SANDSTORM

RESOURCES LTD.

Second Quarter Report
September 30, 2009

SANDSTORM RESOURCES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Period Ended September 30, 2009

This management's discussion and analysis ("MD&A") for Sandstorm Resources Ltd. ("Sandstorm" or "the Company") should be read in conjunction with the unaudited interim consolidated financial statements for the period ended September 30, 2009 and related notes thereto which have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The information contained within this MD&A is current to October 19, 2009 and is stated in U.S. dollars unless otherwise noted.

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 company that seeks to acquire volume based production payment agreements ("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 agreement, Sandstorm receives the right to purchase, at a fixed price per unit, a percentage of a mine's production for a stipulated term. Sandstorm helps other companies in the resource industry grow their businesses, while acquiring attractive assets in the process. The Company is focused on acquiring VPP agreements for mines with low production costs, significant exploration potential and strong management teams. The Company currently has three VPPs.

AURIZONA VPP AGREEMENT

On May 15, 2009 the Company entered into an agreement to purchase 17% of the life of mine gold produced from Luna Gold Corp.'s ("Luna") open-pit Aurizona project, located in Brazil (the "Aurizona Project"), for $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 $400 (subject to a 1% annual inflationary adjustment beginning 3 years after the mine achieves commercial production (an "Inflationary Adjustment")) and the then prevailing market price per ounce of gold. The upfront cash payment and the shares were released from escrow to Luna on October 16, 2009.

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.

Luna has provided to Sandstorm a completion guarantee under which Luna may be required to return a portion of the $17.8 million upfront payment if by April 16, 2012, 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 Aurizona Underground Mine at a per-ounce price equal to the lesser of $500 (subject to an Inflationary Adjustment) and the then prevailing market price per ounce of gold. If Sandstorm elects to exercise its right to purchase gold from the Aurizona 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 VPP AGREEMENT

On May 15, 2009, the Company entered into an agreement to purchase 20% of the gold produced from SilverCrest Mines Inc.'s ("SilverCrest") open-pit Santa Elena project, located in Mexico (the "Santa Elena Project"), for $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 $350 (subject to an Inflationary Adjustment) and the then prevailing market price per ounce of gold. The upfront cash payment and the shares will be released 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.

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 two years of leaching post cessation of mining activity. Over the operating mine life, average annual metal production is expected to exceed 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.

SilverCrest has provided to Sandstorm a completion guarantee under which SilverCrest may be required to return a portion of the $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.

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 Santa Elena Underground Mine at a per-ounce price equal to the lesser of $450 (subject to an Inflationary Adjustment) 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) to determine the economic viability and to construct the mine.

SUMMIT VPP AGREEMENT

On September 14, 2009, the Company entered into an agreement to purchase 50% of the first 10,000 ounces of gold produced, and 22% of the gold produced thereafter, from Santa Fe Gold Corporation's ("Santa Fe") Summit mine, located in the United States of America (the "Summit Mine"). In consideration, the Company made an upfront payment of $4.0 million and will make ongoing per ounce payments equal to the lesser of $400 (subject to an Inflationary Adjustment) and the then prevailing market price per ounce of gold. The amount of payable gold can be reduced from 22% to 15% if, by October 7, 2012, the rate of mineralized rock mined and processed from the Summit mine averages 400 tonnes per day or more for any consecutive 12 month period and payable gold production exceeds 11,500 ounces during such period.

During the six months ended September 30, 2009, the Company paid $500,000 of the upfront payment to Santa Fe. On October 7, 2009 the Company paid the remaining $3.5 million of the upfront payment.

Santa Fe has the option until July 7, 2010 to increase the size of the transaction by $1.0 million. If Santa Fe exercises this option, the percentage of payable gold that the Company will be entitled to purchase will increase to 62.5% for the first 10,000 ounces of gold produced and 27.5% of gold produced thereafter.

The Summit Mine is an underground silver-gold mine located in southwestern New Mexico, USA. It is a low sulphidation epithermal deposit, which Santa Fe has been mining and stock piling mineralized rock for the past four months. Mineralized rock from the Summit Mine is transported to Santa Fe's mill located in Lordsburg where a gold-silver concentrate will be produced. The mill is fully operational and will commence processing material upon receipt of final permits. Gold concentrate sales are anticipated to begin in 2010.

PUBLIC OFFERING: APRIL 2009

On April 23, 2009 the Company completed an equity offering of 116,909,580 subscription receipts at a price of C$0.40 per subscription receipt for gross proceeds of C$46.8 million ($38.1 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 $0.60 until April 23, 2014. A portion of the net proceeds from the public offering were used to fund the Luna and Summit upfront payments and the remainder will be used to fund the SilverCrest upfront payment and for general corporate and working capital purposes.

In connection with the public offering, the Company paid agent fees of C$2.8 million ($2.3 million), 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 of a share purchase warrant. Each Compensation Warrant has an exercise price of $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 $0.60 until April 23, 2014.

PUBLIC OFFERING – OCTOBER 14, 2009

Subsequent to September 30, 2009 the Company completed an additional public offering. Please refer to "Subsequent Event" for further details.

CHANGE IN FISCAL YEAR-END

The Company has changed its fiscal year-end date from March 31 to December 31, resulting in a nine-month transition year from April 1, 2009 to December 31, 2009.

CHANGE IN FUNCTIONAL AND REPORTING CURRENCY

Effective April 1, 2009, the Company changed from a Canadian dollar functional and reporting currency to a U.S. dollar functional and reporting currency. All subsidiaries of the Company measure transactions in a U.S. dollar functional currency. As a result, all comparative amounts were restated to the U.S. dollar. Comparative assets and liabilities were translated using the closing rate at the balance sheet date and comparative equity, income, and expenses were translated at the exchange rates at the dates of the transactions. All resulting exchange differences were recognized in other comprehensive loss.

The Company has elected to report its Canadian federal taxes using a U.S. dollar functional currency.

SUMMARY OF QUARTERLY RESULTS

	Quarters Ended			
	Sept. 30, 2009	June 30, 2009	Mar. 31, 2009	Dec. 31, 2008
Interest and other income	$ 6,564	$ 13,947	$ 5,885	$ 7,266
Net income (loss) for the period	31,905	1,924,571	(141,720)	(31,466)
Basic income (loss) per share	0.00	0.02	(0.01)	(0.00)
Diluted income (loss) per share	0.00	0.02	(0.01)	(0.00)
Total assets	42,111,178	41,761,249	1,154,127	1,054,237
Total long-term liabilities	--	--	--	--

	Sept. 30, 2008	June 30, 2008	Mar. 31, 2008	Dec. 31, 2007
Interest and other income	$ 9,904	$ 10,050	$ 1,403	$ 1,445
Net loss for the period	(230,756)	(4,500)	(27,021)	(3,408)
Basic and diluted loss per share	(0.01)	(0.00)	(0.01)	(0.00)
Total assets	1,387,818	1,504,908	1,430,972	235,189
Total long-term liabilities	--	--	--	--

All quarters besides the quarters ended September 30, 2009 and June 30, 2009 have been restated and translated from Canadian dollars to U.S. dollars as the Company changed its reporting currency to the U.S. dollar starting April 1, 2009.

THREE MONTHS ENDED SEPTEMBER 30, 2009 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2009

The net income earned during the three months ended June 30, 2009 was primarily due to a foreign exchange gain from the Company holding a portion of its cash in Canadian dollars while the Canadian dollar appreciated in value against the U.S. dollar, the Company's functional currency. During the three months ended September 30, 2009 the majority of the Company's cash was held in U.S. dollars, resulting in a lower foreign exchange gain than the three months ended June 30, 2009.

THREE MONTHS ENDED SEPTEMBER 30, 2009 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2008

During the three months ended September 30, 2009 the Company earned a net income of $31,905 compared to a net loss of $230,756 incurred for the three months ended September 30, 2008. The net loss for the three months ended September 30, 2008 was primarily due to $190,935 incurred for exploration on an option agreement terminated in May 2009. The net income for the three months ended September 30, 2009 was primarily due to a foreign exchange gain of $334,257 offset by stock-based compensation expense of $196,381 from options granted during the six months ended September 30, 2009.

THREE MONTHS ENDED SEPTEMBER 30, 2009 COMPARED TO REMAINING QUARTERS

The Company did not have a significant level of activity prior to the acquisition of the Aurizona and Santa Elena VPP agreements in May 2009. Therefore previous quarters results are not comparable to the quarters ended June 30, 2009 and September 30, 2009.

CHANGE IN TOTAL ASSETS

Total assets increased during the three months ended June 30, 2009 as a result of the April 2009 public offering. The Company raised $35.3 million and used a portion of the funds to acquire VPP agreements (i.e. mining interests). Total assets did not change significantly during the three months ended September 30, 2009 as no financing occurred and the majority of funds spent during the period were for a partial payment on the Summit VPP agreement.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2009 the Company had cash of $19,784,826 (March 31, 2009 - $792,412) and working capital of $19,328,844 (March 31, 2008 - $510,335). Cash increased from March 31, 2009 due to Sandstorm's April 2009 public offering where net proceeds of $35,291,730 were received. A portion of the net proceeds from the public offering were used to fund the Luna and Summit upfront payments and the remainder will be used to fund the SilverCrest upfront payment and for general corporate and working capital purposes.

CONTRACTUAL OBLIGATIONS

In connection with the Aurizona VPP agreement, the Company has committed to purchase 17% of the life of mine gold produced by the Aurizona Project for a per ounce cash payment of the lesser of $400 (subject to an Inflationary Adjustment) and the then prevailing market price of gold.

In connection with the Santa Elena VPP agreement, the Company has committed to purchase 20% of the life of mine gold produced by the Santa Elena Project for a per ounce cash payment of the lesser of $350 (to an Inflationary Adjustment) and the then prevailing market price of gold. In exchange, the Company will make an upfront payment of $12.0 million to SilverCrest upon satisfaction of certain funding conditions. To date, this upfront payment has not been advanced.

In connection with the Summit VPP agreement, the Company has committed to purchase 50% of the first 10,000 ounces of gold produced, and 22% of the gold produced thereafter, from the Summit Mine for a per ounce cash payment of the lesser of $400 (subject to an Inflationary Adjustment) and the then prevailing market price per ounce of gold. In exchange the Company has made an upfront payment of $4.0 million. During the six months ended September 30, 2009, the Company paid $500,000 of the upfront payment to Santa Fe. On October 7, 2009, the Company paid the remaining $3.5 million of the upfront payment.

Santa Fe has the option until July 7, 2010 to increase the size of the transaction by $1.0 million. If Santa Fe exercises this option, the percentage of payable gold that the Company will be entitled to purchase will increase to 62.5% for the first 10,000 ounces of gold produced and 27.5% of gold produced thereafter.

SHARE CAPITAL

As of October 19, 2009, the Company had 225,938,380 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 beginning October 24, 2009.

A summary of the Company's options outstanding as of October 19, 2009 are as follows:

Outstanding	Vested	Exercise Price	Expiry Date
40,000	40,000	C$0.10	July 31, 2012
3,620,000	--	C$0.45	June 16, 2014
700,000	--	C$0.44	July 6, 2014
2,000,000	--	C$.435	July 28, 2014
6,360,000	40,000		

A summary of the Company's share purchase warrants outstanding as of October 19, 2009 are as follows:

	Warrants Outstanding	Exercise Price	Expiry Date
Issued in connection with private placement	13,350,000	C$0.195	April 22, 2010
Issued in connection with Public Offerings (SSL.WT)	99,344,186	$0.60	April 23, 2014
	112,694,186		

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 $0.33 and all of the Compensation Warrants were outstanding as of October 19, 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 $0.60 until April 23, 2014.

RELATED PARTY TRANSACTIONS

The Company entered into transactions with related parties as follows:

a) During the three and six months ended September 30, 2009 paid or accrued legal fees of $nil (2008 - $15,558) to Paul Visosky, a former director of the Company.

b) During the three and six months ended September 30, 2009 paid or accrued rent and cost of administrative support services, of $70,619 and $78,042 respectively (2008 - $1,695) to a company controlled by a current director, David DeWitt and a former director, Marcel de Groot.

As of September 30, 2009 the Company owed related parties $65,289 (March 31, 2009 - $nil).

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.

The Company is not exposed to significant credit, currency, interest rate, liquidity, and other price risks.

SUBSEQUENT EVENT

On October 14, 2009 the Company completed a public offering of 81,778,800 units at a price of C$0.45 per unit, for gross proceeds of C$36.8 million ($35.8 million USD). Each unit comprised of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant is exercisable for one common share of the Company at a price of $0.60 and expires April 23, 2014. As of September 30, 2009 deferred charges incurred for this financing were $242,732. In connection with this offering, the Company paid agent fees of C$2.6 million ($2.5 million), representing 7% of the gross proceeds. The net proceeds are expected to be used by the Company for the acquisition of future VPP agreements.

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 October 6, 2009, 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 Project, the Santa Elena Project, or the Summit Mine (the "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, 20% of the gold produced by the Santa Elena Project, and 50% of the first 10,000 ounces of gold produced and 22% of the gold produced thereafter by the Summit Mine. 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, the Santa Elena Project is located in Mexico, and the Summit Mine is located in the United States of America, 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 the United States of America 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 agreements 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 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. 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 United States 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 $400 per ounce (subject to an Inflation Adjustment) in the case of the Aurizona and Summit VPP agreements and $350 per ounce (subject to an Inflation Adjustment) in the case of the Santa Elena VPP agreement, 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

PRINCIPLES OF CONSOLIDATION

These interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Sandstorm Resources (Barbados) Limited and Sandstorm Resources (Canada) Ltd. All intercompany transactions and balances have been eliminated.

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 mineral interests, impairment, income taxes, financing costs, stock-based compensation, and warrants issued. Actual results may differ from those estimates

MINERAL INTERESTS

Agreements for which settlements are called for in metal, the amount of which is based on production at the mines, are recorded at cost. The cost of these assets is separately allocated to reserves, resources, and exploration potential. The value allocated to reserves is classified as depletable and is depreciated on a unit-of-sale basis over the estimated recoverable proven and probable reserves at the mine corresponding to the specific agreement. The value associated with resources and exploration potential is the value beyond proven and probable reserves at acquisition and is classified as non-depletable until such time as it is transferred to the depletable category as a result of the conversion of resources or exploration potential into reserves.

Evaluation of the carrying values of each mineral interest agreement are undertaken each year and when events or changes in circumstances indicate that the carrying values may not be recoverable to determine if estimated undiscounted future net cash flows are less than the carrying value. Estimated undiscounted future net cash flows are calculated using estimated production, sales prices, and purchase costs. If it is determined that the future net cash flows from an operation are less than the carrying value then a write-down is recorded with a charge to operations.

Costs incurred on the Elsiar option agreement were expensed as incurred.

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.

Equity instruments issued to agents as financing costs are measured at their fair value at the date of grant

STOCK-BASED COMPENSATION

All stock-based awards made to employees and non-employees are measured and recognized using a fair value based method determined using the Black-Scholes option pricing model. For employees, the fair value of the options is measured at the date of the grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete, the date the performance commitment is reached, or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For employees and non-employees, the fair value of options is accrued and charged to operations on a graded basis over the vesting period with the offsetting credit to contributed surplus. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

GOODWILL AND OTHER INTANGIBLE ASSETS

On April 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants ("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 did not have a material impact on the Company's consolidated financial statements.

FUTURE CHANGES IN ACCOUNTING POLICIES

ACCOUNTING POLICIES TO BE IMPLEMENTED EFFECTIVE JANUARY 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 January 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

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 International Financial Reporting Standards over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

To prepare for the conversion to IFRS, the following plan was developed:

a) Phase 1: Scope and Plan

   The Company has ongoing training for appropriate personnel on IFRS standards and an initial assessment on the impact of the IFRS conversion has been completed. This assessment identified one standard of priority to the Company. IFRS standards may change effective upon the Company's adoption of IFRS and this may impact the initial assessment. The Company is currently reviewing its accounting policy choices under IFRS and will review and update the IFRS conversion plan as required.

b) Phase 2: Design and Build

   Based on a detailed review of IFRS standards, the Company will choose accounting policies and procedures, quantify the impact on key line items and disclosures, and prepare draft financial statements under IFRS.

c) Phase 3: Implement and Review

   The Company will implement new accounting policies under IFRS and prepare and report consolidated financial statements under IFRS.

The Company has achieved its milestones to date under its IFRS conversion plan. The Company will continue to monitor and report on its conversion to IFRS according to its conversion plan.

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[1]

	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 (3,4,6,7,9,11,12,13,14,15)	257	1.44	11,900	2,654	1.31	112,030	2,910	1.32	123,930
Santa Elena (18,20,21,22,24,26)	--	--	--	1,308	1.61	67,920	1,308	1.61	67,920
Total			11,900			179,950			191,850

Sandstorm's Portion of Measured and Indicated Resources[1,2]

	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 (5,8,10,16)	275	1.41	12,410	3,324	1.33	142,120	3,599	1.33	154,530
Santa Elena (17,19,23,24,25,26)	--	--	--	432	2.75	38,133	432	2.75	38,133
Santa Elena – Underground (17,19,23,24,27,28,29)	--	--	--	217	2.10	14,647	217	2.10	14,647

Sandstorm's Portion of Inferred Resources[1,2]

	INFERRED		
	Tonnes kt	Grade g Au/t	Contained oz
Aurizona(5,8,10,16)	1,863	1.14	68,510
Santa Elena(17,19,23,24,25,26)	652	1.11	23,247
Santa Elena - Underground(17,19,23,24,27,28,29)	270	1.94	16,811
Total			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 23, 2009.
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 Bret C. Swanson, MAusIMM, 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. Reserves on a gold price of $750 per ounce.
8. Resources based on a gold price of $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 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.
11. Mine reserves are diluted along mineralized boundary to block model SMU of 10mx10mx3m;
12. An internal CoG of 0.35g/tAu was used on Saprolite Rock within the pit design; An internal CoG of 0.37g/t-Au was used on Transition Rock within the pit design; An internal CoG of 0.41g/t-Au was used on Fresh Rock within the pit design.
13. Internal CoG determination includes metallurgical recoveries of 95% in Saprolite, 93% in Transition, and 91% in Fresh ore.
14. In situ Au ounces do not include metallurgical recovery losses.
15. Saprolite is rock between topography and an interpreted floor surface marking the change from highly to moderately weathered rock; Transition is rock between an (upper) interpreted Saprolite floor surface and an interpreted moderately weathered rock floor surface; and Fresh rock is rock below an (upper) interpreted Transition floor surface.
16. Based on 0.3 grams per tonne cut-off grade.

For the Santa Elena Project:

17. Mineral Resources are exclusive of Mineral Reserves.
18. Santa Elena Reserves are reported as of August 2008.
19. Santa Elena Resources are reported as of January 2009.
20. 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.
21. Mineral reserves are estimated at a cut-off grade of 0.5 grams of gold per tonne.
22. Mineral reserves are estimated using a long-term gold price of $765 per ounce, a long-term silver price of $11.95 per ounce and a US$/peso exchange rate of 1:10.58.
23. 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.
24. Composites capped at 12 grams of gold per tonne and 300 grams of silver per tonne.
25. Cut-off grade of 0.5 grams of gold equivalent per tonne.
26. Numbers have been rounded.
27. 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.
28. Mineral resources are estimated using a long-term gold price of $850 per ounce, a long-term silver price of $12 per ounce and a US$/peso exchange rate of 1:10.58.
29. 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. 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. Mineral Resources which are not Mineral Reserves, do not have demonstrated economic viability.

INTERIM CONSOLIDATED BALANCE SHEETS

Expressed in U.S. dollars - unaudited

ASSETS	Note		September 30, 2009		March 31, 2009 (Translated – See Note 5)
Current					
Cash		$	19,784,826	$	792,412
Receivables			6,805		22,348
Prepaid expenses			27,681		29,547
Future income tax asset			145,499		--
			19,964,811		844,307
Deferred charges	12		242,732		307,595
Equipment			3,100		2,225
Future income tax asset			78,328		--
Mining interests	6		21,822,207		--
		$	42,111,178	$	1,154,127

LIABILITIES	Note		September 30, 2009		March 31, 2009
Current					
Accounts payable and accrued liabilities		$	412,140	$	333,972
Income taxes payable			223,827		--
			635,967		333,972
SHAREHOLDERS' EQUITY					
Share capital	7		32,106,190		1,060,081
Contributed surplus	7		8,101,564		449,093
Retained earnings (deficit)			1,479,700		(476,776)
Accumulated other comprehensive loss			(212,243)		(212,243)
			41,475,211		820,155
		$	42,111,178	$	1,154,127

Nature of operations *(Note 1)*
Subsequent event *(Note 12)*

ON BEHALF OF THE BOARD:

"Nolan Watson" , Director

"David Awram" , Director

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

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

Expressed in U.S. dollars - unaudited

	Note	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008 [1]	Six Months Ended September 30, 2009	Six Months Ended September 30, 2008 [1]
Expenses					
Exploration		$ 46,635	$ 190,935	$ 111,830	$ 190,935
General and administrative		93,397	32,450	146,370	40,495
Professional fees		63,492	17,275	80,989	23,781
Project evaluation		34,484	--	47,233	--
Stock-based compensation	7	196,381	--	219,777	--
Total expenses		(438,389)	(240,660)	(606,199)	(255,211)
Other Items					
Foreign exchange gain		334,257	--	2,542,163	--
Interest income		6,564	9,904	20,512	19,955
Income (Loss) before taxes		(97,568)	(230,756)	1,956,476	(235,256)
Income tax recovery		129,473	--	--	--
Income (Loss)		31,905	(230,756)	1,956,476	(235,256)
Retained earnings (deficit) - Beginning of period		1,447,795	(72,834)	(476,776)	(68,334)
Retained earnings (deficit) - End of period		$ 1,479,700	$ (303,590)	$ 1,479,700	$ (303,590)
Basic income (loss) per share		$ 0.00	$ (0.01)	$ 0.02	$ (0.01)
Diluted income (loss) per share		$ 0.00	$ (0.01)	$ 0.01	$ (0.01)
Weighted average number of common shares					
Basic		144,146,319	17,892,000	127,159,163	16,275,060
Diluted		153,992,506	25,882,374	137,026,911	23,301,130

1) Translated – See Note 5

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

SANDSTORM RESOURCES LTD.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Expressed in U.S. dollars - unaudited

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008 [1]	Six Months Ended September 30, 2009	Six Months Ended September 30, 2008 [1]
Cash provided by (used in):				
Operating activities				
Income (Loss) for the period	$ 31,905	$ (230,756)	$ 1,956,476	$ (235,256)
Items not affecting cash:				
Amortization	400	300	780	300
Exploration expense paid by share issuance	--	--	44,138	--
Stock-based compensation	196,381	--	219,777	--
Unrealized foreign exchange and foreign exchange on cash	(351,081)	--	(2,368,326)	--
Changes in non-cash working capital:	(346,753)	$ 172,825	$ (188,176)	$ 138,502
	(469,148)	(57,631)	(335,331)	(96,454)
Investing activities				
Equipment	--	(3,186)	(1,655)	(3,186)
Mining interests	(557,469)	(327)	(18,581,814)	(75,900)
	(557,469)	(3,513)	(18,583,469)	(79,086)
Financing activities				
Share and warrant issue proceeds	4,524	--	38,070,954	120,548
Share issuance costs	5,384	5,880	(2,523,525)	(5,655)
	9,908	5,880	35,547,429	114,893
Net increase (decrease) in cash	(1,016,709)	(55,264)	16,628,629	(60,647)
Cash – Beginning of period	20,468,266	1,327,234	792,412	(39,006)
Effect of exchange rate changes on cash[2]	333,269	(48,216)	2,363,785	1,323,407
Cash - End of period	$ 19,784,826	$ 1,223,754	$ 19,784,826	$ 1,223,754

1) Translated – See Note 5
2) The Company has reclassified $1,488,056 of realized foreign exchange gains from operating activities to “Effect of exchange rates on cash” for the three months ended June 30, 2009
3) See Note 8 for supplemental cash flow information

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

INTERIM CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME (LOSS)

Expressed in U.S. dollars - unaudited

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008 [1]	Six Months Ended September 30, 2009	Six Months Ended September 30, 2008 [1]
Income (Loss) for the Period	$ 31,905	$ (230,756)	$ 1,956,476	$ (235,256)
Other Comprehensive Loss				
Unrealized loss on translation from measurement to reporting currency	--	(52,421)	--	(41,377)
Comprehensive Income (Loss) for the Period	$ 31,905	$ (283,177)	$ 1,956,476	$ (276,633)

INTERIM CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

Expressed in U.S. dollars - unaudited

	September 30, 2009	March 31, 2009[1]
Balance – Beginning of period	$ (212,243)	$ (12,544)
Unrealized loss on translation from measurement to reporting currency	--	(199,699)
Balance - End of Period	$ (212,243)	$ (212,243)

1) Translated – See Note 5

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

INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Expressed in U.S. dollars - unaudited

		Contributed Surplus						
	Common Shares	Options	Warrants	Comp. Warrants	Share Subs. Received in Advance	Retained Earnings (Deficit)	Acc. Other Comp. Loss	Total
At March 31, 2008	$ 229,950	$ 7,552	$ 10,826	$ --	$ 1,209,495	$ (68,334)	$ (12,544)	$ 1,376,945
Private placement	896,050	--	434,544	--	(1,209,495)	--	--	121,099
Share issue costs	(37,755)	--	--	--	--	--	--	(37,755)
Shares issued for option payment	12,957	--	--	--	--	--	--	12,957
Warrants exercised	6,562	--	(3,829)	--	--	--	--	2,733
Renouncement	(47,683)	--	--	--	--	--	--	(47,683)
Net loss	--	--	--	--	--	(408,442)	--	(408,442)
Other comp. loss	--	--	--	--	--	--	(199,699)	(199,699)
At March 31, 2009	$ 1,060,081	$ 7,552	$ 441,541	$ --	$ --	$ (476,776)	$ (212,243)	$ 820,155
Public offering	32,652,050	--	5,399,680	--	--	--	--	38,051,730
Comp. warrants issued	(2,044,542)	--	--	2,044,542	--	--	--	--
Share issue costs	(2,748,129)	--	--	--	--	--	--	(2,748,129)
Shares issued for mining interests	3,111,840	--	--	--	--	--	--	3,111,840
Shares issued for option payment	44,138	--	--	--	--	--	--	44,138
Options exercised	9,386	(4,530)	--	--	--	--	--	4,856
Warrants exercised	21,366	--	(6,998)	--	--	--	--	14,368
Stock based comp.	--	219,777	--	--	--	--	--	219,777
Net income	--	--	--	--	--	1,956,476	--	1,956,476
At Sept. 30, 2009	$32,106,190	$ 222,799	$5,834,223	$2,044,542	$ --	$ 1,479,700	$ (212,243)	$41,475,211

Transactions to March 31, 2009 have been restated and translated. See Note 5.

- The accompanying notes are an integral part of these unaudited consolidated 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 resource based company that seeks to acquire volume based production payment agreements ("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 unit, a percentage of a mine's production for a stipulated term. Previously the Company focused on exploring mineral properties in Canada.

On April 3, 2009 the Company incorporated a wholly owned subsidiary named Sandstorm Resources (Barbados) Limited and on May 1, 2009 the Company incorporated a wholly owned subsidiary named Sandstorm Resources (Canada) Ltd.

2. BASIS OF PRESENTATION

These interim unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of the financial statements is based on accounting policies and methods of applications as the audited financial statements of the Company for the year ended March 31, 2009, except as described in Note 3. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended March 31, 2009, as they do not include all the information and note disclosure required by Canadian GAAP for annual financial statements.

The Company has changed its fiscal year-end date to be December 31, resulting in a nine-month transition year from April 1, 2009 to December 31, 2009. The Company's reporting currency has been changed effective April 1, 2009 from the Canadian dollar to the U.S. dollar.

3. CHANGE IN SIGNIFICANT ACCOUNTING POLICIES

A) PRINCIPLES OF CONSOLIDATION

These interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Sandstorm Resources (Barbados) Limited and Sandstorm Resources (Canada) Ltd. All intercompany transactions and balances have been eliminated.

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 mineral interests, impairment, income taxes, financing costs, stock-based compensation, and warrants issued. Actual results may differ from those estimates.

C) FINANCIAL INSTRUMENTS

On July 1, 2009 the Company adopted amendments to Handbook Section 3855 – Financial Instruments – Recognition and Measurement which provides additional guidance on the classification of embedded derivatives. The adoption of this amendment did not result in a material impact on the Company's consolidated financial statements.

D) MINERAL INTERESTS

Agreements for which settlements are called for in metal, the amount of which is based on production at the mines, are recorded at cost. The cost of these assets is separately allocated to reserves, resources, and exploration potential. The value allocated to reserves is classified as depletable and is depreciated on a unit-of-sale basis over the estimated recoverable proven and probable reserves at the mine corresponding to the specific agreement. The value associated with resources and exploration potential is the value beyond proven and probable reserves at acquisition and is classified as non-depletable until such time as it is transferred to the depletable category as a result of the conversion of resources or exploration potential into reserves.

Evaluation of the carrying values of each mineral interest agreement are undertaken each year and when events or changes in circumstances indicate that the carrying values may not be recoverable to determine if estimated undiscounted future net cash flows are less than the carrying value. Estimated undiscounted future net cash flows are calculated using estimated production, sales prices, and purchase costs. If it is determined that the future net cash flows from an operation are less than the carrying value then a write-down is recorded with a charge to operations.

Costs incurred on the Elsiar option agreement have been expensed.

E) 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.

Equity instruments issued to agents as financing costs are measured at their fair value at the date of grant.

F) STOCK-BASED COMPENSATION

All stock-based awards made to employees and non-employees are measured and recognized using a fair value based method determined using the Black-Scholes option pricing model. For employees, the fair value of the options is measured at the date of the grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete, the date the performance commitment is reached, or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For employees and non-employees, the fair value of options is accrued and charged to operations on a graded basis over the vesting period with the offsetting credit to contributed surplus. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

G) GOODWILL AND OTHER INTANGIBLE ASSETS

On April 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants ("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 did not have a material impact on the Company's consolidated financial statements.

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4. FUTURE CHANGES IN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

A) ACCOUNTING POLICIES TO BE IMPLEMENTED EFFECTIVE JANUARY 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 January 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.

B) INTERNATIONAL FINANCIAL REPORTING STANDARDS

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 International Financial Reporting Standards over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

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5. CHANGE IN FUNCTIONAL AND REPORTING CURRENCY

Effective April 1, 2009, the Company changed from a Canadian dollar functional and reporting currency to a U.S. dollar functional and reporting currency. All subsidiaries of the Company measure transactions in a U.S. dollar functional currency. As a result, all comparative amounts were restated to the U.S. dollar. Comparative assets and liabilities were translated using the closing rate at the balance sheet date and comparative equity, income, and expenses were translated at the exchange rates at the dates of the transactions. All resulting exchange differences were recognized in other comprehensive loss.

Expressed in U.S. dollars - unaudited

6. MINERAL INTERESTS

As of September 30, 2009:

	Cost	Accumulated Amortization	Net
Aurizona, Brazil			
Upfront payment	$ 17,800,000		
Share issuance	1,901,680		
Other direct costs	251,952		
	$ 19,953,632	$ --	$ 19,953,632
Santa Elena, Mexico			
Share issuance	$ 1,210,160		
Other direct costs	122,201		
	$ 1,332,361	$ --	$ 1,332,361
Summit, United States			
Upfront payment	$ 500,000		
Other direct costs	26,887		
	$ 526,887	$ --	$ 526,887
Other	$ 9,327	$ --	$ 9,327
Total Mining Interests	$ 21,822,207	$ --	$ 21,822,207

The value allocated to reserves is classified as depletable and is depreciated on a units-of-sale 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, 2009:

	Depletable	Non-Depletable	Total
Aurizona	$ 16,927,962	$ 3,025,670	$ 19,953,632
Santa Elena	1,013,242	319,119	1,332,361
Summit	526,887	--	526,887
Other	9,327	--	9,327
	$ 18,477,418	$ 3,344,789	$ 21,822,207

AURIZONA VPP

On May 15, 2009 the Company entered into an agreement to purchase 17% of the life of mine gold produced from Luna Gold Corp.'s ("Luna") open-pit Aurizona project, located in Brazil (the "Aurizona Project'), for $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 $400 (subject to a 1% annual inflationary adjustment beginning 3 years after the mine achieves commercial production (an "Inflationary Adjustment")) and the then prevailing market price per ounce of gold. The upfront cash payment and the shares were released from escrow to Luna on October 16, 2009.

Luna has provided to the Company a completion guarantee under which Luna may be required to return a portion of the $17.8 million upfront payment if, within 30 months from the date that the Company 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 Aurizona Underground Mine at a per-ounce price equal to the lesser of $500 (subject to an Inflationary Adjustment) and the then prevailing market price per ounce of gold. If the Company elects to exercise its right to purchase gold from the Aurizona Underground Mine, the Company will be required to pay 17% of the capital expenditures incurred to determine the economic viability and to construct the mine.

SANTA ELENA VPP

On May 15, 2009, the Company entered into an agreement to purchase 20% of the gold produced from SilverCrest Mines Inc.'s ("SilverCrest") open-pit Santa Elena project, located in Mexico (the "Santa Elena Project"), for $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 $350 (subject to an Inflationary Adjustment) and the then prevailing market price per ounce of gold. The upfront cash payment and the shares will be released 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 the Company a completion guarantee under which SilverCrest may be required to return a portion of the $12.0 million upfront payment if, within 30 months from the date that the Company 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 Santa Elena Underground Mine at a per-ounce price equal to the lesser of $450 (subject to an Inflationary Adjustment) and the then prevailing market price per ounce of gold. If the Company elects to exercise its right to purchase gold from the Santa Elena Underground Mine, the Company will be required to pay 20% of the capital expenditures incurred (adjusted using a payable gold to payable gold equivalent ratio) to determine the economic viability and to construct the mine.

SUMMIT VPP

On September 14, 2009, the Company entered into an agreement to purchase 50% of the first 10,000 ounces of gold produced, and 22% of the gold produced thereafter, from Santa Fe Gold Corporation's ("Santa Fe") Summit mine, located in the United States of America (the "Summit Mine"). In consideration, the Company will make an upfront payment of $4.0 million plus ongoing per ounce payments equal to the lesser of $400 (subject to an Inflationary Adjustment) and the then prevailing market price per ounce of gold. The amount of payable gold can be reduced from 22% to 15% if, by October 7, 2012, the rate of mineralized rock mined and processed from the Summit Mine averages 400 tonnes per day or more for any consecutive 12 month period and payable gold production exceeds 11,500 ounces during such period.

Expressed in U.S. dollars - unaudited

During the six months ended September 30, 2009, the Company paid $500,000 of the upfront payment to Santa Fe. Subsequent to September 30, 2009, the Company paid the remaining $3.5 million of the upfront payment.

Santa Fe has the option until July 7, 2010 to increase the size of the transaction by $1.0 million. If Santa Fe exercises this option, the percentage of payable gold that the Company will be entitled to purchase will increase to 62.5% for the first 10,000 ounces of gold produced and 27.5% of gold produced thereafter.

7. SHARE CAPITAL AND CONTRIBUTED SURPLUS

A) SHARES ISSUED

	Note	Number of Shares
Authorized: Unlimited common shares without par value		
Issued and outstanding:		
At March 31, 2008		4,442,000
Units issued for private placement		13,350,000
Shares issued for Elsiar option payment		100,000
Warrants exercised		34,000
At March 31, 2009		17,926,000
Public offering		116,909,580
Shares issued for mining interests	6	9,000,000
Shares issued for Elsiar option payment		100,000
Options exercised		60,000
Warrants exercised		164,000
At September 30, 2009		144,159,580

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.

PRIVATE PLACEMENT – APRIL 22, 2008

On April 22, 2008, the Company completed a non-brokered private placement of 11,350,000 units of the Company at a price of C$0.10 per unit, for gross proceeds of C$1.1 million ($1.1 million). In addition, the Company completed a non-brokered private placement of 2,000,000 units of flow-through financing at a price of C$0.10 per unit, for gross proceeds of C$200,000 ($199,340). 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 C$0.195 a share and expire April 22, 2010.

Expressed in U.S. dollars - unaudited

PUBLIC OFFERING – APRIL 23, 2009

On April 23, 2009 the Company completed an equity offering of 116,909,580 subscription receipts at a price of C$0.40 per subscription receipt for gross proceeds of C$46.8 million ($38.1 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 $0.60 until April 23, 2014.

In connection with the public offering, the Company paid agent fees of C$2.8 million ($2.3 million), 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 of a share purchase warrant. Each Compensation Warrant has an exercise price of $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 $0.60 until April 23, 2014. The Compensation Warrants had a fair value of $2.0 million.

PUBLIC OFFERING – OCTOBER 14, 2009

Subsequent to September 30, 2009 the Company completed an additional public offering (refer to Note 12).

B) STOCK OPTIONS

On September 22, 2009 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.

During the six months ended September 30, 2009, the Company granted 6,360,000 (2008 – nil) options with a weighted average exercise price of C$0.44 (2008 – nil) per option. The options vest over a period of two years.

Of the options granted during the six months ended September 30, 2009, 5,320,000 were granted to employees and directors with a fair value of $672,660. The weighted-average fair value per employee option of $0.11 was determined using the Black-Scholes option valuation model with the following weighted-average assumptions:

	September 30, 2009	September 30, 2008
Expected dividend yield	0.00%	--
Expected stock price volatility	45%	--
Risk-free interest rate	1.85%	--
Expected life of options	3 years	--

Expressed in U.S. dollars - unaudited

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

	Number of Options	Weighted average exercise price
At March 31, 2008 and March 31, 2009	100,000	C$0.10
Granted	6,320,000	C$0.44
Exercised	(60,000)	C$0.10
At September 30, 2009	6,360,000	C$0.44

A summary of the Company's options as of September 30, 2009 is as follows:

Number	Vested	Price per Share	Expiry Date
40,000	40,000	C$0.10	July 31, 2012
3,620,000	--	C$0.45	June 16, 2014
700,000	--	C$0.44	July 6, 2014
2,000,000	--	C$0.435	July 28, 2014
6,360,000	40,000		

The weighted-average exercise price for exercisable options is C$0.10 (2008 - C$0.10).

C) SHARE PURCHASE WARRANTS

On April 22, 2008, the Company granted 13,350,000 warrants in connection with its private placement described in Note 7a. The fair value attributable to the common shares was $896,050 and to the warrants was $434,544.

On April 23, 2009, the Company granted 58,454,790 warrants in connection with its public offering described in Note 7a. The fair value attributable to the common shares was $32,652,050 and to the warrants was $5,399,680.

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

	September 30, 2009	September 30, 2008
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	51%	110%
Risk-free interest rate	1.78%	2.64%
Expected life of warrants	5 years	2 years

Expressed in U.S. dollars - unaudited

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

	Number of Warrants
Warrants outstanding at March 31, 2008	198,000
Issued	13,350,000
Exercised	(34,000)
Warrants outstanding at March 31, 2009	13,514,000
Issued	58,454,790
Exercised	(164,000)
Warrants outstanding at September 30, 2009	71,804,790

A summary of the Company's warrants as of September 30, 2009 is as follows:

Number	Price per Share	Expiry Date
13,350,000	C$0.195	April 22, 2010
58,454,790	$0.60	April 23, 2014
71,804,790		

Included in warrants outstanding at September 30, 2009, are 5,904,000 (March 31, 2009 – 7,380,000) warrants held in escrow. These warrants will be released pro-rata to the holders in four equal tranches of 1,476,000 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.

D) ESCROW SHARES

Included in the shares outstanding at September 30, 2009, are 7,456,000 (March 31, 2009 – 9,320,000) common shares held in escrow. These common shares will be released pro-rata to the shareholders in four equal tranches of 1,864,000 every six months beginning October 24, 2009. These escrow shares may not be transferred, assigned or otherwise dealt with without the consent of the regulatory authorities.

E) STOCK BASED COMPENSATION

Stock-based compensation recognized during the three and six months ended September 30, 2009 for employees was $170,175 and $186,865 respectively (2008 - $nil and $nil). Options granted to non-employees are valued and expensed as they vest. Stock-based compensation recognized during the three and six months ended September 30, 2009 for non-employees was $15,966 and $22,672 respectively (2008 - $nil and $nil). Stock-based compensation for non-employees during the six months ended was determined using the Black-Scholes option valuation model with the following weighted-average assumptions:

	September 30, 2009	September 30, 2008
Expected dividend yield	0.00%	--
Expected stock price volatility	46%	--
Risk-free interest rate	1.79%	--
Expected life of options	2.8 years	--

Expressed in U.S. dollars - unaudited

F) DILUTED INCOME (LOSS) PER SHARE

Diluted income (loss) per share is calculated based on the following weighted average number of shares outstanding:

	Three Months Ended September 30		Six Months Ended September 30	
	2009	2008	2009	2008
Basic weighted average Number of shares	144,146,319	17,892,000	127,159,163	16,275,060
Effect of dilutive securities				
Compensation Warrants - shares	2,205,655	--	1,940,494	--
Stock Options	85,750	78,514	152,383	80,257
Warrants	7,554,782	7,911,860	7,774,871	6,945,813
Diluted weighted average Number of common shares	153,992,506	25,882,374	137,026,911	23,301,130

The following lists the stock options and share purchase warrants excluded from the computation of diluted earnings as they were anti-dilutive:

	Three Months Ended September 30		Six Months Ended September 30	
	2009	2008	2009	2008
Compensation Warrants - warrants	3,507,287	--	3,507,287	--
Stock Options	3,620,000	--	--	--
Warrants	71,804,790	--	58,454,790	--

8. SUPPLEMENTAL CASH FLOW INFORMATION

	Three Months Ended September 30,		Six Months Ended September 30,	
	2009	2008 [1]	2009	2008 [1]
Change in non-cash working capital				
Receivables	$ 24,543	$ (11,900)	$ 19,923	$ (15,227)
Prepaid expenses	(7,572)	23,965	1,866	(13,042)
Future income tax asset	(223,827)	--	(223,827)	--
Accounts payable and accrued liabilities	(234,251)	160,760	(209,965)	166,771
Income taxes payable	94,354	--	223,827	--
	$ (346,753)	$ 172,825	$ (188,176)	$ 138,502
Significant non-cash transactions				
Shares issued for option payment	$ --	$ --	$ 44,138	$ 12,957
Common shares issued for acquisition of mineral interest	--	--	3,111,840	--
Allocation of deferred charges to mining interests	--	--	82,991	70,061

Expressed in U.S. dollars - unaudited

Mining interests accrued	45,562		45,562	
Allocation of share subscriptions received in advance	--	--	--	1,209,495
Compensation warrants issued for share issuance costs	--	--	2,044,542	--
Allocation of deferred charges to share issuance costs	--	--	224,604	32,100
Deferred charges accrued	242,732	--	242,732	--

1) Translated – See Note 5

9. RELATED PARTY TRANSACTIONS

The Company entered into transactions with related parties as follows:

a) During the three and six months ended September 30, 2009 paid or accrued legal fees of $nil (2008 - $15,558) to a former director of the Company.

b) During the three and six months ended September 30, 2009 paid or accrued rent and the cost of administrative support services, of $70,619 and $78,042 respectively (2008 - $1,695) to a company controlled by a current director a former director.

As of September 30, 2009 the Company owed related parties $65,289 (March 31, 2009 - $nil) which are included in accounts payable and accrued liabilities.

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

10. CONTRACTUAL OBLIGATIONS

In connection with the Aurizona VPP agreement (Note 6), the Company has committed to purchase 17% of the gold produced by the Aurizona Project for a per ounce cash payment of the lesser of $400 (subject to an Inflationary Adjustment) and the then prevailing market price of gold.

In connection with the Santa Elena VPP agreement (Note 6), the Company has committed to purchase 20% of the gold produced by the Santa Elena Project for a per ounce cash payment of the lesser of $350 (subject to an Inflationary Adjustment) and the then prevailing market price of gold. In exchange, the Company will make an upfront payment of $12.0 million to SilverCrest upon satisfaction of certain funding conditions. To date, this upfront payment has not been advanced.

In connection with the Summit VPP agreement (Note 6), the Company has committed to purchase 50% of the first 10,000 ounces of gold produced, and 22% of the gold produced thereafter, from the Summit Mine for a per ounce cash payment of the lesser of $400 (subject to an Inflationary Adjustment) and the then prevailing market price per ounce of gold. In exchange the Company has made an upfront payment of $4.0 million as follows: during the six months ended September 30, 2009, the Company paid $500,000 and subsequent to September 30, 2009, the Company paid the remaining $3.5 million.

Santa Fe has the option until July 7, 2010 to increase the size of the transaction by $1.0 million. If Santa Fe exercises this option, the percentage of payable gold that the Company will be entitled to purchase will increase to 62.5% for the first 10,000 ounces of gold produced and 27.5% of gold produced thereafter.

11. SEGMENTED INFORMATION

The Company's reportable segments are its VPP agreements (Note 6).

12. SUBSEQUENT EVENT

On October 14, 2009 the Company completed a public offering of 81,778,800 units at a price of C$0.45 per unit, for gross proceeds of C$36.8 million ($35.8 million). Each unit was comprised of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant is exercisable for one common share of the Company at a price of $0.60 and expires April 23, 2014. As of September 30, 2009 deferred charges incurred for this financing were $242,732. In connection with this offering, the Company paid agent fees of C$2.6 million ($2.5 million), representing 7% of the gross proceeds.