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Junior Mine 2012

Must survive before you can thrive

Review and analysis of the Top 100 mining companies on TSXV

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A perfect storm that swept a company to top spot

Interview with Nolan Watson, President & CEO, Sandstorm Gold

The office of Sandstorm Gold Ltd is reflective of the company's young CEO, Nolan Watson: calm and quiet, but not without a well-deserved dose of self-assurance. It all makes sense, considering the streaming company is currently sitting on top of a recently secured $150 million in bought deal financing, and as at June 30, 2012 had a market capitalization of $582 million. Said market capitalization secured Sandstorm Gold the top spot in this year's Top 100 Junior Mine list. On the heels of this success, PwC's British Columbia Mining Leader, Michael Cinnamond, met up with Nolan Watson to discuss Sandstorm's aggressive growth goals for 2013, the evolving streaming model and what Sandstorm Gold looks for in a streaming partner.

Michael: Due to challenging financing conditions, it seems to be a "perfect storm" for streaming companies interested in providing much needed financing to miners. The streaming business model is still relatively new to the mining sector. Can you explain the role you play in helping mining companies grow?

Nolan: We view ourselves as strategic partners with mining companies. A mining company will come to us when they need to secure capital to build a mining project, refinance their obligations, or complete an acquisition. We'll provide the mining company with an upfront payment in exchange for a portion of the gold produced from their mine, for the life of the mine, at a fixed per unit cost.

Michael: Compared to other larger streaming and royalty companies in the marketplace - who are announcing deals approaching a billion dollars - what is your competitive advantage?

Nolan: One of our competitive advantages right now is our size. We have the ability to do a $50 million deal and have it be meaningful to us. Currently, many of the other streaming and royalty companies are much larger than us and, like you mentioned, are completing deals in the $750 million range. They aren't as interested in closing a deal in the range of $20-$100 million. As a result, we are not competing as heavily to complete a deal.

Michael: Do you expect to see the streaming business model change or evolve in the next few years?

Nolan: At the end of the day, a stream is just a contract so it can be whatever you want it to be. We're starting to see agreements ebb and flow. Each streaming company seems to be adding their own flavour to deals. For example, one of the things we added to a recent agreement was the ability to buy back a partial percentage of the contract at a 30% premium for a finite time period. This is an example of a new type of streaming that's never been done before.

Michael: As we have discussed, you are competing with other streaming companies for prime financing opportunities, but you're also competing with more traditional forms of financing. What strategic advantage does a mining company gain partnering with a streaming company over, say, a bank?

Nolan: On the debt side, it is a lot less risky. Think of what a bank is. A bank is an entity that might only own 10% of every dollar it lends out, the rest is borrowed capital. As a result, they can't afford to lose that money, as it would wipe out their equity. In turn, they aren't able to be as flexible – they call in default of covenants right away or force the mining company to raise equity at a time that may not be ideal for the company's share price. But Sandstorm Gold, for example, is completely debt free. As a result, we can be patient and can afford to take some risks. We understand that mining is a long-term investment and that returns are not necessarily realized right away. We work with mining companies, not against them. Our goal is to make a mining company successful. For us to be successful the mine we have invested in has to be successful, and sometimes that takes patience.

Michael: What hurdles do you need to overcome when doing a deal with a mining company?

Nolan: Convincing the other side to do the deal. Streams are for the life of a mine and for companies completing their first ever streaming arrangement it can be a large mental hurdle to overcome. Initially, companies feel as though they are giving all the upside to the price of gold away. To help companies make it over this hurdle we complete detailed financial analysis and modelling to explain the advantages. There are cases where we have been able to provide a mining company with 100% of the capital needed to build a mine, while they are trading at 0.2 or 0.3 times Net Asset Value (NAV). We provide them with capital at NAV. The deal, therefore, is three times as accretive over the life of the mine.

Michael: What about the innumerable accounting and tax implications that must be worked through when completing a streaming deal. How do you overcome those hurdles?

Nolan: You are absolutely correct. It is incredibly difficult to create a tax structure, that also works with the accounting structure, and that also works within the legal framework of the country of operation. It gets very complicated. As a result, we have seen some streaming companies try to get off the ground, but can't, as they aren't able to figure out how to structure the accounting, tax and legal portion of the deal.

Michael: What do you look for in a partner? Do you have "deal breakers"?

Nolan: One of the things we've always been very forthright about with our investors is that we're only going to invest in low political risk jurisdictions, until we are large enough and diversified enough to handle taking small, higher level risk assets into our portfolio. The deals we've completed as-to-date are located in Canada, United States, Mexico and Brazil. Of the deals that we are currently considering, 80% of them are in similar regions. But we definitely have a current 'do not go list' including Venezuela, Bolivia, Middle Eastern countries and unstable African countries.

Michael: What about a mining company's management team – how much weight do you place on seasoned, experienced management teams?

Nolan: What we are wary of is a management team, specifically a CEO, who's never put anything into production. In such cases, at the moment, we will not complete the deal – even if it is a strong asset. There are enough mining companies out there interested in financing that have promising assets, experienced teams and are in low political risk regions that we don't need to take on unnecessary risk. Currently, we are working on numerous promising deals that meet our investment criteria. I think you're going to see us do some smart deals in the next six months or so. Stay posted.

With an evolving business model, strong pipeline of deals and an eager, experienced team it is clear, at this point, Sandstorm Gold is not only at the top of the heap, but well positioned for continued growth and success.

Top 5 analyses – 2012 vs 2011

Four of this year's ***Top 5*** experienced an increase in market capitalization, with two companies more than doubling their market capitalization.

Even with these positive statistics the total market cap of the ***Top 5*** mining companies in 2012 was only $2.4 billion – 33% decline from $3.6 billion in 2011. This year's top junior, Sandstorm Gold, accounts for 24% of the ***Top 5's*** market cap – notable, as Sandstorm Gold was not even included in last year's ***Top 5*** – they came in at #12.

Overview of 2012's Top 5

1. Sandstorm Gold

Phase: Streaming and royalties
Mkt Cap: $582 million
Head office: Vancouver, Canada
Primary commodity: Gold

Sandstorm Gold focuses on completing gold purchase agreements with gold mining companies that have advanced stage development projects or operating mines. As at June 30, 2012 they held a portfolio of 7 gold streams and 3 royalty agreements.

2. Iberian Minerals Corp

Phase: Production
Mkt Cap: $548 million
Head office: Toronto, Canada
Primary commodity: Base metals

Iberian Minerals engages in the exploration, development, and mining of base metal deposits in Peru and Spain. In Peru, Iberian Minerals has operations producing 2.2 million tonnes of copper concentrate in 2012. In Spain, it has operations producing 2.2 million tonnes in 2012 of copper, zinc and lead concentrates.

3. Copper Fox Metals

Phase: Development
Mkt Cap: $450 million
Head office: Calgary, Canada
Primary commodity: Copper

In 2011, Copper Fox was the top ranked junior mining company, winning the TSX Venture 50®. TSX Venture 50® is a ranking of strong performers on TSXV with equal weighting assigned to each: share price appreciation, trading volume, market capitalization growth and analyst coverage.

4. Aurcana Corp

Phase: Production
Mkt Cap: $415 million
Head office: Vancouver, Canada
Primary commodity: Silver

Aurcana Corporation engages in the exploration, development, and operation of silver properties in Mexico and the United States. Aurcana recently increased ownership in their La Negra mine from 92% to 99%.

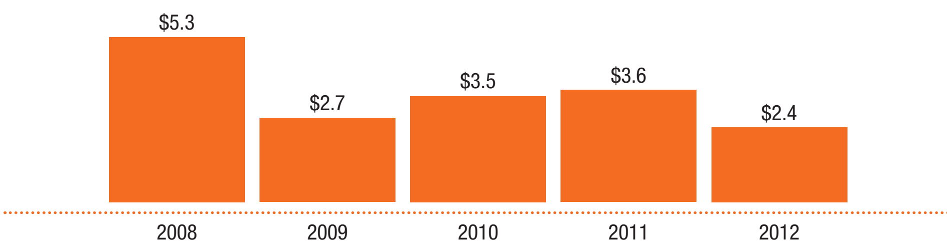
5. Dia Bras Exploration

Phase: Production
Mkt cap: $409 million
Head office: Toronto, Canada
Primary commodity: Base metals

Dia Bras Exploration engages in the acquisition, exploration, extraction, production, and sale of mineral concentrates with silver, copper, lead, zinc, and gold contents in Mexico and Peru.

2012's Top 5 Companies	Position in 2012's Top 100	2012 Mkt Cap $ Millions	Position in 2011's Top 100	2011 Mkt Cap $ Millions	% Change
Sandstorm Gold	1	582	12	382	52%
Iberian Minerals Corp	2	548	10	406	35%
Copper Fox Metals	3	450	1	790	-43%
Aurcana Corp	4	415	33	208	100%
Dia Bras Exploration	5	409	11	388	5%

Total market capitalization of Top 5 (in billions)



What happened to 2011's Top 5?

1. Copper Fox Metals

Phase: Development
Mkt Cap: $450 million
Mkt Cap change from 2011: -43%
Head office: Vancouver, Canada
Primary commodity: Copper

Copper Fox Metals ranked #3 in 2012's ***Top 100*** – they continue to develop their Porphry Schaft Creek project in British Columbia.

2. Rainy River Resources

Phase: Exploration
Mkt Cap: $358 million
Mkt Cap change from 2011: -54%
Head office: Toronto, Canada
Primary commodity: Gold

Rainy River Resources graduated to TSX on September 28, 2011. They continue to advance the Rainy River Gold Project of $1.2 million ounces measured.

3. ATAC Resources

Phase: Exploration
Mkt Cap: $232 million
Mkt Cap change from 2011: -67%
Head office: Vancouver, Canada
Primary commodity: Gold

ATAC Resources ranked #9 in 2012's Top 100 – ATAC is focused on developing Canada's only Carlin-type gold discoveries at its Rackla Gold Project in the Yukon.

4. Canaco Resources

Phase: Exploration
Mkt Cap: $69 million
Mkt Cap change from 2011: -90%
Head office: Vancouver, Canada
Primary commodity: Gold

Canaco ranked #59 in 2012's ***Top 100***, and recently Canaco announced it received an Environmental Impact Assessment (EIA) certificate from the Tanzanian government for the Company's 100-square kilometre Handeni property in Tanzania, including the Magambazi project area.

5. Trelawney Mining and Exploration

Trelawney Mining and Exploration was acquired by IAMGOLD in a transaction completed on June 21, 2012 for $608 million. IAMGOLD is listed on the TSX and NYSE and market cap of $4.5 billion, as of June 30, 2012.