

## **Sprott Resource Corp.**

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

The following management's discussion and analysis ("MD&A") of the performance, financial condition and future prospects of Sprott Resource Corp. and its subsidiaries (herein referred to as "SRC" or the "Company"). This document should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended March 31, 2009, including the notes thereon ("Interim Financial Statements"), as well as with the Company's audited consolidated financial statements for the year ended December 31, 2008 (the "Annual Financial Statements") and the related management's discussion and analysis (the "Annual MD&A"). All amounts are expressed in Canadian dollars unless otherwise indicated and prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Further information, including the Company's Annual Information Form ("AIF") for the year ended December 31, 2008, may be accessed at [www.sedar.com](http://www.sedar.com). This MD&A is dated May 11, 2009.

#### **Forward-Looking Statements**

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

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

It is important to note that:

- Unless otherwise indicated, forward-looking statements in this MD&A describe the Company's expectations as of May 11, 2009;
- Readers are cautioned not to place undue reliance on these statements as the Company's actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements if known or unknown risks, uncertainties or other factors affect the Company's business, or if the Company's estimates or assumptions prove inaccurate. Therefore, the Company cannot provide any assurance that forward-looking statements will materialize; and
- Subject to applicable laws, the Company assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or any other reason.

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

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

## Introduction

SRC is a Canadian based company. The primary purpose of the Company is to invest, and operate through its subsidiaries, in the natural resource sector. The Company is listed on the Toronto Stock Exchange ("TSX") under the symbol "SCP". See page 8 of the AIF "*Description of the Business*" for additional information.

Stonegate Agricom Ltd. ("Stonegate Agricom"), through its subsidiaries, is developing the Mantaro Phosphate Project in Peru. Waseca Energy Inc. ("Waseca") is involved in the exploration and production of oil and gas in Alberta and Saskatchewan.

In addition to its interests in Stonegate Agricom and Waseca, the Company continues to hold 40,475 ounces of gold and 1,783,013 ounces of silver bullion and has investments in securities of publicly listed and private companies involved in the natural resource sector.

The balance of the Company's assets is held in cash and cash equivalents and Government of Canada Treasury Bills (T-bills"). The Company's longer term intention is to invest the cash and short-term investments in the natural resource sector as opportunities arise.

On March 4, 2009, the Company issued a press release (the "OEF Press Release") announcing its intention to create a large, integrated corporate farming entity under the name of One Earth Farms Corp. ("One Earth Farms"), which will initially be a wholly owned subsidiary of the Company. One Earth Farms will operate primarily on First Nations farmlands in the Prairie Provinces. Subsequent to quarter end, the Company has begun operations on leased First Nations land and expects to farm approximately 15,000 acres of farmland this year rather than the 50,000 acres previously announced. One Earth Farms and the Company decided to limit the amount of acreage it will farm this year in order to be able to devote more time during its initial year to broader corporate development.

## First Quarter Business Highlights

- Over the past six months a number of initiatives were undertaken to further develop the One Earth Farms concept. The Company confirmed interest from key First Nation representatives and assembled an experienced project team to move the project from concept phase to implementation. On March 4, 2009, SRC issued the OEF Press Release announcing its intention to form One Earth Farms. This was followed by a public press conference on March 26th, held jointly with a number of First Nation leaders to discuss the launch of One Earth Farms.
- Waseca's focus has remained unchanged in 2009. Land acquisition continues in the Lloydminster area. Total investment during the period was approximately \$940,000, resulting in the leasing of approximately 3,535 hectares of crown and freehold lands. Waseca's total land position as of the date of this MD&A is 7,249 hectares. Waseca is also actively evaluating potential opportunities to acquire additional production. With the exception of lease expiries and a possible small gas play, the drilling program is currently on hold.
- Stonegate Agricom remains focused on the agricultural nutrient sector, and continues to advance the Mantaro Phosphate Project through both local and regional geological study. In the first quarter of 2009, Stonegate Agricom conducted community relations, environmental and administrative work in order to satisfy the requirements for a Category I exploration permit. The permit was granted in April 2009. Stonegate Agricom intends to complete its proposed exploration program by the third quarter of 2009.
- The Company's investment portfolio grew to \$34,205,951 as at March 31, 2009 from \$28,564,256 as at December 31, 2008. Growth was the result of net additional invested capital of \$4,905,714 and a \$735,981 unrealized gain in the market value of the portfolio.
- The Company continues to hold 40,475 ounces of gold bullion and 1,783,013 ounces of silver bullion, which had a fair market value of \$76,164,534 as at March 31, 2009. This represents an

## Results of Operations

### Overview

Apart from the announcement of One Earth Farms and addition capital invested in public securities, SRC did not make any significant investments, commitments or dispositions during the first quarter of 2009. Management continues to look for attractive investment opportunities and to provide support to the Company's current subsidiaries and affiliates.

As at March 31, 2009, the Company had net assets of \$284,361,749 versus \$75,302,398 as at March 31, 2008 and \$284,756,290 as at December 31, 2008. The increase in net assets versus the comparable period in the prior year was the result of the increase in value, and subsequent disposition, of the Company's shares in PBS Coals Limited ("PBS") and the completion of a warrant incentive program pursuant to which the Company raised \$82,971,420.

Outstanding common shares remained constant at 81,807,229 compared to the year ended December 31, 2008.

Management believes that 2009 will continue to be a difficult economic environment, but that these economic challenges will create both risks and opportunities. The Company's strong balance sheet should allow it to take advantage of opportunities that arise during the year. Management will constantly monitor the risk and the Company's overall exposure of the investments and global markets.

As of the date of this MD&A, the Company has invested \$27,500,000 in One Earth Farms to establish operations, fund working capital and support its initial growth. One Earth Farms Corp. is currently a wholly owned subsidiary of the Company.

## Results of Operations

### Three month results

	For the three months ended		
	Mar. 31, 2009	Dec. 31, 2008	Mar. 31, 2008
Oil and Gas Revenue	\$295,784	\$38,234	-

Currently, the Company's only operating revenue is from Waseca's oil and gas sales. During the first quarter of 2009, Waseca earned \$295,784 in net oil and gas sales (\$385,198 gross revenue and \$89,414 in royalties payable) versus \$38,234 (\$44,085 in gross revenue and \$5,851 in royalty expenses) in the fourth quarter of 2008 and \$nil revenue in the first quarter of 2008. Over the course of 2009, SRC expects to consolidate operating revenue from the One Earth Farms operation. The Company also earns other income and expenses from interest income, foreign exchange gains/losses and from realized gains/losses in the investment portfolio. See page 4 "Results of Operations, three month results" herein for additional information.

General and Administrative Expenses ("G&A")	For the three months ended		
	Mar. 31, 2009	Dec. 31, 2008	Mar. 31, 2008
Consulting	\$250,707	\$189,762	\$9,826
Depreciation, depletion and amortization	115,686	23,135	2,679
Directors' fees	34,250	28,250	7,250
Filing fees and transfer agent	64,666	57,884	49,688
Incentive Fee	-	17,484,989	-
Management fee	1,417,301	1,650,882	386,194
Office and miscellaneous	588,825	904,083	29,744
Professional fees	354,583	518,866	169,256
Shareholder information	7,044	16,985	7,612
Wages and benefits	324,847	48,347	11,260
<b>Total G&amp;A</b>	<b>\$3,157,909</b>	<b>\$20,923,183</b>	<b>\$673,509</b>

General and administrative expenses increased to \$3,157,909 in the first quarter of 2009 compared to \$673,509 in the first quarter of 2008 and decreased from \$20,923,183 in the fourth quarter of 2008. The year over year increase is related to an increase in expenses at both SRC and at its subsidiaries. Company expenses in the first quarter of 2009 include management fees of \$1,417,301 (2008 - \$386,194) payable to Sprott Consulting Limited Partnership ("SCLP") under the terms of a management services agreement between SCLP and SRC (the "MSA"). Additional information on the MSA can be found on page 7, "Commitments" in this Interim MD&A and page 4 "General Developments of Business" in the AIF. In addition, during the first quarter of 2009, the Company incurred a significant expense increase related to professional fees incurred in respect to auditing, accounting, legal and tax services as a result of the complicated acquisition and divestiture transactions that occurred in 2008. The consolidation of Waseca and the expenses relating to the establishment of One Earth Farms have been the most significant factors in the increase in consulting, depreciation, depletion and amortization, office and miscellaneous and wages and benefits expenses. Management expects these expenses to continue to increase as One Earth Farms expands its operations. In comparison to the fourth quarter of 2008, the significant decrease in G&A expenses is mainly attributable to the \$17,484,989 in Incentive Fee payable to SCLP pursuant to the MSA. The amount recorded for the Incentive Fee for the first quarter of 2009 is \$nil as the Company did not earn a pre-tax profit during the period.

Other Income and Expenses	For the three months ended		
	Mar. 31, 2009	Dec. 31, 2008	Mar. 31, 2008
Oil and gas operating and exploration expenses	(\$369,669)	(\$351,844)	-
Equity earnings on PBS Coals	-	-	92,000
Equity loss on Stonegate Agricom	(308,800)	(461,839)	-
Net gain on disposal of investments	1,186,811	91,897,487	-
Gain on foreign exchange	108,424	164,312	12,419
Interest and other income	628,718	1,571,061	294,798
Non-controlling interest	270,935	327,827	1,653
Other Income/Loss	-	-	(3,569)
Write down of mining claims deferred exploration	-	(626,583)	-
<b>Total Other Income, Net</b>	<b>\$1,516,419</b>	<b>\$92,520,421</b>	<b>\$397,301</b>

The net loss in the quarter includes Other Income and Expenses. Net gain on the disposal of investments in the period ending March 31, 2009 was \$1,186,811 versus \$91,825,614 in the fourth quarter of 2008, which was primarily related to the sale of the Company's remaining shares in PBS.

Interest income earned on the Company's surplus cash balance in the first quarter of 2009 grew from \$294,789 in the first quarter of 2008 to \$628,718 in 2009 as a result of the significantly larger cash balances. While the Company had more cash invested during the quarter, lower yields did impact the interest income during this period. In accordance with its stated objectives, SRC's intention is to invest its cash which will, over time, reduce interest income.

Management expects that Stonegate Agricom's operations for the remainder of fiscal year 2009 will continue to record equity losses as it conducts exploration work on the Mantaro Phosphate Project. Waseca utilizes successful efforts accounting for its oil and gas exploration. In the first quarter of 2009, Waseca drilled a well that was determined not to be commercially viable in the particular land lease where oil is currently being produced. In accordance with successful efforts accounting, approximately \$300 thousand was capitalized and included in proved properties.

The Company is confident that the management of both Stonegate Agricom and Waseca are diligent about controlling costs in the difficult economic environment they currently face.

<b>For the three months ended</b>			
<b>Earnings per Share ("EPS")</b>	<b>Mar. 31, 2009</b>	<b>Dec. 31, 2008</b>	<b>Mar. 31, 2008</b>
EPS (basic and diluted)	(\$0.01)	\$0.72	(\$0.01)

During the three months ended March 31, 2009, the Company reported a net loss of \$1,170,706 (\$0.01 loss per basic share) compared to a net loss of \$276,208 (\$0.01 loss per basic share) reported in the same period of 2008 and net earnings of \$60,389,329 (\$0.72 earnings per share) in the fourth quarter of 2008. Net earnings for the quarter ended December 31, 2008 included \$92,424,177 in gains from the sale of 27,144,938 PBS shares.

#### **Capital Expenditures and Investments**

			<b>As at</b>	
<b>Capital Expenditures and Investments</b>			<b>Mar. 31, 2009</b>	<b>Dec. 31, 2008</b>
Investments			\$34,205,951	\$28,564,256
Investment in Stonegate Agricom			11,426,127	11,731,245
Promissory notes receivable			150,000	150,000
Oil and gas properties and Equipment			6,506,166	5,399,392
Mining claims and deferred exploration			409,537	305,307
<b>Total Capital Expenditures and Investments</b>			<b>\$52,697,781</b>	<b>\$46,150,200</b>

The Company's investments increased to \$34,205,951 as at March 31, 2009 versus \$28,564,256 at December 31, 2008. The growth is attributed to an increased market value of \$735,981 and \$4,905,714 of net capital invested in the public securities portfolio. Private company investments are recorded at cost. If a private company is deemed to be an other than temporary decline in value, the impairment is recorded in the statement of operations. In the first quarter of 2009 none of the private company investments were deemed to have become impaired or require an additional impairment provision.

Aggregate mining claims and deferred exploration costs incurred by the Company as at March 31, 2009 were \$409,537 versus \$305,307 as at December 31, 2008. These costs were pursuant to an option agreement ("Option Agreement") the Company entered into during the year with Altius Resources Inc. ("Altius"). Under the Option Agreement the Company can earn up to a 50.1% interest in the mineral properties owned by Altius in Newfoundland, Canada, which are subject to the Option Agreement. The Company may exercise the option by making the following minimum aggregate expenditures on the properties: (i) by April 30, 2009, \$275,000; (ii) by April 30, 2010, \$650,000; and (iii) by April 30, 2011, \$1,500,000. The Company has met its April 30, 2009 commitment obligations with Altius.

In the fourth quarter of 2008, the Company entered into a joint venture agreement with Lara Exploration Ltd. ("Lara") pursuant to which it agreed to seed the joint venture with US\$500,000 in the first year for a 50% interest in the joint venture. Lara is the manager of the joint venture for at least the first year and will be searching for exploration opportunities primarily in South America.

Subsequent to the quarter end, One Earth Farms has purchased approximately \$500,000 in farming equipment and \$1,200,000 in farming consumables in preparation for the spring seeding.

### Summary of Quarterly Results (unaudited)

For the three months ended	Total Revenues	Net earnings (loss)	Net earnings (loss) per share (basic)	Net earnings (loss) per share (fully diluted)
March 31, 2009	\$295,784	(\$1,170,706)	(\$0.01)	(\$0.01)
Dec. 31, 2008	\$38,234	\$60,389,329	\$0.72	\$0.72
Sept. 30, 2008	\$nil	\$67,154,702	\$0.76	\$0.75
June 30, 2008	\$nil	\$6,959,243	\$0.13	\$0.11
Mar. 31, 2008	\$nil	(\$276,208)	(\$0.01)	(\$0.01)
Dec. 31, 2007	\$nil	\$1,302,769	\$0.03	\$0.03
Sept. 30, 2007	\$nil	\$(468,332)	(\$0.02)	(\$0.02)
June 30, 2007	\$nil	\$(626,764)	(\$0.07)	(\$0.07)

### Financing Activities

There was no financing activity in either the first quarter of 2009 or the fourth quarter of 2008. In the first quarter of 2008, the Company received \$143,500 from the exercise of 70,000 share purchase warrants exercisable at \$2.05 and \$618,450 from the exercise of 439,000 stock options.

### Liquidity and Capital Resources

As at		
Current Assets	Mar. 31, 2009	Dec. 31, 2008
Cash and cash equivalents	\$31,811,697	\$45,263,646
Gold and Silver bullion	61,930,413	61,930,413
Short-term investments	144,432,760	158,282,940
Note receivable	630,650	609,000
Prepays and other receivables	4,427,009	2,049,400
<b>Total Current Assets</b>	<b>\$243,232,529</b>	<b>\$268,135,399</b>

As at		
Current Liabilities	Mar. 31, 2009	Dec. 31, 2008
Accounts payable and accrued liabilities	\$2,901,722	\$5,617,857
Income tax payable	1,578,246	16,328,246
<b>Total Current Liabilities</b>	<b>\$4,479,968</b>	<b>\$21,946,103</b>

As at March 31, 2009, the Company had cash and cash equivalents of \$31,811,697, T-bills of \$144,432,760 and Gold and Silver Bullion of \$61,930,413 versus December 31, 2008, when the Company had cash and cash equivalents of \$45,263,646, T-bills of \$158,282,940 and Gold and Silver Bullion of \$61,930,413. The Company paid \$14,800,000 in taxes during the first quarter of 2009 and may make modest tax instalments during 2009. As a result, there was a corresponding reduction in Current

Assets and Current Liabilities by the amount of tax paid pertaining to the quarter ended December 31, 2008. The decrease in accounts payable and accrued liabilities from December 31, 2008 is mainly attributable to the payment of management and incentive fees that were payable to SCLP. Prepaids and other receivables increased to \$4,427,009 at March 31, 2009 versus \$2,049,400 at December 31, 2008. The quarter over quarter increase is primarily the result of the Company's \$1,989,149 GST receivable and \$250,000 in prepaid farm leases. The Company has no debt.

### Working Capital

	As at	
	Mar. 31, 2009	Dec. 31, 2008
<b>Total Working Capital</b>	<b>\$238,752,561</b>	<b>\$246,189,296</b>

Working capital (defined as current assets minus current liabilities) has decreased to \$238,752,561 from \$246,189,296 as at Dec. 31, 2008. The decrease in working capital from the quarter ended December 31, 2008, is attributed to the net purchase of public securities during the period and the purchase of oil and gas property and equipment in the Company's subsidiary Waseca. The Company's working capital is adequate to meet its obligations and to fund planned expenditures for at least the next year.

### Commitments - Payments Due by Period (as at March 31, 2009)

Contractual Obligations	Total	Payments Due by Period			
		Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Farm Leases <sup>1</sup>	\$3,792,800	\$370,656	\$792,416	\$811,520	\$1,818,208
Operating Leases	\$849,741	\$318,653	\$531,088	-	-
Software Licenses	\$67,953	\$67,953	-	-	-
<b>Total Contractual Obligations</b>	<b>\$4,710,494</b>	<b>\$757,262</b>	<b>\$1,323,504</b>	<b>\$811,520</b>	<b>\$1,818,208</b>

1. See below for additional farm commitments entered into subsequent to quarter end.

Farm leases encompass contractual agreements with First Nations regarding the rental of cultivated land for growing crops and the farming of haylands. As at March 31, 2009, approximately 12,000 acres had been leased for growing crops and approximately 2,000 acres for growing hay. The lease agreements can be terminated by One Earth Farms with notice of not less than one year. The term of the lease agreements ranges between 4.75 years to 9.75 years.

In the first year of each farm lease, the rents have been contractually established at a current fair market rental rate per cultivated acre. In subsequent years, One Earth Farms will pay an annual rent based on the fair market rental rate of the land. The fair market rental rate of the land will be determined 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.

For the haylands leases, One Earth Farms will pay the equivalent of one-half of the proceeds of the baled hay to the landowner as rent. One Earth Farms is responsible for the costs related to the production and harvesting of the hay. It is currently not possible for management to determine the proceeds of harvesting the haylands and no amount has been included in the above commitments table.

Subsequent to quarter end, One Earth Farms entered into additional lease commitments to farm approximately 1,000 acres of cultivated land for growing crops. The aggregate commitment over the term

of the lease agreements is \$163,350. The term of the lease agreements ranges between 4.75 years to 9.75 years.

Management expects that One Earth Farms will continue to sign new lease agreements with First Nations and to significantly grow the total acreage leased in future years.

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

Waseca has licensed certain geological software for a two year term commencing September 30, 2008. The Company's license cost for 2009 is \$67,953. There are no license payments in 2010.

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 month-end net asset value of the Company and an annual incentive fee equal to 20% of: (a) the pre-tax profits of the Company for the year minus (b) the average month-end net asset value of the Company for the year multiplied by the percentage return of the Canadian 30-Year Generic Bond Index. On December 1, 2007, SCL assigned the MSA to SCLP, the successor to SCL, as part of an internal reorganization involving SAM and its subsidiaries.

### **Transactions with Related Parties**

The Company entered into the following transactions with related parties during the period ended March 31, 2009.

During the three months ended March 31, 2009, directors fees of \$32,250 (March 31, 2008 - \$7,198) were charged by independent directors of the Company. Of this amount \$32,250 was charged to the statements of operations (March 31, 2008 - \$4,000).

During the three months ended March 31, 2009, consulting fees of \$53,158 and \$26,381 relating to Waseca (March 31, 2008 - \$4,000, Waseca - \$nil) were charged by officers or former officers of the Company. Of this amount \$53,158 was charged to the statement of operations (March 31, 2008 - \$4,000).

During the three months ended March 31, 2009, management fees of \$1,417,301 (March 31, 2008 - \$386,194) were incurred, which are payable to Sprott Consulting Limited Partnership ("SCLP"), an entity with directors and management in common.

Included in accounts payable and accrued liabilities as at March 31, 2009 was \$1,449,551 (December 31, 2008 - \$3,902,632) payable to related parties, including \$1,417,301 (December 31, 2008 - \$3,872,382) payable to SCLP. These amounts are non-interest bearing and have no specific terms of repayment.

Included in investments as at March 31, 2009 is an investment in Tournigan Energy Ltd ("Tournigan") at fair market value of \$3,258,731. During 2008, the Company purchased 15,896,250 of Tournigan shares throughout the year from funds managed by the Chairman of the Company. The price paid for such shares was \$3,501,360 or \$0.22 per share.

Transactions with related parties are recorded at the exchange amount, being the price agreed between the parties. 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.

## **Recent Accounting Pronouncements**

### *International Financial Reporting Standards ("IFRS")*

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

### *Business Combinations, Consolidated Financial Statements and Non-Controlling Interest*

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

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

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

CICA Handbook Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year.

All three sections must be adopted concurrently. The Company is current evaluating the impact of the adoption of these sections.

## **Critical Accounting Estimates**

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

The Company views the following accounting estimates as critical:

#### *Income Tax*

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

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

For the period ending March 31, 2009, the Company has estimated income tax payable of \$1,578,246 versus \$16,328,246 at December 31, 2008 and \$nil at March 31, 2008. The December 31, 2008 amount relates primarily to the capital gains associated with the disposition of the Company's PBS shares and takes into account \$2,800,984 in capital loss carry-forwards.

#### *Oil and Gas Properties*

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

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

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

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

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

As at March 31, 2009, the Company had oil and gas properties with a net book value of \$6,338,866, reflected on the balance sheet under oil and gas properties and equipment. Impairment testing was performed on a property by property basis with no write down required. Oil and gas properties and equipment increased from \$5,399,392 at December 31, 2008 (\$nil at March 31, 2008) to \$6,506,166 at March 31, 2009. The primary reason for the increase is the approximately \$940,000 expenditure on Waseca's land acquisition program. Waseca acquired an addition 3,535 hectares of land bringing the total to 7,249 hectares under lease. In addition, Waseca acquired equipment necessary for its operations during the quarter.

### *Mining Claims and Deferred Exploration*

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

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

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

The Company had \$409,537 in mining claims and deferred exploration assets as at March 31, 2009 versus \$305,307 as at December 31, 2008 and \$510,287 at March 31, 2008. In the fourth quarter of 2008, the Company wrote down \$626,583 in mining claims and deferred exploration relating to its option agreement with Paragon Minerals.

### *Stock Based Compensation*

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

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

Waseca has also established a stock option plan for the benefit of employees, officers, directors and consultants of Waseca. In addition, Waseca has also established a performance share plan for the benefit of these same individuals.

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 by the Company and its subsidiaries was \$36,503 for the period ending March 31, 2009 versus \$42,873 for the quarter ended December 31, 2008 and \$nil for the period ending March 31, 2008.

### *Asset Retirement Obligations*

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

On a periodic basis, management will review these estimates and changes 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.

The Company calculated the ARO related to oil and gas properties using a discount rate of 7% and an inflation rate of 2%. It is assumed that the drilled wells will be abandoned seven years from the date drilled. The future undiscounted amount of ARO is estimated at \$120,612. The Company’s ARO as at March 31, 2009 was \$76,433.

### *Revenue Recognition*

Revenue from the sale of crude oil is recognized when delivery has taken place and the significant risks and rewards of the crude oil have passed to the buyer and the amount of revenue can be reliably measured. Sales revenue does not include indirect taxes (excise, GST, and royalties) and is stated at the net amount (after discounts and pipeline losses). The Company recorded sales revenue of \$295,784 net of royalties for the three month period ended March 31, 2009.

### *Oil and Gas Inventories*

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

### *Impairment of Long-Lived Assets*

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

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

### *Financial Instruments, Recognition, Measurement, Disclosure and Presentation*

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

unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in net earnings (loss).

Upon adoption of these standards, the Company has designated its cash and cash equivalents and short term investments as held-for trading, which are measured at fair value. Note receivable and receivables included in prepaids and other receivables are designated as loans and receivables, which are measured at amortized cost. The Company's investments include public and privately held investments and have been designated as available for sale ("AFS") because the Company intends to hold the investments for more than one year. Unrealized holding gains and losses relating to AFS investments are excluded from net income and included in OCI until such gains or losses are realized or an other than temporary impairment is determined to have occurred. AFS securities are measured at fair value and those which do not have a readily determinable fair value (i.e. a quoted market price in an active market) are carried at historical cost. Publicly held investments including investments are reported at fair value based on quoted market prices with unrealized gains or losses reported as other comprehensive income or loss. Privately held investments are reported at cost. AFS securities are included in the Company's portfolio according to the settlement date. Accounts payable and accrued liabilities are designated as other financial liabilities, which are measured at amortized cost.

Investments the Company intends to hold for more than one year have been designated AFS. During the first quarter of 2009, the Company recognized \$nil impairment on its private company investments, compared \$2,531,825 during the fourth quarter of 2008 and \$nil during the first quarter of 2008. The impairment recognized during the fourth quarter of 2008 was deemed to be other than temporary decline and was recognized in the statement of operations for the year ended December 31, 2008.

AFS Investments	As at		
	Mar. 31, 2009	Dec. 31, 2008	Mar. 31, 2008
Public Securities	\$18,274,882	\$12,383,179	\$6,055,814
Private Securities	15,931,069	16,181,077	5,000,000
<b>Total Investments</b>	<b>\$34,205,951</b>	<b>\$28,564,256</b>	<b>\$11,055,814</b>

### Off-Balance Sheet Arrangements

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

### Financial Instruments

#### *Fair Value of Financial Instruments*

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

#### *Currency Risk*

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

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

#### *Credit Risk*

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

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

#### *Market Risk*

Market risk is the risk that changes in market prices, such as interest rates, gold and silver bullion and equity prices, will affect the Company's operations or the value of its financial instruments. The Company will generate a portion of its revenue from the proceeds of disposition from its equity investments in natural resource companies. The values of such investments are subject to general market risks and all the risks specific to natural resource companies. If the value of these investments declines, as a result of company specific issues or market conditions generally, the Company may suffer capital losses. Management performed a sensitivity analysis of the investments and the physical gold and silver bullion against a 10% fluctuation in the stock market. A 10% fluctuation in the S&P TSX Composite Index would impact the Company's net assets excluding cash and cash equivalents and short-term investments by 4% and net assets including cash and cash equivalents and short-term investments by 1.5%.

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

#### *Liquidity Risk*

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

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

#### *Interest Rate Risk*

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

#### **Outstanding Share Data**

Authorized Capital:

Common shares, no par value, unlimited shares

Issued and outstanding:

81,807,229 common shares as at May 11, 2009.

Outstanding options, warrants, and convertible securities:

as at May 11, 2009			
Type of Security	Number	Exercise Price	Expiry date
Share purchase warrants	3,855,430	\$2.50	September 5, 2009
Share purchase warrants	16,594,284	\$4.25	December 31, 2010 <sup>(1)</sup>
Stock options	90,000	\$1.30	August 6, 2009
Stock options	100,000	\$1.75	June 9, 2010
Stock options	75,000	\$3.32	August 26, 2013

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

### ***Risks and Uncertainties***

The Company is faced with a number of risks and uncertainties which could impact its financial performance. The more significant ones are outlined below. In addition to the risks highlighted below, management is faced with a number of other risk factors as detailed in the AIF.

#### *Income Risk*

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

#### *Commodity Prices*

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

#### *Private Companies and Illiquid Securities*

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

#### *Lack of Control over Entities in which the Company Invests*

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

#### *Lack of Diversification*

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

## *Gold and Silver Bullion*

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

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

## **Disclosure Controls and Procedures and Internal Control over Financial Reporting**

Management has 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 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 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 Canadian generally accepted accounting principles. No changes in the Company's internal control over financial reporting were made during the quarter ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, management's internal control over financial reporting. The Company has a relatively small accounting and administrative department and as such, adequate segregation of duties can become a control issue.

It should be noted that while the Officers of the Company, as certified in the Company's 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, 2009 and have concluded that they are being maintained as designed, they do not expect that the disclosure controls and procedures of internal controls over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

## **Outlook**

Management of the Company is concerned that the global economy, which has suffered a dramatic decline over the past nine months, will continue to move sideways or even deteriorate. This view is supported by numerous economic indicators. Unemployment is rising rapidly, global output and trade is shrinking, and the cost of credit and capital for business remains high.

Given these deteriorating economic conditions, management will continue to act conservatively in respect of future investments. Over the past nine months, this conservative approach has proven to be the correct approach. The Company did not make any significant investments during the first quarter of 2009.

Looking ahead to 2009, One Earth Farms will begin operations with the seeding of approximately 15,000 acres on First Nation land in Saskatchewan. Plans continue to move forward for the scale up of operations in 2010 along with the launch of a training program for workers.

In the oil and gas sector, the collapse in the price of oil and gas should present opportunities for Waseca. The vast majority of Waseca's assets are in cash and cash equivalents. Waseca has amassed a significant land position and is currently focused on preparing a drilling inventory which will be enacted

upon once market conditions are such that management determines it prudent to proceed. Waseca continues to actively evaluate potential opportunities to acquire production through the execution of a strategic transaction. With the exception of a possible small gas play, the drilling program is currently on hold.

Stonegate Agricom, the other significant company in which the Company owns greater than 20%, is working to advance the Mantaro Phosphate Project in Peru. Management of Stonegate Agricom has established both exploration and community and social relations programs, and expects to complete a trenching and drilling program by end of the third quarter of 2009. The program is designed to increase the size and confidence of the existing resource and to discover additional resources on other concessions in the complete land package, some 12,800 hectares, owned by Stonegate Agricom's Peruvian subsidiary, Mantaro Peru S.A.C. Stonegate Agricom has sufficient funds to complete the proposed programs.

Undoubtedly, this downturn should present the Company with a number of interesting investment opportunities. Management is confident that it will be able to find assets and/or companies at attractive valuations that, over the long-term, will prove to be profitable investments.

#### **Other Information**

Additional information related to the Company, including the Company's AIF, is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com) and at the Company's website at [www.sprottresource.com](http://www.sprottresource.com).