



Annual Report  
March 31, 2009

# **SANDSTORM RESOURCES LTD.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the Year Ended March 31, 2009

This management's discussion and analysis ("MD&A") for Sandstorm Resources Ltd. ("Sandstorm" or "the Company") should be read in conjunction with the audited financial statements for the year ended March 31, 2009 and related notes thereto which have been prepared in accordance with Canadian Generally Accepted Accounting Principles. The information contained within this MD&A is current to June 10, 2009 and is stated in Canadian dollars.

### **FORWARD LOOKING STATEMENTS**

This MD&A includes certain statements that constitute "forward-looking statements", and "forward-looking information" within the meaning of applicable securities laws ("forward-looking statements" and "forward-looking information" are collectively referred to as "forward-looking statements", unless otherwise stated). These statements appear in a number of places in this MD&A and include statements regarding our intent, or the beliefs or current expectations of our officers and directors. Such forward-looking statements involve known and unknown risks and uncertainties that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this MD&A, words such as "believe", "anticipate", "estimate", "project", "intend", "expect", "may", "will", "plan", "should", "would", "contemplate", "possible", "attempts", "seeks" and similar expressions are intended to identify these forward-looking statements. Forward-looking statements may relate to the Company's future outlook and anticipated events or results and may include statements regarding the Company's future financial position, business strategy, budgets, litigation, projected costs, financial results, taxes, plans and objectives. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. These forward-looking statements were derived utilizing numerous assumptions regarding expected growth, results of operations, performance and business prospects and opportunities that could cause our actual results to differ materially from those in the forward-looking statements. While the Company considers these assumptions to be reasonable, based on information currently available, they may prove to be incorrect. Accordingly, you are cautioned not to put undue reliance on these forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results. To the extent any forward-looking statements constitute future-oriented financial information or financial outlooks, as those terms are defined under applicable Canadian securities laws, such statements are being provided to describe the current anticipated potential of the Company and readers are cautioned that these statements may not be appropriate for any other purpose, including investment decisions. Forward-looking statements are based on information available at the time those statements are made and/or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. To the extent any forward-looking statements constitute future-oriented financial information or financial outlooks, as those terms are defined under applicable Canadian securities laws, such statements are being provided to describe the current anticipated potential of the Company and readers are cautioned that these statements may not be appropriate for any other purpose, including investment decisions. Forward-looking statements speak only as of the date those statements are made. Except as required by applicable law, we assume no obligation to update or to publicly announce the results of any change to any forward-looking statement contained or incorporated by reference herein to reflect actual results, future events or developments, changes in assumptions or changes in other factors affecting the forward-looking statements. If we update any one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. You should not place undue importance on forward-looking statements and should not rely upon these statements as of any other date. All forward-looking statements contained in this MD&A are expressly qualified in their entirety by this cautionary statement.

## **CORPORATE DEVELOPMENT AND STRATEGY**

The Company is a growth focused resource based company that seeks to acquire volume based production payment contracts ("VPPs") from companies that have advanced stage development projects or operating mines. In return for making a one-time upfront payment to acquire a VPP, Sandstorm receives the right to purchase, at a fixed price per ounce, a percentage of a mine's production for the entire 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 VPPs on mines with low production costs, significant exploration potential and strong management teams.

### ***OPTION AGREEMENT WITH EAGLE PLAINS RESOURCES LTD.***

Until April 22, 2008, the Company was a Capital Pool Company ("CPC") as defined by the policies of the TSX Venture Exchange (the "Exchange"). The Company's principal business as a CPC was to identify and evaluate resource properties with a view to completing a Qualifying Transaction that would be accepted by the Exchange in accordance with Exchange Policy 2.4.

On January 16, 2008 the Company entered into an option agreement ("the Agreement") with Eagle Plains Resources Ltd. to earn up to a 75% interest in certain mineral claims referred to as the Elsiar Property in British Columbia, Canada. The Agreement was approved as the Company's "Qualifying Transaction" under the TSX Venture Exchange's policies and accordingly, on closing of this Qualifying Transaction on April 22, 2008, the Company ceased being a CPC. On May 21, 2009, the Company terminated the Agreement with Eagle Plains Resources Ltd. to focus on the acquisition of VPP contracts.

### ***SHARE SUB-DIVISION***

The Company sub-divided its outstanding common shares on a two-for-one basis effective as of April 4, 2008. All share, warrant, option, and per unit data has been updated to reflect this share sub-division.

### ***PRIVATE PLACEMENT***

The Company completed, concurrently with the closing of the Agreement on the Elsiar Property, a non-brokered private placement of 11,350,000 units of the Company at a price of \$0.10 per unit, for gross proceeds of \$1,135,000. In addition, the Company completed a non-brokered private placement of 2,000,000 units of flow-through financing at a price of \$0.10 per unit, for gross proceeds of \$200,000. Both the non-flow through units and the flow through units consist of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at a price of \$0.195 per share until April 22, 2010.

The proceeds of this private placement were used to fund the costs associated with completing the Agreement, the proposed work programs on the Elsiar Project, and for general working capital purposes.

### ***CORPORATE GOVERNANCE***

Marcel de Groot resigned from the Board of Directors on March 20, 2009. Mr. de Groot was replaced by Andrew Swarthout, who is currently the President of Bear Creek Mining Corporation and previously was the Vice-President of Exploration for Southern Peru Copper Corporation. Mr. Swarthout's technical expertise and experience in the mining industry is expected to be a significant benefit to the Company and its Board of Directors.

### ***NON-COMPETITION***

The Company has agreed that it will not compete with Gold Wheaton Gold Corp. ("Gold Wheaton") as the Company's understanding is that Gold Wheaton will focus on larger transactions, while the Company anticipates

that it will dedicate its efforts to completing smaller scale yet accretive VPPs. The Company has also agreed that it will not compete with Silver Wheaton Corp. in pursuing silver VPP transactions.

## SELECTED ANNUAL INFORMATION

	For the year ended March 31, 2009	For the year ended March 31, 2008	For the 9 days ended March 31, 2007
Interest and other income	\$ 37,292	\$ 4,399	\$ --
Net loss for the year	(420,976)	(61,603)	(10,334)
Net loss per share, basic and diluted	(0.02)	(0.02)	(0.00)
Total assets	1,454,478	1,470,832	111,997
Total long-term liabilities	--	--	--

The Company did not earn any revenue during the year ended March 31, 2009 aside from interest income. For the year ended March 31, 2009 the Company incurred a net loss of \$420,976 compared to a net loss of \$61,603 for the year ended March 31, 2008. The increased loss is primarily due to an impairment write-down of the Elsiar Property acquisition costs of \$131,640 and \$200,000 in exploration expenses incurred for the Elsiar Property. The remaining increase in net loss is due to a higher level of corporate activity.

## SUMMARY OF QUARTERLY RESULTS

	Quarters Ended			
	Mar. 31, 2009	Dec. 31, 2008	Sept. 30, 2008	June 30, 2008
Interest and other Income	\$ 7,712	\$ 9,117	\$ 10,310	\$ 10,153
Net loss for the period	(139,887)	(36,854)	(239,690)	(4,545)
Net loss per share	(0.01)	(0.00)	(0.01)	(0.00)
Total assets	1,454,478	1,290,010	1,470,925	1,532,961
Total long-term liabilities	--	--	--	--

	Mar. 31, 2008	Dec. 31, 2007	Sept. 30, 2007	June 30, 2007
Interest and other Income	\$ 1,422	\$ 1,464	\$ 1,118	\$ 395
Net loss for the period	(27,670)	(2,920)	(18,015)	(12,998)
Net loss per share	(0.02)	(0.00)	(0.00)	(0.00)
Total assets	1,470,832	232,400	232,721	117,692
Total long-term liabilities	--	--	--	--

During the three months ended March 31, 2009 the Company incurred a net loss of \$139,887 compared to a net loss of \$27,670 incurred for the three months ended March 31, 2008. The increased loss is due to an impairment write-down of the Elsiar Property acquisition costs of \$131,640.

## LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2009 the Company had cash of \$998,629 (March 31, 2008 - \$1,360,271) and working capital of \$643,144 (March 31, 2008 - \$1,312,317). Cash decreased from March 31, 2008 due primarily to exploration costs of \$200,000 spent on the Elsiar property.

Subsequent to March 31, 2009 the Company raised \$46.8 million in gross proceeds through a public offering (the "Public Offering"). These funds will be used to fund the Luna Gold Corp. ("Luna") and SilverCrest Mines Inc. ("SilverCrest") gold purchase transactions and for general working capital (refer to the Subsequent Events section of this MD&A).

## SHARE CAPITAL

As of June 10, 2009, there were 144,069,580 common shares outstanding. Of these common shares, 7,456,000 are currently held in escrow and will be released pro-rata to the shareholders in four equal tranches of 1,864,000 common shares every six months from October 24, 2009.

The Company has 40,000 stock options outstanding that expire on July 31, 2012 with an exercise price of \$0.10.

A summary of the Company's share purchase warrants outstanding as of June 10, 2009 are as follows:

	Warrants Outstanding	Exercise Price	Expiry Date
Agents warrants issued in private placement	90,000	\$0.10	August 13, 2009
Issued in connection with private placement	13,350,000	\$0.195	April 22, 2010
Issued in connection with Public Offering (SSL.WT)	58,454,790	US\$0.60	April 23, 2014
	71,894,790		

Included in warrants outstanding are 5,904,000 share purchase warrants held in escrow. These warrants will be released pro-rata to the holders in four equal tranches of 1,476,000 warrants every six months beginning October 24, 2009. Any common shares acquired by the holders of these warrants upon exercise will also fall under the terms of the subject escrow agreement.

The Company issued 7,014,574 compensation warrants (the "Compensation Warrants") to agents in connection with the Public Offering which closed April 23, 2009. 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 USD\$0.33 and all of the Compensation Warrants were outstanding as of June 10, 2009. Each whole share purchase warrant issued upon exercise of the Compensation Warrants will entitle the holder to purchase one common share at a price of US\$0.60 until April 23, 2014.

## RELATED PARTY TRANSACTIONS

The Company entered into transactions with related parties during the year ended March 31, 2009 as follows:

- Paid or accrued legal fees of \$15,715 (2008 - \$86,976) to Paul Visosky, a former director of the Company.
- Paid or accrued rent of \$13,924(2008 - \$nil) to a company controlled by a current director, David DeWitt and a former director, Marcel de Groot.

The transactions have been recorded at their exchange amount, which is the amount of consideration agreed upon by the related parties.

## **FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant credit risk, currency risk, interest risk, liquidity risk or other price risk.

## **SUBSEQUENT EVENTS**

### ***PUBLIC OFFERING***

On April 23, 2009 the Company completed an equity offering of 116,909,580 subscription receipts at a price of \$0.40 per subscription receipt for gross proceeds of \$46.8 million. The gross proceeds of the Public Offering were held in escrow until May 15, 2009, and were released upon completion of the Luna and SilverCrest transactions. On May 22, 2009, each subscription receipt was automatically converted, without additional consideration, into one common share of the Company and one-half of a share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of US\$0.60 until April 23, 2014. The net proceeds from the offering will be used to fund the Luna and SilverCrest transactions as described below. The balance of the net proceeds will be used for general corporate and working capital purposes.

In connection with the Public Offering, the Company paid agent fees of \$2.8 million, representing 6% of the gross proceeds. Additionally, the Company issued 7,014,575 Compensation Warrants to the agents, representing 6% of the number of subscription receipts issued. 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 US\$0.33 and each full share purchase warrant issued upon exercise of the Compensation Warrants will entitle the holder to purchase one common share at a price of US\$0.60 until April 23, 2014.

### ***AURIZONA ACQUISITION***

On May 15, 2009 the Company entered into an agreement to purchase 17% of the life of mine gold produced from Luna's open-pit Aurizona Project, located in Brazil, for US\$17.8 million and 5,500,000 common shares of the Company as an upfront payment plus ongoing per ounce payments equal to the lesser of US\$400 (subject to a 1% annual inflationary adjustment beginning 3 years after the mine achieves commercial production) and the then prevailing market price per ounce of gold. The upfront cash payment and the shares have been placed into escrow and will be released to Luna upon satisfaction of certain funding conditions including the requirement that Luna spend or irrevocably committed US\$17.5 million on development and construction of the Aurizona Project.

Luna has provided to Sandstorm a completion guarantee under which Luna may be required to return a portion of the US\$17.8 million upfront payment if, within 30 months from the date that Sandstorm makes the upfront payment to Luna, the Aurizona Project has not produced a minimum of 12,500 ounces of gold in any consecutive three month period.

The Aurizona Project will be an open-pit mine with a gravity and carbon-in-leach milling operation expected to average over 62,000 ounces of gold production annually over the expected mine life and may have exploration upside potential. For further details regarding the Aurizona project, refer to the NI 43-101 Technical Report, available under the Company's profile at [www.sedar.com](http://www.sedar.com).

If Luna decides to develop an underground mine on the Aurizona Project (the "Aurizona Underground Mine"), the Company has the right to purchase 17% of the gold from the underground mine at a per-ounce price equal to the lesser of US\$500 (subject to a 1% annual inflationary adjustment beginning 3 years after the Aurizona Underground Mine achieves commercial production) and the then prevailing market price per ounce of gold. If Sandstorm elects to exercise its right to purchase gold from Luna's Underground Mine, Sandstorm will be required to pay 17% of the capital expenditures incurred to determine the economic viability and to construct the mine.

### ***SANTA ELENA ACQUISITION***

On May 15, 2009, the Company entered into an agreement to purchase 20% of the gold produced from SilverCrest's open-pit Santa Elena Project, located in Mexico, for US\$12.0 million and 3,500,000 common shares of the Company as an upfront payment plus ongoing per ounce payments equal to the lesser of US\$350 (subject to a 1% annual inflationary adjustment beginning 3 years after the mine achieves commercial production) and the then prevailing market price per ounce of gold. The upfront cash payment and the shares will be advanced to SilverCrest upon satisfaction of certain funding conditions including the requirement that SilverCrest shall have sufficient financing to build and operate the Santa Elena Project.

SilverCrest has provided to Sandstorm a completion guarantee under which SilverCrest may be required to return a portion of the US\$12.0 million upfront payment if, within 30 months from the date that Sandstorm makes the upfront payment to SilverCrest, the Santa Elena Project has not produced a minimum of 7,500 ounces of gold in any consecutive three month period.

The Santa Elena Project will operate as a conventional open pit, heap leach gold-silver operation. The operating mine life is expected to be a minimum of eight years with an additional two years of leaching post cessation of mining activity. Over the operating mine life, average annual metal production is expected to be approximately 30,000 ounces of gold and 500,000 ounces of silver. For further details regarding the Santa Elena Project, refer to the NI 43-101 Technical Report, available under the Company's profile at [www.sedar.com](http://www.sedar.com).

If SilverCrest decides to develop an underground mine on the Santa Elena Project (the "Santa Elena Underground Mine"), the Company has the right to purchase 20% of the gold from the underground mine at a per-ounce price equal to the lesser of US\$450 (subject to a 1% annual inflationary adjustment beginning 3 years after the Santa Elena Underground Mine achieves commercial production) and the then prevailing market price per ounce of gold. If Sandstorm elects to exercise its right to purchase gold from the Santa Elena Underground Mine, Sandstorm will be required to pay 20% of the capital expenditures incurred (adjusted using a payable gold to payable gold equivalent ratio of silver) to determine the economic viability and to construct the mine.

### ***OPTION AND WARRANT EXERCISES***

Subsequent to March 31, 2009, 74,000 warrants and 60,000 options were exercised for total proceeds of \$11,100.

### **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 Short Form Prospectus dated April 16, 2009, which is available on [www.sedar.com](http://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 Project or the Santa Elena Project ("Projects"), the Company will be subject to the risk factors applicable to the operators of such projects.

#### ***NO CONTROL OVER MINING OPERATIONS***

The Company has agreed to purchase 17% of all of the gold produced by the Aurizona Project and 20% of the gold produced by the Santa Elena Project. The Company has no contractual rights relating to the operation or development of the Projects. Except for any payments which may be payable under the completion 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 Projects shut down or discontinue their operations on a temporary or permanent basis. The Projects 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 Projects or their successors may decide to suspend or discontinue operations.

### ***GOVERNMENT REGULATIONS***

The Projects 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 Projects in compliance with such laws and regulations are significant. It is possible that the costs and delays associated with compliance with such laws and regulations could become such that the owners or operators of the Projects would not proceed with the development of or continue to operate a mine. 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 Projects could result in substantial costs and liabilities in the future.

### ***INTERNATIONAL OPERATIONS***

The Aurizona Project is located in Brazil and the Santa Elena Project is located in Mexico, and as such the Projects 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, or Canada may adversely affect the operations or profitability of the Projects 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 Projects.

### ***INCOME TAXES***

The Company has incorporated a subsidiary in Barbados, Sandstorm Resources (Barbados) Limited, which entered into VPP contracts in connection with the Luna and SilverCrest 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 income tax.,

### ***COMMODITY 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 gold and other precious metals. 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 silver by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuation in the value of the United States dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of major silver-producing countries throughout the world. In the event that the prevailing market price of gold is less than USD\$400 per ounce (subject to applicable inflation adjustments) in the case of the agreement with Luna and US\$350 per ounce (subject to applicable inflation



adjustments) in the case of the agreement with SilverCrest, 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.

## **CHANGES IN ACCOUNTING POLICIES**

On April 1, 2008, the Company adopted three new presentation and disclosure standards issued by the Canadian Institute of Chartered Accountants. Sections 3862: Financial Instruments – Disclosure and 3863: Financial Instruments – Presentation have replaced Section 3862: Financial Instruments – Disclosure and Presentation. These new sections carry forward the presentation requirements for financial instruments and place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments.

Section 1535: Capital Disclosures requires disclosure of the Company's objectives, policies and processes for managing capital, quantitative data about what the Company regards as capital, whether the Company has complied with any capital requirements, and if the Company has not complied, the consequences of such non-compliance.

Section 1400: General Standards to Financial Statement Presentation was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. When management is aware of material uncertainties related to events or conditions that may cast doubt on an entity's ability to continue as a going concern, those uncertainties must be disclosed. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. There was no material impact on the Company's financial statements as a result of adopting this new standard.

In January 2009 the CICA issued Emerging Issues Committee ("EIC") Abstract 173 – Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities. The EIC is applicable for the Company's annual financial statements for year ended March 31, 2009 and for the Company's interim and annual financial statements thereafter, with retroactive application. The adoption of EIC-173 did not have a material impact on the Company's annual financial statements.

In March 2009, the CICA issued EIC Abstract 174 – Mining Exploration Costs which replaces EIC 126 – Accounting by Mining Enterprises for Exploration Costs. The EIC provides guidance for mining exploration enterprises on the accounting for capitalization of exploration costs and when an impairment test of these costs is required. The EIC is applicable for the Company's annual financial statements for year ended March 31, 2009 and for the Company's interim and annual financial statements thereafter, with retroactive application. The adoption of EIC 174 did not have a material impact on the Company's annual financial statements.

## **FUTURE CHANGES IN ACCOUNTING POLICIES**

### ***ACCOUNTING POLICIES TO BE IMPLEMENTED EFFECTIVE APRIL 1, 2009***

On April 1, 2009, the Company is required to adopt CICA Handbook Section 3064 – Goodwill and Intangible Assets. This new standard provides guidance on the recognition, measurement, presentation, and disclosure of goodwill and other intangible assets. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

### ***ACCOUNTING POLICIES TO BE IMPLEMENTED EFFECTIVE APRIL 1, 2011***

In January 2009, the CICA issued Handbook Sections 1582 – Business Combinations, 1601 – Consolidated Financial Statements, and 1602 – Non-Controlling Interests. Section 1582 replaces Section 1581 – Business Combinations and establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards (“IFRS”). Sections 1601 and 1602 replace Section 1600 – Consolidated Financial Statements. Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination.

These standards are effective April 1, 2011. Early adoption of the Sections is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time.

### ***INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)***

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

The transition date of April 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended March 31, 2011.

## 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 purchase agreements, adjusted where applicable to reflect the Company's percentage entitlement to gold produced from the mines.

### Sandstorm's Portion of Proven and Probable Reserves<sup>(1)</sup>

	PROVEN			PROBABLE			PROVEN & PROBABLE		
	Tonnes kt	Grade g Au/t	Contained oz	Tonnes kt	Grade g Au/t	Contained oz	Tonnes kt	Grade g Au/t	Contained oz
Aurizona <sup>(6,7,8,9,10)</sup>	197	1.48	9,350	1,730	1.36	75,650	1,927	1.37	85,000
Santa Elena <sup>(14,16,17,18,20,21,22)</sup>	--	--	--	1,308	1.61	67,920	1,308	1.61	67,920
<b>Total</b>			9,350			143,570			152,920

### Sandstorm's Portion of Measured and Indicated Resources<sup>(2)</sup>

	MEASURED			INDICATED			MEASURED & INDICATED		
	Tonnes kt	Grade g Au/t	Contained oz	Tonnes kt	Grade g Au/t	Contained oz	Tonnes kt	Grade g Au/t	Contained oz
Aurizona <sup>(3,5,8,11)</sup>	275	1.41	12,410	3,324	1.33	142,120	3,599	1.33	154,530
Santa Elena <sup>(13,15,19,20,21,22,23,24)</sup>	--	--	--	432	2.75	38,133	432	2.75	38,133
Santa Elena - Underground <sup>(13,15,19,20,21,22,23,24,25)</sup>	--	--	--	217	2.10	14,647	217	2.10	14,647

### Sandstorm's Portion of Inferred Resources<sup>(2)</sup>

	INFERRED		
	Tonnes kt	Grade g Au/t	Contained oz
Aurizona <sup>(3,5,8,11)</sup>	1,863	1.14	68,510
Santa Elena <sup>(13,15,19,20,21,22,23,24)</sup>	652	1.11	23,247
Santa Elena - Underground <sup>(13,15,19,20,21,22,23,24,25)</sup>	270	1.94	16,811
<b>Total</b>			108,568

#### 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 and National Instrument 43-101.
2. Mineral Resources which are not Mineral Reserves, do not have demonstrated economic viability.

#### For the Aurizona Project:

3. Aurizona Mineral Reserves are fully included in the Mineral Resources.
4. Aurizona Reserves are reported as of June 3, 2008.
5. Aurizona Resources are reported as of January 15, 2009.
6. The mineral reserve estimates set out in the table above have been prepared by Peter Clarke, P.Eng., Principal Engineer of SRK, who is a qualified person under NI 43-101. The mineral reserves are classified as proven and probable and are based on the CIM Standards.
7. Calculation of mineral reserves was performed using Vulcan(tm) (v7.5) general mine planning software based on an optimized pit design for all ore types.
8. Based on a gold price of US\$650 per ounce.

9. Mineral reserves are not diluted (further to dilution already incorporated into the mineral resource model) and assume selectivity in mining. Full mining recovery is assumed.
10. The mineral reserves set out in the table above are based on data produced through December 2007. The mineral resources were updated in January 2009 based on drilling through 2008, and were published by Luna in a press release. A new technical report was not required as it was not considered material at a 20% increase in mineral resources. The Aurizona Report is exactly the same as the technical report originally prepared for Luna, except that the updated mineral resource estimate was mentioned in the section entitled "Other Relevant Information". The mineral reserves were not updated in the new mineral resource estimate.
11. The mineral resource estimates set out in the table above have been prepared by Leah Mach, C.P.G., M.Sc., Principal Resource Geologist of SRK, who is a qualified person under NI 43-101. The mineral resources are classified as measured, indicated and inferred and are based on the CIM Standards.
12. Based on 0.3 grams per tonne cut-off grade.

*For the Santa Elena Project:*

13. Mineral Resources are exclusive of Mineral Reserves.
14. Santa Elena Reserves are reported as of August 2008.
15. Santa Elena Resources are reported as of January 2009.
16. The mineral reserve estimates set out in the table above have been prepared by Graham G. Clow, P.Eng., Principal Mining Engineer at SWRPA, David W. Rennie, P.Eng., Principal Geologist at SWRPA, and C. Stewart Wallis, P.Geo., Associate Consulting Geologist at SWRPA, whom are independent qualified persons under NI 43-101. The mineral reserves are classified as probable and are based on the CIM Standards.
17. Mineral reserves are estimated at a cut-off grade of 0.5 grams of gold per tonne.
18. Mineral reserves are estimated using a long-term gold price of US\$765 per ounce, a long-term silver price of US\$11.95 per ounce and a US\$/peso exchange rate of 1:10.58.
19. The mineral resource estimates set out in the table above have been prepared by Nathan Eric Fier, C.P.G., P.Eng., Chief Operating Officer of SilverCrest, who is a qualified person under NI 43-101. The mineral resources are classified as indicated and inferred and are based on the CIM Standards.
20. Composites capped at 12 grams of gold per tonne and 300 grams of silver per tonne.
21. Cut-off grade of 0.5 grams of gold equivalent per tonne.
22. Numbers have been rounded.
23. Mineral resources are estimated at a cut-off grade of 1.75 g/t Au equivalent at a ratio of 83:1 (Ag:Au) using a 94% Au recovery and 80% Ag recovery.
24. Mineral resources are estimated using a long-term gold price of US\$850 per ounce, a long-term silver price of US\$12 per ounce and a US\$/peso exchange rate of 1:10.58.
25. Minimum mining width of 2 metres.

***Cautionary Language Regarding Reserves and Resources***

For further details regarding the Aurizona Project, refer to the NI 43-101 Technical Report, available under the Company's profile at [www.sedar.com](http://www.sedar.com). For further details regarding the Santa Elena Project, refer to the Pre-Feasibility Study and the Technical Report for the Santa Elena Project, available under the Company's profile at [www.sedar.com](http://www.sedar.com). Mineral Resources which are not Mineral Reserves, do not have demonstrated economic viability.

## AUDITORS' REPORT

To the Shareholders of  
Sandstorm Resources Ltd.

We have audited the balance sheets of Sandstorm Resources Ltd. as at March 31, 2009 and 2008 and the statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada

Chartered Accountants

June 8, 2009



1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, BC, Canada, V7Y 1G6  
Telephone (604) 687-0947 Fax (604) 687-6172

## BALANCE SHEETS

As of March 31,

ASSETS	Notes	2009	2008
<b>Current</b>			
Cash		\$ 998,629	\$ 1,360,271
Receivables		28,163	7,579
Prepaid expenses		37,237	--
		<u>1,064,029</u>	<u>1,367,850</u>
<b>Deferred charges</b>	5	387,644	102,982
<b>Equipment</b>		2,805	--
		<u>\$ 1,454,478</u>	<u>\$ 1,470,832</u>

## LIABILITIES

<b>Current</b>			
Accounts payable and accrued liabilities		\$ 420,885	\$ 55,533

## SHAREHOLDERS' EQUITY

Share capital	7	1,075,019	254,152
Share subscriptions received in advance		--	1,213,500
Contributed surplus	7	451,487	19,584
Deficit		(492,913)	(71,937)
		<u>1,033,593</u>	<u>1,415,299</u>
		<u>\$ 1,454,478</u>	<u>\$ 1,470,832</u>

**Nature of operations** (Note 1)

**Subsequent events** (Note 10)

ON BEHALF OF THE BOARD:

"Nolan Watson" , Director

"David Awram" , Director

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

## STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS, AND DEFICIT

For the years ended March 31,

	Notes	2009	2008
<b>Expenses</b>			
Amortization	\$	1,208	\$ --
General and administrative		58,555	2,260
Exploration	6	200,000	--
Professional fees		66,122	27,602
Stock-based compensation		--	8,048
Transfer agent and filing fees		38,133	28,092
Travel		34,040	--
<b>Total Expenses</b>		<b>(398,058)</b>	<b>(66,002)</b>
<b>Other Items</b>			
Foreign exchange gain		10,680	--
Interest income		37,292	4,399
Write-off of mineral property costs	6	(131,640)	--
<b>Loss before taxes</b>		<b>(481,726)</b>	<b>(61,603)</b>
Future income tax recovery	9	60,750	--
<b>Loss and comprehensive loss for the Year</b>		<b>(420,976)</b>	<b>(61,603)</b>
Deficit - Beginning of Year		(71,937)	(10,334)
<b>Deficit - End of Year</b>	\$	<b>(492,913)</b>	\$ <b>(71,937)</b>
<b>Loss per Share - Basic and Diluted</b>	\$	<b>(0.02)</b>	\$ <b>(0.02)</b>
<b>Weighted Average Number of Common Shares</b>		<b>17,081,622</b>	<b>3,734,940</b>

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

## STATEMENTS OF CASH FLOWS

For the years ended March 31,

	Note	2009	2008
<b>Cash Provided By (Used In):</b>			
<b>Operating Activities</b>			
Loss for the year		\$ (420,976)	\$ (61,603)
Items not affecting cash:			
Amortization		1,208	--
Future income tax recovery		(60,750)	--
Stock-based compensation		--	8,048
Write-off of mineral property costs	6	131,640	--
Unrealized foreign exchange gain		(10,692)	--
Changes in non-cash working capital:			
Receivables		(20,584)	(7,579)
Prepaid expenses		(36,809)	--
Accounts payable and accrued liabilities		26,487	9,307
		<u>(390,476)</u>	<u>(51,827)</u>
<b>Investing Activities</b>			
Deferred charges – qualifying transaction costs		--	(40,497)
Equipment		(4,013)	--
Mineral property costs		(78,142)	--
		<u>(82,155)</u>	<u>(40,497)</u>
<b>Financing Activities</b>			
Share issue proceeds		124,900	210,200
Share issuance costs		(11,718)	(56,512)
Deferred charges – share issuance costs		(12,885)	(26,590)
Share subscriptions received in advance		--	1,213,500
		<u>100,297</u>	<u>1,340,598</u>
<b>Net Increase (Decrease) in Cash</b>		(372,334)	1,248,274
Cash – Beginning of Year		1,360,271	111,997
Effect of exchange rate changes on cash		10,692	--
		<u>998,629</u>	<u>1,360,271</u>
<b>Cash - End of Year</b>		\$ 998,629	\$ 1,360,271
<b>Significant non-cash transactions:</b>			
Shares issued for option payment		\$ 13,000	\$ --
Deferred charges accrued		374,760	35,895
Allocation of deferred charges to mineral property costs		70,348	--
Allocation of deferred charges to share issuance costs		32,206	--
Allocation of share subscriptions received in advance		1,213,500	--

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



## Notes to the Financial Statements

### 1. NATURE OF OPERATIONS

Sandstorm Resources Ltd. (“Sandstorm” or “the Company”) was incorporated under the Business Corporations Act of British Columbia on March 23, 2007. The Company is a growth focused mineral resource based company that seeks to acquire volume based production payment contracts (“VPPs”) from companies that have advanced stage development projects or operating mines. In return for making a one-time upfront payment to acquire a VPP, Sandstorm receives the right to purchase, at a fixed price per ounce, a percentage of a mine’s production for the entire life of the mine. Previously the Company was a Capital Pool Company focused on exploring mineral properties in Canada.

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### 2. SIGNIFICANT ACCOUNTING POLICIES

#### A) BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”).

#### B) USE OF ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Significant areas where management’s judgment is applied are deferred charges, impairment, and income taxes. Actual results may differ from those estimates

#### C) FINANCIAL INSTRUMENTS

The Company’s financial instruments consist of cash, receivables, accounts payable, and accrued liabilities. The Company has designated its financial instrument as follows:

Cash is classified as “Held-for-Trading”. Receivables are classified as “Loans and Receivables”. Due to their short-term nature and capacity of prompt liquidation, their carrying value equals their fair value. Accounts payable and accrued liabilities are classified as “Other Financial Liabilities”. These financial liabilities are recorded at values that approximate their amortized cost using the effective interest method.

All gains and losses as a result of changes in fair value are included in net loss in the year they occur.

#### D) DEFERRED CHARGES

Costs associated with proposed financing and VPP agreements are capitalized to deferred charges if the financing and agreements are more likely than not to be completed. Costs include legal and other costs direct and incremental incurred in connection with proposed transactions. Deferred charges incurred for proposed financing are recorded as a reduction of share capital at the completion of the financing or expensed if the financing does not complete. Deferred charges incurred for proposed VPP agreements are recorded as an increase to Mineral Interests at the signing of definitive agreements or expensed if no definitive agreements are reached.

Direct costs incurred with respect to the subsequent public offering and VPP agreements summarized in Note 10 are deferred.

## Notes to the Financial Statements

### **E) EQUIPMENT**

Equipment is recorded at cost. The Company provides for amortization of its equipment using the straight-line method with useful lives ranging from one to three years.

### **F) MINERAL PROPERTIES**

Mineral property exploration expenditures incurred prior to the determination of the feasibility of mining operations and a decision to proceed with development are charged to operations as incurred. Development expenditures incurred subsequent to a development decision, and to increase or to extend the life of existing production, are capitalized and will be amortized on the unit-of-production method based upon estimated proven and probable reserves. The Company's accounting policy to expense exploration as incurred was revised from its policy at June 30, 2008 which was to capitalize exploration and development costs. The change had no impact on the financial statements for the period ended June 30, 2008.

Mineral property acquisition costs are capitalized and include cash costs and fair market value of common shares, based on the trading price of the shares issued for mineral property interests. Payments relating to a property acquired under an option or joint venture agreement are made at the sole discretion of the Company, and are recorded as mineral property acquisition costs upon payment. Upon commencement of commercial production, the related accumulated costs are amortized against projected income using the units of production method over estimated recoverable reserves.

Management annually assesses carrying values of non-producing properties and properties for which events and circumstances may indicate possible impairment. Impairment of a property is generally considered to have occurred if the property has been abandoned, there are unfavorable changes in the property economics, there are restrictions on development, or when there has been an undue delay in development. If management determines that the carrying values cannot be recovered or the carrying values are related to properties that are allowed to lapse, the unrecoverable amounts are expensed in the period that this determination is made.

The recoverability of mineral properties is dependent on the existence of economically recoverable reserves, the ability to obtain the necessary financing to complete the development of the reserves, and the profitability of future operations. The Company has not yet determined whether or not any of its future mineral properties contain economically recoverable reserves. Amounts capitalized to mineral properties as exploration and development costs do not necessarily reflect present or future values.

As of March 31, 2009, all mineral property costs were considered impaired and were written down to \$nil.

### **G) INCOME TAXES**

The asset and liability method is used for determining future income taxes. Under the asset and liability method, the change in the net future income tax asset or liability is included in income. The income tax effects of differences in the periods when revenue and expenses are recognized, in accordance with Company accounting practices, and the periods they are recognized for income tax purposes are reflected as future income tax assets or liabilities. Future income tax assets and liabilities are measured using the enacted or substantively enacted statutory income tax rates which are expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. A valuation allowance is recorded against any future tax asset if it is not more likely than not to be realized.

## Notes to the Financial Statements

### **H) SHARE CAPITAL**

The proceeds from the issue of units are allocated between common shares and common share purchase warrants on a pro-rata basis based on relative fair values. The fair value of common shares is based on the market close on the date the units are issued and the fair value of common share purchase warrants is determined using the Black-Scholes pricing model.

### **I) FLOW-THROUGH SHARES**

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Under the asset and liability method of accounting for income taxes, the future income taxes related to the temporary difference arising at the renunciation date are recorded as a liability on the renunciation date together with a corresponding reduction to the carrying value of the shares issued.

### **J) LOSS PER SHARE**

Loss per share is computed by dividing the loss available to common shareholders by the weighted average number of common shares issued and outstanding during the year. Diluted earnings per share are calculated using the treasury method which requires the calculation of diluted earning per share by assuming that outstanding share purchase options and warrants, with an average market price that exceeds the average exercise prices of the options and warrants for the year, are exercised and the proceeds are used to repurchase shares of the Company at the average market price of the common shares for the year.

As of March 31, 2009, all outstanding options and warrants were excluded from the calculation of dilutive loss per share as their effects would be anti-dilutive.

### **K) STOCK-BASED COMPENSATION**

All stock-based awards are measured and recognized using a fair value based method. The fair value of stock options is determined using the Black-Scholes option pricing model and is expensed over the period of vesting. Any consideration paid on the exercise of stock options is credited to share capital.

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## **3. CHANGE IN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

### **A) ACCOUNTING POLICIES IMPLEMENTED EFFECTIVE APRIL 1, 2008**

On April 1, 2008, the Company adopted three new presentation and disclosure standards issued by the Canadian Institute of Chartered Accountants ("CICA"). Sections 3862: Financial Instruments – Disclosure and 3863: Financial Instruments – Presentation have replaced Section 3862: Financial Instruments – Disclosure and Presentation. These new sections carry forward the presentation requirements for financial instruments and place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments.

Section 1535: Capital Disclosures requires disclosure of the Company's objectives, policies and processes for managing capital, quantitative data about what the Company regards as capital, whether the Company has complied with any capital requirements, and if the Company has not complied, the consequences of such non-compliance.

## Notes to the Financial Statements

Section 1400: General Standards to Financial Statement Presentation was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. When management is aware of material uncertainties related to events or conditions that may cast doubt on an entity's ability to continue as a going concern, those uncertainties must be disclosed. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. There was no material impact on the Company's financial statements as a result of adopting this new standard.

In January 2009 the CICA issued Emerging Issues Committee ("EIC") Abstract 173 – Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities. The EIC is applicable for the Company's annual financial statements for year ended March 31, 2009 and for the Company's interim and annual financial statements thereafter, with retroactive application. The adoption of EIC-173 did not have a material impact on the Company's annual financial statements.

In March 2009, the CICA issued EIC Abstract 174 – Mining Exploration Costs which replaces EIC 126 – Accounting by Mining Enterprises for Exploration Costs. The EIC provides guidance for mining exploration enterprises on the accounting for capitalization of exploration costs and when an impairment test of these costs is required. The EIC is applicable for the Company's annual financial statements for year ended March 31, 2009 and for the Company's interim and annual financial statements thereafter, with retroactive application. The adoption of EIC 174 did not have a material impact on the Company's annual financial statements.

### ***B) ACCOUNTING POLICIES TO BE IMPLEMENTED EFFECTIVE APRIL 1, 2009***

On April 1, 2009, the Company is required to adopt CICA Handbook Section 3064 – Goodwill and Intangible Assets. This new standard provides guidance on the recognition, measurement, presentation, and disclosure of goodwill and other intangible assets. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

### ***C) ACCOUNTING POLICIES TO BE IMPLEMENTED EFFECTIVE APRIL 1, 2011***

In January 2009, the CICA issued Handbook Sections 1582 – Business Combinations, 1601 – Consolidated Financial Statements, and 1602 – Non-Controlling Interests. Section 1582 replaces Section 1581 – Business Combinations and establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Sections 1601 and 1602 replace Section 1600 – Consolidated Financial Statements. Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination.

These standards are effective April 1, 2011. Early adoption of the Sections is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time.

### ***D) INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")***

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use

## Notes to the Financial Statements

IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

The transition date of April 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended March 31, 2011.

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### 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

The Company has designated its financial instruments as follows:

- Cash is classified as "Held-for-Trading". Due to its short-term nature, its carrying value equals its fair value.
- Receivables are classified as "Loans and Receivables".
- Accounts payable and accrued liabilities are classified as "Other Financial Liabilities". These financial liabilities are recorded at values that approximate their amortized cost using the effective interest rate method.

#### ***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 VPP contracts on precious metals. The Company's overall strategy has changed from March 31, 2008 as the Company has changed its strategy from exploring mineral properties to entering into VPP agreements with advance stage developing projects or operating mines. The capital of the Company consists of shareholders' equity. The Company is meeting its capital risk objectives by successfully raising, from time to time, the required funds. The Company expects to continue to raise funds, from time to time, to continue meeting its capital management objectives. The Company is not subject to externally imposed capital requirements.

#### ***CREDIT RISK***

The Company's credit risk is limited to its investment in cash and receivables. The Company holds its cash and cash equivalents with a large international financial institution and the balance of receivables owed to the Company in the ordinary course of business is not significant. Therefore, the Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from the prior year.

#### ***CURRENCY RISK***

The Company's currency risk is limited to a small portion of its cash invested in a foreign currency. At March 31, 2009, the portion of cash invested in a foreign currency was 4%. Therefore, the Company is not exposed to significant currency risk.

#### ***INTEREST RATE RISK***

The Company's interest rate risk is limited to the rate of return on its investment in cash equivalents. The Company's rate of return on its cash deposits is tied to the Canadian short term interest rates which have

## Notes to the Financial Statements

declined during the year ended March 31, 2009, which results in lower interest income. However, due to their short term nature, cash equivalents are valued at par and are otherwise not subject to interest rate risk.

### **LIQUIDITY RISK**

The Company's financial instruments are not exposed to liquidity risk as the Company has sufficient working capital to meet its obligations.

### **OTHER PRICE RISK**

None of the Company's future cash flows of financial instruments are subject to change from other price changes.

## 5. DEFERRED CHARGES

On March 12, 2009, as amended on April 16, 2009, the Company entered into two letters of intent with Luna Gold Corp. ("Luna") and SilverCrest Mines Inc. ("SilverCrest") to acquire gold VPPs. Under the letter of intent with Luna, the Company would acquire 17% of the life of mine gold produced from Luna's Aurizona project (the "Aurizona Project"). Under the letter of intent with SilverCrest, the Company would acquire 20% of the life of mine gold produced from SilverCrest's Santa Elena project (the "Santa Elena Project"). Subsequent to March 31, 2009, the Company entered into definitive agreements with Luna and SilverCrest (*Note 10*). As of March 31, 2009, deferred costs incurred for these transactions were \$104,588.

On March 12, 2009, the Company filed a preliminary short form prospectus with a proposed public offering (the "Public Offering") of subscription receipts at a price of \$0.40 per subscription receipt. Each subscription receipt entitled the holder to acquire one common share of the Company and one-half of one common share purchase warrant. Each warrant will be exercisable for one common share of the Company at a price of US\$0.60 for a period of five years from the closing of the offering. Subsequent to March 31, 2009, the Company completed the Public Offering (*Note 10*). As of March 31, 2009, deferred costs incurred for this financing were \$283,056.

## 6. MINERAL PROPERTY

The Company entered into a property option agreement, amended on February 6, 2009, with Eagle Plains Resources Ltd. ("Eagle Plains") to earn up to a 75% interest in certain mineral claims referred to as the Elsiar Property in British Columbia, Canada. As of March 31, 2009, the Elsiar Property was considered to be impaired. All of the capitalized acquisition costs of \$131,640 were written-off. Subsequent to March 31, 2009, the Company terminated its option agreement with Eagle Plains.

During the year, the Company incurred the following exploration expenses for the Elsiar Property:

Geo Chemistry	\$	46,017
Geological, mining & other consulting		89,272
Travel		8,806
Equipment rental & Supplies		47,875
Other expenses		8,030
<b>Total</b>	<b>\$</b>	<b>200,000</b>

## Notes to the Financial Statements

No exploration expenses were incurred for the year ended March 31, 2008.

### 7. SHARE CAPITAL AND CONTRIBUTED SURPLUS

#### A) SHARES ISSUED

	Number of Shares	Capital Stock	Contributed Surplus
Authorized:			
Unlimited common shares without par value			
Issued and outstanding:			
Balance – March 31, 2007	2,240,000	\$ 112,000	\$ --
Shares issued for capital	200,000	10,000	--
Share issuance for initial public offering	2,000,000	200,000	--
Share issuance costs	--	(56,512)	--
Agent's warrants issued as share issuance costs	--	(11,653)	11,653
Stock-based compensation	--	--	8,048
Shares issued for warrant exercise	2,000	200	--
Fair value of warrants exercised	--	117	(117)
Balance – March 31, 2008	4,442,000	\$ 254,152	\$ 19,584
Units issued for private placements (non-flow through)	11,350,000	764,333	370,667
Units issued for private placements (flow through)	2,000,000	134,684	65,316
Share issuance costs	--	(37,880)	--
Shares issued for option payment	100,000	13,000	--
Shares issued for warrant exercise	34,000	3,400	--
Fair value of warrants exercised	--	4,080	(4,080)
Renouncement of exploration expenses	--	(60,750)	--
Balance – March 31, 2009	17,926,000	\$ 1,075,019	\$ 451,487

Effective on April 4, 2008, all common shares were split on a two-for-one basis. Accordingly, the comparative number of shares and per share amounts has been retroactively adjusted to reflect the two-for-one split.

On July 31, 2007, the Company completed its initial public offering of 2,000,000 common shares at \$0.10 per share for gross proceeds of \$200,000. The Company paid a commission of 10% of the gross proceeds, a corporate finance fee of \$8,000, and granted 200,000 agent's warrants valued at \$11,653 with an exercise price of \$0.10 per share. The warrants expire on July 31, 2009.

During the year ended March 31, 2009, the Company completed a non-brokered private placement of 11,350,000 units of the Company at a price of \$0.10 per unit, for gross proceeds of \$1,135,000. In addition, the Company completed a non-brokered private placement of 2,000,000 units of flow-through financing at

## Notes to the Financial Statements

a price of \$0.10 per unit, for gross proceeds of \$200,000. Units of both the non-flow through units and the flow through units consist of one common share and one common share purchase warrant. Each warrant will entitle the holder to acquire one additional common share of the Company at a price of \$0.195 a share and expire April 22, 2010.

Included in the shares outstanding at March 31, 2009, are 9,320,000 (March 31, 2008 – 2,240,000) common shares held in escrow. These common shares will be released pro-rata to the shareholders in five equal tranches of 1,864,000 every six months from April 24, 2009. These escrow shares may not be transferred, assigned or otherwise dealt with without the consent of the regulatory authorities.

### B) STOCK OPTIONS

On September 12, 2008 shareholders approved 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 and vesting term to be determined by the board of directors. 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.

On July 31, 2007, the Company granted 100,000 stock options with an exercise price of \$0.10 per option to the directors and officers of the Company, which expire on July 31, 2012. All options granted were immediately exercisable at the grant date. The options had a fair value of \$8,048 or \$0.08 per option.

The fair value of the options was determined using the Black-Scholes option valuation model with the following assumptions:

Expected dividend yield	0.00%
Expected stock price volatility	110%
Risk-free interest rate	4.50%
Expected life of options	5 years

On April 22, 2008, three of the Company’s directors resigned. As a result, the 60,000 stock options granted to these directors now expire April 22, 2009. The remaining 40,000 options granted during 2007 continue to expire on July 31, 2012.

A summary of the Company’s options as of March 31, 2009 is as follows:

Number	Vested	Price per Share	Expiry Date
60,000	60,000	\$0.10	April 22, 2009
40,000	40,000	\$0.10	July 31, 2012
100,000	100,000		



## Notes to the Financial Statements

### C) SHARE PURCHASE WARRANTS

During the year ended March 31, 2009, the Company granted 13,350,000 (2008 – 200,000) warrants with a fair market value of \$435,983 (2008 – \$11,653). The fair value of the warrants was determined using the Black-Scholes pricing model using the following assumptions:

	<u>Mar. 31, 2009</u>	<u>Mar. 31, 2008</u>
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	110%	110%
Risk-free interest rate	2.64%	4.50%
Expected life of warrants	2 years	2 years

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

	Number of Warrants
Warrants outstanding at March 31, 2007	--
Issued	200,000
Exercised	(2,000)
Warrants outstanding at March 31, 2008	198,000
Issued	13,350,000
Exercised	(34,000)
Warrants outstanding at March 31, 2009	<u>13,514,000</u>

A summary of the Company's warrants as of March 31, 2009 is as follows:

	Number	Price per Share	Expiry Date
	164,000	\$0.10	August 13, 2009
	13,350,000	\$0.195	April 22, 2010
	<u>13,514,000</u>		

Included in warrants outstanding at March 31, 2009, are 7,380,000 (March 31, 2008 – nil) warrants held in escrow. These warrants will be released pro-rata to the holders in five equal tranches of 1,476,000 every six months from April 24, 2009. Any common shares acquired by the holders of these warrants upon exercise will also fall under the terms of the subject escrow agreement.

### D) RENOUNCEMENT OF EXPLORATION EXPENSES

On January 21, 2009, the Company renounced \$200,000 of exploration expenses (*Note 6*) to the flow-through shareholders. Accordingly, the Company's share capital was reduced by \$60,750, due to the future income tax liability incurred with the renouncement. The future income tax liability was reversed with the Company's valuation allowance, which resulted in a future income tax recovery of \$60,750.

## Notes to the Financial Statements

### 8. RELATED PARTY TRANSACTIONS

The Company entered into transactions with related parties during the year ended March 31, 2009 as follows:

- a) Paid or accrued legal fees of \$15,715 (2008 - \$86,976) to a former director of the Company.
- b) Paid or accrued rent, included in general and administration, of \$13,924 (2008 - \$nil) to a company controlled by a current director and a former director.

The transactions have been recorded at their exchange amount, which is the amount of consideration agreed upon by the related parties.

### 9. INCOME TAXES

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

	For the year ended March 31, 2009	For the year ended March 31, 2008
Loss before income taxes	\$ (481,726)	\$ (61,603)
Canadian federal and provincial income tax rates	30.4%	33.5%
Income tax recovery based on the above rates	(146,324)	(20,637)
Increase (decreased) due to:		
Permanent differences	(3,930)	(441)
Reduction in long term Canadian income tax rates	9,357	--
Change in valuation allowance	80,147	21,078
Income tax recovery ( <i>Note 7D</i> )	\$ (60,750)	\$ --

The components of future income taxes are as follows:

	March 31, 2009	March 31, 2008
Future Income Tax Assets		
Mineral property and equipment	\$ 34,360	\$ --
Non-capital losses	67,490	19,779
Share issue costs	17,700	19,623
Value of future income tax assets	119,549	39,402
Valuation allowance	(119,549)	(39,402)
Future income tax asset, net	--	--

A valuation allowance has been recorded against the potential future income tax assets as their utilization is not considered more likely than not.

## Notes to the Financial Statements

The company has non-capital loss carry-forwards that will expire if unused of \$259,576 that may be available for income tax purposes. The loss carry-forwards expire as follows:

2027	\$	10,334
2028		70,090
2029		179,152
	\$	<u>259,576</u>

## 10. SUBSEQUENT EVENTS

### **FINANCING**

On April 23, 2009 the Company completed an equity offering of 116,909,580 subscription receipts at a price of \$0.40 per subscription receipt for gross proceeds of \$46,763,832. Each subscription receipt entitles the holder to receive one common share and one-half common share warrant. Each whole warrant will entitle the holder to purchase one common share at a price of US\$0.60 until April 23, 2014.

The Company paid agent fees of \$2,805,830, representing 6% of the gross proceeds. Additionally, the Company issued 7,014,574 Compensation Warrants to the agents, representing 6% of the number of subscription receipts issued. Each Compensation Warrant entitles the holder to acquire one unit comprised of one common share of the Company and one-half common share warrant. Each full warrant will entitle the holder to purchase one common share at a price of US\$0.60 until April 23, 2014. Each Compensation Warrant has an exercise price of US\$0.33.

### **AURIZONA ACQUISITION**

On May 15, 2009 the Company entered into an agreement to purchase 17% of the life of mine gold produced from Luna's open-pit Aurizona Project, located in Brazil, for a US\$17,800,000 and 5,500,000 common shares of the Company as an upfront payment plus ongoing per ounce payments equal to the lesser of US\$400 (subject to a 1% annual inflationary adjustment beginning 3 years after the mine achieves commercial production) and the then prevailing market price per ounce of gold. The upfront cash payment and the shares have been placed into escrow and will be released to Luna upon satisfaction of certain funding conditions including the requirement that Luna spend or irrevocably committed US\$17,500,000 on development and construction of the Aurizona Project.

Luna has provided to Sandstorm a completion guarantee under which Luna may be required to return a portion of the US\$17,800,000 upfront payment if, within 30 months from the date that Sandstorm makes the upfront payment to Luna, the Aurizona Project has not produced a minimum of 12,500 ounces of gold in any consecutive three month period.

If Luna decides to develop an underground mine on the Aurizona Project (the "Aurizona Underground Mine"), the Company has the right to purchase 17% of the gold from the underground mine at a per-ounce price equal to the lesser of US\$500 (subject to a 1% annual inflationary adjustment beginning 3 years after the Aurizona Underground Mine achieves commercial production) and the then prevailing market price per ounce of gold. If Sandstorm elects to exercise its right to purchase gold from Luna's Underground Mine, Sandstorm will be required to pay 17% of the capital expenditures incurred to determine the economic viability and to construct the mine.

## Notes to the Financial Statements

### ***SANTA ELENA ACQUISITION***

On May 15, 2009, the Company entered into an agreement to purchase 20% of the gold produced from SilverCrest's open-pit Santa Elena Project, located in Mexico, for a US\$12,000,000 and 3,500,000 common shares of the Company as an upfront payment plus ongoing per ounce payments equal to the lesser of US\$350 (subject to a 1% annual inflationary adjustment beginning 3 years after the mine achieves commercial production) and the then prevailing market price per ounce of gold. The upfront cash payment and the shares will be advanced to SilverCrest upon satisfaction of certain funding conditions including the requirement that SilverCrest shall have sufficient financing to build and operate the Santa Elena Project.

SilverCrest has provided to Sandstorm a completion guarantee under which SilverCrest may be required to return a portion of the US\$12,000,000 upfront payment if, within 30 months from the date that Sandstorm makes the upfront payment to SilverCrest, the Santa Elena Project has not produced a minimum of 7,500 ounces of gold in any consecutive three month period.

If SilverCrest decides to develop an underground mine on the Santa Elena Project (the "Santa Elena Underground Mine"), the Company has the right to purchase 20% of the gold from the underground mine at a per-ounce price equal to the lesser of US\$450 (subject to a 1% annual inflationary adjustment beginning 3 years after the Santa Elena Underground Mine achieves commercial production) and the then prevailing market price per ounce of gold. If Sandstorm elects to exercise its right to purchase gold from the Santa Elena Underground Mine, Sandstorm will be required to pay 20% of the capital expenditures incurred (adjusted using a payable gold to payable gold equivalent ratio of silver) to determine the economic viability and to construct the mine.

### ***OPTION AND WARRANT EXERCISES***

Subsequent to March 31, 2009, 74,000 warrants and 60,000 options were exercised for total proceeds of \$11,100.