge of \$1.9 million in the three months ended June 30, 2013.

General and administrative (including compensation and benefits) expenses for the three months ended June 30, 2013 were relatively unchanged at \$3.7 million when compared to the three months ended June 30, 2012. 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, marketing, professional fees and expenses unique to its brokerage business.

Amortization expense, excluding the effect of impairment related losses and reversals, decreased slightly. However, an impairment charge of \$5.4 million was recorded in the three months ended June 30, 2013, compared to an impairment charge of \$1.9 million in the three months ended June 30, 2012 resulting in total amortization and impairment expense of \$6.8 million for the three months ended June 30, 2013 compared to \$3.6 million for the three months ended June 30, 2012. This reflects a net change of \$3.2 million (87.4%) from the prior period's comparative figure. The underlying inputs and assumptions that determine the recoverable amounts of finite life fund management contracts and carried interests for the Global Companies are related to the resource sector and commodity prices which can exhibit significant volatility. As a result, the recoverable amounts of both the finite life fund management contracts and carried interests may demonstrate significant fluctuations in value from quarter to quarter. Management will continue to monitor the recoverable amount of these intangible assets on a quarterly basis and, if appropriate, may record impairment losses and/or reverse all or part of any previously recorded impairment losses in future periods.

#### EBITDA

For the three months ended June 30, 2013, EBITDA was \$1.1 million compared with \$1.2 million for the three months ended June 30, 2012. The decrease in EBITDA in 2013 when compared to 2012 is mainly a result of a reduction in the volume of transactions that generate commission revenue.

#### *Six months ended June 30, 2013 compared to six months ended June 30, 2012*

#### Revenues

Total revenues decreased by \$3.2 million (33.5%) from \$9.5 million in the six months ended June 30, 2012 to \$6.3 million in the six months ended June 30, 2013. The decrease is due primarily to a reduction in the volume of transactions that generate commission revenue (primarily private placements) and to realized and unrealized losses on proprietary investments in 2013 compared to realized and unrealized gains during the same period of 2012.

Revenue from Management Fees was \$5.0 million for the six months ended June 30, 2013 compared to \$4.8 million for the six months ended June 30, 2012. The increase is due to higher Management Fees generated on a higher level of average AUM at RCIC and SAM US.

Revenue from Commissions was \$2.7 million for the six months ended June 30, 2013, a decrease of \$1.7 million when compared to \$4.4 million in the six months ended June 30, 2012. These commissions were generated by SGRIL from the trading of securities by clients and from the sale to clients of new and follow-on offerings of products and through private placements of unrelated companies. The decrease is due to fewer transactions that generated commission revenue (primarily private placements) in the six months ended June 30, 2013 compared to the six months ended June 30, 2012.

Gains and losses from our capital that is invested in proprietary investments (realized and unrealized) make up the majority of the Other revenue category. For the six months ended June 30, 2013, Other revenue was negative \$1.3 million compared to income of \$0.3 million for the six months ended June 30, 2012.

#### Expenses

Total expenses increased by \$6.4 million (69.2%) to \$15.7 million in the six months ended June 30, 2013 from \$9.3 million in the corresponding comparative period. The increase is due primarily to the impairment charge of \$5.4 million recorded in the six months ended June 30, 2013, compared to an impairment charge reversal of \$2.1 million recorded in the six months ended June 30, 2013.

General and administrative (including compensation and benefits) expenses for the six months ended June 30, 2013 were \$7.5 million compared to \$8.1 million for the six months ended June 30, 2012, a decrease of approximately \$0.7 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, marketing, professional fees and expenses unique to its brokerage business. Compensation and benefits (including stock-based compensation) decreased during 2013 primarily as a result of a lower bonus accrual and lower variable compensation which is directly correlated to the lower commission revenue realized in the six months ended June 30, 2013. This was offset partially by sub-advisor fees paid in 2013 compared to the prior year's comparative period, which did not include any sub-advisor fees. The sub-advisor fees are paid to SRLC which was acquired by the Company subsequent to the quarter-end and beginning in the third quarter of 2013, these sub-advisor fees will be eliminated upon consolidation.

Amortization expense, excluding the effect of impairment related losses and reversals, decreased slightly. However, an impairment charge of \$5.4 million was recorded in the six months ended June 30, 2013, compared to an impairment charge reversal of \$2.1 million recorded in the six months ended June 30, 2012 resulting in total amortization and impairment expense of \$8.3 million for the six months ended June 30, 2013 compared to \$1.2 million for the six months ended June 30, 2012. This reflects a net change of \$7.1 million from the prior period's comparative figure. The underlying inputs and assumptions that determine the recoverable amounts of finite life fund management contracts and carried interests for the Global Companies are related to the resource sector and commodity prices which can exhibit significant volatility. As a result, the recoverable amounts of both the finite life fund management contracts and carried interests may demonstrate significant fluctuations in value from quarter to quarter. Management will continue to monitor the recoverable amount of these intangible assets on a quarterly basis and, if appropriate, may record impairment losses and/or reverse all or part of any previously recorded impairment losses in future periods.

#### EBITDA

For the six months ended June 30, 2013, EBITDA was \$2.4 million compared with \$3.2 million for the six months ended June 30, 2012. The decrease in EBITDA in 2013 when compared to 2012 is mainly a result of a reduction in the volume of transactions that generate commission revenue offset in part by a decrease in employee compensation.

## Corporate Segment

The Corporate segment provides treasury and 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

(\$ in thousands)	For the three months ended		For the six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
<b>Revenue</b>				
Other	(3,179)	(2,308)	(3,930)	1,408
<b>Total revenue</b>	<b>(3,179)</b>	<b>(2,308)</b>	<b>(3,930)</b>	<b>1,408</b>
<b>Expenses</b>				
General and administrative	1,373	871	1,867	1,365
Amortization of property and equipment	16	29	31	53
<b>Total expenses</b>	<b>1,389</b>	<b>900</b>	<b>1,898</b>	<b>1,418</b>
<b>Income (loss) before income taxes for the period</b>	<b>(4,568)</b>	<b>(3,208)</b>	<b>(5,828)</b>	<b>(10)</b>
<b>EBITDA</b>	<b>816</b>	<b>(239)</b>	<b>1,088</b>	<b>(25)</b>

*Three months ended June 30, 2013 compared to three months ended June 30, 2012*

### Revenues

During the three months ended June 30, 2013, total revenues decreased by \$0.9 million from negative \$2.3 million in the three months ended June 30, 2012 to negative \$3.2 million in the three months ended June 30, 2013.

Gains and losses from our capital that is invested in our proprietary investments (realized and unrealized), revenue from the sale of a secured note receivable and interest income make up the majority of Other revenue. For the three months ended June 30, 2013, the Corporate segment recorded higher net realized and unrealized losses on proprietary investments compared to the three months ended June 30, 2012.

### Expenses

Total expenses for the three months ended June 30, 2013 were \$1.4 million, an increase of \$0.5 million, compared with \$0.9 million for the three months ended June 30, 2012.

General and administrative (including compensation and benefits) expenses increased by \$0.5 million to \$1.4 million for the three months ended June 30, 2013 when compared to the three months ended June 30, 2012. General and administrative expenses increased mostly due to an increase in professional fees resulting from the acquisition of SRLC which closed subsequent to the quarter end. There were no other significant variances in the components of general and administrative expenses between the three months ended June 30, 2013 and the three months ended June 30, 2012.

### EBITDA

For the three months ended June 30, 2013, EBITDA was \$0.8 million compared with negative \$0.2 million for the three months ended June 30, 2012. Increase in EBITDA was mainly due to higher interest income and revenue earned from the sale of a secured note receivable in 2013.

*Six months ended June 30, 2013 compared to six months ended June 30, 2012*

### Revenues

During the six months ended June 30, 2013, total revenues decreased by \$5.3 million from \$1.4 million in the six months ended June 30, 2012 to negative \$3.9 million in the six months ended June 30, 2013.

Gains and losses from our capital that is invested in our proprietary investments (realized and unrealized), revenue from the sale of a secured note receivable and interest income make up the majority of Other revenue. For the six months ended June 30, 2013, the Corporate segment recorded net realized and unrealized losses on proprietary investments compared to net realized and unrealized gains for the six months ended June 30, 2012.

## Expenses

Total expenses for the six months ended June 30, 2013 were \$1.9 million, an increase of \$0.5 million (33.9%) from \$1.4 million for the six months ended June 30, 2012.

General and administrative (including compensation and benefits) expenses increased by \$0.5 million to \$1.9 million for the six months ended June 30, 2013 when compared to the six months ended June 30, 2012. General and administrative expenses increased mostly due to an increase in professional fees resulting from the acquisition of SRLC which closed subsequent to the quarter end. There were no other significant variances in the components of general and administrative expenses between the six months ended June 30, 2013 and the six months ended June 30, 2012.

## EBITDA

For the six months ended June 30, 2013, EBITDA was \$1.1 million compared with \$0.0 million for the six months ended June 30, 2012. The increase in EBITDA was mainly due to higher interest income and revenue earned from the sale of a secured note receivable in 2013.

## Other Segment

The Other segment includes the operations of SC and SPW, our consulting and private wealth businesses, respectively. The results of the acquisition of the Toscana Companies are included in the Other segment.

Results of operations

(\$ in thousands)	For the three months ended		For the six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
<b>Revenue</b>				
Management fees	2,853	2,055	5,875	4,145
Performance fees	137	—	1,485	—
Commissions	261	532	850	3,372
Other	1,293	2,043	2,950	4,729
<b>Total revenue</b>	<b>4,544</b>	<b>4,630</b>	<b>11,160</b>	<b>12,246</b>
<b>Expenses</b>				
General and administrative	2,769	2,368	6,422	5,695
Amortization of property and equipment	13	9	23	17
<b>Total expenses</b>	<b>2,782</b>	<b>2,377</b>	<b>6,445</b>	<b>5,712</b>
<b>Income before income taxes for the period</b>	<b>1,762</b>	<b>2,253</b>	<b>4,715</b>	<b>6,534</b>
<b>EBITDA</b>	<b>2,108</b>	<b>2,307</b>	<b>5,524</b>	<b>6,446</b>

*Three months ended June 30, 2013 compared to three months ended June 30, 2012*

## Revenues

During the three months ended June 30, 2013, total revenues decreased by approximately \$0.1 million (1.9%) from \$4.6 million in the three months ended June 30, 2012 to \$4.5 million in the three months ended June 30, 2013.

Revenues from Management Fees were \$2.9 million for the three months ended June 30, 2013 compared to \$2.1 million in the three months ended June 30, 2012. The increase is mainly attributable to the inclusion of management fees for the Toscana Companies compared to the prior period which did not include any results of the Toscana Companies. The Toscana Companies were acquired in the third quarter of 2012.

Revenues from Performance Fees were \$0.1 million for the three months ended June 30, 2013 compared to \$nil in the three months ended June 30, 2012. All of the Performance Fees recognized in the three months ended June 30, 2013 were from the Toscana Companies compared to the prior period which did not include any results of the Toscana Companies.

Commission revenue for the three months ended June 30, 2013, was \$0.3 million compared to \$0.5 million during the three months ended June 30, 2012. The decrease in Commissions was mainly due to fewer commissions earned by SPW from private placements and from sales of Sprout sponsored Funds to clients.

Trailer fee income received from SAM is the most significant component of Other revenue and decreased during the current period as a result of the decrease 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 three months ended June 30, 2013 were \$2.8 million, an increase of \$0.4 million from the prior year of \$2.4 million. The largest components of the increase from the prior year's comparative quarter relates to compensation expense due to the addition of the Toscana Companies.

### EBITDA

For the three months ended June 30, 2013, EBITDA was \$2.1 million compared with \$2.3 million for the three months ended June 30, 2012. The decrease in EBITDA in 2013 when compared to 2012 is mainly due to lower commissions and trailer fees offset almost entirely by the EBITDA generated by the Toscana Companies.

### *Six months ended June 30, 2013 compared to six months ended June 30, 2012*

### Revenues

During the six months ended June 30, 2013, total revenues decreased by approximately \$1.1 million (8.9%) from \$12.2 million in the six months ended June 30, 2012 to \$11.2 million in the six months ended June 30, 2013.

Revenues from Management Fees were \$5.9 million for the six months ended June 30, 2013 compared to \$4.1 million in the six months ended June 30, 2012. The increase is mainly attributable to the inclusion of management fees for the Toscana Companies compared to the prior period which did not include any results of the Toscana Companies. The Toscana Companies were acquired in the third quarter of 2012.

Revenues from Performance Fees were \$1.5 million for the six months ended June 30, 2013 compared to \$0.0 million in the six months ended June 30, 2012. The majority of the Performance Fees recognized in the six months ended June 30, 2013 were a result of greater than expected Performance Fees for the year ended December 31, 2012 received in 2013 from a Managed Company and to a lesser extent from the inclusion of Performance Fees from the Toscana Companies.

Commission revenue for the six months ended June 30, 2013 was \$0.9 million compared to \$3.4 million during the six months ended June 30, 2012. The decrease in Commissions was mainly due to substantial commissions earned by SPW on the sale of units of Sprott Physical Silver Trust, Sprott 2012 Flow-Through Fund and other various private placements to its clients in the six months ended June 30, 2012.

Trailer fee income received from SAM is the most significant component of Other revenue and decreased during the current period as a result of the decrease 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 six months ended June 30, 2013 were \$6.4 million, an increase of \$0.7 million from the prior year of \$5.7 million. The largest components of the increase from the prior year's comparative quarter relates to compensation expense due to the addition of the Toscana Companies.

### EBITDA

For the six months ended June 30, 2013, EBITDA was \$5.5 million compared with \$6.4 million for the six months ended June 30, 2012. The decrease in EBITDA in 2013 when compared to 2012 is mainly due to lower commissions and trailer fees offset partially by higher Performance Fees and EBITDA contributed by the Toscana Companies.



## SUMMARY OF QUARTERLY RESULTS

	As at	As at	As at	As at	As at	As at	As at	As at	As at
(\$ in thousands)	30-Sep-11	31-Dec-11	31-Mar-12	30-Jun-12	30-Sept-12	31-Dec-12	31-Mar-13	30-Jun-13	
<b>Assets Under Management</b>	9,881,291	9,137,084	9,683,283	8,485,400	10,302,652	9,931,151	9,109,951	7,146,770	
	<b>3 Months ended</b>	<b>3 Months ended</b>	<b>3 Months ended</b>	<b>3 Months ended</b>	<b>3 Months ended</b>	<b>3 Months ended</b>	<b>3 Months ended</b>	<b>3 Months ended</b>	<b>3 Months ended</b>
(\$ in thousands, except per share amounts)	30-Sep-11	31-Dec-11	31-Mar-12	30-Jun-12	30-Sept-12	31-Dec-12	31-Mar-13	30-Jun-13	
<b>Income Statement Information</b>									
<b>Revenue</b>									
Management fees	40,350	33,700	32,986	28,084	28,202	29,242	25,951	21,458	
Performance fees	1,990	2,528	76	17	93	9,769	1,348	141	
Commissions	3,427	2,861	5,722	2,057	2,424	3,303	1,936	1,616	
Unrealized and realized gains (losses) on proprietary investments	(2,389)	(1,963)	4,241	(3,984)	3,798	(1,789)	(3,049)	(9,466)	
Other income	953	987	1,365	1,267	1,257	10,024	1,375	2,822	
<b>Total revenue</b>	<b>44,331</b>	<b>38,113</b>	<b>44,390</b>	<b>27,441</b>	<b>35,774</b>	<b>50,549</b>	<b>27,561</b>	<b>16,571</b>	
<b>Net income (loss)</b>	<b>10,358</b>	<b>4,625</b>	<b>16,943</b>	<b>736</b>	<b>11,008</b>	<b>3,297</b>	<b>2,090</b>	<b>(6,710)</b>	
<b>EBITDA</b>	<b>19,777</b>	<b>17,042</b>	<b>16,159</b>	<b>10,409</b>	<b>10,504</b>	<b>20,274</b>	<b>10,399</b>	<b>8,120</b>	
<b>Basic earnings (loss) per share</b>	<b>0.06</b>	<b>0.03</b>	<b>0.10</b>	<b>0.00</b>	<b>0.07</b>	<b>0.02</b>	<b>0.01</b>	<b>(0.04)</b>	
<b>Diluted earnings (loss) per share</b>	<b>0.06</b>	<b>0.03</b>	<b>0.10</b>	<b>0.00</b>	<b>0.06</b>	<b>0.02</b>	<b>0.01</b>	<b>(0.04)</b>	
<b>Basic and diluted EBITDA per share</b>	<b>0.12</b>	<b>0.10</b>	<b>0.10</b>	<b>0.06</b>	<b>0.06</b>	<b>0.12</b>	<b>0.06</b>	<b>0.05</b>	

Performance Fees are typically earned on the last day of the fiscal year other than for the Funds that are managed by RCIC. As a result, quarters ending December 31 are significantly more variable than other quarters during the year. During the three months ended June 30, 2013, the Company recognized Performance Fees of \$0.1 million from a Managed Company.

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 June 30, 2013, management determined that the carrying value of the carried interests was in excess of its recoverable amount. As a result, an impairment charge for the amount of \$5.4 million was recorded. The underlying inputs and assumptions that determine the recoverable amounts of the carried interests and fund management contracts are related to the resource sector and commodity prices which can exhibit significant volatility. As a result, the recoverable amounts of carried interests and fund management contracts may demonstrate significant fluctuations in value from quarter to quarter. Management will continue to monitor the recoverable amount of this and other intangible assets on a quarterly basis and, if appropriate, may record impairment losses and/or reverse all or part of previously recorded impairment losses in future periods.

The consolidated results shown in the table above include the results of Flatiron from the date of its acquisition on August 1, 2012 to its termination in January 2013, the results of the Toscana Companies from the date of their acquisition on July 3, 2012 and the results of the Global Companies from the date of their acquisition on February 4, 2011.

## **Dividends**

On March 26, 2013, a dividend of \$0.03 per common share was declared for the quarter ended December 31, 2012. This dividend was paid on April 23, 2013 to shareholders of record at the close of business on April 8, 2013.

On May 7, 2013, a dividend of \$0.03 per common share was declared for the quarter ended March 31, 2013. This dividend was paid on May 31, 2013 to shareholders of record at the close of business on May 16, 2013.

Unless indicated otherwise, all dividends on the shares of the Company will be designated as "eligible dividends" under the Income Tax Act (Canada).

## **Capital Stock**

Capital stock at the end of 2012 was \$215.5 million with 169.0 million common shares issued and outstanding for financial reporting purposes. As at June 30, 2013, capital stock had increased by \$29.5 million to \$245.0 million primarily as a result of a private placement which resulted in the issuance of 7.6 million common shares from treasury valued at \$24.6 million. As at June 30, 2013, the Company had 179.0 million common shares issued and outstanding and 177.2 million common shares issued and outstanding for financial reporting purposes.

Pursuant to the Share Purchase agreement relating to the Global Companies acquisition, an additional 532,500 common shares of the Company are to be provided to employees of the Global Companies. In the first quarter of 2012 and 2013, a total of 355,000 of those common shares were issued. 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.

Pursuant to the Share Purchase agreement relating to the Toscana Companies acquisition, the sellers will be eligible to earn up to an additional 0.9 million common shares of the Company with the achievement of certain earnings targets by the Toscana Companies over a period not exceeding three years from the acquisition date.

Earnings per share as at June 30, 2013 and June 30, 2012 have been calculated using the weighted average number of shares outstanding during the respective periods. Basic and diluted earnings per share for the three and six months ended June 30, 2013 were negative \$0.04 and negative \$0.03 versus \$0.00 and \$0.10 for the three and six months ended June 30, 2012. For the three and six months ended June 30, 2013, diluted earnings per share reflects the dilutive effect of in-the-money stock options, shares held for the equity incentive plan, the remaining 0.2 million common shares relating to the additional purchase consideration to be provided to employees of the Global Companies and outstanding restricted stock units.

A total of 2,650,000 stock options have been issued pursuant to our incentive stock option plan. As at June 30, 2013, 2,600,000 of those stock options were exercisable.

On July 23, 2013, the Company issued approximately 69.0 million common shares from treasury on the acquisition of SRLC (see note 16).

As at August 7, 2013, the Company had 248.0 million common shares outstanding.

## **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.

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, 2012 our previous revolving term credit facility with a Canadian chartered bank expired. However, during the quarter ended September 30, 2012 we completed the negotiation of a similar credit facility with another Canadian chartered bank. The amount that may be borrowed under this facility is \$50 million. Amounts may be borrowed under the facility through prime rate loans, which bear interest at the bank's prime rate, or bankers' acceptances, which bear interest at bankers' acceptance rates plus 1.375%. Amounts may also be borrowed in U.S. dollars through base rate loans, which bear interest at the greater of the bank's reference rate for loans made by it in Canada in U.S. funds and the federal funds effective rate plus 1.00%, or LIBOR loans which bear interest at LIBOR plus 1.375%.

Loans are made by the bank under a two year revolving credit facility, the term of which may be extended annually at the bank's option. If the bank elects not to extend the term, all outstanding principal, interest and fees are due at the maturity date.

The credit facility is fully and unconditionally guaranteed by SAM, a wholly-owned subsidiary of the Company. 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, which require that the funded debt to EBITDA ratio remain below 2:1, the funded debt to SAM EBITDA ratio remain below 1.5:1 and that the Company's AUM not fall below \$7 billion, calculated on the last day of each calendar month. The Company has not drawn on the credit facility as at June 30, 2013.

SPW is a member of IIROC and a registered investment dealer, 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, SGRIL 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 three months ended June 30, 2013, SAM, SPW and SGRIL were in compliance with specified capital requirements.

### **Contingency**

In June 2013, the Company and certain subsidiaries were named as defendants in a legal proceeding filed with the Ontario Superior Court of Justice relating to the Flatiron Market Neutral Limited Partnership (the "Flatiron Fund") by Performance Diversified Fund, as plaintiff. The proceeding is in respect of a claim relating to an investment by the plaintiff in the Flatiron Fund. The plaintiff was a limited partner in the Flatiron Fund from 2006 until February 2013. The Company indirectly acquired the shares of the manager of the Flatiron Fund in August 2012. The orderly liquidation of the Flatiron Fund announced in November 2012 was completed in February 2013.

Performance Diversified Fund claims damages in the amount of \$60 million from the Company and certain subsidiaries and \$5 million in other damages from the Company, certain subsidiaries and other defendants not related to the Company.

The Company denies any liability in connection with the claim and will vigorously defend the claim.

The Company has incurred nominal expenses in relation to this claim as at June 30, 2013 and expects most legal costs will be recoverable under its insurance policies and other contractual arrangements.

### **Critical Accounting Estimates**

These unaudited interim condensed consolidated financial statements were prepared in accordance with IFRS, using the accounting policies the Company adopted in its unaudited interim condensed consolidated financial statements as at and for the three and six months ended June 30, 2013. In preparing the Company's unaudited interim condensed consolidated financial statements under IFRS, the Company is required to use the standards in effect as at June 30, 2013.

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 unaudited interim condensed consolidated financial statements.

As a result of the Company's acquisitions, 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 carried interests and fund management contracts with finite lives recognized in future periods. Management monitors for indicators of impairment and impairment reversals on a regular basis and performs thorough valuations to verify the value of the intangibles and goodwill should an indicator of impairment exist or an indicator of an impairment reversal exists.

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.

IFRS 10 - *Consolidated Financial Statements* ("IFRS 10") provides for the use of professional judgment in determining whether an entity should be included within the consolidated financial statements of the Company. Although somewhat prescriptive in the application of IFRS 10, this use of professional judgment introduces the potential for different conclusions based on the weightings assigned to both qualitative and quantitative inputs on which the Company relied. Management works with expert advisors to assess these inputs and conclude on the most appropriate accounting treatment.

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

### **Alternative and policy choices under IFRS**

A summary of the Company's significant accounting policies under IFRS are provided in note 2 to the unaudited interim condensed consolidated financial statements. These policies have been retrospectively and consistently applied to the unaudited interim condensed consolidated financial statements.

### **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 May 7, 2013 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 SGRIL, 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, SGRIL 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 June 30, 2013 and concluded that the controls have been properly designed and are operating effectively.

There were no changes in the Company's internal control over financial reporting that occurred during the three months ended June 30, 2013 that have materially affected, or are 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 our public mutual Funds and other 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](http://www.sedar.com).*

*Consolidated Financial Statements*

Three and six months ended June 30, 2013



## INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at <i>(\$ in thousands of Canadian dollars)</i>	June 30, 2013	December 31, 2012
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	81,620	77,400
Fees receivable	10,784	17,301
Other assets	<i>(Note 7)</i> 2,625	3,919
<b>Total current assets</b>	<b>95,029</b>	<b>98,620</b>
Proprietary investments	<i>(Note 4)</i> 80,244	76,724
Property and equipment, net	<i>(Note 5)</i> 7,112	7,260
Intangible assets	<i>(Note 6)</i> 39,227	45,253
Goodwill	<i>(Note 6)</i> 132,919	125,740
Deferred income taxes	<i>(Note 9)</i> 22,062	21,653
	<b>281,564</b>	<b>276,630</b>
<b>Total assets</b>	<b>376,593</b>	<b>375,250</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	6,642	13,712
Compensation and employee bonuses payable	4,954	10,242
Income taxes payable	2,311	8,168
<b>Total current liabilities</b>	<b>13,907</b>	<b>32,122</b>
Deferred income taxes	<i>(Note 9)</i> 21,954	25,419
<b>Total liabilities</b>	<b>35,861</b>	<b>57,541</b>
<b>Shareholders' equity</b>		
Capital stock	<i>(Note 8)</i> 245,014	215,474
Contributed surplus	<i>(Note 8)</i> 41,913	42,808
Retained earnings	43,267	58,609
Accumulated other comprehensive income	10,538	818
<b>Total shareholders' equity</b>	<b>340,732</b>	<b>317,709</b>
<b>Total liabilities and shareholders' equity</b>	<b>376,593</b>	<b>375,250</b>

*See accompanying notes*

*Events after the reporting period (Note 16)*

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)  
(UNAUDITED)**

	<i>For the three months ended</i>	<i>For the three months ended</i>	<i>For the six months ended</i>	<i>For the six months ended</i>
	<b>June 30, 2013</b>	June 30, 2012	<b>June 30, 2013</b>	June 30, 2012
<i>(\$ in thousands of Canadian dollars, except for per share amounts)</i>				
<b>Revenue</b>				
Management fees	21,458	28,084	47,409	61,070
Performance fees	141	17	1,489	93
Commissions	1,616	2,057	3,552	7,779
Unrealized and realized gains (losses) on proprietary investments	(9,466)	(3,984)	(12,515)	257
Other income <i>(Note 7)</i>	2,822	1,267	4,197	2,632
<b>Total revenue</b>	<b>16,571</b>	27,441	<b>44,132</b>	71,831
<b>Expenses</b>				
Compensation and benefits	8,259	8,553	18,106	19,676
Stock-based compensation <i>(Note 8)</i>	2,426	2,894	5,075	5,491
Trailer fees	2,898	4,541	6,315	10,138
General and administrative	5,697	6,139	11,481	11,922
Amortization of intangibles <i>(Note 6)</i>	1,814	1,948	3,601	3,690
Impairment (impairment reversal) of intangibles <i>(Note 6)</i>	5,362	1,952	5,362	(2,022)
Amortization of property and equipment <i>(Note 5)</i>	234	214	470	530
<b>Total expenses</b>	<b>26,690</b>	26,241	<b>50,410</b>	49,425
<b>Income (loss) before income taxes for the period</b>	<b>(10,119)</b>	1,200	<b>(6,278)</b>	22,406
Provision for income taxes <i>(Note 9)</i>	(3,409)	464	(1,658)	4,727
<b>Net income (loss) for the period</b>	<b>(6,710)</b>	736	<b>(4,620)</b>	17,679
<b>Basic and diluted earnings (loss) per share</b> <i>(Note 8)</i>	<b>\$ (0.04)</b>	\$ 0.00	<b>\$ (0.03)</b>	\$ 0.10

*See accompanying notes*



**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE  
INCOME (LOSS) (UNAUDITED)**

	<i>For the three months ended</i>	<i>For the three months ended</i>	<i>For the six months ended</i>	<i>For the six months ended</i>
<i>(\$ in thousands of Canadian dollars)</i>	<b>June 30, 2013</b>	June 30, 2012	<b>June 30, 2013</b>	June 30, 2012
<b>Net income (loss) for the period</b>	<b>(6,710)</b>	736	<b>(4,620)</b>	17,679
<b>Other comprehensive income (loss)</b>				
Foreign currency translation gain (loss) on foreign operations, before taxes	<b>5,913</b>	3,391	<b>9,720</b>	(308)
Total other comprehensive income (loss)	<b>5,913</b>	3,391	<b>9,720</b>	(308)
<b>Comprehensive income (loss)</b>	<b>(797)</b>	4,127	<b>5,100</b>	17,371

*See accompanying notes*

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**

*(\$ in thousands of Canadian dollars, other than number of shares)*

	Number of Shares Outstanding	Capital Stock	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
<b>At December 31, 2012</b>	169,049,677	215,474	42,808	58,609	818	317,709
Shares acquired for equity incentive plan	(202,000) <i>(Note 8)</i>	(289)	(329)	—	—	(618)
Shares released on vesting of equity incentive plan	614,408 <i>(Note 8)</i>	3,637	(3,637)	—	—	—
Foreign currency translation gain on foreign operations	—	—	—	—	9,720	9,720
Additional purchase consideration	177,500 <i>(Note 3)</i>	1,554	(1,283)	—	—	271
Stock-based compensation	—	—	5,075	—	—	5,075
Deferred tax asset on stock-based compensation	—	—	(716)	—	—	(716)
Shares issued from treasury	7,577,159	24,638	(5)	—	—	24,633
Regular dividends paid	—	—	—	(10,722)	—	(10,722)
Net loss	—	—	—	(4,620)	—	(4,620)
<b>Balance, June 30, 2013</b>	<b>177,216,744</b>	<b>245,014</b>	<b>41,913</b>	<b>43,267</b>	<b>10,538</b>	<b>340,732</b>
<b>At December 31, 2011</b>	169,082,077	208,413	40,857	47,038	5,133	301,441
Shares acquired for equity incentive plan	(1,774,400)	(2,188)	(7,821)	—	—	(10,009)
Foreign currency translation gain on foreign operations	—	—	—	—	(308)	(308)
Additional purchase consideration	177,500	1,551	(1,560)	—	—	(9)
Stock-based compensation	—	—	5,491	—	—	5,491
Deferred tax asset on stock-based compensation	—	—	295	—	—	295
Regular dividends paid	—	—	—	(10,155)	—	(10,155)
Net income	—	—	—	17,679	—	17,679
<b>Balance, June 30, 2012</b>	<b>167,485,177</b>	<b>207,776</b>	<b>37,262</b>	<b>54,562</b>	<b>4,825</b>	<b>304,425</b>

*See accompanying notes*

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

*For the six months ended June 30 (\$ in thousands of Canadian dollars)*

2013

2012

### Operating Activities

Net income (loss) for the period	(4,620)	17,679
Add (deduct) non-cash items:		
Unrealized and realized losses (gains) on proprietary investments	12,515	(257)
Stock-based compensation	5,075	5,491
Amortization of property and equipment	470	530
Amortization of intangible assets	3,601	3,690
Impairment (recovery) of goodwill and intangible assets	5,362	(2,022)
Income taxes	2,325	8,077
Deferred income tax recovery	(3,983)	(3,350)
Other items	701	(344)
Income taxes paid	(8,108)	(44,642)
Changes in:		
Fees receivable	6,516	(1,842)
Other assets	1,002	3
Accounts payable and accrued liabilities	(6,779)	(5,083)
Compensation and employee bonuses payable	(5,288)	(16,942)
Effect of foreign exchange on cash balances	467	(8)
<b>Cash provided by (used in) operating activities</b>	<b>9,256</b>	<b>(39,020)</b>

### Investing Activities

Purchase of proprietary investments	(31,299)	(16,772)
Sale of proprietary investments	14,881	24,944
Purchase of property and equipment	(322)	(2,243)
Deferred sales commissions paid	(628)	(437)
Purchase of intangible assets	(828)	—
<b>Cash provided by (used in) investing activities</b>	<b>(18,196)</b>	<b>5,492</b>

### Financing Activities

Acquisition of common shares for equity incentive plan	(618)	(10,008)
Shares issued from treasury	24,500	—
Dividends paid	(10,722)	(10,155)
<b>Cash provided by (used in) financing activities</b>	<b>13,160</b>	<b>(20,163)</b>

Net increase (decrease) in cash and cash equivalents during the period	4,220	(53,691)
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Cash and cash equivalents, beginning of the period	77,400	119,506
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<b>Cash and cash equivalents, end of the period</b>	<b>81,620</b>	<b>65,815</b>
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### Cash and cash equivalents:

Cash	22,032	33,119
Short-term deposits	59,588	32,696
	<b>81,620</b>	<b>65,815</b>

*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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Statement of compliance**

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. The unaudited interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2012, which have been prepared in accordance with IFRS as issued by the IASB.

The unaudited interim condensed consolidated financial statements of the Company for the three and six months ended June 30, 2013 were authorized for issue by a resolution of the Board of Directors on August 7, 2013.

**Basis of presentation**

These unaudited interim condensed consolidated financial statements have been prepared on a going concern basis and 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 unaudited interim condensed 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 unaudited interim condensed 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.

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. Sprott U.S. Holdings Inc. is the parent company of Rule Investments, Inc. (the owner of Sprott Global Resource Investments, Ltd. ("SGRIL") (formerly Global Resource Investments, Ltd.), Sprott Asset Management USA Inc. ("SAM US") (formerly Terra Resource Investment Management, Inc.) and Resource Capital Investment Corporation ("RCIC") (collectively, the "Global Companies"). In addition, the acquisition of the Toscana Companies completed in the third quarter of 2012 resulted in it being a wholly-owned subsidiary of the Company. These are entities over which the Company has control, where control is defined if the Company has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the Company's returns. 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 continues 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.

Investments in funds managed by the Company (included in proprietary investments) are assessed to determine whether or not the Company has control, joint control or significant influence. This determination includes consideration of all factors and circumstances relevant to the fund, including: the extent of the Company's direct and indirect interests in the fund, the level of compensation to be received from the fund for management and other services provided to it, kick out rights available to other investors and other indicators of the extent of power that the Company has over the fund. If a fund is determined to be controlled, it will be consolidated by the Company. Funds which are not controlled by the Company are typically subject to significant influence as the investment management and other agreements permit the Company to have the power to participate in their financial and operating policy decisions. The Company has designated all such investments at fair value through profit or loss in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* as permitted by IAS 28, *Investments in Associates and Joint Ventures (amended in 2011)*.

The IASB issued a new standard, IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), which establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 establishes control as the basis for consolidation and defines the principle of control. An investor controls an investee if the investor has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The adoption of IFRS 10 did not have a material impact on the Company's results of operations, financial positions and disclosures.

**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 which is predominantly on the last day of the fiscal year.

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

The Company, through SPW and SGRIL 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 SGRIL and, particularly with respect to SGRIL, from trading in stocks by clients of SGRIL. 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.

Public equities and share purchase warrants are measured at fair value determined using quoted market prices.

Mutual funds and hedge funds are fair valued using the net asset value per unit of each fund.

Private equities are fair valued based upon the value of the Company's equity interests in the private companies determined from financial information provided by management of the underlying companies, which may include operating results, subsequent rounds of financing and other appropriate information. The values assigned are based on available information and do not necessarily represent amounts which might reasonably be determined until the individual positions are liquidated.

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 classified as HFT or designated as fair value through income or loss.
- Fees receivable are classified as loans and receivables.
- Notes receivable are classified as HTM.
- Contingent returnable consideration is classified as fair value through income or loss
- Accounts payable and accrued liabilities, provisions and compensation and employee bonuses payable are classified as other financial liabilities.
- Acquisition consideration payable is classified as fair value through income or loss.

*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 instruments*

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 straight-line basis between 0 and 5 years. 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. When redemptions occur, the actual investment period is shorter than expected, and the unamortized deferred sales commission related to the original investment in the funds is charged to net income and included in the amortization of deferred sales commissions.

**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 net of reversals, 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 are recognized in the consolidated statements of income (loss) in the expense category.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually and whenever there is an indication that the asset may be impaired. 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 reporting date, intangible assets are assessed for (i) indicators of impairment, and (ii) indicators of impairment reversals. 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. Any gain resulting from an impairment reversal of intangible assets is recognized in the period the impairment reversal is identified such that the increased carrying amount of the intangible asset shall not exceed the carrying amount that would have been determined (net of amortization and impairment) had no impairment loss been recognized for the intangible asset in prior periods.

**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 cash 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 statements of income (loss) 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 statements of income (loss) 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 differences related to the assets or liabilities reported for tax purposes are expected to reverse in the future. Deferred tax assets are recognized only when it is probable that sufficient taxable profits 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 ventures or joint operations 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 probable that the Company will have to make a payment 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 deferred stock units ("DSU") is determined based on the value of the Company's common shares at the time of grant. Compensation expense for the earn-out shares is determined using appropriate valuation models (see note 8). Compensation expense for the Company's Employee Profit Sharing Plan (the "Trust") is determined based on the value of the Company's common shares purchased by the Trust (see note 8). The amount of compensation expense is recognized over the vesting period with a corresponding increase to contributed surplus other than for the Company's DSUs where the corresponding increase is to liabilities. Stock options and common shares held by the Trust 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. On the withdrawal of vested common shares from the Trust, the contributed surplus previously recorded is credited to cash. On the exercise of DSUs, the liability previously recorded is credited to cash.

**Earnings (loss) per share**

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

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 dilutive securities 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. Finite life intangible assets are reviewed for impairment when changes in circumstances indicate that the carrying value may be impaired. Similarly, finite life intangible assets are reviewed for impairment reversals when changes in circumstances indicate that the calculated recoverable amount is in excess of the carrying value. The underlying inputs and assumptions that determine the recoverable amount of certain finite life intangible assets are related to the resource sector and commodity prices which can exhibit significant volatility. As a result, the recoverable amount of these finite life intangible assets may demonstrate significant fluctuations in value from quarter to quarter.

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.

## vi. Consolidation

IFRS 10 - *Consolidated Financial Statements* ("IFRS 10") provides for the use of professional judgment in determining whether an entity should be included within the consolidated financial statements of the Company. Although the application of IFRS 10 is somewhat prescriptive, the use of professional judgment introduces the potential for different conclusions based on the weightings assigned to both qualitative and quantitative inputs on which the Company relied.

**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 unaudited interim condensed consolidated financial statements. The Company has not yet determined whether to early adopt IFRS 9.

<i>International Accounting Standard</i>	<i>Issue Date / Amendment Date</i>	<i>Effective Date</i>
IFRS 9 - Financial Instruments	November 12, 2009	January 1, 2015

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 IFRS interpretations that are not yet effective that would be expected to have a material impact on the financial statements.

**3. BUSINESS ACQUISITION***Toscana Companies*

On July 3, 2012, the Company acquired all of the outstanding common shares of the Toscana Companies. As consideration, the Company paid \$5.2 million cash and issued 1,564,500 common shares from treasury valued at \$7.7 million, excluding costs, for total consideration of \$12.9 million. The common shares of the Company issued as consideration were valued at \$4.92 per share using the closing price of the Company's common shares on the TSX on July 3, 2012. In addition, the sellers will be eligible to earn up to an additional \$5.3 million in cash and common shares of the Company with the achievement of certain financial targets by the Toscana Companies over a period of up to 3 years.

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

Fund management contracts were acquired as part of the Toscana Companies business acquisition and are recognized as intangible assets with indefinite lives. The goodwill acquired of \$3.2 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 through the sharing of intellectual capital and the development of new products.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and six months ended June 30, 2013 and 2012

*Flatiron Capital Management Partners ("Flatiron")*

On August 1, 2012, the Company acquired all of the outstanding common shares of Flatiron. As consideration, the Company paid \$1.7 million cash, invested \$4.9 million in a fund on behalf of the Flatiron vendors and had an obligation to issue common shares from treasury valued at \$4.8 million, excluding costs, for total consideration of \$11.4 million. In addition, the seller was eligible to earn up to an additional \$4.5 million in common shares of the Company with the achievement of certain financial targets by Flatiron over a period of up to 3 years.

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

Effective January 11, 2013, the Company and the Flatiron vendors entered into agreements to release the Company from the remaining purchase price to be paid as contemplated by the acquisition on August 1, 2012. The accounting for these agreements was reflected as at December 31, 2012 as follows:

- the acquisition consideration payable of \$8.4 million reflected the fair value of the legal obligation by the Company to pay the Flatiron vendors;
- the contingent returnable consideration asset of \$8.4 million reflected the fair value of management's best estimate as to the amount the Company expects not to pay the Flatiron vendors;
- the contingent returnable consideration asset of \$8.4 million was netted against the acquisition consideration payable of \$8.4 million on the consolidated balance sheets;
- the effect of the fair value adjustments to the acquisition consideration payable and the contingent returnable consideration asset resulted in other income of \$9.1 million and was included in other income on the consolidated statements of income (loss);
- management's estimate as to the value of the goodwill was written down to \$nil with a charge of \$8.9 million to the consolidated statements of income (loss); and,
- management's estimate as to the value of the finite life fund management contracts was written down to \$nil with a charge of \$3.0 million to the consolidated statements of income (loss).

There were nominal impacts to the unaudited interim condensed consolidated statements of income (loss) for the three and six months ended June 30, 2013 as a result of the agreements entered into by the Company and the Flatiron vendors effective January 11, 2013.

**4. PROPRIETARY INVESTMENTS**

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

	June 30, 2013	December 31, 2012
Gold bullion	6,752	8,548
Public equities and share purchase warrants	13,918	17,979
Mutual funds and alternative investment strategies	49,551	29,126
Private equities	1,443	4,949
Secured notes receivable	8,580	16,122
<b>Total proprietary investments</b>	<b>80,244</b>	<b>76,724</b>

As at June 30, 2013, investments in public equities and share purchase warrants consisted primarily of companies in the resource sector. These investments include \$11.4 million (December 31, 2012 - \$13.6 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 (see note 16).

Investments in mutual funds and alternative investment strategies consist mostly of investments in mutual funds and alternative investment strategy funds managed by SAM or RCIC.

**SPROTT INC.**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

*For the three and six months ended June 30, 2013 and 2012*

**5. PROPERTY AND EQUIPMENT**

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

	Artwork	Furniture and fixtures	Computer hardware and software	Leasehold improvements	Total
<b>Cost</b>					
At December 31, 2011	1,691	2,557	1,773	4,739	10,760
Business acquisition	6	189	171	72	438
Additions, net of disposals	310	156	105	2,469	3,040
December 31, 2012	2,007	2,902	2,049	7,280	14,238
Additions	—	21	47	291	359
<b>June 30, 2013</b>	<b>2,007</b>	<b>2,923</b>	<b>2,096</b>	<b>7,571</b>	<b>14,597</b>
<b>Accumulated amortization</b>					
At December 31, 2011	—	(1,879)	(1,458)	(2,297)	(5,634)
Business acquisition	—	(120)	(161)	(45)	(326)
Disposals	—	—	—	72	72
Charge for the period	—	(291)	(311)	(502)	(1,104)
Net exchange differences	—	8	5	1	14
December 31, 2012	—	(2,282)	(1,925)	(2,771)	(6,978)
Charge for the period	—	(126)	(75)	(269)	(470)
Net exchange differences	—	(16)	(19)	(2)	(37)
<b>June 30, 2013</b>	<b>—</b>	<b>(2,424)</b>	<b>(2,019)</b>	<b>(3,042)</b>	<b>(7,485)</b>
Net Book Value at:					
December 31, 2012	2,007	620	124	4,509	7,260
<b>June 30, 2013</b>	<b>2,007</b>	<b>499</b>	<b>77</b>	<b>4,529</b>	<b>7,112</b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and six months ended June 30, 2013 and 2012

## 6. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following (\$ in thousands):

	Goodwill	Fund management contracts - indefinite life	Fund management contracts - finite life	Carried interests	Deferred sales commissions	Total
<b>Cost</b>						
At December 31, 2011	125,730	1,370	21,001	29,671	3,133	180,905
Business acquisitions	12,140	12,817	2,997	—	—	27,954
Net additions	—	140	—	1,469	1,207	2,816
Net exchange differences	(3,195)	—	(534)	(754)	—	(4,483)
December 31, 2012	134,675	14,327	23,464	30,386	4,340	207,192
Net additions	—	—	—	828	628	1,456
Net exchange differences	7,179	—	1,199	1,780	—	10,158
<b>At June 30, 2013</b>	<b>141,854</b>	<b>14,327</b>	<b>24,663</b>	<b>32,994</b>	<b>4,968</b>	<b>218,806</b>
<b>Accumulated amortization and impairment losses</b>						
At December 31, 2011	—	—	(4,789)	(9,492)	(969)	(15,250)
Amortization charge for the period	—	—	(2,922)	(3,615)	(1,245)	(7,782)
Net impairment charge for the period	(8,935)	—	(999)	(3,727)	—	(13,661)
Net exchange differences	—	—	78	416	—	494
December 31, 2012	(8,935)	—	(8,632)	(16,418)	(2,214)	(36,199)
Amortization charge for the period	—	—	(1,492)	(1,379)	(730)	(3,601)
Net impairment charge for the period	—	—	—	(5,362)	—	(5,362)
Net exchange differences	—	—	(383)	(1,115)	—	(1,498)
<b>At June 30, 2013</b>	<b>(8,935)</b>	<b>—</b>	<b>(10,507)</b>	<b>(24,274)</b>	<b>(2,944)</b>	<b>(46,660)</b>
Net Book Value at:						
December 31, 2012	125,740	14,327	14,832	13,968	2,126	170,993
<b>June 30, 2013</b>	<b>132,919</b>	<b>14,327</b>	<b>14,156</b>	<b>8,720</b>	<b>2,024</b>	<b>172,146</b>
Net Book Value				<b>June 30, 2013</b>		December 31, 2012
Intangibles				39,227		45,253
Goodwill				132,919		125,740
				172,146		170,993

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and six months ended June 30, 2013 and 2012

There was a \$5.4 million impairment charge (discussed below) for the three and six months ended June 30, 2013 (\$1.9 million impairment charge for the three months ended June 30, 2012 and \$2.1 million impairment charge reversal for the six months ended June 30, 2012).

As a result of the acquisition of the Global Companies by the Company in 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 (5 years remaining).

As a result of the acquisition of the Toscana Companies in 2012, intangible assets consisting of fund management contracts with indefinite lives were identified.

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.

*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.

i. *Impairment testing of goodwill*

As at June 30, 2013, the Company had goodwill allocated across its CGUs as follows (\$ in millions):

CGU	Allocated Goodwill
SAM	20.4
Global Companies	101.2
Corporate	—
SC	3.2
SPW	8.1
	132.9

The recoverable amount of goodwill for each of the CGUs was calculated in the fourth quarter of fiscal 2012 at fair value less costs to sell, using a valuation multiple applied to a measure of earnings, other than the Global Companies which used a discounted cash flow valuation technique. The calculation of the recoverable amounts exceeded the carrying amount of goodwill for each of the identified CGUs at that time.

Subsequent to the assessment during the fourth quarter of fiscal 2012, management concluded that there were indicators of impairment that required management to reassess the recoverable amount of goodwill allocated to the SAM CGU. As a result, the goodwill identified as part of the Flatiron acquisition (see note 3) of \$8.9 million was determined to be fully impaired and charged against income on the consolidated statements of income (loss) for the year ended December 31, 2012.

Management concluded that there were no indicators of impairment during the second quarter of fiscal 2013 that required management to reassess the recoverable amount of goodwill allocated across its CGUs. However, if the financial markets (specifically precious metals and energy) further deteriorates through the third quarter of fiscal 2013 and into the fourth quarter of fiscal 2013, a goodwill impairment charge is possible in a future quarter.

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

As at June 30, 2013 the Company had indefinite life fund management contracts within the SAM CGU of \$1.5 million (June 30, 2012 - \$1.4 million) and within the SC CGU of \$12.8 million (June 30, 2012 - \$nil). These are contracts for the management of exchange listed funds which have no expiry or termination provisions and for the fund management contracts identified as a result of the acquisition of the Toscana Companies.

The recoverable amount of indefinite life intangibles for the SAM operating segment was calculated in the fourth quarter of fiscal 2012 using 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 recoverable amount of indefinite life intangibles for the Other operating segment was calculated in the fourth quarter of fiscal 2012 using a value in use calculation, by discounting, at 11.5% to 12.5%, a perpetuity based on the most recent estimated pre-tax cash flows to the Company by the applicable underlying fee-producing products.

Management concluded that there were no indicators of impairment during the second quarter of fiscal 2013 that required management to reassess the recoverable amount of the indefinite life fund management contracts.

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

As at June 30, 2013, the Company had finite life fund management contracts of \$14.2 million within the Global Companies CGU (June 30, 2012 - \$16.7 million). 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 June 30, 2013 has been determined from a value in use calculation, by discounting, at 13.5%, the most recent estimated net cash flows to the Company by these funds.

As at June 30, 2013, management concluded that an indicator of impairment existed that could result in the carrying value being greater than the recoverable amount. The calculated recoverable amount of these finite life fund management contracts led to no impairment charge or impairment charge reversal for the three months ended June 30, 2013 (June 30, 2012 - \$1.8 million impairment charge reversal) as the calculated recoverable amount approximated its carrying value. Management has assumed an annual return rate of 15.8% for these funds to fair value these cash flows.

The underlying inputs and assumptions that determine the recoverable amount of the finite life fund management contracts for the Global Companies CGU are related to the resource sector and commodity prices which can exhibit significant volatility. As a result, the recoverable amount of these finite life fund management contracts may demonstrate significant fluctuations in value from quarter to quarter.

iv. *Impairment testing of finite life carried interests*

As at June 30, 2013, the Company had carried interests of \$8.7 million within the Global Companies CGU (June 30, 2012 - \$18.6 million). 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 June 30, 2013 has been determined from a value in use calculation, by discounting, at 27.5%, the most recent estimated net cash flows to the Company by these funds.

As at June 30, 2013, management concluded that an indicator of impairment existed that could result in the carrying value being greater than the recoverable amount. The calculated recoverable amount of these carried interests led to an impairment charge of \$5.4 million for the three months ended June 30, 2013 (June 30, 2012 - \$3.7 million impairment charge) as the calculated recoverable amount resulted in a value less than its carrying value. Management has assumed an annual return rate of 15.8% for these funds to fair value these cash flows.

The underlying inputs and assumptions that determine the recoverable amount of carried interests are related to the resource sector and commodity prices which can exhibit significant volatility. As a result, the recoverable amount of carried interests may demonstrate significant fluctuations in value from quarter to quarter.

**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, foreign exchange gains and losses, dividend income 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 December 31, 2011	169,082,077	208,413
Additional purchase consideration (Note 3)	177,500	1,551
Issuance of share capital on business acquisition (Note 3)	1,564,500	7,698
Acquired for equity incentive plan	(1,774,400)	(2,188)
At December 31, 2012	169,049,677	215,474
Additional purchase consideration (Note 3)	177,500	1,554
Issuance of share capital from private placement, net of costs and taxes	7,575,758	24,632
Issuance of share capital on conversion of RSU	1,401	6
Acquired for equity incentive plan	(202,000)	(289)
Released on vesting of equity incentive plan	614,408	3,637
<b>At June 30, 2013</b>	<b>177,216,744</b>	<b>245,014</b>

Contributed surplus consists of the following:

- |                                      |  |
|--------------------------------------|--|
| i. stock option expense;             | iii. earn-out shares expense; and      |
| ii. equity incentive plans' expense; | iv. additional purchase consideration. |

	Stated value (\$ in thousands)
At December 31, 2011	40,857
Expensing of Sprott Inc. stock options over the vesting period	98
Expensing of EPSP / EIP shares over the vesting period	6,667
Expensing of earn-out shares over the vesting period	4,342
Deferred tax asset on earn-out shares	336
Issuance of shares relating to additional purchase consideration	(1,671)
Excess on repurchase of common shares for equity incentive plan *	(7,821)
At December 31, 2012	42,808
Expensing of Sprott Inc. stock options over the vesting period	18
Expensing of EPSP / EIP shares over the vesting period	2,232
Expensing of earn-out shares over the vesting period	2,825
Deferred tax asset on earn-out shares	(716)
Issuance of shares relating to additional purchase consideration	(1,283)
Issuance of share capital on conversion of RSU	(5)
Excess on repurchase of common shares for equity incentive plan *	(329)
Release on vesting of common shares for equity incentive plan	(3,637)
<b>At June 30, 2013</b>	<b>41,913</b>

\* 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.

**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 stock options issued during the three and six months ended June 30, 2013 (nil - June 30, 2012).

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, 2011	2,650	9.71
Options exercisable, December 31, 2011	2,517	9.90
Options outstanding, December 31, 2012	2,650	9.71
Options exercisable, December 31, 2012	2,583	9.80
<b>Options outstanding, June 30, 2013</b>	<b>2,650</b>	<b>9.71</b>
<b>Options exercisable, June 30, 2013</b>	<b>2,600</b>	<b>9.77</b>

Options outstanding and exercisable as at June 30, 2013 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	4.9	2,450
4.85	50	6.5	50
6.60	150	7.4	100
<b>4.85 to 10.00</b>	<b>2,650</b>	<b>5.0</b>	<b>2,600</b>



*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 RSUs issued during the three and six months ended June 30, 2013 (nil and 4 thousand - during the three and six months ended June 30, 2012). The Trust purchased 0.2 million common shares for the three months ended June 30, 2013 (1.6 million - June 30, 2012) and 0.2 million common shares for the six months ended June 30, 2013 (1.8 million - June 30, 2012).

	Number of common shares
Common shares held by the Trust, December 31, 2011	385,423
Acquired	1,774,400
Released on vesting	—
Unvested common shares held by the Trust, December 31, 2012	2,159,823
Acquired	202,000
Released on vesting	(614,408)
<b>Unvested common shares held by the Trust, June 30, 2013</b>	<b>1,747,415</b>

*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 required the Company to estimate the fair value of the potential share-based award on the business acquisition date. The fair value determined 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 (loss) 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.

In connection with the acquisition of the Toscana Companies (see note 3), up to an additional 0.9 million common shares of the Company may be issued with the achievement of certain earnings targets by the Toscana Companies. In accordance with IFRS 2 *Share-based Payment*, this potential award carries a service condition with a market performance condition of equal term. As a result, the accounting guidance under IFRS 2 required the Company to initially estimate the number of equity instruments expected to ultimately vest and to assess the fair value of the equity instrument on the grant date. The fair value for each equity instrument was determined to be \$3.99 using an acceptable valuation model that utilized several significant assumptions including the probability of future dividends, options pricing and discounts for lock-up restrictions. In addition, the valuation model contemplated cash flow assumptions related to future AUM levels and cumulative earnings. The fair value of this share-based award is being charged to the consolidated statements of income (loss) over the period of the service condition, being 3 years and is adjusted each reporting period to reflect the best available estimate of the number of equity instruments expected to ultimately vest.

*Additional purchase consideration*

In connection with the acquisition of the Global Companies, an additional 532,500 common shares of the Company were committed for issuance to employees of the Global Companies. The common shares were not considered compensation but formed part of the business acquisition. This additional consideration was 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 will be credited to capital stock. On each of February 6, 2012, and February 4, 2013, 177,500 common shares of the Company were issued to employees of the Global Companies.

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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**
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For the three and six months ended June 30, 2013, the Company recorded share-based compensation expense of \$2.4 million and \$5.1 million million, respectively (2012 - \$2.9 million and \$5.5 million ) with a corresponding increase to contributed surplus (\$ in thousands).

	For the three months ended		For the six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Earn-out shares	1,350	1,079	2,825	2,159
Stock option plan	9	26	18	53
EPSP / EIP	1,067	1,789	2,232	3,279
	2,426	2,894	5,075	5,491

**b. Basic and diluted earnings (loss) per share**

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

	For the three months ended		For the six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
<b>Numerator (\$ in thousands):</b>				
Net income (loss) - basic and diluted	(6,710)	736	(4,620)	17,679
<b>Denominator (Number of shares in thousands):</b>				
Weighted average number of common shares	178,938	169,670	175,917	169,612
Weighted average number of unvested shares purchased by the Trust	(1,549)	(2,049)	(1,564)	(1,227)
Weighted average number of common shares - basic	177,389	167,621	174,353	168,385
Weighted average number of dilutive stock options *	—	1	—	5
Weighted average number of additional purchase consideration	—	488	—	388
Weighted average number of unvested shares purchased by the Trust	—	2,024	—	1,227
Weighted average number of outstanding Restricted Stock Units	—	4	—	3
Weighted average number of common shares - diluted	177,389	170,138	174,353	170,008
<b>Net income (loss) per common share</b>				
Basic	\$ (0.04)	\$ 0.00	\$ (0.03)	\$ 0.10
Diluted	\$ (0.04)	\$ 0.00	\$ (0.03)	\$ 0.10

\* The determination of the weighted average number of common shares - diluted excludes 2.6 million shares related to stock options that were anti-dilutive for the three and six months ended June 30, 2013 (2.6 million for the three and six months ended June 30, 2012).

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 August 7, 2013 *	247,964
Additional purchase consideration	177
Options to purchase shares	2,650
Earn-out shares **	8,936
Restricted Stock Units	3
	259,730

\* Includes 69.0 million shares issued as a result of the acquisition of Sprott Resource Lending Corp. on July 23, 2013 (see note 16).

\*\* Includes shares issuable as a result of the Global Companies and Toscana Companies acquisitions.

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 the US Securities and Exchange Commission and SGRIL 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 three and six months ended June 30, 2013, all entities were in compliance with their respective capital requirements.

Effective January 15, 2013, Flatiron voluntarily surrendered its registrations with the OSC.

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 to reflect business-specific circumstances as well as overall economic conditions.

Effective September 24, 2012, the Company entered into a new revolving credit facility with a Canadian chartered bank. The amount that may be borrowed under this facility is \$50 million. Amounts may be borrowed under the facility through prime rate loans, which bear interest at the bank's prime rate, or bankers' acceptances, which bear interest at bankers' acceptance rates plus 1.375%. Amounts may also be borrowed in U.S. dollars through base rate loans, which bear interest at the greater of the bank's reference rate for loans made by it in Canada in U.S. funds and the federal funds effective rate plus 1.00%, or LIBOR loans which bear interest at LIBOR plus 1.375%.

Loans are made by the bank under a two year revolving credit facility, the term of which may be extended annually at the bank's option. If the bank elects not to extend the term, all outstanding principal, interest and fees are due at the maturity date.

The credit facility is fully and unconditionally guaranteed by SAM, a wholly-owned subsidiary of the Company. 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, which require that the funded debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio remain below 2:1, the funded debt to SAM EBITDA ratio remain below 1.5:1 and that the Company's AUM not fall below \$7 billion, calculated on the last day of each calendar month. There can be no assurance that future borrowings or equity financing will be available to the Company or available on acceptable terms.

The Company has not drawn on the credit facility as at June 30, 2013.

**SPROTT INC.**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

For the three and six months ended June 30, 2013 and 2012

**9. INCOME TAXES**

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

For the six months ended	June 30, 2013	June 30, 2012
<i>Current income tax expense</i>		
Based on taxable income of the current period	3,599	9,798
Adjustments in respect of previous years	(1,274)	(1,721)
	<b>2,325</b>	8,077
<i>Deferred income tax expense</i>		
Origination and reversal of temporary differences	(4,509)	(3,292)
Impact of change in tax rates	526	(58)
	<b>(3,983)</b>	(3,350)
Income tax expense reported in the statements of income (loss)	<b>(1,658)</b>	4,727

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 six months ended	June 30, 2013	June 30, 2012
Income before income taxes	(6,278)	22,406
Tax calculated at domestic tax rates applicable to profits in the respective countries	(3,001)	5,996
Tax effects of:		
Non-taxable stock-based compensation	859	564
Non-taxable portion of capital gains and unrealized gains	1,362	191
Non-taxable foreign affiliate income	(448)	(394)
Adjustments in respect of previous years	(748)	(1,721)
Rate differences and other	318	91
Tax charge	<b>(1,658)</b>	4,727

The weighted average applicable tax rate was 47.8% (2012 - 26.8%). The increase 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.

**SPROTT INC.**
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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):

*For the six months ended June 30, 2013*

	At December 31, 2012	Recognized in income	Recognized in other comprehensive income	Recognized in contributed surplus	Business acquisition	At June 30, 2013
<b>Deferred income tax liabilities</b>						
Fund management contracts	9,646	(607)	333	—	—	9,372
Carried interests	5,093	(2,665)	205	—	—	2,633
Deferred sales commissions	564	(27)	—	—	—	537
Unrealized gains	679	(1,414)	—	—	—	(735)
Transitional partnership income	9,645	—	—	—	—	9,645
Other	(208)	710	—	—	—	502
<b>Total deferred income tax liabilities</b>	<b>25,419</b>	<b>(4,003)</b>	<b>538</b>	<b>—</b>	<b>—</b>	<b>21,954</b>
<b>Deferred income tax assets</b>						
Unrealized losses	15,481	(492)	730	—	—	15,719
Additional purchase consideration	1,258	(634)	42	—	—	666
Earn-out shares	1,799	—	49	(673)	—	1,175
Other stock-based compensation	1,769	593	—	—	—	2,362
Other	1,346	513	243	38	—	2,140
<b>Total deferred income tax assets</b>	<b>21,653</b>	<b>(20)</b>	<b>1,064</b>	<b>(635)</b>	<b>—</b>	<b>22,062</b>
<b>Net deferred income tax assets (liabilities)</b>	<b>(3,766)</b>	<b>3,983</b>	<b>526</b>	<b>(635)</b>	<b>—</b>	<b>108</b>

**SPROTT INC.**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**
*For the three and six months ended June 30, 2013 and 2012*
*For the year ended December 31, 2012*

	At December 31, 2011	Recognized in income	Recognized in other comprehensive income	Recognized in contributed surplus	Business acquisition	December 31, 2012
<b>Deferred income tax liabilities</b>						
Fund management contracts	6,947	(1,191)	(145)	—	4,035	9,646
Carried interests	8,223	(2,992)	(138)	—	—	5,093
Deferred sales commissions	562	2	—	—	—	564
Unrealized gains	1,257	(578)	—	—	—	679
Transitional partnership income *	10,563	(918)	—	—	—	9,645
Other	—	(208)	—	—	—	(208)
<b>Total deferred income tax liabilities</b>	<b>27,552</b>	<b>(5,885)</b>	<b>(283)</b>	<b>—</b>	<b>4,035</b>	<b>25,419</b>
<b>Deferred income tax assets</b>						
Unrealized losses	14,684	1,092	(295)	—	—	15,481
Additional purchase consideration	1,936	(634)	(44)	—	—	1,258
Earn-out shares	1,528	—	(43)	314	—	1,799
Other stock-based compensation	—	1,769	—	—	—	1,769
Other	618	748	(20)	—	—	1,346
<b>Total deferred income tax assets</b>	<b>18,766</b>	<b>2,975</b>	<b>(402)</b>	<b>314</b>	<b>—</b>	<b>21,653</b>
<b>Net deferred income tax assets (liabilities)</b>	<b>(8,786)</b>	<b>8,860</b>	<b>(119)</b>	<b>314</b>	<b>(4,035)</b>	<b>(3,766)</b>

\* The balance at December 31, 2011 has been adjusted by \$10,563 to reflect the change in tax policy issued by the Ministry of Finance that eliminated the Company's ability to defer tax payable on earnings of its operating limited partnerships. This amount was previously included in the Company's income taxes payable at December 31, 2011.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and six months ended June 30, 2013 and 2012

## 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):

June 30, 2013	Financial instruments at fair value			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	81,620	—	—	81,620
Public equities	13,514	11	—	13,525
Private equities	—	—	1,443	1,443
Common share purchase warrants	—	393	—	393
Mutual funds	12,990	—	—	12,990
Alternative investment strategies	—	36,561	—	36,561
<b>Total</b>	<b>108,124</b>	<b>36,965</b>	<b>1,443</b>	<b>146,532</b>

December 31, 2012	Financial instruments at fair value			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	77,400	—	—	77,400
Public equities	17,179	261	—	17,440
Private equities	—	—	4,949	4,949
Common share purchase warrants	—	539	—	539
Mutual funds	16,009	—	—	16,009
Alternative investment strategies	—	13,117	—	13,117
Contingent returnable consideration *	3,918	4,456	—	8,374
Acquisition consideration payable *	(3,918)	(4,456)	—	(8,374)
<b>Total</b>	<b>110,588</b>	<b>13,917</b>	<b>4,949</b>	<b>129,454</b>

\* these amounts are netted on the consolidated balance sheets

The following tables provides a summary of changes in the fair value of Level 3 financial assets (\$ in thousands):

## Changes in the fair value of Level 3 financial instruments - June 30, 2013

	December 31, 2012	Purchases	Settlements	Net unrealized losses included in net income	Net realized gains included in net income	June 30, 2013
Private equities	4,949	—	(2,582)	(959)	35	1,443

## Changes in the fair value of Level 3 financial instruments - December 31, 2012

	December 31, 2011	Purchases	Settlements	Net unrealized gains included in net income	Net realized gains and losses included in net income	December 31, 2012
Private equities	2,400	2,550	—	(1)	—	4,949

**SPROTT INC.****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

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During the six months ended June 30, 2013, \$0.1 million of financial assets was transferred from Level 2 to Level 1. This transfer represented the expiry of the trading restriction on the common shares of certain proprietary investments.

**Financial instruments not carried at fair value**

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

Secured notes receivable are classified as held to maturity and carried at amortized cost as management has no intention of disposing these financial instruments before maturity.

**11. RELATED PARTY TRANSACTIONS**

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

	For the three months ended		For the six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Fixed salaries and benefits	1,012	1,031	2,011	2,072
Variable incentive-based compensation	184	6,409	614	7,114
Share-based compensation	166	281	330	562
	<b>1,362</b>	<b>7,721</b>	<b>2,955</b>	<b>9,748</b>

On May 8, 2012, the Company adopted a deferred stock unit ("DSU") plan for the independent directors of the Company. The DSUs vest annually over a three-year period and may only be settled in cash upon retirement. There were no DSUs issued during the three and six months ended June 30, 2013 (June 30, 2012 - 225,000 DSUs issued at a price of \$4.64 per DSU). The resulting expense from the DSUs issued in the second quarter of 2012 is included in general and administrative costs and is recognized over the three-year vesting period with an offset to accrued liabilities.

**12. DIVIDENDS**

The following dividends were declared and payable by the Company during the six months ended June 30, 2013:

Record date	Payment Date	Cash dividend per share (\$) *	Total dividend amount (\$ in thousands)
April 8, 2013 - regular dividend Q4 - 2012	April 23, 2013	0.03	5,361
May 16, 2013 - regular dividend Q1 - 2013	May 31, 2013	0.03	5,361
Dividends paid			10,722

\* Dividends have been designated as eligible dividends by the Company pursuant to the guidelines issued by the Canada Revenue Agency.



**13. CONTINGENCY**

In June 2013, the Company and certain subsidiaries were named as defendants in a legal proceeding filed with the Ontario Superior Court of Justice relating to the Flatiron Market Neutral Limited Partnership (the "Flatiron Fund") by Performance Diversified Fund, as plaintiff. The proceeding is in respect of a claim relating to an investment by the plaintiff in the Flatiron Fund. The plaintiff was a limited partner in the Flatiron Fund from 2006 until February 2013. The Company indirectly acquired the shares of the manager of the Flatiron Fund in August 2012. The orderly liquidation of the Flatiron Fund announced in November 2012 was completed in February 2013.

Performance Diversified Fund claims damages in the amount of \$60 million from the Company and certain subsidiaries and \$5 million in other damages from the Company, certain subsidiaries and other defendants not related to the Company.

The Company denies any liability in connection with the claim and will vigorously defend the claim.

The Company has incurred nominal expenses in relation to this claim as at June 30, 2013 and expects most legal costs will be recoverable under its insurance policies and other contractual arrangements.

**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 \$2.8 million for the six months ended June 30, 2013 (June 30, 2012 - \$2.0 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 bullion increased by 5%, with all other variables held constant, this would have increased net income by approximately \$0.3 million for the six months ended June 30, 2013 (June 30, 2012 - \$0.6 million); conversely, if the value of gold 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.

The Company, through its wholly-owned subsidiary, SAMGENPAR Ltd., has invested approximately \$9.2 million in secured notes bearing a weighted average interest rate of 9.4% 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 they are carried at HTM and management intends and has the ability to hold these investments 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 will fluctuate due to changes in exchange rates. The Company does not enter into currency hedging transactions.

Excluding the impact of the Global Companies, as at June 30, 2013, approximately \$36.4 million or 10.1% (June 30, 2012 - \$20.7 million or 6.5%) of total assets were invested in proprietary investments priced in U.S. dollars ("USD"). Furthermore, a total of \$0.9 million (June 30, 2012 - \$1.2 million) of cash, \$1.3 million (June 30, 2012 - \$1.5 million) of accounts receivable and \$0.2 million (June 30, 2012 - \$0.4 million) of other assets were denominated in USD. As at June 30, 2013, 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 for the six months ended June 30, 2013 would have amounted to approximately \$1.7 million (June 30, 2012 - \$1.0 million).

As it relates to the Global Companies impact on the Company, had the exchange rate as at June 30, 2013 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.

(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 June 30, 2013, the Company's most significant counterparty is National Bank Correspondent Network Inc. ("NBCN"), the carrying broker of SPW, which also acts as a custodian for most of the Company's proprietary investments. NBCN 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 June 30, 2013, the Global Companies' most significant counterparty is RBC Capital Markets ("RBC Capital"), the carrying broker of SGRIL 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 June 30, 2013, the Company had \$81.6 million or 21.7% of its total assets in cash and cash equivalents. The majority of current assets reflected on the consolidated balance sheets are highly liquid. Approximately \$39.4 million or 49.0% 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.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and six months ended June 30, 2013 and 2012

## 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:

- SAM, which provides asset management services to the Company's branded Funds and Managed Accounts.
- 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.
- Corporate, which provides treasury and common shared services to the Company's business units.
- 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.

The results of the Toscana Companies are included in the Other segment.

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 earnings before interest expense, income taxes, amortization and impairment of intangible assets, gains and losses on proprietary investments (as if such gains and losses had not been incurred) and stock-based non-cash compensation ("EBITDA"). 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 is not a measurement 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 three months ended	June 30, 2013					
	SAM	Global Companies	Corporate	Other	Adjustments and Eliminations	Consolidated
<b>Revenue</b>						
Management fees	16,254	2,351	—	2,853	—	21,458
Performance fees	4	—	—	137	—	141
Commissions	—	1,355	—	261	—	1,616
Other	(2,508)	(1,147)	(3,179)	1,293	(1,103)	(6,644)
<b>Total revenue</b>	<b>13,750</b>	<b>2,559</b>	<b>(3,179)</b>	<b>4,544</b>	<b>(1,103)</b>	<b>16,571</b>
<b>Expenses</b>						
General and administrative	8,620	3,667	1,373	2,769	(47)	16,382
Trailer fees	3,954	—	—	—	(1,056)	2,898
Amortization and impairment of intangibles, property and equipment	552	6,829	16	13	—	7,410
<b>Total expenses</b>	<b>13,126</b>	<b>10,496</b>	<b>1,389</b>	<b>2,782</b>	<b>(1,103)</b>	<b>26,690</b>
<b>Income (loss) before income taxes for the period</b>	<b>624</b>	<b>(7,937)</b>	<b>(4,568)</b>	<b>1,762</b>	<b>—</b>	<b>(10,119)</b>
Provision for income taxes						(3,409)
<b>Net loss for the period</b>						<b>(6,710)</b>
<b>Income (loss) before income taxes for the period, from above</b>	<b>624</b>	<b>(7,937)</b>	<b>(4,568)</b>	<b>1,762</b>	<b>—</b>	<b>(10,119)</b>
EBITDA adjustments	3,448	9,061	5,384	346	—	18,239
<b>EBITDA</b>	<b>4,072</b>	<b>1,124</b>	<b>816</b>	<b>2,108</b>	<b>—</b>	<b>8,120</b>

## SPROTT INC.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and six months ended June 30, 2013 and 2012

For the three months ended	June 30, 2012					
	SAM	Global Companies	Corporate	Other	Adjustments and Eliminations	Consolidated
<b>Revenue</b>						
Management fees	23,718	2,311	—	2,055	—	28,084
Performance fees	17	—	—	—	—	17
Commissions	—	1,525	—	532	—	2,057
Other	329	(749)	(2,308)	2,043	(2,032)	(2,717)
<b>Total revenue</b>	<b>24,064</b>	<b>3,087</b>	<b>(2,308)</b>	<b>4,630</b>	<b>(2,032)</b>	<b>27,441</b>
<b>Expenses</b>						
General and administrative	10,698	3,696	871	2,368	(47)	17,586
Trailer fees	6,526	—	—	—	(1,985)	4,541
Amortization and impairment of intangibles, property and equipment	432	3,644	29	9	—	4,114
<b>Total expenses</b>	<b>17,656</b>	<b>7,340</b>	<b>900</b>	<b>2,377</b>	<b>(2,032)</b>	<b>26,241</b>
<b>Income (loss) before income taxes for the period</b>	<b>6,408</b>	<b>(4,253)</b>	<b>(3,208)</b>	<b>2,253</b>	<b>—</b>	<b>1,200</b>
Provision for income taxes						464
<b>Net income for the period</b>						<b>736</b>
<b>Income (loss) before income taxes for the period, from above</b>	<b>6,408</b>	<b>(4,253)</b>	<b>(3,208)</b>	<b>2,253</b>	<b>—</b>	<b>1,200</b>
EBITDA adjustments	715	5,469	2,969	54	—	9,207
<b>EBITDA</b>	<b>7,123</b>	<b>1,216</b>	<b>(239)</b>	<b>2,307</b>	<b>—</b>	<b>10,407</b>

## SPROTT INC.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and six months ended June 30, 2013 and 2012

For the six months ended	June 30, 2013					
	SAM	Global Companies	Corporate	Other	Adjustments and Eliminations	Consolidated
<b>Revenue</b>						
Management fees	36,556	4,978	—	5,875	—	47,409
Performance fees	4	—	—	1,485	—	1,489
Commissions	—	2,702	—	850	—	3,552
Other	(3,419)	(1,347)	(3,930)	2,950	(2,572)	(8,318)
<b>Total revenue</b>	<b>33,141</b>	<b>6,333</b>	<b>(3,930)</b>	<b>11,160</b>	<b>(2,572)</b>	<b>44,132</b>
<b>Expenses</b>						
General and administrative	19,009	7,458	1,867	6,422	(94)	34,662
Trailer fees	8,793	—	—	—	(2,478)	6,315
Amortization and impairment of intangibles, property and equipment	1,093	8,286	31	23	—	9,433
<b>Total expenses</b>	<b>28,895</b>	<b>15,744</b>	<b>1,898</b>	<b>6,445</b>	<b>(2,572)</b>	<b>50,410</b>
<b>Income (loss) before income taxes for the period</b>	<b>4,246</b>	<b>(9,411)</b>	<b>(5,828)</b>	<b>4,715</b>	<b>—</b>	<b>(6,278)</b>
Provision for income taxes						(1,658)
<b>Net loss for the period</b>						<b>(4,620)</b>
<b>Income (loss) before income taxes for the period, from above</b>	<b>4,246</b>	<b>(9,411)</b>	<b>(5,828)</b>	<b>4,715</b>	<b>—</b>	<b>(6,278)</b>
EBITDA adjustments	5,226	11,846	6,916	809	—	24,797
<b>EBITDA</b>	<b>9,472</b>	<b>2,435</b>	<b>1,088</b>	<b>5,524</b>	<b>—</b>	<b>18,519</b>

## SPROTT INC.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and six months ended June 30, 2013 and 2012

For the six months ended	June 30, 2012					
	SAM	Global Companies	Corporate	Other	Adjustments and Eliminations	Consolidated
<b>Revenue</b>						
Management fees	52,119	4,806	—	4,145	—	61,070
Performance fees	93	—	—	—	—	93
Commissions	—	4,407	—	3,372	—	7,779
Other	946	312	1,408	4,729	(4,506)	2,889
<b>Total revenue</b>	<b>53,158</b>	<b>9,525</b>	<b>1,408</b>	<b>12,246</b>	<b>(4,506)</b>	<b>71,831</b>
<b>Expenses</b>						
General and administrative	21,988	8,135	1,365	5,695	(94)	37,089
Trailer fees	14,550	—	—	—	(4,412)	10,138
Amortization and impairment of intangibles, property and equipment	960	1,168	53	17	—	2,198
<b>Total expenses</b>	<b>37,498</b>	<b>9,303</b>	<b>1,418</b>	<b>5,712</b>	<b>(4,506)</b>	<b>49,425</b>
<b>Income (loss) before income taxes for the period</b>	<b>15,660</b>	<b>222</b>	<b>(10)</b>	<b>6,534</b>	<b>—</b>	<b>22,406</b>
Provision for income taxes						4,727
<b>Net income for the period</b>						<b>17,679</b>
<b>Income (loss) before income taxes for the period, from above</b>	<b>15,660</b>	<b>222</b>	<b>(10)</b>	<b>6,534</b>	<b>—</b>	<b>22,406</b>
EBITDA adjustments	1,237	3,027	(15)	(88)	—	4,161
<b>EBITDA</b>	<b>16,897</b>	<b>3,249</b>	<b>(25)</b>	<b>6,446</b>	<b>—</b>	<b>26,567</b>

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

Included in Other revenue is trailer fee income of \$1.1 million and \$2.5 million for the three and six months ended June 30, 2013, respectively (June 30, 2012 - \$2.0 million and \$4.4 million) which reflects substantially all of the Company's inter-segment revenue.

Included in Amortization and impairment of intangibles, property and equipment for the Global Companies segment are impairment losses of \$5.4 million on finite life intangible assets for the three and six months ended June 30, 2013 (\$1.9 million impairment loss and \$2.1 million impairment loss reversal for finite life intangible assets for the three and six months ended June 30, 2012).

For geographic reporting purposes, transactions are primarily recorded in the location that corresponds with the entity's country of domicile that generates the revenue. The following table presents the revenue of the Company by geographic location (\$ in thousands):

	For the three months ended		For the six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Canada	14,012	24,354	37,799	62,306
United States	2,559	3,087	6,333	9,525
	<b>16,571</b>	<b>27,441</b>	<b>44,132</b>	<b>71,831</b>

**16. EVENTS AFTER THE REPORTING PERIOD**

(a) Acquisition of Sprott Resource Lending Corp.

Effective July 23, 2013, the Company acquired all of the outstanding common shares of Sprott Resource Lending Corp. ("SRLC"). The Company has acquired SRLC because it is expected that the new capital acquired will be used to seed and launch new initiatives, while continuing to grow its private lending business through a new lending partnership expected to launch later this year.

As consideration, the Company paid \$20.7 million cash and issued 69.0 million common shares from treasury valued at \$166.3 million, excluding costs, for total consideration of \$187.0 million. For accounting purposes and as a result of the Company's prior equity ownership in SRLC, the purchase price is expected to be reflected at approximately \$199.2 million. The common shares of the Company issued as consideration were valued at \$2.41 per share using the closing price of the Company's common shares on July 23, 2013.

The allocation of the purchase price will be completed in fiscal 2013 after the Company finalizes its valuation of the acquired identifiable tangible and intangible assets.

(b) Termination of Management Services Agreement ("MSA")

Effective July 31, 2013, Renewable Energy Developers Inc. (formerly, Sprott Power Corp.) ("ReD") terminated the MSA between a subsidiary of the Company ("SPCLP") and ReD dated June 14, 2010. As such, SPCLP will no longer be providing services to ReD pursuant to the MSA.

As consideration, SPCLP received 6,977,689 common shares of ReD in satisfaction of a \$7.3 million payment owing to SPCLP. The Company is expected to retain approximately one third of the proceeds generated by the monetization of the common shares of ReD.

(c) Dividend

On August 7, 2013, a dividend of \$0.03 per common share was declared for the quarter ended June 30, 2013.

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## Corporate Information

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Peter Grosskopf, Chief Executive Officer and Director  
Jack C. Lee, Lead Director  
Rick Rule, Director  
James T. Roddy, Director  
Marc Faber, Director  
Paul Stephens, Director  
Kevin Bambrough, President  
Steven Rostowsky, Chief Financial Officer  
Arthur Einav, Corporate Secretary

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### Stock Information

Sprott Inc. common shares are traded on the  
Toronto Stock Exchange under the symbol “SII”





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