

Sprott Resource Corp.

Second Quarter Ended June 30, 2008

(Unaudited)

Sprott Resource Corp.

Consolidated Balance Sheets

As at June 30, 2008

(Unaudited - expressed in Canadian dollars)

	June 30, 2008 \$	December 31, 2007 \$
Assets		
Current assets		
Cash and cash equivalents	59,541,557	34,083,045
Prepays and other	322,886	182,921
	<u>59,864,443</u>	34,265,966
Investments (note 3)	11,127,217	11,766,507
Investment in PBS Coals Corporation (note 4)	60,015,587	30,487,978
Mining properties and equipment		
Mining claims and deferred exploration (note 6)	13,750,165	124,401
Equipment	27,120	23,278
Intangibles (note 5)	-	117,400
	<u>144,784,532</u>	<u>76,785,530</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,733,839	627,121
Non-controlling interest	12,007	13,660
	<u>1,745,846</u>	640,781
Future Income Tax Liability (note 6b)	3,975,000	-
	<u>5,720,846</u>	640,781
Shareholders' Equity		
Capital stock (note 7a)	155,553,269	115,744,350
Warrants (note 7c)	25,385,735	7,685,605
Contributed surplus (note 7d)	357,376	795,475
	<u>181,296,380</u>	124,225,430
Deficit	(43,197,198)	(49,880,233)
Accumulated other comprehensive income	964,504	1,799,552
	<u>(42,232,694)</u>	(48,080,681)
	<u>139,063,686</u>	76,144,749
	<u>144,784,532</u>	<u>76,785,530</u>
Commitments (note 10)		
Subsequent events (note 4, 6, 7, 14)		
On behalf of the Board		

(signed) "Michael Winn"

(signed) "Terrence A. Lyons"

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

Sprott Resource Corp.

Consolidated Statement of Operations and Deficit For the three and six months ended June 30, 2008

(Unaudited - expressed in Canadian dollars)

	Three Month Period Ended June 30, 2008 \$	Three Month Period Ended June 30, 2007 \$	Six Month Period Ended June 30, 2008 \$	Six Month Period Ended June 30, 2007 \$
General and administrative expense				
Consulting	55,645	38,313	65,472	85,232
Depreciation and amortization	1,788	7,558	4,467	14,477
Directors' fees	7,198	21,500	14,447	38,500
Filing fees and transfer agent	7,335	5,888	57,023	38,809
Management incentive fee (note 8)	783,150	-	783,150	-
Management fee (note 8)	592,129	-	978,323	-
Office and miscellaneous	80,868	50,238	110,612	99,790
Professional fees	62,064	138,111	231,320	226,898
Shareholder information	43,413	28,908	51,025	46,250
Wages and benefits	12,548	44,616	23,808	110,501
	(1,646,138)	(335,132)	(2,319,647)	(660,457)
Other income and (expenses)				
Equity earnings of PBS Coals Corporation (note 4)	4,988,385	-	5,080,385	-
Gain on sale of investments (note 3c)	3,173,274	-	3,173,274	-
Foreign exchange (loss) gain	(6,814)	(134,385)	5,604	(154,386)
Gain on dilution from investments (note 5)	367,877	-	367,877	2,101,743
Interest and other income	147,587	72,951	442,385	148,833
Non-controlling interest	-	13,725	1,653	20,012
Reconnaissance expense	(29,393)	(24,841)	(32,961)	(60,751)
Capital tax	(35,535)	-	(35,535)	-
Write down of mining claims and deferred exploration	-	(219,082)	-	(219,082)
	8,605,381	(291,632)	9,002,682	1,836,369
Net earnings (loss) for the period	6,959,243	(626,764)	6,683,035	1,175,912
Deficit - Beginning of period	(50,156,441)	(50,087,906)	(49,880,233)	(51,890,582)
Deficit - End of period	(43,197,198)	(50,714,670)	(43,197,198)	(50,714,670)
Basic earnings (loss) per share	0.13	(0.07)	0.13	0.12
Fully diluted earnings (loss) per share	0.11	(0.07)	0.12	0.12
Weighted average shares outstanding during the period				
Basic	54,146,209	9,471,154	52,481,314	9,420,298
Fully diluted	62,234,716	9,471,154	59,300,797	9,420,298

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

Sprott Resource Corp.

Consolidated Statement of Comprehensive Income and Accumulated Other Comprehensive Income For the three and six months ended June 30

(Unaudited – expressed in Canadian dollars)

	Three Month Period Ended June 30, 2008 \$	Six Month Period Ended June 30, 2008 \$
Net earnings for the period before other comprehensive income	6,959,243	6,683,035
Unrealized gains (losses) on available for sale investments (note 3)	375,645	(835,048)
Comprehensive income for the period	7,334,888	5,847,987
Accumulated other comprehensive income – beginning of period	588,859	1,799,552
Unrealized gains (losses) on available for sale investments (note 3)	375,645	(835,048)
Accumulated other comprehensive income – end of period	964,504	964,504

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

Sprott Resource Corp.
Consolidated Statement of Cash Flows
For the three and six months ended June 30

(Unaudited - expressed in Canadian dollars)

	Three Month Period Ended June 30, 2008 \$	Three Month Period Ended June 30, 2007 \$	Six Month Period Ended June 30, 2008 \$	Six Month Period Ended June 30, 2007 \$
Cash flows from (used in) operating activities				
Net earnings (loss) for the period	6,959,243	(626,764)	6,683,035	1,175,912
Items not affecting cash				
Depreciation and amortization	1,788	7,558	4,467	14,477
Equity earnings of PBS Coals Corporation	(4,988,385)	-	(5,080,385)	-
Gain on dilution from investments	(367,877)	-	(367,877)	(2,101,743)
Non-controlling interest	-	(13,725)	(1,653)	(20,012)
Gain on sale of investments	(3,173,274)	-	(3,173,274)	-
Write down of mining claims and deferred exploration	-	219,082	-	219,082
	<u>(1,568,505)</u>	<u>(413,849)</u>	<u>(1,935,687)</u>	<u>(712,284)</u>
Changes in non-cash operating working capital				
Change in prepaids and other	(196,005)	125,579	(139,965)	486
Change in accounts payable and accrued liabilities	948,941	50,199	1,098,605	319,766
	<u>(815,569)</u>	<u>(238,071)</u>	<u>(977,047)</u>	<u>(392,032)</u>
Cash flows from (used in) investing activities				
Purchase of PBS Canada shares	(24,447,224)	-	(24,447,224)	-
Purchase of investments	(900,000)	-	(1,400,000)	-
Proceeds on sale of investments	4,627,527	-	4,627,527	-
Investment in Mining claims	(1,607,578)	-	(1,607,578)	-
Deferred exploration expenditures	(196,555)	(241,342)	(337,996)	(493,164)
Property payments received for mining claims	-	-	-	31,166
Purchase of equipment	-	(16,315)	(8,575)	(18,783)
Net identifiable assets on deconsolidating of former subsidiary	232,682	-	232,684	(136,034)
Reclamation Deposits	-	(486)	-	(486)
	<u>(22,291,148)</u>	<u>(258,143)</u>	<u>(22,941,162)</u>	<u>(617,301)</u>
Cash flows from financing activities				
Deferred share issue costs	-	(15,328)	-	(15,328)
Proceeds from issuance of capital stock	48,614,771	2,001,124	49,376,721	2,064,449
	<u>48,614,771</u>	<u>1,985,796</u>	<u>49,376,721</u>	<u>2,049,121</u>
Increase in cash and cash equivalents	25,508,054	1,489,582	25,458,512	1,039,788
Cash and cash equivalents – Beginning of period	34,033,503	6,932,065	34,083,045	7,381,859
Cash and cash equivalents - End of period	<u>59,541,557</u>	<u>8,421,647</u>	<u>59,541,557</u>	<u>8,421,647</u>
Cash and cash equivalents are comprised of:				
Cash			57,542,957	479,714
Short-term investments			1,998,600	7,941,933
			<u>59,541,557</u>	<u>8,421,647</u>

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

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Consolidated Statements of Cash Flows ...*continued*

For the three and six months ended June 30

(Unaudited – expressed in Canadian dollars)

	Three Month Period Ended June 30, 2008	Three Month Period Ended June 30, 2007	Six Month Period Ended June 30, 2008	Six Month Period Ended June 30, 2007
	\$	\$	\$	\$
Supplemental cash flow information				
Common shares issued on exercise of stock options	30,561	-	438,099	7,952
Fair value of warrants issued	17,700,129	-	17,700,129	-
Unrealised loss on investments	835,048		835,048	
Common shares issued to acquire mining claims	7,705,190		7,705,190	
Future income tax liability	3,975,000		3,975,000	
Equipment relating to former subsidiary	-	-	-	24,971
Mining claims relating to former subsidiary	-	-	-	1,147,814
Share issue costs relating to former subsidiary	-	-	-	473,810
Payables relating to former subsidiary	-	-	-	(641,328)
Deferred share issue costs included in accounts payable	-	(91,970)	-	(91,970)

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Notes to Consolidated Financial Statements

June 30, 2008

(Unaudited – expressed in Canadian dollars)

1 Organization and nature of operations

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

The Company’s principal activities are investment in mineral exploration and mining through direct acquisitions, joint ventures and equity investments. The Company also seeks to make other direct and indirect investments in the natural resource sector.

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

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

2 Significant accounting policies

These unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles, using the same accounting policies and methods as per the annual consolidated financial statements for the year ended December 31, 2007 with the following additions. They do not include all the disclosures required by Canadian generally accepted accounting principles (“GAAP”) and should be read in conjunction with the most recent annual financial statements of the Company.

The results of operations for the six months ended June 30, 2008 are not necessarily indicative of those to be expected for the entire year ending December 31, 2008.

Adoption of new accounting standards

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

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Notes to Consolidated Financial Statements

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(Unaudited – expressed in Canadian dollars)

a) Capital disclosures – section 1535

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

b) Financial instruments – sections 3862 and 3863

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

Future accounting and reporting changes

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

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. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

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Notes to Consolidated Financial Statements
June 30, 2008

(Unaudited – expressed in Canadian dollars)

3 Investments

	June 30, 2008	December 31, 2007
	\$	\$
High Desert Gold Corporation (a)	1,020,000	2,430,000
South American Silver Corp. (b)	2,494,000	4,730,000
Other portfolio investments (c)	7,613,217	4,606,507
	<u>11,127,217</u>	<u>11,766,507</u>

- a) On October 17, 2007, the Company's wholly-owned subsidiary, HDGC, completed its IPO. The Company's current ownership in HDGC is 6,000,000 common shares representing approximately a 15% ownership interest. The shares of HDGC owned and controlled by the Company are subject to a regulatory escrow agreement and a contractual lock-up agreement. On April 17, 2008, 3,000,000 common shares were released from escrow and lock-up, with a further 1,500,000 common shares to be released from escrow on each of October 17, 2008 and April 17, 2009.

	\$
Carrying value as at December 31, 2007	2,430,000
Unrealized losses during the period	<u>(1,410,000)</u>
Carrying value at June 30, 2008 market bid quotation of \$0.17 per share	<u>1,020,000</u>

- b) On February 19, 2007, the Company's wholly-owned subsidiary, SASC, completed its IPO. The Company's current ownership in SASC is 8,600,000 common shares representing approximately an 18% ownership interest. The shares of SASC owned and controlled by the Company are subject to a regulatory escrow agreement. On August 19, 2007, 4,300,000 common shares were released from escrow, and a further 2,150,000 shares were released on February 19, 2008. The final 2,150,000 shares are scheduled to be released on August 19, 2008.

	\$
Carrying value as at December 31, 2007	4,730,000
Unrealized losses during the period	<u>(2,236,000)</u>
Carrying value at June 30, 2008 market bid quotation of \$0.29 per share	<u>2,494,000</u>

- c) The Company has a portfolio of investments in securities of public and private companies, the Company's ownership percentage in each case being less than 10%.

	\$
Carrying value as at December 31, 2007	4,606,507
Acquisitions during the period	1,400,000
Unrealized gains during the period	2,810,952
Proceeds on disposal	(4,627,527)
Gain on disposal	3,173,274
Sundance Investment (note 5)	<u>250,011</u>
Carrying value as at June 30, 2008	<u>7,613,217</u>

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Notes to Consolidated Financial Statements

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(Unaudited – expressed in Canadian dollars)

4 Investment in PBS Coals Corporation

On December 5, 2007, the Company acquired 31 million common shares of PBS Coals Corporation (“PBS Canada”) for \$30,568,978 (US\$31,000,000), representing approximately 37.5 percent of the outstanding common shares of PBS Canada. The agreement provided that PBS Canada would invest substantially all of the funds received pursuant to this agreement to acquire shares of Mincorp Acquisition Corp., a Delaware corporation (“Mincorp”). Mincorp, through its wholly-owned subsidiaries, is engaged in the mining of coal in Somerset County, Pennsylvania. On completion of the transactions, PBS Canada held approximately 73.6 percent of the common stock of Mincorp, the balance of which was held by management and other pre existing investors.

On May 7, 2008 the Company invested an additional US \$23,960,820 in PBS Canada acquiring an additional 13,194,938 shares and increasing the Company’s holdings to 44,194,938 shares as part of an aggregate funding of approximately US\$64.5 million. PBS Canada used substantially all of the proceeds to purchase shares in Mincorp. Mincorp then purchased Mincorp shares and share purchase warrants for cancellation, the effect being that it increased PBS Canada’s interest in Mincorp to 85.12 percent from 59.84 percent. Upon the closing of the transactions, the Company owned approximately 37% of PBS Canada. The Company's effective diluted interest in Mincorp increased from approximately 22.4% to 31.5%.

Subsequent to the end of the second quarter, the Company sold 17,050,000 common shares of PBS Canada into escrow for gross proceeds of \$102,300,000, as part of a treasury and secondary offering of 35,716,000 subscription receipts (each a “Security”) completed by PBS Canada at a price of \$6.00 per Security. Each Security effectively represents a right to receive a common share of PBS Coals Limited, the company to be formed from a proposed business combination between PBS Canada and Penfold Capital Acquisition Limited (“Penfold”), upon the occurrence of release conditions including TSX approval and satisfaction of the conditions to the proposed PBS Canada and Penfold business combination. The aggregate proceeds from the offering, including the Company’s proceeds from its sale of 17,050,000 shares of PBS Canada, are being held in escrow pending the completion of the business combination of PBS Canada and Penfold.

As a result of the sale into escrow by the Company of 17,050,000 common shares of PBS Canada completed on July 31, 2008, the Company now holds 27,144,938 common shares of PBS Canada. Assuming the release conditions are satisfied and the business combination between PBS Canada and Penfold is completed, the Company’s interest in PBS Canada will be reduced to approximately 19.9 percent.

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June 30, 2008

(Unaudited – expressed in Canadian dollars)

A summary of 100% of the assets and liabilities of PBS Canada as at June 30, 2008 and the results of operations for the six months ended June 30, 2008 are as follows:

	<i>U.S. thousands of dollars</i>
Total current assets	42,328
Total non-current assets	531,437
Total assets	<u>573,765</u>
Total current liabilities	49,596
Total non-current liabilities	348,963
Non-controlling interest	9,068
	<u>407,627</u>
Share capital	143,895
Retained earnings	22,243
Total liabilities and equity	<u>573,765</u>
Revenue	85,018
Expenses	(70,196)
Non-controlling interest	(1,405)
Net earnings for equity accounting purposes	<u>13,417</u>

The Company accounts for its investment in PBS Canada under the equity method. The Company's net investment in PBS Canada is determined as follows:

	\$
Balance – December 31, 2006	-
Acquisition cost	30,568,978
Share of loss for the period	(81,000)
Balance – December 31, 2007	30,487,978
Acquisition of additional PBS Canada shares	24,447,224
Share of earnings for the period	5,080,385
Balance – June 30, 2008	<u>60,015,587</u>

5 Intangibles

In May 2008 Sundance Minerals Ltd. completed a private placement and effectively reduced the Company's interest from 51% to 18.3%. The Company has therefore stopped consolidating Sundance Minerals Ltd. from the date of the private placement and is now treating it as an investment. Upon the dilution, the Company performed a preliminary calculation of the dilution gain totalling \$367,877.

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Notes to Consolidated Financial Statements
June 30, 2008

(Unaudited – expressed in Canadian dollars)

6 Mining claims and deferred exploration

Mining claims and deferred exploration expenditures are associated with the following projects:

	June 30, 2008 \$	December 31, 2007 \$
JBP - Appleton Linear, Canada, a)	387,996	50,000
Mantaro Phosphate Project, b)	13,362,169	74,401
	<u>13,750,165</u>	<u>124,401</u>

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

In order to maintain the first option in good standing and earn a 55% interest in the JBP – Appleton Linear property, the Company is required to, among other things: (i) fund a total of \$2,125,000 of work costs, or \$2,375,000 of work costs if Paragon elects to contribute \$125,000 of work costs in the first year, over a period of four years from November 15, 2007. Advances to date have been \$485,000, of which \$375,000 has been paid in the current quarter. The current year’s commitment was fulfilled.

The Company could then earn an additional 10% interest in the property by, among other things, paying for the completion of a feasibility study. The Company could then earn a further 5% interest which would require among other things, that the Company pay the costs in connection with the completion of a positive production decision with arranged financing.

- b) On June 13, 2008, the Company terminated the then existing option and exploration agreement in respect of the Mantaro phosphate project and concurrently, its newly formed wholly-owned subsidiary, 2173177 Ontario Ltd. (“Holdco”) entered into a share purchase agreement to purchase all the outstanding shares of Mantaro (BVI) Ltd., a British Virgin Island company, (“Mantaro BVI”). Mantaro BVI holds 99.5 percent of the outstanding shares of Mantaro Peru S.A.C., a Peruvian company (“Mantaro Peru”), with the balance 0.5 percent now held by Holdco. Mantaro Peru holds the mineral claims relating to the Mantaro phosphate project, located in Peru.

Total consideration paid for the Mantaro BVI was \$9,235,190 with \$1,530,000 paid in cash and \$7,705,190 paid in common shares. For accounting purposes this has been treated as a purchase of assets. The full value of the consideration paid plus the future income tax liability assumed, being \$3,975,000 has been recorded to mining claims. No other identifiable assets or liabilities exist for Mantaro BVI.

In addition, the former shareholders of Mantaro BVI may receive future consideration of up to US\$4 million upon the occurrence of certain project milestones, such as the obtaining of required project

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permitting and community agreements. As well, the former shareholders of Mantaro BVI retain a 2% gross overriding royalty (“GOR”) on production from the property, subject to Holdco’s ability to purchase the GOR for 2% of the net asset value of the project as determined by a bankable feasibility study.

Subsequent to the end of the second quarter Holdco signed an agreement with Stonegate Minerals Ltd., a private Ontario corporation (“Stonegate”), to amalgamate Holdco and Stonegate. The amalgamation is subject to a definitive amalgamation agreement and Stonegate and Holdco shareholder approval. It is expected that the amalgamation will be completed by the end of August 2008. Immediately following the completion of the amalgamation and additional private placements to be completed by Stonegate and the amalgamated company (“Amalco”), the Company will own approximately 79% of the shares of Amalco and it is expected that Amalco will have working capital of approximately \$7.4 million, all of which will be provided by Stonegate and participants in the private placements.

	\$
Balance – December 31, 2007	74,401
Cash acquisition costs including transition costs	1,607,578
Common shares issued (note 7a)	7,705,190
Tax effect of acquisition	3,975,000
Balance – June 30, 2008	<u>13,362,169</u>

7 Shareholders’ equity

a) Issued and outstanding

	Number of common shares	Amount \$
Balance - December 31, 2007	50,627,950	115,744,350
Exercise of warrants	19,620,516	48,696,060
Fair value of exercise of warrants	-	3,634,405
Exercise of stock options	474,000	669,700
Fair value of exercises of stock options	-	438,099
Share issuance costs - Fair value of incentive warrants	-	(21,334,535)
Shares issued (note 6b)	1,771,309	7,705,190
Balance - June 30, 2008	<u>72,493,775</u>	<u>155,553,269</u>

b) Stock options

The Company established a share option plan (the “Plan”) during 1995 for the benefit of employees and directors of the Company and designated affiliated companies. The maximum number of shares available under

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June 30, 2008

(Unaudited – expressed in Canadian dollars)

the Plan is limited to 5% of the issued common shares at the time of granting of options. Subject to any employment contracts, each option becomes exercisable as to 33 1/3% on a cumulative basis, at the end of each of the first, second and third years following the date of grant. The maximum option term shall not exceed ten years, subject to extension in the event that the expiry date falls within a “blackout” period.

During the period, the Company did not grant any stock options under the terms of the Plan. The schedule of stock option activity during the period is as follows:

	Number of options	Weighted average exercise price \$
Balance, December 31, 2007	741,000	1.81
Options exercised	(474,000)	1.41
Options expired	(77,000)	4.97
Balance, June 30, 2008	190,000	1.54

The following table summarizes information about stock options outstanding and exercisable at June 30, 2008:

Range of exercise prices \$	Options outstanding and exercisable		
	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price \$
1.30 to 1.75	190,000	1.60	1.54

c) Share warrants

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

	Number of warrants	Weighted average exercise price \$	Amount \$
Balance, December 31, 2007	40,877,127	2.49	7,685,605
Warrants exercised 2.05	(789,400)	2.05	-
Warrants exercised 2.50	(18,831,116)	2.50	(3,634,405)
Expired	(87,727)	2.05	-
Issue of warrants under incentive program	7,992,558	4.25	21,334,535
Balance, June 30, 2008	29,161,442	2.98	25,385,735

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Notes to Consolidated Financial Statements
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(Unaudited – expressed in Canadian dollars)

Warrant Incentive Program

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

As at June 30, 2008, 7,992,558 warrants had been granted under the Warrant Incentive Program.

The fair values of the warrants granted during the period are estimated as the grant date using the Black Scholes model. The assumptions used in the calculation are noted below:

Risk-free interest rate	3.3%
Expected life	2.52 years
Expected volatility	114%
Fair value per warrant	2.67

Warrants to acquire common shares are outstanding at June 30, 2008 as follows:

Number of Warrants Outstanding	Exercise Price \$	Expiry Date
21,168,884	2.50	September 5, 2009
7,992,558	4.25	December 31, 2010

Subsequent to the end of the period, an additional 17,258,454 of the \$2.50 warrant were exercised for additional net proceeds to the Company of \$43,146,135. There was consequently an additional 8,629,227 warrants issued at an exercise price of \$4.25 to part of this program.

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d) **Contributed surplus**

	June 30, 2008 \$	December 31, 2007 \$
Balance – Beginning of period	795,475	879,306
Contributed surplus on exercise of stock options	(438,099)	(83,831)
Balance – End of period	<u>357,376</u>	<u>795,475</u>

8 Related party transactions

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

During the three months ended June 30, 2008:

- Aggregate legal fees of \$nil (June 30, 2007 - \$120,941) were charged by a legal firm in which a former director was a partner.
- Consulting fees of \$8,124 (June 30, 2007 - \$38,743) were charged by officers or former officers of the Company. Of this amount \$8,124 was charged to loss (June 30, 2007- \$27,243), \$nil was included in deferred property tax (June 30, 2007 - \$11,500).
- Management fees of \$592,129 (June 30, 2007 - \$nil) were incurred, which are payable to Sprott Consulting Limited Partnership (“SCLP”), and entity with directors and management in common. Under the management services agreement there is an annual incentive fee payable to SCLP based upon the excess of 20% net profit before income tax less the average net asset value of the company multiplied by the Canadian 30 year generic bond index. The amount accrued for this to the three months is \$738,150 (June 30, 2007 - \$nil).

During the six months ended June 30, 2008:

- Aggregate legal fees of \$nil (June 30, 2007 - \$161,622) were charged by a legal firm in which a former director was a partner.
- Consulting fees of \$12,124 (June 30, 2007 - \$91,260) were charged by officers or former officers of the Company. Of this amount \$12,124 was charged to loss (June 30, 2007- \$62,320), \$nil was included in deferred property tax (June 30, 2007 - \$28,940).

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- Management fees of \$978,323 (June 30, 2007 - \$nil) were incurred, which are payable to Sprott Consulting Limited Partnership (“SCLP”), and entity with directors and management in common. Under the management services agreement there is an annual incentive fee payable to SCLP based upon the excess of 20% net profit before income tax less the average net asset value of the company multiplied by the Canadian 30 year generic bond index. The amount accrued for this to the six months is \$738,150 (June 30, 2007 - \$nil).
- Included in accounts payable and accrued liabilities as at June 30, 2008 was \$1,379,203 (December 31, 2007 - \$417,606) payable to directors, officers and company, including \$1,375,279 (December 31, 2007 - \$392,406) payable to SCLP. These amounts are non-interest bearing and have no specific terms of repayment.

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

9 Segment information

The Company’s operations are limited to a single industry segment being investment in mineral exploration and mining through direct acquisitions, joint ventures and equity investments. Geographic segmentation of the Company assets is as follows:

	June 30, 2008 \$	December 31, 2007 \$
North America	131,403,838	76,669,429
South America	13,362,169	74,401
Other	18,524	41,700
Total assets	<u>144,784,531</u>	<u>76,785,530</u>

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All of the Company's earnings (loss) were incurred in North America.

10 Commitments

On September 5, 2007, the Company entered into a management services agreement (the "MSA") with Sprott Consulting Ltd. ("SCL"), a wholly-owned subsidiary of Sprott Asset Management Inc. ("SAM") with an initial term of three years. Pursuant to the terms of the MSA, SCL was appointed by the Company to manage, or engage others to manage, the undertaking and affairs of the Company. In consideration for providing these services, the Company has 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 Sprott Consulting Limited Partnership, the successor to SCL, as part of an internal reorganization involving SAM and its subsidiaries.

11 Contingencies

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

12 Management of capital

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

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

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

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

The Company's investment policy is to invest its cash in highly liquid short-term interest bearing investments, with maturities 90 days or less from the original date of acquisition.

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13 Financial instruments

a) Fair value of financial instruments

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

b) Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and Peru and a portion of its expenses are incurred in U.S. dollars. The Company is also exposed to currency exchange rate risks to the extent of its investment in PBS Canada, the subsidiaries of which operate in the United States and earn income 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.

c) 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 90 days or less from the date of purchase and are readily convertible into a known amount of cash.

d) Market risk

Market risk is the risk that changes in market prices, such as interest rates and equity prices, will affect the Company's operations or the value of its financial instruments. The Company will generate most 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 will not be able to generate income and may suffer capital losses.

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

e) Liquidity risk

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

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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.

14 Subsequent events

Subsequent to June 30, 2008, the Company made ordinary course investments of \$23.2 million in a number of private and public securities.