

Sprott Resource Corp.

Condensed Interim Consolidated Financial Statements
Second Quarter Ended June 30, 2011
(Unaudited – *expressed in Canadian dollars*)

Sprott Resource Corp.
Interim Consolidated Statements of Financial Position
As at June 30, 2011 and December 31, 2010
Unaudited – Amounts expressed in CAD\$000's

	Jun. 30, 2011	Dec. 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	86,675	91,315
Gold bullion (note 5)	106,876	105,597
Trade and other receivables	12,500	29,903
Farm inventory (note 6)	3,131	4,403
Biological assets (note 7)	16,021	1,556
	<u>225,203</u>	<u>232,774</u>
Non-Current Assets		
Investments (note 9)	268,728	66,057
Investment in Stonegate Agricom Ltd. (note 10)	17,667	31,491
Property, plant and equipment, net of accumulated depletion and depreciation (note 8 and 13)	70,555	214,954
Exploration and evaluation assets (note 12)	14,131	15,326
Long-term biological assets (note 7)	13,245	2,633
Goodwill (note 8)	1,901	-
Deferred taxes	-	7,323
Total Assets	<u>611,430</u>	<u>570,558</u>
Liabilities		
Current Liabilities		
Trade and other payables	15,124	37,315
Incentive fee payable (note 16a)	14,768	-
Income taxes payable	-	92
Derivative financial instruments	-	3,432
	<u>29,892</u>	<u>40,839</u>
Non-Current Liabilities		
Bank credit facility	-	35,247
Asset retirement obligation (note 14)	3,525	13,870
Deferred taxes	15,561	-
Total Liabilities	<u>48,978</u>	<u>89,956</u>
Equity		
Capital stock (note 15b)	328,775	329,589
Contributed surplus	11,541	10,518
	<u>340,316</u>	<u>340,107</u>
Retained earnings	175,078	79,917
Accumulated other comprehensive income	2,021	13,141
Total equity attributable to shareholders of the Company	<u>517,415</u>	<u>433,165</u>
Non-controlling interest	<u>45,037</u>	<u>47,437</u>
Total Equity	<u>562,452</u>	<u>480,602</u>
Total Shareholders Liabilities and Shareholders Equity	<u>611,430</u>	<u>570,558</u>

Commitments (note 20)

Disposition of interest in Orion Oil & Gas Corporation - Discontinued Operations (note 11)

Approved by the Board of Directors

(signed) Michael Winn

Director

(signed) Terrence A. Lyons

Director

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

Sprott Resource Corp.
Interim Consolidated Statements of Income
For the three and six months ended June 30, 2011 and June 30, 2010
Unaudited – Amounts expressed in CAD\$000's

	Three months ended		Six months ended	
	Jun. 30, 2011	Jun. 30, 2010	Jun. 30, 2011	Jun. 30, 2010
Revenue				
Oil and gas revenue	10,485	2,681	17,102	5,183
Oil and gas royalties	(2,551)	(605)	(4,213)	(1,197)
Farming revenue	2,224	1,923	3,714	2,302
	<u>10,158</u>	<u>3,999</u>	<u>16,603</u>	<u>6,288</u>
Other income and expenses				
General and administrative expense (note 19)	4,424	2,372	7,505	5,603
Management fees (notes 16a)	2,685	1,541	4,975	3,051
Incentive fee (16a)	14,768	-	14,768	-
Oil and gas operating and exploration costs	3,687	1,370	7,878	3,996
Depreciation and depletion	1,675	285	2,845	450
Farm production costs	16,327	6,457	16,949	6,711
Fair value adjustment to biological assets	(16,161)	(4,437)	(16,496)	(4,360)
Other farm expenses	3,727	1,547	5,574	2,196
Crop costs of production and fair value adjustments	1,132	34	2,816	599
Gain on disposal of investments (notes 9 and 10)	(5,822)	(914)	(38,882)	(1,097)
Gain on dilution of investments	(400)	(12,623)	(244)	(12,623)
Foreign exchange (gain) loss	(6)	20	(14)	42
Fair value adjustment to gold bullion	(3,870)	(13,881)	(1,279)	(12,578)
Other income	(182)	(42)	(264)	(73)
Unrealized loss on investments held-for-trading (note 9)	55	337	149	418
	<u>22,039</u>	<u>(17,934)</u>	<u>6,280</u>	<u>(7,665)</u>
	<u>(11,881)</u>	<u>21,933</u>	<u>10,323</u>	<u>13,953</u>
Finance costs				
Finance expense (note 18)	(16)	10	(36)	-
	<u>(16)</u>	<u>10</u>	<u>(36)</u>	<u>-</u>
Equity loss in Stonegate Agricom Ltd. (note 10)	(1,242)	(2,296)	(2,255)	(2,707)
Income (loss) before income tax	<u>(13,139)</u>	<u>19,647</u>	<u>8,032</u>	<u>11,246</u>
Income tax				
Current income tax recovery	2,000	-	-	-
Deferred income tax recovery (expense)	2,014	(2,809)	1,080	(2,515)
	<u>4,014</u>	<u>(2,809)</u>	<u>1,080</u>	<u>(2,515)</u>
Income (loss) from continuing operations	<u>(9,125)</u>	<u>16,838</u>	<u>9,112</u>	<u>8,731</u>
Discontinued operations				
Gain on sale of discontinued operations, net of taxes (note 11)	77,267	-	77,267	-
Income (loss), net of taxes from discontinued operations (note 11)	1,734	(351)	(1,531)	(747)
	<u>79,001</u>	<u>(351)</u>	<u>75,736</u>	<u>(747)</u>
Income for the period	<u>69,876</u>	<u>16,487</u>	<u>84,848</u>	<u>7,984</u>
Income for the period attributable to:				
Non-controlling interest	(384)	(1,064)	(1,938)	(2,080)
Shareholders of the Company	70,260	17,551	86,786	10,064
Income for the period	<u>69,876</u>	<u>16,487</u>	<u>84,848</u>	<u>7,984</u>
Earnings per share from continuing operations				
Basic earnings per share (note 17a)	(0.08)	0.19	0.10	0.11
Fully diluted earnings per share (note 17b)	(0.08)	0.19	0.10	0.11
Earnings per share from discontinuing operations:				
Basic earnings (loss) per share (note 17a)	0.70	-	0.67	(0.01)
Fully diluted earnings (loss) per share (note 17b)	0.70	-	0.67	(0.01)
Weighted average shares outstanding during the period				
Basic	113,357,398	96,182,746	113,359,006	96,188,057
Fully diluted	113,382,886	96,301,404	113,386,077	96,486,682

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

Sprott Resource Corp.
Interim Consolidated Statement of Comprehensive Income
For the three and six months ended June 30, 2011 and June 30, 2010
Unaudited – Amounts expressed in CAD\$000's

	Three months ended		Six months ended	
	Jun. 30, 2011	Jun. 30, 2010	Jun. 30, 2011	Jun. 30, 2010
Income for the period	69,876	16,487	84,848	7,984
Stonegate Agricom Ltd. cumulative translation adjustment	(125)	(100)	(154)	(374)
Unrealized gains/ (losses) on available-for-sale investments (note 9)	(5,210)	(1,803)	(9,802)	2,887
Transfer of gains on available-for-sale investments	(1,167)	(914)	(2,854)	(1,097)
Deferred income taxes on available-for-sale investments	797	(14)	1,690	(1,248)
Total Other comprehensive income	<u>(5,705)</u>	<u>(2,831)</u>	<u>(11,120)</u>	<u>168</u>
Total Comprehensive income (loss) for the period, net of tax	<u>64,171</u>	<u>13,656</u>	<u>73,728</u>	<u>8,152</u>
Total Other comprehensive income (loss) attributable to:				
Shareholders of the Company	<u>(5,705)</u>	<u>(2,831)</u>	<u>(11,120)</u>	<u>168</u>
	<u>(5,705)</u>	<u>(2,831)</u>	<u>(11,120)</u>	<u>168</u>
Total comprehensive income (loss) attributable to:				
Non-controlling interest	(384)	(1,064)	(1,938)	(2,080)
Shareholders of the Company	<u>64,555</u>	<u>14,720</u>	<u>75,666</u>	<u>10,232</u>
	<u>64,171</u>	<u>13,656</u>	<u>73,728</u>	<u>8,152</u>
Accumulated other comprehensive income				
Accumulated other comprehensive income - Beginning of period	7,726	3,256	13,141	257
Stonegate Agricom Ltd. cumulative translation adjustment	(125)	(100)	(154)	(374)
Unrealized gains/ (losses) on available-for-sale investments (note 9)	(5,210)	(1,803)	(9,802)	2,887
Transfer of gains on available-for-sale investments	(1,167)	(914)	(2,854)	(1,097)
Deferred income taxes on available-for-sale investments	797	(14)	1,690	(1,248)
Accumulated other comprehensive income - End of period, net of tax	<u>2,021</u>	<u>425</u>	<u>2,021</u>	<u>425</u>

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

Sprott Resource Corp.
Interim Consolidated Statement of Equity
For the six months ended June 30, 2011 and June 30, 2010
Unaudited – Amounts expressed in CAD\$000's

	Capital stock	Warrants	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Non-controlling interest	Total
January 1, 2010	213,747	44,305	3,779	80,916	257	45,334	388,338
Net loss	-	-	-	(7,487)	-	(1,017)	(8,504)
Exercise of warrants	85	-	-	-	-	-	85
Fair value of warrants	53	(53)	-	-	-	-	-
Stock-based compensation	-	-	1,343	-	-	-	1,343
Other comprehensive income	-	-	-	-	2,999	-	2,999
Non-controlling interest contributed surplus	-	-	(331)	-	-	331	-
Financing in subsidiaries	-	-	-	(148)	-	3,166	3,018
Dilution of subsidiary investments	-	-	-	(291)	-	291	-
Wintraysan financing in Orion	-	-	-	925	-	249	1,174
March 31, 2010	213,885	44,252	4,791	73,915	3,256	48,354	388,453
Net income (loss)	-	-	-	17,551	-	(1,064)	16,487
Share buy back	(156)	-	-	(159)	-	-	(315)
Exercise of warrants	43	-	-	-	-	-	43
Fair value of warrants	27	(27)	-	-	-	-	-
Exercise of stock options	175	-	-	-	-	-	175
Fair value of stock options	104	-	(104)	-	-	-	-
Stock-based compensation	-	-	1,413	-	-	-	1,413
Other comprehensive income	-	-	-	-	(2,831)	-	(2,831)
Non-controlling interest contributed surplus	-	-	(200)	-	-	200	-
Financing in subsidiaries	-	-	-	(434)	-	257	(177)
June 30, 2010	214,078	44,225	5,900	90,873	425	47,747	403,248
Net income (loss)	-	-	-	(10,048)	-	(3,089)	(13,137)
Exercise of warrants	67,266	-	-	-	-	-	67,266
Fair value of warrants	42,259	(42,259)	-	-	-	-	-
Expiry of warrants	-	(1,966)	553	-	-	-	(1,413)
Shares issued for investment purchase	5,986	-	-	-	-	-	5,986
Dilution of subsidiary investments	-	-	-	80	-	(65)	15
Financing in subsidiaries	-	-	-	(988)	-	1,824	836
Other comprehensive income	-	-	-	-	12,716	-	12,716
Non-controlling interest contributed surplus	-	-	(820)	-	-	1,020	200
Stock-based compensation expense	-	-	4,885	-	-	-	4,885
December 31, 2010	329,589	-	10,518	79,917	13,141	47,437	480,602
Net income	-	-	-	16,121	-	(1,553)	14,568
Share buy back	(85)	-	-	(45)	-	-	(130)
Other comprehensive income	-	-	-	-	(5,415)	-	(5,415)
Non-controlling interest investment in One Earth Farms	-	-	-	-	-	29,431	29,431
Dilution effect of financing in One Earth Farms	-	-	-	8,174	-	(8,174)	-
Non-controlling interest contributed surplus	-	-	(358)	-	-	358	-
Stock-based compensation	-	-	1,168	-	-	-	1,168
One Earth Farms warrant exercise	-	-	-	(1,355)	-	1,355	-
March 31, 2011	329,504	-	11,328	102,812	7,726	68,854	520,224
Net income	-	-	-	70,260	-	(384)	69,876
Share buy back	(729)	-	-	(401)	-	-	(1,130)
Other comprehensive income	-	-	-	-	(5,705)	-	(5,705)
Dilution effect of financing in subsidiaries	-	-	-	1,672	-	(1,672)	-
Non-controlling interest investment in subsidiaries	-	-	-	-	-	6,818	6,818
Financing in subsidiaries	-	-	(65)	-	-	65	-
Stock-based compensation	-	-	278	-	-	-	278
Deconsolidation of subsidiary	-	-	-	735	-	(28,644)	(27,909)
June 30, 2011	328,775	-	11,541	175,078	2,021	45,037	562,452

Sprott Resource Corp.
Interim Consolidated Statements of Cash Flows
For the six months ended June 30, 2011 and June 30, 2010
Unaudited – Amounts expressed in CAD\$000's

	Six months ended	
	Jun. 30, 2011	Jun. 30, 2010
	\$000's	\$000's
Cash flows from (used in) operating activities		
Income for the period from continuing operations	9,112	8,731
Adjusted for: net income (loss) income from discontinued operations	75,736	(747)
Items not affecting cash		
Gain on disposal of investments	(38,882)	(1,097)
Gain on dilution of investments	(244)	(12,623)
Gain on disposition of Orion Oil & Gas Corporation	(88,415)	-
Unrealized loss on derivative instruments	-	(332)
Unrealized losses on investments held for trading	149	418
Equity loss in Stonegate Agricom Ltd.	2,255	2,707
Depletion, depreciation and amortization	2,845	835
Asset retirement obligation accretion	36	233
Additions to asset retirement obligation	2,961	-
Deferred income tax expense	12,877	2,655
Stock-based compensation	1,336	955
Dry hole costs	1,620	566
Fair value adjustment to Gold Bullion	(1,279)	(12,578)
Market value changes and changes to biological assets	(16,496)	-
Orion share issuance	-	(12)
	<u>(36,389)</u>	<u>(10,289)</u>
Changes in non-cash operating working capital		
Trade and other receivables	2,520	(3,138)
Farm inventory	1,272	(4,423)
Trade and other payables	14,162	8,660
Income tax payable	(92)	(175)
	<u>17,862</u>	<u>924</u>
Cash provided from (used in) operating activities - continuing operations	(18,527)	(9,365)
Cash provided from (used in) operating activities - discontinued operations (note 11)	11,954	2,012
CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES	<u>(6,573)</u>	<u>(7,353)</u>

Statement of cash flows continues on next page

The accompanying notes are an integral part of these financial statements

Sprott Resource Corp.
Interim Consolidated Statements of Cash Flows
For the six months ended June 30, 2011 and June 30, 2010
Unaudited – Amounts expressed in CAD\$000's

	Six months ended	
	Jun. 30, 2011	Jun. 30, 2010
	\$000's	\$000's
Cash flows from (used in) investing activities		
Purchase of investments	(25,264)	(13,861)
Investment in Stonegate Agricom Ltd.	-	(12,062)
Proceeds on sale of investments	7,003	2,489
Proceeds on sale of investment in Stonegate	48,019	-
Purchase of property, plant and equipment	(25,111)	(25,866)
Purchase of goodwill	(1,901)	-
Proceeds on disposal of property, plant and equipment	1,402	-
Additions to exploration and evaluation assets	(17,000)	(3,567)
Investment in long-term biological assets	(8,581)	(2,021)
Cash provided from (used in) investing activities - continuing operations	(21,433)	(54,888)
Cash provided from (used in) investing activities - discontinued operations (note 11)	(29,504)	(21,313)
CASH PROVIDED FROM (USED IN) INVESTING ACTIVITIES	(50,937)	(76,201)
 Cash flows from (used in) financing activities		
Financing in Waseca Energy Inc.	-	2,925
Financing in One Earth Farms Corp.	36,535	-
Proceeds from exercise of warrants	-	127
Proceeds from exercise of options	-	175
Normal course issued bid	(1,215)	(315)
Cash provided from (used in) financing activities - continuing operations	35,320	2,912
Cash provided from (used in) financing activities - discontinued operations (note 11)	17,550	19,204
CASH PROVIDED FROM (USED IN) FINANCING ACTIVITIES	52,870	22,116
 Change in cash and cash equivalents	(4,640)	(61,438)
 Cash and cash equivalents – Beginning of period - continuing operations	91,315	106,476
Cash and cash equivalents – Beginning of period - discontinued operations	-	699
Cash and cash equivalents – End of period - continuing operations	86,675	45,135
Cash and cash equivalents – End of period - discontinued operations	-	602
Cash and cash equivalents – End of period	86,675	45,737

The accompanying notes are an integral part of these financial statements

Sprott Resource Corp.
Condensed Notes to Interim Consolidated Financial Statements
For the three and six months ended June 30, 2011 and 2010
Unaudited – Amounts expressed in CAD\$

1. Corporate Information

Sprott Resource Corp. (“SRC” or the “Company”) was incorporated under the *Canada Business Corporations Act* (“CBCA”) on August 19, 1994. The primary purpose of the Company is to invest in the natural resource sector through acquisitions, joint ventures and the creation of new companies. 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.

The Company is listed on the Toronto Stock Exchange (“TSX”).

These consolidated financial statements are presented in Canadian dollars and include the accounts of the Company and the following subsidiaries: Waseca Energy Inc. (“Waseca”); One Earth Farms Corp. (“One Earth Farms”); and One Earth Oil and Gas Inc. (“OEOG”). In addition, the Company equity accounts for Stonegate Agricom Ltd. (“Stonegate Agricom”).

Effective June 30, 2011, SRC no longer consolidates Orion Oil & Gas Corporation’s (“Orion”) financial position. The statements of income include the results of Orion for the three and six months ended June 30, 2011 and 2010 and are presented as discontinued operations.

The Company’s head office is located at 200 Bay Street, Suite 2750, Royal Bank Plaza, South Tower, Toronto, Ontario, Canada, M5J 2J2.

2. Basis of Presentation and adoption of IFRS

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”), and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company commenced reporting on this basis in its 2011 interim consolidated financial statements. In these financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standards (“IAS”) 34, Interim Financial Reporting, and IFRS 1, First-time Adoption of International Financial Reporting Standards. The accounting policies followed in these interim financial statements are the same as those applied in the Company’s interim financial statements for the period ended March 31, 2011. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Company’s reported equity as at June 30, 2010 and income and comprehensive income for the three and six months ended June 30, 2010 and for the year ended December 31, 2010. This note also includes the nature and effect of significant changes in accounting policies from those used in the Company’s consolidated financial statements for the year ended December 31, 2010.

The accounting policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the year ended December 31, 2011, as issued as of August 12, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company’s annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Company’s Canadian GAAP annual audited financial statements for the year ended December 31, 2010, and the Company’s interim financial statements for the quarter ended March 31, 2011 prepared in accordance with IFRS applicable to interim consolidated financial statements.

Mandatory Exception

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

- Estimates - Estimates under IFRS 1 as at January 1, 2010, 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

Sprott Resource Corp.
Condensed Notes to Interim Consolidated Financial Statements
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Unaudited – Amounts expressed in CAD\$

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 elected not to restate historic business combination transactions completed in accordance with Canadian GAAP prior to the Date of Transition.

Share-based payments

This exemption allowed 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 allowed the Company on transition to determine what the depletion of the asset retirement obligation asset would have been on the measurement under IFRS when the corresponding liability was incurred.

Arrangements containing leases

This exemption allowed 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 were 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.

a) Subsidiaries and Associated Companies

The consolidated financial statements are presented in Canadian dollars and include the accounts of the Company and its subsidiaries: Waseca, One Earth Farms and OEOG. The Company's former subsidiary Orion, has been accounted for in the Statement of Operations for the three and six months ended as a discontinued operation. The assets and liabilities have been deconsolidated as at June 30, 2011. The Company equity accounts for Stonegate Agricom.

Sprott Resource Corp.
Condensed Notes to Interim Consolidated Financial Statements
For the three and six months ended June 30, 2011 and 2010
Unaudited – Amounts expressed in CAD\$

The principal subsidiaries, former subsidiaries and associates of the Company as at December 31, 2010 and June 30, 2011 are as follows:

Subsidiary, former subsidiary or associate	Interest at June 30, 2011	Interest at Dec. 31, 2010	Functional Currency
Orion (former subsidiary)	0%	78.9%	Canadian \$
Waseca (subsidiary)	81.1%	81.3%	Canadian \$
One Earth Farms (subsidiary)	58.1%	72.7%	Canadian \$
OEOG (subsidiary)	90.7%	90.7%	Canadian \$
Stonegate Agricom (associate)	32.8%	54.0%	U.S. \$

On June 30, 2011, SRC announced that its former subsidiary Orion has completed its strategic merger with WestFire Energy Ltd. ("WestFire") (TSX: WFE) pursuant to the previously announced plan of arrangement (the "Arrangement"). Immediately upon completion of the Arrangement, WestFire and Orion amalgamated under the Business Corporations Act (Alberta), continuing as WestFire.

Pursuant to the Arrangement, SRC acquired an aggregate of 13,153,936 common shares of WestFire ("WestFire Shares") and an aggregate of 15,512,858 non-listed, non-voting convertible shares ("WestFire Non-Voting Shares"), which may be converted into WestFire Shares on a one for one basis in certain circumstances. SRC owns 99.4% of the WestFire Non-Voting Shares and approximately 19.5% of the WestFire Shares.

SRC acquired the WestFire Shares and WestFire Non-Voting Shares for investment purposes. Subject to the restrictions set forth in the investor agreement dated May 11, 2011 between WestFire and SRC, a copy of which is available on SEDAR, SRC may purchase or sell securities of WestFire in the future on the open market or in private transactions, depending on market conditions and other factors material to the investment decisions of SRC.

Prior to the completion of the Arrangement, SRC held 229,334,351 common shares of Orion (the "Orion Shares"). The closing price of the Orion Shares on the Toronto Stock Exchange on June 30, 2011 was \$0.83 per share.

As described in Note 11, effective June 30, 2011, SRC no longer consolidates Orion's results, financial position and cash flows. SRC ceases to have the ability to exercise control over Orion and the continuing investment in WestFire has been classified as available-for-sale ("AFS"). The Company has accounted for the Orion's earnings to June 30, 2011.

Waseca was incorporated under the Canadian Business Corporations Act ("CBCA") on December 11, 2007. Waseca is a private oil and gas company whose primary focus is heavy oil production in the Lloydminster area and is located on the border of Alberta and Saskatchewan.

One Earth Farms was incorporated under the CBCA on February 5, 2009. One Earth Farms is building a fully-integrated corporate farming entity focused primary on agricultural production of crops and livestock in the Prairie Provinces of Western Canada. As expected from any farming operation, seasonal differences in sales and operations are applicable.

OEOG was incorporated under the CBCA on April 25, 2008. OEOG focuses on, among other things, developing oil and gas properties on First Nations land in Western Canada and the northern United States.

Stonegate Agricom is a public Canadian company engaged in the acquisition, exploration and development of agricultural nutrient projects and is currently focused on the exploration and development of the Mantaro Property, a phosphate deposit in Peru, and the Paris Hills Property, a phosphate deposit in Idaho, USA.

Pursuant to a Voting Agreement, the Company has never controlled Stonegate Agricom and has equity accounted for its investment in this associate. The Company agreed to vote its Stonegate Agricom shares in favour of each nominee to the board of directors proposed by the management of Stonegate Agricom for a period of three years from the date of the initial public offering ("IPO") of Stonegate Agricom, provided that one such nominee is a representative of the Company.

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3. Summary of Significant Accounting Policies

This is the first year in which the Company has prepared its financial statements in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”). The accounting policies applied in preparing these interim consolidated financial statements are consistent with those disclosed in the financial statements for the period ended March 31, 2011. These financial statements are available on www.sedar.com.

4. 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 as contained in the March 31, 2011 condensed interim consolidated financial statements are those applied in preparing the interim consolidated financial statements for the period ended June 30, 2011. The Company has consistently applied the same accounting policies throughout all periods presented.

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 have been presented in note 2.

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Reconciliation of Equity between Canadian GAAP and IFRS based on the Consolidated Statement of Financial Position as at June 30, 2010.

<i>(in thousands of Canadian dollars)</i>	Jun. 30, 2010		IFRS
	Canadian GAAP	Adjustments on transition to IFRS	
<i>Assets</i>			
<i>Current assets</i>			
Cash and cash equivalents	45,737	-	45,737
Gold bullion (a)	75,392	22,028	97,420
Trade and other receivables	20,941	-	20,941
Farm inventory (l)	5,461	(4,720)	741
Biological assets (l)	218	5,327	5,545
Derivative financial instruments	4,640	-	4,640
	152,389	22,635	175,024
Investments (b)	39,938	7,652	47,590
Investment in Stonegate Agricom Ltd.	36,047	(345)	35,702
Property, plant and equipment, net of accumulated depletion, depreciation and amortization (c) (d) (h) (i)	178,294	(13,524)	164,770
Exploration and evaluation assets (d)	-	16,790	16,790
Long-term biological assets	2,607	-	2,607
Deferred taxes (a) (b) (c)	11,866	(3,870)	7,996
Total Assets	421,141	29,338	450,479
<i>Liabilities</i>			
<i>Current liabilities</i>			
Trade and other payables	17,038	-	17,038
Income and capital taxes payable	77	-	77
	17,115	-	17,115
<i>Non-current liabilities</i>			
Bank credit facility	21,256	-	21,256
Asset retirement obligation (c) (d)	4,999	3,861	8,860
Non-controlling interest (h)	47,779	(47,779)	-
Total Liabilities	91,149	(43,918)	47,231
<i>Equity</i>			
Capital stock	214,078	-	214,078
Warrants	44,225	-	44,225
Contributed surplus (f)	5,339	561	5,900
	263,642	561	264,203
Retained earnings (a) (e) (f)	71,290	19,583	90,873
Accumulated other comprehensive income (loss) (b) (k)	(4,940)	5,365	425
Equity attributable to shareholders of the Company	329,992	25,509	355,501
Equity attributable to non-controlling interest (g)	-	47,747	47,747
	329,992	73,256	403,248
	421,141	29,338	450,479

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Reconciliation between Canadian GAAP and IFRS for the consolidated statements of income and comprehensive income for the three months and six months ended June 30, 2010.

<i>(in thousands of Canadian dollars)</i>	Three months ended Jun. 30, 2010		
	Canadian GAAP	Adjustments on transition to IFRS	IFRS
Oil and gas revenue	2,681	-	2,681
Oil and gas royalties	(446)	(159)	(605)
Farming revenue	1,923	-	1,923
Revenue	4,158	(159)	3,999
<i>Other income and expenses</i>			
General and administrative expense (c) (d) (f) (j)	2,802	(430)	2,372
Management fees	1,541	-	1,541
Oil and gas operating and exploration (c) (i)	1,382	(12)	1,370
Depreciation and depletion (c) (h) (i)	285	-	285
Farm production costs (l)	6,457	-	6,457
Fair value adjustment to biological assets	(3,830)	(607)	(4,437)
Other farm expenses	1,547	-	1,547
Crop costs of production and fair value adjustments	34	-	34
Gain on disposal of investments	(914)	-	(914)
Gain on dilution of investments (e)	(12,623)	-	(12,623)
Foreign exchange loss	20	-	20
Unrealized loss on investments held-for-trading	337	-	337
Fair value adjustment to gold bullion (a)	-	(13,881)	(13,881)
Other income	(46)	4	(42)
	(3,008)	(14,926)	(17,934)
	7,166	14,767	21,933
<i>Finance costs</i>			
Finance expense (i)	10	-	10
Equity loss in Stonegate Agricom Ltd.	(2,296)	-	(2,296)
Non-controlling interest (g)	1,263	(1,263)	-
Income before income tax	6,143	13,504	19,647
Future income tax expense	(1,074)	(1,735)	(2,809)
Income from continuing operations	5,069	11,769	16,838
Discontinued operations (c) (h) (i) (j)	(770)	419	(351)
Income for the period	4,299	12,188	16,487
<i>Income attributable to:</i>			
Shareholders of the Company	4,299	13,252	17,551
Non-controlling interest (g)	-	(1,064)	(1,064)
Income for the period	4,299	12,188	16,487
Unrealized gains (losses) on available for sale investments (b)	(4,185)	2,382	(1,803)
Stonegate Agricom cumulative translation adjustment (k)	-	(100)	(100)
Transfer of gains/(losses) on available-for-sale investments	(914)	-	(914)
Future income taxes on available-for-sale-investments (b)	582	(596)	(14)
Other comprehensive income	(4,517)	1,686	(2,831)
Total comprehensive income for the period	(218)	13,874	13,656

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	Six months ended Jun. 30, 2010		
<i>(in thousands of Canadian dollars)</i>	Canadian GAAP	Adjustments on transition to IFRS	IFRS
Oil and gas revenue	5,183	-	5,183
Oil and gas royalties	(1,038)	(159)	(1,197)
Farming revenue	2,302	-	2,302
Revenue	6,447	(159)	6,288
<i>Other income and expenses</i>			
General and administrative expense (c) (d) (f) (j)	5,879	(276)	5,603
Management fees	3,051	-	3,051
Oil and gas operating and exploration (c) (i)	4,008	(12)	3,996
Depreciation and depletion (c) (h) (i)	450	-	450
Farm production costs (l)	6,711	-	6,711
Fair value adjustment to biological assets	(3,753)	(607)	(4,360)
Other farm expenses	2,196	-	2,196
Crop costs of production and fair value adjustments	599	-	599
Gain on disposal of investments	(1,097)	-	(1,097)
Gain on dilution of investments (e)	(12,332)	(291)	(12,623)
Foreign exchange loss	42	-	42
Unrealized loss on investments held-for-trading	418	-	418
Fair value adjustment to gold bullion (a)	-	(12,578)	(12,578)
Other income	(73)	-	(73)
	6,099	(13,764)	(7,665)
	348	13,605	13,953
<i>Finance costs</i>			
Finance expense (i)	-	-	-
Equity loss in Stonegate Agricom Ltd.	(2,707)	-	(2,707)
Non-controlling interest (g)	2,279	(2,279)	-
Loss before income tax	(80)	11,326	11,246
Future income tax expense	(943)	(1,572)	(2,515)
Income from continuing operations	(1,023)	9,754	8,731
Discontinued operations (c) (h) (i) (j)	(424)	(323)	(747)
Loss for the period	(1,447)	9,431	7,984
<i>Loss attributable to:</i>			
Shareholders of the Company	(1,447)	11,511	10,064
Non-controlling interest (g)	-	(2,080)	(2,080)
Loss for the period	(1,447)	9,431	7,984
Unrealized gains (losses) on available for sale investments (b)	(4,765)	7,652	2,887
Stonegate Agricom cumulative translation adjustment (k)	-	(374)	(374)
Transfer of gains/(losses) on available-for-sale investments	(1,097)	-	(1,097)
Future income taxes on available-for-sale-investments (b)	665	(1,913)	(1,248)
Other comprehensive income	(5,197)	5,365	168
Total comprehensive income for the period	(6,644)	14,796	8,152

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Explanatory Notes

Differences relating to IFRS adjustments for the Company's opening balance sheet as at January 1, 2010 and for the year ending December 31, 2010 have been explained in the Company's interim consolidated financial statements for the three month period ending March 31, 2011.

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 statements of income (loss) and comprehensive income (loss).

Material IFRS adjustments

IFRS as at June 30, 2010: The fair value adjustment resulted in a \$22.0 million increase to gold bullion with a corresponding adjustment of \$19.2 million to retained earnings and \$2.8 million increase to deferred tax liability.

b) Available-for-sale investments

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.

The Company currently holds an equity investment in the Union Agriculture Group ("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 June 30, 2010: The fair value adjustment resulted in a \$7.7 million increase in AFS investments with a corresponding adjustment of \$5.7 million to other comprehensive income and \$2.0 million to deferred tax liability.

c) Property, Plant and Equipment (PP&E) and exploration and evaluation assets

Property, Plant and Equipment

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, the statement of income and the statement of comprehensive income reconciliations presented.

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Material IFRS adjustments

IFRS as at June 30, 2010: Approximately \$16.8 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 \$3.9 million with a corresponding increase in PP&E.

d) Asset retirement obligation

Under Canadian GAAP, AROs 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 AROs 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 at 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 as at June 30, 2010: As a result of the adjustment arising from changes in the methodology used to calculate ARO, the ARO increased by \$3.9 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.

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 as at June 30, 2010: As a result of the different methodology to calculate stock-based compensation, the Company increased contributed surplus by \$0.6 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.

Under IFRS, the Company consolidates 100% of its subsidiaries' income and losses and the share of the minorities' interest in the net income or loss is adjusted directly in equity.

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

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petroleum engineers as of December 31, 2010. Any IFRS adjustment is a result of subsequent depletion and depreciation from the PP&E differences identified in explanatory notes (c) and (d) above.

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 (“Orion RTO”). 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 as costs associated with the Orion RTO. There was no additional impact from the Orion RTO in 2010.

k) Cumulative Translation Adjustment

Under IFRS 1, the Company elected to set its cumulative translation adjustment (“CTA”) to zero on transition.

Under pre-changeover Canadian GAAP, the subsidiaries were considered integrated and any translation differences were reported in the income statement for the period; under IFRS, all translation differences arising as a result of the translation of the Company’s foreign subsidiaries and associates under IAS 21, Functional Currency must be presented as a separate component of equity. For the three, six and twelve month periods ended March 31, 2010, June 30, 2010 and December 31, 2010, the CTA balances were (\$0.3 million), (\$41 thousand) and \$0.6 million, respectively.

l) Fair value of biological assets

Under Canadian GAAP, crops growing in the field are classified as inventory and recorded at the lower of cost and net realizable value. IFRS requires that biological assets are recognized at fair value less estimated costs to sell.

Material IFRS adjustments

IFRS as at June 30, 2010: One Earth Farms transferred \$4.7 million of crops growing in the field from inventory to biological assets. A gain of \$0.6 million was recorded on the biological growth of standing crops and livestock for the six month period ended June 30, 2010 over the reported cost of \$4.9 million. A yet to be determined fair value adjustment will be recorded in the period ended September 30, 2010.

IFRS as at December 31, 2010: The gains recorded in the second and third quarter of 2010 are reversed in the fourth quarter of 2010 as the crop was harvested and reported in inventory at the fair value.

Statement of Cash Flows

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated and used by the Company except that, under IFRS, cash flows relating to interest are classified as operating, investing or financing in a consistent manner each period. Under Canadian GAAP, cash flows relating to interest payments were classified as operating. Immaterial reclassifications have been completed, but on an overall basis net cash flow did not change.

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5. Gold Bullion

As at							
June 30, 2011				Dec. 31, 2010			
Ounces (#)	Cost (\$000's)	Average cost per ounce (\$)	Fair value (\$000's)	Ounces (#)	Cost (\$000's)	Average cost per ounce (\$)	Fair value (\$000's)
73,971	\$75,392	\$1,019	106,876	73,971	\$75,392	\$1,019	\$105,597

6. Farm Inventory

Inventories consist of:

<i>(in thousands)</i>	As at	
	June 30, 2011	Dec. 31, 2010
Seed, fertilizer, and chemicals	\$1,596	\$606
Grain inventory available for sale	512	3,527
Cattle feed	296	270
Parts and supplies	727	-
Closing balance	\$3,131	\$4,403

7. Biological Assets

Changes during the year in livestock intended to be sold (current biological assets) are as follows:

	As at			
	June 30, 2011		Dec. 31, 2010	
	Quantity (#)	Amount (\$000's)	Quantity (#)	Amount (\$000's)
Livestock intended to be sold				
Biological assets – Beginning of period	1,718	\$1,556	925	\$647
Increases due to acquisitions	-	-	122	80
Increases due to new calves	-	-	1,550	1,549
Increase (decrease) due to transfer from other categories	(555)	(769)	181	170
Decreases due to impairment (loss)	(16)	(17)	(27)	(25)
Decreases due to sales	(462)	(611)	(1,033)	(1,030)
Change in fair value less estimated point-of-sale costs	-	504	-	165
Livestock Assets – End of period	685	\$663	1,718	\$1,556
	Quantity (# Acres)	June 30, 2011 Amount (\$000's)	Quantity (# Acres)	Dec. 31, 2010 Amount (\$000's)
Standing Crop				
Biological assets – Beginning of period	-	-	-	-
Increase due to planting	99,335	15,358	32,151	7,378
Decrease due to harvest	-	-	-	(7,378)
Standing Crop Assets – End of period	99,335	\$15,358	32,151	-
Biological assets – End of period		\$16,021		\$1,556

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Changes in breeding herd (long-term biological assets) carrying values and quantities are as follows:

	As at			
	Quantity (#)	June 30, 2011 Amount (\$000's)	Quantity (#)	Dec. 31, 2010 Amount (\$000's)
Long term biological assets – Beginning of period	1,902	\$2,633	633	\$587
Increases due to acquisitions	5,494	8,580	1,813	2,487
Increases due to transfer to other categories	555	769	(181)	(170)
Decreases due to impairment (loss)	(17)	(31)	(59)	(79)
Decreases due to sales	(9)	(8)	(304)	(389)
Change in fair value less estimated point-of-sale costs	-	1,302	-	197
Long term biological assets – End of period	7,925	\$13,245	1,902	\$2,633

8. Acquisitions

On June 1, 2011, One Earth Farms, a subsidiary of the Company, completed a business combination of a corporate farming operation. One Earth Farms purchased all the common shares of 1213243 Alberta Ltd. (“Farm Corp.”) for cash consideration of \$10,741,700. Through this acquisition, One Earth Farms acquired a turn-key farming operation in central Alberta consisting of over 31,000 acres of leased farm land for crops, approximately \$9.3 million of farm machinery, storage and equipment and an experienced workforce of about 25 employees. The services of the former owner of Farm Corp. have been retained under an employment contract.

One Earth Farms recorded \$1.9 million of goodwill from the acquisition as the purchase price exceeded the fair value of the tangible assets. No goodwill resulting from the purchase will be tax deductible.

The acquisition of Farm Corp. is not expected to have a material impact on the net earnings of the Company in 2011.

The purchase price has been preliminarily allocated as follows:

	(\$000's)
Property, plant & equipment	9,381
Preferable lease contracts	1,200
Deferred taxes	(1,741)
Goodwill	1,901
	<hr/>
Consideration Paid	<hr/> 10,741

Adjustments to the purchase price allocation will be made upon receiving the final financial statements of Farm Corp. as of the purchase date. One Earth Farms has withheld a portion of the purchase price. The holdback will be released from escrow over a 24-month period from the date of acquisition as certain conditions are met, including the delivery of final financial statements, extinguishment of certain tax liabilities and continuity of certain land leases.

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9. Investments

The Company has a portfolio of investments in securities of public and private companies. The Company holds less than 20% of voting shares outstanding of companies included in the investments noted in the balances below.

<i>(in thousands)</i>	Period ended	Year ended
	June 30, 2011	Dec. 31, 2010
Opening balance	\$66,057	\$33,750
Acquisitions during the period	25,264	28,800
Acquisition of WestFire by share for share exchange of Orion (Note 11)	194,361	-
Unrealized gains (losses) on available-for-sale investments during the period	(9,802)	21,191
Impairment of investments	-	(293)
Unrealized loss on held-for-trading investments during the period	(149)	(110)
Proceeds on disposal of investments at fair market value	(7,003)	(17,281)
Closing balance at fair value	\$268,728	\$66,057

AFS public investments are measured at fair value. AFS private investments are measured at fair value unless the fair value cannot be reliably measured, and are then measured at cost. Held-for-trading investments (“HFT”) are measured at fair value.

<i>(in thousands)</i>	As at	
	June 30, 2011	Dec. 31, 2010
Public securities – common shares – AFS	\$221,083	\$9,166
Public securities – warrants – HFT	19	168
Private securities – common shares – AFS	47,626	56,723
Total investments	\$268,728	\$66,057

10. Investment in Stonegate Agricom Ltd.

Stonegate Agricom holds mineral claims relating to the Mantaro Phosphate Project, located in Peru, and the Paris Hills property in Idaho, USA.

The Company initially owned 60 million common shares representing an 81% interest in Stonegate Agricom. As at March 31, 2011, the Company owned a 36.2% interest in Stonegate Agricom. Pursuant to a Voting Agreement, the Company has never controlled Stonegate Agricom and has equity accounted for its investment. The Company agreed to vote its Stonegate Agricom shares in favour of each nominee to the board of directors proposed by the management of Stonegate Agricom for a period of three years from the date of the initial public offering (“IPO”) of Stonegate Agricom, provided that one such nominee is a representative of the Company.

In April 2010, Stonegate Agricom closed its IPO, including the underwriters’ exercise of their over-allotment option, of 51,750,000 Unit at a price of \$1.00 per Unit for gross proceeds of \$52 million. Each Unit consisted of one common share (“Stonegate Common Share”) and one-half of one common share purchase warrant (each whole common share purchase warrant “Stonegate Warrant”). Each Stonegate Warrant entitles the holder to acquire one Stonegate Common Share at an exercise price of \$1.50 until April 28, 2013. As part of the IPO, the Company subscribed for 12 million Units.

In March 2011, the Company announced the closing of a secondary offering of 25 million common shares of Stonegate Agricom by SRC at a price of \$1.75 per common share for aggregate gross proceeds of \$43.8 million and recognized a gain of \$31.2 million. After giving effect to the transaction, the Company owned 50,662,000 common shares (36.2% interest) in Stonegate Agricom.

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In April 2011 the Company announced that the underwriters of the secondary offering of common shares of Stonegate Agricom exercised their over-allotment option in full, resulting in the sale of an additional 3,750,000 common shares at a price of \$1.75 per share for additional aggregate gross proceeds of \$6,562,500. The Company as at June 30, 2011 holds 46,912,000 common shares (32.8% interest) in Stonegate Agricom.

11. Disposition of Interest in Orion – Discontinued Operations

As a result of the share for share exchange with WestFire, the Company no longer consolidates the financial position and results of Orion effective June 30, 2011 (Note 2a). The result of this transaction on the Company's financial statements is described as follows:

The interim consolidated statements of financial position and related notes as at December 31, 2010 reflect the consolidation of Orion.

The interim consolidated statements of income and interim consolidated statement of comprehensive income and related notes for the three and six month periods ending June 30, 2011 reflect the earnings from Orion as discontinued operations.

The interim consolidated statements of cash flows and related notes for six month period ending June 30, 2011 reflect Orion's cash flows for the period and are presented as discontinued operations.

The share exchange between Orion and WestFire has been recorded as a disposition of Orion by the Company. The gain recorded on this disposition along with the net assets and Statement of Operations is presented below.

Orion share exchange resulting in loss of control

Immediately prior to the transaction, the Company held 78.9% voting control of Orion. As a result of the Arrangement completed on June 30, 2011, the Company's ownership interest in the amalgamated entity of WestFire aggregated to include the WestFire Shares and the WestFire Non-Voting Shares was 34.59%.

The Company holds 19.5% of the voting shares of WestFire. The Company does not control or have the ability to exert significant influence of WestFire as a result of this transaction and as such accounts for the WestFire investment as AFS. If an investor holds, directly or indirectly (e.g. through subsidiaries), less than 20 per cent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

The proceeds of disposition were calculated based on the WestFire closing bid price for common shares of \$6.78 at June 30, 2011. The combined number of WestFire shares received by the company in exchange for its 229,334,351 Orion shares was of 13,153,936 WestFire Shares and 15,512,858 WestFire Non-Voting Shares.

Restrictions of WestFire Shares and WestFire Non-Voting Shares

The WestFire Shares owned, controlled, or directed by the Company are subject to an escrow or contractual hold arrangement for a period of 18 months from June 30, 2011 except with consent of the WestFire Board of Directors, which may not be unreasonably withheld.

The WestFire Non-Voting Shares are transferrable and immediately convertible (in whole or in part) into WestFire Shares on a one-for-one basis provided the transfer or conversion, as the case may be, would not result in the transferee or holder, respectively, holding 20% or more of the then outstanding WestFire Shares. In addition, the Company must provide reasonable written notice to WestFire prior to the sale of any of its WestFire Non-Voting Shares and agree that, subject to WestFire's approval, any sale or sales (on a combined basis) will not be less than \$10 million of proceeds to SRC in the aggregate.

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Net Assets and Gain on Divestment of Orion

Jun. 30, 2011

Assets

Current Assets

Cash and cash equivalents	\$	-
Trade and other receivables		14,938
		<u>14,938</u>

Non-Current Assets

Property, plant and equipment, net of accumulated depletion, depreciation and amortization		193,512
Deferred taxes		11,640
Assets of discontinued operations	\$	<u>220,090</u>

Liabilities

Current Liabilities

Trade and other payables	\$	18,181
Derivative financial instruments		1,730
		<u>19,911</u>

Non-Current Liabilities

Bank credit facility		52,797
Asset retirement obligation		12,792
Liabilities of discontinued operations	\$	<u>85,500</u>

Net assets of discontinued operations before non-controlling interest	\$	134,590
Less: non-controlling interest		(28,644)
Net assets of discontinued operations	\$	<u>105,946</u>

Proceeds Received at Divestment

13,153,963 common shares of WestFire Energy Ltd.	\$	89,184
15,512,858 non-listed, non-voting convertible shares of WestFire Energy Ltd.		105,177
Total proceeds	\$	<u>194,361</u>

Gain on Divestment	\$	88,415
Less: deferred income tax provision		(11,148)
Net gain on sale of discontinued operations	\$	<u>77,267</u>

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	Three months ended		Six months ended	
	Jun. 30, 2011	Jun. 30, 2010	Jun. 30, 2011	Jun. 30, 2010
Revenue				
Oil and gas revenue	\$ 29,444	\$ 18,934	\$ 56,043	\$ 34,921
Oil and gas royalties	(9,193)	(2,256)	(13,466)	(5,084)
	<u>20,251</u>	<u>16,678</u>	<u>42,577</u>	<u>29,837</u>
Other income and expenses				
General and administrative expense	4,773	5,691	7,652	8,307
Oil and gas operating and exploration	9,650	5,187	16,573	8,729
Depreciation and depletion	8,419	6,204	16,243	10,317
Realized gain (loss) on derivative instruments	1,613	(241)	2,361	(61)
Unrealized gain on derivative instruments	(5,498)	(1,478)	(1,703)	(332)
Loss on other items	-	141	-	1,301
	<u>18,957</u>	<u>15,504</u>	<u>41,126</u>	<u>28,261</u>
	<u>1,294</u>	<u>1,174</u>	<u>1,451</u>	<u>1,576</u>
Finance costs				
Finance expense (note 18)	(1,012)	(157)	(2,028)	(434)
	<u>282</u>	<u>1,017</u>	<u>(577)</u>	<u>1,142</u>
Income (loss) before income tax				
	<u>282</u>	<u>1,017</u>	<u>(577)</u>	<u>1,142</u>
Income tax				
Future income tax (expense) recovery	1,452	(1,368)	(954)	(1,889)
	<u>1,452</u>	<u>(1,368)</u>	<u>(954)</u>	<u>(1,889)</u>
Income (loss) from discontinued operations				
	<u>\$ 1,734</u>	<u>\$ (351)</u>	<u>\$ (1,531)</u>	<u>\$ (747)</u>

12. Exploration and Evaluation Assets

Exploration and evaluation assets comprise those related to the exploration for and evaluation of oil and natural gas reserves. The following table represents the amounts included in exploration and evaluation assets and the changes during the period.

<i>(in thousands)</i>	Waseca	OEOG	Total	Total
	June 30, 2011	June 30, 2011	June 30, 2011	Dec. 31, 2010
Balance – Beginning of period	\$11,824	\$3,502	\$15,326	\$13,539
Additions	13,483	3,517	17,000	14,943
Transfers from Inventory	1,419	-	1,419	-
Transfers to PP&E	(16,796)	(1,197)	(17,993)	(12,739)
Dry hole costs	(877)	-	(878)	(417)
Impairment losses	(743)	-	(743)	-
Balance – End of period	<u>\$8,310</u>	<u>\$5,822</u>	<u>\$14,131</u>	<u>\$15,326</u>

During the period ended June 30, 2011, drilling costs totalling \$0.9 million have been expensed to exploration costs as dry hole costs (\$0.4 million for period ended December 31, 2010). Dry holes comprise both wells that were deemed dry holes upon drilling completion and wells which were put into production but ultimately were not economic to produce. Also during the period, Waseca recorded an impairment loss of \$0.7 million due to an exploration license that is scheduled to expire in October 2011.

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13. Property, Plant and Equipment

a) Oil and Gas PP&E

	Oil and gas properties	Processing and other equipment	Office equipment	Other	Total
	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
Cost-gross carrying amount		(2)	-	-	
Balance at January 1, 2011	212,972	11,199	716	222	225,109
Additions	29,023	2,608	41	4	31,676
Transfers from intangible assets	16,796	-	-	-	16,796
Transfers to intangible assets	-	-	-	-	-
Impairment losses	-	-	-	-	-
Disposals	-	-	-	-	-
Drilling royalty credits	(2,912)	-	-	-	(2,912)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at June 30, 2011	255,879	13,807	757	226	270,669
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated amortization	-	-	-	-	
Balance at January 1, 2011	(22,978)	(452)	(223)	(72)	(23,725)
Depreciation and depletion expense	(18,933)	(133)	-	(22)	(19,088)
Disposals	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at June 30, 2011	(41,911)	(585)	(223)	(94)	(42,813)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value – June 30, 2011	213,968	13,223	534	131	227,856
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net PP&E of discontinued operations	(184,931)	(8,047)	(534)	-	(193,512)
Net book value – June 30, 2011	29,037	5,176	-	131	34,344
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Cost-gross carrying amount					
Balance at January 1, 2010	124,627	8,386	318	155	133,486
Additions	79,966	4,144	398	67	84,575
Transfers from intangible assets	12,739	-	-	-	12,739
Transfers to intangible assets	-	(1,329)	-	-	(1,329)
Impairment losses	(466)	-	-	-	(466)
Disposals	(317)	-	-	-	(317)
Drilling royalty credits	(4,234)	-	-	-	(4,234)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at December 31, 2010	212,315	11,201	716	222	224,454
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated amortization					
Balance at January 1, 2010	(424)	(20)	(43)	(31)	(518)
Depreciation and depletion expense	(20,318)	(432)	(180)	(41)	(20,971)
Impairment losses	(2,252)	-	-	-	(2,252)
Disposals	16	-	-	-	16
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at December 31, 2010	(22,978)	(452)	(223)	(72)	(23,725)
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Net book value – December 31, 2010	189,337	10,749	493	150	200,729
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b) Agriculture PP&E

	Buildings and leasehold improvements	Direct	Other Farm	Office equipment and information technology	Total
	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
Cost-gross carrying amount					
Balance at January 1, 2011	1,026	9,881	5,349	108	16,365
Additions	1,968	16,373	6,204	279	24,824
Disposals	-	(1,332)	(70)	-	(1,402)
Balance at June 30, 2011	2,994	24,922	11,483	388	39,787
Accumulated amortization					
Balance at January 1, 2011	(61)	(1,373)	(652)	(54)	(2,139)
Depreciation	(60)	(1,080)	(539)	(44)	(1,723)
Disposals	-	276	10	-	285
Balance at June 30, 2011	(121)	(2,177)	(1,181)	(98)	(3,577)
Net book value – June 30, 2011	2,873	22,745	10,302	290	36,210
Cost-gross carrying amount					
Balance at January 1, 2010	26	2,156	-	29	2,211
Additions	1,026	7,896	5,576	80	14,579
Disposals	(26)	(171)	(228)	-	(425)
Balance at December 31, 2010	1,026	9,881	5,349	108	16,365
Accumulated amortization					
Balance at January 1, 2010	(1)	(216)	-	(7)	(224)
Depreciation	(61)	(1,159)	(659)	(47)	(1,927)
Disposals	1	2	8	-	12
Balance at December 31, 2010	(61)	(1,373)	(652)	(54)	(2,139)
Net book value – December 31, 2010	965	8,509	4,697	54	14,225

14. Asset Retirement Obligation

The Company is legally required to restore its properties to their original condition. Estimated future site restoration costs are based upon engineering estimates of the anticipated method and the extent of site restoration required in accordance with current legislation and industry practices in the various jurisdictions in which the Company has properties. Waseca and OEOG have different resource assets, cost of capital and macroeconomic views. As a result of the differing views, each company may use different assumptions in calculating the ARO related to their properties.

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The assumptions used by Waseca and OEOG to calculate the ARO related to oil and gas properties are as follows:

	Waseca	OEOG
	June 30, 2011	June 30, 2011
Discount rate (%)	2.66	2.75
Inflation rate (%)	2	2
Life of wells (years)	7	7

Future undiscounted liability (\$000's)

The future undiscounted amount of ARO is estimated at \$3.5 million. All accretion expenses related to ARO are included within finance expense.

A summary of the Company's ARO from continuing operations is as follows:

	Waseca		OEOG		Total from continuing operations		Discontinued operations	
	June 30, 2011	June 30, 2011	June 30, 2011	Dec 31, 2010	June 30, 2011	Dec 31, 2010		
<i>(in thousands)</i>								
ARO – Beginning of period-continuing operations	1,973	88	2,061	427	11,809	7,104		
Provisions acquired through acquisitions	-	-	-	-	-	973		
Provisions incurred during the period	1,350	40	1,390	1,497	815	1,336		
Provisions settled during the period	-	-	-	-	(44)	-		
Revisions (change in discount rate)	38	-	38	46	(380)	473		
Revisions (change in estimates)	-	-	-	60	(45)	1,635		
Accretion expense during the period	36	-	36	31	637	288		
Discontinued operations in period	-	-	-	-	(12,792)	-		
Total ARO	3,397	128	3,525	2,061	-	11,809		

15. Shareholders' Equity

a) Authorized

Unlimited common shares with no par value.

The holders of the common shares are entitled to one vote per share and are entitled to dividends, when and if declared by the directors of the Company, and to the distribution of the residual assets of the Company in the event of the liquidation, dissolution or winding-up of the Company. No dividends have ever been declared or paid as at June 30, 2011.

b) Issued and Outstanding

	Common shares (#)	Amount (\$000's)
Balance – January 1, 2010	96,191,427	\$213,747
Exercise of warrants	15,857,451	67,394
Fair value of warrants exercised	-	42,339
Exercise of stock options	100,000	175
Fair value of stock options exercised	-	104
Capital stock issued for investment purchase	1,327,005	(156)
Normal course issuer bid – repurchase of capital stock (Note 15d)	(70,000)	5,986
Balance – December 31, 2010	113,405,883	329,589
Normal course issuer bid – repurchase of capital stock (Note 15d)	(279,373)	(814)
Balance – June 30, 2011	113,126,510	\$328,775

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c) Stock Options

The maximum number of shares available under the Company's stock option plan is limited to 5% of the issued common shares at the time of granting of options. Subject to any employment contracts, each option grant is exercisable as to 33 1/3% on a cumulative basis, at the end of each of the first, second and third years following the date of grant. The maximum option term cannot exceed ten years, subject to extension in the event that the expiry date falls within a "blackout" period.

	Six months ended June 30, 2011		Year ended Dec. 31, 2010	
	Options (#)	Weighted avg. exercise price (\$)	Options (#)	Weighted avg. exercise price (\$)
Balance – Beginning of period	270,000	\$3.71	250,000	\$2.59
Granted	-	-	120,000	4.41
Exercised	-	-	(100,000)	1.75
Balance – End of period	270,000	\$3.71	270,000	\$3.71

The fair value of stock options granted was estimated as at the grant date using the Black-Scholes option pricing model. A nil% forfeiture rate was used to estimate the Company's stock-based compensation expense for the six months ended June 30, 2011 (June 30, 2010: nil%). The assumptions used in determining the most recent stock options granted on August 17, 2010 are noted below:

	Aug. 17, 2010
Risk-free interest rate (%)	3.32
Expected life (years)	5
Expected volatility (%)	39.8
Fair value per option (\$)	\$1.68

The following table summarizes information about the Company's stock options outstanding and exercisable at June 30, 2011 and December 31, 2010:

Exercise price (\$)	As at					
	June 30, 2011			Dec. 31, 2010		
Options (#)	Weighted avg. remaining contractual life (years)	Options exercisable (#)	Options (#)	Weighted avg. remaining contractual life (years)	Options exercisable (#)	
\$3.32	75,000	2.16	50,000	75,000	2.66	50,000
\$2.98	75,000	3.17	25,000	75,000	3.67	25,000
\$4.41	120,000	4.13	-	120,000	4.63	-
\$3.71	270,000	3.32	75,000	270,000	3.82	75,000

Compensation expense for the six months ended June 30, 2011 was \$96,000 (2010: \$63,000), all of which has been recorded in general and administrative expense.

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d) Normal Course Issuer Bid

On August 30, 2010, the Company received approval from the TSX to begin a Normal Course Issuer Bid (“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. During the first quarter of 2011, the Company purchased and cancelled 29,100 common shares under the NCIB. The impact was a reduction of \$45,000 to retained earnings and a reduction of \$85,000 to capital stock. During the second quarter of 2011, the Company purchased and cancelled 250,273 common shares under the NCIB. The impact was a reduction of \$401,000 to retained earnings and a reduction of \$730,000 to capital stock.

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.

e) The Waseca Stock Option Plan

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

	As at			
	Options (#)	June 30, 2011 Weighted avg. exercise price (\$)	Options (#)	Dec. 31, 2010 Weighted avg. exercise price (\$)
Balance – Beginning of period	5,964,762	\$0.60	2,524,400	\$0.60
Granted	2,591,977	0.74	3,506,362	0.60
Exercised	(61,112)	0.60		
Forfeited	(38,888)	0.60	(66,000)	0.60
Balance – End of period	8,456,739	\$0.64	5,964,762	\$0.60

The fair value of the stock options granted during the period under the Waseca Plan is estimated at the grant date using the Black-Scholes option pricing model. A 3% forfeiture rate was used to estimate the Waseca’s stock-based compensation expense for the six months ended June 30, 2011 (June 30, 2010: 3%). The assumptions used in the calculation are noted below:

Risk-free interest rate	2.2% to 3.1%
Expected life	5 years
Expected volatility	40% to 50%
Fair value per option	\$0.23 to \$0.34

The following table summarizes information about Waseca’s stock options outstanding under the Waseca Plan at June 30, 2011:

Exercise price (\$)	As at					
	Options (#)	Weighted avg. remaining contractual life (years)	Options exercisable (#)	Options (#)	Weighted avg. remaining contractual life (years)	Options exercisable (#)
\$0.60	6,039,762	3.1	2,556,461	5,964,762	3.6	1,591,467
\$0.75	2,416,977	4.9	-	-	-	-
	8,456,739	3.6	2,556,461	5,964,762	3.6	1,591,467

Waseca recorded stock-based compensation expense relating to stock options of \$253,241, for the period ended June, 30 2011 (2010: \$255,656), all of which has been recorded in general and administrative expense.

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f) Waseca Performance Shares

The following table summarizes the activity during the period for Waseca's Performance Shares, which are only releasable upon a liquidity event:

	As at			
	Shares (#)	June 30, 2011 Weighted avg. conversion price (\$)	Shares (#)	Dec. 31, 2010 Weighted avg. conversion price (\$)
Balance – Beginning of period	11,135,420	\$0.60	4,923,800	\$0.60
Granted	-	0.60	6,343,620	0.60
Forfeiture	(200,000)	0.60	(132,000)	0.60
Balance – End of period	10,935,420	\$0.60	11,135,420	\$0.60

The fair value of the performance warrants granted is estimated at the grant date using the binomial option pricing model. A nil% forfeiture rate was used to estimate Waseca's stock-based compensation expense for the three months ended June 30, 2011 (June 30, 2010: nil%). Waseca assumed that, for the purposes of estimating the expense, a transaction event had occurred and included 100% of the performance warrants when calculating the value of the stock-based compensation expense. The assumptions used in the calculation are noted below:

Risk-free interest rate	2.2% to 3.1%
Expected life	2 – 4 years
Expected volatility	40%
Fair value per option	\$0.05 to \$0.18

Transaction value ¹ (\$)	As at					
	Performance Shares outstanding (#)	Weighted avg. remaining contractual life (years)	June 30, 2011 Options convertible (#)	Performance Shares outstanding (#)	Weighted avg. remaining contractual life (years)	Dec. 31, 2010 Options convertible (#)
\$0.69	2,733,855	3.1	-	2,783,855	3.6	-
\$0.90	2,733,855	3.1	-	2,783,855	3.6	-
\$1.20	2,733,855	3.1	-	2,783,855	3.6	-
\$1.50	2,733,855	3.1	-	2,783,855	3.6	-
	10,935,420	3.1	-	11,135,420	3.6	-

1. Above table denotes transaction value required to trigger option to convert to common shares at \$0.60 per Performance Share. A transaction event occurs when Waseca's share price exceeds the prices noted in the above table resulting from liquidation or a public transaction. As at June 30, 2011, neither a liquidity event nor a public transaction had occurred.

Waseca recorded stock-based compensation expense relating to performance warrants of \$141,614 for the six months ended June 30, 2011 (2010: \$123,140), all of which has been recorded in general and administrative expense.

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g) The One Earth Farms Stock Option Plan

The maximum number of shares available under the One Earth Farms Stock Option Plan (the “OEF Plan”) is limited to 10% of the issued common shares of One Earth Farms at the time of granting of options. Subject to any employment contracts, each outstanding option grant is exercisable as to 33 1/3% on a cumulative basis, at the end of each of the first, second and third years following the date of grant. The maximum option term cannot exceed seven years.

	As at			
	Options (#)	June 30, 2011 Weighted avg. exercise price (\$)	Options (#)	Dec. 31, 2010 Weighted avg. exercise price (\$)
Balance – Beginning of period	-	\$-	-	\$-
Granted	7,859,325	1.22	-	-
Balance – End of period	7,859,325	\$1.22	-	\$-

The fair value of the stock options granted during the period under the OEF Plan is estimated at the grant date using the Black-Scholes option pricing model. A 2.5% forfeiture rate was used to estimate One Earth Farms’ stock-based compensation expense for the six months ended June 30, 2011 (June 30, 2010: nil%). The assumptions used in the most recent stock option expense calculation is noted below:

Risk-free interest rate	2.03%
Expected life	7 years
Expected volatility	32.19%
Fair value per option	\$0.53

The following table summarizes information about One Earth Farms’ stock options outstanding under the OEF Plan at June 30, 2011:

Exercise price (\$)	As at					
	Options (#)	Weighted avg. remaining contractual life (years)	Options exercisable (#)	Options (#)	Weighted avg. remaining contractual life (years)	Options exercisable (#)
\$1.22	7,859,325	6.7	-	-	-	-

One Earth Farms recorded stock-based compensation expense of \$845,406 for the six months ended June 30, 2011 (2010: \$nil), all of which has been recorded in general and administrative expense.

16. Related Party Transactions

a) Purchase of Goods and Services

The Company entered into the following transactions with related parties during the period ended June 30, 2011:

- For the three and six month periods ended June 30, 2011, management fees of \$2.7 million and \$5.0 million respectively (2010 - \$1.4 million and \$2.9 million respectively) were incurred, which are payable to Sprott Consulting Limited Partnership (“SCLP”), an entity with directors and officers in common.
- For the three and six month periods ended June 30, 2011, accrued incentive fees of \$14.8 million (2010 - \$nil) were incurred, which may be payable to SCLP, an entity with directors and officers in common, at some future point in time.

Refer to note 20 (c) “Commitments – SRC Management Services Agreement” for additional information regarding the calculation of management and incentive fees payable under the Management Services Agreement (“MSA”).

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Transactions with related parties are recorded at 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.

b) Key Management Compensation

Compensation for services paid or payable to the four executive officers and three independent directors of the Company is shown below:

<i>(in thousands)</i>	Six months ended	
	June 30, 2011	June 30, 2010
Compensation paid on behalf of SRC to management for services provided to the Company	\$780	\$928
Other employment benefits	2	1
Director fees earned	63	63
Director stock-based compensation	96	63
	<u>\$941</u>	<u>\$1,055</u>

17. Earnings per Share

a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity owners of the Company by the weighted average number of shares outstanding during the three-month period.

	Six months ended	
	June 30, 2011	June 30, 2010
Net earnings available to shareholders of the Company from continuing operations <i>(in thousands)</i>	\$10,941	\$8,731
Net earnings available to shareholders of the Company from discontinued operations, net of taxes <i>(in thousands)</i>	75,845	(747)
Weighted average number of shares <i>(in thousands)</i>	113,359	96,188
Basic earnings per share from continuing operations	\$0.10	\$0.11
Basic earnings (loss) per share from discontinued operations	\$0.67	(\$0.01)

b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potentially dilutive shares. The potentially dilutive shares relate to share options and warrants. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the exercise prices of outstanding share options, share purchase warrants and convertible debentures. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

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	Six months ended	
	June 30, 2011	June 30, 2010
Net earnings available to shareholders of the Company from continuing operations (<i>in thousands</i>)	\$10,941	\$8,731
Net earnings available to shareholders of the Company from discontinued operations, net of taxes (<i>in thousands</i>)	75,845	(747)
Weighted average number of shares in issue (<i>in thousands</i>)	113,359	96,188
Incremental shares from share options (<i>in thousands</i>)	27	299
Weighted average diluted shares outstanding (<i>in thousands</i>)	113,386	96,487
Diluted earnings per share from continuing operations	\$0.10	\$0.11
Diluted earnings (loss) per share from discontinued operations	\$0.67	(\$0.01)

18. Finance Expense

	Continuing operations		Discontinued operations	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
(<i>in thousands</i>)				
Interest expense	-	203	1,393	324
Provisions: accretion of ARO	36	-	635	110
Total finance expense	36	203	2,028	434

19. Segment Information

The Company operates within three industry segments: energy, agriculture and corporate.

A summary of the statement of financial position, by industry segment, is as follows:

	Energy	Agriculture	Corporate and other	As at Jun. 30, 2011
Current assets	11,755	43,253	170,195	225,203
Property, plant and equipment	46,589	36,210	1,888	84,687
Other long-term assets	1,500	15,146	284,894	301,540
	<u>59,844</u>	<u>94,609</u>	<u>456,977</u>	<u>611,430</u>
Current liabilities	8,008	6,217	15,667	29,892
Long-term liabilities	3,609	422	15,055	19,086
	<u>11,617</u>	<u>6,639</u>	<u>30,722</u>	<u>48,978</u>
Equity	36,087	54,354	426,974	517,415
Total equity attributable to shareholders	<u>36,087</u>	<u>54,354</u>	<u>426,974</u>	<u>517,415</u>
Non-controlling interest	12,140	33,616	(719)	45,037
	<u>59,844</u>	<u>94,609</u>	<u>456,977</u>	<u>611,430</u>

The summary of the statement of financial position by segment excludes the financial position of Orion. As of June 30, 2011 the Company no longer consolidates the financial position of Orion, (see Note 11).

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A summary of the statements of income, by industry segment, is as follows:

	Energy	Agriculture	Corporate and other	6 months ended Jun. 30, 2011	6 months ended Jun. 30, 2010
<i>(in thousands of Canadian dollars)</i>					
6 months ended Jun. 30, 2011					
Revenue	12,889	3,714	-	16,603	6,288
Other					
General and administrative expense	(2,391)	(3,449)	(1,665)	(7,505)	(5,603)
Management fees	-	-	(4,975)	(4,975)	(3,051)
Incentive fee	-	-	(14,768)	(14,768)	-
Costs of production	(7,878)	(16,949)	-	(24,827)	(10,707)
Other farm expense	-	(5,574)	-	(5,574)	(450)
Crop costs of production and fair value adjustments	-	(2,816)	-	(2,816)	(599)
Fair value adjustment to biological assets	-	16,496	-	16,496	4,360
Gain (loss) on disposal of investments	-	-	39,126	39,126	13,720
Fair value adjustment to gold bullion	-	-	1,279	1,279	12,578
Finance costs	(36)	-	-	(36)	-
Interest income	43	-	221	264	73
Unrealized loss on derivative instruments	-	-	-	-	(42)
Other income and expenses	(3,628)	3,247	(1,836)	(2,217)	(5,756)
Income from continuing operations	(1,001)	(5,331)	17,382	11,050	10,811
Income from discontinued operations				75,736	(747)
Net income for the period	(1,001)	(5,331)	17,382	86,786	10,064

A breakdown of general and administration expenses is as follows:

	Energy	Agriculture	Corporate and other	6 months ended Jun. 30, 2011	6 months ended Jun. 30, 2010
6 months ended Jun. 30, 2011					
Capital tax expense	-	-	(2)	(2)	(8)
Office and administration	945	766	800	2,511	1,570
Professional fees	205	324	622	1,151	1,598
Salaries and wages	846	2,359	148	3,353	2,001
Stock-based compensation	395	-	97	492	442
	2,391	3,449	1,665	7,505	5,603

The summary of the statement of financial position by segment excludes the financial position of Orion. As of June 30, 2011 the Company no longer consolidates the financial position of Orion, (see Note 11).

20. Commitments

	Payments by period					
	2011	2012	2013	2014	2015	2016 and beyond
Equipment Lease	975	-	398	321	256	-
Farm lease	21,497	3,587	4,072	2,754	2,625	2,233
Operating leases	1,708	415	653	409	154	77
Total contractual obligations	24,180	4,002	5,123	3,484	3,035	2,310
						6,226

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Explanatory Notes

(a) 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.

(b) 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 \$154,000 in 2011 through to 2013. In addition, the Company is responsible for \$240,000 of leasehold improvements and furniture rentals related to the subleased premises.

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 \$154,000 in 2011 through to 2014 and \$77,000 in 2015.

Waseca has leased office space in Calgary, Alberta for a three-year term commencing December 1, 2008. On July 13, 2011, Waseca signed a fourteen month extension through January 31, 2014. Waseca's estimated aggregate annual rent obligations are \$292,000 for 2011, \$236,000 in 2012 and; and \$20,000 in 2013.

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 \$85,000 for 2011 and \$29 thousand for 2012.

(c) 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" in the Company's Management Discussion and Analysis of Financial Position and Results of Operations, dated June 7, 2011 and available on Sedar at www.sedar.com.

(d) One Earth Farms Management Services Agreement

On December 22, 2009, One Earth Farms entered into a Management Services Agreement ("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

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Abatement (as defined in the OEF MSA), 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 One Earth Farms' capital structure.