# SANDSTORM GOLD LTD.

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*third quarter* / **2012**

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# SANDSTORM GOLD LTD. MANAGEMENT'S DISCUSSION AND ANALYSIS

*For The Period Ended September 30, 2012*

This management's discussion and analysis ("MD&A") for Sandstorm Gold Ltd. and its subsidiary entities ("Sandstorm" or the "Company") should be read in conjunction with the unaudited condensed consolidated interim financial statements of Sandstorm for the three and nine months ended September 30, 2012 and related notes thereto which have been prepared in accordance with International Accounting Standards ("IAS") 34: Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). Readers are encouraged to consult the Company's audited consolidated financial statements for the year ended December 31, 2011 and the corresponding notes to the financial statements which are available on SEDAR at www.sedar.com. The information contained within this MD&A is current to October 24, 2012 and all figures are stated in U.S. dollars unless otherwise noted.

## Overview

The Company is a growth-focused company that seeks to acquire gold and other precious metal purchase agreements ("Gold Streams") from companies that have advanced stage development projects or operating mines. In return for making upfront payments to acquire a Gold Stream, Sandstorm receives the right to purchase, at a fixed price per ounce, a percentage of a mine's gold, silver or platinum ("Gold Equivalent") production for the life of the mine. Sandstorm helps other companies in the resource industry grow their businesses, while acquiring attractive assets in the process. The Company is focused on acquiring Gold Streams from mines with low production costs, significant exploration potential and strong management teams. The Company currently has eight Gold Streams, and three royalties.

## Outlook

Based on the existing Gold Streams, forecasted 2012 attributable production is 31,000 – 34,000 ounces of gold, increasing to approximately 60,000 of Gold Equivalent per annum by 2015. This growth is driven by the Company's portfolio of Gold Streams with mines, all of which are either currently producing or expected to commence production by 2014.

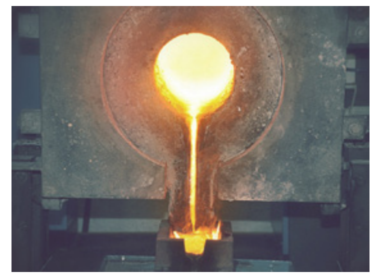
## HIGHLIGHTS

- Gold sales for the three months ended September 30, 2012 of 9,066 ounces, representing an increase of over 63% over the comparable period in 2011.
- Operating cash flow for the three months ended September 30, 2012 of $10.6 million, representing an increase of 24% over the comparable period in 2011 (cash flow of $8.6 million for the three months ended September 30, 2011).
- Average cash costs for the three months ended September 30, 2012 of $408 per ounce, compared with $428 per ounce for the comparable period in 2011.
- On August 20, 2012, the Company's common shares began trading on the NYSE MKT LLC under the symbol SAND.
- On September 7, 2012, the Company completed an equity financing for aggregate gross proceeds of C$150.1 million.
- On September 10, 2012, Sandstorm agreed to contribute up to $10.0 million in capital towards the Phase 1 Expansion at Luna's Aurizona Mine. Sandstorm's contribution will be equal to 17% of the capital costs incurred by Luna towards the Phase 1 Expansion to a maximum contribution of $10.0 million. In conjunction with Sandstorm's capital contribution, Luna has provided the Company with a contractual guarantee that the Aurizona Mine will complete its Phase 1 Expansion by the end of 2013.
- On September 19, 2012, the Company entered into a precious metals purchase agreement with Colossus Minerals Inc. to purchase an amount equal to 1.5% of the gold and 35% of the platinum produced from the Serra Pelada Mine located in Para, Brazil. Pursuant to the agreement, Sandstorm will make ongoing per ounce payments equal to the lesser of $400 per ounce of gold and the then prevailing market price of gold, and the lesser of $200 per ounce of platinum and the then prevailing market price of platinum. This transaction also highlights the financing synergy between the Company and Sandstorm Metals & Energy as Sandstorm Metals & Energy has concurrently agreed to purchase 35% of the life of mine palladium produced from the Serra Pelada Mine.

# AURIZONA GOLD STREAM

*The Company has a Gold Stream to purchase 17% of the life of mine gold produced from Luna Gold Corp.'s ("Luna") open-pit Aurizona mine, located in Brazil (the "Aurizona Mine") for a per ounce cash payment equal to the lesser of $400 and the then prevailing market price of gold. In 2011, the Aurizona Mine reached full commercial production.*

*In September 2012, the Company agreed to contribute up to $10.0 million in capital towards the phase 1 production expansion project ("Phase 1 Expansion") at Luna's Aurizona Mine. Sandstorm's contribution will be equal to 17% of the capital costs incurred by Luna towards the Phase 1 Expansion to a maximum contribution of $10.0 million. In addition, Sandstorm has committed to issue, if requested by Luna, a $20.0 million non-revolving loan facility with a three year term, which may only be used to fund the Phase 1 Expansion and associated exploration costs. In conjunction with Sandstorm's capital contribution, Luna has provided the Company with a contractual guarantee that the Aurizona Mine will complete its Phase 1 Expansion by the end of 2013.*



### *Current activities at the Aurizona Mine include:*

- Gold production at the Aurizona Mine for the three months ended September 30, 2012 was 19,391 ounces, a quarterly record for Luna.
- Luna announced the commencement of a capital expenditure program to complete the Phase I Expansion at the Aurizona Mine. The Phase I Expansion will involve low capital cost improvements to the existing Aurizona Mine process plant without either expanding the existing plant's established footprint or impacting current operations. The expansion project is expected to reach completion by the end of 2013. Included in the program is a related updated National Instrument ("NI") 43-101 technical report for Aurizona, which Luna is targeting for release by the end of 2012.
- In January 2012, Luna released a NI 43-101 resource update on the Aurizona deposit. Measured and Indicated gold resources now total 78.0 million tonnes at 1.26 grams per tonne gold or 3.2 million ounces gold, an increase of 250% from the previous mineral resource estimate published in January 2009. Inferred gold resources now total 15.2 million tonnes at 1.47 grams per tonne gold or 0.7 million ounces gold, an increase of 79% from the January 2009 mineral resource estimate.
- For further information regarding the resource update, please visit the Luna website at ***www.lunagold.com***.

# SERRA PELADA GOLD STREAM



*The Company has a Gold Stream agreement with Colossus Minerals Inc. ("Colossus") to purchase an amount equal to 1.5% of the gold and 35% of the platinum produced from the Serra Pelada mine (the "Serra Pelada Mine") located in Para, Brazil for ongoing per ounce payments equal to the lesser of $400 per ounce of gold and the then prevailing market price of gold, and the lesser of $200 per ounce of platinum and the then prevailing market price of platinum. Sandstorm made an upfront payment of $60.0 million to acquire the Precious Metal Stream in September 2012. The Company is not required to contribute any further capital, exploration, or operating expenditures to Colossus.*

*As part of the transaction, the Company also agreed to purchase 35% of the life of mine palladium produced from Serra Pelada Mine (the "Palladium Stream") in exchange for paying a $15.0 million deposit (bringing the total deposit payment made by Sandstorm during the three months ended September 30, 2012 to $75.0 million) plus ongoing payments of $100 per ounce of palladium. Concurrently, the Company entered into a similar back-to-back agreement with Sandstorm Metals & Energy Ltd. ("Sandstorm Metals & Energy") whereby Sandstorm Metals & Energy purchased the Palladium Stream from Sandstorm in exchange for issuing a promissory note. The promissory note states that the $15.0 million will be repaid to Sandstorm in cash or shares by September 19, 2013.*


Colossus has guaranteed certain minimum annual deliveries for the initial 10 year period, commencing in 2013 so long as the mine is in operation. Colossus has also provided a guarantee that in the event the Serra Pelada Mine shuts down for a period of 24 months and Sandstorm has not recognized cash flow equal to the initial upfront deposit, then Colossus will refund the balance to Sandstorm. In addition, Colossus has agreed to refund a pro-rata portion of the upfront deposit in the event that the Serra Pelada Mine does not achieve a completion test within 48 months of funding.

Until April 1, 2015, Colossus has the option to repurchase up to 50% of the agreement by making a $39.0 million payment to Sandstorm, upon receipt of which, the percentage of gold and platinum that Sandstorm is entitled to purchase shall decrease to 0.75% and 17.5%, respectively.

The Serra Pelada Mine is a high grade gold-platinum-palladium deposit located in the mineral and mining prolific Carajas region in Para State, northern Brazil. The existing infrastructure and accessibility to the site are excellent due to the close proximity of a number of major mines. During the 1980's, the Serra Pelada Mine hosted the largest ever gold rush in Latin America with up to 80,000 artisanal miners producing 2 million ounces of gold, plus platinum and palladium, from a hand-dug open pit. Colossus Minerals has been involved in the development of the Serra Pelada Mine since 2007 and is targeting initial production by the end of 2013. The Serra Pelada Mine is fully permitted and construction is underway. It is expected to be a high grade, low-cost polymetallic producer.

# BLACK FOX GOLD STREAM

*The Company has a Gold Stream to purchase 12% of the life of mine gold produced from Brigus Gold Corp.'s ("Brigus") open pit and underground Black Fox mine, located in Ontario, Canada (the "Black Fox Mine"), and 10% of the life of mine gold produced from Brigus' Black Fox Extension (the "Black Fox Extension"), which includes a portion of Brigus' Pike River concessions, for a per ounce payment equal to the lesser of $500 and the then prevailing market price of gold.*

*Brigus has the option until January 1, 2013 to repurchase 50% of the Brigus Gold Stream by making a $36.6 million payment to the Company, upon receipt of which, the percentage of gold the Company is entitled to purchase will decrease to 6% for the Black Fox Mine and 4.5% for the Black Fox extension.*

*The Black Fox Mine began operating as an open pit mine and in mid-2010, Brigus began development of an underground mine. Both open pit and underground operations are running concurrently, feeding the 2,000 tonne-per-day mill.*

### Current activities at the Black Fox Mine include:

- Gold production at the Black Fox Mine was 19,526 ounces of gold at an average grade of 3.34 grams per tonne in the third quarter of 2012.
- During the three months ended September 30, 2012, Brigus began the process of allocating more resources and work crews for the development of a large ore block on the western side of the underground mine. The ore zone extended deeper and was larger than indicated by historical drilling and therefore required more resources in the short term to meet development schedules. While development of this zone was progressing, mining in other areas was marginally reduced. To compensate for reduced tonnage from the underground mine in the short term, Brigus began processing lower grade stockpiled material from the open pit. Production of this zone is expected to commence during the fourth quarter of 2012.
- Brigus' Black Fox mill optimization program is progressing according to plan and is expected to be completed and in service by the end of 2012. Processing capacity and recovery is expected to increase through the optimization of existing equipment, equipment additions and reduction of production losses. The optimization is expected to increase mill processing capacity by 5-10%, up to 2,200 tonnes per day.
- During the three months ended September 30, 2012, Brigus commenced underground exploration at the Black Fox Mine. The program is intended to expand the gold deposit and extend the mine life.

# SANTA ELENA GOLD STREAM

*The Company has a Gold Stream to purchase 20% of the life of mine gold produced from SilverCrest Mines Inc.'s ("SilverCrest") open-pit Santa Elena mine, located in Mexico (the "Santa Elena Mine"), for a per ounce cash payment equal to the lesser of $350 and the then prevailing market price of gold.*

### *Current activities at the Santa Elena Mine include:*

- SilverCrest reported their Santa Elena Mine expansion is on schedule, targeting a 100% increase in metal production commencing in 2014. The construction of a 3,000 tonne-per-day counter current decantation processing plant is expected to begin in the fourth quarter of 2012 and long-lead-time equipment for the processing plant is currently being sourced.
- SilverCrest has driven a decline 470 metres underground with its main ramp and has budgeted for underground development to reach 1,500 metres by the end of 2012. As part of the Santa Elena Gold Stream, if SilverCrest decides to develop an underground mine, Sandstorm will have the right (but not the obligation) to purchase 20% of the payable gold from underground for an upfront payment that is equal to 20% of the upfront capital expenditures, relating to the gold production, incurred by SilverCrest plus ongoing per ounce payments of US$450.
- Surface drilling of the Santa Elena Mine zone is also underway to further delineate underground resources for conversion to reserves based on completion of the expansion plans pre-feasibility study which is anticipated by the end of 2012.

# BACHELOR LAKE GOLD STREAM

*The Company has a Gold Stream with Metanor Resources Inc. ("Metanor") to purchase 20% of the life of mine gold produced from Metanor's Bachelor Lake gold mine located in Quebec, Canada (the "Bachelor Lake Mine"), for a per ounce cash payment equal to the lesser of $500 and the then prevailing market price of gold. Metanor has provided a guarantee that Sandstorm will receive a minimum of $20.0 million in pre-tax cash flow over the next 4.5 years of the Bachelor Lake Gold Stream.*

*The Bachelor Lake Mine is a greenstone hosted gold mine located outside of Val d'Or in Quebec, Canada. In 2011, Metanor released the findings from a pre-feasibility study at Bachelor Lake showing underground production of 60,000 ounces of gold per year which will be mined using the low cost long-hole mining method and will utilize the existing and fully functional operating mill and surface infrastructure that is on the mine site.*

### Current activities at the Bachelor Lake Mine include:

- Metanor announced that it obtained an environmental certificate of approval for commercial production. This certificate allows Metanor to process an initial 900,000 tonnes of ore from the Bachelor underground mine site. The Government authorization is accompanied by certain conditions added to commitments provided for in the impact study of Metanor, particularly with respect to the management of water as well as the creation of an Advisory Committee involving the Cree community of Waswanipi and Jamesian municipalities.
- Metanor continues its underground drilling campaign at the Bachelor Lake Mine with the intent of increasing its resources.

# *MING GOLD STREAM*



*The Company has a Gold Stream to purchase approximately 25% of the first 175,000 ounces of gold produced and 12% of the life of mine gold produced thereafter, from Rambler Metals & Mining plc's ("Rambler") Ming Copper-Gold mine, located in Newfoundland, Canada (the "Ming Mine"). There are no ongoing per ounce payments required by Sandstorm in respect of the Ming Gold Stream. In the event that the metallurgical recoveries of gold at the Ming Mine are below 85%, the percentage of gold that Sandstorm shall be entitled to purchase shall be increased proportionally.*

### *Current activities at the Ming Mine include:*

- Rambler continues to process high grade ore from the 1807 zone with quality results. The measured and indicated resource of this zone is estimated at 432,000 tonnes grading 3.86% copper, 1.75 grams per tonne gold and 7.18 grams per tonne silver. Rambler has developed an exploration program to test the plunge extents of this zone, which will include undrilled areas not currently outlined in the resource/reserve estimate.
- Rambler released a favorable preliminary economic assessment that sees the potential for an expansion of the Ming Mine into the lower footwall zone following additional value optimization studies and a feasibility study.

# MT. HAMILTON ROYALTY

SOLITARIO EXPLORATION & ROYALTY CORP.

*The Company has a 2.4% net smelter returns royalty ("NSR") on the Mt. Hamilton gold project (the "Mt. Hamilton Project"). The Mt. Hamilton Project is located in White Pine County, Nevada, U.S.A. and is held by Mt. Hamilton LLC ("MH-LLC") which is 80% owned by Solitario Exploration & Royalty Corp. ("Solitario") and 20% owned by Ely Gold & Minerals Inc. For consideration, the Company made an initial upfront payment of $6.0 million during the nine months ended September 30, 2012 and will make a further upfront payment of $4.0 million on January 15, 2013.*

*Sandstorm has granted MH-LLC an option, exercisable prior to December 11, 2014, to repurchase the NSR for $12.0 million provided that MH-LLC enters into a Gold Stream with Sandstorm with an upfront deposit of no less than $30.0 million. In addition, MH-LLC has provided Sandstorm with a right of first refusal on any future royalty or gold stream financing for the Mt. Hamilton Project.*

***Current activities at the Mt. Hamilton Mine include:***

- In September 2012, Solitario announced a significant resource increase on the Mt. Hamilton Project. A new NI 43-101 compliant resource estimate was completed on the Seligman gold and silver deposit situated roughly 1,500 feet north of the Centennial deposit which contains previously reported reserves and resources. The study was prepared by SRK Consulting (U.S.) Inc. and serves to update the previously reported (February 22, 2012) Mt. Hamilton feasibility study.

# CORINGA AND CUIÚ CUIÚ ROYALTIES

MAGELLAN MINERALS LTD.

*The Company has a 2.5% NSR on the Coringa gold project (the "Coringa Project") and a 1.0% NSR on the Cuiú Cuiú gold project (the "Cuiú Cuiú Project") both of which are located in Para state, Brazil and owned by Magellan Minerals Ltd. ("Magellan"). The Coringa Project is a narrow, high grade vein system extending over an eighteen kilometre strike with exploration upside and the Cuiú Cuiú Project is located 180 kilometres southwest of Itaituba in northern Brazil where exploration work has identified a series of major gold soil anomalies. For consideration, Sandstorm made an upfront payment of $7.5 million to acquire the royalties in May 2012.*

*As part of the agreement, Magellan has provided Sandstorm with a right of first refusal on any future royalty or gold stream financing at the Coringa Project and Cuiú Cuiú Project.*

***Current activities include:***

- Magellan released a positive preliminary economic assessment on the Coringa Project in May 2010, which is in the process of being updated.

# BRACEMAC-MCLEOD GOLD STREAM

DONNER METALS LTD.

*The Company has a Gold Stream with Donner Metals Ltd. ("Donner") which it entered into via a back-to-back agreement with Sandstorm Metals & Energy to purchase 17.5% of the life of mine Gold Equivalent produced from the Bracemac-McLeod property located in Quebec, Canada, which is operated by Xstrata Canada Corporation (the "Bracemac-McLeod Mine"). Donner is the owner of a 35% joint venture interest in the Bracemac-McLeod Mine.*

*For consideration, the Company made an upfront payment of $5.0 million during the nine months ended September 30, 2012 and will continue to make ongoing per ounce payments equal to the lesser of $350 and the then prevailing market price of gold.*

*Donner has the option until July 13, 2013 to repurchase 50% of the Bracemac-McLeod Gold Stream by making a $3.5 million payment to the Company, upon receipt of which, the percentage of gold and silver the Company is entitled to purchase will decrease to 8.75%.*

*The Bracemac-McLeod Mine is a high grade volcanogenic massive sulphide deposit located in the historical and prolific mining district of Matagami, Quebec. Continuous mining and milling operations have been active in the Matagami district for almost fifty years with ten previously operating mines and one current producing mine. Xstrata Canada Corporation plans to utilize the existing Matagami mill to produce concentrates of zinc and copper. The Bracemac-McLeod Mine will be an underground mine, accessed via a ramp, and is expected to begin ore production in 2013.*

***Current activities at the Bracemac-McLeod Mine include:***

- The mine design has been revised at Bracemac-McLeod to allow production at a rate of 3,000 tonnes per day during the first two years of operation, compared to an average of 2,250 tonnes per day in the feasibility study. The addition of a ball mill will allow for the increased tonnage through the mill and will provide capacity for incremental tonnage identified in and around Bracemac-McLeod.
- Construction at the Bracemac-McLeod Mine has successfully transitioned from single-face development in the main access ramp to multi-face development. Mine pre-production activities are expected to be completed by the end of 2012 and the initial production is on schedule to begin in 2013.

# SUMMIT GOLD STREAM

SANTA FE GOLD CORP.

The Company has a Gold Stream to purchase 50% of the first 10,000 ounces of gold produced, and 22% of the life of mine gold produced thereafter from Santa Fe Gold Corp.'s ("Santa Fe") Summit mine, located in New Mexico, U.S.A. (the "Summit Mine"), for a per ounce cash payment equal to the lesser of $400 and the then prevailing market price of gold.

In April 2012, Santa Fe announced the beginning of commercial production at the Summit Mine. Initial development of the mine has been completed and mechanized mining of the ore body has begun.

The Company is currently in discussions with Santa Fe regarding the deferral of amounts due by Santa Fe to the Company.

### REVOLVING CREDIT FACILITY

On January 12, 2012, the Company announced that it has entered into a revolving credit agreement with The Bank of Nova Scotia, which will allow the Company to borrow up to $50 million (the "Revolving Loan"). The Revolving Loan has a term of three years, which is extendable by mutual consent of The Bank of Nova Scotia and the Company. The Revolving Loan will be used for the acquisition of Gold Streams. The amounts drawn on the Revolving Loan are subject to interest at LIBOR plus 3.00%–4.25% per annum, and the undrawn portion of the Revolving Loan is subject to a standby fee of 0.75%–1.05% per annum, dependent on the Company's leverage ratio. The credit agreement is more fully described in the notes to the condensed consolidated interim financial statements. As at September 30, 2012, the Company had not drawn down on its credit facility and therefore, the full $50.0 million remains available for future acquisitions.

# SUMMARY OF QUARTERLY RESULTS

### (in accordance with IFRS)

*Quarters Ended*

| In $000s | Sep. 30, 2012 | Jun. 30, 2012 | Mar. 31, 2012 | Dec. 31, 2011 |
|---|---|---|---|---|
| Gold ounces sold | 9,066 | 9,259 | 7,946 | 6,611 |
| Gold sales | $ 15,102 | $ 14,954 | $ 13,464 | $ 11,125 |
| Average realized gold price per ounce | 1,666 | 1,615 | 1,694 | 1,683 |
| Average cash cost per ounce [1] | 408 | 298 | 314 | 407 |
| Cash flow from operations | 10,598 | 11,258 | 9,264 | 7,843 |
| Cash flow from operations per share (basic) [1] | 0.14 | 0.16 | 0.14 | 0.12 |
| Cash flow from operations per share (diluted) [1] | 0.12 | 0.14 | 0.11 | 0.10 |
| Net income | 4,861 | 5,283 | 4,416 | 4,879 |
| Basic income per share | 0.06 | 0.07 | 0.06 | 0.08 |
| Diluted income per share | 0.05 | 0.06 | 0.05 | 0.06 |
| Total assets | 332,436 | 178,046 | 166,896 | 152,792 |
| Total long-term liabilities | - | 187 | - | - |

| In $000s | Sep. 30, 2011 | Jun. 30, 2011 | Mar. 31, 2011 | Dec. 31, 2010 |
|---|---|---|---|---|
| Gold ounces sold | 5,561 | 3,706 | 2,638 | 1,939 |
| Gold sales | $ 9,592 | $ 5,582 | $ 3,668 | $ 2,672 |
| Average realized gold price per ounce | 1,725 | 1,506 | 1,390 | 1,378 |
| Average cash cost per ounce [1] | 428 | 434 | 417 | 395 |
| Cash flow from operations | 8,558 | 2,645 | 1,616 | 1,731 |
| Cash flow from operations per share (basic) [1] | 0.13 | 0.04 | 0.03 | 0.03 |
| Cash flow from operations per share (diluted) [1] | 0.11 | 0.04 | 0.02 | 0.03 |
| Net income | 4,391 | 2,261 | 958 | 1,690 |
| Basic income per share | 0.07 | 0.04 | 0.02 | 0.03 |
| Diluted income per share | 0.06 | 0.03 | 0.01 | 0.03 |
| Total assets | 147,607 | 137,472 | 133,474 | 131,732 |
| Total long-term liabilities | - | - | - | - |

*1. See non-IFRS measures section below.*

The Company's operating segments for the three months ended September 30, 2012 are summarized in the table below:

| In $000s | Ounces sold | Sales | Cost of sales (excluding depletion) | Depletion | Net income (loss) | Cash flow from operations |
|---|---|---|---|---|---|---|
| Aurizona | 3,888 | $ 6,459 | $ 1,555 | $ 572 | $ 4,332 | $ 4,904 |
| Bachelor Lake | 512 | 867 | 256 | 268 | 343 | 643 |
| Black Fox | 2,671 | 4,401 | 1,336 | 1,864 | 1,201 | 3,261 |
| Bracemac-McLeod | - | - | - | - | - | - |
| Coringa and Cuiú Cuiú | - | - | - | - | - | - |
| Ming | 410 | 695 | - | 248 | 447 | 695 |
| Mt. Hamilton | - | - | - | - | - | - |
| Santa Elena | 1,585 | 2,680 | 554 | 656 | 1,470 | 2,126 |
| Serra Pelada | - | - | - | - | - | - |
| Summit | - | - | - | - | - | - |
| Corporate | - | - | - | - | (2,932) | (1,031) |
| **Consolidated** | **9,066** | **$ 15,102** | **$ 3,701** | **$ 3,608** | **$ 4,861** | **$ 10,598** |

The Company's operating segments for the three months ended June 30, 2012 are summarized in the table below:

| In $000s | Ounces sold | Sales | Cost of sales (excluding depletion) | Depletion | Net income (loss) | Cash flow from operations |
|---|---|---|---|---|---|---|
| Aurizona | 2,215 | $ 3,530 | $ 886 | $ 326 | $ 2,318 | $ 2,644 |
| Bachelor Lake | 76 | 122 | 38 | 39 | 45 | 52 |
| Black Fox | 2,001 | 3,238 | 1,001 | 1,397 | 840 | 2,131 |
| Bracemac-McLeod | - | - | - | - | - | - |
| Coringa and Cuiú Cuiú | - | - | - | - | - | - |
| Ming | 2,574 | 4,139 | - | 1,555 | 2,584 | 4,139 |
| Mt. Hamilton | - | - | - | - | - | - |
| Santa Elena | 2,393 | 3,925 | 837 | 991 | 2,097 | 3,317 |
| Summit | - | - | - | - | - | - |
| Corporate | - | - | - | - | (2,601) | (1,025) |
| **Consolidated** | **9,259** | **$ 14,954** | **$ 2,762** | **$ 4,308** | **$ 5,283** | **$ 11,258** |

The Company's operating segments for the three months ended March 31, 2012 are summarized in the table below:

| In $000s | Ounces sold | Sales | Cost of sales (excluding depletion) | Depletion | Net income (loss) | Cash flow from operations |
|---|---|---|---|---|---|---|
| Aurizona | 2,580 | $ 4,325 | $ 1,032 | $ 379 | $ 2,914 | $ 3,033 |
| Bachelor Lake | - | - | - | - | - | - |
| Black Fox | 1,808 | 3,055 | 904 | 1,262 | 889 | 2,060 |
| Bracemac-McLeod | - | - | - | - | - | - |
| Ming | 2,004 | 3,397 | - | 1,211 | 2,186 | 3,397 |
| Santa Elena | 1,301 | 2,280 | 455 | 539 | 1,286 | 1,595 |
| Summit | 253 | 407 | 102 | 286 | 19 | 306 |
| Corporate | - | - | - | - | (2,878) | (1,127) |
| **Consolidated** | **7,946** | **$ 13,464** | **$ 2,493** | **$ 3,677** | **$ 4,416** | **$ 9,264** |

### THREE MONTHS ENDED SEPTEMBER 30, 2012 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2012

For the three months ended September 30, 2012, net income and cash flow from operations were $4.9 million and $10.6 million, respectively, compared with $5.3 million and $11.3 million for the three months ended June 30, 2012. The decrease in net income and cash flow from operations is attributable to a combination of factors including:

- a loss of $1.4 million resulting from the settlement of a foreign exchange contract relating to the conversion of the Company's Canadian dollar-denominated public offering into US dollars;
- 2% decrease in the number of gold ounces sold, due to:
  - i. 84% decrease in gold deliveries attributed to the Ming Mine, primarily related to Rambler's commissioning of the copper concentrator and switch from the 1806 gold zone to the 1807 copper zone; partially offset by
  - ii. 75% increase in deliveries relating to the Aurizona Mine, reflecting the continued ramp up of operations; and
- 2% increase in the average realized selling price of gold.

### THREE MONTHS ENDED SEPTEMBER 30, 2012 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2012

For the three months ended September 30, 2012, net income and cash flow from operations were $4.9 million and $10.6 million, respectively, compared with $4.4 million and $9.3 million for the three months ended March 31, 2012. The increase in net income and cash flow from operations is attributable to a combination of factors including:

- 14% increase in the number of gold ounces sold, due to:
  - i. 51% increase in deliveries relating to the Aurizona Mine's continued ramp up of operations, reflecting a quarterly production record for Luna;
  - ii. 48% increase in deliveries relating to the Black Fox Mine (of which 391 ounces were sold that were previously held in inventory at the end of the second quarter of 2012), partially offset by
  - iii. 84% decrease in gold sales attributed to the Ming Mine, primarily related to Rambler's commissioning of the copper concentrator and switch from the 1806 gold zone to the 1807 copper zone; and
- 2% decrease in the average realized selling price of gold.

### THREE MONTHS ENDED SEPTEMBER 30, 2012 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2011

For the three months ended September 30, 2012, net income and cash flow from operations were $4.9 million and $10.6 million, respectively, compared with $4.9 million and $7.8 million for the three months ended December 31, 2011. The difference is largely attributable to a 37% increase in the number of gold ounces sold, due to:

- i. 63% increase in deliveries relating to the Aurizona Mine's continued ramp up of operations, reflecting a quarterly record for Luna;
- ii. 57% increase in gold deliveries from the Black Fox Mine reflecting the continued ramping up of operations;
- iii. An additional 410 ounces in gold deliveries from the Ming Mine, as Rambler began mining and processing ore from the mine in 2012; partially offset by
- iv. 37% decrease in gold ounces sold from the Santa Elena Mine as the three months ended December 31, 2011 included sales of 589 gold ounces which were previously held in inventory at the end of the third quarter of 2011.

### THREE MONTHS ENDED SEPTEMBER 30, 2012 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2011

For the three months ended September 30, 2012, net income and cash flow from operations were $4.9 million and $10.6 million, respectively, compared with $4.4 million and $8.6 million for the comparable period in 2011. The increase in net income and cash flow from operations is attributable to a combination of factors including:

- 63% increase in the number of gold ounces sold, due to:
  - i. 74% increase in gold deliveries relating to the Aurizona Mine reflecting the continued ramp up of operations;
  - ii. An additional 410 ounces in gold deliveries from the Ming Mine, as Rambler began mining and processing ore from the mine in 2012;
  - iii. 69% increase in gold deliveries from the Santa Elena Mine reflecting the continued ramp up of operations;
  - iv. 31% increase in gold deliveries from the Black Fox Mine; partially offset by
- a loss of $1.4 million resulting from the settlement of a foreign exchange contract relating to the conversion of the Company's Canadian dollar-denominated public offering into US dollars; and
- $0.4 million increase in administration expenses (excluding stock based compensation) primarily driven by the Company's growth in operations and listing on the NYSE MKT.

### THREE MONTHS ENDED SEPTEMBER 30, 2012 COMPARED TO THE REMAINING QUARTERS

For the three months ended June 30, 2011, the Company earned $2.3 million of net income, primarily resulting from $2.8 million in gross profit driven by the sale of 3,706 ounces of gold; and income recognized from the deferment the Santa Fe's production guarantee deadline from June 2011 to June 2012, partially offset by administration expenses of $0.9 million. For the three months ended March 31, 2011, the Company earned $1.0 million of net income, primarily resulting from $2.0 million in gross profit driven by the sale of 2,638 ounces of gold; partially offset by (i) administration expenses of $0.5 million; and (ii) a non-cash share-based payment of $0.5 million. During the three months ended December 31, 2010, the Company earned $1.7 million of net income, primarily resulting from (i) $1.6 million in gross profit driven by the sale of 1,939 ounces of gold; and (ii) a foreign exchange gain of $1.4 million from the appreciation of the Company's Canadian dollar denominated currency. These gains were partially offset by (i) administration expenses of $0.6 million; and (ii) a non-cash share-based payment of $0.2 million. Ounces of gold sold during the three months ended September 30, 2012 were higher than the three months ended June 30, 2011, March 31, 2011 and December 31, 2010 as (i) the Aurizona Mine, Santa Elena Mine, and Summit Mine began initial production late in 2010; (ii) the Company began purchasing gold from the Black Fox Mine in 2011; and (iii) the Ming Mine began mining and processing ore from the high grade gold 1806 zone in 2012.

### NINE MONTHS ENDED SEPTEMBER 30, 2012 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2011

For the nine months ended September 30, 2012, net income and cash flow from operations were $14.6 million and $31.1 million, respectively, compared with $7.6 million and $12.8 million for the comparable period in 2011. The increase in net income and cash flow from operations is attributable to a combination of factors including:

- 121% increase in the number of gold ounces sold, due to:
  - i. An additional 4,988 ounces in gold deliveries from the Ming Mine, as Rambler began mining and processing ore from the mine during 2012;
  - ii. increases in gold deliveries from the Aurizona Mine, Santa Elena Mine, and Black Fox Mine reflecting their continued ramp up of operations; and
- 5% increase in the average realized selling price of gold;
- 26% decrease in average cash cost per ounce, primarily related to the increased proportion of gold purchases from the Ming Mine whereby the Company's per ounce cash payment is $nil; partially offset by
- a loss of $1.4 million resulting from the settlement of a foreign exchange contract relating to the conversion of the Company's Canadian dollar-denominated public offering into US dollars;
- a non-recurring gain of $1.1 million recorded during the nine months ended September 30, 2011 relating to the consideration received from the deferment of the Santa Fe production guarantee; and
- $0.5 million increase in project evaluation costs driven by the Company's examination of potential Gold Streams.

## *Change In Total Assets*

The Company's total assets increased by $154.4 million from June 30, 2012 to September 30, 2012 primarily resulting from the Company's September 7, 2012 equity financing. Total assets increased by $11.2 million from March 31, 2012 to June 30, 2012; and by $14.1 million from December 31, 2011 to March 31, 2012, primarily resulting from (i) operating cash flows; and (ii) the exercise of warrants; which were partially offset by depletion expense. The Company's total assets increased by $10.1 million from June 30, 2011 to September 30, 2011; by $4.0 million from March 31, 2011 to June 30, 2011; and by $1.7 million from December 31, 2010 to March 31, 2011, all of which were driven primarily from operating cash flows.

## *Non-IFRS Measures*

The Company has included, throughout this document, certain non-IFRS performance measures, including (i) average cash cost per ounce; and (ii) cash flow from operations per share (basic and diluted).

i. Average cash cost per ounce is calculated by dividing the Company's cost of sales (excluding depletion) by the number of ounces sold. The Company presents average cash cost per ounce as it believes that certain investors use this information to evaluate the Company's performance in comparison to other companies in the precious metals mining industry who present results on a similar basis.

ii. Cash flow from operations per share (basic and diluted) is calculated by dividing cash generated by operating activities by the weighted average number of shares outstanding (basic and diluted). The Company presents operating cash flow per share as it believes that certain investors use this information to evaluate the Company's performance in comparison to other companies in the precious metals mining industry that present results on a similar basis.

These non-IFRS measures do not have any standardized meaning prescribed by IFRS, and other companies may calculate these measures differently. The presentation of these non-IFRS measures is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

## *Liquidity and Capital Resources*

As of September 30, 2012 the Company had cash of $104.1 million (December 31, 2011 – $13.1 million) and working capital of $118.4 million (December 31, 2011 – $12.3 million). The Company invests surplus cash in short-term, high credit quality, money market instruments. As described earlier, the Company has an additional $50 million available under its revolving bank debt facility. In the opinion of management, cash flows, cash balances and available credit facilities are sufficient to support the Company's normal operating requirements on an ongoing basis.

During the three months ended September 30, 2012, the Company generated operating cash flows of $10.6 million compared with $8.6 million during the comparable period of 2011, with the increase being primarily attributable to both an increase in gold ounces sold and an increase in the realized selling price of gold.

During the three months ended September 30, 2012, the Company had cash inflows from financing activities of $147.1 million compared with $5.2 million during the comparable period in 2011. The increase is largely attributed to the Company's September 7, 2012 equity financing for gross proceeds of C$150.1 million ($153.5 million), partially offset by share issuance costs of $8.1 million.

During the three months ended September 30, 2012, the Company had net cash outflows relating to investing activities of $77.2 million, which were primarily the result of (i) the upfront payment of $60.0 million related to the Serra Pelada gold and platinum stream; (ii) $15.0 million payment in connection with the back-back agreement with Sandstorm Metals & Energy (described earlier); and (iii) $4.8 million relating to the acquisition of investments. These cash outflows were partially offset by cash inflows of $2.7 million resulting from the disposal of investments. During the three months ended September 30, 2011, the Company had net cash outflows of $8.9 million, primarily related to the upfront payment of $6.0 million to Metanor in connection with the Bachelor Lake Gold Stream and $2.9 million relating to the acquisition of investments.

### *Contractual Obligations*

The Company agreed to contribute up to $10.0 million in capital towards the Phase 1 Expansion at Luna's Aurizona Mine. Sandstorm's contribution will be equal to 17% of the capital costs incurred by Luna towards the Phase 1 Expansion to a maximum contribution of $10.0 million. In addition, Sandstorm has committed to issue, if requested by Luna, a $20.0 million non-revolving loan facility with a three year term, which may only be used to fund the Phase 1 Expansion and associated exploration costs. Under the agreement, the loan will bear interest at a rate per annum of 12%, and have a three year term. Undrawn amounts will be subject to a standby fee of 1.2%.

The Company has a commitment to Sandstorm Metals & Energy to share a reasonable allocation, agreed to by both companies, of costs paid by Sandstorm Metals & Energy that are incurred for the benefit of Sandstorm. Sandstorm Metals & Energy is contractually obligated to make annual rental payments ranging from $0.2 million to $0.4 million during 2011-2016 and Sandstorm will reimburse Sandstorm Metals & Energy for a reasonable allocation of these rental costs.

In connection with its Gold Streams, the Company has committed to purchase the following:

| Gold Stream | % of Life of Mine Gold | Per Ounce Sash Payment: Lesser of Amount Below and the Then Prevailing Market Price of Gold | Inflationary Adjustment to Per Ounce Cash Payment |
|---|---|---|---|
| Aurizona | 17% | $400 | 1% annual inflationary adjustment beginning on February 9, 2014 |
| Bachelor Lake | 20% | $500 | None |
| Black Fox | 12% | $500 | An inflationary adjustment beginning in 2013, not to exceed 2% per annum |
| Bracemac-McLeod | 17.5% | $350 | None |
| Ming | 25% of the first 175,000 ounces of gold produced, and 12% thereafter | $nil | N/A |
| Santa Elena | 20% | $350 | 1% annual inflationary adjustment beginning July 13, 2014 |
| Serra Pelada (Gold) | 1.5% | $400 | 1% annual inflationary adjustment beginning on September 19, 2015 |
| Serra Pelada (Platinum) | 35% | $200 | 1% annual inflationary adjustment beginning on September 19, 2015 |
| Summit | 50% of the first 10,000 ounces of gold produced, and 22% thereafter | $400 | 1% annual inflationary adjustment beginning 3 years after the mine achieves commercial production |

## *Share Capital*

On September 7, 2012 the Company completed a public offering of 15,007,500 units at a price of C$10.00 per unit, for gross proceeds of C$150.1 million ($153.5 million). Each unit was comprised of one common share of the Company and one-third of one warrant. In connection with the offering, the Company paid agent fees of C$7.5 million ($7.7 million), representing 5% of the gross proceeds. The amount attributable to common shares was $145.6 million, with the remainder allocated to the warrants.

On May 9, 2012, the Company completed a five-for-one consolidation (the "Consolidation") of the Company's common shares. The 349,658,858 common shares issued and outstanding prior to the Consolidation were consolidated to approximately 69,931,771 common shares. The Company's outstanding stock options were adjusted on the same basis with proportionate adjustments being made to the stock option exercise prices.

The Company's listed warrants were not consolidated. Following the Consolidation, each five (5) listed warrants of SSL.WT (expiring on April 23, 2014) will entitle the holder to purchase one post-Consolidation common share at the adjusted total exercise price of $3.00. Each five (5) listed warrants of SSL.WT.A (expiring on October 19, 2015) will entitle the holder to purchase one post-Consolidation common share at the adjusted total exercise price of $5.00.

All comparative period information has been adjusted to reflect this Consolidation.

As of October 24, 2012 the Company had 85,728,871 common shares outstanding

A summary of the Company's outstanding share purchase options as of October 24, 2012, are as follows:

| Outstanding | Vested | Exercise Price (C$) | Expiry Date |
|---|---|---|---|
| 605,000 | 605,000 | $2.25 | June 16, 2014 |
| 140,000 | 140,000 | $2.20 | July 6, 2014 |
| 200,000 | 200,000 | $2.175 | July 28, 2014 |
| 20,000 | 20,000 | $3.35 | May 19, 2015 |
| 1,362,000 | 1,362,000 | $3.40 | November 26, 2015 |
| 91,000 | 30,335 | $6.30 | August 25, 2016 |
| 1,147,000 | - | $6.35 | November 25, 2016 |
| **3,565,000** | **2,357,335** | | |

All remaining compensation warrants (the "Compensation Warrants") issued by the Company to agents in 2009, were exercised during the nine months ended September 30, 2012. Each Compensation Warrant entitled the holder to acquire one unit comprised of one common share of the Company and one-half of a share purchase warrant. Each Compensation Warrant had an exercise price of $0.33. Each five (5) whole share purchase warrants issued upon exercise of the Compensation Warrants entitles the holder to purchase one common share at an adjusted total exercise price of $3.00 until April 23, 2014.

A summary of the Company's outstanding share purchase warrants as of October 24, 2012 are as follows:

| | Number of Warrants on a Pre-consolidated Basis | Pre-Consolidated Exercise Price Per Warrant | Number of Warrants on a Post-Consolidated Basis | Post-Consolidated Exercise Price Per Warrant | Shares to be Issued Upon Exercise of the Warrants | Adjusted Exercise Price Per Share | Expiry Date |
|---|---|---|---|---|---|---|---|
| SSL.WT | 75,962,672 | $0.60 | - | - | 15,192,534 | $3.00 | April 23, 2014 |
| SSL.WT.A | 19,686,688 | $1.00 | - | - | 3,937,538 | $5.00 | October 19, 2015 |
| SSL.WT.A | - | - | 5,002,500 | $14.00 | 5,002,500 | 14.00 | September 7, 2017 |
| | **95,649,360** | | **5,002,500** | | **24,132,572** | | |

## *Financial Instruments*

*The Company's financial instruments consist of cash, trade and other receivables, promissory note, investments, loan receivable, trade and other payables and mineral interest payable. All financial instruments are initially recorded at fair value.*

CREDIT RISK > The Company's credit risk is limited to trade and other receivables, promissory note and loan receivable in the ordinary course of business. The Company sells gold exclusively to large corporations with strong credit ratings and the balance of trade and other receivables owed to the Company in the ordinary course of business is not significant.

CURRENCY RISK > The Company is exposed to the fluctuations of the Canadian to U.S. dollar from time to time, as it holds investments denominated in the Canadian dollar. As at September 30, 2012 and December 31, 2011, the Company held an insignificant portion of its financial instruments in Canadian dollars and was not exposed to significant currency risk.

OTHER RISKS > Sandstorm holds common shares, convertible debentures, and warrants of other companies with a combined market value as at September 30, 2012 of $5.5 million (December 31, 2011 - $8.4 million). The daily exchange traded volume of these shares, including the shares underlying the warrants, may not be sufficient for the Company to liquidate its position in a short period of time without potentially affecting the market value of the shares. The Company is not subject to significant interest rate or other price risks and the Company's exposure to these risks has not changed significantly from the prior year.

## *Risks to Sandstorm*

*The primary risk factors affecting the Company are set forth below. For additional discussion of risk factors, please refer to the Company's annual information form dated March 13, 2012, which is available on* ***www.sedar.com.***

RISKS RELATING TO MINERAL PROJECTS > To the extent that they relate to the production of gold from, or the operation of, the Aurizona Mine, the Serra Pelada Mine, the Santa Elena Mine, the Summit Mine, the Ming Mine, the Black Fox Mine, the Bachelor Lake Mine, Mt. Hamilton Project, the Coringa Project, the Cuiú Cuiú Project and the Bracemac-McLeod Mine (the "Mines"), the Company will be subject to the risk factors applicable to the operators of such Mines. Whether the Mines will be commercially viable depends on a number of factors, including cash costs associated with extraction and processing, the particular attributes of the deposit, such as size, grade and proximity to infrastructure, as well as metal prices which are highly cyclical and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Mines becoming uneconomic resulting in their shutdown and closure.

NO CONTROL OVER MINING OPERATIONS > The Company has no contractual rights relating to the operation or development of the Mines. Except for any payments which may be payable in accordance with applicable completion guarantees or cash flow guarantees, the Company will not be entitled to any material compensation if these mining operations do not meet their forecasted gold production targets in any specified period or if the Mines shut down or discontinue their operations on a temporary or permanent basis. The Mines may not commence commercial production within the time frames anticipated, if at all, and there can be no assurance that the gold production from such properties will ultimately meet forecasts or targets. At any time, any of the operators of the Mines or their successors may decide to suspend or discontinue operations. The Company is subject to the risk that the Mines shut down on a temporary or permanent basis due to issues including, but not limited to economics, lack of financial capital, floods, fire, mechanical malfunctions, social unrest, expropriation and other risks. These issues are common in the mining industry and can occur frequently.

**GOVERNMENT REGULATIONS >** The Mines are subject to various foreign laws and regulations governing prospecting, exploration, development, production, exports, taxes, labour standards, waste disposal, protection and remediation of the environment, reclamation, historic and cultural resources preservation, mine safety and occupation health, handling, storage and transportation of hazardous substances and other matters. The costs of discovering, evaluating, planning, designing, developing, constructing, operating and closing the Mines in compliance with such laws and regulations are significant. It is possible that the costs and delays associated with compliance of such laws and regulations could become such that the owners or operators of the Mines would not proceed with the development of or continue to operate the Mines. Moreover, it is possible that future regulatory developments, such as increasingly strict environmental protection laws, regulations and enforcement policies thereunder, and claims for damages to property and persons resulting from the Mines could result in substantial costs and liabilities in the future.

**INTERNATIONAL OPERATIONS >** The Aurizona Mine, the Serra Pelada Mine, the Coringa Project and the Cuiú Cuiú Project are located in Brazil, the Santa Elena Mine is located in Mexico, the Summit Mine and the Mt. Hamilton Project are located in the United States of America, and each of the Ming Mine, the Black Fox Mine, Bachelor Lake Mine, and the Bracemac-McLeod Mine is located in Canada and as such, the Mines are exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties include, but are not limited to, terrorism, hostage taking, military repression, crime, political instability, currency controls, extreme fluctuations in currency exchange rates, high rates of inflation, labour unrest, the risks of war or civil unrest, expropriation and nationalization, renegotiation or nullification of existing concessions, licenses, permits, approvals and contracts, illegal mining, changes in taxation policies, restrictions on foreign exchange and repatriation, and changing political conditions, and governmental regulations. Changes, if any, in mining or investment policies or shifts in political attitude in Mexico, Brazil, the United States of America or Canada may adversely affect the operations or profitability of the Mines in these countries. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use, mine safety and the rewarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. Failure to comply strictly with applicable laws, regulations and local practices relating to mineral right applications and tenure, could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests. The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Mines.

**INCOME TAXES >** The Company has a subsidiary in Barbados, Sandstorm Gold (Barbados) Limited, which entered into Gold Streams in connection with the Aurizona, Santa Elena, and Summit transactions. No assurance can be given that new taxation rules will not be enacted or that existing rules will not be applied in a manner which could result in the Company's future profits being subject to increased level of income tax. The Company's international transactions have not yet been reviewed by the Canada Revenue Agency, and should such transactions be reviewed no assurances can be given that the tax matters will be resolved favorably. The Company's other Gold Streams and royalties in connection with Serra Pelada, Black Fox, Ming, Bachelor Lake, Mt. Hamilton, Coringa, Cuiú Cuiú and Bracemac-Mcleod transactions have been entered into directly by Canadian based subsidiaries and will therefore, be subject to Canadian, and/or U.S taxation, as the case may be.

**GOLD PRICES >** The price of the common shares, warrants, and the Company's financial results may be significantly adversely affected by a decline in the price of gold. The price of gold fluctuates widely, especially in recent years, and is affected by numerous factors beyond the Company's control, including but not limited to, the sale or purchase of gold by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuation in the value of the U.S. dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of major gold-producing countries throughout the world. In the event that the prevailing market price of gold is less than $500 per ounce in the case of the Brigus Gold Stream, $500 per ounce in the case of the Bachelor Lake Gold Stream, $400 per ounce in the case of the Aurizona Gold Stream, $400 per ounce in the case of the Serra Pelada Gold Stream, $400 per ounce in the case of the Summit Gold Stream, $350 per ounce in the case of the Santa Elena Gold Stream, and $350 per ounce in the case of the Bracemac-McLeod Gold Stream, the purchase price will be the then prevailing market price per ounce of gold and the Company will not generate positive cash flow or earnings on those Gold Streams.

**PLATINUM PRICES >** The price of the common shares and the Company's financial results may be significantly adversely affected by a decline in the price of platinum. The price of platinum fluctuates widely, and is affected by numerous factors beyond the Company's control such as international, economic and political trends, expectations for inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and worldwide production levels. The effect of these factors cannot be accurately predicted. The price of platinum has fluctuated widely in recent years.

### *Changes in Accounting Policies*

FUTURE CHANGES IN ACCOUNTING POLICIES > The IASB issued a number of new and revised accounting standards which are effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. These standards include the following:

- IFRS 10, Consolidated Financial Statements;
- IFRS 11, Joint Arrangements;
- IFRS 12, Disclosure of Interests in Other Entities;
- IFRS 13, Fair Value Measurement;
- Amended IAS 27, Separate Financial Statements; and
- Amended IAS 28, Investments in Associates and Joint Ventures.

In June 2011, the IASB also issued amended IAS 1, Presentation of Financial Statements, which is effective for annual periods beginning on or after July 1, 2012.

These new and revised accounting standards have not yet been adopted by Sandstorm, and the Company has not yet completed the process of assessing the impact that they will have on its financial statements, or whether to early adopt any of the new requirements.

## RESERVES AND RESOURCES

The Reserves and Resources in this MD&A reflect the reserves and resources for the mines at which the Company has Gold Streams, adjusted where applicable to reflect the Company's percentage entitlement to gold produced from the mines.

### *MINERAL INTERESTS*

Proven and Probable Reserves Attributable to Sandstorm [1]

| | PROVEN | | | PROBABLE | | | PROVEN & PROBABLE | | |
|---|---|---|---|---|---|---|---|---|---|
| | Tonnes kt | Grade Au g/t | Contained oz | Tonnes kt | Grade Au g/t | Contained oz | Tonnes kt | Grade Au g/t | Contained oz |
| **Santa Elena** Open Pit [11–15] | - | - | - | 692 | 1.96 | 43,560 | 692 | 1.96 | 43,560 |
| **Ming** [18–21] | 209 | 3.24 | 21,636 | 183 | 2.61 | 15,340 | 392 | 2.40 | 36,976 |
| **Black Fox** | | | | | | | | | |
| Stockpile & Open Pit [30–38] | 42 | 1.60 | 2,214 | 379 | 3.20 | 39,350 | 421 | 3.04 | 41,564 |
| Underground [30–38] | - | - | - | 352 | 5.90 | 67,201 | 352 | 5.90 | 67,201 |
| **Bachelor Lake** [40–42] | 39 | 8.33 | 10,349 | 130 | 7.10 | 29,687 | 168 | 7.38 | 40,036 |
| **Summit** [44–46] | - | - | - | 171 | 4.8 | 24,405 | 171 | 4.8 | 24,405 |
| **Bracemac-McLeod** [48–50, 54–55] | 488 | 0.39 | 6,120 | 164 | 0.54 | 2,853 | 652 | 0.43 | 8,973 |
| **Total** | | | **40,319** | | | **222,396** | | | **262,715** |

*Note: Luna has not updated its mineral reserves estimate for the Aurizona Gold Operation based on the new mineral resources discussed below. For greater clarity, Luna's mineral reserves estimate effective as of July 13, 2010 previously disclosed by the Company is based on an earlier mineral resource estimate which did not include the additional drilling data.*

Measured and Indicated Resources Attributable to Sandstorm [1,2]

| | MEASURED | | | INDICATED | | | MEASURED & INDICATED | | |
|---|---|---|---|---|---|---|---|---|---|
| | Tonnes kt | Grade Au g/t | Contained oz | Tonnes kt | Grade Au g/t | Contained oz | Tonnes kt | Grade Au g/t | Contained oz |
| **Aurizona** [3–10] | 1,833 | 1.13 | 66,470 | 11,429 | 1.28 | 471,750 | 13,262 | 1.26 | 538,220 |
| **Santa Elena** [11–14, 16] Underground | - | - | - | 198 | 1.83 | 11,666 | 198 | 1.83 | 11,666 |
| **Ming** [17, 21–28] | 411 | 2.47 | 32,664 | 3,004 | 0.35 | 34,262 | 3,415 | 0.61 | 66,926 |
| **Black Fox** | | | | | | | | | |
| Open Pit [29–38] | - | - | - | 380 | 4.40 | 54,264 | 380 | 4.40 | 54,264 |
| Underground [29–38] | - | - | - | 301 | 7.20 | 69,502 | 301 | 7.20 | 69,502 |
| **Bachelor Lake** [39, 40, 43] | 39 | 8.80 | 10,901 | 130 | 7.49 | 31,270 | 169 | 7.79 | 42,171 |
| **Bracemac-McLeod** [47–49, 51–53, 55] | 455 | 0.45 | 6,580 | 180 | 0.48 | 3,248 | 635 | 0.48 | 9,828 |
| **Total** | | | **116,615** | | | **675,962** | | | **792,577** |

Inferred Resources Attributable to Sandstorm [1,2]

| | Tonnes kt | Grade Au g/t | Contained oz |
|---|---|---|---|
| **Aurizona** [3–10] | 2,589 | 1.47 | 122,400 |
| **Santa Elena** Underground [11–14, 16] | 376 | 1.53 | 18,494 |
| **Ming** [17, 21–28] | 591 | 1.83 | 34,695 |
| **Black Fox** | | | |
| Open Pit [29–38] | 80 | 2.60 | 6,717 |
| Underground [29–38] | 14 | 5.80 | 2,585 |
| **Bachelor Lake** [39, 40, 43] | 85 | 6.52 | 17,873 |
| **Summit** [44–46] | 16 | 4.80 | 2,261 |
| **Bracemac-McLeod** [47–49, 51–53, 55] | 460 | 1.06 | 15,673 |
| **Total** | | | **220,698** |

## *ROYALTIES*

Proven and Probable Resources Attributable to Sandstorm [1,2]

| | PROVEN | | | PROBABLE | | | PROVEN & PROBABLE | | |
|---|---|---|---|---|---|---|---|---|---|
| | Tonnes kt | Grade Au g/t | Contained oz | Tonnes kt | Grade Au g/t | Contained oz | Tonnes kt | Grade Au g/t | Contained oz |
| Mt. Hamilton [56-61] | 22 | 1.1 | 703 | 518 | .72 | 10,987 | 540 | 0.75 | 11,690 |
| **Total** | | | **703** | | | **10,987** | | | **11,690** |

Measured and Indicated Resources Attributable to Sandstorm [1,2]

| | MEASURED | | | INDICATED | | | MEASURED & INDICATED | | |
|---|---|---|---|---|---|---|---|---|---|
| | Tonnes kt | Grade Au g/t | Contained oz | Tonnes kt | Grade Au g/t | Contained oz | Tonnes kt | Grade Au g/t | Contained oz |
| Mt. Hamilton [56-60] | 22 | 1.10 | 709 | 712 | 0.76 | 17,398 | 734 | 0.76 | 18,107 |
| Cuiú Cuiú [61–62] | - | - | - | 34 | 1.0 | 1,000 | 34 | 1.0 | 1,000 |
| Coringa [63-6] | 29 | 6.81 | 6,300 | 51 | 4.75 | 7,725 | 80 | 5.50 | 14,025 |
| **Total** | | | **7,009** | | | **20,661** | | | **27,670** |

Inferred Resources Attributable to Sandstorm [1,2]

| | Tonnes kt | Grade Au g/t | Contained oz |
|---|---|---|---|
| Mt. Hamilton [56-61] | 173 | 0.66 | 3,680 |
| Cuiú Cuiú [61–62] | 310 | 1.20 | 12,000 |
| Coringa [63–64] | 138 | 3.00 | 13,350 |
| **Total** | | | **29,030** |

# *NOTES:*

1. All Mineral Reserves and Mineral Resources have been calculated in accordance with the standards of the Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") and NI 43-101.
2. Mineral Resources which are not Mineral Reserves do not demonstrate economic viability.

### AURIZONA MINE

3. Aurizona Mineral Reserves are fully included in the Mineral Resources.
4. Piaba pit constrained resources are reported at a cut-off grade of 0.30 g/t Au inside a pit optimization shell based on a gold price of $1,500 per ounce.
5. Piaba underground resources are reported at a cut-off grade of 0.75 g/t Au outside the pit optimization shell. The cut-off grade has been calculated at a gold price of $1,500 per ounce.
6. Tatajuba database consists of 4,740 meters in 45 diamond drill holes (2008). The Tatajuba resources are not constrained by a pit optimization shell and are reported at a cutoff grade of 0.30 g/t Au.
7. 25g/t Au capping at Piaba and 10 g/t Au capping at Tatajuba. Block dimensions are 10m x 10m in the xy plane and 3m on the z axis. Piaba database consists of 69,578 meters consisting of 335 diamond drill holes and 142 reverse circulation holes and 374 auger drill holes.
8. All Mineral Resources have been estimated in accordance with the CIM Standards and NI 43-101.
9. Mineral resources that are not mineral reserves do not have a demonstrated economic viability.
10. The Mineral Resource estimates set out in the above table have been reviewed and verified by Leah Mach, C.P.G., M.Sc., Principal Resource Geologist of SRK Consulting (US) ("SRK"), who is a qualified person under NI 43-101.

### SANTA ELENA MINE

11. Santa Elena Mineral Resources are exclusive of Mineral Reserves.
12. All Mineral Reserves and Resources have been estimated in accordance with NI 43-101.
13. The Mineral Reserve estimates set out in the table above have been reviewed and verified by Nathan Eric Fier, C.P.G., P.Eng., Chief Operating Officer of SilverCrest, who is a qualified person under NI 43-101.

14. Mineral Reserves and Resources are reported as of January 2012.
15. Based on $1,000 per ounce of gold and $18 per ounce of silver, cut-off grade of 0.38 grams per tonne gold equivalent with applied metallurgical recoveries. Ag:Au is 55:1. Estimated 1,336,000 ore tonnes were mined at Santa Elena in 2010 and 2011 grading 1.41 grams per tonne gold and 46.51 grams per tonne silver and subtracted from Probable Reserves. All numbers are rounded. Excludes potential metal inventory for leach pad re- treatment during Expansion.
16. Based on $1,000 per ounce of gold and $18 per ounce of silver, cut-off grade is 1.77 grams per tonne gold equivalent with applied metallurgical recoveries. Ag:Au is 55:1.

## MING MINE

17. Ming Mineral Reserves are fully included in the Mineral Resources.
18. Mineral Reserves are reported as of August 9, 2010.
19. The mineral reserves have been reviewed and verified by Larry Pilgrim, P.Geo., Chief Geologist of Rambler, who is a qualified person under NI 43-101.
20. Cut-off grade of 1.25 grams per tonne gold.
21. Numbers have been rounded.
22. Mineral Resources are reported as of August 9, 2010.
23. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability.
24. The mineral resource estimates have been reviewed and verified by Larry Pilgrim, P.Geo., Chief Geologist of Rambler, who is a qualified person under NI 43-101.
25. An underground cut-off was set at $70 per tonne for all longhole mining methods.
26. Cut-off reserves are based on 15% dilution, 90% mining recovery, copper recovery of 92.4%, and gold recovery of 66.4%.
27. Cut-off grades of 1.0% copper for the massive sulphides, 1.25 grams per tonne of gold for the 1806 zone, and 1.25% copper for the stringer sulphides.
28. Mineral resources are estimated using long-term prices of $1,000 per ounce of gold.

## BLACK FOX MINE

29. Black Fox Mineral Reserves are fully included in the Mineral Resources.
30. Black Fox Reserves and Resources are reported as of October 31, 2010.
31. The mineral reserves and resources have been reviewed and verified by Howard Bird, Vice President, Exploration of Brigus, who is a qualified person under NI 43-101.
32. Cut-off grade for the open-pit reserves and resources is 0.88 grams per tonne gold.
33. Cut-off grade for the underground reserves and resources is 2.54 grams per tonne gold.
34. Metal prices used for initial cut-off calculations are $1,150 per ounce for 88% of the gold sold and $500 per ounce of gold sold through the Black Fox Gold Stream.
35. The estimated underground reserves include 10% unplanned dilution at 0 grams per tonne from the backfill and 15% planned dilution at one gram per tonne from the walls for a total dilution of 25%. The estimated open pit reserves include 30% dilution at 0 grams per tonne and a 95% mining recovery factor for both. The higher average gold grades for the open pit and underground in the Indicated Resources compared to the Probable Reserves are the result of no dilution being applied to Indicated Resources.
36. The mineral resources were estimated using the ordinary kriging method.
37. The mineral reserves were estimated from the life of mine plan, which defined sustaining capital requirements and mine operating costs, to demonstrate that these reserves can be economically extracted and processed. Mining losses and dilution were determined based on sub-surface geotechnical conditions, the mining method and equipment capabilities for each area of the mine.
38. Contained metal in estimated reserves remains subject to metallurgical recovery losses.

## BACHELOR LAKE MINE

39. Bachelor Lake mineral reserves are fully included in the Mineral Resources.
40. The mineral reserve and resource estimates for the Bachelor Lake Mine set out in the table above have been reviewed and verified by Pascal Hamelin, Vice President of Metanor, who is a qualified persons under NI 43-101. The Mineral Reserves are classified as proven and probable, and are based on the CIM Standards.
41. The underground mineral reserves have been calculated using a cut-off grade of 3.43 grams per ton, recovery of 90%, and dilution of 10% in the stoping areas.
42. Proven and Probable Mineral Reserves are a subset of Measured and Indicated Mineral Resources.
43. Mineral Resources are not known with the same degree of certainty as Mineral Reserves and do not have demonstrated economic viability.

## SUMMIT MINE

44. Summit Mineral Reserves and Resources are reported as of December 2010.
45. The mineral reserves and resources have been reviewed and verified by Douglas F. Irving, P.Eng, who is a qualified person under NI 43-101.
46. The mineral reserves and resources are inplace, diluted material. The individual intercept grades have been cut to a maximum of 0.45 ounce Au and 45 ounce Ag per ton.

## BRACEMAC-MCLEOD MINE

47. Bracemac-McLeod Mineral Reserves are fully included in the Mineral Resources.
48. Bracemac-McLeod Reserves and Resources are reported as of September 2010.
49. The mineral reserves and resources have been approved by Robin Adair, Vice President Exploration for Donner, who is a qualified person under NI 43-101.
50. After applying dilution, losses and a 95% mining recovery, the tonnage of each stope was integrated into the mineral reserves provided its net smelter return value was greater than or equal to $65 per tonne, which represents the average preliminary operating cost estimated for the Bracemac-McLeod Property (comprised of mining, ore processing and general and administration costs). This process did not modify the resource block model envelopes.
51. Bracemac-Mineral Resources are estimated under the definition of the Australian Code for Mineral Resources and Ore Reserves Reporting of Exploration Results, using a net smelter return ("NSR") cut-off value of $43.77.
52. Metal prices used in the calculation of the NSR are: $0.80 per pound of zinc, $2.50 per pound of copper, $12.00 per ounce of silver and $1,000 per ounce of gold, using an exchange rate of C$1.00 = US$1.04.
53. Except for the inferred mineral resource category, the resource calculation used the inverse distance squared method for all zones, using the Gemcom software. The results were then transferred into the Surpac software to initiate engineering design and scheduling. Inferred mineral resources in the McLeod Deep zone were estimated using a 3D polygonal method, with the Gemcom software.
54. Gold is recovered as a by-product of the copper concentrates and as such, recovery is estimated at 29%.
55. Sandstorm is also entitled to the Gold equivalent of other precious metals not reflected in the gold Bracemac-McLeod Mineral Reserves and Resources.

## MT. HAMILTON PROJECT

56. The Company has acquired a 2.4% net smelter returns royalty on the Mt. Hamilton gold project from Solitario Exploration & Royalty Corp.
57. Resources stated as contained within a potentially economically minable open pit above a 0.006 oz/t AuEq CoG.
58. Pit optimization is based on: i) Centennial Pit, assumed gold and silver prices of US$1,600/oz and

US$40/oz, respectively, effective heap leach recoveries of 75% and 30% for gold and silver, respectively, a mining, processing and G&A cost of US$5.81/ton; Net Smelter Return 1% and pit slopes of 50°; and ii) Seligman Pit: assumed gold and silver prices of US$1,500/oz and US$20/oz, respectively, effective heap leach recoveries of 70% for gold in skarn and 65% for gold in igneous, and 35% for silver, an ore mining and a processing cost of US$6.45/ton; and pit slopes of 50°.

59. Reported Au ounces are contained metal subject to process recovery which will result in a reduced number of payable ounces.

60. Mineral resource tonnage and contained metal have been rounded to reflect the accuracy of the estimate, and numbers may not add due to rounding.

61. Mineral reserves were estimated from a pit design based on $1,200/oz. gold and $20/oz. silver prices. The cutoff grade used to estimate reserves was 0.006 oz/t gold equivalent (0.20 grams/tonne) and is the internal cutoff grade. Multiple pit scenarios were evaluated using these criteria under a range of gold prices to determine the most favorable pit design for both optimal resource extraction and cash flow.

## CUIÚ CUIÚ PROJECT

62. The Company has acquired a 1% net smelter returns royalty on the Cuiú Cuiú gold project from Magellan Minerals Ltd.

63. These resources are constrained by mineable shapes and cut-off grades to meet the requirement that resources must have reasonable prospects for economic extraction. The mineable shapes are either Lerch-Grossman pits or conceptual underground stopes. Resources falling within the pits are reported at cut-off grades of 0.3gpt Au for fresh rock or 0.4 gpt Au for saprolite. Stope shapes only include blocks above a cut-off grade of 1.3gpt Au. The cut-off grades consider a gold price of $1,250 per ounce and metallurgical recoveries of 91% for fresh rock and 66% for saprolite.

## CORINGA PROJECT

64. The Company has acquired a 2.5% net smelter returns royalty on the Coringa gold project from Magellan Minerals Ltd.

65. Global Resource Engineering Ltd. previously completed an independent NI 43-101 mineral resource estimate in October 2009. The current resource estimate of March 2012 builds on the initial 43-101 resource estimate which included 269,500 Measured and Indicated troy ounces of gold representing 982,291 tonnes at an average grade of 8.53g/t gold and 98,224 Inferred troy ounces of gold representing 327,054 tonnes at an average grade of 9.34g/t gold on a diluted basis and using a 2g/t gold cut-off. Table 1 below presents the October 2009 Coringa mineral resource by block at a 2 g/t gold cut-off grade.

## CAUTIONARY LANGUAGE REGARDING RESERVES AND RESOURCES

*The Technical Reports supporting the scientific and technical information contained in this document are available at* ***www.sedar.com*** *under the profile of Luna, Colossus, SilverCrest, Rambler, Brigus, Metanor, Santa Fe, Donner, Solitario, and Magellan for the Aurizona Mine, Serra Pelada Mine, Santa Elena Mine, Ming Mine, Black Fox Mine, Bachelor Lake Mine, Summit Mine, Bracemac-McLeod Mine, Mt. Hamilton Mine, and the Coringa and Cuiú Cuiú Gold Projects respectively. Mineral Resources which are not Mineral Reserves, do not have demonstrated economic viability.*

# *FORWARD LOOKING STATEMENTS*

*This MD&A and any exhibits attached hereto and incorporated herein, if any, contain "forward-looking statements", within the meaning of the U.S. Securities Act of 1933, as amended, the U.S. Securities Exchange Act of 1934, as amended, the United States Private Securities Litigation Reform Act of 1995, and applicable Canadian and other securities legislation, concerning the business, operations and financial performance and condition of Sandstorm. Forward-looking information is provided as of the date of this MD&A and Sandstorm does not intend, and does not assume any obligation, to update this forward-looking information, except as required by law.*

Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking information is based on reasonable assumptions that have been made by Sandstorm as at the date of such information and is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Sandstorm to be materially different from those expressed or implied by such forward-looking information, including but not limited to: the impact of general business and economic conditions; delays in the construction of the Serra Pelada Mine, Ming Mine, the Bachelor Lake Mine, Mt. Hamilton Mine, the Coringa mine, the Cuiú Cuiú mine or the Bracemac-McLeod Mine; the absence of control over mining operations from which Sandstorm will purchase gold and risks related to those mining operations, including risks related to international operations, government and environmental regulation, actual results of current exploration activities, conclusions of economic evaluations and changes in project parameters as plans continue to be refined; problems inherent to the marketability of minerals; industry conditions, including fluctuations in the price of metals, fluctuations in foreign exchange rates and fluctuations in interest rates; government entities interpreting existing tax legislation or enacting new tax legislation in a way which adversely affects Sandstorm; stock market volatility; competition; as well as those factors discussed in the section entitled "Risks to Sandstorm" herein and those risks described in the section entitled "Risk Factors" contained in Sandstorm's most recent Annual Information Form for the year ended December 31, 2011 available at www.sedar.com and www.sec.gov and incorporated by reference herein.

Forward-looking information in this MD&A includes, among other things, disclosure regarding: Sandstorm's existing eight Gold Streams and three royalties as well as its future outlook, the mineral reserve and mineral resource estimates for each of the Aurizona Mine, the Serra Pelada Mine, the Santa Elena Mine, the Ming Mine, the Black Fox Mine, the Bachelor Lake Mine, the Summit Mine, the Mt. Hamilton Mine, the Coringa project, the Cuiú Cuiú project and the Bracemac-McLeod Mine. Forward-looking information is based on assumptions management believes to be reasonable, including but not limited to the continued operation of the mining operations from which Sandstorm will purchase gold, no material adverse change in the market price of commodities, that the mining operations will operate in accordance with their public statements and achieve their stated production outcomes, and such other assumptions and factors as set out therein.

Although Sandstorm has attempted to identify important factors that could cause actual actions, events or results to differ materially from those contained in forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information.

SECTION

/02/

# SANDSTORM GOLD LTD.
# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

# CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION



*Expressed in U.S. dollars ($000s) / **unaudited***

| ASSETS | Note | | September 30, 2012 | | December 31, 2011 |
|---|---|---|---|---|---|
| Current | | | | | |
| Cash | | $ | 104,113 | $ | 13,073 |
| Promissory note | 5 | | 15,000 | | - |
| Loan receivable | | | 4,000 | | - |
| Trade receivables and other | | | 199 | | 50 |
| | | $ | 123,312 | $ | 13,123 |
| Non-current | | | | | |
| Mineral interests and royalties | 5(c) | | 200,454 | | 128,982 |
| Investments | 6 | | 5,471 | | 8,362 |
| Deferred financing costs | 7 | | 687 | | - |
| Deferred income tax assets | | | 1,592 | | 1,343 |
| Other | | | 920 | | 982 |
| **Total assets** | | **$** | **332,436** | **$** | **152,792** |
| LIABILITIES | | | | | |
| Current | | | | | |
| Trade and other payables | | $ | 944 | $ | 834 |
| Mineral interest payable | 5 | | 4,000 | | - |
| | | $ | 4,944 | $ | 834 |
| EQUITY | | | | | |
| Share capital | 8 | $ | 280,579 | $ | 125,466 |
| Reserves | 8 | | 26,669 | | 20,435 |
| Retained earnings | | | 20,302 | | 5,742 |
| Accumulated other comprehensive (loss) income | | | (58) | | 315 |
| | | $ | 327,492 | $ | 151,958 |
| **Total liabilities and equity** | | **$** | **332,436** | **$** | **152,792** |

*Contractual obligations (Note 12)*

*ON BEHALF OF THE BOARD:*

***"Nolan Watson",*** *Director*

***"David DeWitt",*** *Director*

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

# CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

*Expressed in U.S. dollars ($000s) / **unaudited***

| | Note | 3 Months Ended Sep. 30, 2012 | 3 Months Ended Sep. 30, 2011 | 9 Months Ended Sep. 30, 2012 | 9 Months Ended Sep. 30, 2011 |
|---|---|---|---|---|---|
| Sales | | $ 15,102 | $ 9,592 | $ 43,520 | $ 18,842 |
| Cost of sales, excluding depletion | | 3,701 | 2,382 | 8,956 | 5,089 |
| Depletion | | 3,608 | 1,884 | 11,593 | 3,669 |
| Total cost of sales | | $ 7,309 | $ 4,266 | $ 20,549 | $ 8,758 |
| **Gross profit** | | $ 7,793 | $ 5,326 | $ 22,971 | $ 10,084 |
| **Expenses and other (income)** | | | | | |
| Administration expenses | 10 | 1,349 | 750 | 3,896 | 2,636 |
| Project evaluation | | 131 | 39 | 581 | 71 |
| Foreign exchange loss | | 1,437 | 96 | 1,545 | 108 |
| Other (income) expenses | | (32) | - | 381 | - |
| Income from deferral of production guarantee | | - | (327) | - | (1,102) |
| **Income from operations** | | $ 4,908 | $ 4,768 | $ 16,568 | $ 8,371 |
| Income tax expense | 9 | 47 | 377 | 2,008 | 763 |
| **Net income for the period** | | **$ 4,861** | **$ 4,391** | **$ 14,560** | **$ 7,608** |
| **Other comprehensive income (loss)** | | | | | |
| (Loss) gain on investments, net of tax | 6 | (157) | 32 | (373) | 32 |
| **Total comprehensive income for the period** | | **$ 4,704** | **$ 4,423** | **$ 14,187** | **$ 7,640** |
| **Basic earnings per share** | | $ 0.06 | $ 0.07 | $ 0.20 | $ 0.12 |
| **Diluted earnings per share** | | $ 0.05 | $ 0.06 | $ 0.17 | $ 0.10 |
| **Weighted average number of common shares outstanding** | | | | | |
| Basic | 8 (f) | 74,795,092 | 65,635,917 | 71,579,331 | 64,400,670 |
| Diluted | 8 (f) | 89,490,161 | 79,642,781 | 85,465,666 | 75,780,632 |

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

# *CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS*

*Expressed in U.S. dollars ($000s) / **unaudited***

| Cash flow from (used in): | Note | 3 Months Ended Sep. 30, 2012 | 3 Months Ended Sep. 30, 2011 | 9 Months Ended Sep. 30, 2012 | 9 Months Ended Sep. 30, 2011 |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Net income for the period | | $ 4,861 | $ 4,391 | $ 14,560 | $ 7,608 |
| Items not affecting cash: | | | | | |
| » Depletion and depreciation | | 3,719 | 1,910 | 11,878 | 3,694 |
| » Deferred income tax expense | 9 | 47 | 377 | 2,008 | 763 |
| » Share-based payment | 8 | 395 | 235 | 1,325 | 1,255 |
| » Loss (gain) on fair value adjustment of investments | 6 | (172) | 29 | (44) | 29 |
| » Foreign exchange loss (gain) | | 1,430 | 93 | 1,518 | 81 |
| Changes in non-cash working capital | 11 | 318 | 1,523 | (121) | (612) |
| | | $ 10,598 | $ 8,558 | $ 31,124 | $ 12,818 |
| **Investing activities** | | | | | |
| Acquisition of mineral interests and royalties | 5 | (60,088) | (6,006) | (78,940) | (33,942) |
| Acquisition of investments | 6 | (4,784) | (2,901) | (7,008) | (3,158) |
| Disposal of investments | 6 | 2,706 | - | 9,392 | |
| Loan issuance | | - | - | (4,000) | - |
| Promissory note receivable | | (15,000) | - | (15,000) | - |
| Acquisition of other assets | | (59) | - | (65) | - |
| | | $ (77,225) | $ (8,907) | $ (95,621) | $ (37,100) |
| **Financing activities** | | | | | |
| Proceeds on equity financing and exercise of warrants, options, and compensation warrants | 8(a) | 155,196 | 5,234 | 166,059 | 6,549 |
| Share issue costs | | (8,114) | - | (8,114) | 28 |
| Deferred financing costs | 7 | - | - | (893) | - |
| | | $ 147,082 | $ 5,234 | $ 157,052 | $ 6,577 |
| Effect of exchange rate changes on cash | | $ (1,428) | $ (95) | $ (1,515) | $ (88) |
| Net increase (decrease) in cash | | 79,027 | 4,790 | 91,040 | (17,793) |
| Cash – beginning of the period | | 25,086 | 5,950 | 13,073 | 28,533 |
| **Cash – end of the period** | | **$ 104,113** | **$ 10,740** | **$ 104,113** | **$ 10,740** |

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

# *CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY*

*Expressed in U.S. dollars ($000s) / **unaudited***

| | | Share Capital | | Reserves | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | Number | Amount | Share Options | Share Purchase Warrants | Compen-sation Warrants | Retained Earnings (Deficit) | Accumulated Other Compre-hensive Income (Loss) | Total |
| At January 1, 2011 | | 63,612,629 | $ 117,199 | $ 1,051 | $ 17,378 | $ 2,045 | $ (6,747) | $ - | $ 130,926 |
| Compensation warrants exercised | | 1,157,405 | 2,492 | - | 1,105 | (1,687) | - | - | 1,910 |
| Deferred income tax recovery of issue costs | 8 (b) | - | (7) | - | - | - | - | - | (7) |
| Options exercised | | 22,000 | 70 | (16) | - | - | - | - | 54 |
| Share based payment | 8 (b) | - | - | 1,255 | - | - | - | - | 1,255 |
| Share issue costs (net of tax) | 8 (b) | - | 28 | - | - | - | - | - | 28 |
| Warrants exercised | | 1,527,980 | 5,611 | - | (1,026) | - | - | - | 4,585 |
| Total comprehensive income | | - | - | - | - | - | 7,608 | 32 | 7,640 |
| **At September 30, 2011** | | **66,320,014** | **$ 125,393** | **$ 2,290** | **$ 17,457** | **$ 358** | **$ 861** | **$ 32** | **$ 146,391** |
| | | | | | | | | | |
| At January 1, 2011 | | 63,612,629 | $ 117,199 | $ 1,051 | $ 17,378 | $ 2,045 | $ (6,747) | $ - | $ 130,926 |
| Compensation warrants exercised | | 1,157,405 | 2,492 | - | 1,105 | (1,687) | - | - | 1,910 |
| Options exercised | | 22,000 | 70 | (17) | - | - | - | - | 53 |
| Share based payment | | - | - | 1,599 | - | - | - | - | 1,599 |
| Share issue costs (net of tax) | 8 (b) | - | 21 | - | - | - | - | - | 21 |
| Warrants exercised | | 1,547,980 | 5,684 | - | (1,039) | - | - | - | 4,645 |
| Total comprehensive income | | - | - | - | - | - | 12,489 | 315 | 12,804 |
| **At December 31, 2011** | | **66,340,014** | **125,466** | **2,633** | **17,444** | **358** | **5,742** | **315** | **151,958** |
| Shares issued | | 15,007,500 | 145,607 | - | 7,875 | - | - | - | 153,482 |
| Compensation warrants exercised | | 245,510 | 529 | - | - | (358) | - | - | 171 |
| Options exercised | 8 (b) | 305,000 | 862 | (182) | - | - | - | - | 680 |
| Share based payment | | - | - | 1,325 | - | - | - | - | 1,325 |
| Share issue costs (net of tax) | | - | (6,037) | - | - | - | - | - | (6,037) |
| Warrants exercised | 8 (c) | 3,830,647 | 14,152 | - | (2,426) | - | - | - | 11,726 |
| Total comprehensive income | | - | - | - | - | - | 14,560 | (373) | 14,187 |
| **At September 30, 2012** | | **85,728,671** | **280,579** | **3,776** | **22,893** | **-** | **20,302** | **(58)** | **327,492** |

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

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*September 30, 2012 / Expressed in U.S. dollars / **unaudited***

## 1. Nature Of Operations

Sandstorm Gold Ltd. was incorporated under the Business Corporations Act of British Columbia on March 23, 2007 under the name Sandstorm Resources Ltd. Effective February 17, 2011, the Company changed its name to Sandstorm Gold Ltd. Sandstorm Gold Ltd. and its subsidiary entities ("Sandstorm" or the "Company") is a resource-based company that seeks to acquire gold and other precious metal purchase agreements ("Gold Streams") from companies that have advanced stage development projects or operating mines. In return for making a one-time upfront payment to acquire a Gold Stream, Sandstorm receives the right to purchase, at a fixed price per unit, a percentage of a mine's production for the life of the mine.

The head office, principal address and registered office of the Company are located at Suite 1400, 400 Burrard Street, Vancouver, British Columbia, V6C 3A6.

These condensed consolidated interim financial statements were authorized for issue by the board of directors of the Company on October 24, 2012.

## 2. Basis Of Presentation

### A. STATEMENT OF COMPLIANCE

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34 'Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). These condensed consolidated interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in and should be read in conjunction with the Company's December 31, 2011 consolidated financial statements.

### B. BASIS OF PRESENTATION

These condensed consolidated interim annual financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value.

The condensed consolidated interim financial statements are presented in United States dollars, and all values are rounded to the nearest thousand except as otherwise indicated.

## 3. Future Changes In Accounting Policies

The IASB issued a number of new and revised accounting standards which are effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. These standards include the following:

- IFRS 10, Consolidated Financial Statements;
- IFRS 11, Joint Arrangements;
- IFRS 12, Disclosure of Interests in Other Entities;
- IFRS 13, Fair Value Measurement;
- Amended IAS 27, Separate Financial Statements; and
- Amended IAS 28, Investments in Associates and Joint Ventures.

In June 2011, the IASB also issued amended IAS 1, Presentation of Financial Statements, which is effective for annual periods beginning on or after July 1, 2012.

These new and revised accounting standards have not yet been adopted by Sandstorm, and the Company has not yet completed the process of assessing the impact that they will have on its financial statements, or whether to early adopt any of the new requirements.

## 4. Financial Instruments

### CAPITAL RISK MANAGEMENT

The Company's objective of capital management is to ensure that it will be able to continue as a going concern and identify, evaluate, and acquire Gold Streams. The capital of the Company consists of equity. The Company is not subject to any externally imposed capital requirements with the exception of complying with the minimum tangible net worth covenant under the Revolving Loan (note 7). The Company is in compliance with the debt covenants described in note 7.

## 5. Mineral Interests and Royalties

### A. CARRYING AMOUNT

*As of September 30, 2012:*

| In $000s | Cost | | | Accumulated Depletion | | | Carrying Amount |
|---|---|---|---|---|---|---|---|
| | Opening | Additions | Ending | Opening | Depletion | Ending | |
| Aurizona, Brazil | $ 19,977 | $ - | $ 19,977 | $ 1,328 | $ 1,276 | $ 2,604 | $ 17,373 |
| Bachelor Lake, Canada | 20,845 | - | 20,845 | - | 308 | 308 | 20,537 |
| Black Fox, Canada | 56,524 | - | 56,524 | 2,614 | 4,523 | 7,137 | 49,387 |
| Bracemac-McLeod, Canada | 32 | 5,000 | 5,032 | - | - | - | 5,032 |
| Coringa and Cuiú Cuiú, Brazil | - | 7,874 | 7,874 | - | - | - | 7,874 |
| Ming, Canada | 20,068 | - | 20,068 | - | 3,014 | 3,014 | 17,054 |
| Mt. Hamilton, U.S.A | - | 10,048 | 10,048 | - | - | - | 10,048 |
| Santa Elena, Mexico | 13,342 | - | 13,342 | 1,473 | 2,186 | 3,659 | 9,683 |
| Serra Pelada, Brazil | - | 60,143 | 60,143 | | | | 60,143 |
| Summit, U.S.A. | 4,063 | - | 4,063 | 454 | 286 | 740 | 3,323 |
| **Total** | **$ 134,851** | **$ 83,065** | **$ 217,916** | **$ 5,869** | **$ 11,593** | **$ 17,462** | **$ 200,454** |

*As of and for the year ended December 31, 2011:*

| In $000s | Cost | | | Accumulated Depletion | | | Carrying Amount |
|---|---|---|---|---|---|---|---|
| | Opening | Additions | Ending | Opening | Depletion | Ending | |
| Aurizona, Brazil | $ 19,977 | $ - | $ 19,977 | $ 296 | $ 1,032 | $ 1,328 | $ 18,649 |
| Bachelor Lake, Canada | - | 20,845 | 20,845 | - | - | - | 20,845 |
| Black Fox, Canada | 56,470 | 54 | 56,524 | - | 2,614 | 2,614 | 53,910 |
| Bracemac-McLeod, Canada | - | 32 | 32 | - | - | - | 32 |
| Ming, Canada | 7,062 | 13,006 | 20,068 | - | - | - | 20,068 |
| Santa Elena, Mexico | 13,342 | - | 13,342 | 42 | 1,431 | 1,473 | 11,869 |
| Summit, U.S.A. | 4,063 | - | 4,063 | 7 | 447 | 454 | 3,609 |
| **Total** | **$ 100,914** | **$ 33,937** | **$ 134,851** | **$ 345** | **$ 5,524** | **$ 5,869** | **$ 128,982** |

### B. DEPLETABLE VS. NON-DEPLETABLE BALANCES

The value allocated to reserves is classified as depletable and is depleted on a units-delivered basis over the estimated recoverable proven and probable reserves at the mine. The value associated with resources and exploration potential is the value beyond proven and probable reserves allocated at acquisition and is classified as non-depletable until such time as it is transferred to the depletable category, generally as a result of the conversion of resources or exploration potential into reserves.

*As of September 30, 2012*

| In $000s | Depletable | Non-depletable | Total |
|---|---|---|---|
| Aurizona | $ 14,419 | $ 2,954 | $ 17,373 |
| Bachelor Lake | 19,149 | 1,388 | 20,537 |
| Black Fox | 46,324 | 3,063 | 49,387 |
| Bracemac-McLeod | 5,032 | - | 5,032 |
| Coringa and Cuiú Cuiú | 7,874 | - | 7,874 |
| Ming | 17,054 | - | 17,054 |
| Mt. Hamilton | 10,048 | - | 10,048 |
| Santa Elena | 7,460 | 2,223 | 9,683 |
| Serra Pelada | - | 60,143 | 60,143 |
| Summit | 3,030 | 293 | 3,323 |
| **Total** | **$ 130,390** | **$ 70,064** | **$ 200,454** |

*As of December 31, 2011*

| In $000s | Depletable | Non-depletable | Total |
|---|---|---|---|
| Aurizona | $ 15,695 | $ 2,954 | $ 18,649 |
| Bachelor Lake | 19,457 | 1,388 | 20,845 |
| Black Fox | 50,526 | 3,384 | 53,910 |
| Bracemac-McLeod | 32 | - | 32 |
| Ming | 13,389 | 6,679 | 20,068 |
| Santa Elena | 9,640 | 2,229 | 11,869 |
| Summit | 3,317 | 292 | 3,609 |
| **Total** | **$ 112,056** | **$ 16,926** | **$ 128,982** |

### C. SUMMARY OF GOLD STREAMS

AURIZONA MINE > The Company has a Gold Stream to purchase 17% of the life of mine gold produced from Luna Gold Corp.'s ("Luna") open-pit Aurizona mine, located in Brazil (the "Aurizona Mine") for a per ounce cash payment equal to the lesser of $400 and the then prevailing market price of gold.

In September 2012, the Company agreed to contribute up to $10.0 million in capital towards the phase 1 production expansion project ("Phase 1 Expansion") at Luna's Aurizona Mine. Sandstorm's contribution towards the Phase 1 Expansion will be equal to 17% of the capital costs incurred by Luna towards the Phase 1 Expansion to a maximum contribution of $10.0 million. In addition, Sandstorm has committed to issue, if requested by Luna, a $20.0 million non-revolving loan facility with a three year term, which may only be used to fund the Phase 1 Expansion and associated exploration costs. In conjunction with Sandstorm's capital contribution, Luna has provided the Company with a contractual guarantee that the Aurizona Mine will complete its Phase 1 Expansion by the end of 2013.

BACHELOR LAKE MINE > The Company has a Gold Stream with Metanor Resources Inc. ("Metanor") to purchase 20% of the life of mine gold produced from Metanor's Bachelor Lake gold mine located in Quebec, Canada ("Bachelor Lake Mine") for an upfront payment of $20.0 million plus ongoing per ounce payments equal to the lesser of $500 and the then prevailing market price per ounce of gold. Metanor has provided a guarantee that Sandstorm will receive a minimum of $20.0 million in pre-tax cash flow over the next 4.5 years.

BLACK FOX MINE > The Company has a Gold Stream to purchase 12% of the life of mine gold produced from Brigus Gold Corp.'s ("Brigus") open pit and underground Black Fox mine, located in Canada (the "Black Fox Mine") and 10% of the life of mine gold produced from Brigus' Black Fox extension, which includes a portion of Brigus' Pike River concessions for a per ounce cash payment equal to the lesser of $500 and the then prevailing market price of gold. Brigus has the option until January 1, 2013 to repurchase 50% of the Brigus Gold Stream by making a $36.6 million payment to the Company, upon receipt of which, the percentage of gold the Company is entitled to purchase will decrease to 6% for the Black Fox Mine and 4.5% for the Black Fox extension.

BRACEMAC-MCLEOD MINE > The Company has a Gold Stream with Donner Metals Ltd. ("Donner") via a back-to-back agreement with Sandstorm Metals & Energy Ltd. ("Sandstorm Metals & Energy") to purchase 17.5% of the life of mine gold and gold equivalent of silver ("Gold Equivalent") produced from the Bracemac-McLeod Property located in Quebec, Canada which is operated by Xstrata Canada Corporation (the "Bracemac-McLeod Mine"). Donner is the owner of a 35% joint venture interest in the Bracemac-McLeod Mine.

For consideration, the Company made an upfront payment of $5.0 million during the nine months ended September 30, 2012 and will continue to make ongoing per ounce payments equal to the lesser of $350 and the then prevailing market price of gold. Donner has provided a guarantee, via a back-to-back agreement with Sandstorm Metals & Energy, that the Company will receive a minimum of $5.0 million in pre-tax cash flows between 2013 and 2016 from the Bracemac-McLeod Gold Stream.

Donner has the option until July 13, 2013 to repurchase 50% of the Bracemac-McLeod Gold Stream by making a $3.5 million payment to the Company, upon receipt of which, the percentage of gold and Gold Equivalent the Company is entitled to purchase will decrease to 8.75%.

CORINGA AND CUIÚ CUIÚ PROJECT > On May 11, 2012 the Company acquired a 2.5% net smelter returns royalty ("NSR") from Magellan Minerals Ltd ("Magellan") on the Coringa gold project (the "Coringa Project") and a 1.0% NSR on the Cuiú Cuiú gold project (the "Cuiú Cuiú Project") both of which are located in Para state, Brazil. For consideration, Sandstorm made an upfront payment of $7.5 million and subscribed for one million shares of Magellan at a price of $0.50 per share. As part of the agreement, Magellan has provided Sandstorm with a right of first refusal on any future royalty or gold stream financing at the Coringa Project and the Cuiú Cuiú Project.

MING MINE > The Company has a Gold Stream to purchase approximately 25% of the first 175,000 ounces of gold produced and 12% of the life of mine gold produced thereafter, from Rambler Metals & Mining plc's ("Rambler") Ming mine, located in Canada (the "Ming Mine"). There are no ongoing per ounce payments required by Sandstorm in respect of the Ming Mine Gold Stream. In the event that the metallurgical recoveries of gold at the Ming Mine are below 85%, the percentage of gold that Sandstorm shall be entitled to purchase shall be increased proportionally.

MT. HAMILTON PROJECT > The Company has a 2.4% NSR on the Mt. Hamilton gold project (the "Mt Hamilton Project"). The Mt. Hamilton Project is located in White Pine County, Nevada, U.S.A. and is held by Mt. Hamilton LLC ("MH-LLC") which is 80% owned by Solitario Exploration & Royalty Corp. and 20% owned by Ely Gold & Minerals Inc. For consideration, the Company made an initial upfront payment of $6.0 million during the nine months ended September 30, 2012 and will make a further upfront payment of $4.0 million on January 15, 2013.

Sandstorm has granted MH-LLC an option, exercisable prior to December 11, 2014, to repurchase the NSR for $12.0 million provided that MH-LLC enters into a Gold Stream with Sandstorm with an upfront deposit of no less than $30.0 million. In addition, MH-LLC has provided Sandstorm with a right of first refusal on any future royalty or gold stream financing for the Mt. Hamilton Project.

SANTA ELENA MINE > The Company has a Gold Stream to purchase 20% of the life of mine gold produced from SilverCrest Mines Inc.'s open pit Santa Elena mine, located in Mexico (the "Santa Elena Mine") for a per ounce cash payment equal to the lesser of $350 and the then prevailing market price of gold.

SERRA PELADA MINE > The Company has a Gold Stream agreement with Colossus Minerals Inc. ("Colossus") to purchase an amount equal to 1.5% of the gold and 35% of the platinum produced from the Serra Pelada mine (the "Serra Pelada Mine") located in Para, Brazil for ongoing per ounce payments equal to the lesser of $400 per ounce of gold and the then prevailing market price of gold, and the lesser of $200 per ounce of platinum and the then prevailing market price of platinum. Sandstorm made an upfront payment of $60.0 million to acquire the Gold Stream in September 2012. The Company is not required to contribute any further capital, exploration, or operating expenditures to Colossus.

As part of the transaction, the Company also agreed to purchase 35% of the life of mine palladium produced from the Serra Pelada Mine (the "Palladium Stream") in exchange for paying a $15.0 million deposit (bringing the total deposit payment made by Sandstorm during the three months ended September 30, 2012 to $75.0 million) plus ongoing payments of $100 per ounce of palladium. Concurrently, the Company entered into a similar back-to-back agreement with Sandstorm Metals & Energy whereby Sandstorm Metals & Energy purchased the Palladium Stream from Sandstorm in exchange for issuing a promissory note. The promissory note states that the $15.0 million will be repaid to Sandstorm in cash or shares, by September 19, 2013.

Colossus has guaranteed certain minimum annual deliveries for the initial 10 year period, commencing in 2013 so long as the mine is in operation. Colossus has also provided a guarantee that in the event the Serra Pelada Mine shuts down for a period of 24 months and Sandstorm has not recognized cash flow equal to the initial upfront deposit, then Colossus will refund the balance to Sandstorm. In addition, Colossus has agreed to refund a pro-rata portion of the upfront deposit in the event that the Serra Pelada Mine does not achieve a completion test within 48 months of funding.

Until April 1, 2015, Colossus has the option to repurchase up to 50% of the agreement by making a $39.0 million payment to Sandstorm, upon receipt of which, the percentage of gold and platinum that Sandstorm is entitled to purchase shall decrease to 0.75% and 17.5%, respectively.

SUMMIT MINE > The Company has a Gold Stream to purchase 50% of the first 10,000 ounces of gold produced, and 22% of the life of mine gold produced thereafter, from Santa Fe Gold Corporation's Summit mine, located in the U.S.A. (the "Summit Mine") for a per ounce cash payment equal to the lesser of $400 and the then prevailing market price of gold. The Company is currently in discussions with Santa Fe regarding the deferral of amounts due by Santa Fe to the Company.

## 6. *Investments*

| | Fair Value | Net Additions (Disposals) | | Fair Value Adjustment | | Fair Value |
|---|---|---|---|---|---|---|
| In $000s | Jan. 1, 2012 | 3 Months Ended Sep. 30, 2012 | 9 Months Ended Sep. 30, 2012 | 3 Months Ended Sep. 30, 2012 | 9 Months Ended Sep. 30, 2012 | Sep. 30, 2012 |
| Common shares | $ 7,923 | $ (2,706) | $ (7,168) | $ 45 | $ (552) | $ 203 |
| Warrants | 439 | - | - | 173 | 45 | 484 |
| Convertible debt instrument | - | 4,784 | 4,784 | - | - | 4,784 |
| **Total** | **$ 8,362** | **$ 2,078** | **$ (2,384)** | **$ 218** | **$ (507)** | **$ 5,471** |

During the three months ended September 30, 2012, the Company acquired $4.8 million of subordinated secured convertible debentures (the "Convertible Debentures") from Metanor Resources Inc. The Convertible Debentures have a 3 year term, accrue interest at a rate of 10.0% per annum, payable semi-annually, and are convertible at a price of C$0.28 per share. The Convertible Debentures are held for strategic purposes and are classified as financial assets at fair value through net income.

During the three and nine months ended September 30, 2011, the Company acquired $2.7 million of common shares and $0.17 million of warrants. The Company recognized a gain of $0.04 million and $0.03 on the common shares and warrants, respectively.

## 7. *Deferred Financing Costs*

On January 12, 2012, the Company entered into a $50.0 million revolving term loan (the "Revolving Loan"). The Revolving Loan has a term of three years, which is extendable by mutual consent of The Bank of Nova Scotia and the Company. The Revolving Loan can be drawn down at any time to finance acquisitions, investments or for general corporate purposes. Amounts drawn incur interest at LIBOR plus 3.00% to 4.25% per annum dependent upon the Company's leverage ratio. Undrawn amounts are subject to a standby fee of 0.75% to 1.05% per annum, dependent on the Company's leverage ratio.

Under the credit agreement, the Company is required to maintain an interest coverage ratio greater than or equal to 4.00:1, a leverage ratio less than or equal to 2.50:1, and a tangible net worth greater than the aggregate of $100.0 million and 50% of positive Net Income for each fiscal quarter after September 30, 2011. The Revolving Loan is secured against the Company's assets, including the Company's gold interests and investments. As of September 30, 2012, the Company was in compliance with these covenants.

As at September 30, 2012, the Company had not drawn down on its credit facility and therefore, the full $50.0 million remains available for future acquisitions.

Deferred financing costs are capitalized and amortized on a straight-line basis over the life of the debt instrument as presented below:

***As of September 30, 2012***

| In $000s | Cost | Additions | Accumulated Amortization | Carrying Amount |
|---|---|---|---|---|
| Debt issuance costs | $ 893 | $ 9 | $ 215 | $ 687 |

*The company did not have any deferred financing costs as at December 31, 2011.*

## 8. *Share Capital and Reserves*

### *A. SHARES ISSUED*

The Company is authorized to issue an unlimited number of common shares without par value.

On September 7, 2012, the Company completed a public offering of 15,007,500 units at a price of C$10.00 per unit, for gross proceeds of C$150.1 million ($153.5 million). Each unit was comprised of one common share of the Company and one-third of one warrant. In connection with the offering, the Company paid agent fees of C$7.5 million ($7.7 million), representing 5% of the gross proceeds. The amount attributable to common shares was $145.6 million, with the remainder allocated to the warrants.

During the nine months ended September 30, 2012, the Company completed its five-for-one consolidation (the "Consolidation") of the Company's common shares. The 349,658,858 common shares issued and outstanding prior to the Consolidation were consolidated to 69,931,771 common shares. The Company's outstanding stock options were adjusted on the same basis with proportionate adjustments being made to the stock option exercise prices.

The Company's listed warrants were not consolidated. Following the Consolidation, each five (5) listed warrants of SSL.WT (expiring on April 23, 2014) will entitle the holder to purchase one post-Consolidation common share at the adjusted total exercise price of US$3.00. Each five (5) listed warrants of SSL.WT.A (expiring on October 19, 2015) will entitle the holder to purchase one post-Consolidation common share at the adjusted total exercise price of US$5.00.

All comparative period information has been adjusted to reflect the Consolidation.

### *B. STOCK OPTIONS*

The Company has an incentive stock option plan (the "Option Plan") whereby the Company may grant stock options to eligible employees, officers, directors and consultants at an exercise price, expiry date, and vesting conditions to be determined by the board of directors. The maximum expiry date is five years from the grant date. All options are equity settled. The Option Plan provides for the issuance of up to 10% of the Company's issued common shares as at the date of the grant.

A summary of the Company's options and the changes for the period are as follows:

| | Number of Options | Weighted Average Exercise Price (C$) |
|---|---|---|
| Options outstanding at December 31, 2010 | 2,664,000 | 2.85 |
| Granted | 1,238,000 | 6.30 |
| Exercised | (22,000) | 2.35 |
| Forfeited | (10,000) | 3.40 |
| **Options outstanding at December 31, 2011** | **3,870,000** | **3.95** |
| Exercised | (305,000) | 2.20 |
| **Options outstanding at September 30, 2012** | **3,565,000** | **4.11** |

A summary of the Company's options as of September 30, 2012 are as follows:

| Number outstanding | Exercisable | Price per Share (C$) | Expiry Date |
|---|---|---|---|
| 605,000 | 605,000 | $2.25 | June 16, 2014 |
| 140,000 | 140,000 | $2.20 | July 6, 2014 |
| 200,000 | 200,000 | $2.18 | July 28, 2014 |
| 20,000 | 20,000 | $3.35 | May 19, 2015 |
| 1,362,000 | 1,362,000 | $3.40 | November 26, 2015 |
| 91,000 | 30,335 | $6.30 | August 25, 2016 |
| 1,147,000 | - | $6.35 | November 25, 2016 |
| **3,565,000** | **2,357,335** | | |

*The weighted-average share price at date of exercise for the three and nine months ended September 30, 2012 was C$9.10 and C$9.11, respectively (C$5.36 – three and nine months ended September 30, 2011)*

A summary of share-based payment recognized is as follows:

| In $000s | 3 Months Ended September 30, 2012 | 3 Months Ended September 30, 2011 | 9 Months Ended September 30, 2012 | 9 Months Ended September 30, 2011 |
|---|---|---|---|---|
| Employees | $ 395 | $ 235 | $ 1,325 | $ 1,109 |
| Non-employees | - | - | - | 146 |
| | **$ 395** | **$ 235** | **$ 1,325** | **$ 1,255** |

## C. SHARE PURCHASE WARRANTS

A summary of the Company's warrants and the changes for the period are as follows:

| | Number of Warrants on a Pre-Consolidated Basis | Shares to be Issued Upon Exercise of the Warrants |
|---|---|---|
| Warrants outstanding at January 1, 2011 | 119,036,211 | 23,807,242 |
| Issued upon exercise of Compensation Warrants | 2,893,511 | 578,702 |
| Exercised | (7,739,900) | (1,547,980) |
| **Warrants outstanding at December 31, 2011** | **114,189,822** | **22,837,964** |
| Issued | 5,002,500 | 5,002,500 |
| Exercised | (18,539,462) | (3,707,892) |
| **Warrants outstanding at September 30, 2012** | **100,652,860** | **24,132,572** |

A summary of the Company's warrants as of September 30, 2012 are as follows:

| | Number of Warrants on a Pre-consolidated Basis | Pre-Consolidated Exercise Price Per Warrant | Number of Warrants on a Post-Consolidated Basis | Post-Consolidated Exercise Price Per Warrant | Shares to be Issued Upon Exercise of the Warrants | Adjusted Exercise Price Per Share | Expiry Date |
|---|---|---|---|---|---|---|---|
| SSL.WT | 75,962,672 | $0.60 | - | - | 15,192,534 | $3.00 | April 23, 2014 |
| SSL.WT.A | 19,687,688 | $1.00 | - | - | 3,937,538 | $5.00 | October 19, 2015 |
| SSL.WT.A | - | - | 5,002,500 | $14.00 | 5,002,500 | 14.00 | September 7, 2017 |
| | **95,650,360** | | **5,002,500** | | **24,132,572** | | |

### *D. COMPENSATION WARRANTS*

Each Compensation Warrant entitles the holder to acquire one unit comprised of one common share of the Company and one-half of a share purchase warrant. Each Compensation Warrant has an exercise price of $0.33 and each five full share purchase warrants issued upon exercise of the Compensation Warrants will entitle the holder to purchase one common share at an adjusted exercise price of $3.00 until April 23, 2014. The remaining 1,227,500 Compensation Warrants were exercised in the nine months ended September 30, 2012.

### *E. RESTRICTED SHARE PLAN*

On April 4, 2011, the Company adopted a restricted share plan (the "Restricted Share Plan") whereby the Company may grant restricted share rights to eligible employees, officers, directors and consultants at an expiry date to be determined by the board of directors. Each restricted share right entitles the holder to receive a common share of the Company without any further consideration. The Restricted Share Plan provides for the issuance of up to 800,000 restricted share rights outstanding at a given time. As of September 30, 2012 and December 31, 2011, no restricted share rights had been granted by the Company under the Restricted Share Plan.

### *F. DILUTED EARNINGS PER SHARE*

Diluted earnings per share is calculated based on the following:

| In $000s | 3 Months Ended Sep. 30, 2012 | 3 Months Ended Sep. 30, 2011 | 9 Months Ended Sep. 30, 2012 | 9 Months Ended Sep. 30, 2011 |
|---|---|---|---|---|
| Net income | $ 4,861 | $ 4,391 | $ 14,560 | $ 7,608 |
| | | | | |
| Basic weighted average number of shares | 74,795,092 | 328,179,584 | 71,579,331 | 322,003,351 |
| **Effect of dilutive securities** | | | | |
| » Compensation warrants - shares | - | 2,480,017 | 72,046 | 3,897,980 |
| » Compensation warrants - warrants | - | 326,228 | 48,280 | 251,524 |
| » Stock options | 2,069,149 | 7,689,624 | 2,124,507 | 6,254,475 |
| » Warrants | 12,625,920 | 59,538,450 | 11,641,502 | 46,495,828 |
| **Diluted weighted average number of common shares** | **89,490,161** | **398,213,903** | **85,465,666** | **378,903,158** |

The following lists the stock options and share purchase warrants excluded from the computation of diluted weighted average number of common shares as they were anti-dilutive:

| | 3 Months Ended Sep. 30, 2012 | 3 Months Ended Sep. 30, 2011 | 9 Months Ended Sep. 30, 2012 | 9 Months Ended Sep. 30, 2011 |
|---|---|---|---|---|
| Stock Options | - | 455,000 | - | - |
| Warrants | 573,974 | - | 257,759 | - |

## 9. Income Taxes

The income tax expense differs from the amount that would result from applying the federal and provincial income tax rate to the net income before income taxes. These differences result from the following items:

| In $000s | 3 Months Ended Sep. 30, 2012 | 3 Months Ended Sep. 30, 2011 | 9 Months Ended Sep. 30, 2012 | 9 Months Ended Sep. 30, 2011 |
|---|---|---|---|---|
| Income before income taxes | $ 4,908 | $ 4,768 | $ 16,568 | $ 8,371 |
| Canadian federal and provincial income tax rates | 25.0% | 26.5% | 25.0% | 26.5% |
| Income tax expense based on the above rates | 1,227 | 1,264 | 4,142 | 2,218 |
| Increase (decrease) due to: | | | | |
| » Permanent differences | - | 58 | - | 314 |
| » Non-deductible expenses | 100 | - | 336 | - |
| » Difference between statutory and foreign tax rates | (1,295) | (974) | (3,202) | (1,937) |
| » Other | 15 | 29 | 732 | 168 |
| Deferred tax expense | $ 47 | $ 377 | $ 2,008 | $ 763 |

The Company has deductible temporary differences, unused tax losses, and unused tax credits expiring as follows:

| In $000s | Location | Amount | Expiration |
|---|---|---|---|
| Non-capital loss carry-forwards | Canada | $ 12,445 | 2029–2032 |
| Non-capital loss carry-forwards | Barbados | $ 181 | 2018–2021 |

## 10. Administration Expenses

The administration expenses for the Company are as follows:

| In $000s | 3 Months Ended Sep. 30, 2012 | 3 Months Ended Sep. 30, 2011 | 9 Months Ended Sep. 30, 2012 | 9 Months Ended Sep. 30, 2011 |
|---|---|---|---|---|
| Corporate administration | $ 330 | $ 164 | $ 964 | $ 502 |
| Employee benefits and salaries | 371 | 231 | 1,047 | 579 |
| Professional fees | 253 | 120 | 560 | 300 |
| | $ 954 | $ 515 | $ 2,571 | $ 1,381 |
| Equity settled stock based compensation (a non-cash expense) | 395 | 235 | 1,325 | 1,255 |
| **Total administration expenses** | **$ 1,349** | **$ 750** | **$ 3,896** | **$ 2,636** |

## 11. Supplemental Cash Flow Information

| In $000s | 3 Months Ended Sep. 30, 2012 | 3 Months Ended Sep. 30, 2011 | 9 Months Ended Sep. 30, 2012 | 9 Months Ended Sep. 30, 2011 |
|---|---|---|---|---|
| **Change in non-cash working capital** | | | | |
| » Trade and other receivables | $ (79) | $ 1,482 | $ (100) | $ (164) |
| » Inventory | 227 | - | - | - |
| » Trade and other payables | 170 | 41 | (21) | (448) |
| **Net increase (decrease) in cash** | **$ 318** | **$ 1,523** | **$ (121)** | **$ (612)** |

## 12. Contractual Obligations

### GOLD STREAMS

In connection with its Gold Streams, the Company has committed to purchase the following:

| Gold Stream | % of life of mine gold | Per ounce cash payment: lesser of amount below and the then prevailing market price of gold | Inflationary adjustment to per ounce cash payment |
|---|---|---|---|
| Aurizona | 17% | $400 | 1% annual inflationary adjustment beginning on February 9, 2014 |
| Bachelor Lake | 20% | $500 | None |
| Black Fox | 12% | $500 | An inflationary adjustment beginning in 2013, not to exceed 2% per annum |
| Bracemac-McLeod | 17.5% | $350 | None |
| Ming | 25% of the first 175,000 ounces of gold produced, and 12% thereafter | $nil | N/A |
| Santa Elena | 20% | $350 | 1% annual inflationary adjustment beginning July 13, 2014 |
| Serra Pelada (Gold) | 1.5% | $400 | 1% annual inflationary adjustment beginning on September 19, 2015 |
| Serra Pelada (Platinum) | 35% | $200 | 1% annual inflationary adjustment beginning on September 19, 2015 |
| Summit | 50% of the first 10,000 ounces of gold produced, and 22% thereafter | $400 | 1% annual inflationary adjustment beginning 3 years after the mine achieves commercial production |

In connection with the Mt. Hamilton royalty, the Company has committed an upfront payment of $4.0 million on January 15, 2013.

The Company agreed to contribute up to $10.0 million in capital towards the Phase 1 Expansion at Luna's Aurizona Mine. Sandstorm's contribution will be equal to 17% of the capital costs incurred by Luna towards the Phase 1 Expansion to a maximum contribution of $10.0 million. In addition, Sandstorm has committed to issue, if requested by Luna, a $20.0 million non-revolving loan facility (the "Luna Credit Facility") with a three year term, which may only be used to fund the Phase 1 Expansion and associated exploration costs. If issued, the Luna Credit Facility will bear interest at a rate of 12% per annum and undrawn amounts will be subject to a standby fee of 1.2%.

## 13. Segmented Information

The Company's reportable segments are summarized in the tables below:

*For the three months ended September 30, 2012*

| In $000s | Sales | Cost of sales (excluding depletion) | Depletion | Net income (loss) | Cash from (used in) operations |
|---|---|---|---|---|---|
| Aurizona | $ 6,459 | $ 1,555 | $ 572 | $ 4,332 | $ 4,904 |
| Bachelor Lake | 867 | 256 | 268 | 343 | 643 |
| Black Fox | 4,401 | 1,336 | 1,864 | 1,201 | 3,261 |
| Bracemac-McLeod | - | - | - | - | - |
| Coringa and Cuiú Cuiú | - | - | - | - | - |
| Ming | 695 | - | 248 | 447 | 695 |
| Mt. Hamilton | - | - | - | - | - |
| Santa Elena | 2,680 | 554 | 656 | 1,470 | 2,126 |
| Serra Pelada | - | - | - | - | - |
| Summit | - | - | - | - | - |
| Corporate | - | - | - | (2,932) | (1,031) |
| **Consolidated** | **$ 15,102** | **$ 3,701** | **$ 3,608** | **$ 4,861** | **$ 10,598** |

*For the three months ended September 30, 2011*

| In $000s | Sales | Cost of sales (excluding depletion) | Depletion | Other income | Net income (loss) | Cash from operations |
|---|---|---|---|---|---|---|
| Aurizona | $ 3,881 | $ 894 | $ 328 | $ - | $ 2,659 | $ 2,987 |
| Bachelor Lake | - | - | - | - | - | - |
| Black Fox | 3,489 | 1,021 | 875 | - | 1,593 | 2,274 |
| Bracemac-McLeod | - | - | - | - | - | - |
| Ming | - | - | - | - | - | - |
| Santa Elena | 1,612 | 328 | 288 | - | 996 | 1,544 |
| Summit | 610 | 139 | 393 | 327 | 405 | 843 |
| Corporate | - | - | - | - | (1,262) | 910 |
| **Consolidated** | **$ 9,592** | **$ 2,382** | **$ 1,884** | **$ 327** | **$ 4,391** | **$ 8,558** |

*For the nine months ended September 30, 2012*

| In $000s | Sales | Cost of sales (excluding depletion) | Depletion | Net income (loss) | Cash from (used in) operations |
|---|---|---|---|---|---|
| Aurizona | $ 14,315 | $ 3,473 | $ 1,276 | $ 9,566 | $ 10,582 |
| Bachelor Lake | 989 | 294 | 308 | 387 | 695 |
| Black Fox | 10,694 | 3,240 | 4,523 | 2,931 | 7,454 |
| Bracemac-McLeod | - | - | - | - | - |
| Coringa and Cuiú Cuiú | - | - | - | - | - |
| Ming | 8,230 | - | 3,014 | 5,216 | 8,230 |
| Mt. Hamilton | - | - | - | - | - |
| Santa Elena | 8,885 | 1,847 | 2,186 | 4,852 | 7,038 |
| Summit | 407 | 102 | 286 | 19 | 305 |
| Corporate | - | - | - | (8,411) | (3,180) |
| **Consolidated** | **$ 43,520** | **$ 8,956** | **$ 11,593** | **$ 14,560** | **$ 31,124** |

*For the nine months ended September 30, 2011*

| In $000s | Sales | Cost of sales (excluding depletion) | Depletion | Other Income | Net income (loss) | Cash from operations |
|---|---|---|---|---|---|---|
| Aurizona | $ 7,321 | $ 1,856 | $ 682 | $ - | $ 4,783 | $ 5,466 |
| Bachelor Lake | - | - | - | - | - | - |
| Black Fox | 6,977 | 2,202 | 1,886 | - | 2,889 | 4,581 |
| Bracemac-McLeod | - | - | - | - | - | - |
| Ming | - | - | - | - | - | - |
| Santa Elena | 3,562 | 792 | 654 | - | 2,115 | 3,029 |
| Summit | 982 | 239 | 447 | 1,102 | 1,398 | 1,889 |
| Corporate | - | - | - | - | (3,577) | (2,147) |
| **Consolidated** | **$ 18,842** | **$ 5,089** | **$ 3,669** | **$ 1,102** | **$ 7,608** | **$ 12,818** |

*Total assets as of:*

| In $000s | September 30, 2012 | December 31, 2011 |
|---|---|---|
| Aurizona | $ 17,373 | $ 18,649 |
| Bachelor Lake | 20,532 | 20,844 |
| Black Fox | 49,388 | 53,911 |
| Bracemac-McLeod | 5,032 | 32 |
| Coringa and Cuiú Cuiú | 7,874 | - |
| Ming | 17,054 | 20,068 |
| Mt. Hamilton | 10,048 | - |
| Santa Elena | 9,683 | 11,869 |
| Serra Pelada | 60,143 | 11,869 |
| Summit | 3,323 | 3,609 |
| Corporate | 131,986 | 23,810 |
| **Consolidated** | **$ 332,436** | **$ 152,792** |