

**THE SPROTT FOUNDATION**  
**FINANCIAL STATEMENTS**  
**AS AT**  
**DECEMBER 31, 2010**

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GLENN • GRAYDON • WRIGHT LLP

CHARTERED ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

To the Directors  
**The Sprott Foundation**  
 Toronto, Ontario

### Report on the Financial Statements

We have audited the accompanying financial statements of The Sprott Foundation, which comprise the balance sheet as at December 31, 2010, and the statements of operations, surplus and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

#### *Basis for Qualified Opinion*

The Sprott Foundation has a controlling interest in a unit trust and an investment in precious metal bullion and accounts for the investments on a cost basis. Under Canadian generally accepted accounting principles, the unit trust must be consolidated with the reporting enterprise and the investment in precious metal bullion must be recorded at fair market value. Had consolidated financial statements been prepared and the investment in precious metal bullion been reported at fair market value, virtually every account in, and the information provided by way of notes to, the accompanying financial statements would have been materially different.

#### *Qualified Opinion*

In our opinion, except for the effect of the matters in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of The Sprott Foundation as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

**GLENN GRAYDON WRIGHT LLP**

Chartered Accountants  
 Licensed Public Accountants  
 Oakville, Ontario  
 March 14, 2011

**THE SPROTT FOUNDATION**

Balance sheet

As at December 31, 2010

|  | 2010           | 2009       |
|--|----------------|------------|
| <b>Assets</b>                            |                |            |
| <b>Current assets</b>                    |                |            |
| Cash                                     | \$ 547,895     | 154,286    |
| <b>Long-term assets</b>                  |                |            |
| Investments (Notes 2(d), 4)              | 100,755,857    | 76,585,809 |
|  | \$ 101,303,752 | 76,740,095 |
| <b>Liabilities and surplus</b>           |                |            |
| <b>Current liabilities</b>               |                |            |
| Accounts payable and accrued liabilities | \$ 56,166      | 29,496     |
| <b>Surplus</b>                           | 101,247,586    | 76,710,599 |
|  | \$ 101,303,752 | 76,740,095 |

Approved by the Board

**THE SPROTT FOUNDATION****Statement of operations****For the year ended December 31, 2010**

|  | 2010           | 2009        |
|--|----------------|-------------|
| <b>Revenue</b>   |                |             |
| Gain on sale of investments                                    | \$ 30,506,082  | 5,266,597   |
| <b>Expenses</b>  |                |             |
| Donations  | 5,714,409      | 6,831,800   |
| Foreign exchange loss  | 4,737          |             |
| General and administrative                                     | 91,245         | 104,144     |
| Safekeeping fees   | 78,223         | 138,692     |
| Salaries and benefits  | 80,481         | 123,143     |
|  | 5,969,095      | 7,197,779   |
| <b>Excess of revenue over expenses (expenses over revenue)</b> | 24,536,987     | (1,931,182) |
| <b>Surplus, beginning of year</b>                              | 76,710,599     | 78,641,781  |
| <b>Surplus, end of year</b>                                    | \$ 101,247,586 | 76,710,599  |

## THE SPROTT FOUNDATION

### Statement of cash flows

For the year ended December 31, 2010

|   | 2010               | 2009               |
|---|--------------------|--------------------|
| <b>Cash flows from (used in) operating activities</b>   |                    |                    |
| Excess of revenue over expenses (expenses over revenue) | \$ 24,536,987      | (1,931,182)        |
| Adjustment for  |                    |                    |
| Gain on sale of investments                             | (30,506,082)       | (5,266,597)        |
|   | (5,969,095)        | (7,197,779)        |
| Changes in non-cash working capital                     |                    |                    |
| Increase in accounts payable and accrued liabilities    | 26,670             | 8,543              |
| <b>Cash flows used in operating activities</b>          | <b>(5,942,425)</b> | <b>(7,189,236)</b> |
| <b>Cash flows from (used in) investing activities</b>   |                    |                    |
| Purchase of investments                                 | (71,115,260)       |                    |
| Proceeds from sale of investments                       | 77,451,294         | 6,963,500          |
| <b>Cash flows from investing activities</b>             | <b>6,336,034</b>   | <b>6,963,500</b>   |
| <b>Net increase (decrease) in cash during year</b>      | <b>393,609</b>     | <b>(225,736)</b>   |
| <b>Cash and cash equivalents, beginning of year</b>     | <b>154,286</b>     | <b>380,022</b>     |
| <b>Cash and cash equivalents, end of year</b>           | <b>\$ 547,895</b>  | <b>154,286</b>     |

# THE SPROTT FOUNDATION

## Notes to financial statements

As at December 31, 2010

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### 1. Purpose of The Foundation

The Sprott Foundation ("The Foundation") was incorporated without share capital under the Canada Business Corporations Act and registered as a registered charity under the Canadian Income Tax Act on December 19, 1988.

The Foundation is dedicated to addressing urgent human need, homelessness and hunger in Canada and worldwide. It is a leader in providing funding to non-profit ventures which deal with the challenges of global hunger and homelessness.

### 2. Significant accounting policies

#### a) Management estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management 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. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

#### b) Future accounting policy changes

The accounting framework under which financial statements are prepared in Canada for all not-for-profit organizations is scheduled to change by January 1, 2011 and The Foundation plans to adopt the new Accounting Standards for Not-for-Profit Organizations ("Accounting Standards for NPO's"). Generally accepted accounting principles ("GAAP") in Canada will cease to apply and will be replaced by Accounting Standards for NPO's. Commencing in fiscal 2010, The Foundation will need to prepare accounts in accordance with Canadian GAAP and Accounting Standards for NPO's in order to have comparative financial statements on full implementation of Accounting Standards for NPO's in 2011.

#### c) Basis of accounting

The Foundation follows the deferral method of accounting for contributions.

#### d) Investments

The Foundation's investments in unit trusts and precious metal bullion are recorded at cost.

#### e) Revenue recognition

Donations (capital contributions) are recorded as revenue when received and when the legal transfer of assets has taken place.

Gains and losses on sale of investments are recorded when settlement of the trade has occurred.

## THE SPROTT FOUNDATION

### Notes to financial statements

As at December 31, 2010

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#### 2. Significant accounting policies - continued

##### f) Foreign currency translation

Foreign currency income and expense accounts are translated into Canadian dollars using the exchange rate in effect on the transaction date. Non-monetary assets and liabilities are translated at historical rates of exchange. Gains or losses arising from foreign currency translation are included in the determination of income.

##### g) Income taxes

The Foundation qualifies as exempt from tax under Section 149 of the Canadian Income Tax Act and as such does not have to pay income taxes.

##### h) Donated materials and services

The value of donated materials and services are not reflected in these financial statements.

#### 3. Financial instruments

##### a) Fair value

The carrying values of cash and accounts payable and accrued liabilities approximate their fair value due to the short-term maturities of those instruments. Fair value estimates are made at the balance sheet date based on relevant market information about the financial instruments. Unless otherwise noted, it is management's opinion that The Foundation is not exposed to significant interest, currency or credit risks arising from the financial instruments.

##### b) Currency risk

Foreign exchange risk is the risk that a variation in exchange rates between the Canadian dollar and foreign currencies will affect The Foundation's operating and financial results. A portion of The Foundation's investments are denominated in foreign currencies.

#### 4. Investments

Investments consist of:

|  | 2010                  | 2009               |
|--|-----------------------|--------------------|
| 969,568 units of Sprott Charitable Foundation Unit Trust, at cost (2009 – 997,651 units) | \$ 13,731,415         | 14,129,143         |
| 1,184,205 ounces of silver, at cost (2009 – 4,648,983 ounces of silver)                  | 15,909,181            | 62,456,666         |
| 2,000,000 units of Sprott Physical Gold Unit Trust, at cost                              | 20,350,000            |                    |
| 4,982,115 units of Sprott Physical Silver Unit Trust, at cost                            | 50,765,261            |                    |
|  | <u>\$ 100,755,857</u> | <u>76,585,809</u>  |
| Fair market value  | <u>\$ 214,755,335</u> | <u>143,088,920</u> |



## THE SPROTT FOUNDATION

Notes to financial statements

As at December 31, 2010

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### 5. Capital contributions

Capital contributions received by The Foundation since its inception total \$82,456,666.

### 6. Related party transactions

The Foundation, Sprott Asset Management and all Sprott Unit Trusts are related by virtue of common influence.

During the year, The Foundation entered into the following transactions with related parties. Transactions related to purchases and sales of investments are measured at fair market value. Transactions related to safekeeping fees are measured at the exchange amount agreed to by each party.

- a) Investments in various Sprott Unit Trusts were sold for proceeds of \$1,870,000.
- b) Investments in various Sprott Unit Trusts were purchased for cash aggregating \$71,115,261.
- c) Safekeeping fees were paid to Sprott Asset Management in the amount of \$78,223.