

ANNUAL INFORMATION FORM

Offering Series A , F and I Units of

SPROTT SMALL CAP EQUITY FUND

August 18, 2008

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

The Fund and the securities of the Fund under this Annual Information Form are not registered with the United States Securities and Exchange Commission and they are sold in the United States only in reliance upon exemptions from registrations.

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THE FUND

Sprott Small Cap Equity Fund (the “Fund”) is an open-ended mutual fund trust established under the laws of Ontario pursuant to the terms of a trust agreement dated September 9, 1997, as amended and restated on October 16, 2001 and February 13, 2004, and as further amended on November 1, 2007, together with amended and restated Schedules “A” and “B” each dated May 16, 2008 (the “Trust Agreement”). Sprott Asset Management Inc. (the “Manager”) acts as the manager, portfolio adviser and promoter of the Fund. RBC Dexia Investor Services Trust acts as trustee (“Trustee”) and custodian (“Custodian”) for the Fund. The head office and principal place of business of the Fund and the Manager is located at:

Royal Bank Plaza, South Tower
Suite 2700 P. O. Box 27,
Toronto, Ontario, M5J 2J1

INVESTMENT RESTRICTIONS AND PRACTICES

The Fund is managed in accordance with the standard investment restrictions and practices contained in the securities legislation, including National Instrument 81-102 (“NI 81-102”) of the Canadian securities administrators other than as noted below. These restrictions and practices have been designed by the Canadian securities administrators to ensure that the investments of mutual funds are diversified and relatively liquid and to ensure the proper administration of mutual funds. NI 81-102 prescribes that unitholder approval must be obtained before any change can be made to the fundamental investment objectives of the Fund.

Units of the Fund are qualified investments for registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans and registered disability savings plans under the *Income Tax Act* (Canada) (collectively “Registered Plans”).

The Manager is an investment dealer and acts as portfolio adviser for the Fund. Accordingly, the Fund is considered to be a “dealer managed” mutual fund for the purposes of NI 81-102. Applicable securities laws impose restrictions on investments by dealer managed mutual funds. In accordance with such rules, the Fund may not make an investment in any class of securities of any issuer (other than those guaranteed by the Government of Canada, the government of a province of Canada or an agency of the foregoing) (i) for which the Manager or its associates or affiliates has acted as underwriter (except for a small selling group participation) during the preceding 60 days or (ii) of which any director, officer or employee of the Manager or an affiliate or associate of the Manager, is a partner, director or officer, if such person participates in the formulation of, influences or has access prior to implementation of, investment decisions made on behalf of the Fund.

The Fund has obtained permission from Canadian securities regulators to engage in short selling. A short sale by the Fund involves borrowing securities from a lender which are then sold in the open market. At a future date, the securities are repurchased by the Fund and returned to the lender. While the securities are borrowed, the proceeds from the sale are deposited with the lender and the Fund pays interest to the lender. If the value of the securities declines between the time that the Fund borrows the securities and the time it repurchases and returns the securities to the lender, the Fund will make a profit on the difference (less any interest the Fund is required to pay the lender). The Fund will engage in short selling only within certain controls and limitations as described herein. Securities will be sold short only for cash and the Fund will receive the cash proceeds within normal trading settlement periods for the market in which the short sale is made. All short sales will be through market facilities through which those securities are normally bought and sold. Securities sold short by the Fund will be liquid securities that are either listed and posted for trading on a stock exchange and which the Manager has pre-arranged to borrow for the purpose of such sale, or is a bond, debenture or other evidence of indebtedness of or

guaranteed by the Government of Canada or any province or territory of Canada or the Government of the United States of America. At the time securities of a particular issuer are sold short, the aggregate market value of all securities of that issuer sold short by the Fund will not exceed 5% of the total net assets of the Fund. The aggregate market value of all securities sold short by the Fund will not exceed 20% of the net assets of the Fund on a daily marked-to-market basis. The Fund will place a “stop-loss” order with a dealer to immediately purchase for the Fund an equal number of the same securities if the trading price of the securities exceeds 120% (or such lesser percentage as the Manager may determine) of the price at which the securities were sold short. The Fund will deposit Fund assets with the borrowing agent (either the Fund’s custodian or a dealer) as security in connection with the short sale transaction. The Fund will keep proper books and records of all short sales and Fund assets deposited with borrowing agents as security. The Fund will hold “cash cover” (as defined in NI 81-102) in an amount, including the Fund assets deposited with borrowing agents as security in connection with short sale transactions, that is at least 150% of the aggregate market value of all securities sold short by the Fund on a daily marked-to-market basis. No proceeds from short sales by the Fund will be used by the Fund to purchase long positions in securities other than cash cover.

DESCRIPTION OF UNITS

General

The Fund is permitted to issue an unlimited number of series of units and may issue an unlimited number of units in each series. The Fund has three series of units:

Series A units: Available to all investors.

Series F units: Available to investors who participate in fee-based programs through their dealer and whose dealer has signed a Series F agreement with us, investors for whom we do not incur distribution costs, or individual investors approved by the Manager.

Series I units: Available to institutional investors at the discretion of the Manager.

Although the money you and other investors pay to purchase units of any series is tracked on a series-by-series basis in the Fund’s administrative records, the assets of all series of the Fund are combined into a single pool to create one portfolio for investment purposes. Please refer to the Fund’s Simplified Prospectus for further information pertaining to Series A, F and I units of the Fund.

Units of a series of the Fund represent your ownership in the Fund. You receive distributions of the Fund’s net income and net capital gains attributable to your units based on their relative net asset value per unit for each series in the Fund. Upon the wind-up or termination of the Fund, unitholders of the Fund will be entitled to participate pro rata in the Fund’s net assets allocated to the applicable series. If you hold units in the Fund you will be entitled to vote at the unitholder meetings of the Fund as a whole as well as any unitholder meetings for the particular series of units that you own. Units are issued as fully paid and non-assessable and are redeemable at their net asset value per unit. There are no pre-emptive or conversion rights attached to the units. The Fund may issue an unlimited number of units. Each unit, regardless of the series, will entitle the holder to one vote at all meetings of unitholders. The Fund may issue fractional units, which shall entitle the holder to similar proportionate participation in the Fund but will not entitle the holder to receive notice of, or vote at, meetings of unitholders of the Fund.

Meetings of unitholders

Unitholders of the Fund will be entitled to vote to approve all matters that require unitholder approval under NI 81-102 or the Trust Agreement. As at the date of this document these matters include:

- a change in the manager of the Fund, unless the new manager is an affiliate of the Manager;
- any change in the fundamental investment objective of the Fund;
- any decrease in the frequency of calculating the net asset value of the Fund;
- certain material reorganizations of the Fund;
- if the basis of the calculation of a fee or expense that is charged to the Fund by a party that is non-arm's length to the Fund is changed in a way that could result in an increase in charges to the Fund;
- if a fee or expense to be charged to the Fund, or directly to the Fund's unitholders by the Fund or the Manager in connection with the holding of units of the Fund that could result in an increase in charges to the Fund or to its unitholders, is introduced by a party that is non-arm's length to the Fund; and
- any other matter which requires the approval of unitholders pursuant to the Trust Agreement or applicable laws.

VALUATION OF PORTFOLIO SECURITIES

As at 4:00 p.m. (Eastern Standard time) on each day that the Toronto Stock Exchange is open for business (a "Valuation Date"), the net asset value per series of the Fund is calculated by subtracting from the series' proportionate share of the assets of the Fund its proportionate share of common expenses of the Fund and the liabilities attributable to that series. To arrive at the net asset value per unit series, the net asset value of a series is divided by the number of outstanding units of that series.

In determining the market value of the assets of the Fund the following rules apply:

- (a) the value of any cash on hand or on deposit, bills, demand notes, accounts receivable, prepaid expenses, cash dividends received (or to be received and declared to shareholders of record on a date before the date as of which the net asset value of the Fund is being determined), and interest accrued and not yet received, shall be deemed to be the full amount thereof unless the Manager shall have determined that any such deposit, bill, demand note, account receivable, prepaid expense, cash dividend received or interest is not worth the full amount thereof, in which event the value thereof shall be deemed to be such value as the Manager shall determine to be the reasonable value thereof;
- (b) the value of any security which is listed or dealt in upon a stock exchange shall be determined by (1) in the case of a security which was traded on the day as of which the net asset value of the Fund is being determined, the closing sale price; (2) in the case of a security which was not traded on the day as of which the net asset value of the Fund is being determined, a price which is the average of the closing recorded bid and ask prices; or (3) if no bid or ask quotation is available, the price last determined for such security for the purpose of calculating the net asset value of the Fund. The value of inter-listed securities shall be computed in accordance with directions laid down from time to time by the Trustee; and provided however that if, in the opinion of the Trustee, stock exchange or over-the-counter quotations do not properly reflect the prices which would be received by the Fund upon the disposal of shares or securities necessary to effect any redemptions of units, the Trustee may place such value upon such shares or securities as appears to the Trustee to most closely reflect the fair value of such shares or securities;

- (c) the value of any security, the resale of which is restricted or limited by reason of a representation, undertaking, or agreement by the Fund shall be restricted to the lesser of (1) the value based on reported quotations of that restricted security in common use and (2) that percentage of the market value of securities of the same class, or series of a class of which the restricted security forms part that are not restricted securities, equal to the percentage that the Fund's acquisition cost was of the market value of the securities at the time of acquisition, but taking into account, if appropriate, the amount of time remaining until the restricted securities will cease to be restricted securities;
- (d) a long position in an option or a debt-like security shall be valued at the current market value of the position;
- (e) for options written by the Fund (1) the premium received by the Fund for those options shall be reflected as a deferred credit and the option shall be valued at an amount equal to the current market value of the option that would have the effect of closing the position; (2) any difference resulting from revaluation shall be treated as an unrealized gain or loss on investment; (3) the deferred credit shall be deducted in calculating the net asset value per security of the mutual fund; and (4) any securities that are the subject of a written option shall be valued at their current market value;
- (f) the value of a forward contract or swap shall be the gain or loss on the contract that would be realized if, on the date that valuation is made, the position in the forward contract or swap were to be closed out;
- (g) the value of any security or other property for which no price quotations are available or in the opinion of the Trustee or the Manager, to which the above valuation principles cannot or should not be applied, shall be the fair value thereof determined from time to time in such manner as the Trustee or the Manager shall from time to time provide;
- (h) the value of all assets and liabilities of the Fund valued in terms of a currency other than the currency used to calculate the Fund's net asset value shall be converted to the currency used to calculate the Fund's net asset value by applying the rate of exchange obtained from the best available sources to the Trustee;
- (i) the value of standardized futures shall be (1) if daily limits imposed by the futures exchange through which the standardized future was issued are not in effect, the gain or loss on the standardized future that would be realized if, on the date that valuation is made, the position in the standardized future were to be closed out; or (2) if daily limits imposed by the futures exchange through which the standardized future was issued are in effect, based on the current market value of the underlying interest of the standardized future; and
- (j) margin paid or deposited on standardized futures or forward contracts shall be reflected as an account receivable, and if not in the form of cash, shall be noted as held for margin.

The liabilities of the Fund shall be deemed to include:

- (a) all bills and accounts payable;
- (b) all administrative expenses payable and/or accrued;

- (c) all obligations for the payment of money or property, including the amount of any declared but unpaid distributions;
- (d) all allowances authorized or approved by the Trustee for taxes or contingencies; and
- (e) all other liabilities of the Fund of whatever kind and nature, except liabilities represented by outstanding units.

Portfolio transactions (investment purchases and sales) will be reflected in the first computation of the net asset value per unit made after the date on which the transaction becomes binding.

Pursuant to National Instrument 81-106 *Investment Fund Continuous Disclosure* (“NI 81-106”), investment funds are required to calculate their net asset values in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”), which was modified by the introduction of section 3855 *Financial Instruments – Recognition and Measurement* of the Canadian Institute of Chartered Accountants Handbook. The Canadian Securities Authorities (the “CSA”) have provided relief from the requirement of NI 81-106 that investment funds calculate their net asset values in accordance with Canadian GAAP for any purpose, including redemptions and purchases, other than for purposes of financial statements in respect of the financial year commencing January 1, 2007 and for all financial years thereafter. As a result, the net asset value of the Fund will be calculated as described in this section for the purposes of redemptions and purchases but will be calculated in accordance with Canadian GAAP for the purposes of its financial statements. The financial statements of the Fund will include a reconciliation of the net asset value contained in the financial statements to the net asset value used for other purposes. The relief granted by the CSA is for an interim period ending on the earlier of September 30, 2008 and the date upon which changes to NI 81-106 come into effect. The CSA have published amendments to NI 81-106, in final form, that would remove the requirement that net asset values of investment funds be calculated in accordance with Canadian GAAP other than in financial statements. Provided all necessary approvals are obtained, the amendments will come into force on September 8, 2008.

The Manager and/or Trustee may declare a suspension of the calculation of the net asset value per unit for each series of the Fund, in the circumstances described under the heading “Redemption of Units”. There will be no calculation of net asset value per unit for each series during any suspension period and the Fund will not be permitted to issue further units or redeem any units during this period.

CALCULATION OF UNIT PRICE

As at 4:00 p.m. on each Valuation Date, the net asset value is calculated per unit for each series of the Fund. The net asset value per unit (or unit price) of a series will be based on the market value of the series’ proportionate share of the assets of the Fund, less any liabilities attributable to that series and less that series’ proportionate share of the common liabilities and expenses of the Fund, divided by the total outstanding units of that series. The net asset value per unit of a series is the basis for all purchases, switches and redemptions and for reinvestment of distributions.

PURCHASE OF UNITS

The Fund offers Series A, F and I units. Units of the Fund may be purchased in each of the provinces and territories of Canada. You may purchase, switch or redeem units of the Fund directly through your registered dealer approved by Sprott Asset Management Inc. The procedures to be followed by investors who desire to purchase units of the Fund are described in the Fund’s Simplified Prospectus.

Units of the Fund may be purchased at their net asset value per unit of a specific series, computed as described under "Calculation of Unit Price". The purchase price per unit is the net asset value per unit of a series next determined following receipt by the Fund of a completed purchase order. Any purchase order received on a Valuation Date after the cut-off time or on any day which is not a Valuation Date is deemed to have been received on the following Valuation Date. The purchase price per unit will then be the net asset value per unit of each series established on the Valuation Date following the day of actual receipt of the purchase order. If your purchase order is received by RBC Dexia Investor Services Trust before 4:00 p.m. (Eastern Standard time) on a Valuation Date, you will pay the net asset value per unit set on that Valuation Date, or if received after 4:00 p.m., the net asset value per unit set on the next Valuation Date, subject to RBC Dexia Investor Services Trust receiving all necessary forms properly completed.

Your dealer may seek reimbursement from you for any losses caused by you in connection with a failed settlement of a purchase of units of the Fund where such dealer has the contractual right to do so.

No certificates are issued for units purchased but an investor receives, following each purchase of units, a written statement indicating all relevant details of the purchase transaction including the number of units purchased, cost per unit and the total dollar amount of the purchase order.

SWITCHES

You can switch your investment from one series of units of the Fund into the same series of units of any other mutual fund managed by the Manager (a "Sprott mutual fund"). A switch is a redemption of units of the Fund that you own and a purchase of units of another Sprott mutual fund.

REDEMPTION OF UNITS

An investor may redeem Fund units by completing a redemption request and delivering it to the investor's registered dealer approved by Sprott Asset Management Inc. Sprott Asset Management Inc. may require that an investor's signature on any redemption request be guaranteed by a bank, trust company, credit union or otherwise to the satisfaction of Sprott Asset Management Inc. A redemption request received by RBC Dexia Investor Services Trust before 4:00 p.m. (Eastern Standard time) on a Valuation Date will receive the net asset value per unit for each series of units established on that day. A redemption request received by RBC Dexia Investor Services Trust after 4:00 p.m. (Eastern Standard time) or on a day which is not a Valuation Date will receive the net asset value per unit for the applicable series of units on the next Valuation Date. A dealer which receives a redemption request is required to transmit the redemption request to RBC Dexia Investor Services Trust without charge and, where practicable, by courier, priority post or telecommunications facility.

RBC Dexia Investor Services Trust will pay redemption proceeds within three business days after the receipt of the investor's order, provided the written request for redemption submitted to the registered dealer is complete and the registered dealer has provided correct settlement instructions to RBC Dexia Investor Services Trust.

Your dealer may seek reimbursement from you for any of its losses caused by you in connection with a failed settlement of a redemption of units of the Fund where such dealer has the contractual right to do so.

The Fund may suspend the right of unitholders to redeem units for the whole or any part of a period during which normal trading is suspended on a stock exchange or options exchange within or outside Canada on which securities are listed and traded, or which specified derivatives are traded, if those securities or specified derivatives represent more than 50 percent by value, or underlying market exposure, of the total assets of the Fund (without allowance for liabilities) and if those securities or

specified derivatives are not traded on any other exchange that represents a reasonably practical alternative for the Fund.

The Fund may postpone payment during a period in which the right of unitholders to request redemption of their units is suspended, despite the Fund's obligation to pay the redemption price for units that have been redeemed in accordance with the redemption requirements.

RESPONSIBILITY FOR OPERATION OF THE FUND

The Manager

Sprott Asset Management Inc. is the manager of the Fund. The registered office of Sprott Asset Management Inc. is located at the Royal Bank Plaza, South Tower, Suite 2700, P.O. Box 27, Toronto, Ontario, M5J 2J1. Further contact information of the Manager is as follows:

Tel: (416) 943-6707
 Fax: (416) 943-6497
 E-mail: invest@sprott.com
 Website: www.sprott.com.
 Toll free number: 1-866-299-9906

Under the Trust Agreement, the Manager is responsible for providing all management and administrative services required by the Fund, which includes the management of the investment portfolio, investment analysis, recommendations and decisions, the implementation of the portfolio purchase and sale transactions and arranging for the distribution of Fund units. Pursuant to the Trust Agreement, the Manager may delegate any or all of its duties and responsibilities to one or more agents to assist it in the performance of such duties and responsibilities. The Manager may resign as manager of the Fund on 90 days' prior written notice to the Trustee and to the unitholders. The Manager is overseen by the independent review committee in respect of conflict of interest matters identified by the Manager. For further information on the independent review committee, please see page 12.

The names, places of residence and present positions held by the directors and officers of the Manager are listed below.

Name and Municipality of Residence	Position with the Manager	Principal Occupation
Eric Steven Sprott Oakville, Ontario	Director, Chairman, President and Chief Executive Officer	Chairman, Chief Executive Officer and Portfolio Manager
Iryna Gordiyenko Toronto, Ontario	Acting Chief Financial Officer	Acting Chief Financial Officer
Anne Louise Spork Acton, Ontario	Director and Vice-President, Secretary and Treasurer	Vice-President, Portfolio Manager and Registered Representative

Name and Municipality of Residence	Position with the Manager	Principal Occupation
James Robert Fox Toronto, Ontario	Director and Vice President, Sales and Marketing	Vice President, Sales and Marketing
Jean François Benoit Joseph Tardif Aurora, Ontario	Director and Senior Portfolio Manager	Senior Portfolio Manager
Peter James Hodson Kitchener, Ontario	Director and Senior Portfolio Manager	Senior Portfolio Manager
Kirstin Heath McTaggart Mississauga, Ontario	Director and Chief Compliance Officer	Chief Compliance Officer
Scott Patrick Dexter Mississauga, Ontario	Director and Senior Equity Trader	Senior Equity Trader

Each of the directors and officers has worked for the Manager for the past five years except for Peter James Hodson, Iryna Gordiyenko and Scott Patrick Dexter.

Mr. Hodson was the Vice President, Portfolio Manager at CI Mutual Funds for the period of December 1997 until January 2005. He was the Vice President at Waterfall Investments Inc. for the period December 2004 until October 2005.

Iryna Gordiyenko was an accountant at Ernst & Young LLP from October 2003 to February 2006 and subsequently a senior associate at Horwath Orenstein LLP from February 2006 to August 2006.

Scott Dexter was an Equity Trader at Acker Finley Inc. from January 2000 to April 2005. Scott joined Sprott Asset Management Inc. as a Senior Equity Trader in April 2005.

Portfolio Adviser

Sprott Asset Management Inc. is the portfolio adviser (the “Portfolio Adviser”) to the Fund.

The Portfolio Adviser provides investment management services to other clients. Those client accounts may follow the same investment objective and strategy as used by the Fund. In placing an order to buy and sell securities, execution between the Fund and other accounts will be conducted in a manner which the Portfolio Adviser believes is fair and equitable. The Portfolio Adviser and its principals may also trade in securities for their personal accounts and may also invest in the same securities as the Fund. In doing so, the Portfolio Adviser and its principals will comply with all applicable laws.

Investment decisions for the Fund are made completely and solely by the Portfolio Adviser. Eric Sprott, C.A. heads up the portfolio management team. Eric Sprott has over thirty five years of experience in the investment industry. Mr. Sprott specializes in investing in growth and value, small-to-mid capitalization

Canadian equities. He worked for Sprott Securities Inc. (now Cormark Securities Inc.) from 1981 to 2002 and for the Portfolio Adviser since its inception in 2000.

Anne Spork, C.I.M. has twenty-four years of experience in the investment industry. Ms. Spork has been directly involved in managing investment portfolios, as well as advising the Portfolio Adviser's institutional and high net-worth clients. She has worked for Sprott Securities Inc. (now Cormark Securities Inc.) from 1982 to 2002 and for the Portfolio Adviser since its inception in 2000.

Jean François Tardif, CFA has over twelve years of experience in the investment industry. Mr. Tardif was previously a portfolio manager at ING Investment Management, managing all Canadian small cap equity portfolios and some sectors of the large cap portfolios. During his time at ING, the portfolios substantially outperformed their related benchmarks. Mr. Tardif joined the portfolio management team in November 2001.

Peter J. Hodson, CFA has over twenty years of investment industry experience, including twelve years of portfolio management experience. Mr. Hodson was previously the Vice President, Portfolio Manager at CI Mutual Funds, managing five retail mutual funds under the Signature Group. Mr. Hodson joined the portfolio management team in January 2006.

The Manager remains wholly responsible for the management of the Fund, including the management of its investment portfolio.

There is a portfolio management committee which meets on a quarterly basis to review the economic and market outlook as well as the focus of the Fund. Investment decisions made by the Portfolio Adviser are not subject to oversight, approval or ratification of this committee.

The names, places of residence and present positions held by the directors and officers of the Portfolio Adviser are the same as with respect to the Manager. Please refer to page 7.

Trustee, Custodian and Recordkeeper

Under the Trust Agreement, RBC Dexia Investor Services Trust of Toronto, Ontario has been appointed the custodian (the "Custodian"), trustee (the "Trustee") and recordkeeper (the "Recordkeeper") of all securities held on behalf of the Fund. The Custodian holds the Fund's cash and securities on behalf of the Fund and is responsible for ensuring that they are safe and secure. All of such securities will be held by the Custodian in Canada with the exception of foreign portfolio securities, gold and precious minerals, if any, which may be held by the Custodian at the offices of sub-custodians under arrangements made to the satisfaction and order of the Custodian and in compliance with applicable regulatory requirements.

The Trustee holds title to the securities owned by the Fund on behalf of unitholders. The Manager and Trustee have exclusive authority over the assets and affairs of the Fund with a fiduciary responsibility to act in the best interests of the unitholders.

The Recordkeeper keeps a register of the owners of units of the Fund, processes purchase and redemption orders, issues investor account statements and issues annual tax reporting information.

Auditors

The auditors of the Fund are Ernst & Young LLP of Toronto, Ontario. The Manager will not seek the approval of unitholders before changing the auditors of the Fund; however, the Manager will provide unitholders with at least 60 days written notice before the effective date of any such change.

Brokerage Arrangements

Decisions as to the purchase and sale of portfolio securities and the execution of portfolio transactions, including the selection of the market, broker and the negotiation of commissions are made by the Portfolio Adviser. In effecting portfolio transactions, overall service and prompt execution of orders on favourable terms will be a primary consideration. When the Portfolio Adviser believes that executions and prices offered by more than one broker are comparable, the Portfolio Adviser may, in its discretion, choose to effect portfolio transactions with brokers who provide research, statistical and other similar services to the Fund. In all circumstances, overall service and prompt execution of orders on favourable terms will be a primary consideration.

OWNERSHIP

Principal Holders of Securities

As at July 31, 2008, Sprott Inc. owned 5,453,693 common shares, representing 100% of the issued and outstanding voting securities of Sprott Asset Management Inc. Eric S. Sprott owned 102,141,270 common shares, representing 68.10% of the issued and outstanding voting securities of Sprott Inc.

As at July 31, 2008, no unitholder owned more than 10% of the issued and outstanding units of a Series of the Fund.

FUND GOVERNANCE

Generally

The Manager has established appropriate policies, procedures and guidelines to ensure the proper management of the Fund. The systems implemented monitor and manage the business and sales practices, risks and internal conflicts of interest relating to the Fund while ensuring compliance with regulatory and corporate requirements.

Derivatives and Securities Lending

The Fund may use derivatives and securities lending as discussed under the heading "Investment Strategies" in the Fund's Simplified Prospectus. The Manager has not established written policies and procedures to manage the risks associated with the use of derivatives or securities lending but will establish written policies and procedures for managing risks upon the use of such transactions.

The Manager considers the use of derivatives and securities lending in conjunction with the provisions of NI 81-102 and with any relief orders granted to the Fund by the securities regulators. The Manager is responsible for ensuring that all trading limits or other controls are complied with. The Custodian will act as agent for the Fund in administering any securities lending transactions and monitoring the collateral provided to ensure its value remains within the prescribed limits.

Short Selling

The Fund may, from time to time, engage in short selling as described under "Investment Restrictions and Practices" on page 1. Written policies and procedures regarding objectives and risk management procedures will be adopted by the Manager prior to the commencement of any short selling activities. Such policies and procedures will be developed, implemented and monitored by senior management of the Manager and will be formally reviewed at least annually by the Manager and its board of directors. The authorization of short selling transactions will be the responsibility of senior portfolio managers of the

Manager with post-trade review conducted by the Manager's compliance department. No risk measurement procedures or simulations are used to test the portfolio under stress conditions.

Short-Term Trading

The Manager has adopted certain restrictions to deter short-term trading. For example, the Manager may restrict purchases if an investor engages in such short-term trading. The Manager's restrictions also include charging a fee of up to 3% of the net asset value of the units that are redeemed within 180 days of purchasing them. These fees are payable to the Manager. They are in addition to any redemption fees that may apply and will reduce the amount otherwise payable to you on the redemption.

RBC Dexia Investor Services Trust, on behalf of the Manager, monitors and detects short-term trading. RBC Dexia Investor Services Trust, on direction of the Manager, automatically charges a short-term trading fee to any redemption of units that is made within 180 days of purchasing those units. The Manager assesses the short-term trading fee charged to an investor on a case by case basis and may, at its absolute discretion, reverse a short-term trading fee that has been charged to an investor.

The short-term trading fees will not be charged for a redemption of units: (i) acquired through automatic reinvestment of all distributions of net income or capital gains by the Fund; (ii) through the exercise of statutory redemption rights; (iii) as a result of switching between the Fund and another Sprott mutual fund; or (iv) in the absolute discretion of the Manager as described above. For purposes of the short-term trading fee, units will be considered to be redeemed on a first-in first-out basis.

While these restrictions and our monitoring attempt to deter short-term trading, the Manager cannot ensure that such trading will be completely eliminated.

Proxy Voting Guidelines

Sprott Asset Management Inc., in its capacity as portfolio adviser to the Fund, is wholly responsible for establishing, monitoring and amending (if necessary) the policies and procedures relating to the voting of proxies received in connection with the Fund's portfolio securities.

Generally speaking, the Portfolio Adviser will vote in favour of the following proxy proposals:

- electing and fixing number of directors
- appointing auditors
- ratifying director actions
- approving private placements exceeding 25% threshold
- changing registered address
- authorizing directors to fix remuneration of auditors
- approving private placements to insiders exceeding 10% threshold
- approving special resolutions to change the authorized capital of the company to an unlimited number of common shares without par value

The Portfolio Adviser will vote against any proposal relating to stock option plans that: (i) exceed 10% of the common shares issued and outstanding at the time of grant (on a non-diluted basis); and (ii) provide that the maximum number of common shares issuable pursuant to such plan be a "rolling" maximum equal to 10% of the outstanding common shares at the date of the grant of applicable options.

In certain cases, proxy votes may not be cast when the Portfolio Adviser determines that it is not in the best interests of unitholders of the Fund to vote such proxies. In the event a proxy raises a potential

material conflict of interest between the interests of the Fund and the Manager, Portfolio Adviser, affiliate or associate of the Fund or the manager or portfolio adviser of such affiliate or associate, the conflict will be resolved in the best interests of the unitholders and the Fund.

The Portfolio Adviser retains the discretion to depart from these policies on any particular proxy vote depending upon the facts and circumstances.

The proxy voting guidelines of the Fund are available on request, free of charge, by contacting the Manager at 1-866-299-9906 and are available on our website at www.sprott.com. The Portfolio Adviser will maintain and prepare an annual proxy voting record for the Fund. The proxy voting record for the annual period ending June 30 each year for the Fund will be available free of charge to any investor upon request at any time after August 31 of that year.

Independent Review Committee (“IRC”)

In accordance with National Instrument 81-107 *Independent Review Committee for Investment Funds* (“NI 81-107”), the Manager has established an independent review committee (the “IRC”) for all the Sprott mutual funds, which include the Fund. The IRC is composed of three individuals, each of whom is independent of the Sprott mutual funds, the Manager and its affiliates. The current members of the IRC and their principal occupations are as follows:

Name and municipality of residence	Principal Occupation
Lawrence A. Ward	Consultant
W. William Woods	Consultant
Eamonn McConnell	Consultant

The IRC became fully operational on November 1, 2007 and, from that date, has functioned in accordance with the applicable securities laws, including NI 81-107. The IRC has adopted a written charter that includes its mandate, responsibilities and functions, and the policies and procedures it will follow when performing its functions.

In accordance with NI 81-107, the mandate of the IRC is to consider and provide recommendations to the Manager on conflicts of interest to which the Manager is subject when managing the Sprott mutual funds. The Manager is required under NI 81-107 to identify conflicts of interest inherent in its management of the Sprott mutual funds, and request input from the IRC on how it manages those conflicts of interest, as well as on its written policies and procedures outlining its management of those conflicts of interest. The Manager must refer its proposed course of action in respect of any such conflict of interest matters to the IRC for its review. Certain matters require the IRC’s prior approval, but in most cases, the IRC will provide a recommendation to the Manager as to whether or not, in the opinion of the IRC, the Manager’s proposed action will provide a fair and reasonable result for the Sprott mutual funds. For recurring conflict of interest matters, the IRC can provide the Manager with standing instructions.

The IRC will report annually to unitholders of the Sprott mutual funds on its activities, as required by NI 81-107. The reports of the IRC will be available free of charge from the Manager on request by contacting the Manager at invest@sprott.com and will be posted on the Manager’s website at www.sprott.com. The first report of the IRC in respect of the Fund will be available on and after March 31 in each year.

FEES AND EXPENSES

To encourage large purchases in the Fund and to achieve effective management fees that are competitive for these investments, the Manager may reduce the management and/or incentive fee payable by the Fund with respect to the units held by a particular investor, based on a number of factors including the type of investor and the number and value of units held by an investor. At a minimum, an investor must hold \$15,000,000 of investments in the Fund in order to be eligible for this fee reduction. The minimum amount may be waived or reduced in the absolute discretion of Sprott Asset Management Inc.

Investors who receive the benefit of a lower management and/or incentive fee with the Manager will receive a proportionately larger distribution from the Fund (a “fee distribution”) so that those investors will receive the benefit of the lower fee. See “Fees and Expenses” in the Simplified Prospectus for more information.

INCOME TAX CONSIDERATIONS

This general summary applies to a trust governed by a Registered Plan and an individual (other than a trust) who is resident in Canada and holds units of the Fund as capital property for the purposes of the *Income Tax Act* (Canada) (the “Act”). This summary is based on the current provisions of the Act and the regulations thereunder, specific proposals to amend the Act and regulations that have been publicly announced by the Minister of Finance (Canada) (“Minister”) prior to the date hereof (“Proposed Amendments”) and the published administrative practices and policies of the Canada Revenue Agency. This summary is not exhaustive of all possible Canadian federal income tax considerations and does not deal with foreign or provincial income tax legislation or considerations. This summary is of a general nature only and is not intended to constitute legal or tax advice to an investor. Investors should seek independent advice regarding the tax consequences of investing in units, based upon the investors’ own particular circumstances.

This summary is based on the assumption that the Fund has qualified as a mutual fund trust under the Act throughout its current taxation year and will continue to so qualify at all times in the future. The Fund has so qualified and expects to so qualify in the future. If the Fund were to fail to qualify as a mutual fund trust at any time, the tax considerations would in some respects be materially different from those described herein.

Taxation of the Fund

The Fund will in each year distribute sufficient net income and net realized capital gains to investors so that the Fund will not be liable for income tax under Part I of the Act, after taking into account any capital gains refunds under the Act.

The Fund may elect to have a taxation year end of December 15 and, if it so elects, net income and net realized capital gains in respect of that taxation year will be distributed between December 15 and December 31.

Generally, the Fund intends to treat gains from using derivative securities for non-hedging purposes, as well as gains from short sales, as income, rather than as capital gains.

Taxation of the Investor

An investor will be required to include in income for tax purposes for any year the amount of net income and the taxable portion of net realized capital gains paid or payable to him or her in the year, whether such amounts are reinvested in additional units or paid by cheque. A fee distribution to an investor may

include net income and net realized capital gains. Provided that the Fund makes the appropriate designations, to the extent permitted under the Act, investors generally will be entitled to treat amounts of Canadian dividend income, foreign income and net taxable capital gains of the Fund paid or payable to them, as if the investors received such amounts directly. An enhanced dividend tax credit is available for certain eligible dividends from Canadian corporations. Income of the Fund derived from foreign sources may be subject to foreign withholding tax which may, to the extent designated by the Fund and within certain limits, be credited against Canadian income taxes payable by investors. Investors will be provided with information slips reporting their share of the Fund's income, including capital gains and allowable tax credits.

An investor must include in income for tax purposes the net income and net taxable capital gains paid or payable to him or her in the year by the Fund, even if the income and capital gains accrued to the Fund or were realized by the Fund before the investor acquired the units.

To the extent that distributions (including fee distributions) paid or payable to an investor in a year by the Fund exceed the investor's share of the Fund's net income and net realized capital gains for the year, the excess (except to the extent that it is proceeds of disposition) will be a return of capital and will not generally be taxable in the investor's hands in the year of receipt but will reduce the adjusted cost base of an investor's units of the Fund.

Management fees paid directly to the Manager by holders of Series I units will not be deductible by those unitholders.

Upon the actual or deemed disposition of a unit of the Fund, including the redemption of a unit and a redemption to effect a transfer to another mutual fund managed by the Manager, a capital gain (or a capital loss) will be realized by the investor to the extent that the proceeds of disposition of the unit, less any costs of disposition exceed (or are exceeded by) the adjusted cost base to the investor of his or her unit. Generally, one-half of a capital gain must be included in an investor's income as a taxable capital gain and one-half of a capital loss may be used to offset taxable capital gains in accordance with the provisions of the Act. A change of one series of units of the Fund into another series of units of the Fund will not, by itself, result in a disposition of the units being changed.

Generally, for the purpose of determining the adjusted cost base to an investor of units of the Fund, when a unit of the Fund is acquired, whether on the reinvestment of distributions or otherwise, the adjusted cost base of the unit is determined by averaging the cost of the newly-acquired unit with the adjusted cost base to the investor of all other identical units held by the investor immediately before that time.

Capital gains and dividends may result in a liability for alternative minimum tax.

Units of the Fund are qualified investments under the Act for Registered Plans. If units of the Fund are held in a Registered Plan, distributions from the Fund and capital gains from a disposition of the units are generally not subject to tax under the Act until withdrawals are made from the Registered Plan.

REMUNERATION OF DIRECTORS, OFFICERS, TRUSTEES AND THE IRC

No payment or reimbursement has been made to the directors and officers of the Manager by the Sprott mutual funds in the 2007 financial year. The Trustee is entitled to receive from the Fund, pursuant to the Trust Agreement, trustee fees, custody, administration and securityholder reporting fees. For the financial year ended December 31, 2007, the Fund paid to the Trustee approximately \$2,300 for the Trustee's services. For the period beginning November 1, 2007, the day the IRC became operational, to December 31, 2007, the most recently completed financial year-end for the Sprott mutual funds, the

aggregate compensation paid to the IRC by all the investment funds managed by the Manager was \$53,334. The Fund's share of this compensation can be found in the Fund's financial statements.

MATERIAL CONTRACTS

Copies of the material contract, listed below, are available for inspection during normal business hours at the offices of the Manager at Royal Bank Plaza, South Tower, Suite 2700, P.O. Box 27, Toronto, Ontario:

- (1) Trust Agreement dated September 9, 1997, as amended and restated on October 16, 2001 and February 13, 2004, and as further amended on November 1, 2007, together with amended and restated Schedules "A" and "B" each dated May 16, 2008 between the Manager and RBC Dexia Investor Services Trust.

LEGAL AND ADMINISTRATIVE PROCEEDINGS

There are currently no ongoing legal or administrative proceedings involving the Manager which may be material to the Fund, nor are there any such proceedings known to be contemplated as of the date of this Annual Information Form.

AUDITORS' CONSENT
SPROTT SMALL CAP EQUITY FUND

We have read the simplified prospectus and annual information form of the Sprott Small Cap Equity Fund (the "Fund") dated August 18, 2008, relating to the issue and sale of Series A, F and I units of the Fund. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use, through incorporation by reference, in the above-mentioned simplified prospectus and annual information form of our report dated February 8, 2008 to the unitholders of the Fund, on the following statements of the Fund:

- Statement of Net Assets as at December 31, 2007;
- Statement of Operations for the period from August 23, 2007 (date of public launch) to December 31, 2007;
- Statement of Changes in the Net Assets for the period from August 23, 2007 (date of public launch) to December 31, 2007; and
- Statement of Investment Portfolio as at December 31, 2007.

"Ernst & Young LLP"

Chartered Accountants
Licensed Public Accountants
Toronto, Ontario
August 18, 2008

SPROTT SMALL CAP EQUITY FUND

(the “Fund”)

CERTIFICATE OF THE FUND, THE MANAGER AND THE PROMOTER

This annual information form, together with the simplified prospectus required to be sent or delivered to a purchaser during the currency of this annual information form and the documents incorporated by reference into the simplified prospectus, constitute full, true and plain disclosure of all material facts relating to the securities offered by the simplified prospectus, as required by the securities legislation of each of the provinces and territories of Canada and do not contain any misrepresentations.

(Signed) “Eric S. Sprott”

(Signed) “Iryna Gordiyenko”

Eric S. Sprott
Chief Executive Officer
Sprott Asset Management Inc.

Iryna Gordiyenko
Acting Chief Financial Officer
Sprott Asset Management Inc.

**ON BEHALF OF THE BOARD OF DIRECTORS OF
SPROTT ASSET MANAGEMENT INC. AS THE MANAGER
AND THE PROMOTER OF THE FUND**

(Signed) “Jean François Benoit Joseph Tardif”

(Signed) “Kirstin McTaggart”

Jean François Benoit Joseph Tardif
Director

Kirstin McTaggart
Director

DATED: August 18, 2008

SPROTT SMALL CAP EQUITY FUND

Manager

Sprott Asset Management Inc.

Royal Bank Plaza

South Tower, Suite 2700

P. O. Box 27

Toronto, Ontario

M5J 2J1

Tel: (416) 943-6707

Fax: (416) 943-6497

Additional information about the Fund is available in the Fund's management reports of fund performance and financial statements. You may obtain a copy of these documents, at no cost by calling toll free: 1-866 299-9906 from your dealer, or by e-mail at: invest@sprott.com. These documents and other information about the Fund, such as information circulars and material contracts are also available on the Sprott Asset Management Inc. internet site at: www.sprott.com or at www.sedar.com.

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