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Sandstorm Gold

Sandstorm Gold's 2009 entry into the Brazilian market has proved a huge success. Investing \$17.8 million in Luna Gold, Sandstorm received the right to purchase 17% of the company's future gold production at \$400 per ounce. Today, Luna Gold is producing 70,000ozs per year and has planned a ramp up to 100,000ozs. Sandstorm Gold expects to have 40% of their investments in South America in the next ten years.

## STREAM TO A RIVER

Ian Telfer, the chairman of Goldcorp and the World Gold Council, created the concept of metal streaming companies. The biggest advantage of investing in a metal streaming company, as opposed to a traditional exploration junior, is that you are not exposed to the risks that are often inherent in mining. When costs overrun or machinery breaks down, production is lower, costs are higher and money is lost. But in the metal streaming model we pay a fixed price for every ounce that is delivered to us - so if costs go up, as we are seeing in Brazil, our margins are protected since we negotiate a fixed ongoing purchase price on day one. Generally there is also a completion guarantee clause, which stipulates the necessity of building the mine to certain specifications within a definitive time period.

As cliché as it sounds, our focus when choosing projects is low cash cost producers and good management teams. We also need to know that the company is capable of raising money after our initial investment. We have an internal geologist, who is our first line in the due diligence process. Following that we choose from our rotating team of consultants to determine who has the appropriate skill base in order to fully evaluate the project. Since we are paying a large lump sum upfront, we typically consider investment only at the prefeasibility or feasibility stage. Like all financing firms, we get all types of companies coming to us, everything from people with good projects who don't want to dilute their equity holders, to people with bad projects and bad management teams. Obviously the former is our focus and the latter we avoid. Often in these situations, the equity of the companies we deal with is extremely depressed, which means issuing more shares can lead to dilution of the market capitalization at staggeringly high figures. Although companies do give up a certain amount of exploration upside to Sandstorm, they would be giving a much larger amount to new shareholders, essentially neglecting their shareholder base.

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Three years ago, when we started Sandstorm, our market capitalization was \$4 million, so we were doing deals between \$10 and \$20 million. Today our market capitalization is \$600 million, meaning today we are doing deals between \$10 and \$200 million. We have about \$35 million in cash on our balance sheet, we have a \$50 million revolving credit line which we can draw on, over \$3million in cash flow per month, \$70million in warrants to be exercised over the coming years, plus the ability to issue equity if necessary. One of the criticisms of streaming contracts is that they are finite. However we are adapting contracts to suit market conditions - for example, we introduced a concept where people can buy back part of the contract and have almost all of the upside of new exploration.

In times of strong growth and liquidity, metal streaming companies tend to remain motionless and accumulate cash through pre-defined streams. When a crisis comes and financing is tighter, our share price will drop but we will have the cash to make smart deals which will prove beneficial when things rebound. Market volatility is good for our type of company. There are really only four streaming companies operating at the moment, Franco Nevada, Royal Gold, both of whom depend largely on profits from royalties, and Silver Wheaton, who focuses on silver. So, we are market leaders in the gold streaming sphere.

Despite the fact that we are fairly flexible about where we invest, our head office is in Vancouver so we get most deals done in North and South America. Brazil has a lot of untapped resources; it is fairly unexplored in comparison to other countries out there that have reasonable political risk. We like that it is an up and coming, stable country with a great deal of exploration upside. 