

Sprott Small Cap Equity Fund

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Performance

In accordance with NI 81-102, we will not publish returns for this fund until it is one-year old.

Comment

The Sprott Small Cap Equity Fund (the "Fund") was launched on August 23rd, 2007 at a NAVPU (Series A) of \$10.00. The Fund's NAVPU was \$10.85 as of December 31st, 2007 and \$10.28 as of March 31st, 2008. Since the Fund's inception, the S&P/TSX Small Cap Total Return Index has returned -4.85%, while it generated a return of -4.05% in the first quarter of this year.

As a reminder, the strategy of the Fund is to invest primarily in small capitalization Canadian listed companies. The portfolio is broadly diversified across numerous sectors, with a relatively concentrated number of holdings (currently 55) to leverage our best ideas. From the large investable universe, we aim to be very selective and raise the quality bar. Our bottom-up analysis involves meeting with an extensive number of management teams. 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. Our investment team has proven expertise over many years in adding significant value for clients in Canadian small cap stocks.

The first quarter was a difficult and volatile one for most stocks, influenced by choppy earnings for many companies and a rising risk premium for equities associated with the credit crisis. Many stocks fell by double digits in the first three weeks of January. While most of these losses were recovered by the end of February, March was another challenging month.

The Fund's best performing stocks this quarter included Bankers Petroleum Ltd. (up 93% due to increasing recognition of its excellent value), Norsemont Mining Inc. (up 43%), Vero Energy Inc. (up 32%), and new purchases Grande Cache Coal Corp. and Duvernay Oil Corp. (both up approximately 50% on our cost). Grande Cache benefitted from a massive increase in the coal price, while Duvernay Oil benefitted from rising production volumes and higher gas prices. In a difficult quarter for most stocks, several holdings fell significantly. The worst performers included Migao Corp. (down 39%), Absolute Software Corp. (down 31%), Dundee Corp. (down 30%), and CCL Industries Inc. (down 22%).

Several new holdings were added this quarter, as we identified some attractive buying opportunities, and the Fund's cash weighting declined from 23% of assets on December 31st, 2007 to 10% at March 31st, 2008. Besides Duvernay Oil, two other new gas producers purchased that are also experiencing significant production growth were Fairborne Energy Ltd. and Orleans Energy Ltd. The energy weighting of the portfolio also increased in the quarter due to purchases of Sterling Resources Ltd., an international oil & gas exploration company, and the aforementioned Grand Cache. The materials weighting increased during the quarter due in part to purchases of ATW Venture Corp. and HudBay

Minerals Inc. Meanwhile, the most significant new holding in the Fund is Cal-Maine Foods Inc., the largest egg producer in the United States. This stock is valued at a very low P/E multiple after reporting huge earnings growth in recent quarters thanks to a substantial increase in egg prices. Peerless Energy Inc. was the most significant outright sale, while several other holdings were trimmed.

Given the ongoing challenges facing stocks and their earnings expectations, we will continue to be highly selective. Nonetheless, the negative sentiment towards many smaller companies has resulted in attractive valuations for many stocks. Our Fund's relatively small size gives us a lot of flexibility and provides many opportunities to enhance returns through superior stock selection. We believe that our high quality portfolio offers good value to investors, and remain confident that our superior stock selection capabilities will enhance our Fund's returns over the medium and longer term.

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

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