

## **Sprott Resource Corp.**

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

The following is management's discussion and analysis ("Annual MD&A") of the performance, financial condition and future prospects of Sprott Resource Corp. (herein referred to as "SRC" or the "Company"). This document should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2009 and 2008 including the notes thereon ("Audited Financial Statements"). All amounts are expressed in Canadian dollars unless otherwise indicated and prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Further information, including the Company's Annual Information Form ("AIF") for the year ended December 31, 2009, may be accessed at [www.sedar.com](http://www.sedar.com). This Annual MD&A is dated March 22, 2010.

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

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

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

It is important to note that:

- Unless otherwise indicated, forward-looking statements in this Annual MD&A describe the Company's expectations as of March 22, 2010;
- Readers are cautioned not to place undue reliance on these statements as the Company's actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements if known or unknown risks, uncertainties or other factors affect the Company's business, or if the Company's estimates or assumptions prove inaccurate. Therefore, the Company cannot provide any assurance that forward-looking statements will materialize; and
- Subject to applicable laws, the Company assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or any other reason.

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

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

## Introduction

The Company is listed on the Toronto Stock Exchange (“TSX”) under the symbol “SCP”. See page 5 of the AIF “*Company Overview*” for additional information.

At December 31, 2009, the Company had three reportable industry segments. A description of the operating companies by industry segment, and the Company’s equity ownership position in those businesses, is presented below.

<b>Industry Segment</b>	<b>Companies</b>	<b>SRC Ownership (undiluted)</b>
Corporate and Other <sup>1</sup>	SRC holds investments in natural resource companies and other assets such as cash and cash equivalents, short-term investments, gold bullion and portfolio investments (website: www.sprottresource.com).	n/a
Energy	<b>Orion Oil &amp; Gas Corporation (“Orion”)</b> , engaged in the exploration for and development of oil and natural gas interests located primarily in the Kaybob, Redwater and Bigstone areas of Alberta (website: www.orionoilandgas.ca).	79.3%
	<b>Waseca Energy Inc. (“Waseca”)</b> , involved in the exploration and production of oil and gas in Alberta and Saskatchewan.	79.0%
	<b>One Earth Oil and Gas Inc. (“One Earth Oil and Gas”)</b> , engaged in the development of oil and gas opportunities on First Nations and aboriginal lands.	100%
Agriculture <sup>2</sup>	<b>One Earth Farms Corp. and its operating subsidiaries (collectively “One Earth Farms”)</b> , created with the intent of becoming a large, integrated corporate farming entity on First Nations farmland (website: www.oneearthfarms.net).	66.7%
	<b>Stonegate Agricom Ltd. (“Stonegate Agricom”)</b> , developing the Mantaro Phosphate Project in Peru and the Paris Hills phosphate and vanadium property in Idaho.	72.6%

1. Included in Corporate is the parent company, Sprott Resource Corp., and its assets.

2. Stonegate Agricom is accounted for on an equity basis in the Company’s audited annual financial statements and unless specifically mentioned, is not included in the following tables or discussion.

At December 31, 2008, the Company reported all operations under one industry segment (“Corporate and Other”). To provide additional clarity, Waseca’s financial position and results in 2008 will be presented as part of the Energy segment.

### **SRC’s Business Objective:**

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

#### *Acquire or start attractive businesses*

2009 was a difficult investment year because of the volatile swings in both the financial markets and investor sentiment. This volatility created opportunities on which the Company capitalized. During 2009 the Company:

- invested \$105.1 million in Orion to acquire oil and gas properties in Alberta when natural gas was trading near a 7-year low; and
- launched One Earth Farms with \$27.5 million to fund the first year of operations and test the viability of the business model.

### *Grow the value of our businesses*

SRC has been involved in supporting our current subsidiaries. Events in 2009 and subsequent to year-end highlight that value has been created, specifically:

- in Q4 2009, Stonegate completed the acquisition of the Paris Hills property for C\$4 million;
- in Q4 2009, One Earth Farms completed a \$15 million strategic financing at \$1 per share to support 2010 operations; and
- in January 2010, Waseca completed a \$20 million financing by way of a rights offering to existing shareholders. As part of the rights offering, the Company purchased 28.34 million common shares of Waseca at \$0.60 per common share for a total cost of \$17 million. As a result, SRC's ownership interest in Waseca has increased from 79.0% to 81.3% on an undiluted basis.

### *Maintain financial flexibility*

The Company's financial strength is its unallocated capital and the ability to issue common shares in support of accretive acquisitions. Having available capital on hand is an important element in successfully negotiating investment terms. As at December 31, 2009, the Company:

- the parent company, SRC, maintained cash and cash equivalents and short-term investments of \$56 million;
- has subsidiaries which held \$51 million in cash and cash equivalents and short-term investments. Subsequent to year-end, the Company purchased 28.34 million common shares of Waseca at \$0.60 per common share for a total cost of \$17 million; and
- continues to hold \$84.8 million (market value) in physical gold bullion and an investment portfolio of \$33.8 million.

## **Overall Performance**

### Acquisitions and Dispositions

The following describes the businesses launched, acquired and disposed in 2009.

#### *Launched One Earth Farms and completed strategic financing*

In March 2009, the Company invested \$27.5 million in One Earth Farms to establish operations, fund working capital and support its initial growth. In the private placement, the Company purchased 30 million common shares and 30 million warrants with a strike price of \$1.00 per share. These warrants expire on March 3, 2014. During the fourth quarter, One Earth Farms completed a \$15 million strategic financing pursuant to which it has issued 15 million common shares at \$1 per common share. As a result of the completion of the Private Placement, SRC's undiluted ownership interest in One Earth Farms has been reduced to 66.67%. SRC owns 80% of One Earth Farms on a fully diluted basis.

#### *Acquisition of Orion*

On September 28, 2009, the Company entered into an agreement to purchase, through the Company's newly formed subsidiary, Orion Oil and Gas Ltd. ("Orion"), all of the issued and outstanding common shares of Auriga Energy Inc. ("Auriga"), a private oil and gas company operating in Alberta with assets in the Kaybob, Redwater and Bigstone areas of Alberta, by way of an exempt take-over bid. The transaction was completed on October 20, 2009. The full press releases announcing the agreement to acquire Auriga and the completion of the transaction are available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com) and at the Company's website ([www.sprottresource.com](http://www.sprottresource.com)). Subsequent to year-end, Orion amalgamated with a wholly-owned subsidiary of Wintraysan Capital Corp. ("Wintraysan"), a public company trading on the TSX. Wintraysan was renamed Orion Oil & Gas Corporation and trades on the TSX under the symbol "OIP".

#### *Asset Swap with Lara Exploration Ltd.*

On December 30, 2009, the Company completed the transfer of its 50% interest in the Strategic Alliance formed with Lara in exchange for a 0.5% royalty on the Mantaro Phosphate Project in Peru. The Company's initial investment in the Strategic Alliance of US\$500,000 was made in November 2008.

#### *Termination of the agreement with Altius Resources Inc.*

In the fourth quarter of 2009, the Company terminated its agreement with Altius Resources Inc. ("Altius") resulting in the loss of all rights under the agreement. The full amount of \$467 thousand previously capitalized as mining claims and deferred exploration has been written off.

#### Other Business Highlights and Significant Events in 2009 and Year to Date

##### *1. Normal Course Issuer Bid ("NCIB")*

The Company received approval from the TSX to begin a Normal Course Issuer Bid ("NCIB") on August 31, 2009 to repurchase and cancel up to 6.25 million common shares. During 2009, SRC purchased and canceled 2,891,400 common shares under the NCIB at an average cost of \$3.86 per share for a total cost of \$11.2 million. 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 net asset value.

##### *2. Purchase of Additional Gold Bullion and Sale of Silver Bullion*

During 2009, the Company increased its physical holdings of gold bullion to 73,971 ounces from 40,475 ounces. The Company's gold bullion holdings had a fair market value of \$84.8 million as at December 31, 2009. The recorded cost of the gold bullion is \$75.4 million, which represents an unrealized gain of \$9.4 million. During the fourth quarter of 2009, the Company sold its silver bullion position for a gain of \$10.1 million.

##### *3. Investment Portfolio*

The Company's investment portfolio grew to \$33.8 million as at December 31, 2009 from \$28.6 million as at December 31, 2008. Growth in the market value of the portfolio was the result \$10.4 million in unrealized gains which was partially offset by a net reduction in invested capital of \$5.2 million.

##### *4. Stonegate Agricom files preliminary prospectus*

Subsequent to year end, Stonegate Agricom announced the filing of a preliminary prospectus with the securities regulatory authorities in each of the provinces of Canada, other than Quebec, in respect of an initial public offering of units (the "Stonegate Units") of Stonegate Agricom. Each Stonegate Unit will consist of one common share of Stonegate and one-half of one common share purchase warrant. The number of Stonegate Units offered and the price per Stonegate Unit, as well as the terms of the common share purchase warrants, will be determined in the context of the market prior to the filing of the final prospectus.

#### **Industry and Economic Factors**

##### *Variability of financial results*

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

##### *Cyclical nature of commodities*

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

## Selected Consolidated Annual Information

The table below provides selected financial information for the Company on a consolidated basis for each of the past three years ended December 31.

Consolidated (\$000's)	For the year ended December 31		
	2009	2008	2007
Oil Revenues (net of royalty)	9,887	38	-
Farming Revenues	2,720	-	-
Net Income (loss)	(2,981)	134,228	2,010
Net Income (loss) per share (basic)	(0.03)	1.94	0.09
Net Income (loss) per share (fully diluted)	(0.03)	1.93	0.09
Total Assets	408,602	314,286	76,786
Long-term Financial Liabilities	6,162	610	-

Oil revenue increased by \$9.8 million in 2009 relative to 2008 from the Company's acquisition of Orion and Waseca's increased production from drilling. The Company began consolidating Orion's results on October 20, 2009.

The Company's subsidiary One Earth Farms began farming operations in 2009 and generated \$2.7 million in crop sales (excluding harvested crops still in inventory).

The net loss in 2009 of \$3.0 million was primarily the result of launching One Earth Farms and the expanding operations of Orion and Waseca. The Company also had an equity loss pickup of \$1.4 million related to its investment in Stonegate Agricom. In 2008, the Company's net income of \$134.2 million (\$1.94 net income per share basic and \$1.93 net income per fully diluted shares) was primarily the result of the sale of the Company's shares in PBS Coals Limited ("PBS Coals").

The increase in total assets versus December 31, 2008 was primarily the result of growth in shareholders' equity from the exercise of warrants and from the issuance of common shares in the Orion transaction (see below, 'Results of Operations – Net assets' for additional information). Each warrant was exercisable at a price of \$2.50 per common share.

The Company has never declared any dividends and is unlikely to declare dividends in the foreseeable future preferring to invest available capital in natural resource projects.

## Results of Operations

### Revenues

Consolidated Revenues (\$000's)	For the Year Ended Dec. 31		
	2009	2008	\$ Change
Energy (net of royalty)	\$9,887	\$38	\$9,849
Agriculture	2,720	-	2,720
<b>Consolidated Revenues</b>	<b>\$12,607</b>	<b>\$38</b>	<b>\$12,569</b>

Energy Net Revenues (\$000's)	For the Year Ended Dec. 31		
	2009	2008	\$ Change
Orion	\$7,052	-	\$7,052
Waseca	2,835	38	2,797
One Earth Oil and Gas	-	-	-
<b>Energy Net Revenues</b>	<b>\$9,887</b>	<b>\$38</b>	<b>\$9,849</b>

The Company's revenues are comprised of Orion's oil and gas sales and Waseca's oil sales. Waseca's oil sales commenced in the fourth quarter of 2008 and the Company began consolidating the operations of Orion on October 20, 2009. Agriculture segment revenues are comprised of One Earth Farms operations, which commenced in 2009.

During 2009, Waseca recorded \$2.8 million in net oil sales (\$3.9 million gross revenue and \$1.1 million in royalties) representing an increase of \$2.8 million over the year ended December 31, 2008. The growth in Waseca's oil revenues is related to the new wells drilled in 2009. Waseca's 12 well drilling program in 2009 resulted in 8 producing oil wells, 1 gas well that will be put on production when more favourable economic conditions arise, 1 dry hole being retained for possible future salt water disposal and 2 dry holes that were abandoned during the period. All associated costs of the dry holes that were abandoned were expensed during the year. As at December 31, 2009, Waseca's rate of production was 498 barrels of oil per day. For the period beginning October 20, 2009 and ending December 31, 2009, Orion recorded \$7.1 million in net oil and gas revenue (\$8.1 million gross revenue and \$1.0 million in royalties). As at December 31, 2009, Orion's rate of production was 2,578 barrels of oil equivalent per day.

In 2009, One Earth Farms commenced its farming operations on approximately 13,000 acres of First Nation farm land. As at December 31, 2009, One Earth Farms sold and delivered 6.6 thousand tonnes of canola (100% of the aggregate canola crop) for proceeds of \$2.55 million. One Earth Farms also grew 1.3 thousand tonnes of barley which remains in inventory and 2.9 million tonnes of wheat, of which 800 tonnes of wheat were sold for \$173 thousand and the remaining 2.1 thousand tonnes are in inventory. In the fourth quarter of 2009, the wheat and barley inventory was written down by \$373 thousand to management's estimate of the net realizable value of the harvested crops. Early October snowfall and the resulting wet conditions during the harvest led to a lower grade on the wheat and barley which reduced the net realizable value. During the first season of operations, and as expected by management, One Earth Farms has experienced higher costs per acre than are expected in subsequent years. Over time, it is expected these 'first season additional costs' will be eliminated as One Earth Farms replaces contract labour with its own employees and is no longer required to apply additional fertilizer and chemicals to rehabilitate newly leased lands.

#### *Other income and expenses*

Other income and expenses are recorded from the day to day operations and extraordinary gains and losses of the Company and each subsidiary during the period.

A summary of the consolidated other income and expenses is as follows.

<b>Consolidated(\$000's)</b>	<b>For the Year Ended Dec. 31</b>		
	<b>2009</b>	<b>2008</b>	<b>\$ Change</b>
<b>Other Income and (Expenses)</b>			
General and administrative expense	(\$17,174)	(\$3,903)	(\$13,271)
Management fees	(5,945)	(3,888)	(2,057)
Management incentive fees	-	(35,698)	35,698
Oil and gas operating and exploration	(9,128)	(351)	(8,777)
Farm production costs	(3,139)	-	(3,139)
Interest on long term debt	(498)	-	(498)
Gains on disposal of investments	6,531	5,320	1,211
Gains on disposal of PBS Coals Limited shares	-	166,785	(166,785)
Impairment of investments	-	(2,531)	2,531
Gain on disposal of silver bullion	10,140	-	10,140
Gain on dilution from investments	2,304	11,653	(9,349)
Foreign exchange gain	(222)	143	(365)
Interest and other income	1,090	2,468	(1,378)
Realized gain on derivatives	2,045	-	2,045
Unrealized loss on derivatives	(1,926)	-	(1,926)
Unrealized loss on investments held for trading	(464)	-	(464)
Write down of mining claims and deferred exploration	(467)	(627)	160
<b>Total Other Income and Expenses</b>	<b>(\$16,853)</b>	<b>\$139,371</b>	<b>(\$156,224)</b>

Operating expenses – general and administrative expenses (“G&A”)

Consolidated G&A <sup>1, 2</sup> (\$000's)	For the Year Ended Dec. 31		
	2009	2008	\$ Change
Corporate and Other	(\$5,118)	(\$3,481)	(\$1,637)
Energy	(9,318)	(422)	(8,896)
Agriculture	(2,738)	-	(2,738)
<b>Consolidated G&amp;A</b>	<b>(\$17,174)</b>	<b>(\$3,903)</b>	<b>(\$13,271)</b>

1. Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.
2. Included in G&A are expenses related to impairment of oil and gas properties; consulting; directors' fees; filing fees, transfer agent and shareholder costs; office; professional fees; capital tax; wages and benefits; and miscellaneous expenses.

For the year ended December 31, 2009, G&A increased by \$13.3 million versus the year ended December 31, 2008. The most significant factors in the increased G&A balances in 2009 are the growth of Waseca and One Earth Farms and the acquisition of Orion.

Energy G&A (\$000's)	For the Year Ended Dec. 31		
	2009	2008	\$ Change
Orion	(\$5,119)	-	(\$5,119)
Waseca	(3,600)	(422)	(3,178)
One Earth Oil and Gas	(599)	-	(599)
<b>Energy G&amp;A</b>	<b>(\$9,318)</b>	<b>(\$422)</b>	<b>(\$8,896)</b>

Management expects Operating Expenses to continue to grow as Waseca, One Earth Farms and Orion expand operations.

Energy G&A includes significant charges related to stock based compensation. A breakdown is as follows.

Energy G&A – Stock Based Compensation (\$000's)	For the Year Ended Dec. 31		
	2009	2008	\$ Change
Orion	(\$3,507)	-	(\$3,507)
Waseca	(68)	(16)	(52)
One Earth Oil and Gas	-	-	-
<b>Energy G&amp;A – Stock Based Compensation</b>	<b>(\$3,575)</b>	<b>(\$16)</b>	<b>(\$3,559)</b>

Orion and Waseca have used the fair value method of accounting for options and performance warrants granted to certain employees. Therefore the fair value is recorded as a charge to operations.

Orion has awarded 20.3 million performance warrants to certain employees, of which 11.6 million warrants vested immediately while the remaining warrants vest based on certain conditions. The exercise period of the performance warrants has been set at five years. The weighted average estimated fair value of the options granted during the period ended December 31, 2009 was \$0.303 per warrant, determined using the Black-Scholes option pricing model, resulting in a charge of \$3.5 million to operations.

Waseca has an option plan and a performance warrant plan. Waseca's stock-based compensation expense is \$68 thousand for options granted under the option plan. As of December 31, 2009, none of the conditions to vest the performance shares had occurred and therefore the fair value of the performance shares has not been recognized in the financial statements.

Operating expenses – management and incentive fees

For the Year Ended Dec. 31			
Management / Incentive Fees ("Fees") (\$000's)	2009	2008	\$ Change
Management incentive fee	-	(\$35,698)	\$35,698
Management fee	(5,945)	(3,888)	(2,057)
<b>Total Management / Incentive Fees</b>	<b>(\$5,945)</b>	<b>(\$39,586)</b>	<b>\$33,641</b>

Company expenses in 2009 include management fees of \$5.9 million (2008 - \$3.9 million) payable to Sprott Consulting Limited Partnership ("SCLP") under the terms of a management services agreement between SCLP and SRC (the "MSA"). The increase in the management fee is due to growth in the Company's net assets during 2009, on which the management fee is based. See page 5 "Net Assets" herein for additional information. The amount recorded for the incentive fee in 2009 is \$nil, versus \$35.7 million in 2008, as the Company did not earn a pre-tax profit in 2009. The incentive fee earned in 2008 was primarily due to the realized gains on the PBS Coals investment. Additional information on the MSA can be found on page 15, "Commitments" in this Annual MD&A and page 9 "General Developments of Business" in the AIF. On December 22, 2009, One Earth Farms entered into a management services agreement with SCLP (the "OEF MSA") and the Company entered into a fee abatement agreement with SCLP. See Page 17 "Related Party Transactions" in this Annual MD&A for additional information.

In accordance with the terms of the MSA, the hurdle rate for a given year is the average quarter-end net asset value of the Company for the year multiplied by the percentage return of the Canadian 30-Year Generic Bond Index ("Index") or any successor index for the year (up to a maximum of 12%) (the "Hurdle"). The average quarter end net asset value of the Company in 2009 was \$297.9 million and the average return on the Index was 3.8%, which gives rise to a 2009 Hurdle of \$11.5 million (the "2009 Hurdle").

In order for an incentive fee to be payable to SCLP for a given year, the Company's pre-tax profits must exceed the Hurdle. For 2009, the Company realized a pre-tax loss of \$3.5 million (the "2009 Loss"). As a result, no incentive fee was payable in 2009.

If in any year no incentive fee is payable to SCLP, then before an incentive fee is payable in a subsequent year, the aggregate pre-tax profits of the Company for such year, together with the pre-tax profits of the Company for prior period(s) in which no incentive fee was payable, must exceed the Hurdle for that subsequent year, together with the Hurdle(s) for the period(s) in which no incentive fee was payable. As a result, for an incentive fee to be payable to SCLP in 2010, the aggregate pre-tax profits of the Company would have to exceed to total of the 2009 Loss, the 2009 Hurdle and the Hurdle calculated for 2010.

Other income and expenses

Other income and expenses will be described below by industry segment, except for oil and gas production costs, where it is appropriate to provide the breakdown by company.

Corporate and Other			
For the Year Ended Dec. 31			
Other Income and Expenses (\$000's)	2009	2008	\$ Change
Net realized gain on disposal of investments	6,531	5,320	1,211
Gains on disposal of PBS Coals Limited shares	-	166,785	(166,785)
Impairment of investments	-	(2,531)	2,531
Net realized gain on disposal of silver bullion	10,140	-	10,140
Gain on dilution on investments	2,304	11,653	(9,349)
Gain / (loss) on foreign exchange	(222)	143	(365)
Interest and other income	978	2,468	(1,490)
Unrealized loss on investments held for trading	(464)	-	(464)
Write down of mining claims and deferred exploration	(467)	(627)	160
<b>Total Other Income and Expenses</b>	<b>\$18,800</b>	<b>\$183,211</b>	<b>(\$164,411)</b>

The net gain on the disposal of investments in 2009 was \$16.7 million realized through the sale of silver bullion (\$10.1 million) and the sale of portfolio investments (\$6.5 million) versus \$169.6 million (net of impaired investments) in 2008 from the disposal of investments, of which \$166.8 million was related to the sale of shares in PBS Coals.

In 2008, the Company recognized a gain on dilution from third party investment into PBS Coals. In 2009, the Company recognized gains on dilution of \$2.3 million related to investments in One Earth Farms (gain of \$1.6 thousand) and Stonegate Agricom (gain of \$1.5 million) and partially offset by a dilution loss in Orion (loss of \$758 thousand).

Interest and other income earned on the Company's surplus cash in 2009, including company balances in the energy segment, was \$1.4 million less than the comparative year in 2008. The Company's average cash and cash equivalents and short-term investment balances in 2009 were significantly lower, combined with lower yields earned over the year resulting in less interest income earned. In accordance with its stated objectives, SRC's intention is to invest its cash which will, over time, reduce interest income.

The Company recorded an unrealized loss on \$464 thousand on held for trading investments. The loss relates to the change in market value of public issuer and private issuer warrants held in the Company's portfolio investment account. The loss on held for trading investments was partially offset by the net gain on derivative instruments (realized and unrealized) from the energy sector of \$119 thousand (see below on page 10 for additional information). The Company recorded a \$198 thousand consolidated loss on held for trading investments.

Equity earnings (loss) on investments are not included in other income and expenses, but impact the Company's financial results.

<b>Corporate and Other</b>	<b>For the Year Ended Dec. 31</b>		
<b>Equity Earnings (Loss) (\$000's)</b>	<b>2009</b>	<b>2008</b>	<b>\$ Change</b>
Equity earnings on PBS Coals	-	\$11,164	(\$11,164)
Equity loss on Stonegate Agricom Ltd.	(1,427)	(625)	(802)
<b>Total Equity Earnings (Loss)</b>	<b>(\$1,427)</b>	<b>\$10,539</b>	<b>\$11,966</b>

<b>Energy</b>	<b>For the Year Ended Dec. 31</b>		
<b>Other Income and Expenses (\$000's)</b>	<b>2009</b>	<b>2008</b>	<b>\$ Change</b>
Oil and gas operating and exploration expenses	(9,128)	(\$351)	(8,777)
Interest and other income	\$112	-	\$112
Interest and bank charges	(498)	-	(498)
Gain on other financial instruments – realized	2,045	-	2,045
Loss on other financial instruments – unrealized	(1,926)	-	(1,926)
<b>Energy Other Income and Expenses</b>	<b>(\$9,395)</b>	<b>(\$351)</b>	<b>(\$9,044)</b>

Oil and gas operating and exploration expenses increased during 2009 as Waseca grew its operations by undertaking a 10 well drilling program in the fourth quarter of 2009 and as a result of the acquisition of Orion in the fourth quarter of 2009.

Orion may enter into derivative financial instruments to manage fluctuations in oil and gas market prices. In 2009, Orion used zero net premium collars entered into with investment grade counter-parties that management believes present minimal credit risks, including its current bank. Orion's hedge arrangements are not held for trading purposes. Realized (December 31, 2009 - \$2.0 million) and unrealized gains (losses) (December 31, 2009 – (\$1.9) million) on commodity derivatives are recognized in the current period.

As at December 31, 2009, Orion had drawn down \$2 million on its \$50 million revolving term credit facility ("Credit Facility"). An expense of \$498 thousand relates to the interest and bank charges, which includes \$350 thousand fee payable to a Canadian chartered bank for having arranged the Credit Facility.

The following is a breakdown of the oil and gas operating and production expenses by subsidiary.

<b>Energy</b>	<b>For the Year Ended Dec. 31</b>		
<b>Oil and gas operating and production expenses (\$000's)</b>	<b>2009</b>	<b>2008</b>	<b>\$ Change</b>
Orion	(\$4,583)	-	(\$4,583)
Waseca	(4,545)	(351)	(4,194)
<b>Energy Oil and gas operating and production expenses</b>	<b>(\$9,128)</b>	<b>(\$351)</b>	<b>(\$8,777)</b>

Included in Waseca's 2009 operating and production costs is \$1.2 million related to the wells that were abandoned and expensed as dry hole costs.

Production costs for Orion in 2009 consist of processing the extracted natural gas, fuel, power and utilities associated with the field facilities; costs associated with the contracted field operators; protecting the well casing and tubing in the gathering systems.

Also included in oil and gas operating and production costs is depreciation, depletion and amortization.

<b>Energy Segment</b>	<b>For the Year Ended Dec. 31</b>		
<b>G&amp;A – Depreciation, Depletion and Amortization (\$000's)</b>	<b>2009</b>	<b>2008</b>	<b>\$ Change</b>
Orion	\$2,600	-	\$2,600
Waseca	516	20	496
One Earth Oil and Gas	-	-	-
<b>Energy G&amp;A – Depreciation, Depletion and Amortization</b>	<b>\$3,116</b>	<b>\$20</b>	<b>\$3,096</b>

In 2010, management expects that One Earth Farms' depreciation and amortization will increase significantly as a result of farm equipment purchases.

#### *Non-controlling interest*

Non-controlling interest represents the interests of shareholders other than the Company in the subsidiaries' operating earnings or loss. The \$1.8 million change in non-controlling interest in the consolidated statements of operations and retained earnings is related to the share of the interests of these shareholder's net losses in Orion, Waseca, One Earth Oil & Gas and One Earth Farms.

#### *Net earnings (loss)*

<b>Consolidated</b>	<b>For the Year Ended Dec. 31</b>		
<b>Net Earnings (Loss) (\$000's)</b>	<b>2009</b>	<b>2008</b>	<b>\$ Change</b>
Corporate and Other	\$9,233	\$134,830	(\$125,597)
Energy	(9,056)	(602)	(8,454)
Agriculture	(3,158)	-	(3,158)
<b>Consolidated Net Earnings (Loss)</b>	<b>(\$2,981)</b>	<b>\$134,228</b>	<b>(\$137,209)</b>

<b>Energy</b>	<b>For the Year Ended Dec. 31</b>		
<b>Net Earnings (Loss) (\$000's)</b>	<b>2009</b>	<b>2008</b>	<b>\$ Change</b>
Orion	(\$3,260)	-	(\$3,260)
Waseca	(5,198)	(602)	(4,596)
One Earth Oil and Gas	(598)	-	(598)
<b>Consolidated Net Earnings (Loss)</b>	<b>(\$9,056)</b>	<b>(\$602)</b>	<b>(\$8,454)</b>

Outstanding common shares have increased to 96,191,427 compared to 81,807,224 at December 31, 2008. The increase in common shares during the year is the result of 3,332,800 common share warrants exercised at a strike price of \$2.50 per share, 90,000 stock options exercised at a strike price of \$1.30 per share, and 13,852,803 common shares (\$3.45 per common share) issued in conjunction with the acquisition of Orion. The share issuances are partially offset by the 2,891,400 million common shares repurchased at an average price of \$3.86 through the Company's NCIB.

<b>Consolidated</b>	<b>For the Year Ended Dec. 31</b>		
<b>Earnings per Share ("EPS") (\$)</b>	<b>2009</b>	<b>2008</b>	<b>\$ Change</b>
EPS (basic)	(\$0.03)	\$1.94	(\$1.97)
EPS (diluted)	(\$0.03)	\$1.93	(\$1.96)

*Note: Using the Treasury Method for the purposes of calculation earnings per share, the Company had 85,328,868 common shares issued and outstanding and 85,372,217 common shares fully diluted.*

For the year ended December 31, 2009, the Company reported a net loss of \$3.0 million (\$0.03 loss per share – basic and diluted) compared to net earnings of \$134.2 million (\$1.94 earnings per share – basic and \$1.93 earnings per share - diluted) reported in 2008.

#### **Results of operations – fourth quarter 2009**

In the fourth quarter of 2009, the Company began consolidating the operations of Orion, which has had a significant impact on the consolidated statement of operations. Orion recorded \$7.1 million of revenue (net of royalties) against production costs, general and administrative expenses and other income and expenses of \$10.4 million. Orion's general and administrative expenses were impacted by the issuance of 20.2 million performance warrants. Approximately 11.6 million performance warrants immediately vested and \$3.5 million was charged to general and administrative expenses as stock based compensation. The remaining unvested 9.6 million performance warrants, will vest when certain conditions are met. The remaining stock based compensation expense will be charged when the unvested performance warrants vest. Orion's net loss was \$3.3 million (\$0.015 per share – basic and diluted) for the period. The consolidation of Orion also increased the Company's non-controlling interest on both the consolidated balance sheets and consolidated statement of operations.

Waseca ramped up its drilling program in the fourth quarter and grew oil revenue from \$699 thousand (net of royalties) in the third quarter to 2009 to \$1.1 million (net of royalties). Oil operating and production costs increased by \$2.0 million over the third quarter as Waseca underwent a 10 well drilling program in the fourth quarter. Waseca's net loss was \$3.0 million (\$0.05 per share – basic and diluted) for the period.

One Earth Farms recorded \$1.8 million on the sale of its remaining canola and sold a portion of its harvested wheat. The farm production costs on the sale included the \$373 thousand of write-down on the wheat and barley held in inventory. The remaining wheat and barley are held in inventory. One Earth Farms recorded a loss of \$1.5 million (\$0.05 per share – basic and diluted) in the fourth quarter.

SRC completed the sale of its silver bullion for a realized gain of \$10.1 million and wrote down the mining claims and deferred exploration in the quarter.

On a consolidated basis, the Company had income of \$740 thousand (\$0.01 per share – basic and diluted).

The results of operations for the fourth quarter ended December 31, 2009 are presented below.

	<b>2009</b>	<b>2008</b>	<b>\$ Change</b>
	<b>\$000's</b>	<b>\$000's</b>	<b>\$000's</b>
<b>Revenue</b>			
Oil & gas revenue, net of royalty	8,138	38	8,100
Farming revenue	1,753	-	1,753
	<u>9,891</u>	<u>38</u>	<u>9,853</u>
<b>Other income and expenses</b>			
General and administrative expense	(10,677)	(1,982)	(8,695)
Management fee	(1,583)	(1,651)	68
Management incentive fee	-	(17,485)	17,485
Oil and gas operating and exploration expenses	(6,934)	(351)	(6,583)
Farm production costs	(2,322)	-	(2,322)
Interest on long-term debt	(498)	-	(498)
Net gain on disposal of investments	433	1,218	(785)
Net gain on disposal of PBS Coals Limited Shares	-	93,140	(93,140)
Impairment of investments	-	(2,532)	2,532
Net gain on disposal of silver bullion	10,140	-	10,140
Gain on dilution on investments	1,944	72	1,872
Gain / (loss) on foreign exchange	(43)	162	(205)
Interest and other income	114	1,571	(1,457)
Gain on other financial instruments – realized	2,045	-	2,045
Loss on other financial instruments - unrealized	(1,926)	-	(1,926)
Unrealized loss on held for trading investments	(38)	-	(38)
Write down of mining claims and deferred exploration	(467)	(627)	160
	<u>(9,812)</u>	<u>71,535</u>	<u>(81,347)</u>
<b>Earnings (loss) before income taxes</b>	<b>79</b>	<b>71,573</b>	<b>(71,494)</b>
<b>Provision for income taxes</b>			
Current income taxes	530	(11,128)	11,658
Future income tax expense/(recovery)	(894)	78	(972)
	<u>(364)</u>	<u>(11,050)</u>	<u>10,686</u>
Equity loss on Stonegate Agricom Ltd.	(299)	(462)	163
Non-controlling interest	1,324	328	996
<b>Net income (loss) for the period</b>	<b>740</b>	<b>60,389</b>	<b>(59,649)</b>

## Consolidated Capital Expenditures and Investments

Capital Expenditures & Investments (\$000's)	As at	
	Dec. 31, 2009	Dec. 31, 2008
Investments (a)	\$33,750	\$28,564
Investment in Stonegate Agricom (b)	14,069	11,731
Promissory notes receivable	150	150
Property, plant and equipment ("PP&E") (c) (d)	148,589	5,399
Mining claims and deferred exploration (e)	-	305
Long term biological assets	586	-
Future income tax assets	13,495	-
<b>Consolidated Capital Expenditures and Investments</b>	<b>\$210,639</b>	<b>\$46,149</b>

Investments (\$000's)	As at		Change in Market Value (\$)	Net Capital Invested (\$)	Total Change in Market Value (\$)
	Dec. 31, 2009	Dec. 31, 2008			
Public Securities	\$18,367	\$12,389	\$10,396	(\$4,418)	\$5,978
Private Securities	15,383	16,175	-	(792)	(792)
<b>Total Investments</b>	<b>\$33,750</b>	<b>\$28,564</b>	<b>\$10,396</b>	<b>(\$5,210)</b>	<b>\$5,186</b>

The breakdown of PP&E by industry segment is as follows.

Consolidated PP&E (\$000's)	As at December 31		
	2009	2008	\$ Change
Corporate and Other	\$14	-	\$14
Energy	146,588	5,399	141,189
Agriculture	1,987	-	1,987
<b>Total PP&amp;E</b>	<b>\$148,589</b>	<b>\$5,399</b>	<b>\$143,190</b>

- (a) The Company's portfolio investments increased to \$33.8 million as at December 31, 2009 versus \$28.6 at December 31, 2008. The growth is attributed to \$10.4 million in unrealized gains which was partially offset by a net reduction in invested capital of \$5.2 million. No additional capital was invested into private company investments. Subsequent to year end, the Company subscribed for \$8.4 million in common shares of a private company that a position is already held.

Private company investments are recorded at cost. If a private company is deemed to suffer an other than temporary decline in value, the impairment is recorded in the statement of operations. In the fourth quarter of 2009 none of the private company investments were deemed to have become impaired or require an additional impairment provision. For additional information, refer to page 22 "*Financial Instruments, Recognition, Measurement, Disclosure and Presentation.*"

- (b) In 2009, the Company's investment in Stonegate Agricom has increased by \$2.3 million due to a \$1.25 million investment, the conversion of the \$556 thousand note, a gain on dilution of \$1.5 million and a pickup of \$484 thousand in other comprehensive income. The increase was partially offset by the Company's share of Stonegate Agricom's loss (\$1.4 million) for the year.
- (c) PP&E increased significantly in the energy segment. The increase is primarily the result of the acquisition of Orion (\$128.8 million) and Waseca's (\$14.1 million) growth during the year.
- (d) During 2009, One Earth Farms purchased farming equipment for the current year's operations. The net book value of the farm equipment was \$2.0 million at December 31, 2009. Depreciation and amortization of the farm equipment is included as part of production costs. Subsequent to year-end, One Earth Farms began purchasing and leasing equipment to support operations in 2010. To date, \$3.9 million of farming equipment has been purchased or committed for purchase. .
- (e) In the fourth quarter of 2009, the Company terminated its agreement with Altius resulting in the loss of all rights under the agreement. The full amount of \$467 thousand previously capitalized as mining claims and deferred exploration has been written off.

## Summary of Quarterly Results (unaudited)

For the three months ended	Total Revenues (\$000's)	Net earnings (loss) (\$000's)	Net earnings (loss) per share (basic)	Net earnings (loss) per share (diluted)
Dec. 31, 2009	\$9,891	\$740	\$0.01	\$0.01
Sept. 30, 2009	1,666	(3,040)	(0.04)	(0.04)
June 30, 2009	753	490	0.01	0.01
Mar. 31, 2009	296	(1,171)	(0.01)	(0.01)
Dec. 31, 2008	38	60,389	0.72	0.72
Sept. 30, 2008	\$nil	67,155	0.76	0.75
June 30, 2008	\$nil	6,959	0.13	0.11
Mar. 31, 2008	\$nil	(276)	(0.01)	(0.01)

### Financing activities by company

#### *Consolidated long-term debt, with no recourse to SRC*

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

#### *SRC*

In 2009, 3,332,800 share purchase warrants were exercised at \$2.50 for proceeds of \$8.3 million, 90,000 stock options were exercised at \$1.30 for total proceeds of \$117 thousand and 2.9 million common shares were repurchased through the NCIB at \$3.86 per share for a total cost of \$11.2 million. The Company also issued 13.9 million shares (\$47.8 million) in connection with the acquisition of Orion.

The Company subscribed for \$1.25 million (2.5 million shares) of Stonegate Agricom to assist in the acquisition of the Paris Hills property.

#### *Waseca*

During the year, Waseca issued 209,001 shares at \$0.60 per share for total proceeds of \$125 thousand. The issuance had a nominal dilutive impact on the Company's interest in Waseca (December 31, 2009 – 79.0% vs. December 31, 2008 – 79.24%). During the year, the board of directors of Waseca authorized the issuance of 473,800 performance warrants and 274,400 stock options. Subsequent to year-end, Waseca completed a rights offering to existing shareholders, resulting in the issuance of 33.26 million common shares at \$0.60. The gross proceeds raised were \$20 million. The Company subscribed for its pro rata share of the rights offering and its pro rata share of the rights not taken up by other shareholders. As a result, SRC's interest in Waseca has increased to 81.3% (undiluted).

#### *Orion*

As at December 31, 2009, Orion had a cash balance of \$0.7 million, drawn \$2.0 million of the Credit Facility, and a non-cash working capital deficiency of \$5.3 million. The first revolving period of Orion's Credit Facility will end on December 8, 2010, and if the revolving term credit facility is not renewed, it will convert to a 365 day term loan. Amounts drawn under the Credit Facility can take the form of Canadian and US prime rate based loans, bankers' acceptances, LIBOR loans or letters of credit. The Credit Facility will bear interest at the prime rate, bankers' acceptance rate or at LIBOR plus a spread above the reference rate between 1.75 percent and 5.50 percent per annum based on debt to EBITDA ratio. Orion's effective interest for the period ended was 4%. This facility is collateralized by a first priority security interest on all present and after acquired property of Orion. Orion is compliant with all of its bank loan covenants.

Orion expects to manage any deficiencies in the non-cash working capital through increased production and increased revenues. Orion's objectives when managing its capital structure are to maintain financial flexibility in order to meet financial obligations, as well as to finance future growth through capital expenditures relating to development and acquisition activities. Orion will typically utilize three sources of funding to finance its capital expenditure program, internally generated cash flow from operations; debt where deemed appropriate; and new equity issues if required for major acquisitions and further acceleration of the appraisal and development activities.

## One Earth Farms

On December 23, 2009, One Earth Farms completed a \$15 million financing by issuing 15 million shares at \$1 per share. The issuance diluted the Company's interest on One Earth Farms to 66.7% from 100% and led to an \$1.6 million gain on dilution. The Company's fully diluted ownership is 80%.

### Stonegate Agricom

In the fourth quarter of 2009, Stonegate Agricom acquired a 100% interest in the Paris Hills Phosphate/Vanadium Property, located in Bear Lake County, Idaho, USA. As consideration for the acquisition, Stonegate paid \$1,000,000 in cash and issued 6,000,000 of its common shares. The issuance of the shares to outside parties for the purchase of property led to a \$1.1 million gain on dilution in the fourth quarter as the Company's interest was diluted down to 72.6% from 77.25%.

Subsequent to year end, Stonegate Agricom announced the filing of a preliminary prospectus with the securities regulatory authorities in respect of an initial public offering of Stonegate Units. Each Stonegate Unit will consist of one common share of Stonegate and one-half of one common share purchase warrant.

### Liquidity and Capital Resources

<b>Consolidated</b>	<b>As at</b>	
	<b>Dec. 31, 2009</b>	<b>Dec. 31, 2008</b>
<b>Current Assets (\$000's)</b>		
Corporate and Other	\$132,174	\$238,756
Energy	28,367	29,381
Agriculture	37,422	-
<b>Total Current Assets</b>	<b>\$197,963</b>	<b>\$268,137</b>

<b>Consolidated</b>	<b>As at</b>	
	<b>Dec. 31, 2009</b>	<b>Dec. 31, 2008</b>
<b>Current Assets (\$000's)</b>		
Cash and cash equivalents	\$107,085	\$45,264
Short-term investments	-	158,283
Accounts receivable	7,500	-
Derivative financial instrument	1,210	-
Gold and silver bullion	75,392	61,930
Crop and biological inventory	1,256	-
Note receivable (Stonegate Agricom)	-	610
Prepays and other receivables	5,520	2,050
<b>Total Current Assets</b>	<b>197,963</b>	<b>\$268,137</b>

<b>Corporate and Other</b>	<b>As at</b>	
	<b>Dec. 31, 2009</b>	<b>Dec. 31, 2008</b>
<b>Current Assets (\$000's)</b>		
Cash and cash equivalents	\$56,169	\$16,167
Gold and silver bullion	75,392	61,930
Short-term investments	-	158,283
Note receivable (Stonegate Agricom)	-	609
Prepays and other receivables	613	1,765
<b>Current Assets</b>	<b>\$132,174</b>	<b>\$238,754</b>

As at December 31, 2009, the Company had cash and cash equivalents of \$56.2 million and gold bullion of \$75.4 million versus December 31, 2008, when the Company had cash and cash equivalents of \$16.1 million, T-bills of \$158.3 million and gold and silver bullion of \$61.9 million.

As at September 30, 2009, the Company's prepaids and other receivables included \$2 million related to GST and other tax receivables. The Company has received a letter from the Canada Revenue Agency indicating that the Input Tax Credit (ITC) claim has been denied. As a result, the Company wrote down the ITC receivable by the full amount during the fourth quarter of 2009.

Orion's commodity price hedging instruments (December 31, 2009 - \$1.2 million) are derivatives and are recorded at their fair value using quoted market prices and are classified as level 2 in the fair value hierarchy.

One Earth Farms crop inventory of \$469 thousand is comprised of consumables, labour, insurance and other miscellaneous expenditures and the biological inventory of \$787 thousand is comprised of livestock and consumables. In the fourth quarter of 2009, One Earth Farms wrote down the value of the wheat and barley inventory as management believed that the net realizable value was less than the inventory carrying amount. Inventories not available for immediate delivery (crops growing in the field) are recorded at the lower of cost and net realizable value.

Cash and cash equivalents broken down by industry segment are as follows:

<b>Consolidated</b>	<b>As at December 31</b>			
	<b>Cash and Cash Equivalents (\$000's)</b>	<b>2009</b>	<b>2008</b>	<b>\$ Change</b>
Corporate and Other		56,169	16,167	40,002
Energy		16,999	29,097	(12,098)
Agriculture		33,917	-	33,917
<b>Cash and Cash Equivalents</b>		<b>107,085</b>	<b>\$45,264</b>	<b>61,821</b>

Subsequent to year-end, the Company subscribed for \$17 million of Waseca common shares in Waseca's rights offering.

<b>Consolidated</b>	<b>As at</b>	
	<b>Dec. 31, 2009</b>	<b>Dec. 31, 2008</b>
<b>Current Liabilities (\$000's)</b>		
Accounts payable and accrued liabilities	\$21,678	\$5,618
Tax payable	252	16,328
<b>Total Current Liabilities</b>	<b>\$21,930</b>	<b>\$21,946</b>

The Company did not pay or accrue any taxes during 2009 (see page 21 "Income Taxes" for additional information). Compared to December 31, 2008, there was a corresponding reduction in Current Assets and Current Liabilities by the amount of tax paid pertaining to the fiscal year ended December 31, 2008. The decrease in accounts payable and accrued liabilities from December 31, 2008 is mainly attributable to the payment of incentive fees that were payable to SCLP.

#### Consolidated Working Capital

<b>(000's)</b>	<b>As at</b>	
	<b>Dec. 31, 2009</b>	<b>Dec. 31, 2008</b>
<b>Total Working Capital</b>	<b>\$176,033</b>	<b>\$246,189</b>

Working capital (defined as current assets minus current liabilities) has decreased to \$176.0 million from \$246.2 million as at Dec. 31, 2008. The decrease in working capital from the period ended December 31, 2008, is attributed to the net purchase of public securities, the acquisition of Orion and operating losses in the Company's subsidiaries. The Company's working capital is adequate to meet its obligations and to fund planned expenditures for at least the next year.

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

<b>Contractual Obligations (\$000's)</b>	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1 - 3 years</b>	<b>4 - 5 years</b>	<b>After 5 years</b>
Farm leases (a)	\$3,953	\$402	\$1,037	\$1,000	\$1,514
Operating lease (b)	1,131	714	368	49	-
Equipment lease	43	10	21	12	
<b>Total Contractual Obligations</b>	<b>\$5,127</b>	<b>\$1,126</b>	<b>\$1,426</b>	<b>\$1,061</b>	<b>\$1,514</b>

a. Farm leases encompass contractual agreements with First Nations regarding the rental of cultivated land for growing crops and the farming of haylands. As at December 31, 2009, approximately 13,000 acres had been leased for growing crops and approximately 2,000 acres for growing hay. The lease agreements can be terminated by One Earth Farms with notice of not less than one year. The remaining term of the lease agreements ranges between 4 years to 9 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 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.

For the hayland leases, One Earth Farms will pay the equivalent of one-half of the proceeds of the baled hay to the landowner as rent. One Earth Farms is responsible for the costs related to the production and harvesting of the hay. It is currently not possible for management to determine the proceeds of harvesting the haylands and no amount has been included in the above commitments table. In 2009, the landowner will be paid one half of the baled hay and the custom farming operator hired to harvest the hay in August will be paid the other half of the baled hay. The hayfield was a perennial field and did not require any input costs in the production of the hay.

- b. 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 obligations are \$319 thousand for each of the years 2009 and 2010, and \$292 thousand for 2011. Waseca has the option to extend the lease for an additional five years under the same terms and conditions currently in place. Management estimates that this option has \$nil value given current market conditions.

Orion has entered into two operating leases that both expire in 2010. The first lease expires on October 31, 2010 with an estimated rental obligation of \$108 thousand for the 10-month period. The second lease expires on November 31, 2010 and has estimated rental obligation of \$238 thousand for the 11-month period. Management is currently considering alternatives for its future premises leases.

One Earth Farms has entered into operating leases to lease office space in Saskatoon, Saskatchewan and in Calgary, Alberta. The Saskatchewan lease expires on August 31, 2014. The Calgary sublease expires on November 30, 2011. The estimated aggregate annual rent obligations are \$48 thousand in 2010, \$46 thousand in 2011, \$30 thousand in 2012 through to 2013 and \$20 thousand in 2014.

- 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.
- 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. No amount has been accrued as payable under this agreement at December 31, 2009. No amount has been included in the above commitments schedule for fees payable under this agreement.

## Transactions with Related Parties

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

Consolidated Related Party Transactions (000's)	For the year ended	
	Dec. 31, 2009	Dec. 31, 2008
Directors' fees (a)	\$129	\$100
Consulting fees – officers (b)	309	149
Management and incentive fees (c)	5,945	39,586
Other expenses (d) (e)	454	3,903
Investments (fair market value) (f)	3,099	4,339
Other transactions (g) (h) (i) (j) (k)	\$5,481	-

- (a) During the twelve months ended December 31, 2009, directors' fees of \$129 thousand (2008 - 100 thousand) were charged by independent directors of the Company. Directors' fees are charged to the statements of operations.
- (b) Certain officers or former officers are currently compensated through personal consulting companies. During the 12-months ended December 31, 2009, consulting fees of \$nil thousand (2008 – \$97 thousand) were paid by the Company to a former officer and One Earth Farms paid \$278 thousand to certain officers through their personal consulting companies (2008 - \$nil). Consulting fees of \$31 thousand (December 31, 2008 - \$52 thousand) were charged by a former officer of the Waseca. Consulting fees are charged to the statements of operations.
- (c) In 2009, management fees of \$5.9 million (2008 - \$3.9 million) and \$nil incentive fees (2008 – 35.7 million) were incurred, which are payable to SCLP, an entity with directors and management in common.
- (d) Included in accounts payable and accrued liabilities as at December 31, 2009 was \$350 thousand (2008 - \$3.9 million) payable to SCLP for management fees, \$31 thousand related to directors' fee and \$30 thousand related to consulting fees. These amounts are non-interest bearing and have no specific terms of repayment.
- (e) The Company purchased shares in Tournigan Energy Ltd ("Tournigan") from an investment fund managed by the Chairman of the Company. As at December 31, 2009 the shares in Tournigan had a fair market value of \$3.1 million. The price paid for such shares was \$3.0 million or \$0.22 per share.
- (f) An officer of One Earth Farms is also a director of Viterra Inc. ("Viterra") and it is expected that the One Earth Farms will continue to do business with Viterra from time to time. During the year, \$33 thousand of crop inputs and a \$96 thousand grain cart were purchased from Viterra. One Earth Farms entered into a contract and delivered 1 thousand tonnes of Barley, 6.6 thousand tonnes of canola and 800 tonnes of Hard Red Wheat to Viterra for gross sales of \$2.7 million during the period.
- (g) In 2009 One Earth Farms purchased \$280 thousand (2008 - \$nil) of livestock and feed from a company controlled by an employee. The valuation of the livestock was performed by a certified arms length appraiser. The hay inventory was valued at the market price per bale and confirmed by a visual count. Subsequent to year-end, One Earth Farms purchased 350 cows in the amount of \$469 thousand and equipment valued at \$321 thousand from the company controlled by an employee.

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

## Recent Accounting Pronouncements

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

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. It is the Company's intention to adopt IFRS over the transition period prescribed to publicly-listed companies. The date to commence reporting under IFRS is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. PricewaterhouseCoopers ("PwC") was engaged by the Company to assist with the diagnostic review. The primary objective of the diagnostic review in the

planning phase of the IFRS conversion project is to understand, identify and assess the overall effort required to produce financial information under IFRS.

While the Company has begun assessing the adoption of IFRS for 2011 and will begin implementing accounting systems necessary to accommodate the transition within a reasonable timeframe, the financial reporting impact of the transition to IFRS cannot be reasonably quantified at this time. Based on work completed thus far, the Company has identified the following possible financial reporting impacts:

- **Business Combinations:** Business combinations recorded under IFRS will be significantly different than those recorded under Canadian GAAP. The rules that are the most likely to create differences include: the value the assets and liabilities are recorded at the date of acquisition; the treatment of contingent liabilities; the treatment of contingent consideration or payments; the impact of acquiring a business in steps; the initial measurement of the acquisition non-controlling interest; and the treatment of transaction costs. It is not possible to determine the actual financial statement impact until an actual business combination is being considered.
- **Financial Instruments – Performance Shares:** Currently, the Company does not provide for the performance shares issued until such time that a performance condition has been met. IFRS differs significantly in how performance shares are accounted for. IFRS generally requires that a fair value be computed and reflected in the financial statements at the time of issuance, updated each reporting period. The Company has commenced its work on estimating fair value as part of its IFRS conversion efforts but cannot yet quantify how the differences to Canadian GAAP might impact its financial statements.
- **Financial Instruments – Other:** The Company will need to conduct a comprehensive re-review of contracts and known embedded derivatives to determine the financial statement impact.
- **Impairment Testing:** The undiscounted cash flow test has been removed under IFRS. As a result, there is the potential that impairment losses will arise more frequently, particularly as sites approach closure. IFRS also allows for the reversal of a prior impairment, which could result in greater variability in earnings if the recoverable amount of a previously impaired asset is determined to be higher than its carrying value.
- **Income Taxes:** An exposure draft on income taxes was released in March 2009, which will likely result in the release of a revised IFRS standard prior to the 2011 conversion date. The Company cannot yet quantify how the differences to Canadian GAAP might impact its financial statements.
- **Agriculture:** IFRS has a specific standard which deals with the accounting for biological assets, whereas there is no specific guidance under existing Canadian GAAP in this area. IFRS requires the measurement at fair value less the estimated costs to sell from initial recognition up to the point of harvest, other than when fair value cannot be measured at initial recognition. The requirement to assess the fair value of such assets at each reporting period increases the potential of increased volatility in the statements of operations.

There are a variety of other differences between Canadian GAAP and IFRS that do not appear to be applicable to the Company at this time based on its current scope of operations. It is possible that other significant differences to Canadian GAAP could arise prior to the January 1, 2011 transition date.

The next phase of the Company's changeover plan is to determine specific financial reporting impacts, select accounting policies and quantify differences to Canadian GAAP.

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

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

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

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

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

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

### **Critical Accounting Estimates**

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

The Company views the following accounting estimates as critical:

#### *Income Tax*

The Company applies the asset and liability method of measuring income taxes based on temporary differences between the financial reporting and tax bases of assets and liabilities. Future income tax assets and liabilities are measured using substantively enacted tax rates. 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.

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

The December 31, 2008 amount relates primarily to the capital gains associated with the disposition of the Company's PBS shares and takes into account \$2,800,984 in capital loss carry-forwards.

Taxes (\$000's)	For the period ended	
	Dec. 31, 2009	Dec. 31, 2008
Capital tax expense (incl. in G&A) <sup>1</sup>	\$571	205
Capital tax payable	252	161
Income tax payable	-	16,122
Future income tax payable	-	534
Future income tax receivable	13,495	-

1. The capital tax expense in the first quarter of 2009 is a component of income and capital tax. In the second quarter of 2009, capital tax has been reclassified to G&A.

#### *Oil and Gas Properties*

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

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

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

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

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

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

Oil and gas properties and equipment increased from \$5.4 million at December 31, 2008 to \$146.6 million at December 31, 2009. Impairment testing was performed by Waseca and Orion on a property by property basis with no write down required.

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

Grain inventory was \$469 thousand as at December 31, 2009.

#### *Purchased Inventory*

Purchased inventories are recorded at the lower of cost and net realizable value. Inventories available for immediate delivery are recorded at the net farm price (market price less selling costs) as the products have a reliable and realizable market price with predictable disposal costs.

### *Cattle Inventory*

Cattle inventory consists of yearling calves and are valued at net realizable value calculated by reference to industry compiled market information.

Cattle, hay and green-feed inventory was \$787 thousand as at December 31, 2009.

### *Stock Based Compensation*

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

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

Waseca and Orion have both established stock option plans for the benefit of employees, officers, directors and consultants. In addition, both companies have established performance share plans for the benefit of these same individuals.

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

The non-cash compensation expense relating to the issuance of stock options and performance warrants by the Company and its subsidiaries was \$3.7 million for the period ending December 31, 2009 versus \$43 thousand for the period ending December 31, 2008.

### *Asset Retirement Obligations*

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

On a periodic basis, management will review these estimates and changes if any, and the estimate will be applied on a prospective basis, and will result in an increase or decrease to ARO. Any difference between the actual costs incurred and the recorded liability is recorded as a gain or loss in the statements of operations in the period in which the settlement occurs.

Waseca's management calculated the ARO using a discount rate of 7% and an inflation rate of 2%. It is assumed that the drilled wells will be abandoned seven years from the date drilled. The future undiscounted amount of ARO is estimated at \$523 thousand. Waseca's ARO as at December 31, 2009 was \$334 thousand. The increase versus December 31, 2008 is related to accretion of the ARO of \$9 thousand and an increase of \$250 thousand due to new wells drilled in the fourth quarter of 2009.

Orion management calculated the ARO using an average credit adjusted risk free interest rate of 9.0% and an average inflation rate of 3.0%. Orion's management has estimated the net present value of its ARO to be \$3.8 million at December 31, 2009 based on a total future liability of \$14.3 million. These costs are expected to be incurred over the next one to thirty years.

### *Revenue Recognition*

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

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.

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

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

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

Investments the Company intends to hold for more than one year have been designated AFS. During 2009, the Company did not recognize an impairment on its private company investments versus 2008 where the Company did recognize an impairment on its \$2.5 million in the fourth quarter. For additional information, refer to page 8 "*Other Income and Expenses.*"

### **Off-Balance Sheet Arrangements**

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

### **Financial Instruments**

#### *Fair Value of Financial Instruments*

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

Orion utilizes a hedging program to partially mitigate price risks and facilitate the generation of more predictable cash flows to fund its capital expenditures. Orion may enter into derivative financial instruments to manage fluctuations in oil and gas market prices and in 2009 used zero net premium collars entered into with investment grade counter-parties that management believes present minimal credit risks and its current bank. Orion's hedge arrangements are not held for trading purposes. Realized and unrealized gains on commodity derivatives are recognized in the current period. At December 31, 2009, the Company had financial derivatives outstanding (See page 14, "*Liquidity and Capital Resources*" for additional information)

#### *Credit Risk*

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

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

#### *Liquidity Risk*

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

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

#### *Interest Rate Risk*

The Company is exposed to minimal interest rate risk on its short term investments with terms of maturity within one year. The interest rate on its short term investments is at a fixed rate. The Company has no interest bearing debt.

Orion is exposed to interest rate risk to the extent it uses or draws down on its \$50 million revolving term credit facility. Fluctuations in interest rates could result in a change in the amount the Company pays to service its variable-interest debt. For the year ended December 31, 2009, it is estimated that a 1% increase in interest rates would have resulted in a decrease in Orion's net income of \$0.02 million.

#### **Outstanding Share Data**

Authorized Capital:

Common shares, no par value, unlimited shares

Issued and outstanding:

The Company had 96,191,427 common shares issued and outstanding as at March 22, 2010.

Outstanding options, warrants, and convertible securities:

<b>Type of Security</b>	<b>as at March 22, 2010</b>		
	<b>Number</b>	<b>Exercise Price</b>	<b>Expiry date</b>
Share purchase warrants	16,594,284	\$4.25	December 31, 2010 <sup>(1)</sup>
Stock options	100,000	\$1.75	June 9, 2010
Stock options	75,000	\$3.32	August 26, 2013
Stock options	75,000	\$2.98	September 1, 2014

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

#### **Normal Course Issuer Bid**

The Company received approval from the TSX to begin a Normal Course Issuer Bid ("NCIB") on August 31, 2009 to repurchase and cancel up to 6.25 million common shares. As at December 31, 2009 and to the date of this MD&A, the Company has purchased and cancelled 2,891,400 common shares. The average price paid for each common share purchased under the NCIB is \$3.86 per common share.

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

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

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

Management is also responsible that internal controls over financial reporting are designed, or caused to be designed under management's supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. The Company hired an independent accounting firm to determine if any material weaknesses exist in its current internal controls, suggest best practices when they are not being applied and also to test the material controls. No material weaknesses were found and as a result, no changes in the Company's internal control over financial reporting were made during the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, management's internal control over financial reporting. The Company has a relatively small accounting and administrative department and as such, adequate segregation of duties can become a control issue.

Management has limited the scope of the design of Disclosure Controls and Procedures and Internal Controls over Financial Reporting to exclude controls, policies and procedures of Orion, an entity which the Company acquired not more than 365 days before the Company's year end.

The following is a summary of Orion's financial information, for the period ending December 31, 2009.

	<b>\$000's</b>
Oil and gas revenue (net of royalties)	\$7,051
Net loss before discontinued operations and extraordinary items	(3,260)
Net loss for the period	(\$3,260)

It should be noted that while the Officers of the Company, as certified in the Company's Annual Filings and as required under National Instrument 52-109 issued by the Canadian Securities Administrators, have evaluated the effectiveness of these disclosure controls and procedures and internal controls over financial reporting for the period ended December 31, 2009 and have concluded that they are being maintained as designed, they do not expect that the disclosure controls and procedures of internal controls over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

## Outlook

One Earth Farms continued discussions on additional land leases for 2010 during the fourth quarter of 2009. Management continues to move forward for the scale up of operations in 2010. One Earth Farms expects to farm approximately 65 thousand acres of cropland and manage 15 thousand acres of pasture land for the cattle business. Cropland lease negotiations are currently underway with 25 First Nations in Saskatchewan, Manitoba and Alberta for 2011 operations. A strategy has been developed to select the optimum land parcels for the second year of operations and beyond, including proximity to existing operations, potential profitability, prior use of the land and a set of rigorous agronomic standards developed to understand the opportunity of each section of cultivated land. One Earth Farms continued to expand its' management team to support its growth strategy for 2010 to 2012. Management finalized negotiations of a 650 cow/calf ranching operation that started in the fourth quarter of 2009. The capital outlay, including cattle, feed, lease costs for pasture lands and related equipment and infrastructure, for the ranching venture was approximately \$1.2 million. Management is in the final stages of negotiations with one additional cow/calf ranching operation comprised of 1,075 commercial cows and 115 purebred cows requiring a total of approximately \$3.5 million in capital for livestock, feed, machinery & equipment, facility rental and land leases.

Subsequent to year-end, Orion Oil & Gas Ltd. completed an amalgamation with a wholly-owned subsidiary of Wintraysan and continued as Orion. Orion's increased investment to date in the drilling, work-over, pipeline, and facilities optimization programs at Kaybob, Redwater, and Bigstone see increasing production resulting from the successful operations. The production from the winter drilling program will be on-stream during the first two quarters of 2010. Orion expects that the \$85 million drilling program should increase production to a 2010 exit rate of 6,000 – 7,000 barrels of oil equivalent. Based on the expected production in 2010; Orion has hedged approximately 94% of its 2010 oil and natural gas liquids and 15% of its natural gas production.

The success to date of all operations will help optimize capital expenditures through the remainder of Orion's 2010 fiscal year. These expenditures are expected to grow production, cash flow, and increase the certainty of reserve recognition as Orion ramps to an optimum plateau. Finally, Orion continues with business development efforts to identify acquisitions that will be accretive to shareholder value.

Waseca remains in a strong financial position with a significant portion of its assets held in cash and cash equivalents. Waseca has amassed a significant land position, in which it has a 100% working interest, and is currently completing its 2010 first quarter drilling program of ten wells and continues to acquire significant amounts of seismic data to facilitate future land sale participation. The drilling program for all of 2010 may include approximately 30 exploration wells and 15 development wells and is expected to cost approximately \$27.3 million. Management expects that the 2010 drilling program should increase Waseca's production to approximately 1,500 barrels of oil per day by the end of 2010 and to generate significant future development opportunities. Waseca's evaluation of upcoming crown land sales and potential production acquisition opportunities are ongoing. Waseca's future activity will be dependent on market conditions, though management notes that current conditions are favourable to prudently increasing drilling plans to reflect the increased land position in an effort to maximize shareholder value.

On March 16, 2010 Stonegate Agricom filed a preliminary prospectus with the securities regulatory authorities in each of the provinces of Canada, other than Quebec, in respect of an initial public offering of Units. Stonegate Agricom intends to use the proceeds from the Offering to explore and develop the Mantaro phosphate project in Peru and the Paris Hills phosphate project in Idaho and for general corporate and working capital purposes.

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

## Other Information

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