



insight access expertise

We assess global economic trends in the natural resource sector and apply insight to determine when and where to allocate capital. We then seek specific investments that will benefit the most from these favourable trends. Our unparalleled business relationships and contacts provide us with access to opportunities and strategic contacts. We know how to assemble management teams with the right expertise to see projects through to success.

PBS Coals

PBS Coals is an example of how our business model works to benefit shareholders. **Insight** identified a potential opportunity for growth. **Access** enabled a transaction with the institutional investment community and industry leaders. **Expertise** ensured the closing of the transaction in a turbulent market. The result was proceeds of \$240 million on a \$55 million investment.

access

We were presented with the opportunity to invest in PBS Coals. After meeting with management in Pennsylvania and conducting due diligence, we invested \$55 million in two stages over a five-month period to acquire a 37% interest. Our investments provided PBS Coals operating subsidiaries, with the capital needed to expand production. Fortified with our support, PBS Coals was able to attract additional investment totaling \$95 million from other institutional investors.

insight

We understood the underlying long-term fundamental value proposition of coal and that the existing supply and demand fundamentals would eventually support higher future prices. We sought a low-cost coal producer that would survive the period of low coal prices and therefore benefit from higher future prices.

\$55MM
investment



expertise

Subsequent to our initial investment, the price of coal rose dramatically. We leveraged our contacts to help facilitate a reverse take over and concurrent secondary offering by PBS Coals and the eventual sale of PBS Coals to OAO Severstal, one of Russia's largest steel companies.

\$240MM
total proceeds

Stonegate Agricom

The supply of quality, phosphate rock for export is largely concentrated in North Africa. A large scale, low-cost producing phosphate mine outside that area would be of great long-term value.

We saw an opportunity in Peru with the Mantaro Phosphate Deposit. After purchasing the rights to the deposit, we attracted a highly experienced team with proven success in the mining sector to provide working capital and develop the deposit.

Plans are in place for 2009 to conduct additional exploration on the property in order to increase the size and confidence of the existing inferred mineral resource.

\$9MM Total Investment

Waseca

While oil prices have corrected sharply, our long-term outlook for oil remains the same: increasing long-term demand and diminishing low-cost supply.

We invested in Waseca, a newly created private heavy oil company operating on the border of Saskatchewan and Alberta. Waseca's principals have on average 33 years of technical experience and a well-documented history of growing production in the region. By investing in a start-up rather than a proven producer, we avoided the correction in oil and gas equities.

With its strong cash position and an experienced team, Waseca is well positioned to take advantage of the correction in the oil and gas sector and the change in supply/demand fundamentals.

\$27MM Total Investment

Gold and Silver Bullion

In the fourth quarter of 2008, we took significant positions in both gold and silver bullion, investing a total of \$62 million to purchase 40,475 ounces of gold and 1,783,013 ounces of silver. This purchase is part of our strategy of protecting capital and preserving wealth.

Governments are taking on unprecedented levels of debt in an attempt to reinvigorate growth. We believe that these policies will result in increased investor interest in gold and silver, as investors elect to hoard real assets instead of holding fiat currencies.

\$62MM Total Investment

what's
next?

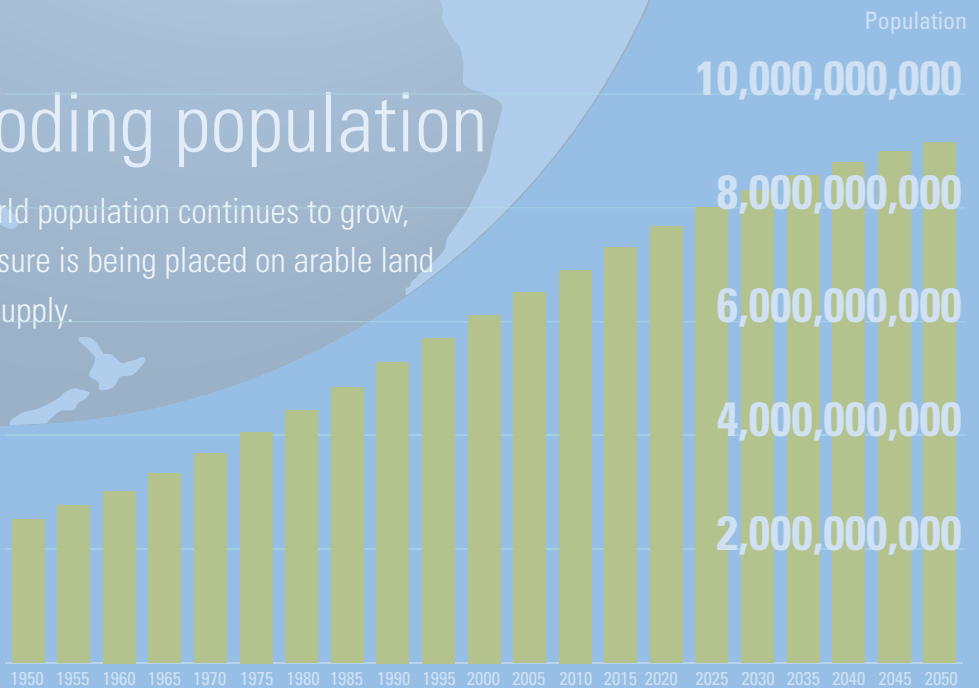
We see our next opportunity in agriculture.

We are creating a unique company that could revolutionize the farming business in Canada and set a new standard for business relations between the private sector and the First Nations. We have assembled a diverse, experienced team to build this new company into an industry leader.

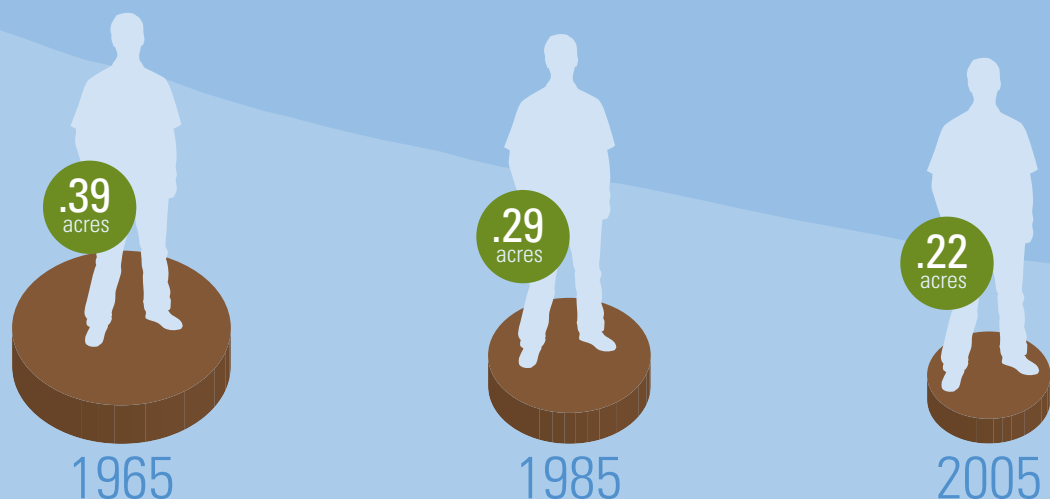
insight

Exploding population

As the world population continues to grow, great pressure is being placed on arable land and food supply.



Globally, the amount of arable land per person is in decline. From 1965 to 2005, arable land per person decreased by 44%.



access

First Nations Farmland

1,000,000 acres

This represents unprecedented scale, especially when one considers that a large farm today is 25,000 acres.

Labour Pool

350,000

First Nations population in Alberta and Saskatchewan to draw upon to farm the land.

Capital

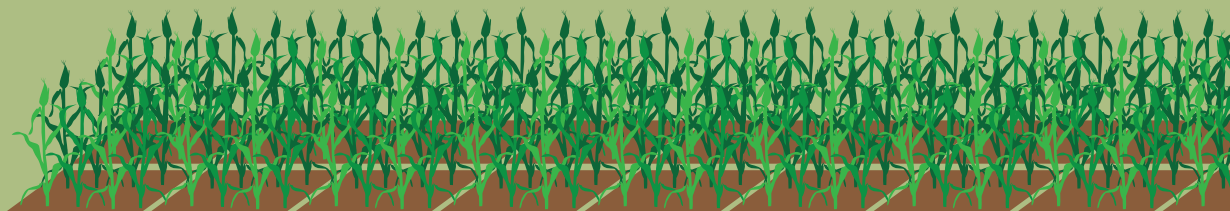
\$27.5 MM

Initial investment by Sprott Resource Corp. to fund One Earth Farms' rollout.

Is a million acres big?



25,000 acres



expertise

Larry Ruud, President and CEO of One Earth Farms

Mr. Ruud brings over 15 years experience as an active management consultant for farmers in areas such as commodity price management, capital investment decisions, process improvement, management and ownership transition and in developing farming agreements. In 2000, Mr. Ruud merged his company into and became a partner at Meyers Norris Penny, where he has led the firm's Alberta Agriculture Consulting Team. Mr. Ruud is a director of Viterra Inc., which is the largest grain company in Canada, and a member of its Audit Committee.

Blaine Favel, Chairman of One Earth Farms GP Corp.

Mr. Favel brings over 18 years of experience in First Nations business development as an advisor, entrepreneur and Chief. Mr. Favel is a former Grand Chief of the Federation of Saskatchewan Indian Nations where he pioneered two national firsts; the establishment of the First Nations Bank of Canada and the Saskatchewan Indian Gaming Authority. Mr. Favel holds an LLB from Queens University and an MBA from Harvard Business School.

ONE  EARTH
farms corp.



1 million acres

opportunity

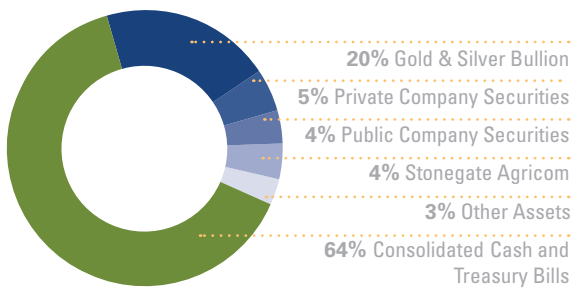
An aerial photograph of a vast agricultural landscape. The foreground shows a field with distinct rows of green crops, likely corn, planted in a grid pattern. The middle ground features a mix of green and brown fields, suggesting different stages of crop growth or different types of land. In the background, a range of rolling hills or mountains is visible under a clear sky. The overall scene conveys a sense of large-scale farming and land management.

Consolidate some of the world's most fertile land with all the agriculture infrastructure and culture already in place.

Our goal is to become one of the world's largest farms. We believe that this unprecedented scale will improve performance. We also hope to be model stewards of the land and set a new standard for private sector business relations with the First Nations.

Financial Highlights

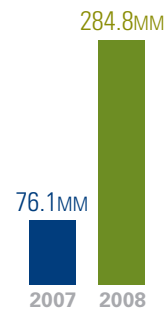
Year-end Asset Breakdown



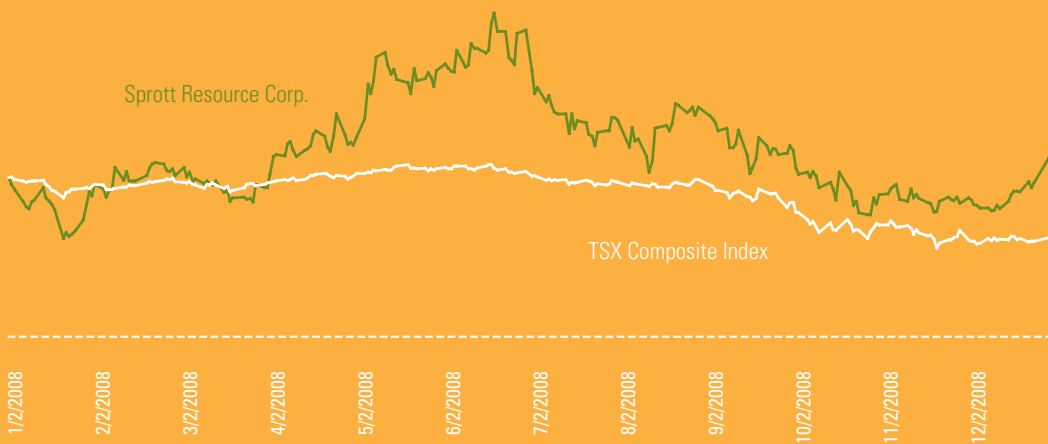
Net Earnings



Net Assets



2008 Performance



Dear Shareholders,

Last year will go down in financial history as incredibly turbulent and difficult for investors. Despite this difficult environment, management, in its first full year with the company, was able to generate exceptional earnings for shareholders. For the fiscal year ended December 31, 2008, we reported net earnings of \$134.2 million, or \$1.94 per share. That compares to net earnings of \$2.0 million or \$0.09 per share in the previous year. We believe that this early record of success lends credence to our strategy and our ability to generate exceptional long-term shareholder returns.

Our investment in PBS Coals and the sale of our stake is an example of our investment strategy generating strong returns. In December 2007, we entered into this investment based on an optimistic outlook for the price of metallurgical coal, rooted in our own independent analysis. Subsequently, a series of global supply problems coupled with strong ongoing demand resulted in a significant price increase for the commodity. Less than one year later, we were able to monetize this investment for an exceptional gain.

More recently we announced a significant investment in gold and silver bullion, purchasing 40,475 ounces of gold at a cost of C\$968 per ounce and 1,783,013 ounces of silver at a cost of C\$12.75 per ounce. This purchase is borne out of concerns for fiat currencies.

Governments are increasing public debt to unprecedented levels as part of a two-pronged strategy to reinvigorate growth. They are absorbing the losses of insolvent financial institutions burdened by toxic assets, while at the same time committing to massive stimulus spending on infrastructure projects. Both initiatives will increase public debt at the very time tax revenues are expected to drop.

At the same time, current yields on short-term government debt are approaching zero. It is our belief that this situation is untenable and that eventually global creditors will flock to safe haven hard assets like gold and silver. Already, our strategy is working as increased investment demand for gold and silver is driving prices higher.

For the year ended December 31, 2008, we reported net earnings of \$134.2 million, or \$1.94 per share. That compares to net earnings of \$2.0 million or \$0.09 per share in the previous year.

We ended fiscal year 2008 with cash, cash equivalents, and government treasury bills of \$203.5 million. While certainly tumultuous, we believe the current credit crisis will create exceptional investment opportunities in the natural resource sector on which we are extremely well-positioned to capitalize.

We will also be focusing on building One Earth Farms, a new farming venture that we recently announced. We have invested \$27.5 million in One Earth Farms to establish operations, fund working capital and support its initial growth. Working in partnership with the First Nations, we see an opportunity to improve the management of First Nations' farm land in a way that will generate improved returns.

In closing, we believe our central investment thesis of finding fundamentally strong yet undervalued resource initiatives will continue to be accretive to shareholders in the coming year. Again, our early success over the past 12 months illustrates that we have the capabilities to deliver growth to our shareholders. I look forward to reporting on our progress to you.

A handwritten signature in blue ink, appearing to read "Kevin Bambrugh".

Kevin Bambrugh
Chief Executive Officer, President, Director

Management's Discussion and Analysis of Financial Position and Results of Operations

("MD&A")

The following information, prepared as of March 2, 2009, should be read in conjunction with the audited consolidated financial statements of Sprott Resource Corp. (the "Company") for the year ended December 31, 2008, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are expressed in Canadian dollars unless otherwise indicated.

Forward-Looking Statements

Forward-looking statements look into the future and provide an opinion as to the effect of certain events and trends on the business. Forward-looking statements may include words such as "plans", "intends", "anticipates", "should", "estimates", "expects", "believes", "indicates", "suggests" and similar expressions.

This MD&A and, in particular, the "Outlook" section, contains forward-looking statements. These forward-looking statements are based on current expectations and various estimates, factors and assumptions and involve known and unknown risks, uncertainties and other factors.

It is important to note that:

- Unless otherwise indicated, forward-looking statements in this MD&A describe the Company's expectations as of March 2, 2009;
- Readers are cautioned not to place undue reliance on these statements as the Company's actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements if known or unknown risks, uncertainties or other factors affect the Company's business, or if the Company's estimates or assumptions prove inaccurate. Therefore, the Company cannot provide any assurance that forward-looking statements will materialize; and
- Subject to applicable laws, the Company assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or any other reason.

The material assumptions that were applied in making the forward-looking statements in this MD&A include: execution of the Company's existing plans for each of its projects, which may change due to changes in the views of the Company or if new information arises which makes it prudent to change such plans; and execution of the Company's plans to seek out additional investments and business opportunities in the natural resource sector, which are dependent on global economic conditions and upon the prices of commodities and natural resources in which it invests.

For a description of material factors that could cause the Company's actual results to differ materially from the forward-looking statements in this MD&A, please see "Risks and Uncertainties".

Overall Performance

- For the year ended December 31, 2008, the Company reported net earnings of \$134,227,066 (\$1.94 per basic share) as compared to net earnings of \$2,010,349 (\$0.09 per basic share) for the year ended December 31, 2007.
- Net assets increased to \$284,756,290 for the year ended December 31, 2008, an increase from \$76,144,749 for the year ended December 31, 2007.
- Outstanding common shares increased to 81,807,229 for the year ended December 31, 2008, from 50,627,950 for the year ended December 31, 2007.

Significant Events in 2008

The following significant events occurred in 2008, which affected the Company's consolidated results for 2008:

PBS Coals Limited

In 2008, the Company sold 44,194,938 shares of PBS Coals Limited ("PBS") for net proceeds of \$240,685,467. The Company acquired its PBS shares for \$55,016,202. The PBS shares were sold in two tranches. The first tranche of 17,050,000 shares was sold on September 24, 2008, as part of a secondary offering completed by PBS. The Company received net proceeds after commissions of \$99,861,367 from this first sale. The second tranche of 27,144,938 shares were sold to an affiliate of OAO Severstal ("Severstal") as part of a takeover bid (the "Takeover Bid") for PBS completed by Severstal on November 6, 2008. The Company received net proceeds of \$140,824,099 from the sale of this second tranche. The proceeds from the second sale included a deduction of \$84,478,886 as a result of the terms of a supplemental agreement negotiated between the Company, other major PBS shareholders and Severstal, which reduced the net proceeds for the Company from the Takeover Bid from \$225,302,985 to \$140,824,099.

Mantaro Phosphate Project

The Company, through a wholly-owned subsidiary ("Holdco"), purchased the mineral claims relating to the Mantaro Phosphate Project in Peru, which the Company previously had an option to acquire. The consideration paid by the Company was US\$1,500,000 and 1,771,309 common shares of the Company. The vendors also retained a 2% gross overriding royalty on the property and the right to conditional payments of up to US\$4,000,000 upon the completion of certain project milestones.

In August, 2008, Holdco amalgamated with Stonegate Minerals Ltd., a privately held Ontario company. The amalgamated entity was renamed Stonegate Agricom Ltd. ("Stonegate Agricom"). As a result of the amalgamation and the subsequent private placement completed by Stonegate Agricom, the Company recorded a \$3,594,634 dilution gain for 2008 in respect of the Company's investment in Stonegate Agricom.

The Company owns 60,000,000 common shares (or 78.95%) of Stonegate Agricom. Other investors own 15,999,992 common shares and have 13,999,976 share purchase warrants exercisable at \$0.75 per common share until August 18, 2010.

Warrant Incentive Program

The Company completed a warrant incentive program (the "Warrant Incentive Program") in 2008, which resulted in the early exercise of 33,188,568 warrants exercisable at \$2.50, which were issued as part of the private placement completed in September 2007 (each an "Old Warrant"). The Company raised \$82,971,420 from the Old Warrants exercised as part of the Warrant Incentive Program. Each holder of an Old Warrant who exercised as part of the Warrant Incentive Program received one-half of one new common share purchase warrant (each a "New Warrant"). Each New Warrant is exercisable for one common share of the Company at a price of \$4.25 until December 31, 2010, subject to the Company's ability to accelerate the expiry of the New Warrants if the trading price of the Company's common shares is equal to or greater than \$6.00 for twenty (20) consecutive trading days. A total of 16,594,284 New Warrants were issued as part of the Warrant Incentive Program.

Normal Course Issuer Bid

During 2008, the Company repurchased and cancelled 8,000,000 common shares under a normal course issuer bid at an average cost of \$2.46 for a total cost of \$19,684,854. The Company believes that it is in the best interest of its shareholders to repurchase for cancellation its common shares when they are trading at prices that reflect a significant discount from their value as perceived by the Company.

Waseca Energy Ltd.

On October 1, 2008, the Company subscribed for 45,289,000 common shares of Waseca Energy Inc. ("Waseca") at a price of \$0.60 per common share, for a total cost of \$27,173,400, which immediately following the completion of the subscription represented a 79.72% ownership interest. The Company's ownership interest has been reduced to 79.24% due to additional share issuances completed by Waseca. Waseca is a private start-up company engaged in the exploration and production of heavy oil in the Lloydminster area on the border of central Saskatchewan and Alberta.

Purchase of Gold and Silver Bullion

The Company acquired 40,475 ounces of gold bullion for a cost of \$39,196,942 (or \$968 per ounce of gold). The Company also acquired 1,783,013 ounces of silver bullion for a cost of \$22,733,471 (or \$12.75 per ounce of silver). The Company continues to hold this gold and silver

bullion. As at December 31, 2008, the Company's gold and silver bullion had a market value of \$68,042,918, an increase of \$6,112,505 over the cost for such gold and silver bullion. The Company's gold and silver bullion is held for safekeeping at the Bank of Nova Scotia's vault located in Toronto.

Selected Annual Information

The table below provides selected financial information for the Company on a consolidated basis for each of the past three years ended December 31, 2008.

	2008	2007	2006
Total Revenues	\$ 44,085	\$ nil	\$ nil
Net Income (Loss)	\$ 134,227,066	\$ 2,010,349	\$ (644,704)
Net Income (Loss) per share (basic)	\$ 1.94	\$ 0.09	\$ (0.07)
Net Income (Loss) per share (fully diluted)	\$ 1.93	\$ 0.09	\$ (0.08)
Total Assets	\$ 314,285,599	\$ 76,785,530	\$ 10,895,788
Long-term Financial Liabilities	\$ nil	\$ nil	\$ nil
Dividends Declared	\$ nil	\$ nil	\$ nil

The net earnings for the year ended December 31, 2008 were \$134,227,066. The majority of income was derived from the Company's investment in PBS, including a \$166,785,257 gain on the sale of its PBS shares, a dilution gain of \$7,801,465 and equity earnings of \$11,163,543. Significant expense items for the year ended December 31, 2008 included management fees of \$3,887,881 and incentive fees of \$35,697,916 paid or payable to Sprott Consulting Limited Partnership ("SCLP") (or its predecessor Sprott Consulting Ltd. ("SCL")) pursuant to the management services agreement (the "MSA") between the Company and SCLP (please see "Transactions with Related Parties" for additional details on the MSA) and accrued income tax payable of \$16,328,246. Total assets for the year ended December 31, 2008 increased from the prior year due largely to the gains associated with the Company's investment in PBS as well as the capital raised from the Warrant Incentive Program.

The net earnings for the year ended December 31, 2007 included a \$2,250,500 dilution gain on the Company's investments in South American Silver Corp. ("SASC") and High Desert Gold Corporation ("HDG"). The increase in total assets in 2007 is the result of the \$60,000,000 private placement financing completed in the year. The net loss for the year ended December 31, 2006 was reduced by a gain of \$1,057,012 recognized on the disposal of certain of the Company's investments.

Results of Operations

During the year ended December 31, 2008, the Company reported net earnings of \$134,227,066 (\$1.94 earnings per basic share), compared to net earnings of \$2,010,349 (\$0.09 earnings per basic share) in the year ended December 31, 2007.

General and administrative expenses increased from \$1,952,535 in 2007 to \$43,252,693 in 2008. The increase in general and administrative expenses is attributable mainly to management fees of \$3,887,881 (2007 – \$522,013) and incentive fees of \$35,697,916 (2007 – \$nil) paid or payable to SCLP (or its predecessor SCL) pursuant to the MSA. The incentive fee is determined by calculating 20% of the net pre-tax profit for the year less the average net asset value of the Company over the year multiplied by the percentage return on the Canadian 30 year generic bond index for the year. The amount recorded for the Incentive Fee for the period is \$35,697,916 (December 31, 2007 – \$nil).

Significant expense items also include professional fees incurred in respect of accounting, legal and tax services, which increased from \$502,626 in 2007 to \$1,070,300 in 2008 due to an increase in the size, complexity and number of transactions entered into by the Company.

Expenses were offset by \$2,467,606 (2007 – \$1,106,197) in interest income earned on the Company's cash and cash equivalents and short-term investments.

During 2008, the Company wrote off the mining claims and deferred exploration expenditures attributable to the JBP Appleton-Linear property on which it had entered into an option agreement with Paragon Minerals Ltd., recognizing a non-cash write-down of \$626,583. The Company elected not to renew the option agreement. This compared to a write-down of \$422,699 in 2007 in respect of mineral properties. In addition, the Company recognized an impairment on certain of its investments, recognizing a non-cash write-down of \$2,531,825, of which all is deemed to be an other than temporary decline and was recognized in the statement of operations (2007 – \$nil).

Capital Expenditures and Investments

During 2008, the Company purchased, excluding its purchase of PBS shares and its subscription for Waseca shares, \$76,809,296 in securities, of which \$60,790,511 were public securities and \$16,018,785 were private securities. During the current period, the Company sold, excluding its sale of PBS shares, \$57,212,803 of securities for a gain of \$5,319,649.

Deferred exploration costs incurred by the Company in 2008 were \$305,307 (2007 – \$124,401). These costs were pursuant to an option agreement (“Option Agreement”) the Company entered into during the year with Altius Resources Inc. (“Altius”). Under the Option Agreement, the Company can earn up to a 50.1% interest in the mineral properties owned by Altius in Newfoundland, Canada, which are subject to the Option Agreement. The Company may exercise the option by making the following minimum aggregate expenditures on the properties: (i) by April 30, 2009, \$275,000; (ii) by April 30, 2010, \$650,000; and (iii) by April 30, 2011, \$1,500,000. The first milestone was fulfilled during the year with expenditures totaling \$305,307.

In the fourth quarter, the Company entered into a joint venture agreement with Lara Exploration Ltd. (“Lara”) pursuant to which it has agreed to seed the joint venture with US\$500,000 in the first year for a 50% interest in the joint venture. Lara will be the manager of the joint venture for at least the first year and will be searching for exploration opportunities primarily in South America.

Summary of Quarterly Results (unaudited)

Three months ended	2008				2007			
	Dec. 31	Sept. 30	June 30	March 31	Dec. 31	Sept. 30	June 30	March 31
Total Revenues	\$ 44,085	\$ nil	\$ nil	\$ nil	\$ nil	\$ nil	\$ nil	\$ nil
Net earnings (loss)	\$ 60,389,329	\$ 67,154,702	\$ 6,959,243	\$ (276,208)	\$ 1,302,769	\$ (468,332)	\$ (626,764)	\$ 1,802,676
Net earnings (loss) per share (basic)	\$ 0.72	\$ 0.76	\$ 0.13	\$ (0.01)	\$ 0.03	\$ (0.02)	\$ (0.07)	\$ 0.19
Net earnings (loss) per share (fully diluted)	\$ 0.72	\$ 0.75	\$ 0.11	\$ (0.01)	\$ 0.03	\$ (0.02)	\$ (0.07)	\$ 0.19

Net earnings for the quarter ended December 31, 2008 included \$92,424,177 in gains from the sale of 27,144,938 PBS shares. Net earnings for the quarter ended September 30, 2008 included \$74,361,080 gains from the sale of 17,050,000 PBS shares, equity earnings of \$6,083,158 in respect of the Company’s interest in PBS as well as \$7,801,645 in dilution gains from PBS. Equity earnings of \$4,988,385 in respect of the Company’s interest in PBS were included in the quarter ended June 30, 2008.

The net earnings for the quarter ended December 31, 2007 included a foreign exchange gain of \$1,243,443 resulting in part from the strengthening of the U.S. dollar over the period immediately prior to the closing of the Company’s investment in PBS. The net earnings for the quarter ended March 31, 2007 included a \$2,101,743 dilution gain on the Company’s investment in SASC.

Financing Activities

During 2008, the Company received \$90,353,084 from the exercise of 36,144,570 share purchase warrants exercisable at \$2.50 and \$1,618,270 from the exercise of 789,400 share purchase warrants exercisable at \$2.05. The Company also received \$669,700 from the exercise of 474,000 stock options.

During the comparative year, the Company received proceeds of \$60,000,000 from the issuance of 40 million units at \$1.50 per unit. The Company also received \$2,302,824 from the exercise of 1.1 million share purchase warrants exercisable at \$2.05 and 152,000 stock options.

Liquidity and Capital Resources

The Company's aggregate operating, investing and financing activities during 2008 resulted in a net cash inflow of \$11,180,601. As at December 31, 2008, the Company had cash of \$45,263,646 (2007 – \$34,083,045), Government of Canada treasury bills of \$158,282,940 (2007 – \$nil) and working capital of \$246,189,296 (2007 – \$33,638,845). The Company has no debt. Cash on hand is adequate to allow the Company to meet its obligations and to fund planned expenditures for at least the next year.

On September 5, 2007, the Company entered into the MSA with SCL, a then wholly-owned subsidiary of Sprott Asset Management Inc. ("SAM") with an initial term of three years. The MSA was approved by shareholders of the Company at a special meeting of shareholders held on August 31, 2007. Pursuant to the terms of the MSA, SCL was appointed by the Company to manage, or engage others to manage, the undertaking and affairs of the Company. In consideration for providing these services, the Company agreed to pay SCL an annual services fee equal to 2% of the net asset value (as defined in the MSA) of the Company, calculated and payable at the end of each calendar quarter based on the average month-end net asset value of the Company and an annual incentive fee equal to 20% of: (a) the pre-tax profits of the Company for the year minus (b) the average month-end net asset value of the Company for the year multiplied by the percentage return of the Canadian 30-Year Generic Bond Index. On December 1, 2007, SCL assigned the MSA to SCLP, the successor to SCL, as part of an internal reorganization involving SAM and its subsidiaries.

During the year, the Company entered into a venture agreement with Lara Exploration Ltd. ("Lara") to form Lara Alliance (BVI) Ltd. ("L-S Alliance"), encompassing a three-year period. The L-S Alliance was established to acquire, explore, evaluate, develop and mine mineral resources in all countries other than Canada. The Company and Lara each have a 50% participating interest in the L-S Alliance. The Company's initial contribution to the L-S Alliance is US\$500,000 to fund the first year program and budget. Lara is deemed to have an initial contribution of US\$500,000 in consideration for acting as manager of the L-S Alliance. For each of the second and third year, the Company and Lara can elect to contribute in proportion to its respective participating interest, or not at all, in which case the participating interest will be recalculated.

Waseca has leased office space in Calgary, Alberta, for a three-year term commencing December 1, 2008. The estimated annual rent obligations are \$318,653 for each of the years 2009 and 2010, and \$292,268 for 2011. Waseca has the option to extend the lease for an additional five years under the same terms and conditions currently in place. Management estimates that this option has nil value given current market conditions.

Waseca has licensed certain geological software for a two-year term commencing September 30, 2008. The Company's estimate license cost for 2009 is \$67,953.

The following is a summary of the Company's contractual obligations including payments for each of the next five years and thereafter:

Commitments – Payments Due by Period

Contractual Obligations	Total	Less than 1 Year	1–3 years	4–5 years	After 5 years
Operating Leases	\$ 929,574	\$ 318,653	\$ 610,921	Nil	Nil
Software Licenses	\$ 135,906	\$ 67,953	\$ 67,953	Nil	Nil
Total Contractual Obligations	\$ 1,065,480	\$ 386,606	\$ 678,874	Nil	Nil

Transactions with Related Parties

The Company entered into the following transactions with related parties during the year ended December 31, 2008. Transactions with related parties are recorded at the exchange amount, being the price agreed between the parties.

During 2008, legal fees totalling \$nil (2007 – \$280,795), including \$nil (2007 – \$110,000) in share issue costs, were charged by a legal firm in which a former director was a partner.

During 2008, consulting fees totalling \$148,569, including \$51,750 relating to Waseca (2007 – \$124,308) were charged by officers of the Company. Of this amount, \$148,569 (2007 – \$82,475) was charged to loss for the year and \$nil (2007 – \$41,833) was included in deferred property costs.

Management fees of \$3,887,881 (2007 – \$522,013) were incurred, which are payable to SCLP (or its predecessor SCL), an entity with directors and management in common. Under the MSA, there is an annual incentive fee (the “Incentive Fee”) payable to SCLP based upon the excess of 20% net profit before income tax less the average net asset value of the company multiplied by the percentage return on the Canadian 30 year generic bond index. The amount recorded for the Incentive Fee for the period is \$35,697,916 (2007 – \$nil).

Included in accounts payable and accrued liabilities as at December 31, 2008 was \$3,902,632 (2007 – \$417,606) payable to directors, officers of the Company, including \$3,872,382 (2007 – \$392,406) payable to SCLP. These amounts are non-interest bearing and have no specific terms of repayment.

Included in investments as at December 31, 2008 is an investment in Tournigan Energy Ltd (“Tournigan”) at fair market value of \$3,258,731. The Company purchased 15,896,250 of Tournigan shares throughout the year from funds managed by the Chairman of the Company. The price paid for such shares was \$3,501,360 or \$0.22 per share.

Fourth Quarter

During the fourth quarter, the Company recorded net earnings of \$60,389,329 (\$0.72 per basic share). Fourth quarter earnings included \$92,424,177 in gains on the sale of 27,144,938 PBS shares and \$1,932,709 gain on the sale of other securities. Revenue for the fourth quarter was \$44,085, which was derived from Waseca’s initial oil sales.

General and administrative expenses for the fourth quarter were \$20,923,183, which included \$1,650,882 in management fees and \$17,484,989 in incentive fees payable to SCLP pursuant to the MSA. Deferred exploration expenses for the fourth quarter were \$305,307.

Recent Accounting Pronouncements

Future Accounting and Reporting Changes

The CICA issued the new Handbook Section 3064, “Goodwill and Intangible Assets”, which will replace Section 3062, “Goodwill and Other Intangible Assets”. The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008.

International Financial Reporting Standards (“IFRS”)

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. PricewaterhouseCoopers has been engaged by the Company to assist with the diagnostic review. The primary objective of the diagnostic review in the planning phase of the IFRS conversion project is to understand, identify and assess the overall effort required to produce financial information under IFRS.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interest

In January 2009, the CICA issued CICA Handbook Section 1582, Business Combinations, Section 1601, Consolidations, and Section 1602, Non-controlling Interest. These sections replace the former CICA Handbook Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary. CICA Handbook Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to IFRS 3, Business Combinations (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements.

CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27, Consolidated and Separate Financial Statements (January 2008).

CICA Handbook Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

Critical Accounting Estimates

Estimates by management represent an integral component of the consolidated financial statements prepared in conformity with Canadian GAAP. The estimates made in the consolidated financial statements reflect management's judgments based on past experiences, present conditions, and expectations of future events. Where estimates were made, the reported amounts for assets, liabilities, revenues and expenses may differ from the amounts that would otherwise be reflected if the ultimate outcome of all uncertainties and future events were known at the time the consolidated financial statement were prepared.

The Company views the following accounting estimates as critical:

Income Tax

The Company applies the asset and liability method of measuring income taxes based on temporary differences between the financial reporting and tax bases of assets and liabilities. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws that are expected to apply when the tax assets or liabilities are to be either settled or realized and are not recognized unless the more likely than not criterion is met.

The determination of the Company's income taxes and other tax liabilities involves the interpretation of complex laws and regulations and the exercise of judgment. The Company's provision for income taxes represents management's interpretation of such laws and regulations and its estimate at the time of the current and future income tax implications of transactions and events affecting the Company. However, all tax filings are subject to potential audit and reassessment. As such, actual tax expense or liability may differ from the amount estimated and recorded or the amount originally estimated and recorded may be subsequently adjusted, and the difference can be material. An adjustment to the Company's provision for income taxes could have a material impact on the Company's financial position.

For the year ended December 31, 2008, the Company has estimated income tax payable of \$16,328,246. This amount relates primarily to the capital gains associated with the disposition of the Company's PBS shares and takes into account \$2,800,984 in capital loss carry-forwards.

Oil and Gas Properties

The Company follows the successful efforts method of accounting for oil and gas activities. Costs to acquire mineral interest in oil and gas properties, to drill and equip exploratory wells that find proved reserves and to drill and equip development wells are capitalized. Costs to drill exploratory wells that do not find proved reserves are expensed in the period that the exploratory drilling proves to be unsuccessful. Geological and geophysical costs and costs of carrying and retaining unproved properties are expensed as they are incurred.

Unproved oil and gas properties are periodically assessed for impairment after considering the remaining term of the lease, drilling results, the evaluation of geological data and other information. A loss is recognized at the time of impairment by providing an impairment allowance.

Capitalized costs of producing oil and gas properties, after considering estimated salvage values, are depreciated and depleted over proved develop reserves using the unit of production method while acquired resource properties with proved reserves are depleted over proved reserves using the unit of production method. Acquisition costs of probable reserves are not depleted or amortized while under active evaluation for commercial reserves. Costs are transferred to depletable costs as proved reserves are recognized. The oil and gas reserves have been estimated by independent petroleum engineers as of December 31, 2008.

Undeveloped land without proved reserves associated with the property is not subject to depletion. Undeveloped land is reviewed for impairment annually using third party quoted market values.

Expenditures for maintenance, repairs and minor renewals necessary to maintain properties in operating condition are expensed as incurred. Costs associated with major replacement and renewals are capitalized when the service potential of the reserves have been enhanced.

For the year ended December 31, 2008, the Company had oil and gas properties with a book value of \$5,147,440, reflected on the balance sheet under oil and gas properties and equipment. Impairment testing was performed on a property by property basis with no write down required.

Mining Claims and Deferred Exploration

Mining claims and deferred exploration expenditures include direct and indirect acquisition and exploration costs associated with specific mineral exploration properties. Depletion of these amounts will be recognized using the unit of production basis at such time as commercial production commences or is charged against operations in the event a property is sold. Capitalized costs relating to abandoned properties will be charged against operations in the period of abandonment. Mineral property option proceeds, if received, are credited against the deferred costs incurred by the Company on the property or properties being optioned.

The Company reviews capitalized costs on its mineral properties and will recognize an impairment in the value based upon current exploration or production results, if any, and upon management's assessment of the future probability of profitable revenues from the property or from sale of the property. If the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is recognized and assets are written down to fair value, which is normally determined using the discounted value of future cash flows.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and regulatory requirements.

The Company had \$305,307 in mining claims and deferred exploration assets as at December 31, 2008. The Company wrote down \$626,583 in mining claims and deferred exploration relating to its option agreement with Paragon Minerals.

Stock Based Compensation

The Company has established a stock option plan for the benefit of full-time and part-time employees, officers, directors and consultants of the Company and its affiliates.

The fair value of all stock options granted by the Company is recorded as a charge to operations and a credit to contributed surplus. The fair value of stock options which vest immediately is recognized at the date of grant; the fair value of options which vest in the future is recognized over the vesting period. Any consideration received on the exercise of stock options together with the related portion of contributed surplus is credited to share capital. The fair value of stock options is estimated using the Black-Scholes pricing model.

Waseca has also established a stock option plan for the benefit of employees, officers, directors and consultants of Waseca.

Waseca has also established a performance share plan for the benefit of its employees, officers, directors and consultants of Waseca.

The fair value of performance shares is estimated using the Black-Scholes pricing model and is updated at each balance sheet reporting date. To the extent the performance condition has not yet been met, a fair value is computed and disclosed, but no provision is made in the Company's financial statements. To the extent the performance condition has been met, the fair value of all performance shares issued is recorded as a charge to operations and a credit to contributed surplus. Any consideration received on the conversion of performance shares together with the related portion of contributed surplus is credited to share capital.

The non-cash compensation expense relating to the Company's issuance of stock options was \$26,648 for the year ended December 31, 2008. In respect of Waseca's stock option plan, the Company recorded a non-cash expense of \$16,255. Both expenses were classified as office and miscellaneous expenses. No expense was recorded in respect of performance warrants granted by Waseca since the conversion conditions for the performance warrants have not been met.

Asset Retirement Obligations

The Company recognizes the fair value of an asset retirement obligation ("ARO") in the period in which it is incurred when a reasonable estimate of the fair value can be made. The fair value of the estimated ARO is recorded as a long-term liability, and equals the present value of estimated future cash flows, discounted using a risk-free interest rate adjusted for the Company's credit standing. Unwinding of the discount is reported as accretion expense and grouped with depreciation, depletion and amortization on the statements of operations and deficit.

The associated asset retirement costs are capitalized as part of the carrying value of the related assets. The capitalized amount is amortized to earnings on a basis consistent with depreciation and depletion of the underlying assets.

On a periodic basis, management will review these estimates and changes and, if any, the estimate will be applied on a prospective basis, and will result in an increase or decrease to ARO. Any difference between the actual costs incurred and the recorded liability is recorded as a gain or loss in the statements of operations in the period in which the settlement occurs.

The Company calculated the ARO related to oil and gas properties using a discount rate of 7% and an inflation rate of 2%. It is assumed that the drilled wells will be abandoned seven years from the date drilled. The future undiscounted amount of ARO is estimated at \$120,612. The Company's ARO as at December 31, 2008 was \$75,111.

Revenue Recognition

Revenue from the sale of crude oil is recognized when delivery has taken place and the significant risks and rewards of the crude oil have passed to the buyer and the amount of revenue can be reliably measured. Sales revenue does not include indirect taxes (excise, GST, and royalties) and is stated at the net amount (after discounts and pipeline losses). The Company recorded sales revenue of \$44,085 for the year ended December 31, 2008.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost of crude oil is determined using the first-in first-out method, while the cost of material and supplies inventory is determined using the weighted average method. Crude oil inventory consists primarily of oil in tanks and pipelines. The cost of crude oil inventory includes all direct costs, including depreciation, depletion and amortization.

Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment and mining claims and deferred exploration, are reviewed for impairment at each reporting period or more frequently as economic events indicate that the carrying amount of an asset may not be recoverable.

Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows an impairment charge is recognized, measured by the amount by which the carrying amount exceeds the fair value of the asset, which is normally determined using the discounted value of future cash flows.

Financial Instruments, Recognition, Measurement, Disclosure and Presentation

Under Section 3855, all financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured on the balance sheet date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets are measured at fair value, with changes in fair value recognized in net earnings (loss). Available-for-sale financial instruments are measured at fair value, with changes in fair value recorded in OCI until the instrument is derecognized or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in net earnings (loss).

Upon adoption of these standards, the Company has designated its cash and cash equivalents and short term investments as held-for trading, which are measured at fair value. Note receivable and receivables included in prepaids and other are designated as loans and receivables, which are measured at amortized cost. The Company's portfolio investments include public and privately held investments and have been designated as available for sale ("AFS") because the Company intends to hold the investments for more than one year. Unrealized holding gains and losses relating to AFS investments are excluded from net income and included in OCI until such gains or losses are realized or an other than temporary impairment is determined to have occurred. AFS securities are measured at fair value and those which do not have a readily determinable fair value (i.e. a quoted market price in an active market) are carried at historical cost. Publicly held investments including investments are reported at fair value based on quoted market prices with unrealized gains or losses reported as other comprehensive income or loss. Privately held investments are reported at cost. AFS securities are included in the Company's portfolio according to the settlement date. Accounts payable and accrued liabilities are designated as other financial liabilities, which are measured at amortized cost. The adoption of this policy in 2007 had no material impact on the opening deficit.

As at December 31, 2008, the Company had portfolio investments of \$28,564,256 which have been designated AFS because the Company intends to hold these investments for more than one year. Of its AFS securities at year-end, \$12,383,179 were public securities and \$16,181,077 were private securities. The Company recognized an impairment on certain of its private company investments, recognizing a non-cash write-down of \$2,531,825, of which all is deemed to be an other than temporary decline and was recognized in the statement of operations (2007 – \$nil).

Changes in Accounting Policies including Initial Adoption

Short-term Investments

Short-term investments are liquid Canadian dollar denominated investments in Government of Canada treasury bills with terms to maturity of greater than 90 days but not more than one year. Short-term investments are classified as held-for-trading and recorded at fair value with realized and unrealized gains and losses reported in the statement of operations.

Gold and Silver Bullion

Gold and silver bullion ("Bullion") is carried on the balance sheet at lower of cost or net realizable value. A decline in the value of Bullion, due to market conditions, will be charged to loss with subsequent increases in value reflected in the carrying value to the maximum of the original cost.

Waseca

On October 1, 2008 the Company adopted the significant accounting policies on "Oil and natural gas property", "Revenue recognition" and "Inventories" resulting from the acquisition and consolidation of Waseca, each of which is summarized above under Critical Accounting Estimates.

Off-Balance Sheet Arrangements

The Company has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations, or with respect to any obligations under a variable interest equity arrangement.

Financial Instruments

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, short-term investments, note receivable, other receivable, promissory notes receivable, investments and accounts payable and accrued liabilities. Cash equivalents consist of highly liquid investments held in the form of Government of Canada treasury bills, the investment terms of which are less than 3 months at the time of acquisition, and are all held in Canadian dollars. The Company has no asset backed commercial paper. Portfolio investments in securities of publicly-traded companies are reported at fair value. The fair values of the other instruments approximate their book value due to their short-term nature.

Currency Risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada, the United States and, through its investment in Stonegate Agricom, Peru and a portion of its expenses is incurred in U.S. dollars. The Company does not hedge its exposure to fluctuations in the exchange rate. Future changes in exchange rates could have a material effect on the Company's business, financial condition and results of operations.

Certain of the Company's financial instruments are exposed to fluctuations in the U.S. dollar. A hypothetical change of 10% to the foreign exchange rate between the U.S. dollar and the Canadian dollar applied to the average level of U.S. denominated cash and cash equivalents during the year would not result in a material impact to the Company's earnings for the year.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its commercial obligations.

The Company's cash is held primarily through large Canadian financial institutions. Short-term investments consist of Government of Canada treasury bills, which have an original maturity of 3 months or more from the date of purchase and are readily convertible into a known amount of cash.

Market Risk

Market risk is the risk that changes in market prices, such as interest rates, gold and silver bullion and equity prices, will affect the Company's operations or the value of its financial instruments. The Company will generate a portion of its revenue from the proceeds of disposition from its equity investments in natural resource companies. The values of such investments are subject to general market risks and all the risks specific to natural resource companies. If the value of these investments declines, as a result of company specific issues or market conditions generally, the Company may suffer capital losses.

The Company manages its cash according to its operational needs and to optimize revenues from interest.

Liquidity Risk

The Company manages liquidity risk by maintaining sufficient cash and cash equivalents balances to enable settlement of transactions on the due date.

The Company invests in securities of private companies. In some cases, the Company may be restricted by contract or by applicable securities laws from selling such securities for a period of time. The inability to sell such securities may impair the Company's ability to exit such investments when the Company considers it appropriate.

Interest Rate Risk

The Company is exposed to minimal interest rate risk on its short term investments with terms of maturity within one year. The interest rate on its short term investments is at a fixed rate.

Outstanding Share Data

Authorized Capital:

Common shares, no par value, unlimited shares

Issued and outstanding:

81,807,229 common shares as at March 2, 2009.

Outstanding options, warrants, and convertible securities as at March 2, 2009:

Type of Security	Number	Exercise Price	Expiry date
Share purchase warrants	3,855,430	\$ 2.50	September 5, 2009
Share purchase warrants	16,594,284	\$ 4.25	December 31, 2010 ⁽¹⁾
Stock options	90,000	\$ 1.30	August 6, 2009
Stock options	100,000	\$ 1.75	June 9, 2010
Stock options	75,000	\$ 3.32	August 26, 2013

⁽¹⁾ Subject to acceleration of the expiry date if the trading price of the Company's common shares equals \$6.00 or more for twenty (20) consecutive trading days.

Risks and Uncertainties

The Company is faced with a number of risks and uncertainties which could impact its financial performance. The more significant ones include:

Income Risk

The Company will generate a large portion of its income from dividends received from its equity investments in natural resource companies and from the disposal of such equity investments. Natural resource companies are subject to a number of risks including commodity pricing risk, exploration risk, operational risk, environmental risk and regulatory risk. If such companies are not profitable or the value of their shares decline, as a result of company specific issues or market conditions generally, the Company will not be able to generate income and may suffer losses.

Commodity Prices

The profitability of the Company's equity investments, exploration projects and operating subsidiaries will be dependent upon the market price of commodities relevant to the particular equity investment or exploration project or operating subsidiaries. Commodity prices fluctuate widely and are affected by numerous factors beyond the control of the Company.

Private Companies and Illiquid Securities

The Company invests a portion of its assets in securities of private companies. In some cases, the Company may be restricted by contract or by applicable securities laws from selling such securities for a period of time. The inability to sell such securities may impair the Company's ability to exit such investments when the Company considers it appropriate.

Lack of Control over Companies in which the Company Invests

The Company invests a portion of its assets in securities of companies that the Company does not control. These investments will be subject to the risk that the company in which the investment is made may make business, financial or management decisions with which the Company does not agree or that the majority stakeholders of the management of the company may take risks or otherwise act in a manner that does not serve the Company's interests. If any of the foregoing were to occur, the values of investments by the Company could decrease and the Company's financial condition and cash flow could suffer as a result.

Lack of Diversification

The Company has only a limited number of investments and exploration projects and, as a result, the performance of the Company may be adversely affected by the unfavourable performance of one investment or exploration project. As well, the Company's investments are concentrated in the natural resource sector. As a result, the Company's performance will be disproportionately subject to adverse developments in this particular sector.

Gold and Silver Bullion

The Company has invested a large portion of its assets in gold and silver bullion. As a result, the price of the Company's holdings in these assets will fluctuate in relation to increases and decreases in the price of gold and silver.

The Company's gold and silver bullion is stored in the vaults of the Bank of Nova Scotia in Toronto. It is segregated and insured. However, there can be no assurance that the insurance carried by the Bank of Nova Scotia will be sufficient to cover all the losses arising out of any loss or damage to the Company's gold and silver held for safekeeping. In addition, insurance is not available for certain risks, including, but not limited to, war, terrorist events, nuclear incident and government confiscations.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Management has evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2008 and has concluded, based on its evaluation, that these controls and procedures provide reasonable assurance that material information relating to the Company is made known to management and reported as required.

In conducting this evaluation, management has considered, among other things, the corporate charter and policies of the Company, including the Company's Disclosure Policy. In connection with this review, management updated its Disclosure Policy.

Management is also responsible for the design and operational effectiveness of internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Management has evaluated the design and operating effectiveness of the Company's internal controls, and subsequent to remedial action taken over the operation of certain internal controls, management believes the design and operation to be sufficient and appropriate to provide such reasonable assurance. The Company has a relatively small accounting and administrative department and as such, adequate segregation of duties can become a control issue.

It should be noted that while the Officers of the Company, as certified in the Company's Annual Filings and as required under National Instrument 52-109 issued by the Canadian Securities Administrators, have evaluated the effectiveness of these disclosure controls and procedures and internal controls over financial reporting for the year ended December 31, 2008 and have concluded that they are being maintained as designed, they do not expect that the disclosure controls and procedures of internal controls over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

Outlook

The global economy has suffered a precipitous decline over the past 6 months and there is no indication that things are going to improve in the next 6-12 months. In fact, nearly every economic indicator suggests that the situation is likely going to get worse. Unemployment is rising rapidly, global output and trade is collapsing, and the cost of credit and capital for business remains high.

Given these deteriorating economic conditions, management will continue to act conservatively in respect of future investments. Over the past 6 months, this conservative approach has proven to be the correct approach. The only significant investments made by the Company have been its purchase of gold and silver bullion and its subscription for shares in Waseca.

Its investment in gold and silver bullion has performed very well and management believes that it should continue to maintain a large portion of its assets in gold and silver bullion. The following actions of governments around the world and the state of the global financial system support this approach:

- A large number of financial institutions around the world are insolvent. The extent of toxic debt around the world is unclear, but the estimates keep rising each day. Although the focus to date has largely been on U.S. banks, the problem is clearly global and it is spreading beyond banks to insurance companies, pension funds, endowment funds and other entities.
- Governments around the world are prepared to absorb the losses of many insolvent financial institutions, either through outright nationalization of such institutions, purchases of their underperforming assets and/or capital injections. These actions have dramatically increased global public debt and will continue to do so. In the case of certain large financial institutions located in smaller countries, their liabilities may be too great for their host countries to absorb, in which case larger states will be called on to assist.
- Governments are committed to massive stimulus spending on infrastructure projects and to support industries, such as the automobile industry, which are unable to survive in their current form without government assistance. This spending will further increase public debt.
- Revenues for all levels of government have fallen and will likely continue to do so. Governments are unlikely to cut costs to match their revenue declines. The result will be a further increase in public debt.

Management believes that these government actions and the state of the global economy generally will make it increasingly difficult for governments to finance their borrowings, as lenders begin to question how such borrowings will be repaid. Ultimately, this should result in higher government borrowing costs, which would be crippling, and/or increased monetization of public debt and a corresponding decrease in the real value of fiat currencies. Such prospects support the Company's holdings of gold and silver bullion and management believes that, in time, a greater number of people around the world will increase their holdings in gold and silver bullion as they begin to lose faith in fiat currencies. Such a loss of faith should, in time, be supportive of commodities and real assets generally, as holders of low-yielding debt instruments, both private and government issued, exit such instruments and move to hoard commodities and real assets.

In the oil and gas sector, the collapse in the price of oil and gas should present opportunities for Waseca. The vast majority of Waseca's assets are in cash and cash equivalents. Waseca is focused on identifying and acquiring prospective land opportunities at depressed prices and preparing a drilling inventory. Waseca is also actively evaluating potential opportunities to acquire production through the execution of strategic transactions.

Stonegate Agricom, the other company in which the Company owns greater than 20%, will work to advance the Mantaro Phosphate Project over the next 3-6 months. Management of Stonegate Agricom is working towards obtaining the community agreements and required permitting to launch a drilling and trenching program in March/April 2009. The program is being designed to try to increase the size and confidence of the existing resource and to try to establish additional resources on other concessions owned by Stonegate Agricom's Peruvian subsidiary. The exploration budget for this year's program is expected to be approximately \$1,400,000.

Undoubtedly, certain companies will not survive this downturn, or they will be forced to recapitalize. This should present the Company with a number of investment opportunities. Management is confident that it will be able to find assets and/or companies at attractive valuations that, over the long-term, will prove to be profitable for the Company.

Other Information

Additional information related to the Company, including the Company's Annual Information Form, is available for viewing on SEDAR at www.sedar.com and at the Company's website at www.sprottresource.com.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Sprott Resource Corp. (the "Company") have been prepared by and are the responsibility of the management of the Company. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgement based on currently available information.

The Audit Committee of the Board of Directors, consisting of three independent directors, meets periodically with management and the independent auditors to review the scope and results of the annual audit, and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board for approval.

The Company's independent auditors, PricewaterhouseCoopers LLP, who are appointed by the shareholders, conducted an audit in accordance with Canadian generally accepted auditing standards. Their report outlines the scope of their audit and gives their opinion on the consolidated financial statements.

Management has developed and maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded, transactions are authorized and financial information is accurate and reliable.



Kevin Bambrough
President and Chief Executive Officer
March 2, 2009



Stephen Austin
Chief Financial Officer

Auditors' Report

To the Shareholders of Sprott Resource Corp.

We have audited the consolidated balance sheets of Sprott Resource Corp. as at December 31, 2008 and 2007 and the consolidated statements of operations and retained earnings, comprehensive income and accumulated other comprehensive loss, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia

March 2, 2009

Consolidated Balance Sheets

As at December 31

(expressed in Canadian dollars)

	2008 \$	2007 \$
Assets		
Current assets		
Cash and cash equivalents	45,263,646	34,083,045
Gold and silver bullion (note 6)	61,930,413	–
Short-term investments (note 7)	158,282,940	–
Note receivable (note 11)	609,000	–
Prepays and other receivables	2,049,400	182,921
	268,135,399	34,265,966
Investments (note 8)		
Investment in PBS Coals Limited (note 9)	–	30,487,978
Investment in Stonegate Agricom Ltd. (note 11)	11,731,245	–
Promissory notes receivable (note 17)	150,000	–
Mining claims and deferred exploration (note 16)	305,307	124,401
Oil and gas properties and equipment (note 13)	5,399,392	23,278
Intangibles (note 15)	–	117,400
	314,285,599	76,785,530
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	5,617,857	627,121
Income tax payable (note 20)	16,328,246	–
	21,946,103	627,121
Asset retirement obligation (note 14)	75,111	–
Non-controlling interest	6,973,112	13,660
Future income tax liability (note 20(c))	534,983	–
	29,529,309	640,781
Shareholders' Equity (note 18)		
Capital stock (note 18(b))	163,217,190	115,744,350
Warrants (note 18(d))	45,035,956	7,685,605
Contributed surplus (note 18(h))	400,249	795,475
	208,653,395	124,225,430
Retained earnings (deficit)	80,623,130	(49,880,233)
Accumulated other comprehensive (loss) income	(4,520,235)	1,799,552
	284,756,290	76,144,749
	314,285,599	76,785,530
Commitments (note 23)		
Subsequent events (notes 7, 8(a) and 27)		

Approved by the Board of Directors



Michael Winn



Terrence A. Lyons

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Operations and Retained Earnings

For the years ended December 31 (expressed in Canadian dollars)	2008 \$	2007 \$
Revenue		
Oil and gas revenue	44,085	–
Oil and gas royalties	(5,851)	–
	38,234	–
General and administrative expense		
Consulting	379,509	134,675
Depreciation and amortization	28,459	22,760
Directors' fees	99,948	73,935
Filing fees and transfer agent	309,959	76,727
Management incentive fee (notes 21 and 23)	35,697,916	–
Management fee (notes 21 and 23)	3,887,881	522,013
Office and miscellaneous	1,503,969	183,515
Professional fees	1,070,300	502,626
Shareholder information	93,282	61,341
Wages and benefits	181,470	374,943
	43,252,693	1,952,535
Other income and (expenses)		
Oil and gas operating and exploration expense	(351,844)	–
Equity earnings (loss) of PBS Coals Limited (note 9)	11,163,543	(81,000)
Equity loss of Stonegate Agricom Ltd. (note 11)	(624,974)	–
Gain on disposal of investments – net (notes 8 and 9)	172,104,906	–
Impairment of investments	(2,531,825)	–
Foreign exchange gain	145,448	1,243,443
Gain on dilution from investments (notes 8, 9 and 11)	11,653,171	2,250,500
Interest and other income	2,467,606	1,106,197
Non-controlling interest	324,696	30,561
Mining and Reconnaissance expense	(8,396)	(164,118)
Write down of mining claims and deferred exploration (note 16(a))	(626,583)	(422,699)
	193,715,748	3,962,884
Earnings before income taxes	150,501,289	2,010,349
Provision for income taxes (note 20)		
Future tax expense	(54,023)	–
Income and capital tax expense	16,328,246	–
	16,274,223	–
Net earnings for the year	134,227,066	2,010,349
Deficit – Beginning of year	(49,880,233)	(51,890,582)
Net excess of cost of re-purchase over carrying value on normal course issuer bid (note 18(e))	(3,723,703)	–
Retained earnings (deficit) – End of year	80,623,130	(49,880,233)
Basic earnings per share	1.94	0.09
Fully diluted earnings per share	1.93	0.09
Weighted average shares outstanding during the year		
Basic	69,240,480	22,921,263
Diluted	69,663,134	23,282,984

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Loss

For the years ended December 31
(expressed in Canadian dollars)

	2008	2007
	\$	\$
Net earnings for the year before other comprehensive income	134,227,066	2,010,349
Unrealized (losses) gains on available-for-sale investments	(6,319,787)	1,799,552
Comprehensive income for the year	127,907,279	3,809,901
Accumulated other comprehensive income – Beginning of year	1,799,552	–
Unrealized (losses) gains on available-for-sale investments	(6,319,787)	1,799,552
Accumulated other comprehensive (loss) income – End of year	(4,520,235)	1,799,552

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31
(expressed in Canadian dollars)

	2008 \$	2007 \$
Cash flows from (used in) operating activities		
Net earnings for the year	134,227,066	2,010,349
Items not affecting cash		
Depreciation and amortization	28,459	22,760
Equity (earnings) loss of PBS Coals Limited	(11,163,543)	81,000
Equity loss of Stonegate Agricom Ltd.	624,974	–
Gain on dilution from PBS Coals Limited	(7,801,465)	–
Gain on dilution from Stonegate Agricom Ltd.	(3,594,634)	–
Gain on dilution from investments	(257,072)	(2,250,500)
Non-controlling interest	(324,696)	(30,561)
Gain on disposal of PBS Coals Limited shares	(166,785,257)	–
Impairment of investments	2,531,825	–
Gain on disposal of investments	(5,319,649)	–
Stock-based compensation	42,873	–
Writedown of mining claims and deferred exploration	626,583	422,699
	(57,164,536)	255,747
Changes in non-cash operating working capital		
Change in prepaids and other receivable	(1,251,851)	(236,047)
Change in note receivable	(609,000)	–
Change in accounts payable and accrued liabilities	4,555,586	806,570
Change in income tax payable	16,328,246	–
	(38,141,555)	826,270
Cash flows from (used in) investing activities		
Change in accounts payable and accrued liabilities	591,237	–
Purchase of PBS Coals Limited shares	(24,447,224)	(30,568,978)
Purchase of investments	(76,809,296)	(4,597,787)
Purchase of short-term investments	(158,282,940)	–
Purchase of gold and silver bullion	(61,930,413)	–
Proceeds on sale of investments	57,212,803	120,745
Proceeds on sale of PBS Coals Limited shares	240,685,467	–
Deferred exploration expenditures – net of reclamation deposits	(881,890)	(841,344)
Property payments received for mining claims	–	31,166
Purchase of oil and gas properties and equipment	(2,706,282)	(32,502)
Net cash reduction on deconsolidation of former subsidiary	–	(255,696)
Promissory notes receivable	(150,000)	–
Waseca acquisition – net of cash acquired	4,549,697	–
Investment in Stonegate Agricom Ltd.	(1,465,202)	–
	(23,634,043)	(36,144,396)
Cash flows from (used in) financing activities		
Proceeds from issuance of capital stock	92,641,053	62,019,312
Repurchase of capital stock	(19,684,854)	–
	72,956,199	62,019,312
Change in cash and cash equivalents	11,180,601	26,701,186
Cash and cash equivalents – Beginning of year	34,083,045	7,381,859
Cash and cash equivalents – End of year	45,263,646	34,083,045
Cash and cash equivalents comprise of		
Cash	35,294,846	34,083,045
Short-term investments	9,968,800	–
	45,263,646	34,083,045

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

1 Organization and nature of operations

Sprott Resource Corp. (the "Company") was incorporated under the Canada Business Corporations Act ("CBCA") on August 19, 1994.

The Company's principal activities are investment in natural resources through direct acquisitions, joint ventures and equity investments.

During 2007, two former subsidiaries of the Company, South American Silver Corp. ("SASC") and High Desert Gold Corporation ("HDGC"), each completed its Initial Public Offering ("IPO"). On completion of these IPO's, the Company's interest in each of these companies was reduced and the Company no longer controls either company. Accordingly, the Company has ceased to consolidate in its accounts, the accounts of SASC and of HDGC. Refer to notes 8(a) and (b).

During the year, the Company incorporated two new subsidiaries. One Earth Resources Corp. ("One Earth Resources") was incorporated under CBCA on April 25, 2008. 2173177 Ontario Ltd. ("Holdco") was incorporated under the Ontario Business Corporations Act on May 15, 2008.

On August 18, 2008, Holdco amalgamated with Stonegate Minerals Ltd. ("Stonegate Minerals"), to form Stonegate Agricom Ltd. ("Stonegate Agricom"). At December 31, 2008, the Company held a 78.95% interest (undiluted) in Stonegate Agricom. The Company has equity accounted for the investment as at December 31, 2008 based on the terms of a voting agreement (the "Voting Agreement") between the Company and Stonegate Agricom pursuant to which the Company has agreed to vote its Stonegate Agricom shares in favour of each nominee to the board of directors of Stonegate Agricom proposed by management of Stonegate Agricom for a period of three years from the date of the IPO of Stonegate Agricom, provided that one such nominee is a representative of the Company.

On October 1, 2008, the Company acquired 79.72% of Waseca Energy Inc. ("Waseca"). As a result of the transaction, the Company has consolidated in its accounts the accounts of Waseca. The Company's interest in Waseca decreased to 79.24% as at December 31, 2008 with Waseca issuing additional shares to external parties.

During the year, the Company completed the sale of all the common shares held of PBS Coals Limited ("PBS"). Consequently, the Company no longer has an interest in PBS and has ceased using equity accounting.

2 Significant accounting policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and reflect the following significant accounting policies:

Principles of consolidation

The consolidated financial statements include the accounts of the Company and those of its subsidiaries which the Company controls. Business acquisitions are accounted for under the purchase method and the results of operations of these businesses are included in the consolidated financial statements from the acquisition date. Investments in companies subject to significant influence are accounted for using the equity method. All significant intercompany transactions and balances have been eliminated.

The consolidated financial statements include the accounts of Waseca and of all its majority-owned subsidiaries, and Lara Alliance (BVI) Ltd. ("L-S Alliance"), a variable interest entity ("VIE") for which the Company is the primary beneficiary.

In general, a VIE is a corporation, partnership, limited-liability corporation, trust, or any other legal structure used to conduct activities or hold assets that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that lack the power to make significant decisions about activities, or (3) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations. A primary beneficiary is defined as the party that has exposure to the majority of a VIE's expected losses and/or residual returns and as such is required to consolidate the VIE's.

Estimates by management

Estimates by management represent an integral component of the consolidated financial statements prepared in conformity with Canadian GAAP. The estimates made in these consolidated financial statements reflect management's judgments based on past experiences, present conditions, and expectations of future events. Where estimates were made, the reported amounts for assets, liabilities, revenues and expenses may differ from the amounts that would otherwise be reflected if the ultimate outcome of all uncertainties and future events were known at the time these consolidated financial statements were prepared.

The Company uses estimates to calculate depreciation, depletion and accretion expense, to assess impairment of long-lived assets, to estimate asset retirement obligations, to calculate the fair value of stock-based compensation, and to estimate current tax expense.

For oil and gas properties, the Company calculates depreciation, depletion and accretion expense and assesses impairment using management estimates of oil and gas reserves remaining in oil and gas properties, commodity prices and capital costs required to develop those reserves. By their nature, estimates of volumes and the related future cash flows are subject to measurement uncertainty, and the impact of differences between actual and estimated amounts on the consolidated financial statements of future periods could be material. Such reserve estimates, which have been estimated by independent engineering firms, are subject to change as additional information becomes available.

Numerous assumptions and judgments are required in the fair value calculation of the asset retirement obligation ("ARO") including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environmental and political environments. To the extent future revisions to these assumptions impact the fair value of the existing ARO liability, a corresponding adjustment is made to the oil and gas property balance.

Non-controlling interests

Non-controlling interests exist in less than wholly-owned subsidiaries of the Company and represent the outside interest's share of the carrying values of the subsidiaries. When the subsidiary company issues its own shares to outside interests, a dilution gain or loss arises as a result of the difference between the Company's share of the proceeds and the carrying value of the underlying equity.

Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments held in the form of high quality commercial paper, bankers' acceptances, money market investments and certificates of deposit with investment terms that are less than three months at the time of acquisition. These investments are stated at fair value, which approximates cost plus accrued interest.

Impairment of long-lived assets

Long-lived assets, such as oil and gas properties and equipment and mining claims and deferred exploration, are reviewed for impairment at each reporting period or more frequently as economic events indicate that the carrying amount of an asset may not be recoverable.

Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized, measured by the amount by which the carrying amount exceeds the fair value of the asset, which is normally determined using the discounted value of future cash flows.

Equipment

Equipment is carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of one to thirty years.

Mining claims and deferred exploration

Mining claims and deferred exploration expenditures include direct and indirect acquisition and exploration costs associated with specific mineral exploration properties. Depletion of these amounts will be recognized using the unit of production basis at such time as commercial production commences or will be charged against operations in the event a property is sold. Capitalized costs relating to abandoned properties will be charged against operations in the period of abandonment. Mineral property option proceeds, if received, are credited against the deferred costs incurred by the Company on the property or properties being optioned.

The Company reviews capitalized costs on its mineral properties and will recognize an impairment in the value based upon current exploration or production results, if any, and upon management's assessment of the future probability of profitable revenues from the property or from sale of the property. If the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is recognized and assets are written down to fair value, which is normally determined using the discounted value of future cash flows.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and regulatory requirements.

Foreign currency

Reporting currency for the Company is the Canadian dollar. United States currency reflected in these financial statements is denoted as US\$.

Foreign currency amounts relating to the Company's foreign operations included in these consolidated financial statements are translated using the temporal method of accounting. Under this method, monetary assets and liabilities are translated at the rate of exchange prevailing at the end of the period. Non-monetary assets and liabilities are translated at the rates of exchange prevailing when the assets were acquired or the liabilities incurred. Revenue and expense items are translated using the average rate of exchange during the financial statement periods, except for depreciation and amortization which are translated at historic rates. Gains and losses resulting from the translation of transactions and balances denominated in foreign currencies are included in the determination of net income.

Income taxes

The Company applies the asset and liability method of measuring income taxes based on temporary differences between the financial reporting and tax bases of assets and liabilities. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws that are expected to apply when the tax assets or liabilities are to be either settled or realized and are not recognized unless the more likely than not criterion is met.

Earnings (loss) per share

Earnings (loss) per share are determined using the weighted average number of shares outstanding during the year. Diluted earnings (loss) per share are determined using the treasury stock method. Under this method, the dilutive effect of earnings (loss) per share is recognized on the use of proceeds that could be obtained from exercise of the options, warrants and similar instruments. It assumes that proceeds would be used to purchase common shares at the average market price during the period.

Stock-based compensation

The Company has established a stock option plan for the benefit of full-time and part-time employees, officers, directors and consultants of the Company and its affiliates.

The fair value of all stock options granted by the Company is recorded as a charge to the statements of operations and a credit to contributed surplus. The fair value of stock options which vest immediately is recognized at the date of grant; the fair value of options which vest in the future is recognized over the vesting period. Any consideration received on the exercise of stock options together with the related portion of contributed surplus is credited to share capital. The fair value of stock options is estimated using the Black-Scholes option pricing model.

Waseca has also established a stock option plan ("Subsidiary Plan" or "Waseca Plan") and a performance share plan ("Performance Shares") for the benefit of its employees, officers, directors and consultants.

To the extent the performance condition has not yet been met, a fair value is computed and disclosed, but no provision is made in the Company's financial statements. To the extent the performance condition has been met, the fair value of all Performance Shares issued is recorded as a charge to the statements of operations and a credit to contributed surplus. Any consideration received on the conversion of Performance Shares together with the related portion of contributed surplus is credited to share capital.

Comprehensive income

Comprehensive income includes both net earnings (loss) and other comprehensive income ("OCI"). OCI includes certain gains and losses which must be temporarily presented outside of net earnings (loss) such as holding gains and losses on available-for-sale ("AFS") investments which are not included in the calculation of net earnings (loss) until realized. Cumulative changes in OCI are included in Accumulated Other Comprehensive Income ("AOCI"), which is presented as a category of shareholders' equity on the balance sheet.

Financial instruments, recognition, measurement, disclosure and presentation

Under Section 3855, all financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, AFS financial assets or other financial liabilities. All financial instruments and derivatives are measured on the balance sheet date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets are measured at fair value, with changes in fair value recognized in net earnings (loss). AFS financial instruments are measured at fair value, with changes in fair value recorded in OCI until the instrument is derecognized or

impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in net earnings (loss).

Upon adoption of these standards, the Company has designated its cash and cash equivalents and short term investments as held-for trading, which are measured at fair value. Note receivable and receivables included in prepaids and other are designated as loans and receivables, which are measured at amortized cost. The Company's portfolio investments include public and privately held investments and have been designated as AFS because the Company intends to hold the investments for more than one year. Unrealized holding gains and losses relating to AFS investments are excluded from net income and included in OCI until such gains or losses are realized or an other than temporary impairment is determined to have occurred. AFS securities are measured at fair value and those which do not have a readily determinable fair value (i.e. a quoted market price in an active market) are carried at historical cost. Publicly held investments are reported at fair value based on quoted market prices with unrealized gains or losses reported as other comprehensive income or loss. Privately held investments are reported at cost. AFS securities are recorded using the settlement-date accounting. Accounts payable and accrued liabilities are designated as other financial liabilities, which are measured at amortized cost. The adoption of this policy in 2007 had no material impact on the opening retained earnings.

Intangibles

The excess of the cost of acquired enterprises over the net of the amounts assigned to assets acquired and liabilities assumed is included in intangibles. These costs are not amortized, but are tested for impairment annually, or more frequently, if events or changes in circumstances indicate impairment.

Asset retirement obligations

The Company recognizes the fair value of an ARO in the period in which it is incurred when a reasonable estimate of the fair value can be made. The fair value of the estimated ARO is recorded as a long-term liability, and equals the present value of estimated future cash flows, discounted using a risk-free interest rate adjusted for the Company's credit standing. The liability accretes until the date of expected settlement of the retirement obligations and the accretion expense is grouped with depreciation, depletion and amortization on the statements of operations and retained earnings. The associated asset retirement costs are capitalized as part of the carrying value of the related assets. The capitalized amount is amortized to earnings on a basis consistent with depreciation and depletion of the underlying assets.

On a periodic basis, management will review these estimates and changes, and, if any, the estimate will be applied on a prospective basis, and will result in an increase or decrease to the ARO. Any difference between the actual costs incurred and the recorded liability is recorded as a gain or loss in the statements of operations in the period in which the settlement occurs.

3 Adoption of new accounting policies

Short-term investments

Short-term investments are liquid Canadian dollar denominated investments in Government of Canada treasury bills with original terms to maturity of greater than three months but not more than one year. Short-term investments are classified as held-for-trading and recorded at fair value with realized and unrealized gains and losses reported in the statements of operations.

Gold and silver bullion

Gold and silver bullion ("Bullion") is carried on the balance sheet at lower of cost or net realizable value. A decline in the value of Bullion below cost, due to market conditions, will be charged to loss with subsequent increases in value reflected in the carrying value to the maximum of the original cost.

On October 1, 2008, the Company adopted the significant accounting policies summarized below, resulting from the acquisition and consolidation of Waseca:

Oil and gas properties

The Company follows the successful efforts method of accounting for oil and gas activities. Costs to acquire mineral interest in oil and gas properties, to drill and equip exploratory wells that find proved reserves and to drill and equip development wells are capitalized.

Costs to drill exploratory wells that do not find proved reserves are expensed in the period that the exploratory drilling proves to be unsuccessful. Geological and geophysical costs and costs of carrying and retaining unproved properties are expensed as they are incurred.

Unproved oil and gas properties are periodically assessed for impairment after considering the remaining term of the lease, drilling results, the evaluation of geological data and other information. A loss is recognized at the time of impairment by providing an impairment allowance.

Capitalized costs of producing oil and gas properties, after considering estimated salvage values, are depreciated and depleted over proved develop reserves using the unit of production method while acquired resource properties with proved reserves are depleted over proved reserves using the unit of production method. Acquisition costs of probable reserves are not depleted or amortized while under active evaluation for commercial reserves. Costs are transferred to depletable costs as proved reserves are recognized. The oil and gas reserves have been estimated by independent petroleum engineers as of January 1, 2009.

Undeveloped land without proved reserves associated with the property is not subject to depletion. Undeveloped land is reviewed for impairment annually using third party quoted market values.

Expenditures for maintenance, repairs and minor renewals necessary to maintain properties in operating condition are expensed as incurred. Costs associated with major replacement and renewals are capitalized when the service potential of the reserves have been enhanced.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost of crude oil is determined using the first-in first-out method, while the cost of material and supplies inventory is determined using the weighted average method. Crude oil inventory consists primarily of oil in tanks and pipelines. The cost of crude oil inventory includes all direct costs, including depreciation, depletion and amortization.

Revenue recognition

Revenue from the sale of crude oil is recognized when delivery has taken place and the significant risks and rewards of the crude oil have passed to the buyer and the amount of revenue can be reliably measured. Sales revenue does not include indirect taxes (excise, GST, and royalties) and is stated at the net amount (after discounts and pipeline losses).

4 Adoption of new accounting standards

On January 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"); Section 1535, Capital Disclosures, Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation. These new requirements of Sections 1535, 3862 and 3863 are for disclosure purposes only and have not impacted the financial results of the Company.

Capital disclosures – Section 1535

Section 1535 specifies the disclosure of (i) an entity's objectives, policies, and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Financial instruments – Sections 3862 and 3863

The new Sections 3862 and 3863 replace Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. The new Sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how a company manages those risks.

General standards of financial statement presentation – Section 1400

CICA 1400, General Standards of Financial Statement Presentation, was amended to include requirements to assess and disclose an entity's ability to continue as going concern. At December 31, 2008, the Company has achieved profitable operations, has accumulated retained earnings, has a positive working capital and expects to incur future profit, all of which result in the Company's ability to continue as a going concern.

Income statement presentation of a tax loss carryforward recognized following an unrealized gain recorded in other comprehensive income

Emerging Issues Committee Abstract (EIC) 172 specifies that the tax benefit from the recognition of previously unrecognized tax loss carryforwards, consequent to the recording of unrealized gains on AFS financial assets in other comprehensive income, should be recognized in net income.

5 Future accounting and reporting changes

a) Goodwill and Intangible Assets – Section 3064

The CICA issued the new Handbook Section 3064, Goodwill and Intangible Assets, which will replace Section 3062, Goodwill and Other Intangible Assets. The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Management is currently assessing the impact of this new accounting standard on its consolidated financial statements.

b) International Financial Reporting Standards (“IFRS”)

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. The Company has begun assessing the adoption of IFRS for 2011; the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

c) Business Combinations, Consolidated Financial Statements and Non-controlling Interest

In January 2009, the CICA issued CICA Handbook Section 1582, Business Combinations, Section 1601, Consolidations, and Section 1602, Non-controlling Interests. These sections replace the former CICA Handbook Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary. CICA Handbook Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to IFRS 3, Business Combinations (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements.

CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS International Accounting Standards (“IAS”) 27, Consolidated and Separate Financial Statements (January 2008).

CICA Handbook Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

6 Gold and silver bullion

At December 31, 2008, the Company held the following ounces of Bullion:

Bullion	Ounces	Cost \$	Average cost per ounce \$	Fair value at December 31, 2008 \$
Gold	40,475	39,196,942	968.00	43,437,439
Silver	1,783,013	22,733,471	12.75	24,605,479
		61,930,413		68,042,918

7 Short-term investments

At December 31, 2008, the Company had the following short-term investments:

	Maturity date	Interest rate per annum %	Investment \$
Government of Canada treasury bill, held with Scotia Capital Inc.	January 22, 2009	1.68	11,946,120
Government of Canada treasury bill, held with Scotia Capital Inc.	April 2, 2009	1.30	27,824,720
Government of Canada treasury bill, held with Scotia Capital Inc.	April 30, 2009	1.80	19,829,800
Government of Canada treasury bill, held with Scotia Capital Inc.	May 14, 2009	1.81	39,630,400
Government of Canada treasury bill, held with Scotia Capital Inc.	August 6, 2009	1.80	19,735,200
Government of Canada treasury bill, held with Scotia Capital Inc.	October 1, 2009	1.85	9,839,900
Government of Canada treasury bill, held with Scotia Capital Inc.	October 29, 2009	1.82	29,476,800
Balance, December 31, 2008			158,282,940

Subsequent to year end, the proceeds on the short-term investment that matured on January 22, 2009 were re-invested in a short-term investment with a new maturity date of May 14, 2009 at an interest rate per annum of 0.85%.

8 Investments

	2008 \$	2007 \$
High Desert Gold Corporation (a)	1,660,488	2,430,000
South American Silver Corp. (b)	–	4,730,000
Other portfolio investments (c)	26,903,768	4,606,507
	28,564,256	11,766,507

On October 17, 2007, the Company's wholly-owned subsidiary, HDGC, completed its IPO. The Company owned 6,000,000 common shares representing approximately a 14.81% ownership interest at that time. The 6,000,000 common shares of HDGC owned and controlled by the Company were subject to a regulatory escrow agreement and a contractual lock-up agreement. On April 17, 2008 and on October 17, 2008, 3,000,000 and 1,500,000 common shares, respectively, were released from escrow and lock-up, with a further 1,500,000 shares scheduled to be released from escrow on April 17, 2009.

During 2008, the Company purchased an additional 777,500 common shares of HDGC. The cost of the Company's 6,777,500 shares in HDGC was \$2,274,450 (\$0.34 per share). Subsequent to year end, all common shares of HDGC were tendered into a substantial issuer bid initiated by HDGC and were disposed of for gross proceeds of \$1,829,925. Regulatory approval was obtained to amend the terms of the escrow agreement to permit the Company to tender into the issuer bid shares that were to be released from escrow on April 17, 2009.

	\$
Fair market value as at December 31, 2007	2,430,000
Acquisitions during the year	148,325
Impairment of investment	(444,525)
Unrealized loss during the year	(473,312)
Fair market value at December 31, 2008 based upon a market bid quotation of \$0.245 per share	1,660,488

On February 19, 2007, the Company's wholly-owned subsidiary, SASC, completed its IPO. The Company's ownership in SASC became 8,600,000 common shares representing approximately an 18% ownership interest. The cost of the investment was \$3,243,044 (\$0.377 per share). The shares of SASC owned and controlled by the Company were subject to a regulatory escrow agreement. On August 19, 2007, February 19, 2008 and August 19, 2008, 4,300,000, 2,150,000 and 2,150,000 common shares, respectively, were released from escrow. During the year, all common shares of SASC were disposed of for gross proceeds of \$1,059,245.

The Company has a portfolio of investments in securities of public and private companies. The Company's ownership percentage in each case is less than 20%.

	\$
Opening balance as at December 31, 2007	4,606,507
Acquisitions during the year	76,660,971
Unrealized losses during the year – net	(3,876,308)
Impairment of investments	(2,087,300)
Proceeds on disposals of investments at their fair market value	(56,153,558)
Gain on disposals of investments, net	7,503,448
Sundance Minerals Ltd. investment (note 8(d))	250,008
Fair value as at December 31, 2008	26,903,768

During the year ended December 31, 2008, the Company purchased \$76,660,971 of securities, of which \$60,642,186 were public securities and \$16,018,785 were private securities.

In May 2008, Sundance Minerals Ltd. ("Sundance"), the Company's 51% subsidiary, completed a private placement and effectively reduced the Company's interest from 51% to 18.3%, which resulted in a dilution gain for the Company of \$363,364. The Company has, therefore, stopped consolidating Sundance from the date of the private placement and is now treating it as an investment.

9 Investment in PBS Coals Limited

Pursuant to an investment agreement dated December 4, 2007 (the "PBS Investment Agreement"), the Company acquired 31 million common shares of PBS Coals Corporation for \$30,568,978 (US\$31,000,000), representing approximately 37.5% of the outstanding common shares of PBS Coals Corporation. The PBS Investment Agreement provided that PBS Coals Corporation would invest substantially all of the funds received to acquire shares of Mincorp Acquisition Corp., a Delaware corporation ("Mincorp"). Mincorp, through its wholly-owned subsidiaries, is engaged in the mining of coal in Somerset County, Pennsylvania. On completion of the transactions contemplated under the PBS Investment Agreement, PBS Coals Corporation held approximately 73.6% (59.6% fully diluted) of the common stock of Mincorp, the balance of which was held by management and other pre-existing investors. On May 2, 2008, the Company invested an additional \$24,447,224 (US\$23,960,000) in PBS Coals Corporation, as part of an aggregate funding of approximately US \$64.5 million, acquiring an additional 13,194,938 shares and increasing the Company's holdings to 44,194,938 shares. PBS Coals Corporation used the proceeds to subscribe for additional shares of Mincorp, which used the additional funds to purchase, for cancellation, all outstanding Mincorp warrants as well as 30% of Mincorp stock held by management. Upon the closing of the transactions, the Company owned approximately 37% of PBS Coals Corporation, and PBS Coals Corporation owned over 85% of the common stock of Mincorp, with management and employees retaining the balance. The Company's effective diluted interest in Mincorp increased from approximately 22.4% to 31.6%.

On June 17, 2008, PBS Coals Corporation entered into a letter of intent to complete a business combination with Penfold Capital Acquisition Corporation ("Penfold"), which was completed September 24, 2008. The resulting company was named PBS Coals Limited.

On August 22, 2008, the Company signed a lock-up agreement with 7027940 Canada Limited (the "Offeror") pursuant to which the Company agreed to tender all of its PBS shares into a takeover bid (the "Offer") made by the Offeror for all the issued and outstanding shares of PBS for a price of \$8.30 per share.

On September 24, 2008, upon completion of the business combination between PBS Coals Corporation and Penfold, the Company completed its sale of 17,050,000 common shares of PBS for gross proceeds of \$102,300,000 (net proceeds after commission was \$99,861,368). Following the sale, the Company held 27,144,938 common shares of PBS, representing approximately a 19.9% interest. A gain of \$74,361,080 was recorded by the Company upon the sale.

On October 24, 2008, the Company along with other principal shareholders of PBS, signed a supplemental agreement (the "Supplemental Agreement") with PBS, PBS Coals Corporation, the Offeror and Mining Holding Company LLC ("Mining Holdings" and collectively with the Offeror, the "Purchaser") pursuant to which the Purchaser (i) waived any and all breaches of each and every representation, warranty and/or covenant in the support and purchase agreement between PBS Coals Corporation, PBS, Mining Holdings, the Offeror, Mincorp and certain shareholders of Mincorp (the "Support and Purchase Agreement") relating to the Offer; (ii) agreed that all mutual conditions and condition in favour of the Purchaser in Support and Purchase Agreement had been satisfied or waived; (iii) agreed to take up all PBS shares deposited and not withdrawn under the Offer no later than November 3, 2008; (iv) agreed to pay for all PBS shares taken up in the Offer no later than November 3, 2008 (or November 5, 2008 if the Purchaser received regulatory approval); and (v) agreed to acquire all the outstanding shares of Mincorp immediately following acquisition of the PBS shares. In exchange for the foregoing, the shareholders party to the Supplemental Agreement agreed to a discount of \$381,960,000 under the Offer. The Company's portion of this discount was \$84,478,886. As a result, on November 6, 2008, the Company received net proceeds of \$140,824,099 on its sale of 27,144,938 PBS shares (\$5.1878 per PBS share), rather than \$225,302,985 (\$8.30 per PBS share) under the terms of the Offer. A gain of \$92,424,177 was recorded by the Company upon the sale of the remaining PBS shares.

The Company's net investment in PBS Coals Limited is determined as follows:

	\$
Balance – December 31, 2007	30,487,978
Acquisitions of additional PBS Coals Corporation shares	24,447,224
Share of earnings	11,163,543
Dilution gain	7,801,465
Gain on disposals of PBS Coals Corporation shares	166,785,257
Net proceeds on disposal	(240,685,467)
Balance – December 31, 2008	–

10 Acquisition of Waseca Energy Inc.

On October 1, 2008, the Company purchased 45,289,000 common shares of Waseca for an aggregate purchase price of \$27,173,400 (\$0.60 per share) representing 79.72% of Waseca's outstanding common shares. The transaction was accounted for as an acquisition of assets and liabilities using the purchase method. The results of Waseca's operations have been included in the consolidated financial statements from the date of acquisition. Waseca is a private Canadian oil and gas company whose primary focus is heavy oil production from the Lloydminster area near the border between Alberta and Saskatchewan.

The fair value of the Waseca assets and liabilities at the date of acquisition of October 1, 2008 was as follows:

	\$
Cash and cash equivalents	31,723,097
Other receivables	10,029
Fixed assets	1,700
Oil and gas properties	2,621,480
Total assets acquired	34,356,306
Current liabilities	22,464
Future income tax liability	656,952
Total liabilities assumed	679,416
Non-controlling interest	6,503,490
Net assets acquired	27,173,400
Cash paid	27,173,400

11 Investment in Stonegate Agricom Ltd.

During the year, the Company terminated the option and exploration agreement in respect of the Mantaro Phosphate Project and concurrently, its wholly-owned subsidiary, Holdco, entered into a share purchase agreement to purchase all the outstanding shares of Mantaro (BVI) Ltd., a British Virgin Island company ("Mantaro BVI").

On July 21, 2008, Holdco and the Company signed a loan agreement (the "Loan Agreement") under which the Company agreed to lend Holdco US\$500,000 to assist in the purchase of mining properties. Pursuant to the Loan Agreement, the loan is non-interest bearing and is repayable within two (2) business days of demand made by the Company. At December 31, 2008, the loan amount is \$609,000.

On August 18, 2008, Holdco amalgamated with Stonegate Minerals to form Stonegate Agricom, in which the Company received 60,000,000 common shares representing an 81% interest. As at December 31, 2008, the Company has equity accounted for the investment in Stonegate Agricom pursuant to the Voting Agreement whereby the Company does not control Stonegate Agricom. The Company has agreed to vote its Stonegate Agricom shares in favour of each nominee to the board of directors of Stonegate Agricom proposed by the management of Stonegate Agricom for a period of three (3) years from the date of the IPO of Stonegate Agricom, provided that one such nominee is a representative of the Company. As a result of the amalgamation, the Company recorded a dilution gain of \$2,947,904.

On August 31, 2008, Stonegate Agricom completed a private placement of 2,000,000 common shares reducing the Company's interest to 78.95%, which resulted in a further dilution gain of \$646,730.

Stonegate Agricom has 13,999,976 share purchase warrants outstanding exercisable at \$0.75 per common share, none of which the Company holds.

Mantaro BVI holds 99.5% of the outstanding shares of Mantaro Peru S.A.C., a Peruvian company ("Mantaro Peru"), with the balance 0.5% being held by Stonegate Agricom. Mantaro Peru holds the mineral claims relating to the Mantaro Phosphate Project.

A summary of 100% of the assets and liabilities of Stonegate Agricom as at December 31, 2008 and the results of operations for the period from the date of amalgamation to December 31, 2008 are as follows:

	\$
Total current assets	5,525,234
Total non-current assets	14,017,713
Total assets	19,542,947
Total current liabilities	708,372
Total non-current liabilities	3,975,000
Total liabilities	4,683,372
Share capital	15,939,000
Contributed surplus	324,263
Accumulated other comprehensive loss	(612,054)
Deficit	(791,634)
Total liabilities and equity	19,542,947
Company share of accumulated other comprehensive loss	(483,208)
Revenue	33,419
Expenses	(825,053)
Loss	(791,634)
Company share of equity loss of Stonegate Agricom	(624,974)

The investment in Stonegate Agricom as at December 31, 2008 is as follows:

	Investment in Mantaro \$
Balance – December 31, 2007	74,401
Additional investment during 2008	1,607,578
Common shares issued for Mantaro acquisition (note 18(b))	7,705,190
Write-off of previously capitalized costs	(142,376)
Dilution gains from Stonegate Agricom	3,594,634
Share of losses for the period	(624,974)
Share of accumulated other comprehensive loss for the period	(483,208)
Balance – December 31, 2008	11,731,245

12 Lara Alliance (BVI) Ltd.

During the year, the Company entered into a venture agreement with Lara Exploration Ltd. (“Lara”) to form L-S Alliance, for a three-year period. The L-S Alliance was established to acquire, explore, evaluate, develop and mine mineral resources in all countries other than Canada. The Company and Lara each have a 50% participating interest in the L-S Alliance. The Company’s initial contribution to the L-S Alliance is US\$500,000 to fund the first year program and budget. Lara is deemed to have an initial contribution of US\$500,000 in consideration for acting as manager of the L-S Alliance. Lara’s contribution has been set up as prepaid expenses and will be amortized over the one-year period. For each of the second and third years, the Company and Lara can elect to contribute in proportion to its respective participating interest or not at all, in which case the participating interest will be recalculated.

As at December 31, 2008, the Company has accounted for the investment in the L-S Alliance as a VIE based on (i) the L-S Alliance has insufficient equity to carry out its principal activities without additional financial support; and (ii) the Company has a controlling financial interest. Subsequent to the first year and on an annual basis thereafter, the accounting treatment will be reassessed based on the elected amount contributed by the Company and by Lara.

The Company’s net interest in L-S Alliance as at December 31, 2008:

	\$
Revenue	–
Expenses	(388,342)
Loss	(388,342)
Non-controlling interest	(194,171)
Net interest	194,171

13 Oil and gas properties and equipment

	2008		
	Cost \$	Accumulated depletion and depreciation \$	Net book value \$
Oil and gas properties	5,164,532	17,092	5,147,440
Equipment	273,791	21,839	251,952
	5,438,323	38,931	5,399,392

	2007		
	Cost \$	Accumulated depletion and depreciation \$	Net book value \$
Oil and gas properties	—	—	—
Equipment	40,885	17,607	23,278
	40,885	17,607	23,278

Impairment testing was performed on a property by property basis with no write down required.

Not included in oil and gas properties and equipment were certain costs that were expensed during the period due to the Company's selection of the successful efforts method of accounting for such properties. These costs totalled \$344,073 and are included in oil and gas operating and exploration expense in the statements of operations.

14 Asset retirement obligation

The Company is legally required to restore its properties to their original condition. Estimated future site restoration costs are based upon engineering estimates of the anticipated method and the extent of site restoration required in accordance with current legislation and industry practices in the various jurisdictions in which the Company has properties.

The Company calculated the ARO related to oil and gas properties using a discount rate of 7% and an inflation rate of 2%. It is assumed that the drilled wells will be abandoned seven years from the date drilled. The future undiscounted amount of ARO is estimated at \$120,612.

All accretion expenses related to ARO are included within depreciation, depletion and amortization.

A summary of the ARO is as follows:

	2008 \$	2007 \$
Balance – Beginning of year	—	—
Increase due to new wells drilled	75,111	—
Balance – End of year	75,111	—

15 Intangibles

	2008 \$	2007 \$
Intangible assets	—	117,400

During 2004, the Company acquired a 51% interest in Sundance, and its wholly-owned subsidiary, Foundation Resources Ltd, resulting in the recognition of \$117,400 of intangible assets. The Company's interest in Sundance has since been diluted (note 8(d)). Therefore, Sundance's financial figures including the intangible amount, which was previously consolidated in the Company's accounts, are no longer required to be consolidated.

16 Mining claims and deferred exploration

- a) During 2007, the Company entered into an agreement with Paragon Minerals Corporation (“Paragon”) under which the Company can earn up to a 70% interest in the mineral licenses comprising the JBP – Appleton Linear Property in Newfoundland, Canada, through the exercise of three options, and thereafter participate with Paragon for the purpose of further exploration and other related work on the JBP – Appleton Linear Property and, if warranted, develop and exploit the property.

On December 12, 2008 the Company terminated its option agreement with Paragon resulting in the loss of all rights under the agreement. The full amount of \$626,583 previously capitalized as mining claims and deferred exploration has been written off.

- b) During the year, the Company entered into an option agreement (the “Option Agreement”) with Altius Resources Inc. (“Altius”) under which the Company can earn up to a 50.1% interest in the mineral properties owned by Altius in Newfoundland, Canada, which are subject to the Option Agreement. The Company may exercise the option by making the following minimum aggregate expenditures on the properties: (i) by April 30, 2009, \$275,000; (ii) by April 30, 2010, \$650,000; and (iii) by April 30, 2011, \$1,500,000. The first milestone was fulfilled during the year with expenditures totalling \$305,307. The Company may terminate this Option Agreement at any time.
- c) During 2007, the Company wrote off \$422,699 in deferred exploration expenditures in respect of certain of its properties, due to the future uncertainty of those projects.

17 Promissory notes receivable

During the year, the Company’s subsidiary, One Earth Resources, entered into agreements with three (3) First Nation bands (the “Nations”). Under the agreements, One Earth Resources will pay the Nations a \$100,000 signing bonus each upon the receipt of mineral exploration permits by One Earth Resources. The Nations each received cash payments in the amounts of \$50,000 advanced in the form of promissory notes to be applied against the amounts of the total signing bonus. The promissory notes are non-interest bearing and are repayable, at no specified date, in the event the exploration permits are not received by One Earth Resources.

18 Shareholders’ equity

a) Authorized

Unlimited common shares with no par value.

The holders of the common shares are entitled to one vote per share. The holders of the common shares are entitled to dividends, when and if declared by the directors of the Company, and to the distribution of the residual assets of the Company in the event of the liquidation, dissolution or winding-up of the Company. No dividends have ever been declared or paid as at December 31, 2008.

b) Issued and outstanding

	Number of common shares	Amount \$
Balance – December 31, 2006	9,335,077	61,326,812
Private placement of units, net of issuance costs	40,000,000	52,030,883
Exercise of warrants	1,140,873	2,134,374
Exercise of stock options	152,000	168,450
Fair value of exercised stock options	–	83,831
Balance – December 31, 2007	50,627,950	115,744,350
Exercise of warrants	36,933,970	91,971,353
Fair value of warrants exercised	–	6,954,728
Exercise of stock options	474,000	669,700
Fair value of stock options exercised	–	438,099
Fair value of incentive warrants	–	(44,305,079)
Shares repurchased under normal course issued bid and cancelled (e)	(8,000,000)	(15,961,151)
Shares issued – Mantaro acquisition	1,771,309	7,705,190
Balance – December 31, 2008	81,807,229	163,217,190

During 2007, the Company completed a private placement of 40,000,000 units at a purchase price of \$1.50 per unit for total gross proceeds of \$60,000,000. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant is exercisable into one common share at a price of \$2.50 per share, exercisable to September 5, 2009. The value of \$7,720,000 (\$0.193 per warrant), less issue costs of \$34,395, has been attributed to the warrants issued under this private placement based on the Black-Scholes option pricing model and has been credited to warrants within shareholders' equity. Assumptions used in the pricing model are as follows: average risk-free interest rate – 4.6%; expected life – 2 years; expected volatility – 41%; and expected dividends – \$nil.

c) Stock options

The Company established a share option plan (the "Plan") during 1995 for the benefit of employees and directors of the Company and designated affiliated companies. The maximum number of shares available under the Plan is limited to 12.5% of the issued common shares at the time of granting of options. Subject to any employment contracts, each option becomes exercisable as to 33 1/3% on a cumulative basis, at the end of each of the first, second and third years following the date of grant. The maximum option term shall not exceed ten years, subject to extension in the event that the expiry date falls within a "blackout" period.

The following table summarizes information about the Company's stock options outstanding at December 31, 2008 and 2007:

	2008		2007	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance – Beginning of year	741,000	1.81	895,500	1.69
Granted	75,000	3.32	–	–
Exercised	(474,000)	1.41	(152,000)	1.11
Cancelled or expired	(77,000)	4.97	(2,500)	0.85
Balance – End of year	265,000	2.04	741,000	1.81

During the year, the Company granted 75,000 options to independent directors (2007 – nil). The terms of the grant are consistent with the Plan and are exercisable at \$3.32 per option. The fair value of the share options granted during the period are estimated as at the grant date using the Black-Scholes option pricing model. The assumptions used in the calculation are noted below:

Risk-free interest rate	3.03%
Expected life	5 years
Expected volatility	176%
Fair value per option	\$ 3.20

Compensation expense for the year ended December 31, 2008 was \$26,648 (2007 – \$nil), all of which has been recorded as a non-cash stock-based compensation expense classified as office and miscellaneous expense. The total amount has been recorded as an offsetting credit to contributed surplus.

The following table summarizes information about the Company's stock options outstanding at December 31, 2008:

Range of exercise prices \$	Number of options outstanding	Weighted average remaining contractual life (years)	Options Outstanding
			Weighted average exercise price \$
1.30 to 1.75	190,000	1.04	1.54

At December 31, 2008, the Company had 75,000 options granted but not yet vested.

d) Share warrants

The schedule of warrant activity during the year is as follows:

	Number of warrants	Weighted average exercise price \$	Amount \$
Balance – December 31, 2007	40,877,127	2.49	7,685,605
Warrants exercised at \$2.05	(789,400)	2.05	–
Warrants exercised at \$2.50	(36,144,570)	2.50	(6,954,728)
Expired	(87,727)	2.05	–
Warrants issued under incentive program	16,594,284	4.25	44,305,079
Balance – December 31, 2008	20,449,714	3.92	45,035,956

Warrant Incentive Program

On May 13, 2008, the Company announced a warrant incentive program (the "Warrant Incentive Program") to encourage the early exercise of 39,920,000 outstanding warrants that were to expire September 5, 2009 (the "Old Warrants"), which were issued as part of the financing completed in September 2007. The Warrant Incentive Program expired on July 7, 2008. The Old Warrants are exercisable at \$2.50 per share. Warrant holders who elected to exercise their Old Warrants as part of the Warrant Incentive Program received one-half of one new common share purchase warrant (a "New Warrant"), which is exercisable for one common share of the Company at a price of \$4.25 until December 31, 2010, subject to the Company's ability to accelerate the expiry of the New Warrants if the trading price of the Company's common shares is equal to or greater than \$6.00 for twenty (20) consecutive trading days.

As at December 31, 2008, 33,188,568 of the Old Warrants were exercised under the Warrant Incentive Program for total proceeds of \$82,971,420 and consequently 16,594,284 New Warrants were issued.

The fair value of the New Warrants granted during the year is estimated at the grant date using the Black-Scholes option pricing model. The assumptions used in the calculation are noted below:

Risk-free interest rate	3.30%
Expected life	2.52 years
Expected volatility	114%
Fair value per warrant	\$ 2.67

Warrants to acquire common shares are outstanding at December 31, 2008 as follows:

Number of warrants outstanding	Exercise price \$	Expiry date
3,855,430	2.50	September 5, 2009
16,594,284	4.25	December 31, 2010

e) Normal course issuer bid

On August 26, 2008, the Company announced a normal course issuer bid ("Bid") to repurchase for cancellation a maximum of 8,000,000 of its issued and outstanding common shares within one year. During the year, 8,000,000 common shares were repurchased at an aggregate cost of \$19,684,854 (average cost of \$2.46 per common share). This resulted in \$15,961,151 being recorded as a reduction to share capital and \$3,723,703 as a reduction in retained earnings. These shares were cancelled and returned to treasury prior to December 31, 2008.

	Number of common shares	Amount \$
Balance – December 31, 2007	–	–
Repurchased capital stock	8,000,000	15,961,151
Repurchased capital stock – net excess of cost of re-purchase over carrying value	–	3,723,703
Balance – December 31, 2008	8,000,000	19,684,854

f) The Subsidiary Plan

The maximum number of shares available under the Waseca Plan is limited to 10% of the issued common shares of Waseca at the time of granting of options. Subject to any employment contracts, each outstanding option becomes exercisable as to 33 1/3% on a cumulative basis, at the end of each of the first, second and third years following the date of grant. The maximum option term shall not exceed five years.

The following table summarizes information about Waseca's stock options outstanding under the Subsidiary Plan at December 31, 2008:

	2008		2007	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance – Beginning of year	–	–	–	–
Granted	2,250,000	0.60	–	–
Exercised	–	–	–	–
Cancelled or expired	–	–	–	–
Balance – End of year	2,250,000	0.60	–	–

The fair value of the stock options granted during the period under Waseca's Plan is estimated at the grant date using the Black-Scholes option pricing model. The assumptions used in the calculation are noted below:

Risk-free interest rate	3.11%
Expected life	5 years
Expected volatility	Nil%
Fair value per option	\$ 0.08

Compensation expense under the Waseca Plan for the year ended December 31, 2008 was \$16,225 (2007 – \$nil), all of which has been recorded as a non-cash stock-based compensation expense classified as office and miscellaneous expense. The total amount has been recorded as an offsetting credit to contributed surplus.

The following table summarizes information about stock options outstanding under the Waseca Plan at December 31, 2008 of which none were exercisable:

	Options outstanding		
Range of exercise prices \$	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price \$
0.60	2,250,000	4.8	0.60

g) Performance Shares

The following table summarizes the activity during the period for Waseca's Performance Shares:

	Number of shares	Weighted average conversion price \$
Balance – December 31, 2007	–	–
Granted	4,450,000	0.60
Cancelled	–	–
Balance – December 31, 2008	4,450,000	0.60

Transaction value [*] \$	Performance Shares outstanding and exercisable		
	Number of Performance Shares outstanding	Weighted average remaining contractual life (years)	Number of Performance Shares convertible
0.69	1,112,500	4.8	nil
0.90	1,112,500	4.8	nil
1.20	1,112,500	4.8	nil
1.50	1,112,500	4.8	nil

* Above table denotes transaction value required to trigger option to convert to common shares at \$0.60 per Performance Share. A transaction event occurs when Waseca's share price exceeds the prices noted in the above table resulting from liquidation or a public transaction.

As of December 31, 2008, neither a liquidity event nor a public transaction had occurred and therefore the fair value of the Performance Shares have not been recognized in these financial statements.

h) Contributed surplus

	2008 \$	2007 \$
Balance – Beginning of year	795,475	879,306
Stock-based compensation	42,873	–
Contributed surplus on exercise of stock options	(438,099)	(83,831)
Balance – End of year	400,249	795,475

The stock based compensation amount is \$26,648 at the parent company level and the remaining amount of \$16,225 is attributable to Waseca.

19 Supplemental cash flow information

The Company conducted non-cash investing and financing activities as follows:

	2008	2007
	\$	\$
Investing activities		
Common shares issued to acquire mining claims	7,705,190	–
Future income tax liability	(387,325)	–
Equipment relating to former subsidiary	–	76,627
Mining claims relating to former subsidiary	–	2,962,631
Share issue costs relating to former subsidiary	–	912,642
Payables relating to former subsidiary	–	(715,479)
Prepays and other relating to former subsidiary	–	197,660
Other receivables acquired	10,028	–
Oil and gas properties and equipment on acquisition	357,829	–
Accounts payable and accrued liabilities acquired	22,464	–
Minority interest on date of acquisition	6,503,490	–
Future income tax arising on acquisition	656,952	–
Financing activities		
Fair value of warrants issued	44,350,079	–
Common shares issued on exercise of warrants	6,954,728	–
Contributed surplus on exercise of stock options	438,099	83,831
Taxes paid – net	44,480	–
Interest received – net	1,248,843	1,109,131

20 Income taxes

a) Tax rate reconciliation

A reconciliation between the Company's statutory and effective tax rates is as follows:

	2008	2007
	%	%
Tax rate	33.50%	34.12%
	\$	\$
Net earnings for the year	150,501,289	2,010,349
Provision for (recovery of) income taxes based on statutory Canadian combined federal and provincial income tax rates	50,417,932	685,931
Permanent differences	554	270,183
Differences in foreign tax rates	–	89,998
Non-taxable portion of capital gains	(31,987,880)	–
Change in valuation allowance and other	363,680	(1,926,393)
Benefit of losses utilized from prior years	(2,520,063)	–
Losses for which no tax benefit has been recognized	–	880,281
Provision for income taxes	16,274,223	–

b) The Company has Canadian non-capital loss carry-forwards of \$nil (2007 – \$2,809,000) that may be available for tax purposes.

- c) The significant components of the Company's future tax assets and liabilities, assuming a future tax rate of 29% (2007 – 31%), are as follows:

	2008 \$	2007 \$
Future income and mining tax assets		
Deductible temporary differences on investments and other assets	614,889	71,868
Deferred financing costs and other	43,346	870,861
Valuation of future income tax and mining assets	658,235	942,729
Valuation allowance	(609,325)	(676,353)
	48,910	266,376
Future income and mining tax liabilities		
Taxable temporary differences on mineral and oil and gas properties	(583,893)	(266,376)
Future income and mining tax liabilities – net	(534,983)	–

21 Related party transactions

Related party transactions not disclosed elsewhere in these consolidated financial statements are as follows:

- Aggregate legal fees of \$nil (2007 – \$280,795), including \$nil (2007 – \$110,000) in share issue costs, were charged by a legal firm in which a former director was a partner.
- Consulting fees of \$148,569, including \$51,750 relating to Waseca (2007 – \$124,308) were charged by officers or former officers of the Company. Of this amount \$148,569 was charged to the statements of operations (2007 – \$82,475); \$nil was included in mining claims and deferred exploration (2007 – \$41,833).
- Management fees of \$3,887,881 (2007 – \$522,013) were incurred, which are payable to Sprott Consulting Limited Partnership ("SCLP"), an entity with directors and management in common. The amount recorded for the Incentive Fee for the period is \$35,697,916 (2007 – \$nil). Refer to note 23(a).
- Included in accounts payable and accrued liabilities as at December 31, 2008 was \$3,902,632 (2007 – \$417,606) payable to directors and officers of the Company, including \$3,872,382 (2007 – \$392,406) payable to SCLP. These amounts are non-interest bearing and have no specific terms of repayment.
- Included in investments as at December 31, 2008 is an investment in Tournigan Energy Ltd. ("Tournigan") at fair market value of \$3,258,731. The Company purchased 15,896,250 of Tournigan shares throughout the year from funds managed by the Chairman of the Company. The price paid for such shares was \$3,501,360 or \$0.22 per share.
- Transactions with related parties are recorded at the exchange amount, being the price agreed between the parties.

22 Segment information

The Company operates within the mining industry through direct acquisitions, joint ventures and equity investments, and within the oil and gas industry through direct acquisitions. Industry segmentation of the Company assets is as follows:

	2008 \$	2007 \$
Mining	26,895,656	42,496,286
Oil and gas	5,342,651	–
Unallocated	282,047,292	34,289,244
Total assets	314,285,599	76,785,530

23 Commitments

On September 5, 2007, after obtaining shareholders' approval, the Company entered into a management services agreement ("MSA") with Sprott Consulting Ltd. ("SCL"), a wholly-owned subsidiary of Sprott Asset Management Inc. ("SAM") with an initial term of three years. Pursuant to the terms of the MSA, SCL was appointed by the Company to manage, or engage others to manage, the undertaking and affairs of the Company. On December 1, 2007, SCLP assigned the MSA to SCLP, the successor to SCL, as part of an internal reorganization involving SAM and its subsidiaries. In consideration for providing these services, the Company has agreed to pay SCLP an annual services fee equal to 2% of the net asset value (as defined in the MSA) of the Company calculated and payable at the end of each calendar quarter based on the average month-end net asset value of the Company and an annual incentive fee equal to 20% of: (a) the pre-tax profits of the Company for the year minus (b) the average month-end net asset value of the Company for the year multiplied by the percentage return of the Canadian 30-Year Generic Bond Index.

Waseca has leased office space in Calgary, Alberta for a three-year term commencing December 1, 2008. The estimated annual rent obligations are \$318,653 for each of the years 2009 and 2010; and \$292,268 for 2011. Waseca has the option to extend the lease for an additional five years under the same terms and conditions currently in place. Management estimates that this option has \$nil value given current market conditions.

Waseca has licensed certain geological software for a two-year term commencing September 30, 2008. The Company's estimated license cost for 2009 is \$67,953.

24 Contingencies

The Company may be subject to various contingent liabilities that occur in the normal course of operations. The Company is not aware of any pending or threatened proceedings that would have a material adverse effect on the consolidated financial condition or future results of the Company.

25 Management of capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain a flexible capital structure which optimizes the costs of capital as an acceptable risk.

In the management of capital, the Company includes the components of shareholders' equity, as well as cash and cash equivalents and investments.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments. The Company has no debt and does not expect to enter into debt financing.

The Company is not subject to any capital requirements imposed by a regulator. The Company does not pay out dividends.

The Company's cash management policy is to invest its cash in highly liquid short-term Government of Canada issued treasury bills, with maturities of three months or less from the original date of acquisition, and bullion.

26 Financial instruments

Fair value of financial instruments

The Company's financial instruments consist of cash and cash equivalents, short-term investments, note receivable, other receivable, promissory notes receivable, investments and accounts payable and accrued liabilities. Cash equivalents consist of highly liquid investments held in the form of Government of Canada treasury bills, the investment terms of which are less than three months at the time of acquisition, and are all held in Canadian dollars. The Company has no asset backed commercial paper. Portfolio investments in securities of publicly-traded companies are reported at fair value. The fair values of the other instruments approximate their book value due to their short-term nature.

Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada, the United States and Peru and a portion of its expenses are incurred in U.S. dollars. The Company does not hedge its exposure to fluctuations in the exchange rate. Future changes in exchange rates could have a material effect on the Company's business, financial condition and results of operations.

Certain of the Company's financial instruments are exposed to fluctuations in the U.S. dollar, including the note receivable. A hypothetical change of 10% to the foreign exchange rate between the U.S. dollar and the Canadian dollar applied to the average level of U.S. denominated cash and cash equivalents during the year would not result in a material impact to the Company's earnings for the year.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its commercial obligations.

The Company's cash is held primarily through large Canadian financial institutions. Short-term investments consist of Government of Canada treasury bills, which have an original maturity of three months or less from the date of purchase and are readily convertible into a known amount of cash.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and equity prices, will affect the Company's operations or the value of its financial instruments. The Company will generate a portion of its revenue from the proceeds of disposition from its investments in natural resource companies. The values of such investments are subject to general market risks and all the risks specific to natural resource companies. If the value of these investments declines, as a result of company specific or market conditions generally, the Company will not be able to generate income and may suffer capital losses.

The Company manages its cash according to its operational needs and to optimize revenues from interest.

Liquidity risk

The Company manages liquidity risk by maintaining sufficient cash and cash equivalents balances to enable settlement of transactions on the due date.

The Company invests in securities of private companies. In some cases, the Company may be restricted by contract or by applicable securities laws from selling such securities for a period of time. The inability to sell such securities may impair the Company's ability to exit such investments when the Company considers it appropriate.

Interest rate risk

The Company is exposed to minimal interest rate risk on its short-term investments with terms of maturity within one year. The interest rate on its short-term investments is at a fixed rate.

27 Subsequent events

The Company entered into the following transactions subsequent to December 31, 2008:

- a) Subsequent to December 31, 2008, the Company purchased \$5,127,710 of publicly traded securities, and received proceeds of \$2,581,908 on the disposal of publicly traded securities, resulting in a gain of \$694,363.
- b) Subsequent to December 31, 2008, Waseca granted 160,000 stock options and 270,000 performance shares to new employees of Waseca. Both the options and performance shares are exercisable/convertible at \$0.60 per share.

Sprott Resource Shareholder Information

Corporate Head Office

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Board of Directors

Eric Sprott, CA, Chairman
Kevin Bambrough
John Embry
Terrence A. Lyons
A. Murray Sinclair
Michael Winn

Audit Committee

A. Murray Sinclair (Chairman)
Terrence Lyons
Michael Winn

Compensation Committee

Kevin Bambrough (Chairman)
A. Murray Sinclair
Michael Winn

Transfer Agent

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P.O. Box 7010
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Toronto, Ontario M5C 2W9
Tel: (416) 643-5500

Auditors

PricewaterhouseCoopers LLP

Market Data

Shares of Sprott Resource Corp. are listed on the
Toronto Stock Exchange under the Symbol: SCP
Shares issued and outstanding as at
December 31, 2008: 81,807,229

Investor Contact

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Annual General Meeting

10:00 a.m., Wednesday, May 27th, 2009
TSX Gallery
130 King Street West
Toronto, Ontario

