

## Report of Organizational Actions Affecting Basis of Securities

▶ See separate instructions.

**Part I Reporting Issuer**

1 Issuer's name <b>Premier Royalty Inc.</b>		2 Issuer's employer identification number (EIN) <b>None</b>	
3 Name of contact for additional information <b>Denver Harris, VP Capital Markets</b>	4 Telephone No. of contact <b>604-628-1178</b>	5 Email address of contact <b>info@sandstormltd.com</b>	
6 Number and street (or P.O. box if mail is not delivered to street address) of contact <b>1100 Russell Street</b>		7 City, town, or post office, state, and Zip code of contact <b>Thunder Bay, Ontario, Canada P7B 5N2</b>	
8 Date of action <b>October 4, 2013</b>		9 Classification and description <b>Exchange of Premier Royalty Inc Common Shares for Sandstorm Gold Ltd Common Shares</b>	
10 CUSIP number <b>74057B102;80013R206</b>	11 Serial number(s) <b>N/A</b>	12 Ticker symbol <b>NSR (TSX); SAND (NYSE.MKT)</b>	13 Account number(s) <b>N/A</b>

**Part II Organizational Action** Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ▶ **On October 4, 2013, pursuant to an arrangement, all of the outstanding stock of Premier Royalty Inc. ("PRI") (other than shares owned by SSG and shares held by stockholders who properly exercised dissenters' rights) was acquired by Sandstorm Gold Ltd. ("SSG"). At the effective time of the transaction, each share of common stock of PRI was exchanged for the right to receive 0.145 shares of SSG common stock.**

**The arrangement is described in full in the Management Information Circular of PRI dated as of August 30, 2013, which is available at [www.sedar.com](http://www.sedar.com).**

**A discussion of certain United States federal income tax consequences of the transaction is set forth in the "Certain United States Federal Income Tax Considerations" section of the Management Information Circular (the "Tax Summary") which is attached hereto.**

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ▶ **Assuming that the transaction is treated as integrated with certain acquisitions of PRI stock by SSG in January 2013, the receipt by a PRI stockholder of SSG stock in exchange for its PRI common stock should be a fully taxable transaction. The PRI shareholders' basis in the SSG stock received in exchange for their PRI shares should equal the fair market of such SSG stock at the time of the transaction. See attached Tax Summary.**

16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ▶ **See attached Tax Summary. The opening and closing prices of SSG stock on October 4, 2013, were \$5.13 and \$5.12, respectively. Shareholders should consult their own tax advisors regarding valuation of the SSG shares for basis purposes.**

**Part II Organizational Action** (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ Code Section 1001  
See attached Tax Summary.

18 Can any resulting loss be recognized? ▶ See attached Tax Summary. Assuming that the transaction is treated as integrated with certain acquisitions of PRI stock by SSG in January 2013, the transaction should be treated as a fully taxable transaction with respect to which loss should be recognized.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ In general, any gain or loss recognized should be reported by shareholders for the taxable year which includes October 4, 2013 (i.e., a calendar year shareholder would report the transaction on his or her federal income tax return filed for the 2013 calendar year).

**Sign Here** Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Signature ▶ \_\_\_\_\_ Date ▶ \_\_\_\_\_

Print your name ▶ Erfan Kazemi Title ▶ CFO, Premier Royalty Inc.

<b>Paid Preparer Use Only</b>	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	<u>Andrea Despotes</u>	<u>/s/ Andrea Despotes</u>	<u>11/14/13</u>		<u>P01684522</u>
	Firm's name ▶	Firm's EIN ▶			
	<u>Neal Gerber &amp; Eisenberg LLP</u>	<u>36-3532950</u>			
Firm's address ▶	Phone no.				
<u>2 N. Lasalle St., Chicago, IL 60602</u>	<u>312-269-8000</u>				



**NOTICE OF MEETING**

**and**

**MANAGEMENT INFORMATION CIRCULAR**

**for the**

**SPECIAL MEETING OF SHAREHOLDERS OF  
PREMIER ROYALTY INC.**

**to be held on**

**SEPTEMBER 30, 2013**

**DATED AS OF AUGUST 30, 2013**

### Disposing of Sandstorm Shares

A Non-Resident Holder generally will not be subject to tax in Canada in respect of the disposition of Sandstorm Shares unless the Sandstorm Shares constitute "taxable Canadian property", as defined in the Tax Act, to such holder at the time of disposition and the Non-Resident Holder is not entitled to relief from Canadian taxation under an applicable income tax treaty or convention between Canada and the country of residence of the Non-Resident Holder.

Generally, Sandstorm Shares will not be "taxable Canadian property" of a Non-Resident Holder at a particular time provided that Sandstorm Shares are listed on a designated stock exchange (which includes the TSX) at that time, unless: (A) at any time during the sixty-month period immediately preceding the disposition, (i) the Non-Resident Holder, persons not dealing at arm's length with such Non-Resident Holder, or the Non-Resident Holder together with all such persons, owned 25 percent or more of the issued shares of any class or series of the capital stock of Sandstorm and (ii) more than 50 percent of the fair market value of the Sandstorm Shares was derived directly or indirectly from one or any combination of real or immovable property situated in Canada, "Canadian resource properties" as defined in the Tax Act, "timber resource properties" as defined in the Tax Act, and options in respect of, interests in, or civil law rights in, any such properties; or (B) the Non-Resident Holder's Sandstorm Shares were acquired in certain types of tax-deferred exchanges in consideration for property that was itself taxable Canadian property.

In the event the Sandstorm Shares constitute, or are deemed to constitute, taxable Canadian property to a Non-Resident Holder, such Non-Resident Holder will realize a capital gain (or capital loss) equal to the amount by which the proceeds of disposition exceed (or are less than) the adjusted cost base of the Sandstorm Shares to the Non-Resident Holder. The tax consequences of realizing a capital gain or loss, which are described above under the heading "*Holders Resident in Canada – Taxation of Capital Gains and Capital Losses*", generally will apply.

### **CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS**

The following is a general summary of certain U.S. federal income tax considerations applicable to a U.S. Holder (as defined below) with respect to the Arrangement and the ownership and disposition of Sandstorm Shares received pursuant to the Arrangement. This summary is for general information purposes only and does not purport to be a complete analysis or listing of all potential U.S. federal income tax considerations that may apply to a U.S. Holder as a result of the Arrangement or as a result of the ownership and disposition of Sandstorm Shares. This summary does not take into account the individual facts and circumstances of any particular U.S. Holder that may affect the U.S. federal income tax consequences to such U.S. Holder, including specific tax consequences to a U.S. Holder under an applicable tax treaty. Accordingly, this summary is not intended to be, and should not be construed as, legal or U.S. federal income tax advice with respect to any U.S. Holder. This summary does not address the U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and non-U.S. tax consequences to U.S. Holders of the Arrangement or the ownership and disposition of Sandstorm Shares. Except as discussed below, this summary does not discuss reporting requirements. Each U.S. Holder should consult its own tax advisor regarding the U.S. federal, U.S. federal estate and gift, U.S. state and local, and non-U.S. tax consequences of the Arrangement and the ownership and disposition of Sandstorm Shares. This summary does not address the U.S. tax consequences of the Arrangement to holders of Options with respect to their Options and holders of Warrants with respect to their Warrants.

No legal opinion from U.S. legal counsel or ruling from the IRS has been requested, or will be obtained, regarding the U.S. federal income tax consequences of the Arrangement and the ownership and disposition of Sandstorm Shares. This summary is not binding on the IRS, and the IRS is not precluded from taking a position that is different from, and contrary to, the positions taken in this summary. In addition, because the authorities on which this summary is based are subject to various interpretations, the IRS and the U.S. courts could disagree with one or more of the positions taken in this summary.

**NOTICE PURSUANT TO TREASURY DEPARTMENT CIRCULAR 230: NOTHING CONTAINED IN THIS SUMMARY CONCERNING ANY U.S. FEDERAL TAX ISSUE IS INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED, BY A HOLDER, FOR THE PURPOSE OF AVOIDING U.S. FEDERAL TAX PENALTIES UNDER THE U.S. INTERNAL REVENUE CODE. THIS SUMMARY WAS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS**

ADDRESSED BY THIS CIRCULAR. EACH HOLDER SHOULD SEEK U.S. FEDERAL TAX ADVICE, BASED ON SUCH HOLDER'S PARTICULAR CIRCUMSTANCES, FROM AN INDEPENDENT TAX ADVISOR.

### Scope of This Disclosure

#### *Authorities*

This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the "U.S. Tax Code"), U.S. Treasury Regulations (whether final, temporary, or proposed), published rulings of the IRS, published administrative positions of the IRS, the Convention Between Canada and the United States of America with Respect to Taxes on Income and on Capital, signed September 26, 1980, as amended (the "U.S. Treaty"), and U.S. court decisions that are applicable and, in each case, as in effect and available, as of the date of this Circular. Any of the authorities on which this summary is based could be changed in a material and adverse manner at any time, and any such change could be applied on a retroactive or prospective basis which could affect the U.S. federal income tax considerations described in this summary. This summary does not discuss the potential effects, whether adverse or beneficial, of any proposed legislation that, if enacted, could be applied on a retroactive or prospective basis.

#### *U.S. Holders*

For purposes of this summary, the term "U.S. Holder" means a beneficial owner of Common Shares (or, after the Arrangement, Sandstorm Shares) participating in the Arrangement or exercising Dissent Rights pursuant to the Arrangement that is:

- an individual who is treated as a citizen or resident of the U.S. for U.S. federal income tax purposes;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the U.S., any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust that (i) is subject to the primary supervision of a court within the U.S. and the control of one or more U.S. persons for all substantial decisions, or (ii) has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

#### *U.S. Holders Subject to Special U.S. Federal Income Tax Rules Not Addressed*

This summary does not address the U.S. federal income tax considerations of the Arrangement to U.S. Holders that are subject to special provisions under the U.S. Tax Code, including U.S. Holders that (i) are tax-exempt organizations, qualified retirement plans, individual retirement accounts, or other tax-deferred accounts, (ii) are financial institutions, underwriters, insurance companies, real estate investment trusts, or regulated investment companies, (iii) are broker-dealers, dealers, or traders in securities or currencies that elect to apply a mark-to-market accounting method, (iv) have a "functional currency" other than the U.S. dollar, (v) own Common Shares (or after the Arrangement, Sandstorm Shares) as part of a straddle, hedging transaction, conversion transaction, constructive sale, or other arrangement involving more than one position, (vi) acquired Common Shares (or after the Arrangement, Sandstorm Shares) in connection with the exercise of employee stock options or otherwise as compensation for services, (vii) hold Common Shares (or after the Arrangement, Sandstorm Shares) other than as a capital asset within the meaning of Section 1221 of the U.S. Tax Code (generally, property held for investment purposes), and (viii) own, directly, indirectly, or by attribution, 5% or more, by voting power or value, of the outstanding Common Shares (or after the Arrangement, Sandstorm Shares). This summary also does not address the U.S. federal income tax considerations applicable to U.S. Holders who are: (i) U.S. expatriates or former long-term residents of the U.S., (ii) persons that have been, are, or will be a resident or deemed to be a resident in Canada for purposes of the Tax Act, (iii) persons that use or hold, will use or hold, or that are or will be deemed to use or hold Common Shares (or after the Arrangement, Sandstorm Shares) in connection with carrying on a business in Canada, or (iv) persons that have a permanent establishment in Canada for the purposes of the U.S. Treaty. U.S. Holders that are subject to special provisions under the U.S. Tax Code, including U.S. Holders described immediately above, should consult their own tax advisor regarding the U.S. and non-U.S. tax consequences relating to the Arrangement and the ownership and disposition of Sandstorm Shares.

If an entity that is classified as a partnership (or "pass-through" entity) for U.S. federal income tax purposes holds Common Shares (or after the Arrangement, Sandstorm Shares), the U.S. federal income tax consequences to such partnership and the partners of such partnership of participating in the Arrangement and the ownership and disposition of Sandstorm Shares generally will depend in part on the activities of the partnership and the status of such partners (or other owners). This summary does not address the tax consequences to any such partner or partnership. Partners of entities that are classified as partnerships for U.S. federal income tax purposes should consult their own tax advisors regarding the U.S. federal income tax consequences of the Arrangement and the ownership and disposition of Sandstorm Shares.

## **U.S. Federal Income Tax Consequences of the Arrangement**

### *Exchange of Common Shares for Sandstorm Shares*

In January 2013, Sandstorm acquired Common Shares from Shareholders of the Corporation in two transactions and the purchase price paid by Sandstorm for such shares included Sandstorm Special Warrants and cash (the "**Prior Transactions**"). Although there are no authorities addressing facts identical to the Arrangement, this summary assumes that the Prior Transactions and the Arrangement will be treated for U.S. federal income tax purposes as part of a single integrated plan of Sandstorm to acquire all of the outstanding shares of the Corporation and, as a result, that the exchange of Common Shares for Sandstorm Shares under the Arrangement should constitute a taxable transaction. There can be no assurance that the IRS or a U.S. court would not take a contrary view of the Prior Transactions and the Arrangement. Neither the Corporation nor Sandstorm has sought or obtained either a ruling from the IRS or a legal opinion from legal counsel regarding any of the tax consequences of the Arrangement. Accordingly, there can be no assurance that the IRS will not challenge the status of the Arrangement as a taxable transaction or that the U.S. courts will uphold the status of the Arrangement as a taxable transaction in the event of an IRS challenge. If the Prior Transactions and the Arrangement are not treated as a single integrated transaction, the exchange of Common Shares for Sandstorm Shares under the Arrangement may qualify as a tax-deferred reorganization under Section 368(a) of the U.S. Tax Code if certain requirements are satisfied. U.S. Holders should consult their own tax advisors regarding the proper characterization of the Prior Transactions and the Arrangement.

Subject to the PFIC rules discussed below, assuming that the Arrangement is a taxable transaction as discussed in the preceding paragraph, the exchange of Common Shares for Sandstorm Shares will generally result in the following U.S. federal income tax consequences:

- (a) a U.S. Holder of Common Shares will recognize gain or loss equal to the difference between (i) the fair market value of Sandstorm Shares received by such U.S. Holder in the Arrangement, and (ii) the adjusted tax basis of such U.S. Holder in such Common Shares exchanged;
- (b) the aggregate tax basis of Sandstorm Shares received by a U.S. Holder of Common Shares in the Arrangement will be equal to the aggregate fair market value of Sandstorm Shares at the time of their receipt; and
- (c) the holding period of Sandstorm Shares received by a U.S. Holder in the Arrangement will begin on the day after their receipt.

Subject to the PFIC rules discussed below, any gain or loss recognized by the U.S. Holder would be short-term capital gain or loss, unless such U.S. Holder's holding period for the Common Shares exchanged was more than one year at the closing of the Arrangement, in which case any gain or loss recognized would be long-term capital gain or loss. Preferential tax rates for long-term capital gains are generally applicable to a U.S. Holder that is an individual, estate or trust. There are no preferential tax rates for long-term capital gains for a U.S. Holder that is a corporation. Deductions for capital losses are subject to complex limitations under the U.S. Tax Code.

### *Tax Consequences of the Arrangement Under the Passive Foreign Investment Company Rules*

The tax considerations of the Arrangement to a particular U.S. Holder will depend on whether the Corporation was a PFIC during any year in which a U.S. Holder owned Common Shares. A foreign corporation generally will be a PFIC under Section 1297 of the U.S. Tax Code if, for a tax year, (i) 75% or more of the gross income of the corporation for such tax year is passive income (the "income test"), or (ii) 50% or more of the value of the corporation's assets either produce passive income or are held for the production of passive income (the "asset

test"), based on the quarterly average of the fair market value of such assets. "Gross income" generally includes all sales revenues less the cost of goods sold, plus income from investments and from incidental or outside operations or sources, and "passive income" generally includes, for example, dividends, interest, certain rents and royalties, certain gains from the sale of stock and securities, and certain gains from commodities transactions. Certain subsidiaries and other entities in which a PFIC has a direct or indirect interest could also be PFICs ("**Lower-Tier PFICs**") with respect to a U.S. Holder owning an interest in the first-mentioned PFIC.

The Corporation has not made a determination regarding its PFIC status for any taxable year, including the current taxable year. However, the Corporation may be treated as a PFIC for U.S. federal income tax purposes for its prior and current taxable years.

The determination of PFIC status is inherently factual, is subject to a number of uncertainties, and can be determined only annually at the close of the taxable year in question. Additionally, the analysis depends, in part, on the application of complex U.S. federal income tax rules, which are subject to differing interpretations. There can be no assurance that the Corporation's status will or will not be determined to be a PFIC during the current taxable year or any prior or future taxable year, and no legal opinion of legal counsel or ruling from the IRS concerning the status of the Corporation as a PFIC has been obtained or is currently planned to or will be requested. U.S. Holders should consult their own U.S. tax advisors regarding the application of the PFIC rules to the Arrangement.

If a U.S. Holder disposes of Common Shares in the Arrangement that were held by such U.S. Holder directly or indirectly during any time that the Corporation was a PFIC (shares in a PFIC are sometimes referred to herein as "**PFIC Shares**") and the U.S. Holder has not made either a QEF Election or a Mark-to-Market Election (each as defined below), the gain the U.S. Holder recognizes on the Arrangement with respect to such PFIC Shares will be taxed under the "excess distribution" regime. Under that regime, any gain recognized on the Arrangement will be allocated ratably on a daily basis to each day of the U.S. Holder's holding period with respect to such shares. Gain allocated to any period preceding the first year in the holding period when the Corporation was a PFIC and gain allocated to the year of disposition will be treated as gain arising in the year of disposition and taxed at ordinary U.S. federal income tax rates for the year of disposition. Gain allocated to each of the other years (the "**Prior PFIC Years**") will be taxed at the highest ordinary U.S. federal income tax rate in effect for each of those years. Interest will be added to the tax determined for each of the Prior PFIC Years at the rate generally applicable to underpayments of tax for such taxable year. The sum of the taxes and interest calculated for all Prior PFIC Years will be in addition to the tax for the year in which the sale of the PFIC Shares occurs. A U.S. Holder that is not a corporation must treat the interest as non-deductible personal interest.

A U.S. Holder, under proposed U.S. Treasury Regulations, may recognize a greater amount of gain than described above if it were deemed to dispose of any Lower-Tier PFICs. Under these proposed U.S. Treasury Regulations, unless a QEF Election had been made with respect to such Lower-Tier PFIC, a U.S. Holder would be treated as recognizing its proportionate share of the gain that the actual owner would have realized on a disposition of the Lower-Tier PFIC for its fair market value. The U.S. Holder's basis in its Common Shares would be increased by the amount of gain deemed recognized by the U.S. Holder, but this basis increase may not offset the U.S. federal income tax imposed on the potentially greater amount of gain recognized with respect to the Lower-Tier PFIC. U.S. Holders should consult their tax advisors with respect to these indirect disposition rules.

If a U.S. Holder holds Common Shares in any year in which the Corporation is classified as a PFIC, such U.S. Holder would be required to attach a completed IRS Form 8621 to its tax return every year in which it recognized gain on a disposition of Common Shares or received an excess distribution, either directly or indirectly. Additional annual filing requirements for U.S. Holders who are shareholders in a PFIC may also apply. U.S. Holders should consult their own tax advisors concerning annual filing requirements.

#### ***QEF Election and Mark-to-Market Election***

A U.S. Holder who has made a timely and effective election to treat the Corporation as a "qualified electing fund" under the U.S. Tax Code (a "**QEF Election**") generally would not be subject to the "excess distribution" regime discussed above. Instead, the electing U.S. Holder would include annually in gross income its pro rata share of the ordinary earnings and net capital gain of the PFIC, whether or not such amounts are actually distributed. However, a U.S. Holder's ability to make a QEF Election with respect to its Common Shares is contingent upon, among other things, the provision by the Corporation of a "PFIC Annual Information Statement" to such U.S. Holder, and the Corporation has not provided a PFIC Annual Information Statement in the past, and will not provide a PFIC Annual

Information Statement with respect to its current or prior tax years. U.S. Holders are therefore not able to make a QEF Election with respect to the Corporation.

A U.S. Holder of PFIC Shares would also not be subject to the excess distribution regime if the U.S. Holder had made a timely and effective election to mark the PFIC Shares to market (a "**Mark-to-Market Election**") at the beginning of such U.S. Holder's holding period for such stock. A Mark-to-Market Election may be made with respect to the stock of a PFIC if such stock is "regularly traded" on a "qualified exchange or other market" (within the meaning of the U.S. Tax Code and the applicable U.S. Treasury Regulations). The Common Shares are currently listed on the TSX. If the Common Shares have been listed and "regularly traded" on such exchange, then, in the case of any U.S. Holder that has timely made an effective Mark-to-Market Election at the beginning of such U.S. Holder's holding period for its PFIC Shares, gain realized by such holder from the sale of PFIC Shares generally would be taxed at ordinary income tax rates. For more information regarding the Mark-to-Market Election, see "*Ownership and Disposition of Sandstorm Shares if Sandstorm is a PFIC – Mark-to-Market Election*" below.

The rules governing the taxation of the disposition of shares of a PFIC are complex, and U.S. Holders of Common Shares should consult their own tax advisors as to the tax considerations applicable to them.

#### ***U.S. Holders Exercising Dissent Rights***

A U.S. Holder that exercises Dissent Rights in the Arrangement and is paid cash in exchange for all of its Common Shares generally will recognize gain or loss in an amount equal to the difference, if any, between (i) the amount of cash received by such U.S. Holder in exchange for Common Shares (other than amounts, if any, that are or are deemed to be interest for U.S. federal income tax purposes, which amounts will be taxed as ordinary income), and (ii) the tax basis of such U.S. Holder in such Common Shares surrendered. Any gain recognized would be subject to the PFIC rules discussed above. Subject to the PFIC rules, any gain or loss recognized by the U.S. Holder with respect to those Common Shares would generally be capital gain or loss, which will be long-term capital gain or loss if such Common Shares have been held for more than one year. Preferential tax rates apply to long-term capital gains of a U.S. Holder that is an individual, estate, or trust. There are no preferential tax rates for long-term capital gain of a U.S. Holder that is a corporation. Deductions for capital losses are subject to complex limitations under the U.S. Tax Code.

#### **U.S. Federal Income Tax Consequences Related to the Ownership and Disposition of Sandstorm Shares**

##### ***Potential Treatment of Sandstorm as a PFIC***

Certain adverse U.S. federal income tax rules may apply to a U.S. Holder that owns or disposes of stock in a non-U.S. corporation that is treated as a PFIC. The determination of PFIC status is inherently factual, is subject to a number of uncertainties, and can be determined only annually at the close of the taxable year in question. Additionally, the analysis depends, in part, on the application of complex U.S. federal income tax rules, which are subject to differing interpretations. There can be no assurance that Sandstorm's status will or will not be determined to be a PFIC during the current year or any prior or future year, and no legal opinion of legal counsel or ruling from the IRS concerning the status of Sandstorm as a PFIC has been obtained or is currently planned to or will be requested. The U.S. federal income tax consequences if Sandstorm is treated as a PFIC are discussed below under "*Ownership and Disposition of Sandstorm Shares if Sandstorm is a PFIC*". The U.S. federal income tax consequences if Sandstorm is not treated as a PFIC are discussed below under "*Ownership and Disposition of Sandstorm Shares if Sandstorm is not a PFIC*".

##### ***Ownership and Disposition of Sandstorm Shares if Sandstorm is a PFIC***

If Sandstorm is treated as a PFIC with respect to a U.S. Holder for any taxable year, the U.S. federal income tax consequences discussed below generally will apply to a U.S. Holder of Sandstorm Shares.

##### **Distributions**

Except as provided with respect to a timely and valid QEF or Mark-to-Market Election, distributions made by Sandstorm with respect to the Sandstorm Shares, to the extent such distributions are treated as "excess distributions" pursuant to section 1291 of the U.S. Tax Code, must be allocated ratably to each day of the U.S. Holder's holding



period for such Sandstorm Shares. Distributions received in a taxable year (the "year of receipt") generally will be treated as excess distributions to the extent that such distributions exceed 125% of the average amount of distributions received for each taxable year during the shorter of (1) the three taxable years preceding the year of receipt and (2) the portion of the U.S. Holder's holding period for its Sandstorm Shares before the year of receipt. The amounts allocated to the U.S. Holder's taxable year during which the distribution is made, and to any period during such U.S. Holder's holding period that is prior to the first taxable year in which Sandstorm was treated as a PFIC, are included in such U.S. Holder's gross income as ordinary income for the taxable year of the U.S. Holder in which the distribution is made. The amount allocated to each other taxable year is taxed as ordinary income in the taxable year of the distribution at the highest tax rate in effect for the U.S. Holder in that other taxable year and is subject to an interest charge at the rate applicable to underpayments of tax. A U.S. Holder that is not a corporation must treat such interest as "personal interest," which is not deductible. Any distribution made by Sandstorm that does not constitute an excess distribution generally will be treated in the manner described below under "*Ownership and Disposition of Shares if Sandstorm is not a PFIC — Distributions*" except that the reduced tax rate applicable to certain dividends would not apply with respect to the Sandstorm Shares if Sandstorm is a PFIC.

#### Dispositions

Except as provided with respect to a timely and valid QEF or Mark-to-Market Election, the entire amount of any gain realized upon a U.S. Holder's disposition of its Sandstorm Shares generally will be treated as an excess distribution made in the taxable year during which such disposition occurs, with the consequences as described under "*Ownership and Disposition of Sandstorm Shares if Sandstorm is a PFIC - Distributions*" above.

#### Purging the PFIC Taint

Except as described in the next sentence, if a non-U.S. corporation meets the income test or the asset test for any taxable year during which a U.S. Holder holds stock of such non-U.S. corporation, the non-U.S. corporation will be treated as a PFIC with respect to such U.S. Holder for that taxable year and for all subsequent taxable years, regardless of whether the non-U.S. corporation meets the income test or the asset test for such subsequent taxable years. Under applicable U.S. Treasury Regulations, the non-U.S. corporation will cease to be treated as a PFIC with respect to a U.S. Holder that holds stock of such non-U.S. corporation if, on the U.S. Holder's original or amended tax return for the last taxable year of its holding period during which the non-U.S. corporation met either the income test or the asset test, such U.S. Holder elects to recognize any unrealized gain in its stock as of the last day of the non-U.S. corporation's last taxable year in which it met either the income test or the asset test. Any gain recognized by a U.S. Holder as a result of making the election described in the previous sentence with respect to its stock will be subject to the adverse ordinary income and special interest charge consequences described above.

#### Subsidiary PFIC Rules

Certain adverse U.S. federal income tax rules generally will apply to a U.S. Holder of Shares for any taxable year in which Sandstorm is treated as a PFIC and has a subsidiary that is also treated as a PFIC (a "**Subsidiary PFIC**"). In such a case, a disposition (or deemed disposition) of the shares of such Subsidiary PFIC or a distribution received by Sandstorm from such Subsidiary PFIC generally may be treated as an indirect disposition by a U.S. Holder or an indirect distribution received by a U.S. Holder, respectively. Any such indirect disposition or indirect distribution generally would be subject to the gain and excess distribution rules described above regardless of the percentage ownership of such U.S. Holder in Sandstorm.

#### Qualified Electing Fund Election

The adverse U.S. federal income tax consequences of owning stock of a PFIC described above generally may be mitigated if a U.S. Holder of the PFIC is able to, and timely makes, a valid QEF election with respect to the PFIC. However, no assurance can be made that Sandstorm will provide U.S. Holders with the information necessary to allow U.S. Holders to make a QEF election.

#### Mark-to-Market Election

In general, the adverse U.S. federal income tax consequences of owning stock of a PFIC described above also may be mitigated if a U.S. Holder of the PFIC makes a valid Mark-to-Market Election with respect to such stock. A Mark-to-Market Election may be made with respect to the stock of a PFIC if such stock is "regularly traded" on a

"qualified exchange or other market" (within the meaning of the U.S. Tax Code and the applicable U.S. Treasury Regulations). The Sandstorm Shares are currently listed on the TSX and on the NYSE MKT. In addition, Sandstorm will apply to list the Sandstorm Shares issuable by Sandstorm under the Arrangement on the TSX and the NYSE MKT. It is also a condition of closing that Sandstorm shall have obtained conditional approval for listing of the Sandstorm Shares issuable to Shareholders pursuant to the Arrangement on the TSX and the NYSE MKT. If the Sandstorm Shares are listed and "regularly traded" on either exchange, then a U.S. Holder generally will be eligible to make a Mark-to-Market Election with respect to its Sandstorm Shares. However, there is no assurance that the Sandstorm Shares will be or remain "regularly traded" (or listed) for this purpose.

A U.S. Holder that makes a valid Mark-to-Market Election with respect to stock of a PFIC at the beginning of the U.S. Holder's holding period for such stock generally will not be subject to the PFIC rules described above with respect to that stock. Instead, the U.S. Holder generally will be required to recognize as ordinary income each taxable year an amount equal to the excess, if any, of the fair market value of such stock as of the close of such taxable year over the U.S. Holder's adjusted tax basis in such stock as of the close of such taxable year. A U.S. Holder's adjusted tax basis in the stock generally will be increased by the amount of ordinary income recognized with respect to such stock. If the U.S. Holder's adjusted tax basis in the stock as of the close of a taxable year exceeds the fair market value of such stock as of the close of such taxable year, the U.S. Holder generally will recognize an ordinary loss, but only to the extent of net mark-to-market income recognized with respect to such stock for all prior taxable years. A U.S. Holder's adjusted tax basis in its stock generally will be decreased by the amount of ordinary loss recognized with respect to such stock. Any gain recognized upon a disposition of the stock generally will be treated as ordinary income, and any loss recognized upon a disposition generally will be treated as an ordinary loss to the extent of net mark-to-market income recognized for all prior taxable years and any loss recognized in excess thereof will be taxed as a capital loss.

A U.S. Holder that makes a valid Mark-to-Market Election with respect to stock after the first taxable year of the U.S. Holder during which the non-U.S. corporation is treated as a PFIC with respect to such U.S. Holder generally will be subject to the PFIC excess distribution rules described above with respect to mark-to-market income for the taxable year for which the election is made. A Mark-to-Market Election generally will not be available with respect to stock in a Subsidiary PFIC (i.e., unless the stock of such Subsidiary PFIC is "regularly traded" on a "qualified exchange or other market"). Each U.S. Holder should consult its own tax advisor regarding the desirability of, and procedure for making, a timely Mark-to-Market Election.

#### PFIC Information Reporting

U.S. Holders are required to file annual information statements reporting their ownership of stock of a PFIC. U.S. Holders are urged to consult with their own tax advisors regarding these requirements as they relate to their ownership of the Sandstorm Shares.

#### ***Ownership and Disposition of Sandstorm Shares if Sandstorm is not a PFIC***

If Sandstorm is not treated as a PFIC with respect to a U.S. Holder for any taxable year, the U.S. federal income tax consequences discussed below generally will apply to a U.S. Holder of Shares.

#### Distributions

Distributions made with respect to the Sandstorm Shares (including any Canadian taxes withheld from such distributions) generally will be included in the gross income of a U.S. Holder as dividend income to the extent of Sandstorm's current and accumulated earnings and profits, as determined under U.S. federal income tax principles. Because Sandstorm is expected to be eligible for the benefits of the U.S. Treaty, dividends paid by Sandstorm to non-corporate U.S. Holders generally are expected to be eligible for the reduced rate of U.S. federal income tax available with respect to "qualified dividends." A corporate U.S. Holder will not be entitled to a dividends received deduction that is otherwise generally available upon the receipt of dividends distributed by U.S. corporations. Distributions in excess of Sandstorm's current and accumulated earnings and profits, if made with respect to the Sandstorm Shares, will be treated as a return of capital to the extent of the U.S. Holder's adjusted tax basis in such Sandstorm Shares, and thereafter as capital gain. In addition, if Sandstorm does not calculate its earnings and profits under U.S. federal income tax principles, all distributions made with respect to the Sandstorm Shares will be treated as dividends (as described above).

## Dispositions

Upon the sale, exchange or other taxable disposition of Sandstorm Shares, a U.S. Holder generally will recognize capital gain or loss equal to the difference between (1) the amount of cash and the fair market value of any other property received upon the sale, exchange or other taxable disposition and (2) the U.S. Holder's adjusted tax basis in such Sandstorm Shares. Such capital gain or loss will be long-term capital gain or loss if the U.S. Holder's holding period with respect to the Sandstorm Shares disposed of is more than one year at the time of the sale, exchange or other taxable disposition. The deductibility of capital loss is subject to significant limitations.

## **Other Considerations**

### *Foreign Tax Credit*

A U.S. Holder that pays (whether directly or through withholding) Canadian income tax in connection with the Arrangement or in connection with the ownership or disposition of Sandstorm Shares may be entitled, at the election of such U.S. Holder, to receive either a deduction or a credit for such Canadian income tax paid. Generally, a credit will reduce a U.S. Holder's U.S. federal income tax liability on a dollar-for-dollar basis, whereas a deduction will reduce a U.S. Holder's income subject to U.S. federal income tax. This election is made on a year-by-year basis and applies to all foreign taxes paid (whether directly or through withholding) by a U.S. Holder during a tax year.

Complex limitations apply to the foreign tax credit, including the general limitation that the credit cannot exceed the proportionate share of a U.S. Holder's U.S. federal income tax liability that such U.S. Holder's "foreign source" taxable income bears to such U.S. Holder's worldwide taxable income. In applying this limitation, a U.S. Holder's various items of income and deduction must be classified, under complex rules, as either "foreign source" or "U.S. source." Generally, dividends paid by a foreign corporation should be treated as foreign source for this purpose, and gains recognized on the sale of stock of a foreign corporation by a U.S. Holder should be treated as U.S. source for this purpose, except as otherwise provided in an applicable income tax treaty, and if an election is properly made under the U.S. Tax Code. However, the amount of a distribution with respect to Sandstorm Shares that is treated as a "dividend" may be lower for U.S. federal income tax purposes than it is for Canadian federal income tax purposes, resulting in a reduced foreign tax credit allowance to a U.S. Holder. In addition, this limitation is calculated separately with respect to specific categories of income. The foreign tax credit rules are complex, and each U.S. Holder should consult its own tax advisor regarding the foreign tax credit rules.

### *Receipt of Foreign Currency*

The U.S. dollar value of any cash payment in Canadian dollars to a U.S. Holder will be translated into U.S. dollars calculated by reference to the exchange rate prevailing on the date of actual or constructive receipt of the dividend, regardless of whether the Canadian dollars are converted into U.S. dollars at that time. If the Canadian dollars received are not converted into U.S. dollars on the date of receipt, a U.S. Holder will have a basis in the Canadian dollars equal to its U.S. dollar value on the date of receipt. Any U.S. Holder who receives payment in Canadian dollars and engages in a subsequent conversion or other disposition of the Canadian dollars may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss, and generally will be U.S. source income or loss for foreign tax credit purposes. Each U.S. Holder should consult its own U.S. tax advisor regarding the U.S. federal income tax consequences of receiving, owning, and disposing of Canadian dollars.

### *Additional Tax on Passive Income*

Individuals, estates and certain trusts whose income exceeds certain thresholds will be required to pay a 3.8% Medicare surtax on "net investment income" including, among other things, dividends and net gain from disposition of property (other than property held in certain trades or businesses). U.S. Holders should consult with their own tax advisors regarding the effect, if any, of this tax on the Arrangement and their ownership and disposition of Sandstorm Shares.

### *Information Reporting; Backup Withholding Tax*

Under U.S. federal income tax law and U.S. Treasury Regulations, certain categories of U.S. Holders must file information returns with respect to their investment in, or involvement in, a foreign corporation. For example, U.S. return disclosure obligations (and related penalties) are imposed on U.S. Holders that hold certain specified foreign

financial assets in excess of certain threshold amounts. The definition of specified foreign financial assets includes not only financial accounts maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a non-U.S. person, any financial instrument or contract held for investment that has an issuer or counterparty other than a U.S. person and any interest in a foreign entity. U.S. Holders may be subject to these reporting requirements unless their Sandstorm Shares are held in an account at certain financial institutions. Penalties for failure to file certain of these information returns are substantial. U.S. Holders should consult their own tax advisors regarding the requirements of filing information returns.

Payments made within the U.S. or by a U.S. payor or U.S. middleman, of (i) distributions on Sandstorm Shares, (ii) proceeds arising from the sale or other taxable disposition of Sandstorm Shares, or (iii) any payments received in connection with the Arrangement (including, but not limited to, U.S. Holders exercising dissent rights under the Arrangement) generally may be subject to information reporting. In addition, backup withholding tax, at the current rate of 28%, may apply to such payments if a U.S. Holder (i) fails to furnish its correct U.S. taxpayer identification number (generally on Form W-9), (ii) furnishes an incorrect U.S. taxpayer identification number, (iii) is notified by the IRS that such U.S. Holder has previously failed to properly report items subject to backup withholding tax, or (iv) fails to certify, under penalty of perjury, that such U.S. Holder has furnished its correct U.S. taxpayer identification number and that the IRS has not notified such U.S. Holder that it is subject to backup withholding tax. However, certain exempt persons generally are excluded from these information reporting and backup withholding rules. Backup withholding is not an additional tax. Any amounts withheld under the U.S. backup withholding tax rules will be allowed as a credit against a U.S. Holder's U.S. federal income tax liability, if any, or will be refunded, if such U.S. Holder furnishes required information to the IRS in a timely manner. Each U.S. Holder should consult its own tax advisor regarding the information reporting and backup withholding rules.

THE ABOVE SUMMARY IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSIDERATIONS APPLICABLE TO HOLDERS OF COMMON SHARES WITH RESPECT TO THE DISPOSITION OF THOSE SHARES PURSUANT TO THE ARRANGEMENT OR THE OWNERSHIP AND DISPOSITION OF SANDSTORM SHARES. U.S. HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX CONSIDERATIONS APPLICABLE TO THEM IN THEIR PARTICULAR CIRCUMSTANCES.

#### **INTERESTS OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

Except as otherwise disclosed in this Circular, the Corporation is not aware of any director, officer or person who, to the knowledge of the directors or officers of the Corporation, beneficially owns or controls or exercises discretion over shares carrying more than 10% of the votes attached to the Common Shares, informed person, or any associate or affiliate of an informed person, having any material interest, direct or indirect, in any transaction or proposed transaction since January 1, 2012 which has materially affected or would materially affect the Corporation or any of its subsidiaries.

#### **AUDITORS**

Grant Thornton LLP, Chartered Accountants, are the auditors of the Corporation and are independent of the Corporation within the meanings of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario. Grant Thornton LLP, Chartered Accountants, have been the auditors of the Corporation since December 2012.

#### **LEGAL MATTERS**

Certain Canadian legal matters in connection with the Arrangement as they pertain to the Corporation will be passed upon by Bennett Jones LLP. Certain Canadian legal matters in connection with the Arrangement as they pertain to the Independent Committee will be passed upon by Blake, Cassels & Graydon LLP. Certain legal matters in connection with the Arrangement as they pertain to the Purchaser will be passed upon by Cassels Brock & Blackwell LLP.

#### **OTHER MATTERS**

Management of the Corporation is not aware of any matters to come before the Meeting other than as set forth in the