

# **Sprott Resource Corp.**

**Third Quarter Ended September 30, 2008**

*(Unaudited)*

**Sprott Resource Corp.**  
Interim Consolidated Balance Sheets  
As at September 30, 2008

(Unaudited - expressed in Canadian dollars)

	September 30, 2008 \$	December 31, 2007 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	107,051,303	34,083,045
Short term investments	48,517,710	-
Note receivable (note 5)	503,000	-
Prepays and other	477,697	182,921
	<u>156,549,710</u>	34,265,966
<b>Investments</b> (note 3)	258,172,446	11,766,507
<b>Investment in PBS Coals Corporation</b> (note 4)	-	30,487,978
<b>Investment in Stonegate Agricom Ltd.</b> (note 5)	12,291,936	-
<b>Promissory notes receivable</b> (note 7)	150,000	-
<b>Mining properties and equipment</b>		
Mining claims and deferred exploration (note 6)	585,543	124,401
Equipment	31,952	23,278
<b>Intangibles</b>	-	117,400
	<u>427,781,587</u>	76,785,530
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	20,425,528	627,121
Income tax payable	5,000,000	-
	<u>25,425,528</u>	627,121
<b>Non-controlling interest</b>	20,440	13,660
<b>Future Income Tax Liability</b> (note 3e)	31,498,057	-
	<u>56,944,025</u>	640,781
<b>Shareholders' Equity</b>		
<b>Capital stock</b> (note 8a)	173,574,979	115,744,350
<b>Warrants</b> (note 8c)	45,035,956	7,685,605
<b>Contributed surplus</b> (note 8d)	357,376	795,475
	<u>218,968,311</u>	124,225,430
<b>Retained earnings (Deficit)</b>	21,137,919	(49,880,233)
<b>Accumulated other comprehensive income</b>	130,731,332	1,799,552
	<u>151,869,251</u>	(48,080,681)
	<u>370,837,562</u>	76,144,749
	<u>427,781,587</u>	76,785,530
<b>Commitments</b> (note 6, note 11)		
<b>Subsequent events</b> (notes 3(a), note 4, note 8(e), and note 15)		

**On behalf of the Board**

\_\_\_\_\_  
(signed) "Michael Winn"

\_\_\_\_\_  
(signed) "Terrence A. Lyons"

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

# Sprott Resource Corp.

## Interim Consolidated Statement of Operations and Retained Earnings For the three and nine months ended September 30, 2008

(Unaudited - expressed in Canadian dollars)

	Three Month Period Ended September 30, 2008 \$	Three Month Period Ended September 30, 2007 \$	Nine Month Period Ended September 30, 2008 \$	Nine Month Period Ended September 30, 2007 \$
<b>General and administrative expense</b>				
Consulting	124,275	41,146	189,747	126,378
Depreciation and amortization	857	6,851	5,324	21,328
Directors' fees	57,251	27,185	71,698	65,685
Filing fees and transfer agent	195,052	33,069	252,075	71,878
Management incentive fee (note 9)	17,429,777	-	18,212,927	-
Management fee (note 9)	1,258,676	112,700	2,236,999	112,700
Office and miscellaneous	489,274	55,006	599,886	154,796
Professional fees	320,114	90,694	551,434	317,592
Shareholder information	25,272	11,947	76,297	58,197
Severance payments	-	226,507	-	226,507
Wages and benefits	109,315	42,213	133,123	152,714
	<b>(20,009,863)</b>	<b>(647,318)</b>	<b>(22,329,510)</b>	<b>(1,307,775)</b>
<b>Other income and (expenses)</b>				
Equity earnings of PBS Coals Corporation (note 4)	6,083,158	-	11,163,543	-
Equity loss of Stonegate Agricom Ltd. (note 5)	(163,135)	-	(163,135)	-
Gain on disposal of investments	74,574,666	-	77,747,940	-
Foreign exchange	(24,468)	(112,721)	(18,864)	(267,107)
Gain on dilution from investments	11,212,948	-	11,580,825	2,101,743
Interest and other income	454,160	396,880	896,545	545,713
Non-controlling interest	(4,784)	7,120	(3,131)	27,132
Reconnaissance expense	24,565	(112,293)	(8,396)	(173,044)
Write down of mining claims and deferred exploration	-	-	-	(219,082)
	<b>92,157,110</b>	<b>178,986</b>	<b>101,195,327</b>	<b>2,015,355</b>
<b>Net earnings (loss) before income tax for the period</b>	<b>72,147,247</b>	<b>(468,332)</b>	<b>78,865,817</b>	<b>707,580</b>
<b>Capital tax expense</b>	<b>1,903</b>	<b>-</b>	<b>(33,632)</b>	<b>-</b>
<b>Income tax expense</b>	<b>(4,994,448)</b>	<b>-</b>	<b>(4,994,448)</b>	<b>-</b>
<b>Net earnings (loss) for the period</b>	<b>67,154,702</b>	<b>(468,332)</b>	<b>73,837,737</b>	<b>707,580</b>
<b>Deficit - Beginning of period</b>	<b>(43,197,198)</b>	<b>(50,714,670)</b>	<b>(49,880,233)</b>	<b>(51,890,582)</b>
<b>Net excess of cost over carrying value on Normal Course Issuer Bid (note 8e)</b>	<b>(2,819,585)</b>	<b>-</b>	<b>(2,819,585)</b>	<b>-</b>
<b>Earnings (deficit) - End of period</b>	<b>21,137,919</b>	<b>(51,183,002)</b>	<b>21,137,919</b>	<b>(51,183,002)</b>
<b>Basic earnings (loss) per share</b>	<b>0.76</b>	<b>(0.02)</b>	<b>1.13</b>	<b>0.05</b>
<b>Fully diluted earnings (loss) per share</b>	<b>0.75</b>	<b>(0.02)</b>	<b>1.12</b>	<b>0.05</b>
<b>Weighted average shares outstanding during the period</b>				
Basic	<b>88,462,690</b>	<b>21,815,803</b>	<b>65,157,431</b>	<b>13,604,321</b>

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

# Sprott Resource Corp.

## Interim Consolidated Statement of Comprehensive Income and Accumulated Other Comprehensive Income For the nine months ended September 30, 2008

(expressed in Canadian dollars)

Fully diluted	89,274,408	21,815,803	65,832,212	13,604,321
			<b>Three Month Period Ended September 30, 2008 \$</b>	<b>Nine Month Period Ended September 30, 2008 \$</b>
Net earnings for the period before other comprehensive income			<b>67,154,702</b>	73,837,737
Unrealized gains on available for sale investments (note 3 and 4)			<b>161,264,885</b>	160,429,837
Future income taxes (note 3e)			<b>(31,498,057)</b>	(31,498,057)
Comprehensive income for the period, net of tax			<b>196,921,530</b>	202,769,517
Accumulated other comprehensive income – beginning of period			<b>964,504</b>	1,799,552
Unrealized gains on available for sale investments (note 3 and 4)			<b>161,264,885</b>	160,429,837
Future income taxes (note 3e)			<b>(31,498,057)</b>	(31,498,057)
Accumulated other comprehensive income – end of period, net of tax			<b>130,731,332</b>	130,731,332

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

# Sprott Resource Corp.

## Interim Consolidated Statement of Cash Flows

For the three and nine months ended September 30, 2008

(Unaudited - expressed in Canadian dollars)

	Three Month Period Ended September 30, 2008 \$	Three Month Period Ended September 30, 2007 \$	Nine Month Period Ended September 30, 2008 \$	Nine Month Period Ended September 30, 2007 \$
<b>Cash flows from (used in) operating activities</b>				
Net earnings (loss) for the period	67,154,702	(468,332)	73,837,737	707,580
Items not affecting cash				
Depreciation and amortization	857	6,851	5,324	21,328
Equity earnings of PBS Coals Corporation	(6,083,158)	-	(11,163,543)	-
Gain on dilution from PBS Coals Corporation	(7,801,465)	-	(7,801,465)	(2,101,743)
Gain on dilution from Stonegate Agricom Ltd.	(3,415,996)	-	(3,415,996)	-
Gain on dilution from investments	4,513	-	(363,364)	-
Non-controlling interest	4,784	(7,120)	3,131	(27,132)
Gain on disposal of PBS Coals Corporation shares	(73,645,580)	-	(73,645,580)	-
Gain on disposal of investments	(929,086)	-	(4,102,360)	-
Write down of mining claims and deferred exploration	-	-	-	219,082
	(24,710,429)	(468,601)	(26,646,116)	(1,180,885)
Changes in non-cash operating working capital				
Change in prepaids and other	(154,811)	(369,988)	(294,776)	(369,502)
Change in promissory notes and notes receivable	(653,000)	-	(653,000)	-
Change in accounts payable and accrued liabilities	18,691,689	243,847	19,798,407	563,613
Change in income tax payable	5,000,000	-	5,000,000	-
	(1,826,551)	(594,742)	(2,795,485)	(986,774)
<b>Cash flows from (used in) investing activities</b>				
Purchase of PBS shares	-	-	(24,447,224)	-
Purchase of investments	(39,005,199)	(1,000,000)	(40,405,199)	(1,000,000)
Purchase of short term investments	(48,517,710)	-	(48,517,710)	-
Proceeds on sale of investments	2,759,579	-	7,387,106	-
Proceeds on sale of PBS Coals Corporation shares	99,145,866	-	99,145,866	-
Investment in Mining claims	317,068	-	(1,290,510)	-
Deferred exploration expenditures	(197,547)	(200,553)	(535,543)	(693,717)
Property payments received for mining claims	-	-	-	31,166
Purchase of equipment	(7,146)	(2,678)	(23,834)	(21,461)
Net cash reduction on deconsolidation of former subsidiary	-	-	232,684	(136,034)
Reclamation Deposits	-	-	-	(486)
	14,494,911	(1,203,231)	(8,454,364)	(1,820,532)
<b>Cash flows from financing activities</b>				
Deferred share issue costs	-	(119,312)	-	(134,640)
Proceeds from issuance of capital stock	43,264,333	59,803,804	92,641,054	61,868,253
Repurchase of capital stock	(8,422,947)	-	(8,422,947)	-
	34,841,386	59,684,492	84,218,107	61,733,613
<b>Change in cash and cash equivalents</b>	47,509,746	57,886,519	72,968,258	58,926,307
<b>Cash and cash equivalents – Beginning of period</b>	59,541,557	8,421,647	34,083,045	7,381,859
<b>Cash and cash equivalents – End of period</b>	107,051,303	66,308,166	107,051,303	66,308,166
<b>Cash and cash equivalents are comprised of:</b>				
Cash	78,534,423	61,333,080	78,534,423	61,333,080
Short-term investments	28,516,880	4,975,086	28,516,880	4,975,086

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

# Sprott Resource Corp.

Interim Consolidated Statements of Cash Flows ...continued

For the three and nine months ended September 30, 2008

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(expressed in Canadian dollars)

	107,051,303	66,308,166	107,051,303	66,308,166
	Three Month Period Ended September 30 2008 \$	Three Month Period Ended September 30 2007 \$	Nine Month Period Ended September 30 2008 \$	Nine Month Period Ended September 30 2007 \$
<b>Supplemental cash flow information</b>				
Common shares issued on exercise of stock options	-	6,765	438,099	14,717
Fair value of warrants issued	22,970,544	-	44,305,079	-
Unrealized gain on investments	161,264,885	-	160,429,837	-
Common shares issued to acquire mining claims	-	-	7,705,190	-
Future income tax liability	(31,498,057)	-	(31,498,057)	-
Equipment relating to former subsidiary	-	-	-	24,971
Mining claims relating to former subsidiary	-	-	-	1,147,814
Share issue costs relating to former subsidiary	-	-	-	473,810
Payables relating to former subsidiary	-	-	-	(641,328)
Deferred share issue costs included in accounts payable	-	(212,222)	-	(304,192)

# **Sprott Resource Corp.**

## **Notes to the Interim Consolidated Financial Statements For the nine months ended September 30, 2008**

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(expressed in Canadian dollars)

### **1 Organization and nature of operations**

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

The Company’s principal activities are investment in natural resources through direct acquisitions, joint ventures and equity investments.

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

In the prior quarter, the Company incorporated two new subsidiaries. One Earth Resources Corp. (“One Earth Resources”) was incorporated under CBCA on April 25, 2008. 2173177 Ontario Ltd. (“Holdco”) was incorporated under the Ontario Business Corporations Act on May 15, 2008.

On August 18, 2008, Holdco amalgamated with Stonegate Minerals Ltd. (“Stonegate Minerals”), to form Stonegate Agricom Ltd. (“Stonegate Agricom”). At September 30, 2008 the Company held a 78.95% interest (undiluted) in Stonegate Agricom. The Company has equity accounted for the investment as at September 30, 2008 based on the terms of a voting agreement (the “Voting Agreement”) between the Company and Stonegate Minerals pursuant to which the Company has agreed, subject to certain conditions, to vote its Stonegate Agricom shares in favour of each nominee to the board of directors of Stonegate Minerals proposed by management of Stonegate Minerals for a period of three (3) years from the date of the initial public offering of Stonegate Agricom, provided that one such nominee is a representative of the Company.

On September 24, 2008, the Company completed the sale of 17,050,000 common shares of PBS Coals Limited (“PBS”) reducing its interest from 31.6% to approximately 19.9%, consequently the Company has ceased using equity accounting and has now designated it as an available for sale investment.

### **2 Significant accounting policies**

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

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

# **Sprott Resource Corp.**

## **Notes to the Interim Consolidated Financial Statements For the nine months ended September 30, 2008**

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(expressed in Canadian dollars)

### **Adoption of new accounting policies**

Short-term investments are liquid Canadian dollar denominated investments in Government of Canada treasury bills with terms to maturity of greater than 90 days but not more than one year. Short-term investments are classified as held-for-trading and recorded at fair value with realized and unrealized gains and losses reported in the statement of operations.

### **Adoption of new accounting standards**

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

#### **a) Capital disclosures – section 1535**

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

#### **b) Financial instruments – sections 3862 and 3863**

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

### **Future accounting and reporting changes**

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

# **Sprott Resource Corp.**

## **Notes to the Interim Consolidated Financial Statements For the nine months ended September 30, 2008**

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(expressed in Canadian dollars)

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

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

# Sprott Resource Corp.

## Notes to the Interim Consolidated Financial Statements For the nine months ended September 30, 2008

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(expressed in Canadian dollars)

### 3 Investments

	September 30, 2008 \$	December 31, 2007 \$
High Desert Gold Corporation (a)	630,000	2,430,000
South American Silver Corp. (b)	1,763,000	4,730,000
Other portfolio investments (c)	38,296,428	4,606,507
PBS Coals Corporation (note 4)	217,483,018	-
	<u>258,172,446</u>	<u>11,766,507</u>

- a) On October 17, 2007, the Company's wholly-owned subsidiary, HDGC, completed its IPO. The Company's current ownership in HDGC is 6,000,000 common shares representing approximately a 15% ownership interest. The cost of the investment was \$2,430,000 (\$0.405 per share). The shares of HDGC owned and controlled by the Company are subject to a regulatory escrow agreement and a contractual lock-up agreement. On April 17, 2008 and on October 17, 2008, 3,000,000 and 1,500,000 common shares, respectively, were released from escrow and lock-up, with a further 1,500,000 shares to be released from escrow on April 17, 2009.

	\$
Fair market value as at December 31, 2007	2,430,000
Unrealized loss during the period	<u>(1,800,000)</u>
Fair market value at September 30, 2008 based upon a market bid quotation of \$0.105 per share	<u>630,000</u>

- b) On February 19, 2007, the Company's wholly-owned subsidiary, SASC, completed its IPO. The Company's current ownership in SASC is 8,600,000 common shares representing approximately an 18% ownership interest. The cost of the investment was \$3,243,044 (\$0.377 per share). The shares of SASC owned and controlled by the Company were subject to a regulatory escrow agreement. On August 19, 2007, February 19, 2008 and August 19, 2008, 4,300,000, 2,150,000 and 2,150,000 common shares, respectively, were released from escrow.

	\$
Fair market value as at December 31, 2007	4,730,000
Unrealized loss during the period	<u>(2,967,000)</u>
Fair market value at September 30, 2008 based upon a market bid quotation of \$0.205 per share	<u>1,763,000</u>

# Sprott Resource Corp.

## Notes to the Interim Consolidated Financial Statements For the nine months ended September 30, 2008

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(expressed in Canadian dollars)

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

	\$
Opening balance as at December 31, 2007	4,606,507
Acquisitions during the period	40,405,199
Unrealized losses during the period, net	(3,886,257)
Disposals of investments at their fair market value, net	(3,079,029)
Sundance investment (note 3d)	<u>250,008</u>
Fair value	<u>38,296,428</u>

During the quarter, the Company purchased \$39,005,199 of securities, of which \$23,165,199 were public securities and \$15,840,000 were private securities. During the current period the Company sold \$2,953,747 of investments for a gain on investments of \$4,433,359.

- d) In May 2008 Sundance Minerals Ltd., the Company's 51% subsidiary, completed a private placement and effectively reduced the Company's interest from 51% to 18.3%. The Company has therefore stopped consolidating Sundance Minerals Ltd. from the date of the private placement and is now treating it as an investment.
- e) For the period ending September 30, 2008 a future income tax liability of \$31,498,057 was allocated to the net unrealized gains on the remaining holdings of PBS Coals Ltd.

# **Sprott Resource Corp.**

## **Notes to the Interim Consolidated Financial Statements For the nine months ended September 30, 2008**

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(expressed in Canadian dollars)

### **4 Investment in PBS Coals Corporation**

Pursuant to an investment agreement dated December 4, 2007 (the “PBS Investment Agreement”), the Company acquired 31 million common shares of PBS Coals Corporation for \$30,568,978 (US\$31,000,000), representing approximately 37.5% of the outstanding common shares of PBS Coals Corporation. The PBS Investment Agreement provided that PBS Coals Corporation would invest substantially all of the funds received to acquire shares of Mincorp Acquisition Corp., a Delaware corporation (“Mincorp”). Mincorp, through its wholly-owned subsidiaries, is engaged in the mining of coal in Somerset County, Pennsylvania. On completion of the transactions contemplated under the PBS Investment Agreement, PBS Coals Corporation held approximately 73.6% (59.6% fully diluted) of the common stock of Mincorp, the balance of which was held by management and other pre-existing investors. On May 2, 2008 the Company invested an additional US\$23,960,000 in PBS Coals Corporation, as part of an aggregate funding of approximately US \$64.5 million, acquiring an additional 13,194,938 shares and increasing the Company’s holdings to 44,194,938 shares. PBS Coals Corporation used the proceeds to subscribe for additional shares of Mincorp, which used the additional funds to purchase, for cancellation, all outstanding Mincorp warrants as well as 30% of Mincorp stock held by management. Upon the closing of the transactions, the Company owned approximately 37% of PBS Coals Corporation, and PBS Coals Corporation owned over 85% of the common stock of Mincorp, with management and employees retaining the balance. The Company’s effective diluted interest in Mincorp increased from approximately 22.4% to 31.6%.

On September 24, 2008, the Company completed its sale of 17,050,000 common shares of PBS Coals Limited (“PBS”) for gross proceeds of \$102,300,000 (net proceeds after commission was \$97,507,445). This sale was pursuant to the treasury and secondary offering of 35,716,000 subscription receipts (each a “Security”) completed by PBS Coals Corporation at a price of \$6.00 per Security. Each security effectively represented a right to receive a common share of PBS, the company formed from the business combination between PBS Coals Corporation and Penfold Capital Acquisition Limited. Following the completion of the sale, pursuant to agreements with other PBS shareholders and the underwriter of the secondary offering, the Company received additional gross proceeds of \$2,336,334 in respect of the sale. Following the sale, the Company held 27,144,938 common shares of PBS, consequently reducing the Company’s interest from 31.6% to approximately 19.9%. A gain of \$73,645,580 was recorded by the Company upon the sale.

On August 22, 2008, the Company signed a lock-up agreement with 7027940 Canada Limited (the “Offeror”) pursuant to which the Company agreed to tender all of its PBS shares into a takeover bid (the “Offer”) made by the Offeror for all the issued and outstanding shares of PBS for a price of \$8.30 per share.

Subsequent to the end of the quarter, on October 24, 2008, the Company along with other principal shareholders of PBS, signed a supplemental agreement (the “Supplemental Agreement”) with PBS, PBS Coals Corporation, the Offeror and Mining Holding Company LLC (“Mining Holdings” and collectively with the Offeror, the “Purchaser”) pursuant to which the Purchaser (i) waived any and all breaches of each and every representation, warranty and/or covenant in the support and purchase agreement between PBS Coals Corporation, PBS, Mining Holdings, the Offeror, Mincorp and certain shareholders of Mincorp (the “Support and Purchase Agreement”) relating to the Offer; (ii) agreed that all mutual conditions and condition in favour of the Purchaser in Support and Purchase Agreement had been satisfied or waived; (iii) agreed to take up all PBS shares deposited and not withdrawn under the Offer no later than November 3, 2008; (iv) agreed to pay for all

# Sprott Resource Corp.

## Notes to the Interim Consolidated Financial Statements For the nine months ended September 30, 2008

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(expressed in Canadian dollars)

PBS shares taken up in the Offer no later than November 3, 2008 (or November 5, 2008 if the Purchaser received regulatory approval); and (v) agreed to acquire all the outstanding shares of Mincorp immediately following acquisition of the PBS shares. In exchange for the foregoing, the shareholders party to the Supplemental Agreement agreed to a discount of \$381,960,000 under the Offer. The Company's portion of this was \$84,478,886. As a result, on November 6, 2008, the Company received net proceeds of \$140,824,099 on its sale of 27,144,938 PBS shares (\$5.1878 per PBS share), rather than \$225,302,985 (\$8.30 per PBS share) under the terms of the Offer.

A summary of 100% of the assets and liabilities of PBS Coals Corporation as at September 24, 2008, (the date of the first sale of PBS shares), and the results of operations for the period ended September 24, 2008 are as follows:

	<i>U.S. thousands of dollars</i>
Total current assets	117,210
Total non-current assets	<u>581,157</u>
Total assets	<u>698,367</u>
Total current liabilities	45,188
Total non-current liabilities	358,990
Non-controlling interest	<u>19,827</u>
	424,005
Share capital	236,926
Retained earnings	<u>37,436</u>
Total liabilities and equity	<u>698,367</u>
Revenue	223,760
Expenses	(192,374)
Non-controlling interest	<u>(2,006)</u>
Net earnings for equity accounting purposes	<u>29,380</u>

Until September 24, 2008, the Company accounted for its investment in PBS Coals Corporation under the equity method. The Company's net investment in PBS Coals Corporation is determined as follows:

	<u>\$</u>
Balance – December 31, 2007	30,487,978
Acquisition of additional PBS Coals Corporation shares	24,447,224
Accumulated share of earnings	11,163,543
Dilution gain	7,801,465
Gain on disposal of PBS Coals Corporation shares	73,645,580
Proceeds on disposal	(99,145,866)
Unrealized gains during period	<u>169,083,094</u>
Balance – September 24, 2008	<u>217,483,018</u>

# **Sprott Resource Corp.**

## **Notes to the Interim Consolidated Financial Statements For the nine months ended September 30, 2008**

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(expressed in Canadian dollars)

The Company has gone from the equity method to holding the PBS Coals Ltd. shares as available-for-sale. As at September 30, 2008 the closing fair value of the PBS Coals Ltd. shares was \$8.05 resulting in unrealized gain on other comprehensive income of \$169,083,094.

### **5 Investment in Stonegate Agricom Ltd.**

During the period ended June 30, 2008, the Company terminated the option and exploration agreement in respect of the Mantaro Phosphate Project and concurrently, its wholly-owned subsidiary, Holdco entered into a share purchase agreement to purchase all the outstanding shares of Mantaro (BVI) Ltd., a British Virgin Island company ("Mantaro BVI").

On July 21, 2008, Holdco and the Company signed a loan agreement (the "Loan Agreement") under which the Company agreed to lend Holdco US\$500,000 to assist in the purchase of mining properties. Pursuant to the Loan Agreement, the loan is non-interest bearing and is repayable within two (2) business days of demand made by the Company or immediately without further notice.

On August 18, 2008, Holdco amalgamated with Stonegate Minerals to form Stonegate Agricom, in which the Company received 60,000,000 common shares representing an 81% interest. As at September 30, 2008, the Company has equity accounted for the investment in Stonegate Agricom pursuant to the Voting Agreement whereby the Company does not control Stonegate Agricom. The Company has agreed, subject to certain conditions, to vote its Stonegate Agricom shares in favour of each nominee to the board of directors of Stonegate Agricom proposed by management of Stonegate Agricom for a period of three (3) years from the date of the initial public offering of Stonegate Agricom, provided that one such nominee is a representative of the Company. As a result of the amalgamation, the Company recorded a dilution gain of \$2,947,904. On August 31, 2008, Stonegate Agricom completed a private placement of 2,000,000 common shares reducing the Company's interest to 78.95%, which resulted in a further dilution gain of \$468,092.

Stonegate Agricom has 13,999,976 share purchase warrants outstanding exercisable at \$0.75 per common share, none of which the Company holds.

Mantaro BVI holds 99.5% of the outstanding shares of Mantaro Peru S.A.C., a Peruvian company ("Mantaro Peru"), with the balance 0.5% being held by Stonegate Agricom. Mantaro Peru holds the mineral claims relating to the Mantaro Phosphate Project.

# Sprott Resource Corp.

## Notes to the Interim Consolidated Financial Statements For the nine months ended September 30, 2008

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(expressed in Canadian dollars)

A summary of 100% of the assets and liabilities of Stonegate Agricom as at September 30, 2008 and the results of operations for the period from the date of amalgamation to September 30, 2008 are as follows:

Total current assets	\$	6,547,883
Total non-current assets		<u>13,857,686</u>
Total assets	\$	<u>20,405,569</u>
Total current liabilities		835,647
Total non-current liabilities	\$	<u>3,975,000</u>
Share capital		4,810,647
Contributed surplus		15,939,000
Accumulated other comprehensive income		123,128
Retained earnings		<u>(260,568)</u>
Total liabilities and equity	\$	<u>20,405,569</u>
Company share of accumulated other comprehensive income	\$	<u>(205,718)</u>
Revenue	\$	20,112
Expenses		<u>226,750</u>
Net loss	\$	<u>206,638</u>
Company share of Equity loss of Stonegate Agricom Ltd.	\$	<u>163,135</u>

The investment in Stonegate Agricom as at September 30, 2008 is as follows:

Acquisitions prior to December 31, 2007	\$	74,401
Acquisitions		1,465,202
Common shares issued (note 8a)		7,705,190
Dilution gains from Stonegate Agricom		3,415,996
Share of losses for the period		(163,135)
Share of accumulated other comprehensive income for the period		<u>(205,718)</u>
Balance – September 30, 2008	\$	<u>12,291,936</u>

# **Sprott Resource Corp.**

## **Notes to the Interim Consolidated Financial Statements For the nine months ended September 30, 2008**

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(expressed in Canadian dollars)

### **6 Mining claims and deferred exploration**

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

In order to maintain the first option in good standing and earn a 55% interest in the JBP – Appleton Linear property, the Company is required to, among other things: (i) fund a total of \$2,375,000 of work costs over 4 years from November 15, 2007 if Paragon elects to contribute \$125,000 of work costs in the first year, \$375,000 of which was a firm commitment and payable within one year; and (ii) make a total of \$250,000 in cash payments to Paragon over a period of three years. Advances to date have been \$485,000, of which \$110,000 has been paid in the current quarter. Year to date the current year’s commitment has been fulfilled.

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

### **7 Promissory notes receivable**

During the period, One Earth Resources entered into agreements with three (3) First Nation bands (the “Nations”). Under the agreements, One Earth Resources will pay the Nations a \$100,000 signing bonus each upon the receipt of mineral exploration permits by One Earth Resources. The Nations each received cash payments in the amounts of \$50,000 advanced in the form of promissory notes to be applied against the amounts of the total signing bonus. The promissory notes are non-interest bearing and are repayable, at no specified date, in the event the exploration permits are not received by One Earth Resources.

# Sprott Resource Corp.

## Notes to the Interim Consolidated Financial Statements For the nine months ended September 30, 2008

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(expressed in Canadian dollars)

### 8 Shareholders' equity

#### a) Issued and outstanding

	Number of common shares	Amount \$
Balance - December 31, 2007	50,627,950	115,744,350
Exercise of warrants	36,933,970	91,971,354
Fair value of warrants exercised		6,954,728
Exercise of stock options	474,000	669,700
Fair value of stock options exercised		438,099
Fair value of incentive warrants		(44,305,079)
Shares repurchased under normal course issuer bid and cancelled (note 8e)	(2,808,500)	(5,603,363)
Shares issued – Mantaro acquisition	1,771,309	7,705,190
Balance - September 30, 2008	<u>86,998,729</u>	<u>173,574,979</u>

#### b) Stock options

The Company established a share option plan (the "Plan") during 1995 for the benefit of employees and directors of the Company and designated affiliated companies. The maximum number of shares available under the Plan is limited to 5% of the issued common shares at the time of granting of options. Subject to any employment contracts, each option becomes exercisable as to 33 1/3% on a cumulative basis, at the end of each of the first, second and third years following the date of grant. The maximum option term shall not exceed ten years, subject to extension in the event that the expiry date falls within a "blackout" period.

During the period, the Company granted 75,000 options to independent directors. The terms of the grant are consistent with the Plan and are exercisable at \$3.32 per option. The fair value of all common share options granted during the period are estimated as at the grant date using the Black-Scholes option-pricing model. The assumptions used in the calculation are noted below:

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Risk-free interest rate	3.03%
Expected life	5 years
Expected volatility	176%
Fair value per option	3.20

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# Sprott Resource Corp.

## Notes to the Interim Consolidated Financial Statements For the nine months ended September 30, 2008

(expressed in Canadian dollars)

The schedule of stock option activity during the period is as follows:

	Number of options	Weighted average exercise price \$
Balance, December 31, 2007	741,000	1.81
Options exercised	(474,000)	1.41
Options expired	(77,000)	4.97
Options granted	75,000	3.32
Balance, September 30, 2008	265,000	2.04

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

Options outstanding and exercisable			
Range of exercise prices \$	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price \$
1.30 to 1.75	190,000	1.29	1.54
3.32	75,000	4.91	3.32

### c) Share warrants

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

	Number of warrants	Weighted average exercise price \$	Amount \$
Balance, December 31, 2007	40,877,127	2.49	7,685,605
Warrants exercised at 2.05	(789,400)	2.05	-
Warrants exercised at 2.50	(36,144,570)	2.50	(6,954,728)
Expired	(87,727)	2.05	-
Issue warrants under incentive program	16,594,284	4.25	44,305,079
Balance, September 30, 2008	20,449,714	2.98	45,035,956

# Sprott Resource Corp.

## Notes to the Interim Consolidated Financial Statements For the nine months ended September 30, 2008

(expressed in Canadian dollars)

### Warrant Incentive Program

On May 13, 2008, the Company announced a warrant incentive program (the “Warrant Incentive Program”) to encourage the early exercise of 39,920,000 outstanding warrants that were to expire September 5, 2009 (the “Old Warrants”), which were issued as part of the financing completed in September 2007. The Warrant Incentive Program expired on July 7, 2008. The Old Warrants are exercisable at \$2.50 per share. Warrant holders who elected to exercise their Old Warrants as part of the Warrant Incentive Program received a bonus one-half of one new common share purchase warrant (a “New Warrant”), which is exercisable for one common share of the Company at a price of \$4.25 until December 31, 2010, subject to the Company’s ability to accelerate the expiry of the New Warrants if the trading price of the Company’s common shares is equal to or greater than \$6.00 for twenty (20) consecutive trading days.

As at September 30, 2008, 33,188,568 of the Old Warrants were exercised under the Warrant Incentive Program for total proceeds of \$82,971,420 and consequently 16,594,284 New Warrants were issued.

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

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

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

Number Outstanding	Exercise Price \$	Expiry Date
3,855,430	2.50	September 5, 2009
16,594,284	4.25	December 31, 2010

### d) Contributed surplus

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

# Sprott Resource Corp.

## Notes to the Interim Consolidated Financial Statements For the nine months ended September 30, 2008

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(expressed in Canadian dollars)

### e) Normal Course Issuer Bid

On August 26, 2008, the Company announced a normal course issuer bid (“Bid”) to repurchase for cancellation a maximum of 8 million of its issued and outstanding common shares within one year. During the period ended September 30, 2008, 2.8 million common shares with an aggregate cost of \$8.4 million (average cost of \$2.99 per common share) were repurchased pursuant to this Bid. This resulted in \$5,603,363 being recorded as a reduction to share capital and \$2,819,584 as a reduction in retained earnings. These shares were cancelled and returned to treasury prior to September 30, 2008. Subsequent to September 30, 2008, the Company repurchased for cancellation 5,124,200 common shares.

	Number of common shares	Amount \$
Balance – December 31, 2007	-	-
Repurchased capital stock	2,808,500	5,603,362
Repurchased capital stock – net excess of cost over carrying value	-	2,819,585
Balance – September 30, 2008	<u>2,808,500</u>	<u>8,422,947</u>

## 9 Related party transactions

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

During the three months ended September 30, 2008:

- Aggregate legal fees of \$nil (September 30, 2007 - \$312,428) were charged by a legal firm in which a former director was a partner.
- Consulting fees of \$30,208 (September 30, 2007 - \$40,023) were charged by officers or former officers of the Company. Of this amount \$30,208 was charged to loss (September 30, 2007 - \$20,155), \$nil was included in deferred costs (September 30, 2007 - \$19,868).
- Management fees of \$1,258,676 (September 30, 2007 - \$112,700) were incurred, which are payable to Sprott Consulting Limited Partnership (“SCLP”), an entity with directors and management in common. Under the management services agreement between the Company and SCLP (the “MSA”) there is an annual incentive fee (the “Incentive Fee”) payable to SCLP based upon the excess of 20% net profit before income tax less the average net asset value of the company multiplied by the Canadian 30 year generic bond index. The amount accrued for the Incentive Fee for the three months is \$17,429,777 (September 30, 2007 - \$nil).

# Sprott Resource Corp.

## Notes to the Interim Consolidated Financial Statements For the nine months ended September 30, 2008

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(expressed in Canadian dollars)

During the nine months ended September 30, 2008:

- Aggregate legal fees of \$nil (September 30, 2007 - \$474,051) were charged by a legal firm in which a former director was a partner.
- Consulting fees of \$42,332 (September 30, 2007 - \$131,283) were charged by officers or former officers of the Company. Of this amount \$42,332 was charged to loss (September 30, 2007 - \$82,475), \$nil was included in deferred costs (September 30, 2007 - \$48,808).
- Management fees of \$2,236,999 (September 30, 2007 - \$112,700) were incurred, which are payable to SCLP. The amount accrued for the Incentive Fee to the nine months is \$18,212,927 (September 30, 2007 - \$nil).
- Included in accounts payable and accrued liabilities as at September 30, 2008 was \$19,503,853 (December 31, 2007 - \$417,606) payable to directors, officers of the Company, including \$19,471,603 (December 31, 2007 - \$392,406) payable to SCLP. These amounts are non-interest bearing and have no specific terms of repayment.

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

### 10 Segment information

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

	September 30, 2008	December 31, 2007
Identifiable assets	\$	\$
North America	400,649,651	76,669,429
South America	27,131,936	74,401
Other	-	41,700
Total assets	<u>427,781,587</u>	<u>76,785,530</u>

### 11 Commitments

On September 5, 2007, the Company entered into the MSA with Sprott Consulting Ltd. ("SCL"), a wholly-owned subsidiary of Sprott Asset Management Inc. ("SAM") with an initial term of three years. Pursuant to the terms of the MSA, SCL was appointed by the Company to manage, or engage others to manage, the undertaking and affairs of the Company. On December 1, 2007, SCLP assigned the MSA to SCLP, the successor to SCL, as part of an internal reorganization involving SAM and its subsidiaries. In consideration for providing these services, the Company has agreed to pay SCLP an annual services fee equal to 2% of the net asset value (as defined in the MSA) of the Company calculated and payable at the end of each calendar quarter based on the average month-end net asset value of the Company and an annual incentive fee equal to 20% of:

# **Sprott Resource Corp.**

## **Notes to the Interim Consolidated Financial Statements For the nine months ended September 30, 2008**

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(expressed in Canadian dollars)

(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.

### **12 Contingencies**

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

### **13 Management of capital**

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

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

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

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

The Company's cash management policy is to invest its cash in highly liquid short-term Government of Canada issued treasury bills, with maturities 90 days or less from the original date of acquisition.

### **14 Financial instruments**

#### **a) Fair value of financial instruments**

The Company's financial instruments consist of cash and cash equivalents, note receivable, 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 90 days at the time of acquisition, and are all held in Canadian dollars. The Company has no asset backed commercial paper. Portfolio investments in securities of publicly-traded companies are reported at fair value. The fair values of the other instruments approximate their book value due to their short-term nature.

# **Sprott Resource Corp.**

## **Notes to the Interim Consolidated Financial Statements For the nine months ended September 30, 2008**

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(expressed in Canadian dollars)

### **b) Currency risk**

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

Certain of the Company's financial instruments are exposed to fluctuations in the U.S. dollar. A hypothetical change of 10% to the foreign exchange rate between the U.S. dollar and the Canadian dollar applied to the average level of U.S. denominated cash and cash equivalents during the quarter would result in a decrease of \$35,325 to the Company's earnings for the nine month period ended September 30, 2008.

### **c) Credit risk**

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

The Company's cash is held primarily through large Canadian financial institutions. Short-term investments consist of Government of Canada treasury bills, which have an original maturity of 90 days or less from the date of purchase and are readily convertible into a known amount of cash.

### **d) Market risk**

Market risk is the risk that changes in market prices, such as interest rates and equity prices, will affect the Company's operations or the value of its financial instruments. The Company will generate a portion of its revenue from the proceeds of disposition from its equity investments in natural resource companies. The values of such investments are subject to general market risks and all the risks specific to natural resource companies. If the value of these investments declines, as a result of company specific issues or market conditions generally, the Company will not be able to generate income and may suffer capital losses.

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

### **e) Liquidity risk**

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

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.

# Sprott Resource Corp.

## Notes to the Interim Consolidated Financial Statements For the nine months ended September 30, 2008

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(expressed in Canadian dollars)

### f) **Interest rate risk**

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

## 15 **Subsequent events**

- a) The Company entered into the following transactions subsequent to September 30, 2008.

On October 1, 2008, the Company announced that it had purchased 45,289,000 common shares of Waseca Energy Inc. ("Waseca") at a price of \$0.60 per common share, for a total cost of \$27,173,400, representing a 79.72% ownership interest. As a result of the transaction the Company will begin consolidating the accounts of Waseca. The assets and liabilities of Waseca as at October 1, 2008 can be summarized as follows:

Total current assets	31,733,125
Total non-current assets	<u>357,830</u>
Total assets	<u>32,090,955</u>
Total current liabilities	<u>22,463</u>
Share capital	32,231,924
Retained (deficit)	<u>(163,432)</u>
Total liabilities and equity	<u>32,090,955</u>

- b) Subsequent to September 30, 2008, the Company sold the remaining 27,144,938 common shares held in PBS Coals Ltd. for net proceeds of \$140,824,099 (note 4).
- c) Subsequent to September 30, 2008, under the Bid the Company repurchased for cancellation 5,124,200 common shares (note 8e).
- d) Subsequent to September 30, 2008, the Company purchased \$24,827,001 of publicly traded securities, of which \$19,635,170 are exchange traded funds that track the price of gold bullion.