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### Comment

The Sprott Small Cap Equity Fund (the "Fund") was launched on August 23rd, 2007 with a net asset value of \$10.00 per unit. The timing of this Fund's launch turned out to be opportune, as Canadian small cap stocks, in general, performed very poorly in the first three weeks of August. This period of significant weakness removed much of the overvaluation that may have been prevalent in the Canadian small cap universe at its peak levels that were reached in July.

The strategy of the Fund is to invest primarily in small capitalization Canadian listed companies. The portfolio will be broadly diversified across numerous sectors and industries, with a relatively concentrated number of holdings (approximately 50) to leverage our best ideas. Our bottom-up analysis involves meetings with an extensive number of management teams. From the large investable universe, we aim to be very selective and raise the bar in terms of quality. We prefer well-managed companies with strong earnings growth, modest valuations and low debt. Our investment style is a combination of growth and value, which, combined with good investment judgement, has led to superior returns over the long-term. In addition, the investment team at Sprott Asset Management has proven expertise over many years in adding significant value for clients in Canadian small cap stocks.

The Fund's assets at the launch date were approximately \$25 million. By September quarter-end, the Fund's net asset value had increased to \$10.83 per unit and the assets had reached approximately \$75 million. At quarter-end, 67% of the Fund's assets were invested in 29 different securities (all long positions), while 33% was invested in cash and short-term investments. We have invested in securities in a disciplined and judicious manner, and we anticipate adding to the number of holdings and significantly reducing the cash and equivalent weighting in the near-term.

After the sharp stock declines in August, there were many attractive investment opportunities in the small cap universe. Currently, the Fund has a lot of flexibility due to its relatively small asset size, and that provides additional opportunities to enhance returns to unit holders through superior stock selection. Not only can we invest very selectively in relatively small market capitalization companies when we find great value there, but we can also take meaningful positions in such stocks. The Fund also has a core of better-known companies that have been proven out-performers over many years.

Since the Fund's launch, a number of companies held in the Fund have done well. The best performing holdings (relative to our average purchase price) include Timminco Limited (up 146%), Tranzeo Wireless Technologies, Inc. (up 48%), Dundee Corp. (+ 27%), Hanwei Energy (+25%), Thompson Creek (+23%), Dynasty Metals (+22%) and Petrobank Energy Services Corp. (+21%). Timminco's stock increased substantially after it signed another large contract, while Dundee's stock benefitted from the unsolicited bid for its subsidiary, Dundee Wealth Inc., by CI Financial Income Fund. On the negative side, Mosaid Technologies Inc. (down 11% on our cost) was the Fund's worst performer.

We believe that our high quality portfolio offers good value to investors, and are confident that our superior stock selection capabilities will enhance our Fund's medium and longer-term returns.

**Allan Jacobs, CA (S.A.)**  
**Director of Small Cap Investments**

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