

Following an excellent year for Flow-Through shares and limited partnerships in 2010, performance in 2011 was quite weak for resource stocks (particularly small caps) and consequently for Flow-Through L.P.'s.

Smaller Cap resource stocks performed poorly in 2011, despite the fact that most commodity prices rose during the year e.g. gold and oil, which are the main issuers of Flow-Through shares in the mining and energy sectors respectively. Valuations fell dramatically during the year, as cash flows increased but stocks declined significantly.

Sprott issued only one Flow-Through L.P. in each of 2010 and 2011. By managing the Fund actively throughout 2011, we were able to take advantage of selected new Flow-Through issues in the 4<sup>th</sup> quarter of 2011 to improve and diversify the Fund's holdings.

Unit holders are expected to receive net tax deductions (after capital gains tax) of approximately 110% for the 2011 tax year, as we sold approximately 20% of the the Fund's investments and re-invested the proceeds in new Flow-Through issues. Mining tax credits also helped to reduce the after-tax cost of a \$25.00 unit, which we expect to be similar to what it was for the Sprott 2010 Flow-Through L.P. (namely \$10.78 per unit for an Ontario taxpayer at the highest marginal tax rate of 46.41%). An after-tax cost similar to \$10.78 per unit would reduce the break-even net asset value to approximately \$14.00 per unit.

The Fund ranked 6<sup>th</sup> out of 12 comparable funds for the period from inception until December 30, 2011. On an after-tax basis, our LP's ranking would be much higher due to the approximate 110% net tax deductions which we expect our unit holders to receive for the 2011 tax year. The benefit of this is not reflected in the net asset value per unit.

Investments totaled \$57.2 million at December 30, 2011 with a weighted average market capitalization of \$685 million. The Fund was fully invested at December 30, 2011, with 67% invested in mining stocks and 33% invested in energy stocks (at market value). At February 3, 2012, the net asset value of the Fund was \$13.96 per unit.

For investors looking for another tax-advantaged investment, Sprott has filed a final prospectus dated January 27, 2012, offering units of a new Flow-Through Limited Partnership, the Sprott 2012 Flow-Through Limited Partnership.

The Sprott 2011 and 2012 Flow-Through L.P.'s should benefit (over the next 1 and 2 years respectively) from the dramatic decline in small-to-mid cap resource stocks over the past year (despite rising commodity prices overall).

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# SPROTT 2011 FLOW-THROUGH L.P.

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