

Sprott Resource Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis ("MD&A") of the performance, financial condition and future prospects of Sprott Resource Corp. (herein referred to as "SRC" or the "Company"). This document should be read in conjunction with the unaudited consolidated financial statements for the three months ended March 31, 2011 including the notes thereon ("Interim Financial Statements"), as well as with the Company's audited consolidated financial statements for the year ended December 31, 2010 (the "Annual Financial Statements") and the related management's discussion and analysis (the "Annual MD&A"). The reader is cautioned that the aforementioned Annual Financial Statements and Annual MD&A are presented using Canadian generally accepted accounting principles ("Canadian GAAP") whereas the financial statements for the three months ended March 31, 2011 and the 2010 comparatives have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All references to "Canadian GAAP" refer to Canadian GAAP before the adoption of IFRS. All amounts are expressed in Canadian dollars unless otherwise indicated. Further information, including the Company's Annual Information Form ("AIF") for the year ended December 31, 2010, may be accessed at www.sedar.com. The Board of Directors approved this MD&A on June 7, 2011.

FORWARD-LOOKING STATEMENTS

This MD&A and, in particular, the "Outlook" section, contains forward-looking statements including those relating to expected land to be farmed and grazed by One Earth Farms (defined below), expected oil and gas production and drilling plans by Orion, Waseca and OEOG (each defined below), the planned merger between Orion and WestFire Energy Ltd.; and the potential of the Cole Hill Uranium Project. Forward-looking statements look into the future and provide an opinion as to the effect of certain events and trends on the business. These forward looking statements are based on current expectations and various estimates, factors and assumptions including: expected oil and gas production results from future drilling by Orion, Waseca and OEOG; expected rates of production by Orion, Waseca and OEOG; oil and gas reserves of Orion, Waseca and OEOG; the anticipated completion of the merger between Orion and WestFire Energy Ltd., including any anticipated benefits of such transaction; the successful seeding of farmlands and purchase of cattle by One Earth Farms; the future price of uranium; expected mineral reserves and resources; and expectations regarding future legislative changes.

These forward-looking statements involve known and unknown risks, including, but not limited to: general economic, market and business conditions; fluctuations in oil and gas prices; the results of exploration and development drilling and related activities; the uncertainty of reserve and resource estimates; changes in environmental and other regulations; risks associated with oil and gas operations; weather risk associated with farming operations; operational risk associated with farming; mining risks; commodity price changes; risks associated with the completion and benefits of the anticipated merger between Orion and WestFire Energy Ltd.; and other risks, which are beyond the control of the Company or its subsidiaries.

It is important to note that:

- Unless otherwise indicated, forward-looking statements in this MD&A describe the Company's expectations as of June 7, 2011;
- 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 and as such 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.

For a description of additional material factors that could cause the Company's actual results to differ materially from the forward-looking statements in this MD&A, please see the risks and uncertainties set out in the "Forward-Looking Statements" section in the AIF and the "Risk Factors" section of the AIF.

NON-IFRS AND NON-CANADIAN GAAP FINANCIAL MEASURES

This MD&A uses the terms “netbacks”, and “EBITDA” which terms are not recognized under Canadian GAAP or IFRS and may not be comparable to similar measures presented by other companies. The Company uses these measures to help evaluate its performance, leverage, and liquidity as well as to assess potential acquisitions. The Company considers these metrics to each be a key performance measure as it demonstrates the Company’s ability to generate funds necessary to repay debt and to fund future growth through capital investment. These non-IFRS and non-Canadian GAAP measures should not be considered as an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with IFRS and Canadian GAAP.

BARRELS OF OIL EQUIVALENT

Where amounts are expressed in a barrel of oil equivalent (“boe”), or barrel of oil equivalent per day (“boe/d”), natural gas volumes have been converted to barrels of oil equivalent on the basis that 6 thousand cubic feet (“mcf”) is equal to one barrel of oil. Use of the terms boe or boe/d may be misleading, particularly if used in isolation. This boe conversion ratio is based on an energy equivalence methodology, and does not represent a value equivalency. Indeed, the energy and value relationships may differ widely with market conditions. The conversion conforms with the Canadian Securities Regulators’ National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities.

FINANCIAL PRESENTATION

Exclusive of the IFRS adjustments, certain prior period figures have been revised to conform to current period presentation categories with no impact to net loss for the periods.

INTRODUCTION

The Company’s head office is based in Toronto, ON Canada. Common shares are listed on the Toronto Stock Exchange (“TSX”) and trade under the symbol “SCP”. See page 4 of the AIF “*Company Overview*” for additional information.

At March 31, 2011, the Company had three reportable industry segments. A description of the operating companies by industry segment, and the Company’s equity ownership position in those businesses, is presented below.

<i>Industry Segment</i>	<i>Companies</i>	<i>SRC Ownership (undiluted)</i>
Corporate ¹	SRC holds investments in natural resource companies and other assets such as cash and cash equivalents, short-term investments, gold bullion and portfolio investments (website: www.sprottresource.com).	n/a
	Stonegate Agricom Ltd. (“Stonegate Agricom”) ^{1 2} , is developing the Mantaro Phosphate Project in Peru and the Paris Hills phosphate and vanadium property in Idaho (website: www.stonegateagricom.com).	36.2%
Energy	Orion Oil & Gas Corporation (“Orion”) ³ , is engaged in the exploration for, and development of, oil and natural gas interests located primarily in the Kaybob, Redwater and Bigstone areas of Alberta (website: www.orionoilandgas.ca).	78.9%
	Waseca Energy Inc. (“Waseca”) , is involved in the exploration and production of oil and gas in Alberta and Saskatchewan.	81.3%
	One Earth Oil & Gas Inc. (“One Earth Oil & Gas” or “OEOG”) , is engaged in the development of oil and gas opportunities on and adjacent to First Nations and aboriginal lands in Alberta, Canada and Montana, U.S.	90.7%
Agriculture	One Earth Farms Corp. and its operating subsidiaries (collectively “One Earth Farms”) ⁴ , is a large, integrated corporate farming entity on First Nations farmland in Alberta and Saskatchewan Canada (website: www.oneearthfarms.com).	61.7%

1. The Corporate sector is comprised of the parent company, Sprott Resource Corp., and its assets. Included in certain balances of the financial performance is Stonegate Agricom, which is accounted for on an equity basis in the Company's Interim Financial Statements and unless specifically mentioned, is not included in the following tables or discussion.
2. Subsequent to quarter end, the Company sold 3.8 million common shares reducing its position to 46,912,000 common shares, representing a 33% interest in Stonegate Agricom on an undiluted basis.
3. Subsequent to quarter end, Orion entered into an arrangement agreement with WestFire Energy Ltd. ("WestFire") whereby WestFire will acquire all of the issued and outstanding shares of Orion. The Company has agreed to elect to receive WestFire Non-Voting Shares to the extent that will result in SRC not owning more than 19.9% (or less than 19.0%) of the basic WestFire voting common shares outstanding at closing of the transaction (see "SRC's Business Objective – Grow the value of our businesses" for additional information).
4. Subsequent to quarter end, One Earth Farms completed a second tranche of the private placement of which the first tranche closed during the first quarter of 2011 (see "SRC's Business Objective – Grow the value of our businesses" for additional information). After giving effect to the transaction in the second quarter, the Company will hold 58% of One Earth Farms.

Results by segment are available in note 18 of the Interim Financial Statements and in "Net income (loss)".

The Company also holds an interest in two other private companies.

On December 21, 2010, the Company purchased an approximate 19% interest in VA Uranium Holdings Inc. ("VAUH"), the sole shareholder of Virginia Uranium, Inc. ("Virginia Uranium"), which operates the Coles Hill Uranium Project in Virginia, U.S. The Company invested \$12.0 million in VAUH and holds approximately 19.9% of the issued and outstanding shares.

In 2008 and 2009, SRC participated in private placements of the Union Agriculture Group ("UAG"), which is focused on acquiring and farming quality farmland in Uruguay. The Company has invested \$28.7 million in UAG and holds 9.4% of the issued and outstanding shares.

The market value of both VAUH and UAG is included in the investment portfolio (for more information see "Consolidated Long-term Assets and Investments").

SRC'S BUSINESS OBJECTIVE

The Company invests, and operates through its subsidiaries, in the natural resource sector. The Company currently has operations and/or investments in agriculture, energy, precious metals and other natural resources. Management of the Company is dedicated to generating superior returns on capital, risk management and real wealth preservation. SRC seeks to accomplish these objectives by acquiring or starting attractive businesses, growing the value of the subsidiaries organically or through accretive acquisitions and by maintaining the financial flexibility necessary to be responsive to the needs of its subsidiaries and to capitalize on new opportunities.

Acquire or start attractive businesses

The Company did not start or acquire any new businesses in the first quarter of 2011. Management continues to look for opportunities that will be accretive to the Company.

Grow the value of our businesses

SRC has been actively involved in supporting our subsidiaries during the first quarter of 2011.

On May 11, 2011, the Company announced that Orion has entered into an arrangement agreement (the "Arrangement Agreement") with WestFire (TSX: WFE) whereby WestFire will acquire all of the issued and outstanding shares of Orion at a ratio of eight Orion shares for each WestFire share (the "Transaction"). The merger of the two companies will create a uniquely positioned intermediate-sized producer focusing on the world-class Viking oil resource play in Alberta and west central Saskatchewan.

SRC, which currently controls approximately 71% of the Orion Shares on a fully diluted basis, has agreed to elect to receive WestFire Non-Voting Shares to the extent that will result in SRC not owning more than 19.9% (or less than 19%) of the basic WestFire Shares outstanding at closing of the Transaction. The Company will own approximately 34% of WestFire on a fully diluted basis and will be the largest shareholder (including the voting common shares and Non-Voting Shares). The Transaction will be completed by way of Plan of Arrangement and is subject to customary TSX, court and regulatory approvals and the requisite approval of WestFire and Orion shareholders. Closing of the Transaction is expected to occur in late June or early July 2011. The combined company of Orion and WestFire would have had average production of 8,065 boe/d during the first quarter of 2011 with a weighting of 54% oil and liquids.

On February 4, 2011, the Company exercised its remaining 20 million warrants in One Earth Farms for \$20 million, which increased its ownership to 80% and the total SRC invested capital to \$57.5 million. On March 17, 2011, One Earth Farms completed the first tranche of a private placement to outside shareholders. The first tranche of the private placement consisted of the issue and sale of 22.2 million common shares at \$1.40 per share for aggregate gross proceeds of approximately \$31.1 million. On May 2, 2011, One Earth Farms closed the second tranche for an additional 2.8 million common shares at \$1.40 per common share for aggregate gross proceeds of the second tranche of the private placement of \$3.9 million. Also on May 2, 2011, One Earth Farms issued shares under the agent's over-allotment option, resulting in the issuance of a further 3.2 million common shares at a price of \$1.40 per share for aggregate gross proceeds to One Earth Farms in the private placement of approximately \$39.5 million. After giving effect to these transactions, the Company's interest in One Earth Farms decreased to approximately 58% on an undiluted basis. The funding from SRC and the other investors has financed One Earth Farms to grow to become Canada's largest operating crop and cattle farm in 2011.

Maintain financial flexibility

The Company's financial strength is in its unallocated capital and ability to issue common shares in support of accretive acquisitions. Having available capital on hand is an important element in successfully negotiating investment terms. As at March 31, 2011, the Company:

- directly held cash and cash equivalents of \$83.2 million;
- holds \$55.3 million in cash and cash equivalents in its subsidiaries; and
- continues to hold \$103.0 million in physical gold bullion and an investment portfolio of \$57.1 million (including UAG and VAUH).

OTHER BUSINESS HIGHLIGHTS AND SIGNIFICANT EVENTS FOR THE FIRST QUARTER OF 2011 AND TO THE DATE HEREOF

Sale of Stonegate Agricom shares in 2011

On March 10, 2011, the Company closed the previously announced secondary offering of 25 million common shares of Stonegate Agricom at a price of \$1.75 per common share for aggregate gross proceeds of \$43.8 million. As at March 31, 2011, SRC holds 50.7 million common shares of Stonegate Agricom, representing an approximate 36% interest in Stonegate Agricom on an undiluted basis.

On April 6, 2011, SRC announced that the underwriters of the previously mentioned secondary offering of common shares of Stonegate Agricom exercised their over-allotment option in full, resulting in the sale by SRC of an additional 3.8 common shares at a price of \$1.75 per share for aggregate gross proceeds to SRC of \$6.6 million. SRC currently holds 46.9 million common shares of Stonegate Agricom, representing an approximate 33% interest in Stonegate Agricom on an undiluted basis (approximately 28% on a fully-diluted basis).

Acquisition by One Earth Farms

On June 1, 2011, One Earth Farms completed its acquisition of a turn-key farming operation ("Farm Corp.") in east-central Alberta. Through the acquisition of Farm Corp., One Earth Farms acquired approximately 23 thousand acres of leased crop land from privately held landholders and 10 thousand acres of First Nation land, \$10.6 million of selected farming equipment, a building machine shop with parts and tools and two grain elevators with a total storage capacity of 400 thousand bushels. The weighted average duration of the farm leases is 2.5 years. The sole proprietor of Farm Corp. has joined One Earth Farms in a farm management role and will assist with general farming operations and development of additional lands available for lease in the region. The expansion of One Earth Farms operations into a new geographic zone further mitigates weather-related risks during the cropping season, provides significantly more flexibility to field operations from a labour, equipment and weather perspective and presents an opportunity to target additional domestic processing markets for malting barley, canola and oats. The 33 thousand acres have been under sub-lease by One Earth Farms since May 3, 2011 and have been included in the quoted farm acres under administration for the quarter ended March 31, 2011.

The purchase price was satisfied by the payment of \$11.9 million, less any adjustments during the holdback period.

Normal Course Issuer Bid

On August 30, 2010, the Company received approval from the TSX to begin a Normal Course Issuer Bid ("2010 NCIB") to repurchase and cancel up to 7.0 million common shares, representing 9.38% of the unrestricted public float and 7.237% of the total number of issued and outstanding shares at that time. Under the 2010 NCIB, the Company did not purchase or cancel any common shares in 2010. In January 2011 the Company purchased and canceled 29 thousand common shares under the 2010 NCIB at an average cost of \$4.46 per share for a total cost of \$130 thousand. The Company believes that it is in the best interest of its shareholders to purchase shares for cancellation when management believes they are trading at a significant discount relative to their value.

Investment portfolio

The Company's investment portfolio decreased to \$57.1 million as at March 31, 2011 compared to \$66.1 million as at December 31, 2010. The change in the portfolio is the result of a decrease of \$4.3 million in net capital invested and a decrease of \$6.3 million in the market value of VAUH and UAG, which was partially offset by a \$1.6 million increase in the market value of certain public securities (see "*Consolidated long-term assets and investments, Investments*" for additional information).

INDUSTRY AND ECONOMIC FACTORS

Variability of financial results

The consolidated operating results of the Company will vary significantly from year to year. Key factors in this variability include: significant acquisitions and dispositions; performance of stock markets, the economic environment and commodity cycles; and the actual business operations of the Company's subsidiaries and equity investments.

Cyclical nature of commodities

Commodity markets are highly cyclical in nature. SRC seeks to invest capital when markets are trading at or near cyclical lows to reduce the investment risk and help separate the well-run companies from their competitors. Management's investment approach is driven by an assessment of global economic trends as they relate to various natural resource sectors. Individual commodity markets are diligently investigated to assess short and long-term supply/demand characteristics to determine where and when to allocate capital. This process allows management to seek out specific investments that will benefit the most from favourable trends.

RESULTS OF OPERATIONS

2011 operating and financial metrics by segment

Corporate segment metrics

It is the Company's intention to maintain a strong balance sheet to provide the financial flexibility necessary to be responsive to the needs of its subsidiaries and to capitalize on new opportunities. As at March 31, 2011, the Company had unconsolidated working capital of \$185.2 million compared to \$165.5 million at December 31, 2010, which should allow it to meet its operational and investment requirements in the near term.

<i>(in thousands)</i>	As at		
	Mar. 31, 2011	Dec. 31, 2010	% Change
<i>Unconsolidated current assets</i>			
Cash and cash equivalents	\$ 83,155	\$ 59,512	40%
Gold bullion	103,006	105,597	-2%
Other current assets	1,622	1,478	10%
Total	\$ 187,783	\$ 166,587	13%
<i>Unconsolidated working capital</i>			
Current assets	\$ 187,784	\$ 166,587	13%
Current liabilities	(2,629)	(1,088)	142%
Total	\$ 185,155	\$ 165,499	12%
<i>Unrealized mark-to-market and realized gains on public subsidiaries / liquid holdings</i>			
Orion - unrealized mark-to-market gains ¹	120,650	122,943	-2%
Stonegate Agricom - unrealized mark-to-market gains ^{1,2}	62,181	102,701	-39%
Total	\$ 182,831	\$ 225,645	-19%
<i>Portfolio investments</i>			
Public investments	\$ 6,731	\$ 9,334	-28%
Private investments	50,355	56,723	-11%
Total	\$ 57,086	\$ 66,057	-14%

1. Mark-to-market gains calculated as market value at the applicable valuation date less book (carrying) value.

2. During the first quarter of 2011, SRC sold 25 million shares (of 75.7 million common shares) for gross proceeds of \$44 million. After giving effect to the transaction, excluding the agents' over-allotment option, the Company retains approximately 36% on an undiluted basis. The Company realized a gain of approximately \$31.2 million on the transaction.

Energy segment metrics

In the first quarter of 2011, the Company's Energy subsidiaries successfully grew revenues, production and maintained strong netbacks. During the first quarter of 2011, Orion achieved a 60% increase in average daily production levels, averaging 5,292 boe/d compared to 3,314 boe/d in 2010. This increase was achieved through successful drilling programs in the intervening period.

Waseca spent the first quarter focused on completing a 19 well drilling program, of an anticipated 62 well program for 2011. Waseca also completed its winter seismic program to evaluate previously acquired land and continues to build an inventory of drilling locations. Over the past year, Waseca achieved a 187% increase in average daily production levels, averaging 1,253 boe/d compared to 436 boe/d for the first quarter of 2010.

OEOG drilled three wells in the first quarter of 2011, two in central Alberta and the other in northern Montana. In addition, OEOG completed and tested two other wells, one of which was brought on stream on April 1, 2011.

Further information on the Company's statement of reserve data and other oil and gas information, can be found in the Company's AIF at www.sedar.com.

A summary of the Company's consolidated energy subsidiaries' operating and financial metrics are as follows:

	For the Three Months Ended March 31,		
	2011	2010	% Change
Revenue, net of royalties (\$000's)			
Orion	\$ 22,326	\$ 13,158	70%
Waseca	4,956	1,910	159%
One Earth Oil & Gas	-	-	n/a
Total revenues	\$ 27,282	\$ 15,068	81%
Net and comprehensive income (loss) (\$000's)			
Orion	(2,685)	241	-1214%
Waseca	(1,229)	(1,602)	-23%
One Earth Oil & Gas	(264)	(293)	-10%
Total net income (loss)	\$ (4,177)	\$ (1,654)	153%
Netbacks¹ (\$/boe)			
Orion	\$ 32.34	\$ 32.34	0%
Waseca	23.49	29.68	-21%
One Earth Oil & Gas	n/a	n/a	n/a
Average production (boe/d)			
Orion	5,292	3,314	60%
Waseca	1,253	436	187%
One Earth Oil & Gas	-	-	n/a
Total production	6,545	3,750	75%
Capital expenditures (\$000's)			
Orion	\$ 24,472	\$ 19,142	28%
Waseca	7,496	3,026	148%
One Earth Oil & Gas	2,538	3,186	-20%
Total capital expenditures	\$ 34,506	\$ 25,354	36%

1. Netbacks are a non-IFRS measure. Calculated as oil and gas sales less royalties, operating and transportation expenses.

Agriculture segment metrics

The excess moisture challenges in the Canadian Prairies have carried into the 2011 farming season from 2010. The extremely high moisture levels pose significant operational challenges, and have delayed the spring seeding season across Canada for the vast majority of farmers. These difficult farming conditions emphasize the need to continue to expand One Earth Farms strategy of geographic diversification. Management of One Earth Farms believes that they will be able to complete the spring seeding operations within the typical optimal window due to their geographic diversification and sizeable investment in the number of units and quality of farm machinery and equipment.

One Earth Farms has grown its total crop acres under management to 122 thousand acres, growth of 79%, and pasture acres to 71 thousand from 24 thousand in 2010. The 200% growth in pasture acres is required to support the increased cattle program in 2011.

<i>(in thousands)</i>	For the Three Months Ended March 31,		
	2011	2010	% Change
<i>Revenue (from sales)</i>			
Crop	\$ 1,194	\$ 379	215%
Cattle	260	-	n/a
Other ¹	36	-	n/a
Total revenues	\$ 1,490	\$ 379	293%
Net loss (\$000's)	\$ (3,754)	\$ (2,204)	70%
EBITDA ² (\$000's)	\$ (3,048)	\$ (2,098)	45%

	As at	
	Mar. 31, 2011	Dec. 31, 2010
<i>Crop operating metrics</i>		
Total acres under administration (dry, irrigated, custom)	122,000	68,282
Total acres not seeded (due to excess moisture)	-	(24,628)
Total acres expected to be planted (dry, irrigated, custom)	122,000	43,654
Acres under management - dryland	107,534	52,484
Acres under management - irrigated	11,126	7,244
Custom farmed acres	3,340	8,554
Total acres expected to be planted	122,000	68,282
Acres not seeded due to excess moisture - dryland	n/a	(24,628)
Acres not seeded due to excess moisture - irrigated	n/a	-
Total acres expected to be planted	-	(24,628)
<i>Cattle operating metrics</i>		
Pasture acres under management	71,215	23,736
Breeding cattle and bulls	3,940	1,902
Immature livestock inventory	-	-
Feeder cattle	1,506	1,718
Total livestock	5,446	3,620

1. Included in other revenue is custom farm management, crop insurance proceeds and market value adjustments.

2. EBITDA, a non-IFRS measure, is calculated as net income (loss) plus interest expense, taxes, depreciation and amortization.

OPERATIONS FOR THREE MONTHS ENDED MARCH 31, 2011 COMPARED TO THREE MONTHS ENDED MARCH 31, 2010

Revenues

<i>(in thousands)</i>	For the Three Months Ended March 31,			% Change
	2011	2010		
Energy (net of royalty)	\$ 27,282	\$ 15,068		81%
Agriculture	1,490	379		294%
Total	\$ 28,772	\$ 15,447		86%

Orion and Waseca comprise the Company's Energy segment revenues and the Agriculture segment revenues are comprised of One Earth Farms' operations. One Earth Farms earns revenue through crop and livestock sales, custom farming operations of third party owned private land, changes in market value of inventory and crop insurance proceeds.

Orion recorded \$22.3 million in net oil and gas and sulphur revenue (\$26.6 million gross revenue and \$4.3 million in royalties) representing an increase of \$9.2 million compared to the first quarter of 2010. Orion's commodity sale prices were \$4.99 / mcf of natural gas (including sulphur revenues), \$85.65 / bbl of crude oil, \$77.74 / bbl of natural gas liquids and generating a netback of \$32.34 per boe. Orion drilled 12 development wells (11.8 net) with a 100% success rate. During the first quarter of 2011, Orion's average rate of production was approximately 5,292 boe/d. Given the strength in oil prices and weakness in natural gas prices, Orion maintained crude oil and liquids production at 55% of total production. Management of Orion expects to maintain production of 6,000 – 7,000 boe/d in 2011.

During the first quarter of 2011, Waseca recorded \$5.0 million in net oil sales (\$6.6 million gross revenue and \$1.6 million in royalties) representing an increase of \$3.1 million compared to the first quarter of 2010. Waseca's commodity sale price was \$58.67 / bbl of heavy crude oil generating a netback of \$23.49 per boe. The growth in Waseca's oil revenues is related to the wells drilled in 2010 and the first quarter of 2011. Waseca drilled 19 wells during the first quarter of 2011 resulting in 16 wells being cased and put into production, two dry holes and one suspended well. Nine of the 16 cased wells sold oil in March, adding a combined 278 boe/day to the volume as at March 31, 2011. All associated costs of the abandoned wells and dry holes were expensed during the applicable period. Waseca's average rate of production was 1,253 barrels of oil per day ("bbls/d"), compared to 436 bbls/d in the comparative period.

Although oil and gas production results from wells drilled in the first quarter have been encouraging, readers are cautioned that these wells are still relatively early in their production lives and could experience future performance significantly different to results experienced thus far.

In first quarter of 2011, One Earth Farms recorded \$1.5 million (2010: \$379 thousand) of revenue through grain, livestock sales and custom farming operations.

Other income and expenses

Other income and expenses are recorded from the day-to-day operations and gains and losses of the Company during the period. A summary of the consolidated other income and expenses is described in the table below. The description of other income and expenses by industry segment follows the consolidated table.

Other income and expenses - consolidated

(in thousands)	For the Three Months Ended March 31,		
	2011	2010	% Change
General and administrative expenses	\$ (6,609)	(5,845)	13%
Management fees	(2,290)	(1,510)	52%
Oil and gas production expenses	(11,114)	(6,168)	80%
Oil and gas DDA expenses (defined below)	(8,994)	(4,278)	110%
Farm production expenses	(622)	(254)	145%
Other farm expenses (defined below)	(1,847)	(649)	184%
Crop costs of production and fair value adjustments	(1,439)	(565)	n/a
Fair value adjustment to biological assets	335	(77)	n/a
Fair value adjustment to gold bullion	(2,591)	(1,303)	99%
Gain on disposal of investments	32,903	183	17850%
Interest and other income	82	31	165%
Foreign exchange (gain) loss	9	(22)	-138%
Realized gain (loss) on derivative instruments	(748)	(180)	314%
Unrealized loss on derivative instruments	(3,795)	(1,146)	231%
Unrealized loss on investments held for trading	(94)	(81)	15%
Loss on other items	-	(1,160)	-100%
Total	\$ (6,814)	\$ (23,026)	-70%

Other income and expenses – Corporate segment

(in thousands)	For the Three Months Ended March 31,		
	2011	2010	% Change
General and administrative expenses	\$ (665)	\$ (741)	-10%
Management fees	(2,290)	(1,510)	52%
Interest and other income	62	16	278%
Fair value adjustment to gold bullion	(2,591)	(1,303)	99%
Gain on disposal of investments	32,903	183	17850%
Gain (loss) on foreign exchange	9	(22)	-138%
Unrealized loss on investments held for trading	(94)	(81)	15%
Total	\$ 27,334	\$ (3,458)	-891%

Included in the Company's general and administrative expenses ("G&A") are expenses related to consulting fees; directors' fees; filing fees, transfer agent and shareholder costs; office expenses; professional fees; capital tax; wages and benefits; and miscellaneous expenses.

Company expenses in the quarter ended March 31, 2011 include management fees of \$2.3 million (2010: \$1.5 million) payable to Sprott Consulting Limited Partnership ("SCLP") under the terms of a management services agreement between SCLP and SRC (the "MSA"). The increase in the management fee is due to growth in the Company's net assets, on which the management fee is based. The amount recorded for the incentive fee in the first quarter of 2011, 2010 and 2009 is \$nil, as the Company did not earn a pre-tax profit in any period, net of the accumulated hurdle (as defined in the MSA). During the first and second quarters of 2011, the Company sold 28.8 million common shares of Stonegate Agricom in a secondary offering for gross proceeds of \$50.3 million (see page 5, "Other Business Highlights and Significant Events for the First Quarter of 2011 and to the Date Hereof, Sale of Stonegate Agricom shares in 2011" for additional information). The disposition of the Stonegate Agricom shares, combined with the approved IFRS catch up adjustments to the MSA, could create the situation whereby an incentive fee is payable in 2011. Additional information on the MSA can be found in "Commitments" and "Impact on the MSA under the transition to IFRS" below and page 8 "General Developments of Business" in the AIF.

On December 22, 2009, One Earth Farms entered into a management services agreement with SCLP (the "OEF MSA") and the Company entered into a fee abatement agreement ("Fee Abatement") with SCLP to eliminate double payment of management fees on the Company's investment in One Earth Farms. As a result of the Fee Abatement, the OEF MSA has no incremental impact on the Company's 2010 financial statements. On December 31, 2010, One Earth Farms and SCLP terminated the OEF MSA and Fee Abatement to simplify the company's capital structure.

The Company derives net realized gains and losses through the sale of securities in its subsidiaries or held in its portfolio investments. For the three months ending March 31, 2011, the Company recorded a net realized gain on the disposal of investments of \$32.9 million compared to \$183 thousand in the first quarter of 2010. The first quarter gain in 2011 is primarily related to the \$31.2 million gain from the sale of common shares in Stonegate Agricom.

Other income and expenses – Energy segment

<i>(in thousands)</i>	For the Three Months Ended March 31,		
	2011	2010	% Change
General and administrative expenses	\$ (4,047)	\$ (4,032)	0%
Oil and gas production expenses	(11,114)	(6,168)	80%
Oil and gas DDA expenses	(8,994)	(4,278)	110%
Realized loss on derivative instruments	(748)	(180)	314%
Unrealized loss on derivative instruments	(3,795)	(1,146)	231%
Loss on other items	-	(1,160)	-100%
Total	\$ (28,698)	\$ (16,965)	69%

Energy G&A is broken down as follows:

<i>(in thousands)</i>	For the Three Months Ended March 31,		
	2011	2010	% Change
Orion	\$ (2,879)	\$ (3,020)	-5%
Waseca	(823)	(724)	14%
OEOG	(345)	(287)	20%
Total	\$ (4,047)	\$ (4,032)	0%

For the first quarter of 2011, Energy G&A remained constant at \$4.0 million compared to the first quarter of 2010. Energy G&A includes significant charges related to stock based compensation. Orion has an option plan and a performance warrant plan. Stock based compensation expense arises from Orion's stock option plan that commenced in the first quarter of 2010. Orion's stock based compensation expense totalled \$215 thousand in the first quarter 2011 compared to \$964 thousand in the prior year. The primary reason for the decrease in Orion's G&A from 2010 to 2011 relates to actual forfeiture rates for stock based compensation in the first quarter of 2011 being higher than estimated, which decreases the number of options to be recorded as a stock based compensation expense. Orion has increased its estimated forfeiture rate in the current period to more closely reflect the actual forfeiture rates being realized. Waseca's stock based compensation expense is related to its stock option and performance warrant plans. Waseca recorded stock-based compensation expense of \$156 thousand for the three months ended March 31, 2011 compared to \$189 thousand in 2010.

Oil and gas production expenses are broken down as follows:

<i>(in thousands)</i>	For the Three Months Ended March 31,		
	2011	2010	% Change
Orion - production expenses	\$ (6,922)	\$ (3,541)	96%
Orion - DDA	(7,824)	(4,112)	90%
Waseca - production expenses	(4,192)	(2,627)	60%
Waseca - DDA	(1,166)	(166)	602%
OEOG - DDA	(4)	-	n/a
Total	\$ (20,108)	\$ (10,446)	93%

The Company follows the successful efforts method of accounting for oil and gas properties. Under this method of accounting, geological and geophysical costs are expensed as incurred, dry hole costs for exploratory wells are expensed upon the determination of a dry hole, and the Company is unable to capitalize a portion of salary costs that relate to capital activities. The result is a more volatile income statement as compared to companies which follow the "modified full cost method" of accounting under IFRS. Specifically, companies that followed full cost accounting under Canadian GAAP will continue to capitalize geological and geophysical costs incurred subsequent to acquiring the related land rights in accordance with IFRS 6: Exploration and Evaluation of Mineral Resources. Users of the Company's financial statements are cautioned to be mindful of these differences when attempting to compare the Company's results to those of its peers in the industry.

Depletion is only accrued on producing wells that have been classified as oil and gas assets. When a property is reclassified to oil and gas assets from exploration and evaluation assets, the Company then commences accruing depletion against the production on each well.

Oil and gas production expenses have increased over the prior year as both Orion and Waseca grew their operations by undertaking extensive drilling programs in 2011 and 2010. Production costs consist of operating expenses (e.g. processing the extracted natural gas, fuel, power and utilities associated with the field facilities); costs associated with the contracted field operators and protecting the well casing and tubing in the gathering systems and exploration expenses (consisting of seismic acquisition and interpretation, geological and geophysical consulting, mineral lease rentals on unproved properties) and costs related to wells that are abandoned and expensed as dry hole costs. Depreciation, depletion and amortization expenses (“DDA”) directly related to field equipment and production are also a material component of the costs to produce oil and gas.

Orion’s oil and gas production expenses and DDA for the three months ended March 31, 2011 are \$6.9 million and \$7.8 million respectively (2010: \$3.5 million and \$4.1 million respectively). The largest component of Orion’s production expenses processing costs for natural gas, electrical power and chemicals utilized to enhance production levels and prevent corrosion in the pipeline gathering system.

Waseca’s oil and gas production expenses and DDA for the three months ended March 31, 2011 are \$4.2 million and \$1.2 million respectively (2010: \$2.6 million and \$166 thousand respectively). Also included in production expenses were dry hole costs of \$486 thousand. Waseca expensed one dry hole during the first quarter of 2011 and also elected to write off the costs of two exploratory wells drilled in the fourth quarter of 2010 that were determined to be uneconomic to produce. Waseca’s second dry hole was a developmental offset to existing oil and gas assets and was capitalized during the quarter.

Orion has entered into a number of derivative financial contracts with investment grade counter-parties to manage fluctuations in commodity prices and may continue to do so. Realized derivative gains and losses represent actual cash settlements or receipts under the derivative contracts. Unrealized gains and losses represent the fair value of the expected market price to buy out the derivative contracts as at March 31, 2011 and may differ from what will eventually be realized. Orion’s hedge arrangements are not held for trading purposes. Realized losses of \$748 thousand (2010: realized loss of \$180 thousand) and unrealized losses of \$3.8 million (2010: unrealized loss of \$1.1 million) on commodity derivatives have been recognized in the first quarter of 2011 (see “Commodity price risk” below for additional information).

Other income and expenses – Agriculture segment

<i>(in thousands)</i>	For the Three Months Ended March 31,		
	2011	2010	% Change
General and administrative expenses	\$ (1,897)	\$ (1,074)	77%
Farm production expenses	(622)	(254)	145%
Other Farm Expenses (defined below)	(1,847)	(649)	100%
Crop costs of production and fair value adjustments	(1,439)	(565)	n/a
Fair value adjustment to biological assets	335	(77)	n/a
Total	\$ (5,469)	\$ (2,619)	109%

1. Other Farm Expenses is included in G&A in the Company’s first quarter 2010 interim financial statements.

Included in One Earth Farms’ G&A are expenses related to wages and benefits, consulting fees, directors’ fees, office expenses, professional fees and miscellaneous expenses. Management of One Earth Farms expects G&A to continue to grow as a result of its expanding operations, but at a significantly slower rate as it has most of the people and facilities in place to farm larger acreage.

One Earth Farms’ production expenses are comprised of direct livestock costs, including hay and feed, direct labour, equipment costs, fuel and depreciation and amortization of equipment directly used in the field. One Earth Farms’ production expenses for the three months ended March 31, 2011 are \$622 thousand (2010: \$255 thousand).

Farm expenses of \$1.8 million (2010: \$649 thousand) relate to the production of crops and livestock (“Other Farms Expenses”), but are not considered production expenses under IFRS. For the first quarter of 2011, Other Farm Expenses included \$930 thousand of crop and cattle land leases, \$395 thousand in depreciation and amortization of equipment used in the field to support the direct field operations, \$295 thousand related to wages and salaries and \$227 thousand in other miscellaneous expenditures.

During the first quarter of 2011, One Earth Farms recorded \$1.4 million (2010: \$565 thousand) in crop costs of production and fair value adjustments. The expense is primarily related to the carrying amount of the grain sold during the quarter and the reduction in fair value of the remaining grain held in inventory. The expense was partially offset by production inputs credits.

During the first quarter of 2011, One Earth Farms recorded \$335 thousand (2010: \$77 thousand) of fair value changes in the market value and through the sale of biological assets (livestock).

Management of the company expects farm production expenses and other farm expenses to increase significantly this year as One Earth Farms has more than doubled its land under management for the combined crop and cattle operations.

Equity loss in Stonegate Agricom

The equity loss on the investment in Stonegate Agricom is not included in other income and expenses, but impacts the Company's financial results. Stonegate Agricom's loss was primarily due to general and administrative expenses, stock based compensation expenses and foreign currency translation losses during period.

<i>(in thousands)</i>	For the Three Months Ended March 31,		
	2011	2010	% Change
Equity loss on Stonegate Agricom Ltd.	\$ (1,013)	\$ (411)	147%

Finance expenses

Under IFRS, interest expenses and accretion expense, are included as finance expenses. These individual amounts for Canadian GAAP have been reclassified for IFRS.

Interest and bank charges for the three months ended March 31, 2011 were \$922 thousand compared to \$193 thousand in the first quarter of 2010. The expense in 2011 relates to interest charges on the Orion Credit Facilities (defined below) as well as a commitment fee payable to the lenders related to the increase in the total credit facilities from \$60.0 million to \$120.0 million. Conversely, in 2010 the expense is mainly related to interest charges on bank debt. As at March 31, 2011, Orion had \$50.1 million of bank debt outstanding (March 31, 2010: \$17.6 million) on its Orion Credit Facility. The Orion Credit Facility bears interest at the prime rate, bankers' acceptance rate or at LIBOR plus a spread determined by Orion's debt-to-EBITDA ratio. Orion's total effective interest rate for the three months ended March 31, 2011 was 4.3% (2010: 4.0%).

<i>(in thousands)</i>	For the Three Months Ended March 31,		
	2011	2010	% Change
Accretion on decommissioning provision	\$ 114	\$ 63	81%
Interest and bank charges	922	193	378%
Other finance expenses	-	31	-100%
Total	\$ 1,036	\$ 287	459%

Non-controlling interest

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Their share of net income and comprehensive income is recognized directly in equity. Changes in the Company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions. For the three months ended March 31, 2011, SRC recognized a \$1.6 million (2010: 1.0 million) recovery for the minority interests' share of the net losses in Orion, Waseca, One Earth Farms and OEOG.

Common shares issued and outstanding

As at March 31, 2011, the Company had 113,376,783 common shares issued and outstanding compared to 113,405,883 as at December 31, 2010. The decrease in common shares during the period is the result of 29 thousand common shares repurchased through the Company's 2010 NCIB at an average price of \$4.49 per common share (including commissions).

Net earnings (loss) for the period attributable to shareholders of the Company

<i>(in thousands)</i>	For the Three Months Ended March 31,			% Change
	2011	2010		
Corporate	\$ 24,052	\$ (3,629)		-763%
Energy	(4,177)	(1,654)		153%
Agriculture	(3,754)	(2,204)		70%
Total	\$ 16,121	\$ (7,487)		-315%

Net earnings (loss) per share (basic and diluted)

	For the Three Months Ended March 31,			% Change
	2011	2010		
EPS (basic)	\$ 0.14	\$ (0.08)		n/a
EPS (diluted)	\$ 0.14	\$ (0.08)		n/a

Note: Using the Treasury Method for the purpose of calculating earnings per share, the Company had 113,380,016 weighted average common shares issued and outstanding and 113,408,595 common shares fully diluted for the three months ended March 31, 2011.

For the three month period ended March 31, 2011, the Company reported net income attributable to the shareholders of the Company of \$16.1 million (\$0.14 gain per share – basic and diluted) compared to a net loss of \$7.5 million (\$0.08 loss per share – basic and diluted) reported in the comparative period of 2010.

CONSOLIDATED LONG-TERM ASSETS AND INVESTMENTS

<i>(in thousands)</i>	As at			% Change
	Mar. 31, 2011	Dec. 31, 2010		
Investments (a)	\$ 57,086	\$ 66,057		-14%
Investment in Stonegate Agricom (b)	20,211	31,491		-36%
Property, plant & equipment ("PP&E") (c) (d) (e)	240,963	214,954		12%
Exploration and evaluation assets (f)	14,582	15,326		-5%
Long-term biological assets (g)	5,575	2,633		112%
Deferred assets	4,822	7,323		-34%
Total	\$ 343,239	\$ 337,783		2%

(a) Investments

<i>(in thousands)</i>	As at			Change Derived from	
	Mar. 31, 2011	Dec. 31, 2010	Change in Value	Net Capital Invested	Total Change in Market Value
Public securities	\$ 6,731	\$ 9,384	\$ (2,653)	\$ (4,286)	\$ 1,633
Private securities	50,355	56,673	(6,318)	-	(6,318)
Total	\$ 57,086	\$ 66,057	\$ (8,971)	\$ (4,286)	\$ (4,685)

The Company's investment portfolio decreased to \$57.1 million as at March 31, 2011 compared to \$66.1 million as at December 31, 2010. The change in the portfolio is the result of a \$1.6 million increase in the market value of certain public securities, which was partially offset by the net disposition of other public securities for proceeds of \$4.3 million. The market value of private securities held decreased by \$6.3 million due to a \$5.2 million decrease in VAUH and a \$1.1 million decrease in the market value of UAG. The value of VAUH decreased, as did all uranium stocks, as a result of the nuclear accident in Japan while the change in value of UAG was due to a change in the U.S. and Canadian dollar foreign exchange rate.

If an investment is deemed to suffer an other than temporary decline in value, the impairment is recorded in the statement of operations. The decline in value of VAUH was not deemed to have become impaired and recorded as a decrease in the market value of the security.

(b) Investment in Stonegate Agricom

In the first quarter of 2011, the Company's investment in Stonegate Agricom decreased by \$11.3 million from the sale of common shares and by \$1.0 million for its share of Stonegate Agricom's loss.

(c) PP&E – consolidated

<i>(in thousands)</i>	As at		% Change
	Mar. 31, 2011	Dec. 31, 2010	
Corporate	\$ -	\$ -	0%
Energy	220,595	200,728	10%
Agriculture	20,368	14,225	43%
Total	\$ 240,963	\$ 214,954	12%

The Company's consolidated PP&E increased by \$26.0 million due to additional investment in the Energy and Agriculture segments. See below for additional information.

(d) PP&E – Energy segment

<i>(in thousands)</i>	As at		% Change
	Mar. 31, 2011	Dec. 31, 2010	
Orion	\$ 194,719	\$ 184,238	6%
Waseca	25,841	16,453	57%
OEOG	34	37	-8%
Total	\$ 220,595	\$ 200,728	10%

PP&E (net of depreciation, depletion and amortization expense) increased significantly in the Energy segment. The increase is primarily the result of the first quarter 2011 drilling programs at Orion and Waseca. Orion recorded capital expenditures for first quarter 2011, before corporate acquisitions, asset retirement costs and drilling royalty credits of \$24.5 million (2010: \$19.1 million). On November 30, 2010, Orion acquired all issued and outstanding shares of a private company and the undivided interest in a general partnership for cash consideration of \$6.6 million. The newly acquired partnership holds properties located adjacent to the Orion's Redwater light oil production operations.

The capital expenditure additions to PP&E were partially offset by \$7.8 million of depreciation, depletion and amortization (2010: \$4.1 million) and \$1.2 million of drilling royalty credits (2010: \$4.2 million). Orion drilled 12 development wells (11.8 net) during the first quarter of 2011 at 100% success rate. Orion's total land position as of the date of this MD&A is 57,696 gross acres (2010: 45,925 net acres).

Waseca recorded additions and transfers from intangible assets of \$7.5 million (2010: \$3.0 million). The capital expenditure additions to PP&E were partially offset by \$1.2 million of depreciation, depletion and amortization (2010: \$166 thousand). Waseca's total land position as of the date of this MD&A is 19,070 hectares 47,123 acres (2010: 47,123 acres).

At March 31, 2011, Waseca performed an impairment assessment on their oil and gas assets and completed an impairment test when indicators of possible impairment were present. Orion completed a quarterly review of impairment indicators. Neither Orion nor Waseca identified any indicators of impairment as at March 31, 2011 (March 31, 2010: \$nil).

Depreciation, depletion and amortization of the Energy PP&E is included as part of oil and gas operating and production costs.

(e) PP&E – Agriculture segment

In the first quarter of 2011, One Earth Farms invested \$7.1 million in PP&E, primarily in acquiring \$6.9 million of production and operational machinery and equipment. Depreciation and amortization of the farm production equipment is included as part of production costs whereas depreciation and amortization of non-production equipment is included in G&A, a component of Other Farm Expenses.

(f) Exploration and evaluation assets

<i>(in thousands)</i>	As at		% Change
	Mar. 31, 2011	Dec. 31, 2010	
Orion	\$ -	\$ -	n/a
Waseca	8,542	11,824	-28%
OEOG	6,040	3,502	72%
Total	\$ 14,582	\$ 15,326	-5%

The Company's exploration and evaluation assets are comprised of Waseca and OEOG's assets related to the exploration for and evaluation of oil and natural gas reserves. When the Company drills a successful exploratory well, its costs are classified as exploration and evaluation assets along with the associated land lease costs. Each financial reporting date, management evaluates the performance of each well and considers any attributable proved reserves when making a determination of whether or not the costs should be reclassified to PP&E. While classified as an intangible asset, no depletion is booked against the associated revenue. Dry holes comprise both of wells that were deemed dry holes upon drilling completion and wells which were put on production but ultimately were not economic to produce.

During the first quarter of March 31, 2011, Waseca's exploration and evaluation assets decreased by \$3.3 million. The decrease was the result of \$10.2 million of transfers to PP&E and \$486 thousand expensed to exploration costs as dry hole costs (\$0.4 million for period ended March 31, 2010), which was partially offset by additions of \$6.6 million and \$751 thousand in transfers from tubular steel inventory.

During the first quarter of March 31, 2011, OEOG's exploration and evaluation assets increased by \$2.5 million through the exploration of oil and gas reserves.

An impairment test is performed when an exploration and evaluation asset is transferred to PP&E. Waseca did not identify any properties that were impaired at the time of transfer to PP&E. Waseca also performed an impairment assessment on its remaining exploration and evaluation assets and did not identify any indicators of impairment March 31, 2010: \$nil).

(g) Long-term biological assets

One Earth Farms long-term biological assets are comprised of its 3,940 cow breeding herd (December 31, 2010: 1,902). As at March 31, 2011, the breeding herd was valued at \$5.6 million (December 31, 2010: \$2.6 million).

SUMMARY OF QUARTERLY RESULTS (UNAUDITED) ¹

Three Months Ended	Total Revenues	Net Earnings (Loss)	Net Earnings (Loss)	Net Earnings (Loss)
	(\$000's)	(\$000's)	per share (basic)	per share (diluted)
Mar. 31, 2011	\$ 28,772	\$ 16,121	\$0.14	\$0.14
Dec. 31, 2010	27,994	(7,464)	(0.07)	(0.07)
Sept. 30, 2010	21,508	(6,914)	(0.07)	(0.07)
Jun. 30, 2010	20,768	4,299	0.04	0.04
Mar. 31, 2010	15,447	(7,487)	(0.08)	(0.08)
Dec. 31, 2009	9,891	740	0.01	0.01
Sept. 30, 2009	1,666	(3,040)	(0.04)	(0.04)
Jun. 30, 2009	\$ 753	\$ 490	\$ 0.01	\$ 0.01

1. Note: The net earnings (loss), net earnings (loss) per share (basic) and net earnings (loss) per share (diluted) for the quarters ended March 31, 2011 and March 31, 2010 have been prepared in accordance with IFRS. All other periods have been prepared in accordance with Canadian GAAP.

FINANCING ACTIVITIES BY COMPANY

Consolidated long-term debt, with no recourse to SRC

It has been the Company's policy to preserve a financially strong parent company that has the funds available to support the growth of existing operating companies and make new investments. This means that it is the responsibility of the individual operating companies to support their own debt without any recourse to SRC or the other operating companies. Currently, only Orion has material long-term debt outstanding.

SRC

During the first and second quarters of 2011, the Company sold 28.8 million shares of Stonegate Agricom for gross proceeds of \$50.3 million.

Orion

In 2011, Orion expects to fund future capital expenditures with cash flow from operations and unused capacity under the \$120.0 million (committed \$100.0 million syndicated revolving credit facility and \$20.0 million operating facility), which Orion's lenders increased from \$60.0 million effective March 25, 2011 ("Orion Credit Facilities"). At March 31, 2011, Orion had drawn \$50.1 million or 42% of its authorized borrowing amount, leaving sufficient unused credit available to fund ongoing capital expenditures and working capital deficiencies together with internally-generated funds. Repayments of principal are not required during the committed term, provided that Orion remains compliant with all covenants under the credit agreement and does not exceed the authorized borrowing amount. The Orion Credit Facilities mature May 30, 2012 and may be extended for an additional 365 days at the lender's discretion. If the lender does not elect to extend, borrowings under the Orion Credit Facilities, together with related interest charges, will be payable on May 30, 2013 upon maturity.

Working capital is the amount by which current assets exceed current liabilities. The capital intensive nature of Orion's business can result in working capital deficiencies during periods of significant capital investment, which is managed by maintaining sufficient credit facilities to accommodate such periods. In addition, Orion manages liquidity risk through prudent use of commodity price risk management and by maintaining high working interest properties, which allows them to actively manage production and the capital expenditure process. At March 31, 2011, Orion had a working capital deficiency of \$8.9 million, compared to a working capital deficiency of \$12.6 million at December 31, 2010. The decrease in working capital is partly due to a decrease in trade and other payables due to decreased capital activity at the end of the first quarter compared to December 2010, as well as an increase in trade and other receivables at March 31, 2011 reflective of higher revenues as a result of a stronger pricing environment. This decrease in liabilities and increase in trade and other receivables was offset by an increase to the liability for derivative financial instruments at March 31, 2011 compared to December 31, 2010.

Waseca

During the first quarter of 2011, Waseca obtained a credit facility totalling \$12.5 million with a Canadian chartered bank ("Waseca Credit Facility"). The Waseca Credit Facility is a revolving operating demand loan bearing interest at the bank's prime rate plus a range of 0.75% to 2.50% per annum. The range of interest rates on the facilities are based on a grid system which is dependent on Waseca's trailing debt to funds flow ratios ranging from less than 1:1 to greater than 3:1. Waseca also incurs standby fees on the undrawn portion of the facilities of 0.20% to 0.45% per annum based on the same grid system. Both interest and standby fees are payable monthly.

The Waseca Credit Facility is secured by a general assignment of book debts and a \$50 million debenture with a floating charge over all of Waseca's assets with a negative pledge and undertaking to provide fixed charges on the company's producing properties at the request of the bank. As of June 7, 2011, Waseca had not drawn against the Waseca Credit Facility.

One Earth Oil & Gas

OEOG did not undertake any financing activity during the first quarter of 2011. During the fourth quarter of 2010, SRC purchased 7 million OEOG common shares for \$1.00 per common share as part of an \$8.2 million private placement completed by OEOG.

One Earth Farms

During the first quarter of 2011, the Company exercised its remaining 20 million OEF Warrants. As described above, One Earth Farms also closed the first tranche of a private placement with outside investors for gross proceeds of approximately \$31 million. Subsequent to quarter end, One Earth Farms raised an additional \$8.4 million total gross proceeds (\$3.9 million in the second tranche of the private placement and \$4.5 through the agent's over-allotment).

Stonegate Agricom

Stonegate Agricom did not undertake any financing activity during the first quarter of 2011.

LIQUIDITY AND CAPITAL RESOURCES

Current assets – consolidated

The Company continues to maintain a strong balance sheet, to provide flexibility to assist in growing the value of subsidiaries organically or through accretive acquisitions to capitalize on new opportunities when appropriate.

<i>(in thousands)</i>	As at		
	Mar. 31, 2011	Dec. 31, 2010	% Change
Cash and cash equivalents	\$ 138,435	\$ 91,315	52%
Trade and other receivables	33,740	29,903	13%
Gold bullion	103,006	105,597	-2%
Farm inventory	3,959	4,403	-10%
Current biological assets	1,456	1,556	-6%
Total	\$ 280,596	\$ 232,774	21%

Current assets – cash and cash equivalents

<i>(in thousands)</i>	As at		
	Mar. 31, 2011	Dec. 31, 2010	% Change
Corporate	\$ 83,155	\$ 59,512	40%
Energy	13,110	23,086	-43%
Agriculture	42,171	8,717	384%
Total	\$ 138,435	\$ 91,315	52%

As at March 31, 2011, the Company held consolidated \$138.4 million in cash and cash equivalents. The Company holds unconsolidated cash and cash equivalents of \$83.2 million compared to \$59.5 at December 31, 2010. The increase in cash is from the sale of Stonegate Agricom shares described above, which was offset by the Company's investment in One Earth Farms and net cash expenditures on G&A and the management fee of approximately \$2.3 million. Subsequent to quarter end, the Company sold an additional 3.8 million common shares of Stonegate Agricom at a price of \$1.75 per share for aggregate gross proceeds to SRC of \$6.6 million.

As at March 31, 2011, Waseca held \$10.6 million in cash and cash equivalents, One Earth Farms held \$42.2 million in cash and cash equivalents and OEOG held \$2.5 million in cash and cash equivalents. Subsequent to quarter end, One Earth Farms raised an additional \$8.4 million from independent investors (see above, "Financing activities by company – One Earth Farms" for additional information).

Current assets – consolidated, excluding cash and cash equivalents

As at March 31, 2011, the Company's trade and other receivables were primarily comprised of \$17.0 million for Orion, \$2.9 million for Waseca, \$2.1 million for One Earth Farms and \$571 thousand for OEOG. The carrying amount of the trade and other receivables incorporates management's assessment of credit risk. For additional information, see "Credit risk" below. Included in trade and other receivables are prepaid expenses. As at March 31, 2011, prepaid expenses were comprised of balances of \$9.3 million from One Earth Farms, \$1.0 million from Orion and \$800 thousand from the other entities. One Earth Farms' prepaid expenses are primarily related to the pre-purchase of production inputs for the 2011 crop season. Production inputs paid for, but not delivered are classified as a prepaid expense.

Orion's commodity price hedging instruments are derivatives and are recorded at their fair value using quoted market prices and are classified as level 2 in the fair value hierarchy. As at March 31, 2011, the derivative financial instruments were recorded at \$7.2 million and classified as a current liability compared to carrying a fair market value of \$3.4 million and also classified as a current liability as at December 31, 2010.

The Company records the value of its gold bullion at fair market value. As at March 31, 2011, the Company's gold bullion had a market value of \$103.0 million (Dec. 31, 2010: \$105.6 million) compared to a cost of \$75.4 million. As at March 31, 2011, One Earth Farms' farm inventory was comprised of \$1.6 million of grain harvested in 2010 and available for sale, \$994 thousand of pre-purchased production inputs for the 2011 crop season and \$319 thousand in cattle feed. Pre-purchased production inputs are classified as inventory if One Earth Farms has taken delivery.

As at March 31, 2011, One Earth Farms' current biological assets was comprised of \$1.5 million of feeder calves and finishing cattle.

Current assets – Corporate

The Company's unconsolidated current assets increased by \$21.2 million as at March 31, 2011 compared to as at December 31, 2010 primarily due to the sale of Stonegate Agricom common shares, which was partially offset by G&A and the management fee paid to SCLP.

<i>(in thousands)</i>	As at		
	Mar. 31, 2011	Dec. 31, 2010	% Change
Cash and cash equivalents	\$ 83,155	\$ 59,512	40%
Gold bullion	103,006	105,597	-2%
Trade and other receivables	1,623	1,478	10%
Total	\$ 187,784	\$ 166,587	13%

Current assets – by segment

The Company's consolidated current assets by segment increased by \$47.8 million as at March 31, 2011 compared to as at December 31, 2010. One Earth Farms current assets increased by \$36 million over the comparative period as a result of their financing activity during the quarter, which was partially offset by operating losses and the purchase of farm equipment and machinery and long-term biological assets (breeding cattle). Energy segment current assets decreased by \$9.5 million as Waseca and OEOG incurred expenditures related to their exploration and evaluation assets.

<i>(in thousands)</i>	As at		
	Mar. 31, 2011	Dec. 31, 2010	% Change
Corporate	187,784	166,587	13%
Energy	33,865	43,333	-22%
Agriculture	58,948	22,854	158%
Total	\$ 280,597	\$ 232,774	21%

Current liabilities – consolidated

<i>(in thousands)</i>	As at		
	Mar. 31, 2011	Dec. 31, 2010	% Change
Trade and other payables	\$ (29,634)	\$ (37,315)	-21%
Derivative financial instruments	(7,227)	(3,432)	n/a
Tax payable	(2,012)	(92)	2089%
Total	\$ (38,873)	\$ (40,839)	-5%

The Company's trade and other payables are primarily comprised of \$19.7 million related to Orion, \$6.8 million related to Waseca, \$1.7 million related to One Earth Farms, \$811 thousand related to OEOG and \$617 thousand related to SRC. Included in trade and other payables are expenditures related to G&A, drilling and completing oil and gas wells, expenditures on oil and gas facilities, exploration and evaluation activities and accrued royalties. The Company's consolidated trade and other payables are all in the normal course of business and each entity has sufficient capital to pay its current and expected obligations.

Working capital – consolidated

<i>(in thousands)</i>	As at			% Change
	Mar. 31, 2011	Dec. 31, 2010		
Current assets	\$ 280,597	\$ 232,774		21%
Current liabilities	(38,873)	(40,839)		-5%
Total	\$ 241,724	\$ 191,934		26%

Working capital (defined as current assets minus current liabilities) has increased to \$241.7 million from \$191.9 million as at December 31, 2010. The increase in working capital compared to the year-ended December 31, 2010, is primarily attributed to the increase in cash at the Company and One Earth Farms.

COMMITMENTS - PAYMENTS DUE BY PERIOD (AS AT MARCH 31, 2011)

<i>(in thousands)</i>	Total	Payments Due by Period			
		< 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Bank loan - principal (a)	\$ 50,078	\$ -	\$ 50,078	\$ -	\$ -
Bank loan - interest (a)	5,643	2,707	2,936	-	-
Derivative financial instruments (b)	7,227	7,227	-	-	-
Farm leases (c)	20,733	4,051	6,085	4,582	6,015
Operating leases (d)	5,572	1,614	2,506	1,337	115
Equipment lease	1,434	1,228	206	-	-
	\$ 90,687	\$ 16,828	\$ 61,810	\$ 5,919	\$ 6,131

(a) Bank loan – principal and Interest

As at March 31, 2011, Orion had drawn down \$50.1 million on its Orion Credit Facilities. Additional information on the Orion Credit Facilities can be found in “*Other income and expense – Energy segment*” above.

(b) Derivative financial instruments

Orion uses derivative financial instruments to manage its exposure to movements in oil and gas prices. These instruments are not used for trading or speculative purposes. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are remeasured at their fair value at each subsequent reporting date. Derivatives are carried as assets when their fair value is positive and as liabilities when the fair value is negative. Transaction costs are recognized in profit or loss when incurred. Orion has not designated its financial derivative contracts as effective accounting hedges, and thus not applied hedge accounting. As at March 31, 2011, the carrying value of Orion’s derivative financial instrument was a \$7.2 million liability.

(c) Farm Leases

Farm leases encompass contractual agreements with First Nations regarding the rental of cultivated land for growing crops and the farming of haylands. The term of the lease agreements range between five years to seven years.

In the first year of each farm lease, the rents have been contractually established at a current fair value determination rate per cultivated acre. In subsequent years, One Earth Farms will pay a rent based on the fair value determination rate of the specific parcel of land. The fair value determination rate of the land is determined through a defined process that will include, in part, a review by an independent professional land valuator. For the purposes of calculating the commitment in future years, management has assumed that the rent is equal to the contracted rent in the first year of the agreement.

(d) Premises Leases

On November 1, 2010, the Company entered into a sublease for office space in downtown Toronto. The sublease expires December 31, 2013. The estimated aggregate annual rent obligations are \$154 thousand in 2011 through to 2013. In addition, the Company is responsible for \$240 thousand of leasehold improvements and furniture rentals related to the subleased premises.

Orion has entered into a premises lease for office space in Calgary, Alberta. The lease commenced August 1, 2010 for five-year term and has an estimated annual cost of \$895 thousand.

One Earth Farms has entered into operating premises lease for office space in Saskatoon, Saskatchewan. The lease commenced May 31, 2010 for five-year term. The estimated aggregate annual rent obligations are \$154 thousand in 2011 through to 2014 and \$77 thousand in 2014.

Waseca has entered into a premises lease for office space in Calgary, Alberta. The lease commenced December 1, 2008 for three-year term and has an estimated annual cost of \$292 thousand for 2011.

OEOG has entered into a sublease lease for office space in Calgary, Alberta. The sublease has a remaining term of 12 months. The estimated annual rent obligation is \$85 thousand for 2011 and \$29 thousand for 2012.

(e) SRC Management Services Agreement

On September 5, 2007, the Company entered into the MSA with Sprott Consulting Limited ("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 quarter-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 (up to a maximum of 12%). 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. No amount has been included in the above commitments schedule for fees payable under this agreement. Additional information on fees payable under the MSA can be found in "*Impact on the MSA under the Transition to IFRS*".

(f) One Earth Farms Management Services Agreement

On December 22, 2009, One Earth Farms entered into the OEF MSA with SCLP, an entity with directors and management in common. Pursuant to the terms of the OEF MSA, SCLP was appointed by the Company to manage, or engage others to manage, the undertaking and affairs of One Earth Farms. In consideration for providing these services, One Earth Farms agreed to pay SCLP a services fee equal to 0.5% of the net asset value (as defined in the OEF MSA) of One Earth Farms calculated and payable at the end of each calendar quarter based on the average quarter-end net asset value of One Earth Farms. One Earth Farms may also pay a performance fee and termination fee for realizing a liquidity event (as defined in the OEF MSA) within five years of the date of the agreement. As a result of the Fee Abatement, the OEF MSA currently has no incremental impact on the Company's financial statements. As such, no amount has been included in the above commitments schedule for fees payable under this agreement. On December 31, 2010, One Earth Farms and SCLP terminated the OEF MSA and Fee Abatement to simplify the company's capital structure.

TRANSACTIONS WITH RELATED PARTIES

The Company entered into the following transactions with related parties during the period ended March 31, 2011:

- Management fees of \$2.3 million (2010 - \$1.5 million) were incurred, which are payable to SCLP, an entity with directors and officers in common.

Transactions with related parties are recorded at the exchange amount, being the price agreed between the parties. Transactions in the normal course of business were measured at the monetary exchange amount which is the amount of consideration established, agreed to and paid by the related parties based on standard commercial terms.

CRITICAL ACCOUNTING ESTIMATES

Estimates by management represent an integral component of the consolidated financial statements prepared in conformity with IFRS. 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 statements were prepared.

The Company views the following accounting estimates as critical:

- Income tax;
- Proved oil and gas reserves;
- Oil and gas properties;
- Depreciation and depletion;
- Asset retirement obligations;
- Grain inventory;
- Purchased inventory;
- Cattle feed inventory;
- Biological assets;
- Livestock;
- Grain crops;
- Stock based compensation and performance shares; and
- Revenue recognition.

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. Deferred tax assets and liabilities are measured using substantively enacted tax rates. Deferred tax assets are recognized only to the extent that management determines that it is more likely than not that the deferred income tax asset will be realized.

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.

Proved oil and gas reserves

Under NI 51-101 detailed rules have been developed to provide uniform reserves recognition criteria within the oil and gas industry in Canada. However, the process of estimating oil and gas reserves is inherently judgmental. Technical reserves estimates are made using available geological and reservoir data as well as production performance data. As new data become available, reserves estimates may change. Reserves estimates are also impacted by economic conditions, primarily commodity prices. As economic conditions change, production may be added or may become uneconomical and no longer qualify for reserves recognition.

Oil and gas properties

The Company follows the successful efforts method of accounting for oil and gas activities. Costs to acquire mineral interests 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 developed reserves using the unit of production method. Acquired resource properties with proved reserves are also 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, 2010.

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.

Orion, as a standalone entity, follows the full cost accounting method of accounting for oil and gas activities. As a result, to consolidate Orion's financial statements, the Company reconciles Orion's oil and gas properties to the successful efforts method.

Oil and gas properties and equipment increased by \$19.9 million to \$220.6 million at March 31, 2011 from \$200.7 million at December 31, 2010.

Each quarter end, the Orion and Waseca assesses their oil and gas properties and exploration and evaluation assets for indicators of impairment. Orion and Waseca also reassess properties that were impaired previously to determine if changed circumstances warrant the reversal of the historical impairment.

The Company did not identify any properties that required impairment at March 31, 2011, nor identify the ability to reverse any historically impaired properties. At December 31, 2010, Waseca performed an impairment assessment on each of its properties and completed an impairment test when indicators of possible impairment were present. Waseca concluded that one of its oil and gas properties was impaired due to a downward revision in estimated proved reserves, resulting in a write down of \$368 thousand.

Depreciation and depletion

As indicated above, the estimate of proved reserves is critical to calculating the unit of production depletion rates. Depreciation and depletion of capitalized costs of proved oil and gas properties is calculated using the unit of production method based upon estimated proved reserves for property acquisitions and estimated proved developed reserves for exploration and development costs over the life of the production contract. The determination of whether or not a property is proved directly impacts the depletion expense.

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. Numerous assumptions and judgments are required in the fair value calculation of the Company's decommissioning liability including the ultimate settlement amounts, inflation factors, risk-free rates, timing of settlement, and changes in the legal, regulatory, environmental and political environments. On a periodic basis, management will review these estimates and changes if any, and 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.

Unwinding of the discount is reported as accretion expense and grouped with finance expense 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.

Orion management calculated the ARO using a weighted average risk free interest rate of 3.6% and an average inflation rate of 1.8%. Orion's management has estimated the net present value of its ARO to be \$11.8 million at March 31, 2011 (December 31, 2009: \$11.8 million) based on a total future undiscounted liability of \$24.0 million. These costs are expected to be incurred over the next two to thirty years.

Waseca's management calculated its ARO using a discount rate of 2.94% and an inflation rate of 2.0%. It is assumed that the wells will be abandoned seven years from the date drilled. Waseca's management has estimated the net present value of its ARO to be \$2.7 million at March 31, 2011 (December 31, 2010: \$2.0 million) based on a total future undiscounted liability of \$3.2 million.

OEOG's management calculated its ARO using a discount rate of 2.75% and an inflation rate of 2.0%. It is assumed that the wells will be abandoned seven years from the date drilled. OEOG's management has estimated the net present value of its ARO to be \$133 thousand at March 31, 2011 (December 31, 2010: \$88 thousand) based on a total future undiscounted liability of \$205 thousand.

Grain inventory

Grain inventories available for immediate delivery are recorded at the net farm price (market price less selling costs) as the products have a reliable and realizable market price with predictable disposal costs. Standing crop inventories not available for immediate delivery (crops growing in the field) are recorded at the lower of input cost and net realizable value. The net realizable value is obtained by multiplying the provincial crop insurance agency's area average yield for each crop times the net farm price (market price less selling costs). Net farm price is based on the monthly average price for the last month of the quarter. One Earth Farms' grain inventory available for immediate delivery was \$1.6 million as at March 31, 2011 (December 31, 2010: \$3.5 million).

Purchased inventory

Purchased inventories are recorded at the lower of cost and net realizable value. Inventories available for immediate delivery are recorded at the net farm price (market price less selling costs) as the products have a reliable and realizable market price with predictable disposal costs. Purchased inventory (farm production inputs) was \$1.0 million as at March 31, 2011 (December 31, 2010: \$606 thousand).

Cattle feed inventory

Cattle feed inventory, comprised of hay and green-feed inventory, was \$320 thousand as at March 31, 2011 (December 31, 2010: \$270 thousand).

Biological assets

A biological asset is a living animal or plant and an agricultural activity is the biological transformation of biological assets for sale, into agricultural produce or into additional biological assets. Biological assets are recognised at fair value less estimated costs to sell. Fair value is measured with reference to an active market adjusted for its present location and condition. Fair value changes are recognised in profit or loss. All the expenses incurred in establishing and maintaining the assets is recognised in profit or loss. Finance charges are not capitalised.

Livestock

Livestock has been valued at fair value less point-of-sale costs at the reporting date in accordance with International Accounting Standard ("IAS") 41, *Agriculture*. Fair value is based on average weight per head and average market prices. Valuation is dependent on a number of factors including estimated herd quality, market prices, and bred status and age of cattle.

Livestock intended to be sold are classified as current biological assets. The Company's long-term biological assets consist of the breeding herd not intended to be sold. As at March 31, 2011, the value of current and long-term biological assets was \$1.5 million and \$5.6 million respectively (December 31, 2010: \$1.6 million and \$2.6 million respectively).

Grain Crops

Standing crops of grain are valued at fair value less point-of-sale costs at the time of harvesting in accordance with IAS 41 *Agriculture* and are classified as current biological assets.

Immature standing crop consists of growing seedlings that have been in the ground for less than 90 days. The fair value of immature standing crops is based on insured value.

Mature standing crop consists of growing seedlings that have been in the ground for greater than 90 days. Fair value of mature standing crops is based on a number of factors including estimated crop yield, grade and expected market price less harvesting and point-of-sale costs.

Upon harvest, grain is transferred to inventories at fair value less estimated point of sale costs at the date of harvest.

Stock based compensation and performance shares

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. As at the date hereof, only independent directors have been awarded stock options.

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.

Orion, Waseca and One Earth Farms have established stock option plans for the benefit of employees, officers, directors and consultants. In addition, Orion and Waseca have established performance share plans for the benefit of these same individuals. Effective July 1, 2011, OEOG intends to establish a stock option plan for its employees, officers, directors and consultants. OEOG also intends to establish a performance warrant plan at that same time.

The estimation of fair value of the performance shares is similar to the valuation for the options. The primary difference is in the recognition of the value of the performance shares, whose value is not recorded for financial statement purposes until such time as the performance condition has been met.

The non-cash compensation expense relating to the issuance of stock options and performance warrants by the Company and its subsidiaries was \$1.2 million for the three-month period ending March 31, 2011 compared to \$1.2 million in 2010.

Revenue Recognition

Revenue from the sale of crude oil, natural gas and natural gas liquids is recognized when delivery has taken place and the significant risks and rewards of the crude oil, natural gas and natural gas liquids 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).

Revenue from grain and livestock sales is recognized when the product is delivered and title and risk of loss have passed to the buyer. Net sales are reduced by fees paid or payable to relevant commodity marketing boards.

ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

In November 2009, the International Accounting Standards Board ("IASB") issued IFRS 9, *Financial Instruments* which becomes effective for annual periods beginning on or after January 1, 2013.

In May 2011, the IASB issued the following standards: IFRS 10, *Consolidated Financial Statements* ("IFRS 10"), IFRS 11, *Joint Arrangements* ("IFRS 11"), IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"), IAS 27, *Separate Financial Statements* ("IAS 27"), IFRS 13, *Fair Value Measurement* ("IFRS 13") and amended IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

IFRS 9 – Financial instruments

IFRS 9 was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

IFRS 10 – Consolidation

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation — Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.

IFRS 11 - Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to Other Standards

In addition, there have been amendments to existing standards, including IAS 27, *Separate Financial Statements* ("IAS 27"), and IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

The Company has not yet assessed the impact of these new standards or determined if it will adopt the standards early.

ADOPTION OF IFRS

In 2010, the Canadian Institute of Chartered Accountants' ("CICA") handbook was revised to incorporate IFRS and required publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011.

This is the first year in which the Company is preparing its financial statements in accordance with IFRS as issued by the IASB. The accounting policies that follow are those applied in preparing the interim consolidated financial statements for the period ended March 31, 2011.

IFRS 1, *First-time Adoption of International Financial Reporting Standards*, which governs the first-time adoption of IFRS, in general requires accounting policies to be applied retrospectively to determine the opening statement of financial position at the Company's transition date as at January 1, 2010 (the "Date of Transition") and contains certain exemptions and exceptions from retrospective application on the transition to IFRS. The exemptions and exceptions the Company has applied and are considered applicable to the Company are the following:

MANDATORY EXCEPTION

The following exception is mandatory under IFRS 1 and is applicable to the Company:

- Estimates - Estimates under IFRS 1 as at the Date of Transition should be consistent with estimates made for the same date under Canadian GAAP, unless there is evidence that those estimates were an error. The Company's estimates under IFRS at the Date of Transition were consistent with those made under Canadian GAAP in accordance with IFRS 1.

All other mandatory exceptions required under IFRS 1 were not applicable to the Company

FIRST-TIME ADOPTION EXEMPTIONS APPLIED

Business combinations

Under this exemption, the Company can elect not to restate historic business combination transactions completed in accordance with Canadian GAAP prior to the Date of Transition.

Share-based payments

This exemption allows SRC to not apply IFRS 2, *Share-based Payment ("IFRS 2")*, to equity instruments granted after November 7, 2002 and vested before the Date of Transition.

Asset retirement obligation

This exemption allows the Company on the Date of Transition to determine what the depletion of the ARO asset would have been under IFRS when the corresponding liability was incurred.

Arrangements containing leases

The exemption allows SRC to evaluate leases at the Date of Transition rather than the date of lease inception.

Cumulative translation adjustment

Cumulative translational differences for all foreign operations with a functional currency other than the Canadian dollar may be deemed zero at transition.

Borrowing costs

The Company elected to apply IFRS relating to borrowing costs prospectively from the Date of Transition. Borrowing costs relating to qualifying assets, if any, before that date were expensed as incurred.

HIGH LEVEL IMPACT ON TRANSITION TO IFRS

Quantification of the financial reporting impact to the Company's IFRS opening balance sheet as at January 1, 2010 ("OBS") has been completed and the most significant adjustments are the following:

Total assets have increased by \$11.3 million. The material adjustments relate to a \$9.5 million increase recorded to gold bullion from cost to fair market value, a \$472 thousand decrease in prepaid expenses and a \$2.8 million increase in PP&E as an offset to the increase of the ARO in Orion and Waseca.

Non-controlling interest is presented as a component of equity rather than as a long-term liability.

Excluding the impact of minority interest being reclassified (see note (d) below for additional information), liabilities have increased by \$3.4 million. This relates to the increase in the ARO in Orion and Waseca and the deferred tax liability increase arising as a result of the increase recorded to gold bullion.

RECONCILIATION BETWEEN CANADIAN GAAP AND IFRS FOR THE CONSOLIDATED STATEMENTS OF INCOME FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND THE YEAR ENDED DECEMBER 31, 2010

(in thousands of Canadian dollars)

	Note	For the three months ended Mar. 31, 2010			For the twelve months ended Dec. 31, 2010		
		Canadian GAAP	Adjustments on transition to IFRS	IFRS	Canadian GAAP	Adjustments on transition to IFRS	IFRS
Revenue							
Oil and gas revenue		\$ 18,488	\$ -	\$ 18,488	\$ 90,146	\$ -	\$ 90,146
Oil and gas royalties		(3,462)	42	(3,420)	(12,693)	(255)	(12,948)
Farming revenue		379	-	379	8,117	-	8,117
		15,405	42	15,447	85,570	(255)	85,315
Other income and expense							
General and administrative expenses	c, d, f, j	(6,077)	230	(5,847)	(30,323)	(100)	(30,423)
Management fees		(1,510)	-	(1,510)	(6,697)	-	(6,697)
Oil and gas operating and exploration	c, i	(6,098)	(70)	(6,168)	(33,103)	(168)	(33,271)
Depreciation and depletion	c, h, i	(4,396)	118	(4,278)	(25,894)	(906)	(26,800)
Farm production costs		(565)	-	(565)	(7,948)	-	(7,948)
Other farm expenses		(980)	-	(980)	(6,258)	-	(6,258)
Interest and other income	i	27	4	31	(73)	95	22
Gain on disposal of investments		183	-	183	3,673	-	3,673
Fair value adjustment to gold bullion	a	-	(1,303)	(1,303)	-	20,755	20,755
Gain (loss) on dilution of investments	e	(291)	291	-	10,630	212	10,842
Foreign exchange loss		(22)	-	(22)	(51)	-	(51)
Realized loss on derivative instruments		(180)	-	(180)	(666)	-	(666)
Unrealized loss on derivative instruments		(1,146)	-	(1,146)	(4,642)	-	(4,642)
Unrealized loss on investments held for trading		(81)	-	(81)	(110)	-	(110)
Loss on other items	j	-	(1,160)	(1,160)	-	(1,160)	(1,160)
		(21,136)	(1,890)	(23,026)	(101,462)	18,728	(82,734)
Income (loss) before income taxes, finance costs and equity losses		(5,731)	(1,848)	(7,579)	(15,892)	18,473	2,581
Finance Costs							
Finance expenses	d	(230)	(57)	(287)	(1,162)	(285)	(1,447)
Equity loss in Stonegate Agricom Ltd.		(411)	-	(411)	(4,995)	-	(4,995)
Non-controlling interest		1,016	(1,016)	-	5,606	(5,606)	-
Income (loss) before income tax		(5,356)	(2,921)	(8,277)	(16,443)	12,582	(3,861)
Income taxes		(390)	163	(227)	619	(2,357)	(1,738)
Income (loss) for the period		\$ (5,746)	\$ (2,758)	\$ (8,504)	\$ (15,824)	\$ 10,225	\$ (5,599)
Loss attributable to:							
Shareholders of the Company		(5,746)	(1,742)	(7,488)	(15,824)	15,411	(413)
Non-controlling interest		-	(1,016)	(1,016)	-	(5,186)	(5,186)
Loss for the period		\$ (5,746)	\$ (2,758)	\$ (8,504)	\$ (15,824)	\$ 10,225	\$ (5,599)

(a) Gold bullion

Gold bullion was previously measured at historic cost under Canadian GAAP. These assets are measured at fair value under IFRS with any movement in value recognized in the statement of income (loss) and comprehensive income (loss).

Material IFRS adjustments

IFRS OBS: The fair value adjustment resulted in a \$9.5 million increase in gold bullion with the corresponding adjustment to retained earnings. As a result of this adjustment, the deferred tax liability increased by \$1.2 million.

IFRS as at March 31, 2010: The fair value adjustment resulted in an \$8.2 million increase in gold bullion with a corresponding adjustment of \$7.2 million to retained earnings and \$1.0 million to deferred tax liability.

IFRS as at December 31, 2010: The fair value adjustment resulted in a \$30.2 million increase in gold bullion with a corresponding adjustment of \$26.4 million to retained earnings and \$3.8 million to deferred tax liability.

(b) Available-for-sale investments

Available-for-sale ("AFS") investments in private company shares were previously measured at historic cost under Canadian GAAP. Under IFRS, private company investments are carried at fair value unless fair value cannot be determined. In these situations, it should be carried at historic cost.

SRC currently holds an equity investment in UAG. Management believes that the fair value of UAG can be determined by the price paid by independent investors. As a result, this investment is measured at fair value under IAS 39 with changes through other comprehensive income.

Material IFRS adjustments

IFRS as at March 31, 2010: The fair value adjustment resulted in a \$5.3 million increase in AFS investments with a corresponding adjustment of \$4.0 million to other comprehensive income and \$1.3 million to deferred tax liability.

IFRS as at December 31, 2010: The fair value adjustment resulted in a \$15.7 million increase in AFS investments with a corresponding adjustment of \$11.8 million to other comprehensive income and \$3.9 million to deferred tax liability.

(c) Property, plant and equipment and exploration and evaluation assets

PP&E

The Company follows the successful efforts method of accounting for its oil and gas exploration and production activities, which is allowed under both Canadian GAAP and IFRS. Under IFRS, an impairment of oil and gas assets is recognized if the carrying value of the cash generating unit exceeds the recoverable amount, that is, the higher of fair value less costs to sell or value in use. Impairments recognized under IFRS are reversed when there has been a subsequent increase in the recoverable amount.

Exploration and evaluation assets

Under Canadian GAAP, the Company's oil and gas assets were reflected as either proved or unproved properties. Both categories were included in the Company's PP&E or capital asset balance. Under IFRS, exploration and evaluation assets are categorized as intangible assets and shown as a separate line item on the statement of financial position. The Company's unproved properties under Canadian GAAP are reflected as exploration and evaluation assets under IFRS. The dollar impact is reflected in the statement of financial position and statement of income reconciliations presented.

Material IFRS adjustments

IFRS OBS: Approximately \$13.2 million was reclassified from PP&E to exploration and evaluation assets. The Company has determined that a portion of the deferred tax liability that was capitalized as part of the original Waseca acquisition is not permitted under IFRS. As a result, PP&E and deferred tax liabilities have been reduced by \$650 thousand. Finally, as a result of the fair value adjustment arising from changes in the methodology used to calculate ARO, the ARO increased by \$3.4 million with a corresponding increase in PP&E.

IFRS as at March 31, 2010: Approximately \$15.2 million was reclassified from PP&E to exploration and evaluation assets. In addition, as a result of the fair value adjustment arising from changes in the methodology used to calculate ARO, the ARO increased by \$3.4 million with a corresponding increase in PP&E.

IFRS as at December 31, 2010: Approximately \$15.3 million was reclassified from PP&E to exploration and evaluation assets. In addition, as a result of the fair value adjustment arising from changes in the methodology used to calculate ARO, the ARO increased by \$6.5 million with a corresponding increase in PP&E.

(d) Asset retirement obligations

Under Canadian GAAP, ARO's are discounted using a current credit-adjusted risk-free rate for upward adjustments and the original credit-adjusted risk-free rate for downward revisions. IFRS requires provisions to be updated at each statement of financial position date using a current pre-tax discount rate which reflects the current market assessment of the time value of money and the risks specific to the liability. The discount rate is not credit-adjusted under IFRS. In addition, the Company has identified additional obligations as a result of the wider definition of provisions under IFRS.

The Company has elected to apply the exemption from full retrospective application allowed under IFRS 1. As such, the Company has re-measured the ARO as the Date of Transition under IAS 37, estimated the amount to be included in the related asset by discounting the liability to the date in which the liability arose using best estimates of the historical risk-adjusted discount rates, and recalculated the accumulated depreciation and amortization under IFRS.

Material IFRS adjustments

IFRS OBS: As a result of the fair value adjustment arising from changes in the methodology used to calculate ARO, the ARO increased by \$3.4 million with a corresponding increase in PP&E.

IFRS as at December 31, 2010: As a result of the fair value adjustment arising from changes in the methodology used to calculate ARO, the ARO increased by \$6.5 million with a corresponding increase in PP&E.

(e) Goodwill

Under Canadian GAAP, dilution gains and losses and non-controlling interest movements are recorded on all transactions where the Company has control or significant influence. Under IFRS, changes in non-controlling interest where control remains are recorded to equity.

IFRS as at December 31, 2010: The Company exercised One Earth Farms warrants which led to the re-measurement of the acquired shares at fair value. Under Canadian GAAP, this resulted in recognition of \$1.0 million in goodwill. This transaction did not result in a change of control and, as such, IFRS does not re-measure to fair value or recognize additional goodwill. This resulted in a \$1.0 million decrease in goodwill with a corresponding entry to equity.

(f) Contributed surplus and stock-based compensation

Under Canadian GAAP, the Company recognized forfeitures on share-based payments as they occurred. IFRS requires an estimate of the number of awards expected to vest. Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Under IFRS, each grant is accounted for on that basis.

Material IFRS adjustments

IFRS OBS: As a result of the different methodology to calculate stock-based compensation, the Company increased contributed surplus by \$0.4 million with a corresponding reduction in retained earnings.

IFRS as at December 31, 2010: As a result of the different methodology to calculate stock-based compensation, the Company increased contributed surplus by \$0.7 million with a corresponding reduction in retained earnings.

(g) Non-controlling interest

Non-controlling interest, formerly presented as a liability component under Canadian GAAP, is presented within shareholders' equity under IFRS. As a result of retained earnings adjustments in subsidiaries Orion and Waseca, non-controlling interest has decreased by \$110 thousand at the Date of Transition.

(h) Depletion, depreciation and amortization

Under both Canadian GAAP and IFRS, oil and natural gas properties are depreciated using a unit-of-production method. The cost of producing wells and development costs are amortized over proved developed reserves. License acquisition and future decommissioning costs are amortized over total proved reserves. The oil and gas reserves have been estimated by independent petroleum engineers as of December 31, 2010 and 2009.

Material IFRS adjustments

As a result of the IFRS adjustment to PP&E, depreciation and depletion changed by \$906 thousand during 2010.

(i) Interest and other income and finance expenses

Under IFRS, interest expense and accretion expense are included as finance expenses.

Under Canadian GAAP, the AROs were measured as the estimated fair value of the retirement and decommissioning expenditures expected to be incurred and liabilities were not remeasured to reflect period-end discount rates. Under IFRS, the decommissioning provision is measured as the best estimate of the expenditure to be incurred and requires that the ARO be remeasured using the period-end discount rate. As a result of the change in the decommissioning provision, accretion expense decreased under IFRS compared to Canadian GAAP. In addition, under Canadian GAAP accretion of the discount was included in depletion and depreciation whereas under IFRS it is included in finance expenses.

These individual amounts for Canadian GAAP have been reclassified for IFRS.

(j) Orion deferred amalgamation costs and reverse takeover

Orion became a listed issuer through a reverse take-over transaction. IFRS requires unidentifiable consideration to be recognized if the consideration received by the original shareholders of the public company is greater than the fair value of the net assets acquired. As a result, Orion expensed \$1.2 million during the first quarter of 2010.

IFRS IMPACT ON REPORTING AND INTERNAL CONTROLS

In accordance with the Company's approach to certification of internal controls required under NI 52-109, all entity-level, information technology, disclosure and business process controls will require updating and testing to reflect changes arising from SRC's conversion to IFRS. Where material changes are identified, these changes will be mapped and tested to ensure that no material control deficiencies exist as a result of the Company's conversion to IFRS.

As the Company identifies changes to accounting policies, note disclosures and any required quantified differences additional internal controls are being developed and placed into operation to ensure the controls remain effective. The approach for fiscal 2010 focused on identification, analysis and quantification outside the normal financial statement close process supplemented by consulting with the external auditors and qualified consultants. During fiscal year 2011 the Company expects to review the existing internal controls to determine if processes and controls can be more efficient going forward, including becoming integrated within monthly and quarterly reporting. In the event that there are changes that will materially affect Internal Controls over Financial Reporting, the Company will disclose those changes and the associated impact in the respective future MD&A.

IMPACT ON THE MSA UNDER THE TRANSITION TO IFRS

The transition to IFRS will have a significant impact on the MSA. The previous calculation of fees payable to SCLP has been determined in accordance with Canadian GAAP and did not contemplate a transition in accounting standards to IFRS. It has been determined that the cumulative impact of the transition adjustments and financial statement presentation changes under IFRS will have an impact on the calculation of the annual management fee, annual incentive fee and hurdle (as defined in the MSA). SCLP has provided the Audit Committee and the independent directors of the Company with a summary of the expected changes in prior and future periods to determine how to apply any differences that accrue from the changes. In order to maintain the spirit of the MSA agreement and therefore recognition of, and credit for, the impact of OBS adjustments which would have otherwise been recorded in the pre-tax accounting earnings, and to avoid the earnings being permanently lost solely due to changes in accounting standards, on June 7, 2011, the independent directors passed a resolution to account for the differences that have accrued from the changes.

Summary of changes

Hurdle Calculation Under Canadian GAAP		Proposed Adjustments for 2011	
<i>(in thousands)</i>		<i>(in thousands)</i>	
2009 Hurdle (a)	\$ 11,533	Cumulative Canadian GAAP Hurdle	\$ 44,618
2009 Pre-tax Loss	3,510	Less: 2010 pre-tax fiscal year changes (b)	(17,768)
2010 Hurdle (a)	13,133	Less: applicable OBS changes (c)	(8,020)
2010 Pre-tax Loss	16,443	Plus: increase Hurdle from IFRS NAV ¹ (d)	285
Canadian GAAP Hurdle as at Dec. 31, 2010¹	\$ 44,618	IFRS Hurdle as at Dec. 31, 2010¹	\$ 19,115

1. A positive number denotes the pre-tax profits required before an incentive fee is payable (as defined in the MSA)

(a) Calculation of the 2009 and 2010 Hurdle

Calculation derived by the yield on the Canadian 30 year generic bond index multiplied by the sum of Canadian GAAP shareholders' equity and Canadian GAAP management fee for the appropriate period.

(b) 2010 fiscal year changes

The financial statement impact of 2010 operations under IFRS is described in detail above. The impact of fair valuing the gold bullion, net of the estimated deferred tax liability, will, at current fair market value, add an additional \$26.4 million to both 2010 pre-tax earnings and to 2010 closing Net Asset Value. There are also numerous less material adjustments quantified above.

(c) Applicable OBS changes

Upon transition to IFRS, there are approximately \$8.0 million of pre-tax earnings (the "IFRS Earnings") from periods prior to January 1, 2010 that, if recorded in the consolidated statement of profit (loss) and comprehensive income (loss), would have reduced the cumulative Hurdle. Under the transition to IFRS, the adjustment has been recorded directly to opening retained earnings in the Company's IFRS financial statements dated March 31, 2011 and the pre-tax earnings are permanently lost. The primary factor in the adjustment relates to the fair value of the Company's gold bullion, net of future taxes.

(d) Increase in Hurdle from other adjustments to shareholders' equity

Other adjustments in contributed surplus, non-controlling interest and increased retained earnings due to the aforementioned adjustments ("Other IFRS Equity Adjustments") cause the IFRS shareholders' equity to be understated by an additional \$672 thousand. The impact would be an increase in the Hurdle of \$285 thousand.

Other MSA considerations under IFRS

The other material IFRS impact on the MSA is that non-controlling interest is presented as a component of shareholders' equity rather than as a long-term liability. The impact would be to significantly increase Net Asset Value which would increase the Management Fee as well as the Hurdle.

Under IFRS, the Company will consolidate 100% of its subsidiary income and losses and the share of the minority's interest in the net income or loss will be adjusted directly in equity. This will have the effect of decreasing net income for when, on a net basis, SRC's partially owned subsidiaries have losses and increasing net income when, on a net basis, they have income.

The independent directors determined that, in keeping with the spirit of the agreement with SCLP, the calculation should not change and that the non-controlling interest per the statement of financial position should be deducted from the shareholders' equity in calculating the management fee (treat non-controlling interest as a liability) and net the non-controlling interest impact from the consolidated statement of profit (loss) and comprehensive income (loss) in 2010, 2011 and onwards.

The Company expects that the MSA will be amended, restated and approved by the board of directors as described above.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet arrangements such as contingent interests in assets transferred to unconsolidated entities, derivative financial obligations, or with respect to any obligations under a variable interest equity arrangement. As part of its normal operations, One Earth Farms has entered into forward contracts with grain buyers for the physical delivery of a portion of its harvested crop production. These forward contracts qualify for the normal sales and purchases exemption and therefore changes in fair value are not recorded in either the balance sheet or in net earnings (loss). The forward sales contracts entered into in 2010 and 2011 had been with counterparties that have Standard and Poor's credit ratings of BBB- or better or have been licensed and bonded by the Canadian Grain Commission.

The following are contracts outstanding at March 31, 2011:

	Contract Date	Volume (tonnes)	Net Price (\$ / tonne)	Total Value (\$)	Percentage Delivered
Peas	20-Apr-11	245	\$ 270	\$ 66,150	94.96%
Soft White Wheat	11-Feb-10	2,041	151	307,477	87.71%
Soft White Wheat	10-Mar-11	215	190	40,850	92.81%
Hard Red Spring Wheat	19-Jul-10	5,000 based on grade		tdb	61.40%
Hard Red Spring Wheat	22-Feb-11	150	188	28,200	89.99%
Feed Wheat	14-Jan-11	375	184	69,000	91.86%
Feed Barley	5-Apr-11	100	190	19,000	64.75%
Total		8,126	\$	530,677	

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value of financial instruments

The Company's financial instruments consist of cash and cash equivalents, short-term investments, trade and other receivables, investments and trade and other payables. 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. 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.

Orion utilizes a hedging program to partially mitigate price risks and facilitate the generation of more predictable cash flows to fund its capital expenditures. Orion may enter into derivative financial instruments to manage fluctuations in oil and gas market prices and has entered into these instruments with investment grade counterparties that Orion's management believes present minimal credit risks and its current bank. Orion's hedge arrangements are not held for trading purposes. Realized and unrealized gains on commodity derivatives are recognized in the current period. At March 31, 2011, Orion had financial derivatives outstanding (see "Commodity price risk" below for additional information).

In 2010, One Earth Farms began to utilize financial instruments to partially mitigate price risks and facilitate the generation of more predictable cash flows to fund its capital expenditures. One Earth Farms has committed to deliver certain crops harvested in 2010 using forward based cash contracts (see above "Off-Balance Sheet Arrangements" above for additional information).

Commodity price risk

Commodity price risk is the risk that global prices of a particular commodity, e.g. oil, natural gas liquids, natural gas, agricultural crops or livestock, will be such that the Company's subsidiaries may not be able to recover their costs of production through sales of that production. The Company's subsidiaries may engage in various programs to mitigate this risk.

One Earth Farms has initiated price stability programs which serve to mitigate this risk. During 2010, the company had entered into forward contracts to lock in the selling price for a portion of its current year crop production.

Orion is exposed to commodity price risk since its revenues are dependent on the prices of crude oil and natural gas. Changes in oil and natural gas prices may have a significant effect on the ability of Orion to meet its obligations, capital spending targets and expected operational results. Orion has therefore entered into derivative financial contracts to manage fluctuations in commodity prices. The following contract is outstanding at March 31, 2011:

Commodity - Index	Type	Remaining Term	Contract Price	Notional Quantity
Crude Oil – WTI (NYMEX)	Fixed-price swap	Apr-Dec 2011	CAD\$87.35	1,500 bbls/d

The estimated fair value of unrealized commodity contracts of \$7.2 million liability (December 31, 2010: \$3.4 million liability) is reported on the Consolidated Balance Sheet, with any change in the unrealized positions recorded to income. During the period there was an unrealized loss of \$3.8 million (2010: unrealized loss of \$1.1 million) and a realized loss of \$748 thousand (2010: realized loss of \$180 thousand).

A 10% change in oil and gas commodity prices would increase or decrease the Company's net income by approximately \$4 million. The results of the sensitivity should not be considered to be predictive of future performance.

Credit risk

Credit risk is the risk that a third party fails to meet its contractual obligations that could result in the Company incurring a loss. Trade and other receivables and derivative financial instruments are subject to credit risk exposure and the carrying values reflect management's assessment of the associated maximum exposure to such credit risk. Approximately \$17.0 million of the Company's trade and other receivables are primarily from Orion's dealings with oil and gas marketers and joint venture partners. Amounts due from oil and gas marketers are generally collected on the 25th day of the month following production. Orion attempts to mitigate this credit exposure by assessing the financial strength of its counterparties and entering into relationships with larger purchasers with established credit history. Orion only enters into derivative contracts with major national banks and international energy firms to further mitigate the associated risk.

As at March 31, 2011 and December 31, 2010, Orion's trade and other receivables were comprised of the following:

<i>(in thousands)</i>	Orion's Trade and Other Receivables Compositions at	
	Mar. 31, 2011	Dec. 31, 2010
Oil and gas sales receivable	\$10,466	\$9,210
Receivable from joint venture partners	4,663	5,740
Drilling royalty credits	1,898	1,061
Other	43	38
Total	\$17,070	\$16,049

Waseca is also exposed to credit risk through the sale of oil, represented on the balance sheet as trade and other receivables. Similar to Orion, amounts due from oil and gas marketers are generally collected on the 25th day of the month following production. Waseca markets its oil to two marketers which results in a concentration of credit risk. Waseca only markets its oil to reputable marketers, typically the prominent publicly traded marketers in the Lloydminster area. As at March 31, 2011, Waseca's entire trade and other receivables balance was due from a single marketer, which was collected on April 25, 2011.

One Earth Farms is exposed to credit risk with its industry, trade, government and operating partners. During the quarter ended March 31, 2011, One Earth Farms recorded an allowance for doubtful accounts of \$56 thousand.

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 more from the date of purchase and are readily convertible into a known amount of cash.

Liquidity risk

The Company manages liquidity risk by maintaining sufficient cash and cash equivalent 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. The Company has no interest bearing debt.

The Company is exposed to interest rate risk to the extent it uses or draws down on Orion and Waseca's debt facilities. Fluctuations in interest rates could result in a change in the amount each company pays to service its variable-interest debt. If interest rates applicable to the Orion Credit Facilities and Waseca Credit Facility at March 31,

2011 were to increase or decrease by 1%, it is estimated that the Company's net income would decrease or increase, respectively, by \$500 thousand.

Foreign exchange rates

The Company is exposed to foreign exchange risk because the prices Orion and Waseca receive for petroleum and natural gas are primarily determined in reference to U.S. dollars and OEOG incurs certain expenses in U.S. dollars. Orion and Waseca manage these risks by monitoring foreign exchange rates and evaluating their effects on cash flows and continuously reviewing the benefits of hedging strategies.

A 1% change in the U.S. dollar to the Canadian dollar exchange rate would increase or decrease our annual net loss by an insignificant amount.

Crop failure risk

Crop failure risk is the risk that the planned harvest is not attained usually as a result of inclement weather periods that severely affect crop growing cycles. One Earth Farms, at this time, mitigates this risk with the appropriate amount of insurance available through private and government agencies.

Oil and gas production risk

Oil and gas wells may produce at lower initial production rates than planned, or face steeper decline rates. Operating costs can increase due to such considerations as unanticipated work-overs, or higher than expected costs associated with corrosion.

Operational risk

This category encompasses a number of risks. The Company and its subsidiaries follow prudent industry practices with respect to insurance where practicable and as guided by external experts, but cannot fully insure against all risks. With respect to non-insurable operating risks, management has designed business process controls and accountability to identify problems at the earliest possible occasion and implement solutions. However, investors must appreciate that operational risk is very much a characteristic of the individual businesses and industries, and can never be entirely eliminated.

Reserves

Orion, Waseca and OEOG retain independent reserve evaluators and had 100% of the reserves reviewed. The methodologies used assess the certainty of recovery on reserve categories under National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101"). As per NI 51-101, there is a 90% probability of attaining proven reserves and a 50% probability of attaining the proven plus probable reserves assigned. The Company's subsidiaries plan to fund additional drilling and infrastructure expenditures from internal capital, internal cash flow, and their applicable credit facilities, in order to achieve the reserve assignments. There remains a probability that for technical or economic reasons, the reserves assigned may not be attained. As with operational risk, however, we again caution investors that reserve risk is endemic and cannot be eliminated.

Environmental and regulatory risks - Energy

Oil and gas industry activities entail numerous environmental impacts which can be detrimental. Even normal operations can generate carbon emissions. Wells can blow out, or pipelines can fail with consequent contamination of soil, air, and water. Orion is a producer of natural gas with a high content of hydrogen sulphide, which is poisonous and can be fatal, thus requiring the highest standards of operational responsibility and emergency response practices and procedures.

The oil and gas industry is subject to extensive environmental legislation and regulations at Federal, Provincial, and Municipal levels. Thus, the Company and its subsidiaries are at risk not only to the cost of the incidents themselves, but to various sanctions which can be imposed by governments or government instrumentalities. Management fully expects that environmental legislation and regulations will become only stricter over time, and that the costs of compliance will grow. The international, and domestic, debate upon controls of greenhouse gas emissions will continue, with unpredictable but potentially material consequences for the industry. To mitigate environmental risk the Company conducts its operations to ensure compliance with government regulations and guidelines. Monitoring and reporting programs for environmental health and safety performance in day-to-day operations, as well as inspections and assessments, are designed to provide assurance that environmental and regulatory standards are met.

Environmental and regulatory risks - Agriculture

Primary agriculture (farming and ranching) activities entail some environmental impacts which can be detrimental. There is a risk of leakage of fuel and chemicals used for crop protection from the storage areas. Day-to-day field operation activities involve greenhouse gas emissions. However, compared to industrial activities, the level of carbon emissions is significantly below government regulated threshold levels currently in place in Canada. Additionally, the growing of crops, both annual and permanent, provides a valuable carbon sink to sequester carbon. On a net basis, primary agriculture generates carbon credits for sale to industrial emitters to aid them in offsetting emissions from their facilities.

The primary agriculture industry is subject to environmental legislation and regulations at the Federal and Provincial levels. The regulations involve the safe storage of fuel and chemicals used for crop protection.

Staffing

The Company and its subsidiaries all operate in a very competitive environment for professional and seasonal staff and this staff is critical to our ultimate success. Recognizing this, each company has developed an industry competitive, and in some cases leading, compensation program including: bonuses based on annual performance, benefits and a stock option program to provide for long-term incentive and retention.

OUTSTANDING SHARE DATA

Authorized capital:

Common shares, no par value, unlimited shares.

Issued and outstanding:

The Company had 113,376,783 common shares issued and outstanding as at June 7, 2011.

Outstanding stock:

(\$s)	As at March 23, 2011		
	Number	Exercise Price	Expiry Date
Stock options	75,000	\$3.32	Aug. 26, 2013
Stock options	75,000	\$2.98	Sept. 1, 2014
Stock options	120,000	\$4.41	Aug. 10, 2015
Total	270,000		

Normal Course Issuer Bid

SRC has purchased and canceled 29,100 common shares under its 2010 NCIB. The Company believes that it is in the best interest of its shareholders to purchase shares for cancellation when management believes they are trading at a significant discount relative to their value.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Management has designed or caused to be designed under management's supervision, disclosure controls and procedures that provide reasonable assurance that (i) material information relating to the Company is made known to management by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual and interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

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

Management is also responsible for the fact that internal controls over financial reporting are designed, or caused to be designed under management's supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company hired an independent accounting firm to determine if any material weaknesses exist in its current internal controls, suggest best practices when they are not being applied and also to test the material controls. No material

weaknesses were found and as a result, no changes in the Company's internal controls over financial reporting were made during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, management's internal control over financial reporting.

Prior to October 1, 2010, management had limited the scope of the design of Disclosure Controls and Procedures and Internal Controls over Financial Reporting to exclude controls, policies and procedures of Orion, an entity which the Company acquired not more than 365 days before the Company's year end. On October 1, 2010, the Company began to include the full scope of the design of Orion's Disclosure Controls and Procedures and Internal Controls over Financial Reporting and include their controls, policies and procedures.

It should be noted that while the Officers of the Company, as certified in the Company's interim 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 period ended March 31, 2011 and have concluded that they are effective, 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

SRC Management continues to look for assets and/or companies at attractive valuations that, over the long term, will prove to be profitable to the Company.

Orion's 2011 production is expected to average between 6,000 boe/d and 7,000 boe/d, a 43% increase over the 2010 average production.

In May 2011, Orion and WestFire entered into a Plan of Arrangement whereby WestFire would acquire all of the issued and outstanding common shares of Orion. Orion expects the transaction to close on or around June 30, 2011. The Arrangement offers a unique opportunity to create substantial value for WestFire and Orion and their respective shareholders. The directors of Orion and WestFire determined that the Arrangement was in the best interests of the two companies and recommended that the shareholders vote for the transaction. It is expected that the merger between Orion and WestFire will enable the combined companies to accelerate the development of their extensive Viking oil inventory of drilling locations. The combined company of Orion and WestFire would have had average production of 8,065 boe/d during the first quarter of 2011 with a weighting of 54% oil and liquids. Based on the cash flow from the Orion assets and the drilling inventory of the WestFire assets, the combined entity is targeting to achieve a December 31, 2012 production rate of approximately 12,000 boe/d with a significant oil and liquids weighting.

Waseca continues an aggressive drilling program focused on developmental drilling locations gained from their 2009 and 2010 exploration programs. Waseca currently plans to drill an additional forty-three development offsets as part of a sixty-two well 2011 program. Waseca's ability to complete its drilling program is dependent on a timely response from government agencies on licensing and permitting, as well as rig availability. Weather permitting, Waseca will resume drilling late in the second quarter. Waseca's primary focus is to continue its drilling program to exploit its extensive land position in an effort to maximize shareholder value. The evaluation of upcoming crown land sales and potential production acquisition opportunities is ongoing. Waseca's future plans will be dependent on continued positive market conditions. Management of Waseca expects to be in a position to significantly increase production during 2011 and estimates that the 2011 drilling program should result in a December 31, 2011 exit production between 2,800 boe/d and 3,000 boe/d. Actual results are dependent on a variety of factors including: number of wells drilled in 2011; timing of drilling; weather; success rates; and production rates on future and existing wells.

OEOG will continue to focus on developing liquids rich gas and oil prospects as the year progresses. Several development locations to the existing discoveries have been identified in central Alberta and northern Montana. OEOG has developed a drilling inventory with over 15 locations in Central Alberta and four in Montana. OEOG will not drill the gas locations until suitable gas prices are obtainable in the market place. The oil and liquid rich gas locations will be prioritized for drilling in the early summer and throughout 2011. On April 1, 2011, OEOG tied one of its producing wells into a transportation pipeline. All necessary processing and marketing contracts are in place as of the date of this report for generating cash flow.

The 2010 crop production year emphasized the need to continue One Earth Farms' geographic diversification. The extremely high moisture levels, particularly in eastern Saskatchewan, posed significant operational challenges. From this experience, once the land (which went unseeded) was dry enough to enable field operations to begin, One Earth Farms began a process to prepare these acres for seeding in 2011. Historically, these types of field operations which facilitate the drainage of water were rarely ever implemented.

Management of One Earth Farms expects that the company will be the largest farming operation and one of the largest cattle ranches in Canada in 2011. Cropland lease negotiations will continue with an additional focus on pastureland lease and cattle purchase negotiations to scale up the cattle operations for 2011. One Earth Farms continues to focus on expanding its geography within Alberta and Saskatchewan and anticipates that it will have 120,000 acres under cropland lease and 75,000 to 100,000 acres under pastureland lease in 2011.

One Earth Farms initiated the development of a field operations data tracking system utilizing a robust technology platform. As planned, the first version of the system was implemented in time for the spring seeding operations enabled the capture of field operations data and the sending of field operation logistics information to individual machinery operators. This component of the knowledge management system will facilitate management decision making and form the platform for a full traceability system on all of One Earth Farms' products.

Stonegate Agricom commenced an exploration program in the last quarter of 2010 to further define and expand the mineral resource estimate for the Mantaro Project. It is anticipated that Stonegate Agricom will have complete preliminary evaluations with respect to mining methods, beneficiation methods as well as logistics, transportation and infrastructure for development for the Mantaro Project in the second half of 2011. In the fourth quarter of 2010, Stonegate Agricom's board of directors approved an annual 2011 budget for continued exploration drilling to enhance the resource base and evaluation of the mining and beneficiation methods at the Mantaro Project.

At the Paris Hills Project Stonegate Agricom has continued drilling with the objective of verifying and upgrading the existing mineral resources. Preliminary evaluations of underground mining and beneficiation methods have commenced in the first quarter of 2011 and are expected to continue throughout 2011. In the fourth quarter of 2010, Stonegate Agricom's board of directors approved an annual 2011 budget for continued exploration drilling to enhance the resource base and mining and beneficiation method evaluation at the Paris Hills Project in 2011.

OTHER INFORMATION

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