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PRESENTATION

Operator

Good morning, my name is Omer, and I will be your conference operator today.

At this time, I would like to welcome everyone to the Sandstorm Gold Royalties Second Quarter Conference Call. (Operator Instructions) Please be aware that some of the commentary made contain forward-looking statements. There can be no assurance that forward-looking statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. (Operator Instructions)

Mr. Watson, you may begin your conference.

Nolan Allan Watson - *Sandstorm Gold Ltd. - Co-founder, President, CEO & Director*

Thank you, operator, and good morning, everybody, and welcome to Sandstorm's Q2 call. As normal, Erfan is, in a few minutes, going to walk us through the financial results and then Dave Awram is going to walk us through a bit of a corporate update. And before we do that, as normal, I'm going to give a bit of a business update and answer some of that common questions that investors have been asking us over the past quarter. And at this time, we're going to walk through a presentation that we prepared on the webcast. And so if you have time, please go to that now.

So the vast majority of the questions that we've been receiving over the last quarter relates to capital allocation decisions. And so I'm going to walk through that briefly. The high-level business update for Sandstorm is actually pleasantly easy to give this quarter. Its record revenue and record cash flow and record production and gold prices have gone only up since the quarter, and so we're expecting further records of revenue and cash flow, et cetera, in future quarters. The actual business in the portfolio is performing very well. And the question on most investors' minds is, well, what are you going to do, Sandstorm, with that cash flow? And so we're going to walk through that a little bit right now. And then also one of the questions that we're getting from investors is, what does the gold market look like? And what are projections going forward? And why is the gold price going up so fast?

These are all nice questions to have, and things that I'm looking forward to answering here. So we'll go to the webcast, and I'll start right away with capital allocation decisions. And first and foremost, one of the portions of capital allocation decisions that investors have questions about is our share buyback program. And as a reminder that we have promised investors that we are going to attempt buyback 18.3 million shares of Sandstorm on the market. And I am pleased to report that we have completed over half of that share buyback program. We're almost at 10 million shares repurchased on the open market, and there's about 8 million and change shares remaining outstanding to be purchased by us under that share program. As you're probably well aware, over the last few weeks, the share price has shot up materially as gold prices have also shot up materially. We have rerun our corporate NAV model and determined what we think at today's gold prices our NAV per share is. And at today's gold prices, we think we're trading close to 1x our value per share. And for that reason, over the last few weeks, we've taken a little bit of a pullback on the purchasing shares on the open market. And so the share price appreciation that investors have seen over the last few weeks has been entirely organic, and it's been driven by the market and by investors, and we haven't been buying shares over the last few weeks.

Our decision related to capital allocation has been that, at these gold prices and that these share prices when we're trading close to NAV, we believe that the best use of proceeds is to pay down our revolving debt. So we have continued to do that. And in fact, we've actually continued to pay down our debt. Also materially, even since the quarter has ended and our debt levels are continuing to go down, and we're going to continue to do that at these share prices. But near these share prices, if the share price pulls back, we will step back into the market and we will continue the share buyback program, and our goal is to purchase the full 18 million shares still.

One of the questions that we've been receiving from investors about capital allocations is how many more deals we think we're going to do? And I'm pleased to report that we are working on a number of deals. On average, they tend to be smaller deals and royalty acquisitions, we are literally actively in the process of attempting to close some of these acquisitions. And we do believe we'll be able to continue to increase the number of royalties that Sandstorm has in its portfolio, and also continue to pay down debt at the same time and potentially repurchase shares. So things are going well from a business perspective.

One of the questions that investors have been asking is, what we think and what our beliefs are about the gold market and why the gold prices are running. We just have a couple of interesting slides here before I hand it over to Erfan. One of the things that I'm particularly passionate about is watching global debt as a percentage of GDP. I think most people are probably generally unaware that when we had the Great Recession in 2008, global debt as a percentage of GDP was about 230% and that's all forms of debt, that's government debt, corporate debt, personal debt. And today, we're standing at about 270% of GDP so things are dramatically worse from a worldwide debt's perspective relative to the serviceability of that debt since the Great Recession. And I think global investors are starting to focusing in on that, and they're starting to react to that. And central bankers are realizing that with that much debt outstanding, that they can't increase interest rate and -- without the economy falling apart. And that's why we're seeing partially due to trade wars, but mostly due to this, I honestly believe is the reason that they're starting to decrease interest rates right now. There's just too much debt in the world and something's going to happen. And people are fearful and they're starting to move into gold.

And if you look on the next slide, we've actually charted the total debt in the world, again, governments, corporations, personal debt. And during the financial crisis in 2008, total debt around the world was approximately $120 trillion. Today, it's just closer to $175 trillion. And it's just a staggering amount of debt in the world. And gold prices have been going up as people are starting to realize the underlying cracks in the economy. And this problem is not going away.

So investors ask us questions like, where do we see the gold price going? The answer is, still much higher over the long term because none of these underlying fundamental situations that have caused this gold price environment, none of those are going to be going away anytime soon.

So we're incredibly bullish on our business. We are excited to be having a situation with record cash flows. We think the gold price is going higher. We think our cash flows will be going higher. And we're just very pleased with how our portfolio is performing.

And with that, I'm going to hand it over to Erfan to discuss the specific financial results.

Erfan Kazemi - *Sandstorm Gold Ltd. - CFO*

Thanks, Nolan, and thank you to everyone who's listening in. It's certainly an exciting time here at Sandstorm.

With respect to our financial result. Overall, I'd say, we put together a nice quarter in Q2. I'll start by discussing some of the key second quarter results. So please refer to Slide 8, where you'll find a comparison to the second quarter numbers from Q2 2019 and 2018.

The 16,356 attributable gold equivalent ounces sold during Q2 was a record for the company, as was the $21.5 million of revenue that we posted. These total to revenue and gold equivalent ounces sold were more than 13% higher than the numbers from Q2 of 2018. So we saw some nice increases when compared to last year. The growth was largely driven by silver deliveries from the Cerro Moro mine in Argentina. Sandstorm received its first deliveries from the Cerro Moro silver stream in April and the project quickly became our largest quarterly contributor in terms of gold equivalent ounces sold. The growth in ounces and revenue delivered by Cerro Moro was slightly offset by decreases in gold ounces sold from the Black Fox mine in Ontario and the Karma mine in Burkina Faso.

At Black Fox, there were some operational issues during Q2 and at Karma, the decline was largely related to the timing of sales. Interestingly, the last time Sandstorm reported a record for gold equivalent ounces was back in Q1 of 2017, and for revenue was in Q2 of 2018. I've got a feeling that we won't have to wait as long for the next record in revenue, should gold prices remain where they're at, at around $1,500 per ounce.

The price of gold has been on quite the run. So we'll see how that translates into Sandstorm's financial results for the remainder of 2019.

Speaking of the gold price, you'll notice in the chart that our average realized gold price per attributable ounce sold was slightly above $1,300 in the second quarters of 2019 and 2018. And our average cash cost per ounce was about $300, giving us healthy margins of more than $1,000 per attributable ounce of gold.

The last 2 items on this chart that I would like to address are cash flows from operations and net income. At $12.7 million, cash flow from operation is slightly lower than Q2 of 2018. This is largely related to changes in working capital. And when we actually adjust for working capital and changes, the cash flow is actually higher quarter-over-quarter and a record. And coming in at $2.4 million, net income was significantly higher when compared to the same quarter in 2018. The change in these figures is due to a number of factors, including the aforementioned increase in revenue as well as the $1.9 million increase in gains recognized on the revaluation of the company's investment. This was partially offset by $3.3 million increase in noncash depletion expense, primarily driven by an increase in the number of gold attributable ounces sold and a $0.6 million increase in finance expense as we had more debt drawn under the revolving credit facility during Q2 2019 than we had in Q2 of 2018.

Onto the next slide, and backed by popular demand, we have the top 10 contributors to our attributable gold equivalent ounces sold. The silver stream on Yamana Cerro Moro Mine came in on top and by a wide margin too, at 3,470 gold equivalent ounces. For those of you who are unfamiliar with the asset, Cerro Moro is made up of several high-grade epithermal gold and silver deposits that are being mined by both open pit and underground methods. The mine is located in Santa Cruz, Argentina. We like the exploration upside on this asset, and Yamana has set some them aggressive near-term exploration objectives of adding 1 million gold equivalent ounces to the mineral inventory within the next few years.

To that end, Yamana announced a $15 million exploration budget for 2019 to test major structures that have the potential to host new mineralized zones and to generate new targets.

The Cerro Moro silver stream is going to be a significant asset for Sandstorm for many years to come. The #2 and 3 spots went to the Santa Elena mine in Mexico and the Chapada mine in Brazil this quarter, with about 2,400 and 2,200 gold equivalent ounces sold, respectively. These assets, along with the 7 other mines identified in the list and the approximate 10 royalties contained in other royalties bucket, provide us with a nice diversification against fluctuation in quarterly mine production across Sandstorm's royalty portfolio.

In terms of how this breaks down by jurisdiction, we saw 45% of our revenue come from North America, 36% from South America and 19% from other countries. My last slide shows a trend of Sandstorm's gold equivalent ounces sold and revenue for the last 4 quarters. Based on the year-to-date figures, we've reiterated our guidance and are forecasting 63,000 to 70,000 attributable gold equivalent ounces in 2019. Our long-term forecast is 140,000 attributable gold equivalent ounces in 2023.

And with that, I will turn it over to Dave.

David I. Awram - *Sandstorm Gold Ltd. - Co-founder, Senior EVP & Director*

Great. Thanks, Erfan. It's been a great and busy quarter for development in some of larger projects and the deals that we have. So I thought I'd just highlight a few of them going forward.

We're going to start off with one of our old favorites here at Sandstorm, Aurizona, as Q3 will be the first full quarter of commercial production as project reopens. First gold pour was in May, and June production checked in at 7,000 ounces with throughput at the mill hitting 90% of the capacity. It's a great restart for this project that we've been involved in now for a decade. Despite only being in production for half the year, Equinox, the operator, is still guiding for 75,000 to 90,000 ounces in 2019.

Also important to note is that when the monthly average gold price is over USD 1500 per ounce, our NSRs slides up from 3% to 4%. So the higher gold price we have been experiencing is extra important to us at this project. Of course, exploration drilling continues at Aurizona and we're looking forward to seeing those additional results as they come in.

The rising gold price is extra helpful to us on this asset. Over to Houndé and the huge exploration project run by Endeavour Mining, over 400,000 meters of drilling have been done in the last few years. And Houndé has been having some great successes in the Kari Pump center and west areas. With the new reserve already released on Kari Pump, some very positive drilling has been released from the Kari Center and Kari West areas. We're particularly interested in Kari Center and Kari West since they fall mostly within the boundaries of our royalty and so far, have asset grades exceeding current reserve grades.

On Slide 14, you can see some of the intercepts on Kari Center and Kari West, which are all over 3.9 grams per ton, with some intercepts over the half ounce level. From section-to-section, the mineralization appears really consistent, which is key for developing a good resource.

Kari Center mineralization has been discovered over an area of 1,300 meters long, a long strike and 400 meters wide and it's still open. But there's also a new zone in Kari Center, which has a 2,100-meter strike length with a width of over 400 meters wide, which is still open as well.

At the Kari West, there is 100-meter by 500-meter mineralized zone, and it's open as well too. 90,000 meters of drilling is expected to be completed over -- before year-end at the Kari area. But they're also going to do some drilling at Vindaloo where the existing pit is and other high-priority targets. They've begun metallurgical and geotechnical tests on those areas and there is a dedicated EIA, that's already begun -- initiated. So there should be news on the Kari deposits for resources and potentially even reserves before the end of the year.

Now moving on to Agua Rica. So -- significantly, this quarter, there was a release of the Agua Rica pre-feasibility study by Yamana. Now some of those details of that pre-feasibility study, you can see on Slide 15. So as a reminder, in late 2015, Sandstorm purchased an early deposit gold stream on the asset as part of our Chapada copper stream and our Cerro Moro silver stream financing.

So Sandstorm has the option to pay a maximum of $225 million for stream of 20% of the gold from this project. We don't have to exercise this option until the project is 25% completed construction, so well into the project. We also have the option to syndicate all or a portion of the stream at that time.

This quarter's PFS in Agua Rica outlined an average annual gold production of over 100,000 ounces per year for first 10 years of the asset and all-in sustaining cost of a hundred and -- sorry, $1.52 per pound of copper production. And this is all within over a mine life of 28 years plus. A project would utilize the infrastructure of the operating Alumbrera mine, and partners on the projects are Glencore and Newmont Goldcorp.

More studies have been completed at this time with a feasibility study due in mid-2020. We're hopeful that the operating partners will push the project forward and take advantage of the operating facilities in the area to get the project off the ground.

This is a great example of the embedded optionality in our portfolio of assets. The option cost us only $12.5 million but increases in value tremendously both as the project moves forward and the gold price increases. One day, it could be one of the more valuable assets in Sandstorm as it gets closer to develop. So it's really exciting to see this thing move forward.

Lastly, I'll speak about Lobo-Marte on Slide 16. That's a project by Kinross and it's in Chile. It was one of the royalties we purchased from Teck in early 2016. This project had entered the permitting phase in the early 2010s, but soon after was the -- that process was pulled. Kinross though has now released a scoping study on the asset with the concept of starting it up following the La Coipa restart they have planned as well. Initial economics are positive as this is one of the higher-grade projects in the Maricunga district. We hope to see more information about the asset as it advances studies and creates a strategy for getting all the multiple assets that Kinross operates in that district. Expected to operate for over 10 years, Lobo-Marte could produce 4.1 million ounces of gold at a grade of 1.2 grams per ton. The PFS is underway and expected to be completed by mid-2020 and we have a greater than 1% NSR on the project.

So that's all I have for now. But of course, free to ask about any of the projects in the portfolio in the Q&A.

So with that, I'll pass it over to Omer to begin the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Sherry Deng, Scotiabank.

Sherry Deng - *Scotiabank Global Banking and Markets, Research Division - Associate*

First, I have a question on Diavik. I see that the attributable production in the quarter is lower compared to other quarters, but depreciation is higher. I'm wondering why that is the case? Also, I see a lower Q2 production compared to other quarters for the past couple of years. Is there a seasonal trend?

Erfan Kazemi - *Sandstorm Gold Ltd. - CFO*

Sherry, it's Erfan. Thank you very much for the question. With Diavik, what you'll notice is, certainly, depletion expense had an impact on net income but that was largely related to the quantum of carats that were produced in the quarter and the dollar per carat. That seemed to be not a recurring event as we noticed, but it did impact our results for the quarter. And since we've seen some of the results come in, that's changed back to where we'd expect the dollar per carat to be.

Sherry Deng - *Scotiabank Global Banking and Markets, Research Division - Associate*

Okay. And is there a seasonal trend that Q2 is usually lower? And I see a bump in Q3 for the past couple of years as well.

Erfan Kazemi - *Sandstorm Gold Ltd. - CFO*

It has happened that way. There is no actual empirical evidence to show that there's a seasonal trend. Anecdotally, there is but nothing that we can rightly point to. All I can say is, it looks like our -- that trend is isolated to that 1 quarter.

Sherry Deng - *Scotiabank Global Banking and Markets, Research Division - Associate*

Okay. So switching gears to Black Fox. What is your expectation on production beyond this year?

Erfan Kazemi - *Sandstorm Gold Ltd. - CFO*

Well, McEwen has invested a bunch of capital into Black Fox. They've also allocated significant money into the exploration around in that area. So the guidance that we're receiving is positive. They've put their guidance that they plan on ramping up for the end of this year. And so we anticipate production going into next year as well, based on the guidance that we've seen.

Sherry Deng - *Scotiabank Global Banking and Markets, Research Division - Associate*

Okay. So you do expect this production to be beyond 2020, even though you can't probably have a number right now? Is that correct to assume?

Erfan Kazemi - *Sandstorm Gold Ltd. - CFO*

I expect production in 2020, correct.

Operator

Our next question is from John Tumazos, John Tumazos Very Independent.

John Charles Tumazos - *John Tumazos Very Independent Research, LLC - President and CEO*

Thanks for -- to the team for all your good efforts on many -- so many fronts. If we look at the forecast for output of 63,000 to 70,000 ounces or a midpoint of the 66,500, it implies 36,000 ounces for the second half up very nicely. It looks like there is about 8 different ways the production might be rising. The new projects, Cerro Moro, Aurizona, Relief Canyon, Fruta del Norte and then mature projects like Santa Elena, Black Fox, Karma, Houndé, rebounding or rising. In your forecast, what are the major contributors to the second half gain?

Nolan Allan Watson - *Sandstorm Gold Ltd. - Co-founder, President, CEO & Director*

Yes. I think you just mentioned them. The true key, I think, to the second half gain is that, previously, we really hadn't accrued much income from Aurizona. So Q3 and Q4, we expect bumps from that royalty as well as, as Erfan mentioned -- as Dave mentioned, the royalty should be going up to 4% from 3%, if gold prices stay where they are. So we get not only a price bump, but we also get an ounces bump, if you will. And then Fruta del Norte, from what we can tell, they are well on their way to being able to produce gold shortly. And we'll be able to start accruing royalty revenue from that, shortly and that should increase our attributable production. And as you said, we do expect some bumps from traditional assets that may have had lower quarters. But one of the things that is candidly a bit of a headwind for us is on things like copper streams and diamond streams. When we're converting revenue of diamonds and copper into gold equivalent ounces as the gold price is shooting up, that turns into fewer gold equivalent ounces. The -- these are kind of champagne problems though in a sense that the vast majority of our revenue is truly from gold and silver. And those commodity prices are shooting up, and we're hitting record revenues and record cash flows because of it. So those are the main things that will be increasing revenue going forward for us.

John Charles Tumazos - *John Tumazos Very Independent Research, LLC - President and CEO*

As we look to 2020, with Kirazli coming in too, what do you think 2020 is going to be? Could it be 80,000 ounces?

Nolan Allan Watson - *Sandstorm Gold Ltd. - Co-founder, President, CEO & Director*

Yes. We're not going to give specific guidance here on this call. We'll stick to what we normally do, which is wait until the end of this year or beginning of next year to give official guidance for 2020. But we definitely expect 2020 to be another record year for us.

John Charles Tumazos - *John Tumazos Very Independent Research, LLC - President and CEO*

Concerning Hod Maden, if I could just ask one last one. With the late 2022 output forecast, when do you expect groundbreaking? When do you expect final permitting? And how much of the financing commitment will be Sandstorm's as the construction commences?

Nolan Allan Watson - *Sandstorm Gold Ltd. - Co-founder, President, CEO & Director*

Yes. I'll answer the last part of that, maybe I'll hand it over to Dave for the first part relating to timing and permit. But from a financing perspective, as we publicly stated in the past, the current plan is for 70% project debt financing. And so sandstorm's contribution is still expected to be around $28 million to $30 million range. And in terms of groundbreaking, I guess that depends on how you define groundbreaking. They're already starting to break ground for portals and things like that. The project is moving forward quickly, and we're pleased with the progress that they're making. But maybe I'll hand it over Dave to talk about specific permits and how that process is going.

David I. Awram - *Sandstorm Gold Ltd. - Co-founder, Senior EVP & Director*

Yes. So the EIA has been -- it was submitted at the expected time, earlier this year. So they're going through that process. There has been public meetings related to this. So the process as we -- it's, really, the permitting process has gone as expected so far. And we've been pretty happy with how they pushed it forward. This is a particular concern of the operator. Lidya Madencilik is making sure they work on these items, the social license and the permitting in the area. So we don't expect any delays beyond, really, what we've stated so far. Everything seems to be working in that regards. The early works is still something that they're focused on trying to get done to help make sure that, that the time line is hit. So like Nolan said, trying to get some portals to get into the underground and begin some underground development work and even some surface infrastructure. So a lot of those key items that are important to keeping the time line on base, in terms of permitting, in terms of social license and property acquisition, they're on a good schedule. I think it's matching up with the schedule that, Lidya hoped they would see. And it's really a process of getting through this -- some of the final design and the feasibility study that's happening, really, right now. So we'll be able to get better updates on that as we get further on this year as to how those studies and the technical aspects of really what this mine is ultimately going to be built.

Operator

Ladies and gentlemen, we have reached the end of the question-and-answer session. And I would now like to turn the call back over to Nolan Watson for closing remarks.

Nolan Allan Watson - *Sandstorm Gold Ltd. - Co-founder, President, CEO & Director*

All right. Thank you, everyone, for calling into this quarterly call. And as normal, if you have any further questions, please feel free to e-mail or call us here at Sandstorm. We'd be happy to get back to you with answers. And I hope everyone has a good day.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.
