

Sprott Resource Corp.

Consolidated Financial Statements
December 31, 2010 and 2009
(expressed in thousands of Canadian dollars)

Independent Auditor's Report

To the Shareholders of Sprott Resource Corp.

We have audited the accompanying consolidated financial statements of Sprott Resource Corp., which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations and retained earnings, comprehensive loss and accumulated other comprehensive income and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sprott Resource Corp. as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "PricewaterhouseCoopers LLP"

Chartered Accountants

Vancouver, British Columbia
March 24, 2011

Sprott Resource Corp.
Consolidated Balance Sheets
As at December 31, 2010 and 2009

(expressed in thousands of Canadian dollars)

	2010	2009
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	91,315	107,085
Gold bullion (note 3)	75,392	75,392
Accounts receivable	20,959	7,500
Prepays and other receivables	8,943	5,520
Crop and livestock inventory (note 4)	5,959	1,256
Derivative financial instruments (note 17)	-	1,210
	<u>202,568</u>	<u>197,963</u>
Investments (note 5)	50,315	33,750
Investment in Stonegate Agricom Ltd. (note 6)	31,977	14,069
Loans and promissory notes receivable	-	150
Property, plant and equipment (note 7)	226,075	148,589
Long-term livestock inventory (note 8)	2,633	586
Goodwill	1,008	-
Future income tax assets (note 13)	14,235	13,495
	<u>528,811</u>	<u>408,602</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	37,194	21,678
Income and capital taxes payable	92	252
Derivative financial instruments (note 17)	3,432	-
	<u>40,718</u>	<u>21,930</u>
Bank credit facility (note 9)	35,247	2,052
Asset retirement obligation (note 10)	7,419	4,110
	<u>83,384</u>	<u>28,092</u>
Non-controlling interest (note 11)	47,217	45,948
Shareholders' Equity		
Capital stock (note 12(b))	329,589	213,747
Warrants (note 12(d))	-	44,305
Contributed surplus (note 12(e))	9,859	3,357
	<u>339,448</u>	<u>261,409</u>
Retained earnings	56,913	72,896
Accumulated other comprehensive income	1,849	257
	<u>398,210</u>	<u>334,562</u>
	<u>528,811</u>	<u>408,602</u>
Commitments (note 16)		
Subsequent events (note 19)		

Approved by the Board of Directors

(signed) Michael Winn

Director

(signed) Terrance Lyons

Director

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

Sprott Resource Corp.

Consolidated Statements of Operations and Retained Earnings For the years ended December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

	2010 \$	2009 \$
Revenue		
Oil and gas revenue	90,146	12,043
Oil and gas royalties	(12,693)	(2,156)
Farming revenue	8,117	2,720
	<u>85,570</u>	<u>12,607</u>
Other income and expenses		
General and administrative expenses (note 15)	(30,323)	(15,477)
Management fees (notes 14 and 16)	(6,697)	(5,945)
Oil and gas operating and exploration	(33,103)	(7,422)
Oil & gas depletion, depreciation and amortization	(25,894)	(2,830)
Farm production costs	(7,948)	(3,139)
Other farm expenses	(6,258)	(573)
Interest on long-term debt	(1,162)	(498)
Gain on disposal of investments	3,673	6,531
Gain on disposal of silver bullion	-	10,140
Gain on dilution from investments (notes 6 and 11)	10,630	2,304
Foreign exchange loss	(51)	(222)
Interest and other income	(73)	1,090
Realized (loss) gain on derivative instruments	(666)	2,045
Unrealized loss on derivative instruments	(4,642)	(1,926)
Unrealized loss on investments held for trading (note 5)	(110)	(464)
Writedown of mining claims and deferred exploration	-	(467)
	<u>(102,624)</u>	<u>(16,853)</u>
Loss before income taxes	(17,054)	(4,246)
Future income tax recovery (note 13)	619	529
Equity loss of Stonegate Agricom Ltd. (note 6)	(4,995)	(1,427)
Non-controlling interest (note 11)	5,606	2,163
Net loss for the year	(15,824)	(2,981)
Retained earnings - Beginning of year	72,896	80,623
Share buyback	(159)	(4,746)
Retained earnings - End of year	<u>56,913</u>	<u>72,896</u>
Loss per share - basic and diluted	(0.16)	(0.03)
Weighted average shares outstanding during the year		
Basic	101,785,988	85,328,868
Fully diluted	101,805,554	85,372,217

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

Sprott Resource Corp.

Consolidated Statements of Comprehensive Loss and Accumulated Other Comprehensive Income For the years ended December 31, 2010 and 2009

(expressed in thousands of Canadian dollars)

	2010 \$	2009 \$
Net loss for the year	(15,824)	(2,981)
Unrealized gains on available-for-sale investments	5,449	10,860
Gain on disposal of investments	(3,673)	(6,531)
Future income taxes on available-for-sale investments	(184)	(36)
Stonegate realized losses on available-for-sale investments - net of tax	-	484
Total other comprehensive income	1,592	4,777
Comprehensive income for the year - net of tax	(14,232)	1,796
Accumulated other comprehensive income (loss) - Beginning of year	257	(4,520)
Unrealized gains on available for sale investments (note 5)	5,449	10,860
Gain on disposal of investments	(3,673)	(6,531)
Future income taxes on available for sale investments	(184)	(36)
Stonegate realized losses on available for sale investments - net of tax	-	484
Accumulated other comprehensive income - End of year - net of tax	1,849	257

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

Sprott Resource Corp.

Consolidated Statements of Cash Flows

For the years ended December 31, 2010 and 2009

(expressed in thousands of Canadian dollars)

	2010 \$	2009 \$
Cash flows from operating activities		
Net loss for the year	(15,824)	(2,981)
Items not affecting cash		
Gain on disposal of investments	(3,673)	(6,531)
Gain on disposal of silver bullion	-	(10,140)
Unrealized loss on derivative instruments	4,642	1,926
Unrealized losses on investments held for trading	110	464
Gain on dilution from investments (includes Stonegate)	(10,630)	(2,304)
Equity loss of Stonegate Agricom Ltd.	4,995	1,427
Impairment of investments	293	-
Oil & gas depletion, depreciation and amortization	25,894	3,116
Farm and other depreciation and amortization	1,915	223
Asset retirement obligation accretion	469	64
Future income tax recovery	(619)	(529)
Non-controlling interest	(5,606)	(2,163)
Stock-based compensation	5,818	3,673
Writedown of mining claims and deferred exploration - other	-	467
Writedown of promissory note receivable	150.	-
	7,934	(13,288)
Changes in non-cash operating working capital		
Prepays and other receivables	(2,988)	(715)
Crop and livestock inventory	(4,703)	(1,256)
Accounts receivable and note receivable	(13,828)	(3,412)
Accounts payable and accrued liabilities	17,232	(252)
Income and capital taxes payable	(160)	(16,184)
	3,487	(35,107)
Cash flows from investing activities		
Purchase of short-term investments	-	(72,445)
Proceeds of short-term investments matured/sold	-	230,728
Purchase of bullion	-	(36,195)
Proceeds on sale of bullion	-	32,873
Cash purchase of investments	(22,749)	(19,074)
Proceeds on sale of investments	17,281	24,284
Purchase of property, plant and equipment	(104,164)	(17,797)
Investment in Stonegate Agricom Ltd.	(12,060)	(1,806)
Initial investment in Auriga and related transaction costs - net of cash acquired	-	(2,406)
Investment in biological assets	(2,488)	(586)
	(124,180)	137,576
Cash flows from financing activities		
Financing in One Earth Farms Corp.	-	14,584
Financing in Orion Oil & Gas Corp.	59	7,976
Financing in Waseca	3,229	-
Financing in One Earth Oil & Gas	1,188	-
Change in long-term debt	33,193	(60,448)
Proceeds from exercise of options	175	117
Proceeds from exercise of warrants	67,394	8,332
Repurchase of capital stock	(315)	(11,209)
	104,923	(40,648)
Change in cash and cash equivalents	(15,770)	61,821
Cash and cash equivalents - Beginning of year	107,085	45,264
Cash and cash equivalents - End of year	91,315	107,085
Cash and cash equivalents comprise:		
Cash	79,317	97,689
Cash equivalents	11,998	9,396
	91,315	107,085
Supplemental cash flow information		
Interest paid	845	148
Taxes paid	372	-

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

Sprott Resource Corp.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

1 Organization and nature of operations

Sprott Resource Corp. (the “Company” or “SRC”) 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. As at December 31, 2010, the Company consolidates the operations of its subsidiaries including, Orion Oil & Gas Corporation (“Orion”), Waseca Energy Inc. (“Waseca”), One Earth Farms Corp. (“One Earth Farms”) and One Earth Oil & Gas Inc. (“One Earth Oil & Gas”). In addition, the Company equity accounts for Stonegate Agricom Ltd. (“Stonegate Agricom”).

Orion Oil & Gas Ltd. (“Orion Ltd”), a subsidiary of the Company, was incorporated under the Alberta Business Corporations Act on September 22, 2009. On October 20, 2009, Orion Ltd concluded the acquisition of Auriga Energy Inc., a company primarily engaged in the exploration, development and operation of oil and gas interests in Western Canada. Orion Ltd then amalgamated with a wholly owned subsidiary of Wintraysan Capital Corp. (“Wintraysan”), a Canadian reporting issuer. Wintraysan then changed its name to Orion. As at December 31, 2010, the Company owns 78.9% of Orion’s issued and outstanding common shares. The Company has been granted 250,000 options by Orion. Orion granted 100,000 options exercisable at \$1.00 per option to the Company on January 8, 2010 and the remaining 150,000 options exercisable at \$1.21 per option on February 24, 2010. Each outstanding option becomes exercisable as to 33 1/3% on a cumulative basis, at the end of each of the first, second and third years following the date of grant. The options have a five-year term from the date of grant.

Waseca was incorporated under the Alberta Business Corporations Act 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.

As at December 31, 2009, the Company owned 45.3 million common shares of Waseca for an aggregate purchase price of \$27.2 million (\$0.60 per share) representing 79.0% of Waseca’s outstanding common shares. During the first quarter of 2010, Waseca completed a \$20 million financing by way of a rights offering to existing shareholders. As part of the offering, the Company purchased 28.3 million common shares of Waseca at \$0.60 per common share for a total cost of \$17 million. As a result of this rights offering, the Company’s interest in Waseca has increased from 79.0% to 81.3% on an undiluted basis. Waseca currently has 90.6 million shares issued and outstanding and 106.7 million fully diluted (see note 12(f), *The Waseca Stock Option Plan* and note 12(g), *Waseca Performance Shares* for additional information on the dilutive securities). The Company has been granted 300,000 options and 600,000 performance warrants exercisable at \$0.60 per option or warrant. Waseca granted 150,000 options and 300,000 performance warrants to the Company on October 1, 2008 and the remaining 150,000 options and 300,000 performance warrants on January 8, 2010. Each outstanding option becomes exercisable as to 33 1/3% on a cumulative basis, at the end of each of the first, second and third years following the date of grant. The options and performance warrants have a five-year term from the date of grant. The performance warrants have not vested as there has not been a liquidity event.

As at December 31, 2010, the Company owns 81.3% of Waseca’s issued and outstanding common shares.

Sprott Resource Corp.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

One Earth Oil & Gas was incorporated under the CBCA on April 25, 2008. One Earth Oil & Gas focuses, among other things, on developing oil and gas properties on First Nations and private land in Western Canada and the United States. As at December 31, 2010, the Company owns 90.7% of One Earth Oil & Gas' issued and outstanding common shares.

One Earth Farms was incorporated under the CBCA on February 5, 2009. One Earth Farms is building a fully-integrated corporate farming entity focused primarily on agricultural production of crops and livestock in the Prairie Provinces of Western Canada. During 2009, the Company invested \$27.5 million in One Earth Farms through the purchase of 30 million units. Each unit entitled the Company to one common share of One Earth Farms, and one common share purchase warrant exercisable at \$1.00 for a period of five years, expiring on March 3, 2014. During 2010, the Company exercised 10 million of these share purchase warrants. The Company has recorded this additional investment in One Earth Farms as a step acquisition of 6.06% resulting in the recognition of goodwill of \$1 million. As at December 31, 2010, the Company owns 72.7% of One Earth Farms' issued and outstanding common shares.

Stonegate Agricom is a Canadian reporting issuer 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 its Paris Hills Property, a phosphate deposit in Idaho U.S.A. As at December 31, 2010, the Company owns 54.0% of Stonegate Agricom's issued and outstanding common shares. The Company was granted 500,000 options exercisable at \$1.00 per option on April 28, 2010. Each outstanding option becomes exercisable as to 33 1/3% on a cumulative basis, with the first third vesting immediately and the next two tranches vesting at the end of the first and second years following the date of grant respectively. The options have a five-year term from the date of grant.

2 Significant accounting policies

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

Principles of consolidation

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

Sprott Resource Corp.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

Estimates by management

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

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

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

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

The Company makes estimates of the farm crop and biological inventory using judgements and available market data. Estimates of the future price of the crop in inventory and the basis spread on the futures contract will impact the differences between actual and estimated amounts on the consolidated financial statements of future periods and could be material.

Foreign currency

The reporting and functional currency of the Company is the Canadian dollar.

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

Sprott Resource Corp.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

Gold bullion

Gold bullion (“Bullion”) is carried on the balance sheet at the lower of cost and net realizable value. A decline in the value of Bullion below cost, due to market conditions, will be charged to income with subsequent increases in value reflected in the carrying value to a maximum of the original cost. An assessment of net realizable value is made at each balance sheet date. When the net realizable value declines below cost, a writedown is recorded.

Oil and gas properties

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

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

Capitalized costs of producing oil and gas properties, after considering estimated salvage values, are depreciated and depleted over proved developed reserves using the unit of production method. Acquisition costs of probable reserves are not depleted or amortized while under active evaluation for commercial reserves. Costs are transferred to depletable costs as proved reserves are recognized. The oil and gas reserves have been estimated by independent petroleum engineers as of December 31, 2010.

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

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

Mining claims and deferred exploration

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

Sprott Resource Corp.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

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

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

Property, plant and equipment

Office equipment, furniture and fixtures are carried at cost. Amortization is computed using the straight-line method over the estimated useful lives of one to 30 years.

Gains or losses on disposal of capital assets are credited or charged to operations in the year in which the sale occurs. Expenditures for repair and maintenance are charged directly to current year operations. Expenditures that serve to increase the value of a tangible asset are capitalized and written-off over the remaining useful life of the improved asset.

Depreciation and amortization on farm equipment is calculated using the declining-balance method over the estimated useful life of the respective asset. In the year of acquisition, one-half the annual amortization is taken. Repairs and maintenance costs as well as other minor purchases are expensed as incurred.

Inventory

Grain Inventory

Grain inventories available for immediate delivery are recorded at the net farm price (market price less selling costs) as the products have a reliable and realizable market price with predictable disposal costs. Changes in net farm price are recorded in income as market changes to inventory.

Inventories not available for immediate delivery (crops growing in the field) are recorded at the lower of input cost and net realizable value. The net realizable value is obtained by multiplying the provincial crop insurance agency's area average yield for each crop by the net farm price (market price less selling costs). Net farm price is based on the monthly average price for the last month of the quarter.

Immature livestock inventory

Immature livestock inventory consists of yearling calves intended to be sold within the next year and is recorded at net realizable value calculated by reference to industry compiled market information. Changes in the net realizable value are recorded in income as market changes to inventory.

Sprott Resource Corp.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

Purchased Inventory

Purchased inventories consist primarily of seed, fertilizer and chemical and are recorded at the lower of cost and net realizable value.

Asset retirement obligations

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

At each balance sheet date, management reviews estimates and if there are any adjustments, they will be applied on a prospective basis, and will result in an increase or decrease to the ARO. Any difference between the actual costs incurred and the recorded liability is recorded as a gain or loss in the statements of operations in the period in which the settlement occurs.

Non-controlling interests

Non-controlling interests exist in less than wholly-owned subsidiaries of the Company and represent the outside interest's share of the carrying values of the subsidiaries. When the subsidiary company issues its own shares to outside interests and the Company does not participate in the issuance, a dilution gain or loss arises as a result of the difference between the Company's share of the proceeds and the carrying value of the underlying equity.

Income taxes

The Company applies the asset and liability method of measuring income taxes based on temporary differences between the financial reporting and tax bases of assets and liabilities. Future income tax assets and liabilities are measured using substantively enacted tax rates. Future income tax assets are recognized only to the extent that management determines that it is more likely than not that the future income tax asset will be realized.

Sprott Resource Corp.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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Comprehensive income

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

Earnings (loss) per share

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

Financial instruments, recognition, measurement, disclosure and presentation

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

The Company has designated its financial instruments as follows:

- Cash and cash equivalents include cash and highly liquid investments held in the form of Government of Canada Treasury Bills. Cash and cash equivalents are designated as held for trading and recorded at the balance sheet date at fair value, which approximates cost plus accrued interest.

Sprott Resource Corp.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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- Short-term investments are designated as held-for trading, and are measured at fair value.
- Receivables are designated as loans and receivables, which are measured at amortized cost.
- Portfolio investments include public and privately held investments designated as AFS. Unrealized holding gains and losses relating to AFS investments are excluded from net income and included in OCI until such gains or losses are realized or an other than temporary impairment is determined to have occurred. AFS securities are measured at fair value and those which do not have a readily determinable fair value (i.e. a quoted market price in an active market) are carried at historical cost. Publicly held investments are reported at fair value based on quoted market prices with unrealized gains or losses reported as OCI. Privately held investments are reported at cost. AFS securities are recorded using the settlement-date accounting.
- Warrants of public and private company investments (included in the portfolio investments) are derivatives. All derivative instruments are held-for-trading and are measured at fair value. Changes in the fair values of derivative instruments are recognized in net income.
- Debt and accounts payable and accrued liabilities are designated as other financial liabilities, which are measured at amortized cost.

Revenue recognition

Oil and gas sales

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

Crop and livestock sales and other agriculture revenues

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

The Company provides custom farm management services and recognizes revenue upon provision of services under the contract and when collectability is reasonably certain.

The Company participates in various government assistance and insurance programs available to agricultural producers. Government assistance payments and insurance proceeds under these programs are recognized in revenue where the claim has been submitted and collection of the amount of the claim is reasonably certain.

Sprott Resource Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

Stock-based compensation

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

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

Orion and Waseca have also established stock option plans (collectively “Subsidiary Plans” and individually the “Orion Plan” and “Waseca Plan”) and performance share plans (collectively “Subsidiary Performance Shares” and individually “Orion Performance Shares” and “Waseca Performance Shares”) for the benefit of its employees, officers, directors and consultants.

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

Leases

The Company leases farm land under contractual agreements with First Nations. Annual amounts due under the terms of the lease are fully expensed in year the land is farmed.

Other operating leases are recognized as expenses on a straight-line basis over the term of the lease.

3 Gold bullion

The Company holds physical gold bullion. The details are as follows:

2010				2009			
Ounces	Cost \$	Average cost per ounce \$	Fair value \$	Ounces	Cost \$	Average cost per ounce \$	Fair value \$
73,971	75,392	1,019	105,597	73,971	75,392	1,019	84,842

Sprott Resource Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

4 Inventory

Inventory consists of the following:

	2010	2009
	\$	\$
Seed, fertilizer and chemicals	606	-
Grain inventory	3,527	469
Immature livestock	1,556	647
Hay and greenfeed	270	140
	<hr/>	<hr/>
	5,959	1,256
	<hr/>	<hr/>

Changes in crop production inventories during the year are as follows:

	Crop production inputs	Standing crop inventory	Grain inventory	Total
	\$	\$	\$	\$
Balance - Beginning of year	-	-	469	469
Purchases	4,210	-	-	4,210
Transfer of inventory on hand to standing crop inventory	(3,604)	3,604	-	-
Production costs	-	5,117	-	5,117
Transfer of harvested grain to inventory	-	(7,378)	7,378	-
	<hr/>	<hr/>	<hr/>	<hr/>
	606	1,343	7,847	9,796
Costs associated with unseeded acres	-	(1,343)	-	(1,343)
Cost of inventory sold	-	-	(4,184)	(4,184)
Adjustment to net realizable value	-	-	(136)	(136)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance - End of year	606	-	3,527	4,133
	<hr/>	<hr/>	<hr/>	<hr/>

Crop production inputs consist of seed, fertilizer, and chemicals. Production costs are direct farm labour, crop insurance and production equipment depreciation and amortization. Overhead costs (farm management, premises leases, and general administrative depreciation and amortization, etc.) and cropland leases are excluded from standing crop inventory.

Sprott Resource Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

Changes during the year in immature livestock inventories are as follows:

	2010		2009	
	Quantity #	Amount \$	Quantity #	Amount \$
Balance - Beginning of year	925	647	-	-
Increases due to acquisitions	122	80	358	194
Increases due to births	1,550	1,549	570	327
Increases due to transfer to other categories	181	170	-	-
Decreases due to impairment loss	(27)	(25)	(3)	(2)
Decreases due to sales	(1,033)	(1,030)	-	-
Change in fair value less estimated point-of-sale costs	-	165	-	128
Balance - End of year	1,718	1,556	925	647

5 Investments

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

	2010 \$	2009 \$
Balance - Beginning of year	33,750	28,564
Acquisitions during the year	28,800	19,074
Unrealized gains on available-for-sale investments during the year	5,449	10,860
Impairment of investments	(293)	-
Unrealized loss on held for trading investments during the year	(110)	(464)
Proceeds on disposal of investments at fair market value	(17,281)	(24,284)
Balance - End of year	50,315	33,750

Sprott Resource Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

Available-for-sale public investments are measured at fair value. Available-for-sale private investments are measured at cost. Held-for-trading investments are measured at fair value.

Investments	Classification	2010 \$	2009 \$
Public securities - common shares	Available for sale	9,166	17,815
Public securities - warrants	Held for trading	168	552
Private securities - common shares	Available for sale	40,981	15,221
Private securities - warrants	Held for trading	-	162
		50,315	33,750

6 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.

The Company initially owned 60 million common shares representing an 81% interest of Stonegate Agricom. Pursuant to a Voting Agreement, the Company does not control 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 (3) years from the date of the IPO of Stonegate Agricom, provided that one such nominee is a representative of the Company.

During 2008, the Company loaned Stonegate Agricom US\$500 thousand to assist in the purchase of mining properties (the "Loan"). During the second quarter of 2009, the Company and Stonegate Agricom signed a debt settlement agreement pursuant to which the Company agreed to discharge the Loan in consideration for 1,112,000 common shares of Stonegate Agricom.

In 2009, the Company's interest in Stonegate Agricom was diluted down to 72.6% as Stonegate Agricom issued shares to external parties. The Company recorded a gain on dilution of \$1.5 million on the investment in 2009. In the fourth quarter of 2009, the Company also subscribed for 2.5 million shares (\$1.25 million) in Stonegate Agricom's 2009 fourth quarter financing to support the acquisition of the Paris Hills property in Idaho and completed an asset sale valued at \$63 thousand in exchange for 50 thousand common shares of Stonegate Agricom.

In April 2010, Stonegate Agricom closed its initial public offering, including the underwriters' exercise of their over-allotment option, of 51,750,000 Units 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 Offering, the Company subscribed for 12 million Units. A dilution gain of \$10.8 million was recorded in 2010 representing the premium paid by other initial public offering participants over the Company's pre-existing carried value.

Sprott Resource Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

A summary of 100% of the assets and liabilities of Stonegate Agricom as at December 31, 2010 and 2009 and the results of operations for years ending December 31, 2010 & 2009 are as follows:

	2010	2009
	\$	\$
Assets		
Total current assets	39,333	3,432
Total non-current assets	29,646	20,295
	<u>68,979</u>	<u>23,727</u>
Liabilities		
Total current liabilities	1,148	336
Total non-current liabilities	3,961	4,014
	<u>5,109</u>	<u>4,350</u>
Shareholder's Equity		
Share capital	55,949	21,695
Warrants	14,457	324
Contributed surplus	5,305	-
Deficit	(11,841)	(2,642)
	<u>63,870</u>	<u>19,377</u>
	<u>68,979</u>	<u>23,727</u>
	2010	2009
	\$	\$
Revenue	87	16
Expenses	(8,556)	(1,990)
Foreign currency translation loss	(722)	-
Loss before income taxes	(9,191)	(1,974)
Future income taxes	(7)	124
Loss for the year	<u>(9,198)</u>	<u>(1,850)</u>
Company's share of equity loss of Stonegate Agricom Ltd.	<u>(4,995)</u>	<u>(1,427)</u>

Sprott Resource Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

The investment in Stonegate Agricom is as follows:

	\$
Balance - Beginning of year	14,069
Share of loss for the year	(4,995)
Acquisitions	12,060
Gain on dilution from Stonegate Agricom Ltd.	10,843
	<hr/>
Balance - End of year	31,977
	<hr/>

7 Property, plant and equipment

	2010		
	Cost	Accumulated depletion and depreciation	Net book value
	\$	\$	\$
Oil and gas properties and equipment	240,693	29,376	211,317
Farm equipment	15,094	1,947	13,147
Other property, plant and equipment	2,041	430	1,611
	<hr/>	<hr/>	<hr/>
	257,828	31,753	226,075
	<hr/>	<hr/>	<hr/>
	2009		
	Cost	Accumulated depletion and depreciation	Net book value
	\$	\$	\$
Oil and gas properties and equipment	149,645	3,061	146,584
Farm equipment	2,210	223	1,987
Other property, plant and equipment	38	20	18
	<hr/>	<hr/>	<hr/>
	151,893	3,304	148,589
	<hr/>	<hr/>	<hr/>

Partnership interest

On November 30, 2010, Orion acquired all issued and outstanding shares of a private company and the undivided interest in a general partnership (together “the Partnership”), for cash consideration of \$6.6 million. The results of the Partnership’s operations have been included in the consolidated financial statements since that date. The Partnership holds properties located adjacent to the Company’s Redwater light oil production operations.

Sprott Resource Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

The acquisition has been accounted for using the acquisition method, and the purchase price was allocated to the assets acquired and the liabilities assumed as follows:

	\$
Net assets acquired	
Property, plant and equipment	7,506
Asset retirement obligation	(973)
Future income tax asset	28
	<u>6,561</u>
Total net assets acquired	<u>6,561</u>
Consideration	
Cash	<u>6,561</u>
Total purchase price	<u>6,561</u>

8 Long-term livestock inventory

Livestock for ongoing cattle operations are valued at net realizable value calculated by reference to industry compiled market information. Changes in net realizable value are recorded as market value changes in income.

Changes in livestock carrying values and quantities are as follows:

	<u>2010</u>		<u>2009</u>	
	Quantity #	Amount \$000's	Quantity #	Amount \$000's
Balance - Beginning of year	633	586	-	-
Increases due to acquisitions	1,813	2,487	674	785
Increases due to transfer to other categories	(181)	(170)	-	-
Decreases due to impairment loss	(59)	(79)	(15)	(18)
Decreases due to sales	(304)	(389)	(26)	(31)
Change in fair value less estimated point-of-sale costs	-	197	-	(150)
		<u>197</u>		<u>(150)</u>
Balance - End of year	<u>1,902</u>	<u>2,632</u>	<u>633</u>	<u>586</u>

Sprott Resource Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

9 Bank credit facility

Orion has a \$60.0 million revolving term credit facility with a Canadian chartered bank of which \$35.2 million is drawn at December 31, 2010. The current revolving period will end on December 7, 2011, and if the revolving term credit facility is not renewed, it will convert to a 365-day term loan. Amounts drawn under this facility are in the form of Canadian and US prime rate based loans, bankers' acceptances, LIBOR loans or letters of credit. The facility bears interest at the prime rate, bankers' acceptance rate or at LIBOR plus a spread above the reference rate between 1.50% and 5.25% per annum based on a debt to EBITDA ratio prescribed in the loan agreement. Orion realized an effective interest rate of 4.2% in 2010 (2009 - 4.0%). The facility is collateralized by a first priority security interest on all present and after acquired property of Orion.

10 Asset retirement obligation ("ARO")

The Company is legally required to remediate, reclaim and abandon the wells and facilities. 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. Orion and Waseca have different resource assets, cost of capital and macroeconomic views. As a result, each company may use different assumptions in calculating the ARO related to their properties.

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

	2010		
	Orion	Waseca	One Earth Oil & Gas
Discount rate	9%	7%	8%
Life of wells (years)	2 - 30	7	7
Future undiscounted liability	27,765	2,343	133

The future undiscounted amount of ARO is estimated at \$30.2 million. All accretion expenses related to ARO are included within depreciation, depletion and amortization.

Sprott Resource Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

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

				2010	2009
	Orion	Waseca	One Earth Oil & Gas	Total	Total
	\$	\$	\$	\$	\$
Liability - Beginning of year	3,776	334	-	4,110	75
Increase through acquisitions - net of dispositions	973	-	88	1,061	3,631
Incurred during the year	679	57	-	736	90
Increase due to new wells drilled	-	1,077	-	1,077	250
Change in estimated future cash flows	(34)	-	-	(34)	-
Accretion	409	60	-	469	64
Liability - End of year	<u>5,803</u>	<u>1,528</u>	<u>88</u>	<u>7,419</u>	<u>4,110</u>

11 Non-controlling interest

A summary of the Company's non-controlling interests is as follows:

	2010	2009
	\$	\$
Balance - Beginning of year	45,948	6,974
Acquisition of Auriga	-	18,678
Financing in Orion Oil & Gas	59	7,976
Orion contributed surplus additions	1,179	728
Financing in One Earth Farms Corp.	-	14,584
Financing in One Earth Oil & Gas	1,188	-
Exercise of warrants in One Earth Farms Corp.	1,008	-
Financing in Waseca	3,229	-
Current operations	(5,606)	(2,163)
Loss (gain) on dilution	212	(829)
Balance - End of year	<u>47,217</u>	<u>45,948</u>

Sprott Resource Corp.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

	Orion \$	Waseca \$	One Earth Farms \$	One Earth Oil & Gas \$	Other \$	Total \$
Balance - Beginning of year	27,466	5,485	12,997	-	-	45,948
Financing in Orion Oil & Gas	59	-	-	-	-	59
Orion contributed surplus additions	1,167	-	-	-	-	1,167
Waseca contributed surplus additions	-	12	-	-	-	12
Financing in One Earth Oil & Gas	-	-	-	1,188	-	1,188
Exercise of warrants in One Earth Farms Corp.	-	-	1,008	-	-	1,008
Financing in Waseca	-	3,229	-	-	-	3,229
Current operations	(195)	(1,572)	(3,698)	(141)	-	(5,606)
Loss (gain) on dilution	291	-	-	(79)	-	212
Balance - End of year	28,788	7,154	10,307	968	-	47,217

12 Shareholders' equity

a) Authorized

Unlimited common shares with no par value.

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

Sprott Resource Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

b) Issued and outstanding

	Number of common shares	Amount \$
Balance - December 31, 2008	81,807,224	163,217
Exercise of warrants	3,332,800	8,332
Fair value of warrants exercised	-	631
Exercise of stock options	90,000	117
Fair value of stock options exercised	-	88
Shares issued in Orion transaction	13,852,803	47,824
Normal course issuer bid - share repurchase	(2,891,400)	(6,462)
	<hr/>	
Balance - December 31, 2009	96,191,427	213,747
Exercise of warrants	15,857,451	67,394
Fair value of warrants	-	42,339
Exercise of stock options	100,000	175
Fair value of stock options	-	104
Normal course issuer bid - share repurchase	(70,000)	(156)
Shares issued for investment purchase	1,327,005	5,986
	<hr/>	
Balance - December 31, 2010	113,405,883	329,589

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 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.

	2010		2009	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance - Beginning of year	250,000	2.59	265,000	2.04
Granted	120,000	4.41	75,000	2.98
Exercised	(100,000)	1.75	(90,000)	1.30
	<hr/>		<hr/>	
Balance - End of year	270,000	3.71	250,000	2.59

Sprott Resource Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

The fair value of stock options granted was estimated as at the grant date using the Black-Scholes option pricing model. The assumptions used are noted below:

	2010	2009
Risk-free interest rate	3.32%	2.69%
Expected life	5 years	5 years
Expected volatility	39.8%	75%
Fair value per option	\$1.68	\$1.86

The following table summarizes information about the Company's stock options outstanding and exercisable at December 31, 2010 and 2009:

			2010		2009	
Exercised price \$	Number of options	Weighted average remaining contractual life (years)	Number of options exercisable	Number of options	Weighted average remaining contractual life (years)	Number of options exercisable \$
1.75	-	-	-	100,000	0.44	100,000
3.32	75,000	2.66	50,000	75,000	3.65	25,000
2.98	75,000	3.67	25,000	75,000	4.67	-
4.41	120,000	4.63	-	-	-	-
3.15	270,000	3.82	75,000	150,000	2.67	25,000

Compensation expense for the twelve month period ending December 31, 2010 was \$149 thousand (2009 - \$95 thousand), all of which has been recorded in general and administrative expenses.

d) Share warrants

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

	2010			2009		
	Number of warrants	Weighted average exercise price \$	Fair value amount \$	Number of warrants	Weighted average exercise price \$	Fair value amount \$
Balance - Beginning of year	16,594,284	4.25	44,305	20,449,714	3.92	45,036
Warrants exercised	(15,857,451)	4.25	(42,338)	(3,332,800)	2.50	(632)
Warrants expired	(736,833)	4.25	(1,967)	(522,630)	2.50	(99)
Balance - End of year	-	-	-	16,594,284	4.25	44,305

The outstanding warrants to acquire common shares expired December 31, 2010.

Sprott Resource Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

e) Contributed surplus

	\$
Balance - December 31, 2008	400
Stock-based compensation	3,673
Non-controlling interest	(728)
Expiry of warrants	100
Fair value attributed to stock option exercised	<u>(88)</u>
Balance - December 2009	3,357
Stock-based compensation	5,818
Non-controlling interest	(1,179)
Expiry of warrants	1,967
Fair value attributed to stock option exercised	<u>(104)</u>
Balance - December 31, 2010	<u>9,859</u>

Included in stock-based compensation expense is \$149 thousand (2009 - \$95 thousand) attributed to the Company's option plan, \$5.5 million (2009 - \$3.5 million) attributable to the Orion Performance Shares and \$140 thousand (2009 - \$68 thousand) attributable to the Waseca Plan.

f) 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 year, the Company did not purchase or cancel any common shares under the NCIB. The Company believes that it is in the best interest of its shareholders to purchase shares for cancellation when management believes they are trading at a significant discount relative to their value.

g) 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 becomes exercisable as to 33 1/3% on a cumulative basis, at the end of each of the first, second and third years following the date of grant. The maximum option term shall not exceed five years.

Sprott Resource Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

	2010		2009	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance - Beginning of year	2,524,400	0.60	2,250,000	0.60
Granted	3,506,362	0.60	274,400	0.60
Forfeited	(66,000)	0.60	-	-
Balance - End of year	5,964,762	0.60	2,524,400	0.60

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

Risk-free interest rate	2.22% to 3.11%
Expected life	5 years
Expected volatility	nil%
Fair value per option	\$0.06 to \$0.08

The following table summarizes information about Waseca's stock options outstanding under the Waseca Plan at December 31, 2010:

	2010			2009		
Exercise price \$	Number of options	Weighted average remaining contractual life (years)	Number of options exercisable	Number of options	Weighted average remaining contractual life (years)	Number of options exercisable
0.60	5,964,762	3.6	1,591,467	2,524,400	3.75	750,000

Compensation expense under the Waseca Plan for year ended December 31, 2010 was \$140,000 (2009 - \$68,000), all of which has been recorded in general and administrative expenses.

Sprott Resource Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

h) Waseca Performance Shares

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

	2010		2009	
	Number of shares	Weighted average conversion price \$	Number of shares	Weighted average conversion price \$
Balance - Beginning of year	4,923,800	0.60	4,450,000	0.60
Granted	6,343,620	0.60	473,800	0.60
Forfeited	(132,000)	0.60	-	-
Balance - End of year	11,135,420	0.60	4,923,800	0.60

	2010			2009		
Transaction value ⁽¹⁾ \$	Number of Performance Shares outstanding	Weighted average remaining contractual life (years)	Number of Performance Shares convertible	Number of Performance Shares outstanding	Weighted average remaining contractual life (years)	Number of Performance Shares convertible
0.69	2,783,855	3.6	-	1,230,950	3.75	-
0.90	2,783,855	3.6	-	1,230,950	3.75	-
1.20	2,783,855	3.6	-	1,230,950	3.75	-
1.50	2,783,855	3.6	-	1,230,950	3.75	-
	11,135,420	3.6	-	4,923,800	3.75	-

⁽¹⁾ Above table denotes transaction value required to trigger option to convert to common shares at \$0.60 per Performance Shares. A transaction event occurs when Waseca's share price exceeds the prices noted in the above table resulting from liquidation or a public transaction.

As of December 31, 2010, neither a liquidity event nor a public transaction had occurred and therefore the fair value of the Performance Shares has not been recognized in these financial statements.

i) The Orion Performance Warrant Plan

In 2009, Orion awarded 20.3 million performance warrants to certain employees at an exercise price of \$0.50, of which 11.6 million warrants vested immediately while the remaining warrants vest based on certain public market conditions and current price market conditions. The plan is administered by the Board of Directors of Orion.

Sprott Resource Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

j) The Orion Stock Option Plan

The following table summarizes information about Orion's stock options outstanding under the Orion Plan at December 31, 2010:

	Options \$	Weighted average exercise price per share \$
Outstanding, December 31, 2009	-	-
Granted	16,162	1.07
Forfeited	(1,725)	1.01
	<hr/>	
Outstanding, December 31, 2010	14,437	1.08
	<hr/>	
Exercisable, December 31, 2010	-	-

Exercise price \$	Stock options outstanding \$	Weighted average exercise price \$	Weighted average remaining term (years)	Stock options exercisable \$
0.93 - \$0.99	685	0.97	4.9	-
1.00 - \$1.25	11,912	1.04	4.1	-
2.16 - \$1.46	1,840	1.35	4.2	-
	<hr/>			
	14,437	1.08	4.2	-
	<hr/>			

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

Risk-free interest rate	3.0
Expected life	5.0
Expected volatility	90.0
Expected dividend yield	-

Compensation expense under the Orion Plan for the year ended December 31, 2010 was \$5.5 million (2009 - \$3.5 million), all of which has been recorded as a non-cash stock-based compensation expense classified as a general and administrative expense.

Sprott Resource Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

13 Income taxes

	2010	2009
	\$	\$
Current income expense	-	-
Future income tax recovery	(619)	(529)
	<u>(619)</u>	<u>(529)</u>

Income tax expense differs from the amount that would result from applying the Canadian federal and Ontario income tax rates to earnings before taxes. These differences result from the following items:

	2010	2009
	\$	\$
Loss before income taxes	<u>(17,054)</u>	<u>(4,246)</u>
Canadian federal and provincial income tax rates	<u>31.00%</u>	<u>33.00%</u>
Income tax expense based on above rates	(5,287)	(1,401)
Increase (decrease) due to		
Permanent differences	867	523
Tax rate differences	1,415	706
Effect of change in future tax rate	-	23
Non-taxable portion of capital gains	(569)	(2,696)
True-up from prior year	(727)	(796)
Change in valuation allowance and other	<u>3,682</u>	<u>3,112</u>
	<u>(619)</u>	<u>(529)</u>

Sprott Resource Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

The components of future income taxes are as follows:

	2010	2009
	\$	\$
Future income tax assets		
Deductible temporary differences on investments and other assets	23,121	15,831
Deferred financing costs and other	746	1,240
	<hr/>	<hr/>
Value of future income tax assets	23,867	17,071
Valuation allowance	(6,669)	(2,921)
	<hr/>	<hr/>
	17,198	14,150
Future income tax liabilities		
Taxable temporary differences on mineral and oil and gas properties	(2,963)	(655)
	<hr/>	<hr/>
Future income tax assets - net	<hr/> 14,235	<hr/> 13,495

14 Related party transactions

The Company entered into the following transactions with related parties during the year ended December 31, 2010:

- a) During 2010, management fees of \$6.7 million (2009 - \$5.9 million) were incurred, which are payable to Sprott Consulting Limited Partnership (“SCLP”), an entity with directors and officers in common.
- b) During the period ended December 31, 2009, Orion borrowed and paid back a \$10.0 million bridge facility, plus interest of \$0.1 million, for ongoing development activities to the Company. Orion entered into a demand credit facility with SRC on October 20, 2009, which was drawn down and then paid back on December 9, 2009. SRC is the controlling shareholder of Orion and one of SRC’s officers is a director of the Orion.
- c) An officer of One Earth Farms is also a director of Viterra Inc. (“Viterra”). During the year, \$4.2 million of crop inputs and storage bins were purchased from Viterra and 8,805 tonnes of grain at a value of \$2 million was delivered. In addition, in 2010 One Earth Farms pre-purchased \$3.3 million of production inputs from Viterra for use in the 2011 crop year and has a related outstanding balance of \$788 thousand at December 31, 2010.

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

Sprott Resource Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

15 Segment information

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

A summary of the consolidated balance sheets, by industry segment, is as follows:

	2010			2009	
	Energy	Agriculture	Corporate and other	Total	Total
	\$	\$	\$	\$	\$
Assets					
Total current assets	44,145	22,854	135,569	202,568	197,963
Total non-current assets	220,068	17,650	88,525	326,243	210,639
	264,213	40,504	224,094	528,811	408,602
Liabilities					
Total current liabilities	36,954	2,676	1,088	40,718	21,930
Total non-current liabilities	42,666	-	-	42,666	6,162
	79,620	2,676	1,088	83,384	28,092
Non-controlling interest	-	-	47,217	47,217	45,948
Shareholders' equity	184,593	37,828	175,789	398,210	334,562
	264,213	40,504	224,094	528,811	408,602

Sprott Resource Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

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

	2010			2009	
	Energy	Agriculture	Corporate and other	Total	Total
	\$	\$	\$	\$	\$
Revenue	77,453	8,117	-	85,570	12,607
Costs of production	(58,997)	(7,948)	-	(66,945)	(13,391)
	18,456	169	-	18,625	(784)
Other					
Management and incentive fees	-	-	(6,697)	(6,697)	(5,945)
General and administrative expense	(21,507)	(5,801)	(3,015)	(30,323)	(15,477)
Other farm expenses	-	(6,258)	-	(6,258)	(573)
Interest and financing charges	(1,162)	-	-	(1,162)	-
Gain on disposal of investments	-	-	3,673	3,673	16,671
Gain on dilution from investments	-	-	10,630	10,630	2,304
Interest income	-	-	-	-	1,090
Other income and expenses	(5,948)	792	844	(4,312)	(267)
Net income (loss) for the year	(10,161)	(11,098)	5,435	(15,824)	(2,981)

¹ Included in other farm expenses are \$3.5 million in farmland lease costs, \$787 thousand in equipment repairs and maintenance, \$767 thousand in service and other equipment depreciation and \$1,2 million of other costs.

A breakdown of general and administration expenses is as follows:

	2010			2009	
	Energy	Agriculture	Corporate and other	Total	Total
	\$	\$	\$	\$	\$
Capital tax expense	-	-	7	7	571
Office and administration	2,914	1,207	1,611	5,732	6,221
Professional fees	6,125	1,997	1,084	9,206	2,729
Salaries and wages	6,802	2,597	161	9,560	1,863
Stock-based compensation	5,666	-	152	5,818	3,670
	21,507	5,801	3,015	30,323	15,054

Sprott Resource Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

16 Commitments

Contractual obligations	Payments due by period						2016 and beyond
	Total	2011	2012	2013	2014	2015	
	\$	\$	\$	\$	\$	\$	\$
Bank loan	35,225	-	35,225	-	-	-	-
Equipment lease	2,303	2,095	142	66	-	-	-
Farm lease	15,836	3,295	3,172	2,144	2,085	1,729	3,411
Office lease	5,770	1,695	1,308	1,124	1,049	594	-
Total contractual obligations	59,134	7,085	39,847	3,334	3,134	2,323	3,411

- a) Farm leases encompass contractual agreements with First Nations regarding the rental of cultivated land for growing crops and the farming of haylands. The lease agreements can be terminated by the Company with notice of not less than one year. The term of the lease agreements range between five - 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 an annual rent based on the fair value determination rate of the specific parcel of land. The fair value determination rate of the land will be 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) On November 1, 2010, the Company entered into a sublease for office space in downtown Toronto. The sublease expires on December 31, 2013. The estimated aggregate annual rent obligations are \$154 thousand in 2011 through to 2013. In addition, the Company is responsible for \$240 thousand of leasehold improvements and furniture rentals related to the subleased premises.

Orion has a premise lease which commenced August 1, 2010 for five years and has an estimated annual cost of \$895 thousand.

One Earth Farms has entered into an operating lease to lease office space in Saskatoon. The Saskatoon lease expires on June 1, 2015. The estimated aggregate annual rent obligations are \$154 thousand in 2011 through to 2014 and \$77 thousand in 2014.

Waseca's operating lease relates to leased office space in Calgary, Alberta for a three-year term commencing December 1, 2008. The estimated annual rent obligation is \$292 thousand for 2011.

One Earth Oil & Gas operating lease relates to subleased office space in Calgary, Alberta with 15 months remaining on the term. The estimated annual rent obligation is \$114 thousand for 2011 and \$29 thousand for 2012.

Sprott Resource Corp.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

- c) On September 5, 2007, the Company entered into the Management Services Agreement (“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. 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.
- d) On December 22, 2009, One Earth Farms entered into the 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 Abatement, the OEF MSA currently has no incremental impact on the Company’s financial statements. As such, no amount has been included in the above commitments schedule for fees payable under this agreement. On December 31, 2010, One Earth Farms and SCLP terminated the OEF MSA and Fee Abatement to simplify the Company’s capital structure.

17 Financial instruments

Fair value of financial instruments

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

Sprott Resource Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

The following table presents the classification, fair value and the levels per the fair value hierarchy where fair value is recognized in the balance sheets:

Financial instruments at fair value as at December 31, 2010					
	Classification	Level 1	Level 2	Level 3	Total
		\$	\$	\$	\$
Cash and cash equivalents	Held for trading	11,998	79,317	-	91,315
Derivative financial instruments	Held for trading	-	(3,432)	-	(3,432)
Portfolio investments - public	Available for sale	9,166	-	-	9,166
Portfolio investments - warrants	Held for trading	-	168	-	168
		<u>21,164</u>	<u>76,053</u>	<u>-</u>	<u>97,217</u>

Commodity price risk

Several of the Company's subsidiaries are exposed to commodity price risk since their revenues are dependent on the market price of petroleum, natural gas or agricultural crops. The price of these commodities is volatile and subject to fluctuations that may have a significant effect on the ability of the companies to meet their obligations, capital spending targets or commitments and expected operational results.

The specific derivative instrument held within the Company's energy segment is a costless collar which is a combination of two option contracts that limit the holder's exposure to changes in prices to within a specific range. The "costless" nature of this derivative is achieved by buying a put option (the right to sell) for consideration equal to the premium received from selling a call option (the right to purchase).

One Earth Farms has not entered into any derivative financial contracts to manage the fluctuations of crop prices.

Orion has entered into a number of derivative financial contracts to manage the fluctuations in petroleum and natural gas commodity prices. The following fixed price swap contract is outstanding at December 31, 2010:

Start date	End date	Commodity	Volume per day	Contract Price
January 1, 2011	December 31, 2011	Oil	1,500 bbls	C\$87.35 bbl

The estimated fair value of unrealized commodity contracts is reported on the consolidated balance sheets with any change in the unrealized positions recorded to income. The amount recorded on the consolidated balance sheets as a current liability is \$3.4 million (2009 - \$1.2 million asset).

Sprott Resource Corp.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

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.

A significant balance of the Company's accounts receivable is from oil and gas sales. Orion and Waseca's accounts receivable are primarily with oil and gas marketers and joint-venture partners. Receivables from oil and gas marketers are generally collected on the 25th day of the month following production. The Company attempts to mitigate this risk by assessing the financial strength of its counterparties and entering into relationships with larger purchasers with established credit history.

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

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

Liquidity risk

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

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

Interest rate risk

The Company is exposed to minimal interest rate risk on its cash and cash equivalents and short-term investments with terms of maturity within one year. The Company has a low sensitivity to interest rate declines as the maximum exposure would result in interest income declining to \$nil. This would not materially impact the Company as interest income is not depended upon as a primary source of income. The interest rate on its short-term investments is at a fixed rate.

Orion is exposed to interest rate risk to the extent it draws down on its \$60 million revolving term credit facility. Fluctuations in interest rates could result in a change in the amount Orion pays to service its variable-interest debt. Orion has not entered into any derivative contracts during 2010 to mitigate this risk.

For the year ended December 31, 2010, Orion management has estimated that a 1% increase in interest rates would have resulted in a decrease in net income of \$0.4 million (2009 - \$0.02 million).

Sprott Resource Corp.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

18 Capital management

The Company 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.

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, repurchase for cancellation outstanding shares, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments. The Company does not expect to enter into debt financing. Operating subsidiaries have and may continue to enter into debt financing as necessary.

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

19 Subsequent events

Stonegate Agricom

Subsequent to year-end on March 10, 2011, the Company announced the closing of the previously announced secondary offering of 25,000,000 common shares of Stonegate Agricom at a price of \$1.75 per common share for aggregate gross proceeds of \$43,750,000.

The underwriters continue to have an over-allotment option, exercisable for a period of 30 days from the closing of the offering, to purchase up to an additional 3,750,000 common shares of Stonegate Agricom from the Company at a price of \$1.75 per common share. The Company retains 50,662,000 common shares of Stonegate Agricom, representing an approximate 36% interest on an undiluted basis. The Company will continue to equity account for its investment in Stonegate Agricom.

Sprott Resource Corp.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(expressed in thousands of Canadian dollars except per share amounts which are Canadian dollars)

One Earth Farms

The Company completed the exercise of the remaining 20 million One Earth Farms warrants which were exercisable for \$1 per common share. Upon the exercise of the warrants, SRC's ownership interest in One Earth Farms increased from 72.7% to 80%. The Company's total investment is \$57.5 million in One Earth Farms. The balance of the incremental capital required for the 2011 Plan will be provided through a yet to be arranged debt facility and/or additional equity from SRC or other investors.

On March 17, 2011, One Earth Farms completed the first tranche of a \$35 million private placement to outside shareholders. The first tranche of the private placement consisted of the issue and sale of 22.2 million common shares at \$1.40 per share for aggregate gross proceeds of approximately \$31.1 million. One Earth Farms expects to close the second tranche for an additional 2.8 million common shares, resulting in aggregate gross proceeds for the private placement of \$35 million. As a result of these transactions, the Company's interest in One Earth Farms will decrease to approximately 60% on an undiluted basis.

Waseca

On January 17, 2011, Waseca obtained a credit facility totalling \$12.5 million with a Canadian chartered bank. The facility is a revolving operating demand loan bearing interest at the bank's prime rate plus a range of 0.75% to 2.50% per annum. The range of interest rates on the facilities are based on a grid system which is dependent on Waseca's trailing debt to funds flow ratios ranging from less than 1:1 to greater than 3:1. Waseca also incurs standby fees on the undrawn portion of the facilities of 0.20% to 0.45% per annum based on the same grid system, and both interest and standby fees are payable monthly.

The facilities are secured by a general assignment of book debts and a \$50 million debenture with a floating charge over all assets of Waseca with a negative pledge and undertaking to provide fixed charges on the Waseca's producing properties at the request of the bank.