SANDSTORM
RESOURCES LTD.

Annual Report
December 31, 2009

SANDSTORM RESOURCES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Nine Months Ended December 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 consolidated financial statements for the nine months ended December 31, 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 February 9, 2010 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 the life of the mine. Sandstorm helps other companies in the resource industry grow their businesses, while acquiring attractive assets in the process. The Company is focused on acquiring 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 Sandstorm'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 were released to SilverCrest on November 30, 2009.

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 Sandstorm'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 by May 30, 2012 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"), for $4.0 million as an upfront payment 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.

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.

Santa Fe has provided to Sandstorm a completion guarantee under which Santa Fe may be required to return a portion of the upfront payment if by April 7, 2011 the Summit Mine has not produced a minimum of 4,000 ounces of gold in any consecutive six month period.

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

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 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. 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.

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.

SELECTED ANNUAL INFORMATION

	Dec. 31, 2009 (9 months)	Mar. 31, 2009 (12 months)	Mar. 31, 2008 (12 months)
Interest and other income	$ 32,082	$ 33,107	$ 4,259
Net income (loss) for the period	1,002,600	(408,442)	(59,410)
Basic income (loss) per share	0.01	(0.02)	(0.02)
Diluted income (loss) per share	0.01	(0.02)	(0.02)
Total assets	74,136,533	1,154,127	1,420,972
Total long-term liabilities	--	--	--

RESULTS OF OPERATIONS

The net income earned during the nine months ended December 31, 2009 was primarily due to a foreign exchange gain of $2.5 million 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 functionally currency. Partially offsetting the foreign exchange gain was an increase in stock-based compensation of $0.5 million resulting from stock options granted during the nine months ended December 31, 2009 and an increase in general and administrative expense of $0.5 million resulting from salary costs and one-time performance bonuses which were incurred during the nine months ended December 31, 2009.

CHANGE IN TOTAL ASSETS

Total assets increased at December 31, 2009 compared to March 31, 2009 and March 31, 2008 due to the Company raising net proceeds of $68.1 million from public offerings during the nine months ended December 31, 2009. Of those funds raised, $34.2 million was used to acquire VPP agreements (mineral interests) and the majority of the remaining proceeds remain held in cash.

SUMMARY OF QUARTERLY RESULTS

	Quarters Ended			
	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009	Mar. 31, 2009
Interest and other income	$ 11,571	$ 6,564	$ 13,947	$ 5,885
Net income (loss) for the period	(953,876)	31,905	1,924,571	(141,720)
Basic income (loss) per share	(0.00)	0.00	0.02	(0.01)
Diluted income (loss) per share	(0.00)	0.00	0.02	(0.01)
Total assets	74,136,533	42,111,178	41,761,249	1,154,127
Total long-term liabilities	--	--	--	--

	Dec. 31, 2008	Sept. 30, 2008	June 30, 2008	Mar. 31, 2008
Interest and other income	$ 7,266	$ 9,904	$ 10,050	$ 1,403
Net loss for the period	(31,466)	(230,756)	(4,500)	(27,021)
Basic and diluted loss per share	(0.00)	(0.01)	(0.00)	(0.01)
Total assets	1,054,237	1,387,818	1,504,908	1,430,972
Total long-term liabilities	--	--	--	--

All quarters prior to the quarter ended 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 DECEMBER 31, 2009 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2009

The Company incurred a net loss of $0.95 million for the three months ended December 31, 2009 compared to a net income of $31,905 for the three months ended September 30, 2009. This net loss was primarily due to $0.41 million of one-time performance bonuses declared, as well as a $0.33 million foreign exchange gain during the three months ended September 30, 2009 compared to a foreign exchange loss of $0.01 million during the three months ended December 31, 2009. During the three months ended December 31, 2009 the majority of the Company's cash was held in U.S. dollars, resulting in a lower foreign exchange gain compared to the three months ended September 30, 2009.

THREE MONTHS ENDED DECEMBER 31, 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, September 30, 2009, and December 31, 2009.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2009 the Company had cash of $36.7 million (March 31, 2009 - $0.8 million) and working capital of $36.2 million (March 31, 2009 - $0.5 million). Cash increased from March 31, 2009 due to Sandstorm's public offerings completed during 2009. A portion of the net proceeds from the public offering were used to fund the Luna, SilverCrest, and Summit upfront payments and the remainder will be used to fund future VPPs 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 (subject to an Inflationary Adjustment) and the then prevailing market price of gold.

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. 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 February 9, 2010, the Company had 227,662,880 common shares outstanding. Of these common shares, 5,592,000 are currently held in escrow and will be released pro-rata to the shareholders in three equal tranches of 1,864,000 common shares every six months beginning April 24, 2010.

A summary of the Company's options outstanding as of February 9, 2010 are as follows:

Outstanding	Vested	Exercise Price	Expiry Date
40,000	40,000	C$0.10	July 31, 2012
3,610,000	1,203,333	C$0.45	June 16, 2014
700,000	--	C$0.44	July 6, 2014
2,000,000	666,667	C$.435	July 28, 2014
6,350,000	1,910,000		

A summary of the Company's share purchase warrants outstanding as of February 9, 2010 are as follows:

	Warrants Outstanding	Exercise Price	Expiry Date
Issued in connection with private placement	11,625,500	C$0.195	April 22, 2010
Issued in connection with Public Offerings (SSL.WT)	99,344,186	$0.60	April 23, 2014
	110,969,686		

Included in warrants outstanding are 4,428,000 share purchase warrants held in escrow. These warrants expire April 22, 2010 and any shares issued from the exercise of these warrants will be subject to same escrow conditions as the common shares held in escrow.

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 February 9, 2010. 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 period ended December 31, 2009 paid or accrued legal fees of $nil (March 31, 2009 - $15,558) to Paul Visosky, a former director of the Company.

b) During the period ended December 31, 2009 paid or accrued rent as well as the cost of administrative support services, of $82,345 (March 31, 2009 - $12,362) 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.

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

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 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 taxation.

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

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.

FINANCIAL INSTRUMENTS

On April 1, 2009 the Company adopted amendments to Handbook Section 3862 – Financial Instruments – Disclosures which provides enhanced disclosures about fair value measurements. These additional disclosures are disclosed in Note 6. The Company is not required to provide comparative information for the disclosures in the first year of adoption.

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.

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.

In June 2009, the CICA amended Handbook Section 3855 to clarify the application of the effective interest method after a debt instrument has been impaired and when an embedded prepayment option is separated from its host debt instrument at initial recognition for accounting purposes. The amendments are effective January 1, 2011. Early adoption is permitted.

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 on the Company's opening financial position has been completed. This assessment identified two major differences between the Company's current accounting policies under GAAP and those the Company is required to apply under IFRS as they exist at February 9, 2010. These differences are discussed below. IFRS standards may change prior to the Company's adoption of IFRS and this may impact the initial assessment. The Company does not anticipate any significant changes to its information technology, internal controls over financial reporting, business activities, nor disclosure controls and procedures from the conversion to IFRS. The Company 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.

Major Identified Differences:

a) Share purchase warrants with an exercise price denominated in Canadian dollars

Under GAAP, warrants are accounted for at their carrying value within shareholders' equity. Under IFRS warrants that have an exercise price denominated in a currency other than the Company's functional currency meet the definition of a derivative liability and are recorded as a financial liability and are marked-to-market each period. The warrants issued in the April 2008 private placement (the "April 2008 Warrants") have an exercise price denominated in Canadian dollars, which was the Company's functional currency when these warrants were issued. Effective April 1, 2009, the Company changed its functional currency from the Canadian dollar to USD, and in accordance with IFRS, the April 2008 Warrants ceased to meet the definition of an equity instrument and will be recorded at fair value as a derivative liability, with the difference between the fair value and the carrying value, upon transition, being recognized in equity. Subsequent changes in the fair value of the April 2008 Warrants will be recognized as gains or losses in the Statement of Operations until they expire in April 2010 or until they are exercised.

b) Impairment of mineral interests

Under GAAP, when the Company tests its mineral interests for impairment, it first tests for recoverability by comparing the carrying value of each VPP agreement to the undiscounted future cash flows. Under IFRS the Company must compare the carrying amount to the higher of the fair value (less costs to sell) and the value in use. Fair value is computed using discounted future cash flows. While the change in impairment testing will not have an impact on the Company's opening financial position at January 1, 2010, it is a significant change in accounting policy.

During the period leading up to the changeover to IFRS, the Company will continue to monitor changes in both IFRS standards and the Company's transactions and assess any differences in accounting policies between GAAP and IFRS for the Company.

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 (17,19,23,24,25,26,27)	--	--	--	432	2.75	38,133	432	2.75	38,133
Santa Elena – Underground (17,19,23,24,28,29,30)	--	--	--	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 0.5 g/t Au equivalent at a ratio of 64:1 using a 100% metallurgical recovery.
28. Underground 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.
29. 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.
30. 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.

AUDITORS' REPORT

To the Shareholders of
Sandstorm Resources Ltd.

We have audited the consolidated balance sheets of Sandstorm Resources Ltd. as at December 31, 2009 and March 31, 2009 and the consolidated statements of operations and retained earnings (deficit), cash flows, other comprehensive income (loss), accumulated other comprehensive loss and shareholders' equity for the nine month period ended December 31, 2009 and for the year ended March 31, 2009. 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and March 31, 2009 and the results of its operations and its cash flows for the nine month period ended December 31, 2009 and for the year ended March 31, 2009 in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

February 9, 2010

CONSOLIDATED BALANCE SHEETS

Expressed in U.S. dollars

ASSETS	Note		December 31, 2009		March 31, 2009[1]
Current					
Cash		$	36,708,733	$	792,412
Receivables			25,018		22,348
Prepaid expenses			26,855		29,547
			36,760,606		844,307
Deferred charges			--		307,595
Equipment			2,743		2,225
Mineral interests	7		37,373,184		--
		$	74,136,533	$	1,154,127

LIABILITIES	Note				
Current					
Accounts payable and accrued liabilities		$	569,575	$	333,972
SHAREHOLDERS' EQUITY					
Share capital	8		57,363,585		1,060,081
Contributed surplus	8		15,889,792		449,093
Retained earnings (deficit)			525,824		(476,776)
Accumulated other comprehensive loss			(212,243)		(212,243)
			73,566,958		820,155
		$	74,136,533	$	1,154,127

1) Translated *(Note 5)*

Nature of operations *(Note 1)*
Contractual obligations *(Note 12)*

ON BEHALF OF THE BOARD:

"Nolan Watson" , Director

"David Awram" , Director

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

Expressed in U.S. dollars

	Note	9 months ended December 31, 2009	12 months ended March 31, 2009 [1]
Expenses			
Exploration		$ 173,856	$ 192,094
General and administrative		704,690	117,133
Professional fees		140,154	58,703
Project evaluation		79,319	--
Stock-based compensation	8	459,420	--
Total expenses		(1,557,439)	(367,930)
Other items			
Foreign exchange gain		2,527,957	9,481
Interest income		32,082	33,107
Write-off of mineral property costs		--	(130,783)
Total other items		2,560,039	(88,195)
Income (loss) before taxes		1,002,600	(456,125)
Future income tax recovery	11	--	47,683
Income (loss) for the period		1,002,600	(408,442)
Deficit - beginning of period		(476,776)	(68,334)
Retained earnings (deficit) - end of period		$ 525,824	$ (476,776)
Basic and income (loss) per share		$ 0.01	$ (0.02)
Diluted income (loss) per share		$ 0.01	$ (0.02)
Weighted average number of common shares			
Basic	8	156,042,017	17,081,622
Diluted	8	165,991,253	24,159,533

1) Translated *(Note 5)*

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

SANDSTORM RESOURCES LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Expressed in U.S. dollars

	9 months ended December 31, 2009	12 months ended March 31, 2009 [1]
Cash provided by (used in):		
Operating activities		
Income (loss) for the period	$ 1,002,600	$ (408,442)
Items not affecting cash:		
Amortization	1,137	1,072
Exploration expense paid by share issuance	44,138	--
Future income tax recovery	--	(47,683)
Stock-based compensation	459,420	--
Unrealized foreign exchange and foreign exchange on cash	(2,596,786)	--
Write-off of mineral property costs	--	130,783
Changes in non-cash working capital	205,832	(26,610)
	(883,659)	(350,880)
Investing activities		
Equipment	(1,655)	(4,177)
Mineral interests	(34,151,277)	(76,807)
	(34,152,932)	(80,984)
Financing activities		
Share and warrant issue proceeds	73,844,682	123,832
Share issuance costs	(5,483,786)	(11,535)
Deferred charges – share issuance costs	--	(10,223)
	68,360,896	102,074
Net increase (decrease) in cash	33,324,305	(329,790)
Cash – beginning of period	792,412	1,323,407
Effect of exchange rate changes on cash	2,592,016	(201,205)
Cash - end of period	$ 36,708,733	$ 792,412

1) Translated *(Note 5)*
2) See Note 9 for supplemental cash flow information

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

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME (LOSS)

Expressed in U.S. dollars

		9 months ended December 31, 2009		12 months ended March 31, 2009 [1]
Income (loss) for the period	$	1,002,600	$	(408,442)
Other comprehensive loss				
Unrealized loss on translation from measurement to reporting currency		--		(199,699)
Comprehensive income (loss) for the period	$	1,002,600	$	(608,141)

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

Expressed in U.S. dollars

		December 31, 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 *(Note 5)*

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

SANDSTORM RESOURCES LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Expressed in U.S. dollars

	Common Shares	Contributed Surplus: Options	Contributed Surplus: Warrants	Contributed Surplus: 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	60,877,193	--	12,948,264	--	--	--	--	73,825,457
Comp. warrants issued	(2,044,542)	--	--	2,044,542	--	--	--	--
Share issue costs	(5,715,877)	--	--	--	--	--	--	(5,715,877)
Shares issued for mineral 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	--	(6,997)	--	--	--	--	14,369
Stock based comp.	--	459,420	--	--	--	--	--	459,420
Net income	--	--	--	--	--	1,002,600	--	1,002,600
At Dec. 31, 2009	$57,363,585	$ 462,442	$13,382,808	$2,044,542	$ --	$ 525,824	$ (212,243)	$73,566,958

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

- The accompanying notes are an integral part of these 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 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 the life of the mine. 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. SIGNIFICANT ACCOUNTING POLICIES

A) BASIS OF PRESENTATION

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

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.

B) PRINCIPLES OF CONSOLIDATION

These 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.

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

D) FOREIGN CURRENCY TRANSLATION

The reporting and the functional currency of the Company and its subsidiaries is the U.S. dollar as this is the principal currency of the economic environment in which they operate. Transactions in foreign currencies are initially recorded at the functional currency rate at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the functional currency rate as at the reporting date.

E) FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, and accounts payable and accrued liabilities. All financial instruments are initially recorded at fair value and designated as follows:

Cash is classified as "Held-for-Trading". Receivables are classified as "Loans and Receivables". Due to their short-term nature and capacity for 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 income (loss) in the year they occur.

F) 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.

Exploration costs are expensed as incurred.

G) INCOME TAXES

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used are those that are enacted or substantively enacted by the reporting date.

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.

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 closing price on the date the units are issued and the fair value of common share purchase warrants is determined using the quoted market price or if the warrants are not traded, the Black-Scholes pricing model.

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

I) EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed by dividing the net income (loss) available to common shareholders by the weighted average number of common shares issued and outstanding during the period. Diluted earnings (loss) per share is calculated using the treasury method which assumes 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 period, are exercised and the proceeds are used to repurchase shares of the Company at the average market price of the common shares for the period. For the year ended March 31, 2009 this calculation was anti-dilutive.

J) STOCK-BASED COMPENSATION

All stock-based awards made to employees and non-employees are measured and recognized 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.

Forfeitures are estimated at grant date and revised for actual experiences in subsequent periods. No expense is recognized for awards that do not ultimately vest.

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

A) 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.

B) FINANCIAL INSTRUMENTS

On April 1, 2009 the Company adopted amendments to Handbook Section 3862 – Financial Instruments – Disclosures which provides enhanced disclosures about fair value measurements. These additional disclosures are disclosed in Note 6. The Company is not required to provide comparative information for the disclosures in the first year of adoption.

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.

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.

In June 2009, the CICA amended Handbook Section 3855 to clarify the application of the effective interest method after a debt instrument has been impaired and when an embedded prepayment option is separated from its host debt instrument at initial recognition for accounting purposes. The amendments are effective January 1, 2011. Early adoption is permitted.

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.

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.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

CAPITAL RISK MANAGEMENT

The Company's objective of capital management is to ensure that it will be able to continue as a going concern and identify, evaluate, and acquire VPP contracts on precious metals. The Company's overall strategy has not changed from March 31, 2009. 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 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 exposure to 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. Therefore, the Company is not exposed to significant currency risk and overall the Company's exposure to currency risk has not changed significantly from the prior year.

INTEREST RATE RISK

The Company's interest rate risk is limited to the rate of return on its investment in cash. The Company's rate of return on its cash deposits is tied to the Canadian short term interest rates which have declined during the period ended December 31, 2009, which results in lower interest income. However, due to their short term nature, cash is not subject to interest rate risk. Overall the Company's exposure to interest rate risk has not changed significantly from the prior year.

LIQUIDITY RISK

The Company's financial instruments are not exposed to liquidity risk as the Company has sufficient working capital to meet its obligations. Overall the Company's exposure to liquidity risk has not changed significantly from the prior year.

Expressed in U.S. dollars

OTHER PRICE RISK

None of the Company's future cash flows of financial instruments are subject to change from other price changes. Overall the Company's exposure to other price risks has not changed significantly from the prior year.

7. MINERAL INTERESTS

As of December 31, 2009:

		Cost		Accumulated Amortization		Net
Aurizona, Brazil						
Upfront payment	$	17,800,000				
Share issuance		1,901,680				
Other direct costs		261,801				
	$	19,963,481	$	-	$	19,963,481
Santa Elena, Mexico						
Upfront payment	$	12,000,000				
Share issuance		1,210,160				
Other direct costs		135,811				
	$	13,345,971	$		$	13,345,971
Summit, United States						
Upfront payment	$	4,000,000				
Other direct costs		54,405				
	$	4,054,405	$	--	$	4,054,405
Other	$	9,327	$	--	$	9,327
Total Mining Interests	$	37,373,184	$		$	37,373,184

The Company's reportable segments are its VPP agreements.

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.

Expressed in U.S. dollars

As of December 31, 2009:

		Depletable		Non-Depletable		Total
Aurizona	$	16,936,318	$	3,027,163	$	19,963,481
Santa Elena		10,149,425		3,196,546		13,345,971
Summit		4,054,405		--		4,054,405
Other		--		9,327		9,327
	$	31,140,148	$	6,233,036	$	37,373,184

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 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 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 were released to SilverCrest on November 30, 2009.

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 by May 30, 2012 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.

Expressed in U.S. dollars

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"), for $4.0 million as an upfront payment 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.

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.

Santa Fe has provided to Sandstorm a completion guarantee under which Santa Fe may be required to return a portion of the upfront payment if by April 7, 2011 the Summit Mine has not produced a minimum of 4,000 ounces of gold in any consecutive six month period.

8. 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 option payment		100,000
Warrants exercised		34,000
At March 31, 2009		17,926,000
Public offering		198,688,380
Shares issued for mineral interests	7	9,000,000
Shares issued for option payment		100,000
Options exercised		60,000
Warrants exercised		164,000
At December 31, 2009		225,938,380

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). 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. The fair value attributable to the common shares was $896,050.

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. The fair value attributable to the common shares was $32,652,050.

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

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. 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 fair value attributed to the common shares was $28,225,143.

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, expiry date, and vesting conditions to be determined by the board of directors. The maximum expiry date is five years from the grant date. All options are equity settled. The Option Plan provides for the issuance of up to 10% of the Company’s issued common shares as at the date of the grant.

During the nine months ended December 31, 2009, the Company granted 6,320,000 (twelve months ended March 31, 2009 – nil) options with a weighted average exercise price of C$0.44 (March 31, 2009 – nil) per option. The options vest over a period of two years.

Expressed in U.S. dollars

Of the options granted during the nine months ended December 31, 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 $0.13 was determined using the Black-Scholes option valuation model with the following weighted-average assumptions:

	December 31, 2009
Share and exercise price	C$0.44
Expected dividend yield	0.00%
Expected volatility	45%
Risk-free interest rate	1.85%
Expected life of options	3 years

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
Forfeited	(10,000)	C$0.45
At December 31, 2009	6,350,000	C$0.44

A summary of the Company's options as of December 31, 2009 is as follows:

Number	Vested	Price per Share	Expiry Date
40,000	40,000	C$0.10	July 31, 2012
3,610,000	1,203,333	C$0.45	June 16, 2014
700,000	--	C$0.44	July 6, 2014
2,000,000	--	C$0.435	July 28, 2014
6,350,000	1,243,333		

The weighted-average exercise price for exercisable options is C$0.44 (March 31, 2009 - C$0.10). For share options exercised during the nine months ended December 31, 2009, the weighted average share price at the date of exercise was C$0.47 (twelve months ended March 31, 2009 - $nil).

C) SHARE PURCHASE WARRANTS

On April 22, 2008, the Company granted 13,350,000 warrants in connection with its private placement described in Note 8a. The fair value attributable 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 8a. The fair value attributable 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:

Expressed in U.S. dollars

	December 31, 2009	March 31, 2009
Share and exercise price	$0.60	C$0.195
Expected dividend yield	0.00%	0.00%
Expected volatility	51%	110%
Risk-free interest rate	1.78%	2.64%
Expected life of warrants	5 years	2 years

On October 14, 2009, the Company granted 40,889,396 warrants in connection with its public offering described in Note 8a. The fair value attributed to the warrants was $7,548,584. The fair value of the warrants was determined using quoted market prices of both the common shares and warrants on the date of issue.

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	99,344,186
Exercised	(164,000)
Warrants outstanding at December 31, 2009	112,694,186

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

Number	Price per Share	Expiry Date
13,350,000	C$0.195	April 22, 2010
99,344,186	$0.60	April 23, 2014
112,694,186		

Included in warrants outstanding at December 31, 2009, are 4,428,000 (March 31, 2009 – 7,380,000) warrants held in escrow. These warrants expire April 22, 2010 and any shares issued from the exercise of these warrants will be subject to same escrow conditions as the common shares held in escrow.

D) ESCROW SHARES

Included in the shares outstanding at December 31, 2009, are 5,592,000 (March 31, 2009 – 9,320,000) common shares held in escrow. These common shares will be released pro-rata to the shareholders in three equal tranches of 1,864,000 every six months beginning April 24, 2010. 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 nine months ended December 31, 2009 for employees was $365,182 (twelve months ended March 31, 2009 - $nil). Options granted to non-employees are valued and expensed as they vest. Stock-based compensation recognized during the nine months ended December 31, 2009 for non-employees was $94,238 (twelve months ended March 31, 2009 - $nil). Stock-based compensation for non-employees during the nine months ended December 31, 2009 was determined using the Black-Scholes option valuation model with the following weighted-average assumptions:

Expressed in U.S. dollars

	December 31, 2009
Expected dividend yield	0.00%
Expected stock price volatility	44%
Risk-free interest rate	1.74%
Expected life of options	2.7 years

F) DILUTED INCOME (LOSS) PER SHARE

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

	9 months ended December 31, 2009	12 months ended March 31, 2009
Basic weighted average Number of shares	156,042,017	17,081,622
Effect of dilutive securities		
Compensation Warrants - shares	2,087,250	--
Stock Options	157,689	76,233
Warrants	7,704,297	7,001,678
Diluted weighted average number of common shares	165,991,253	24,159,533

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

	9 months ended December 31, 2009	12 months ended March 31, 2009
Compensation Warrants - warrants	3,507,287	--
Stock Options	--	--
Warrants	99,344,186	--

Expressed in U.S. dollars

9. SUPPLEMENTAL CASH FLOW INFORMATION

		December 31, 2009		March 31, 2009 [1]
Change in non-cash working capital				
Receivables	$	2,087	$	(14,974)
Prepaid expenses		2,692		(29,130)
Accounts payable and accrued liabilities		201,053		17,494
	$	205,832	$	(26,610)
Significant non-cash transactions				
Shares issued for option payment	$	44,138	$	12,957
Shares issued for acquisition of mineral interests		3,111,840		--
Allocation of share subscriptions received in advance		--		1,209,495
Compensation warrants issued for share issuance costs		2,044,542		--

1) Translated *(Note 5)*

10. RELATED PARTY TRANSACTIONS

The Company entered into transactions with related parties as follows:

a) During the period ended December 31, 2009 paid or accrued legal fees of $nil (March 31, 2009 - $15,558) to a former director of the Company.

b) During the period ended December 31, 2009 paid or accrued rent as well as the cost of administrative support services, of $82,345 (March 31, 2009 - $12,362) 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.

Expressed in U.S. dollars

11. INCOME TAXES

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

		For the 9 months ended December 31, 2009		For the 12 months ended March 31, 2009 [1]
Income (loss) before income taxes	$	1,002,600	$	(408,442)
Canadian federal and provincial income tax rates		30.0%		30.4%
Income tax expense (recovery) based on the above rates		300,780		(124,166)
Increase (decrease) due to:				
Permanent differences		(534,964)		5,114
Difference between Canadian and foreign tax rates		218,090		--
Reduction in long term Canadian income tax rates		51,079		7,773
Expenditures on mineral interests and financing costs		(1,213,033)		--
Change in valuation allowance		1,178,048		63,596
Income and future tax recovery	$	--	$	(47,683)

The components of future income taxes are as follows:

		December 31, 2009		March 31, 2009 [1]
Future Income Tax Assets				
Mineral property and equipment	$	29,266	$	27,264
Non-capital loss		70,102		53,553
Share issue costs		1,223,346		14,046
Value of future income tax assets		1,322,714		94,863
Valuation allowance		(1,272,912)		(94,863)
Future income tax assets	$	49,802	$	--
Future Income Tax Liabilities				
Unrealized foreign exchange gains	$	49,802	$	--
Future income tax liabilities	$	49,802	$	--
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.

The Company has a non-capital loss carry-forward in Barbados that will expire if unused of $792,570 that may be available for income tax purposes. The loss carry-forward expires in 2018.

The Company has a non-capital loss carry-forward in Canada that will expire if unused of $37,738 that may be available for income tax purposes. The loss carry-forward expires in 2029.

1) Translated *(Note 5)*

12. CONTRACTUAL OBLIGATIONS

In connection with the Aurizona VPP agreement (Note 7), 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 7), 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 connection with the Summit VPP agreement (Note 7), 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. 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.