Sabina

GOLD & SILVER CORP.

# Condensed Consolidated Financial Statements
(unaudited)

First Quarter ended March 31, 2012

# SABINA GOLD & SILVER CORP.

Condensed Consolidated Statements of Financial Position
(Expressed in thousands of Canadian dollars)

| | March 31, 2012 (unaudited) | December 31, 2011 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents (note 4) | $ 75,515 | $ 80,009 |
| Short-term investments | 71,900 | 79,900 |
| Accounts receivable (note 5) | 2,018 | 2,013 |
| Inventory | 8,202 | 977 |
| Prepaid expenses | 1,361 | 718 |
| Total current assets | 158,996 | 163,617 |
| Non-current assets: | | |
| Available-for-sale investments (note 6) | 90 | 88 |
| Property and equipment (note 7) | 5,926 | 3,095 |
| Mineral properties (note 8) | 122,789 | 112,085 |
| Hackett silver royalty | 34,754 | 34,754 |
| Reclamation deposits | 284 | 284 |
| Total non-current assets | 163,843 | 150,306 |
| Total assets | $ 322,839 | $ 313,923 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 9,102 | $ 1,541 |
| Flow-through share premium liability (note 11) | - | 1,128 |
| Capital and other taxes payable | 7 | 20 |
| Total current liabilities | 9,109 | 2,689 |
| Non-current liabilities: | | |
| Provision for site reclamation | 1,917 | 1,917 |
| Deferred income tax liability (note 14) | 27,388 | 25,711 |
| Total non-current liabilities | 29,305 | 27,628 |
| Total liabilities | 38,414 | 30,317 |
| Equity: | | |
| Share capital (note 9) | 298,719 | 297,336 |
| Contributed surplus | 19,060 | 15,454 |
| Accumulated other comprehensive loss | (78) | (80) |
| Retained deficit | (33, 276) | (29,104) |
| Total equity | 284,425 | 283,606 |
| Total liabilities and equity | $ 322,839 | $ 313,923 |

Nature of operations (note 1)
Commitments (note 13)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Approved on behalf of the Board:

***"Rob Pease"*** Director ***"Terry Eyton"*** Director

# SABINA GOLD & SILVER CORP.

Condensed Consolidated Statements of Comprehensive Loss
(unaudited)
(Expressed in thousands of Canadian dollars, except per share amounts)

| | Three months ended March 31 2012 | 2011 |
|---|---|---|
| Expenses: | | |
| Administration and general | $ 92 | $ 94 |
| Depreciation | 12 | 10 |
| Insurance | 35 | 26 |
| Interest and other | 7 | 53 |
| Listing, transfer and shareholder | 271 | 386 |
| Professional services | 192 | 116 |
| Salaries and severance | 446 | 467 |
| Share-based payments (note 10) | 3,061 | 4,195 |
| Travel | 96 | 203 |
| | 4,212 | 5,550 |
| Loss from operating activities | (4,212) | (5,550) |
| Net finance income: | | |
| Interest income | 589 | 339 |
| Amortization of flow-through premium (note 11) | 1,128 | 1,025 |
| | 1,717 | 1,364 |
| Income (loss) before income taxes | (2,495) | (4,186) |
| Income tax recovery (expense): | | |
| Deferred (note 14) | (1,677) | (1,572) |
| | (1,677) | (1,572) |
| Loss for the period | (4,172) | (5,758) |
| Other comprehensive income: | | |
| Unrealized gain (loss) on available-for-sale investments, net of tax | 2 | (27) |
| Comprehensive loss | $ (4,170) | $ (5,785) |
| Basic and diluted loss per share | $ (0.02) | $ (0.04) |
| Weighted average number of common shares outstanding | 161,010,288 | 148,109,466 |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

# SABINA GOLD & SILVER CORP.

Condensed Consolidated Statement of Changes in Equity
(unaudited)
(Expressed in thousands of Canadian dollars)

| | Three months ended March 31 | |
|---|---|---|
| | 2012 | 2011 |
| **Share capital:** | | |
| Balance, beginning of period | $ 297,336 | $ 201,282 |
| Shares issued during the period, net of issue costs | 764 | 87,301 |
| Fair value of options exercised | 619 | 255 |
| Deferred income tax on share transactions | - | 1,404 |
| Balance, end of period | 298,719 | 290,242 |
| **Contributed surplus:** | | |
| Balance, beginning of period | 15,454 | 9,842 |
| Fair value of share-based payments of options vesting | 3,061 | 4,194 |
| Fair value of share-based payments capitalized to mineral properties | 1,164 | 1,309 |
| Fair value of options transferred to share capital | (619) | (255) |
| Balance, end of period | 19,060 | 15,090 |
| **Accumulated other comprehensive income:** | | |
| Balance, beginning period | (80) | (15) |
| Unrealized gains (losses) on available for sale investments, net of tax | 2 | (27) |
| Balance, end of period | (78) | (42) |
| **Retained earnings:** | | |
| Balance, beginning of period | (29,104) | (16,434) |
| Loss for the period | (4,172) | (5,758) |
| Retained deficit, end of period | (33,276) | (22,192) |
| Total shareholders' equity | $ 284,425 | $ 283,098 |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

# SABINA GOLD & SILVER CORP.

Condensed Consolidated Statements of Cash Flows
(unaudited)
(Expressed in thousands of Canadian dollars)

| | Three months ended March 31, 2012 | 2011 |
|---|---|---|
| Cash provided by (used in) operating activities: | | |
| Loss for the period | $ (4,172) | $ (5,758) |
| Adjustments for: | | |
| Depreciation | 12 | 10 |
| Deferred income tax expense | 1,677 | 1,572 |
| Interest income | (589) | 339 |
| Amortization of flow-through premium liability | (1,128) | (1,025) |
| Share-based payments | 3,061 | 4,195 |
| | 3,033 | 5,091 |
| Accounts receivable | (583) | (995) |
| Inventories | (7,225) | (4,516) |
| Prepaid expenses | (643) | (250) |
| Accounts payable and accrued liabilities | 7,561 | 6,131 |
| Capital and other taxes payable | (13) | 27 |
| Cash used in operating activities | (2,042) | (270) |
| Interest received | 1,167 | (91) |
| Net cash used in operating activities | (875) | (361) |
| Cash flows provided by (used in) investing activities | | |
| Expenditures on deferred exploration, net of recoveries | (8,788) | (6,876) |
| Expenditures on property acquisition | (542) | - |
| Expenditures on property and equipment | (3,053) | (979) |
| Purchase of short-term investments | 8,000 | (22,000) |
| Net cash used in investing activities | (4,383) | (29,855) |
| Cash flows provided by (used in) investing activities | | |
| Issuance of common shares for cash, net of issue costs | 764 | 94,175 |
| Net Increase (decrease) in cash and cash equivalents | (4,494) | 63,959 |
| Cash and cash equivalents, beginning of period | 80,009 | 53,563 |
| Cash and cash equivalents, end of period | $ 75,515 | $ 117,522 |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**1. Nature of operations:**

Sabina Gold & Silver Corp. (the “Company” or “Sabina”) was incorporated in June 1966 under the laws of the Province of British Columbia. On October 28, 2009 the Company changed its name from Sabina Silver Corporation to Sabina Gold & Silver Corp. The Company’s principal business activity is the exploration and development of mineral property interests. The Company’s principal mineral properties are the Back River Project and the Wishbone Project, both of which are located in Nunavut, Canada.

The financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain economically recoverable mineral reserves. The underlying value and the recoverability of the amounts recorded as mineral properties is entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of the mineral properties, and future profitable production or proceeds from the disposition of the mineral property interest. The Company has prepared a cash flow forecast for 2012 and believes that it has sufficient funds to continue operations for at least the next twelve months.

**2. Basis of preparation:**

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

They do not include all of the information required for full audited annual financial statements.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 11, 2012

(b) Basis of measurement:

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for financial instruments classified as available-for-sale financial assets, which are measured at fair value, and provision for site reclamation, which is recorded at management’s best estimate. In addition these condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(c) Functional and presentation currency:

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company’s functional currency. All tabular financial information presented in Canadian dollars has been rounded to the nearest thousand.

## 2. Basis of preparation, continued:

(d) Use of estimates and judgments:

The preparation of the condensed consolidated interim financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Significant areas requiring the use of management estimates relate to the determination of the impairment of mineral properties, the provision for site reclamation, share-based payments, deferred income tax assets and rates for amortization of plant and equipment. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized in the period in which the estimates are revised and in any future periods affected.

## 3. Future changes in accounting standards:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended March 31, 2012, and have not been applied in preparing these condensed consolidated interim financial statements. The Company's assessment of the impact of these new standards and amendments is detailed below.

**IFRS 9, Financial Instruments**

This standard is set to replace IAS 39, *Financial Instruments: Recognition & Measurement*. IFRS 9 details new requirements for classifying and measuring financial assets. The standard becomes effective for annual periods beginning on or after January 1, 2015 with early adoption allowed. The implementation of this standard is expected to have an impact on the Company; however, the extent of the impact has not yet been determined.

The following standards are assessed not to have any impact on the Company's financial statements:

- IFRS 10 Consolidated Financial Statements for accounting periods on or after January 1, 2013;
- IFRS 11 Joint Arrangement for accounting periods on or after January 1, 2013;
- IFRS 12 Disclosures of Involvement with Other Entities for accounting periods on or after January 1, 2013;
- IFRS 13 Fair Value Measurement for accounting periods on or after January 1, 2013; and
- IAS 28 Investments in Associates and Joint Ventures.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

## 4. Cash and cash equivalents

| | March 31, 2012 | December 31, 2011 |
|---|---|---|
| Bank balances | $ 5,115 | $ 9,437 |
| Redeemable investments | 70,400 | 70,572 |
| Cash and cash equivalents | $ 75,515 | $ 80,009 |

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in note 16.

## 5. Accounts receivable

| | March 31, 2012 | December 31, 2011 |
|---|---|---|
| GST receivable | $ 1,071 | $ 518 |
| Interest receivable | 805 | 1,380 |
| Other trade receivables | 142 | 115 |
| Total trade and other receivables | $ 2,018 | $ 2,013 |

The Company's exposure to credit risk, and impairment losses related to its receivables is disclosed in note 16.

## 6. Available-for-sale investments:

The fair values of available-for-sale investments for the Company's shares of Mega Precious Metals Inc. ("Mega Precious") are as follows:

| **Cost** | **Mega Precious** |
|---|---|
| Balance at December 31, 2011 | $ 140 |
| Additions | - |
| Balance at March 31, 2012 | $ 140 |
| **Accumulated unrealized holding gains (losses)** | |
| Balance at December 31, 2011 | $ (52) |
| Changes in value | 2 |
| Balance at March 31, 2012 | $ (50) |
| **Carrying value** | |
| At December 31, 2011 | $ 88 |
| At March 31, 2012 | $ 90 |

The fair value of these investments has been determined by reference to their quoted closing bid price at the reporting date. Shares of Mega Precious are listed on the TSX Venture Exchange.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

## 7. Property and equipment:

| Cost | | Exploration camp and equipment | | Office and equipment | | Total |
|---|---|---|---|---|---|---|
| Balance at December 31, 2011 | $ | 4,352 | $ | 504 | $ | 4,856 |
| Additions | | 3,044 | | 9 | | 3,053 |
| Balance at March 31, 2012 | $ | 7,396 | $ | 513 | $ | 7,909 |
| **Accumulated amortization** | | | | | | |
| Balance at December 31, 2011 | $ | (1,596) | $ | (165) | $ | (1,761) |
| Additions | | (210) | | (12) | | (222) |
| Balance at March 31, 2012 | $ | (1,806) | $ | (177) | $ | (1,983) |
| **Carrying value** | | | | | | |
| At December 31, 2011 | $ | 2,756 | $ | 339 | $ | 3,095 |
| At March 31, 2012 | $ | 5,590 | $ | 336 | $ | 5,926 |

## 8. Mineral properties:

The following is a summary of exploration and development costs incurred related to the Company's mineral properties:

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| **Summary – All Properties** | | 2012 | | 2011 |
| Balance, beginning of period | $ | 112,085 | $ | 126,895 |
| Exploration and other expenditures | | 10,162 | | 8,391 |
| Acquisition costs | | 542 | | - |
| Balance, end of period | $ | 122,789 | $ | 135,286 |
| **Back River (Nunavut)** | | | | |
| Balance, beginning of period | $ | 92,191 | $ | 46,027 |
| Additions: | | | | |
| Drilling | | 2,056 | | 1,263 |
| Economic assessment | | 285 | | 56 |
| Environmental assessment | | 680 | | 61 |
| Geology & geophysics | | 250 | | 163 |
| Management & administration | | 418 | | 284 |
| Property maintenance | | 15 | | 2 |
| Stock-based compensation | | 934 | | 616 |
| Support | | 1,992 | | 1,121 |
| Transportation | | 845 | | 851 |
| Depreciation | | 209 | | 155 |
| | | 7,684 | | 4,572 |
| Balance, end of period | $ | 99,875 | $ | 50,599 |

(Tabular dollar amounts expressed in thousands of Canadian dollars)

**8. Mineral properties, continued:**

| | Three months ended March 31, 2012 | 2011 |
|---|---|---|
| **Hackett River (Nunavut)** | | |
| Balance, beginning of period | $ - | $ 66,608 |
| Additions: | | |
| Drilling | - | 552 |
| Economic assessment | - | - |
| Environmental assessment | - | 63 |
| Geology & geophysics | - | 168 |
| Management & administration | - | 124 |
| Property maintenance | - | 44 |
| Stock-based compensation | - | 693 |
| Support | - | 465 |
| Transportation | - | 273 |
| Depreciation | - | 51 |
| | - | 2,433 |
| Balance, end of period | $ - | $ 69,041 |
| | | |
| **Wishbone (Nunavut)** | | |
| Balance, beginning of period | $ 9,342 | $ 7,045 |
| Additions: | | |
| Drilling | 13 | - |
| Geology & geophysics | 47 | 53 |
| Management & administration | 115 | 63 |
| Property maintenance | - | 49 |
| Stock-based compensation | 231 | |
| Support | 4 | - |
| Transportation | 3 | - |
| | 413 | 165 |
| Balance, end of period | $ 9,755 | $ 7,210 |
| | | |
| **Red Lake (Ontario)** | | |
| Balance, beginning of period | $ 7,389 | $ 7,102 |
| Additions: | | |
| Drilling | 819 | 197 |
| Environmental assessment | - | - |
| Geology & geophysics | 5 | 3 |
| Management & administration | 13 | 1 |
| Property maintenance | 9 | 4 |
| Stock-based compensation | - | - |
| Support | - | - |
| Transportation | - | - |
| | 846 | 205 |
| Acquisition costs | 542 | - |
| Balance, end of period | $ 8,777 | $ 7,307 |
| | | |
| **Cook Lake (Manitoba)** | | |
| Balance, beginning of period | $ 2,997 | $ 113 |
| Additions: | | |
| Drilling | 737 | 461 |
| Geology & geophysics | 28 | 528 |
| Property maintenance | - | 6 |
| Management & administration | 1 | 21 |
| | 766 | 1,016 |
| Balance, end of period | $ 3,763 | $ 1,129 |

(Tabular dollar amounts expressed in thousands of Canadian dollars)

**8. Mineral properties, continued**:

| | | Three months ended March 31, 2012 | | 2011 |
|---|---|---|---|---|
| **Nipigon (Ontario)** | | | | |
| Balance, beginning of period | $ | 166 | $ | - |
| Additions: | | | | |
| Drilling | | - | | - |
| Geology & geophysics | | 453 | | - |
| Property maintenance | | - | | - |
| Management & administration | | - | | - |
| | | 453 | | - |
| Balance, end of period | $ | 619 | $ | - |

**(a) Back River and Wishbone (Nunavut)**

The Back River project is comprised of the George and Goose (including the Llama and Umwelt) gold deposits and, as per NI 43-101 prepared by SRK Consulting (Canada) and Doug Cater, Sabina Gold & Silver Corp., contain measured and indicated gold resources of 22.3 million tonnes grading 5.62 g/t Au for 4.03 million ounces and inferred resources of 10.0 million tonnes grading 6.23 g/t Au for 2.02 million ounces of gold.

The Wishbone property covers a large portion of the Hackett River Greenstone Belt and hosts the Hackett River project. The combined properties total approximately 3,000 square km and cover a largely unexplored highly prospective greenstone belt.

On May 31, 2011, the Company completed the purchase of certain royalties on the Back River and Wishbone projects. The royalty required payment of 1.5% of the value of minerals mined until the royalty payments aggregated $5,000,000 after which the royalty decreased to 0.75%. The buyback was completed through the purchase of all issued and outstanding shares of R.A. Olson Consulting Ltd. (“RAOCL”) for $4.5 million in cash and the issue of 750,000 common shares of the Company. A value of $5.19 million has been attributed to the shares based on the market value at the time of issue.

The Back River project is subject to net smelter return (“NSR”) royalties payable to various parties. Prior to the acquisition, the George Lake property, was subject to four royalties. Royalty 1 pays 0% on the first 800,000 ounces and pays 5% (gross before deductions) after the first 800,000 ounces of gold produced with Royalties 2 and 3 are deducted from it. Royalty 2 pays 1.5% and Royalty 3 pays 0.7% until a total of $5 million has been paid on each royalty; after $5 million each Royalty 2 and 3 drop by 50%. The Company has purchased RAOCL, the company holding Royalty 2. Royalty 4 pays 0.45% until a total of $7.5 million has been paid after which this royalty also drops by 50%. After eliminating Royalty 2, and depending on gold price and gold production, royalties payable could range from 0.35% to 0.7% on the first 800,000 ounces and 3.5% to 4.25% thereafter.

The Goose properties, including Goose, Llama, Umwelt, Boot, Needle and Boulder, has 3 royalties payable to various parties. Royalty 1 pays 0% on the first 400,000 ounces and pays 5% (gross before deductions) after the first 400,000 ounces of gold produced and Royalties 2 and 3 are deducted from it. Royalty 2 pays 1.5% and Royalty 3 pays 0.7% until a total of $5 million has been paid on each royalty; after $5 million each, Royalty 2 and 3 drop by 50%. The Company has purchased RAOCL, the company holding Royalty 2. After eliminating Royalty 2, and depending on gold price and gold production, royalties payable could range from 0.35% to 0.7% on the first 400,000 ounces and 3.5% to 4.25% thereafter.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

**8. Mineral properties, continued:**

**(b) Hackett River (Nunavut)**

The Hackett River project is located approximately 480 km northeast of Yellowknife and approximately 60 km from the Back River project.

On October 4, 2011 the Company completed the sale of the Hackett River property and certain claims on the Wishbone project to Xstrata Zinc for cash consideration of $50 million along with Sabina reserving a silver production royalty (the "Hackett Silver Royalty") equal to 22.5% of the first 190 million ounces of payable silver from the current resource at Hackett River and other properties (the "Properties") and 12.5% of all payable silver from the Properties thereafter at no future cost to Sabina. Additionally, Xstrata Zinc has agreed to incur not less than $50 million on exploration expenditures on the Properties over a four year period with a view of completing a NI 43-101 compliant feasibility study. If the feasibility study has not been completed by the fourth anniversary of the sale, Xstrata Zinc can elect to incur additional expenditures of not less than $10 million by each of the next three anniversaries. If at any of the fourth to seventh anniversaries Xstrata Zinc has not met the spending requirements and has not completed the feasibility study, Xstrata Zinc may elect to pay Sabina the shortfall, failing which, upon notice to Xstrata Zinc, Sabina may exercise a right to buy back the Properties for a cash purchase price equal to 100% of the expenditures incurred by Xstrata Zinc. Xstrata Zinc can pre-empt Sabina's buy back right by electing to pay an advance royalty of $75 million.

| **Allocation of selling price** | | |
|---|---|---|
| Cash received, net of transaction costs | $ | 45,558 |
| Hackett River mineral properties | | (73,106) |
| Wishbone mineral properties | | (6,586) |
| Capital assets, net | | (997) |
| Elimination of provision for site reclamation | | 377 |
| Subtotal | | (34,754) |
| Allocation to Hackett Royalty | $ | 34,754 |

Due to the contingent nature of the Hackett Silver Royalty, the value of the royalty has been assigned based on the residual value of cash proceeds and net carrying value of the assets rather than fair value based on potential future cash flows.

**(c) Red Lake and Thunder Bay Properties (Ontario)**

(i) Newman-Madsen, Red Lake:

The Company owns a 100% interest in the Newman-Madsen property. Previously, Sabina had a 50% joint venture interest in the Newman-Madsen property with Premier Gold Mines Ltd. ("Premier"). On January 17, 2012, Sabina completed the purchase of Premier's interest in the joint venture for a cash payment of $500,000 and a 0.5% NSR royalty on the Property granted to Premier. In 2009, the Company and Premier completed an option agreement with Mega Precious which granted to Mega Precious an option to acquire 100% of the East My-Ritt portion of the property for $250,000 in cash and 0.5 million Mega Precious shares. Mega Precious must incur exploration expenditures totalling $1.2 million over a 5-year period.

**8. Mineral properties, continued:**

**(c) Red Lake and Thunder Bay Properties (Ontario), continued**

(ii) Golden Sidewalk, Red Lake:

The Company owns 100% of its 18 leasehold patent claims on the Golden Sidewalk property. There are no royalties or carried interests attached to the property. The property is located in Skinner township, 67 km east-northeast of Red Lake.

(iii) Skinner, Red Lake:

Sabina owns a 100% interest in the 14 claim, 2,900 hectare Skinner property. The property is in Skinner township, 69 km east-northeast of Red Lake and adjacent to and immediately south of Sabina's Golden Sidewalk property. Premier has a 7.5% net profit interest capped at $450,000. Franco-Nevada Corporation holds a 1% net smelter return royalty and a local prospector holds another 2% net smelter return interest which can be purchased by Sabina subject to certain conditions.

(iv) Redaurum, Red Lake:

Pursuant to an option agreement with Goldcorp Inc., the Company has a 20% interest carried to production on the Redarum property located in Red Lake and in close proximity to the past producing Madsen Gold Mine.

**(d) Cook Lake (Manitoba):**

Sabina has an option agreement dated November 29, 2010 to earn a 100% interest in the Cook Lake properties with Xstrata Canada Corporation, Xstrata Copper Canada Division ("Xstrata Copper"). To earn the 100% option, Sabina must make a $100,000 cash payment to Xstrata Copper (paid) and incur $10 million total exploration expenditures over a five year period, ending November 29, 2015. Xstrata Copper has retained a back-in option; an NSR in the event that the back-in is not exercised; and a right of first refusal for off-take and marketing agreements.

**(e) Nipigon (Ontario)**

Sabina owns a 100% interest in the 107 claim, 25,000 ha Nipigon project located approximately 100km north of Thunder Bay, Ontario. The Nipigon project is located along the same iron formation that hosts the Beardmore-Geraldton gold camp.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

## 9. Capital and other components of equity:

### Authorized number of common shares

At March 31, 2012 the authorized share capital of the Company was comprised of an unlimited number of common shares without par value.

The number of issued and outstanding common shares is as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | # of shares | $ | # of shares | $ |
| Issued and outstanding as at January 1 | 160,638,183 | 297,336 | 142,422,692 | 201,282 |
| Issued for cash, net | - | - | 16,723,990 | 93,674 |
| Issued on exercise of share options | 500,454 | 764 | 215,000 | 502 |
| Fair value of options exercised | - | 619 | - | 255 |
| Tax effects on share issuance | - | - | - | (5,471) |
| Issued and outstanding as at March 31 | 161,138,637 | 298,719 | 159,361,682 | 290,242 |

### Issuance of common shares

Outside of shares issued through the exercise of share options the Company has not issued any shares in the period.

## 10. Share based payments:

The number and weighted average exercise prices of share options is as follows:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Share options | | Average exercise price | Share options | | Average exercise price |
| Outstanding at January 1 | 9,253,410 | $ | 2.53 | 7,097,000 | $ | 1.48 |
| Exercised during the period | (715,000) | | 2.32 | (215,000) | | 2.34 |
| Granted during the period | 2,685,000 | | 3.83 | 2,417,000 | | 5.32 |
| Forfeited or expired during the period | - | | - | - | | - |
| Outstanding at March 31 | 11,223,410 | $ | 2.86 | 9,299,000 | | 2.46 |
| Exercisable at March 31 | 11,223,410 | $ | 2.86 | 8,974,000 | $ | 2.37 |

The following table summarizes the outstanding options as at March 31, 2012 by year of expiry.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

**10. Share based payments, continued:**

| Year | Number | | Average exercise price |
|---|---|---|---|
| 2012 | 520,000 | $ | 2.76 |
| 2013 | 2,016,000 | | 1.22 |
| 2014 | 1,350,000 | | 1.00 |
| 2015 | 1,951,000 | | 1.41 |
| 2016 | 2,701,410 | | 5.11 |
| 2017 | 2,685,000 | | 3.83 |
| Total | 11,223,410 | $ | 2.86 |

**Employee compensation cost**

During the three months ended March 31, 2012, the Company recorded $4,226 thousand (2011 - $5,503 thousand) in share based payment costs, of which $3,061 thousand (2011 - $4,195 thousand) is presented as an operating expense in the statement of comprehensive loss and $1,165 thousand (2011 - $1,308 thousand) is capitalized to mineral property costs.

**Inputs for measurement of grant date fair values**

The grant date fair values of share options were measured based on the Black-Scholes option pricing model. The weighted average inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following: a risk-free interest rate of 1.87% (2011 – 2.24%); a divided yield of 0% (2011 – 0%); an expected volatility of 60.8% (2011 – 70.7%) and expected lives of stock options of 3 years (2011 – 3 years). The weighted average fair value of options granted in the period was $1.57 (2011 - $2.54).

**Warrants and brokers compensation options**

At March 31, the following warrants and brokers' compensation options were outstanding:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Warrants and options | | Average exercise price | Warrants and options | | Average exercise price |
| Outstanding, January 1 | - | $ | - | 100,000 | $ | - |
| Outstanding, March 31 | - | $ | - | 100,000 | $ | - |

On November 18, 2011, as a result of closing the Hackett sale transaction (note 9b), the Company issued 100,000 common shares to Teck Resources Mining Partnership ("TRMP"). The warrants were granted in 2010 on the extinguishment of TRMP's right of first offer to purchase 50% of all products derived from the Hackett project. The warrants were exercisable upon the first of several milestones being met, including the sale of the project. The Company recorded a fair value of $531 thousand which was the market value of the Company's shares on the date the warrants were issued and capitalized to mineral properties.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

**11. Flow-through share premium liability:**

| | | Flow-through premium liability |
|---|---|---|
| As at December 31, 2011 | $ | 1,128 |
| Amortization (i) | | (1,128) |
| As at March 31, 2012 | $ | - |

(i) In the period, the Company amortized the remaining $1,128 thousand of flow-through premium based on flow-through eligible expenditures exceeding the remaining liabilty.

**12. Related parties:**

**Key management personnel compensation**

In addition to their salaries, the Company also provides non-cash benefits to directors and executive officers. Directors and executive officers also participate in the Company's share option program (note 10).

Certain executive officers are subject to a mutual term of notice of 24 months. Upon resignation at the Company's request, they are entitled to termination benefits up to 24 months' gross salary.

Key management personnel compensation is comprised of:

| | For the three months ended, | | | |
|---|---|---|---|---|
| | | March 31, 2012 | | March 31, 2011 |
| Salaries and benefits | $ | 496 | $ | 390 |
| Stock-based compensation, non-cash | | 2,773 | | 3,805 |
| | $ | 3,269 | $ | 4,195 |

During the three months ended March 31, 2012, the Company paid or accrued $45,487 (2011 - $34,310) to Morton & Company for legal services of which $5,664 (2011 - $nil) remained outstanding as at March 31. Morton & Company is related by virtue of a common director. Of this amount, $44,078 (2011 - $33,072) related to SEDAR filing fees that Morton & Company paid on the Company's behalf. These transactions were in the normal course of operations and the terms and conditions of the transactions were no more favourable than those available, or which might reasonably be expected to be available, for similar transactions with arm's length parties.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

## 13. Commitments:

The Company is obligated under operating lease agreements for the rental of its corporate head office in North Vancouver and the rental of its offices in Thunder Bay, Ontario. Minimum rental payments in each of the next five years are as follows:

| | | |
|---|---|---|
| 2012 | | 107 |
| 2013 | | 145 |
| 2014 | | 129 |
| 2015 | | 72 |
| 2016 | | - |
| | $ | 453 |

## 14. Income taxes:

The tax effects of temporary differences between amounts recorded in the Company's accounts and the corresponding amounts as computed for income tax purposes gives rise to deferred tax assets as follows:

| | | March 31, 2012 | | December 31, 2011 |
|---|---|---|---|---|
| Tax loss carry forwards | $ | 467 | $ | - |
| Financing costs | | 1,712 | | 1,854 |
| Provision for closure and reclamation | | 518 | | 518 |
| Other | | 13 | | 13 |
| Flow-through share effect on mineral properties | | (28,613) | | (31,078) |
| Mineral properties | | (1,351) | | 2,999 |
| Property and equipment | | (134) | | (17) |
| Deferred tax liabilities | $ | (27,388) | $ | (25,711) |

As at March 31, 2012, no deferred tax assets are recognized on the following temporary differences as it is not probable that sufficient future taxable profit will be available to realize such assets.

| | | March 31, 2012 | | December 31, 2011 |
|---|---|---|---|---|
| Corporate minimum taxes paid | $ | 293 | $ | 293 |
| Unrecognized deferred tax assets | $ | 293 | $ | 293 |

The Company has tax loss carry forwards at March 31, 2012 of $1.7 million (December 31, 2011 - $nil) that expire in 2032.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

## 14. Income taxes, continued:

**The Company's tax expense is comprised of the following:**

| | | Three months ended March 31, 2012 | | Three months ended March 31, 2011 |
|---|---|---|---|---|
| Current tax expense | $ | - | $ | - |
| Deferred tax expense | | 1,677 | | 1,572 |
| Income tax expense | $ | 1,677 | $ | 1,572 |

The provision for income taxes differs from the amount calculated using the Canadian federal and provincial statutory income tax rates of 28.5% (2010 – 30.0%) as follows:

| | | Three months ended March 31, 2012 | | Three months ended March 31, 2011 |
|---|---|---|---|---|
| Expected tax expense (recovery) | $ | (673) | $ | (1,193) |
| Share based compensation and other permanent items | | 522 | | 903 |
| Flow-through shares (exploration expenses renounce) | | 1,829 | | 1,930 |
| Other | | - | | (68) |
| Income tax expense | $ | 1,677 | $ | 1,572 |

The following Management's Discussion and Analysis (the "MD&A") of the financial condition and results of operations of Sabina Gold & Silver Corp. ("Sabina" or "the Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the period ended March 31, 2011. The MD&A was prepared as of May 11, 2012 and should be read in conjunction with the Company's annual audited financial statements and related notes for the year ended December 31, 2011. All figures are in Canadian dollars unless otherwise stated. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

## Overview

Sabina is an emerging precious metals company with the objective of becoming a mid-tier gold producer. The Company is focused on the acquisition, exploration and development of mineral resource properties. The Company's flagship projects are its Back River gold project, its prospective Wishbone grassroots exploration project, and its silver royalty on the Hackett River project and certain Wishbone claims, located in Nunavut, Canada. The Company also has interests in exploration properties in the Red Lake gold camp in Ontario, the Nipigon project in Ontario and an option on Xstrata's Cook Lake property in northern Manitoba.

## Q1 2012 Highlights:

- On January 12th, the Company announced that it had completed the technical report of the resource estimate for the Back River project. The new 43-101 compliant resource consists of an Indicated Resource of 22.3 million tonnes grading 5.62 g/t Au for a total of 4.0 million ounces of gold and an Inferred Resource of 10.0 million tonnes grading 6.23 g/t Au for a total of 2.0 million ounces of gold. The detailed 43-101 was filed on SEDAR on January 9, 2012.

- On March 5, the Company announced that drilling had begun at the Back River project for the 2012 drill season subsequent to the Goose camp opening February 13, 2012. In January, the Company had announced its 2012 work program which included 76,000 meters of drilling for an estimated cost of $65 million including environmental baseline and economic studies. By the end of Q1, a total of three drills were active and 4,082 meters had been completed. Initial targets were focussed on drilling on-ice targets at the Llama deposit and expanding resources on the Goose deposit.

- Subsequent to the quarter, on April 26, the Company announced initial drilling results from the program, including significant high-grade assays from Llama. Highlights include hole 12GSE141 which returned 15.16 g/t Au over 36.40m and 7.15 g/t Au over 41.05m; hole 12GSE152 which returned 8.58 g/t Au over 20.00 m and hole 12GSE153 which returned 21.58 g/t Au over 12.90 m.

- On January 17, 2012 the Company announced that it had acquired 100% of the Newman-Madsen project by purchasing Premier Gold Mines Ltd.'s 50% stake for $500,000 and a 0.5% net smelter return royalty.

- For the period ended March 31, 2012, the Company had a loss of $3.6 million or $0.02 per share. The Company had cash and cash equivalents and short-term investments of $147.4 million at March 31, 2012.

## Results of Operations

### Back River, Nunavut

On June 9, 2009, the Company completed the acquisition of the Back River and Wishbone properties in Nunavut, Canada (collectively known as the Back River Assets) from Dundee Precious Metals Inc. ("DPM"). The Back River Assets were acquired for $7.0 million in cash and 17 million common shares on closing of the transaction. Additional shares and warrants would be issued upon successful completion of certain development milestones.

The Back River Project is located approximately 520 km NE of Yellowknife and 70 km south of Bathurst Inlet. It is comprised of 45 Federal Mineral Leases and 13 Federal Mining Claims covering approximately 52,324 hectares. The project is divided into 7 properties: Goose, George, Boot, Boulder Pond, Needle, Del and the Bath 1 Claim. The Goose property hosts the Goose, Llama and Umwelt gold deposits and the George property located 50 km to the northwest hosts the George deposits. These deposits together are called the Back River resources and consist of indicated resources of 22.3 million tonnes grading 5.59 g/t Au for 3.99 million ounces of gold, and inferred resources of 10.1 million tonnes grading 5.05 g/t Au for 2.0 million ounces of gold.

***Back River Exploration Results***

The objectives at Back River for 2012 are:

- To continue to expand the known resources at depth and along strike on the Goose claim block;
- To drill test remaining high potential targets on the Goose claim block;
- To drill test high priority shallow targets at the George claim block identified by the exploration tool box;
- To complete any drilling identified by the Preliminary Economic Analysis ("PEA") to upgrade existing resources so that the project can move towards a Pre-Feasibility Study;
- To begin evaluation of high potential targets on the other Back River claim blocks; and

The Goose camp opened on February 2nd and the George camp opened on February 9th. During Q1, construction and the resupply of fuels and other consumable products was ongoing. Drilling on the Goose property commenced on March 18 and by period end three drill rigs were in operation with 7 holes having been completed totaling 4,082 m. Drilling was focused on upgrading resources at Llama and expanding the Goose deposit in the Hook area. No assays were returned during the period ending March 31. Subsequent to the quarter, two additional diamond drills were mobilized to the Goose site specifically designed for deep drilling on the Umwelt deposit targeting extensions to the G2 zone.

## Wishbone, Nunavut

The Wishbone Greenstone Belt surrounds the Hackett River Project as well as other smaller base and precious metal deposits. The combined Wishbone properties, containing 181 mining claims, total approximately 3,000 km$^2$ and cover a largely unexplored highly prospective greenstone belt with the potential for both gold and VMS style deposits. Wishbone claims (133 claims) that had a high potential for VMS deposit discovery were included as part of the sale of Hackett River to Xstrata. Sabina retained certain Wishbone claims (48 claims) along the south eastern edge of the property that cover geological units which are similar to the gold-bearing hosts at Back River and are potential gold targets. In August, Sabina staked 73 new claims as the result of the Company's exploration discoveries. Including the new mineral claims, the Company's Wishbone property consists of 121 claims covering approximately 100,000 ha.

***Wishbone Exploration Results***

The objectives at Wishbone for 2012 are:

- To assess the Lucky 7 trend on Wishbone to determine further opportunities and define further work requirements.

No work had been completed on Lucky 7 during Q1. Subsequent to the quarter, two drills were mobilized to the Lucky 7 target and drilling has commenced. The Lucky 7 trend was discovered in hole SWB11-07 where 71.30 g/t Au over 1.50 m was intersected in an altered fault gouge zone with shearing, quartz veining and up to 5% pyrite and pyrrhotite. A second zone in the same hole graded 3.35 g/t Au over 14.65 m including 6.45 g/t Au over 10.25 m. This later zone consists of silica rich breccia fragments in a dark quartz-feldspar-biotite-pyrrhotite matrix.

## Red Lake, Ontario Properties

The Company owns or has a partial interest in four Red Lake properties: Newman-Madsen (100%), Golden Sidewalk (100%), Skinner (100%), and Redaurum (20% carried interest). Recent activities have been focused on the Newman-Madsen property.

**Newman-Madsen**

On January 17th, 2012, the company announced that under the terms of a 50/50 joint venture agreement dated June 8, 2010 that it had completed a purchase agreement to acquire Premier Gold Mines Ltd's 50% interest in the Newman-Madsen property for a cash payment of $500,000 and a 0.5% net smelter return royalty on the property.

The Newman-Madsen property is comprised of 46 patented mining claims located in the Red Lake Mining Division of Ontario, 3.5 km southwest of the Town of Red Lake and 4.5 km northeast of Claude Resources Ltd's Madsen Mine. Eight of these claims are currently under option to Mega Precious Metals (East My Ritt Option).

The Company completed 4,332 metres of drilling in 13 holes by the end of the quarter on the Newman-Madsen property. The focus was on exploring for mineralized structures within the mafic volcanics that underlie the western half of the property, extensions of the Buffalo West Zone and the Madsen Mine trend. No significant assay results have been returned to-date although a number of potentially mineralized structures were defined. Assay results for three holes remain outstanding.

**Golden Sidewalk**

The Golden Sidewalk property is comprised of 18 leasehold patent claims. There are no royalties or carried interests attached to the Golden Sidewalk property. The Golden Sidewalk Property, hosting the past-producing Bathurst Mine, is located within the Birch-Uchi greenstone belt. No work is planned on this property in 2012.

**Skinner**

The Skinner property is comprised of 14 mineral claims. The property is adjacent to and immediately south of Sabina's Golden Sidewalk property. Premier has a 7.5% net profit interest capped at $450,000. Franco-Nevada Corporation holds a 1% net smelter return royalty and a local prospector holds another 2% net smelter return interest which can be purchased by Sabina subject to certain conditions. No work is planned on this property in 2012.

**Redaurum**

The Redaurum property is located within close proximity to the past producing Madsen Gold Mine. As a result of an option agreement with Goldcorp, the Company has a 20% carried interest to production on the Redaurum property.

## Cook Lake, Manitoba

The Cook Lake properties are located in the Snow Lake region of Northern Manitoba and consist of 78 claims totalling 4,938 hectares adjacent to the north and west of HudBay Minerals' newly discovered Lalor deposit. Sabina has an option to earn up to a 100% interest in the property from Xstrata Copper by completing exploration work totalling $10 million over a five year period, ending November 2015.

All work on Cook Lake is complete for the 2012 winter drill program. To-date a total of 11 holes for 8,045 metres have been drilled on the project from inception in September 2011 with 2,103 metres drilled in Q1 2012. On the North claim block, drilling has located the Lalor stratigraphy at depths of between 500 and 700 metres. The most promising area is on a trend defined by hole CS-006 that intersected pyritic-sericitic altered felsic volcanic rocks with minor zinc mineralization. The trend extends for over 3 km from north to south and has only been tested by two holes (CS-006 and CS-007). The other area of interest is the Raindrop horizon on the South claim block. Drill hole CS-011intersected altered felsic volcanic rocks with minor copper-zinc mineralization associated with an airborne EM anomaly. Borehole EM has detected a significant off-hole anomaly to the south of this hole where there has been no previous drilling. Two smaller off-hole anomalies were also detected to the north of the hole. Analysis of these results is ongoing and will be used to direct work in subsequent campaigns. The Company has budgeted a program of approximately 3,000 meters at a cost of $800,000 for the fourth quarter 2012.

## Nipigon, Ontario

In the fall of 2011, the company staked 107 mineral claims covering over 25,000 hectares in an area approximately 100 km north of Thunder Bay, Ontario. The Nipigon Project is 100% owned and is located along the same iron formation that hosts the Beardmore-Geraldton gold camp. There has been little exploration along this prospective trend that has produced over 4.5 million ounces of gold from four mines the McLeod-Cockshut, Hard Rock and Mosher mines in Geraldton, and the Leitch Mine in Beardmore.

The setting of these four deposits and the geology of the belt are similar to the iron-hosted deposits at Back River area which will allow Sabina to apply its exploration toolbox on the Nipigon Project. A 2,200 km VTEM survey was completed over the property in early 2012 which has identified a number of promising gold targets. These targets will be evaluated later in 2012.

## Summary of Results

(Expressed in thousands of dollars, except per share amounts)

| | | 2012 Q1 | | 2011 Q4 | | 2011 Q3 | | 2011 Q2 |
|---|---|---|---|---|---|---|---|---|
| Revenue/other income | $ | 589 | $ | 645 | $ | 511 | $ | 581 |
| Earnings/(loss) | | (3,623) | | (1,319) | | (2,591) | | (3,002) |
| Per share | $ | (0.02) | $ | (0.01) | $ | (0.02) | $ | (0.02) |
| | | **2011 Q1** (1) | | **2010 Q4** | | **2010 Q3** | | **2010 Q2** (2) |
| Revenue/other income | $ | 339 | $ | 188 | $ | 115 | $ | 49 |
| Earnings/(loss) | | (5,758) | | (1,262) | | (3,592) | | (1,729) |
| Per share | $ | (0.04) | $ | (0.01) | $ | (0.03) | $ | (0.01) |

Notes:

(1) During the three months ended March 31, 2011, the Company reported a loss of $5,758 thousand which included $4,195 thousand for stock based compensation. In the quarter the Company granted 2,417,000 stock options to employees and directors.

(2) During the three months ended June 30, 2010 the Company reported a deferred income tax expense of $1,226 thousand related to expenditures made on the December 2009 flow-through financing.

## Overall Performance

For the period ended March 31, 2012, the Company reported a net loss of $4.2 million compared to a loss of $5.8 million in 2011. The loss in Q1 2012 is lower than the same period in 2011 primarily as a result of decreased share-based compensation in 2012.

Q1 2012 operating expenses were $4.2 million compared to $5.6 million for the same period 2011, favourable by $1.3 million mainly due to decreased in share-based compensation and lower listing, transfer and shareholder and travel expenses. Share-based compensation decreased by $1.1 million over 2011 due to the decreased share price of the Company which is a key variable in the estimate of fair value. The number of options granted in Q1 2012 was 2,685,000 compared to 2,417,000 in 2011. Listing, transfer and shareholder expenses were lower in Q1 2012 by $115 thousand largely due to lower listing fees; in Q1 2011 the Company incurred initial listing fees for a public equity financing completed in the period. Travel expenses were lower by $107 thousand in Q1 2012 primarily due to less travel activity.

Interest income for the period ended March 31, 2012 was $589 thousand compared to $339 thousand in 2010. Interest increased due to a higher average cash balance of $155.7 million versus $100.9 million in 2011 and a higher realised interest rate which increased to 1.51% from 1.34%.

Deferred income tax expense remained relatively the same in Q1 2012 as compared to 2011 increasing to $1.7 million from $1.6 million. The total flow-through premium recognized in Q1 2012 was $1.1 million compared to $1.0 million in 2011.

The primary costs incurred by the Company are associated with deferred exploration expenditures on its mineral properties. In Q1 2012, deferred expenditures were $10.2 million compared to $8.4 million in 2011. The increase of $1.8 million resulted from increased exploration activity, at Back River and Wishbone to further expand and define resources. Additionally, the Company acquired 100% of the Newman-Madsen joint venture in January 2012 for $0.5 million.

In Q1 2012, the Company expended $7.7 million on its Back River project (2011 - $4.6 million). The increase relates to increased metres drilled of 4,082 m in Q1 2012 as compared to 2,403 m in 2011. Wishbone expenditures of $413 thousand (2011 - $165 thousand) increased primarily due to stock based compensation charged to the project in 2012. Hackett River incurred no costs in Q1 2012 following the sale of the project in 2011 (2011 - $2.4 million). Red Lake incurred costs of $846 thousand (2011 - $165 thousand) and Cook Lake of $766 thousand (2011 - $1.0 million) as the Company continues to explore on these projects.

## Liquidity and Capital Resources

The Company had cash and cash equivalents and short-term investments of $147.4 million at March 31, 2012 compared to cash and cash equivalents of $159.9 million at December 31, 2011.

On March 1, 2011 the Company completed a bought-deal financing qualified by short-form prospectus of 10,454,650 common shares (including over allotment of 15% or 1,363,650 common shares) at a price of $5.50 per common share and 6,061,000 flow-through common shares at a price of $6.60 per flow-through common share for gross proceeds of $97,503,175. The Company paid a syndicate of underwriters a 5% cash commission. Concurrent with the public financing the Company completed a private, non-brokered financing of 188,515 flow-through shares and 19,825 common shares, both at the same prices as the public financing for gross proceeds of approximately $1.4 million. The gross proceeds of these flow-through financings must be used to incur Canadian exploration expenditures as defined by the Income Tax Act (Canada) by December 31, 2012. In 2011 the Company incurred $50.0 million of flow-through eligible expenditures leaving a total commitment of $6.8 million of qualifying expenditures to make in 2012. By the end of Q1, 2012, the Company had made sufficient flow-through expenditures to extinguish this liability.

The Company believes it has sufficient cash resources and liquidity to sustain its planned activities through 2012. The future exploration and development of the Back River project may require the Company to raise additional capital through a combination of project debt and equity financings. The Company's strategy will be to use equity financing to fund exploration activities and the maximum amount of project debt available to build mining infrastructure until sufficient cash flow is generated from mining operations.

## Financial Instruments

The fair values of the Company's financial instruments consisting of cash, guaranteed investment certificates, accounts receivable, and accounts payable and accruals approximate their carrying value because of their short term to maturity. The fair value of the marketable securities included in available for sale investments is determined with reference to quoted market prices.

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's financial assets measured at fair value consist of available-for-sale investments with a value of $90 thousand at March 31, 2012 ($88 thousand – December 31, 2011) are classified as Level 1.

## Liabilities and Contingencies

On June 9, 2009, the Company completed an asset purchase agreement to acquire the Back River Assets from DPM for the following consideration:

(i) At closing, $7.0 million in cash and 17 million common shares (approximately 18.8% of the number of outstanding common shares post-transaction);

(ii) 5 million Series A Special Warrants; and,
(iii) 5 million Series B Special Warrants.

The Special Warrants are exercisable to receive one common share and one-half of one common share purchase warrant. The Series A Special Warrants are to be exercisable upon a decision to proceed to a feasibility study or proceed to production on the Back River Assets and in consideration of other events. The Series B Special Warrants are to be issued upon a positive production decision on the Back River Assets and in consideration of other events.

The Company has the legal obligation to reclaim exploration camps for which it holds water licenses and exploration and mining agreements. The Company has issued deposits totalling approximately $0.3 million in relation to these obligations and has recognized a provision for site reclamation of $1.9 million. In 2011 the provision was increased by $0.5 million for improvements at the Back River Project and reduced by $0.4 million subsequent to the sale of the Hackett River Project.

### Contractual Obligations

The Company is obligated under operating lease agreements for the rental of its corporate head office in North Vancouver and the rental of its exploration offices in Ontario, which expire in the next five years. Minimum rental payments, net of income from sublease, in each of the next four years are as follows:

| | | |
|---|---|---|
| 2012 | $ | 106,686 |
| 2013 | | 145,298 |
| 2014 | | 129,741 |
| 2015 | | 72,144 |
| 2016 | | - |
| | $ | 453,869 |

### Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements, no capital lease agreements, and no long-term debt obligations.

## Outlook

The Company's strategic plan is to focus on exploring and developing its primary assets in Nunavut, the Back River and Wishbone projects, with the objective of becoming a mid-tier gold producer. The Company intends to aggressively advance development and environmental work on the Back River project in order to move the project to production. Baseline environmental studies which will be required for a draft environmental impact study (EIS) are planned to be completed in 2012. Additionally, following the completion of a positive PEA, the Company will commence the permitting process by filing a preliminary project description (PPD) with the appropriate regulatory bodies. Also following a positive PEA, the Company anticipates that it would engage consultants to complete a preliminary feasibility study ("PFS") on the project. It is estimated that the PFS work would be completed in approximately one year following completion of the PEA. The final feasibility study ("FS") would be completed one year following a positive PFS. If the project successfully passes each of these stages, a decision to proceed to mine construction could be possible by mid-2014. Concurrent with this work, the Company anticipates that it would continue to complete work necessary for a final EIS and any required regulatory licences and permits.

At the same time as the Company advances the Back River project, it will continue to aggressively explore its Nunavut properties to continue to grow its resources and explore the many identified targets for new discoveries. The 2012 Nunavut exploration program is comprised of a 76,000 m drill program with the objectives of: expanding the known resources at depth and along strike on the Goose claim block; drill test remaining high potential targets on the Goose claim block; drill test high priority shallow targets at the George claim block; upgrade existing inferred resources as needed to begin a PFS; evaluate high potential targets on other Back River claim blocks; and assess the resource potential on the Lucky 7 trend on Wishbone.

The Company continues to evaluate gold projects outside of Nunavut. In Red Lake, Ontario at the Newman-Madsen property, Sabina acquired a 100% interest in this property in January 2012 and drilling commenced immediately thereafter. The Company drilled 4,332 m for approximately $0.8 million during the first quarter of 2012.

At the Cook Lake property in northern Manitoba located immediately adjacent to Hudbay Minerals' Lalor discovery, the Company completed 8,045 metres of drilling on targets derived from high quality Titan 24 targets and other untested historical EM anomalies. The Company has drilled 2,103 m on the property in 2012 with a cost of approximately $0.8 million.

A new 100% owned gold project in the Nipigon area of Ontario was staked in late 2011 that is analogous to the Back River project. A 2,200 km VTEM survey was flown in early and plans for 2012 include drilling 2,000 m with an expected cost of approximately $0.9 million.

## Transactions with Related Parties

For the period ended March 31, 2012, the Company paid or accrued $45,487 to Morton & Company (2011 - $34,310), which is a related party by virtue of a common director, for legal services of which $5,664 (2010 - $nil) remained outstanding as at March 31, 2012. Of this amount, $44,078 (2011 - $33,072) related to SEDAR filing fees that Morton & Company paid on the Company's behalf. These transactions were in the normal course of operations and are measured at the exchange value as agreed upon by the related parties.

## Critical Accounting Estimates

The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities; as well as the reported expenses during the reporting period. Such estimates and assumptions affect the determination of the potential impairment of long-lived assets and the determination of stock-based compensation and deferred income taxes. Management re-evaluates its estimates and assumptions on an ongoing basis; however, due to the nature of estimates, actual amounts could differ from its estimates. The most critical accounting policies upon which the Company depends are those requiring estimates of reserves and resources, future recoverable products and assumptions of future commodity prices.

### Accounting for Exploration and Development Costs

Exploration expenditures related to mineral properties are deferred only if it is probable that these costs will be recovered from future operations. The carrying values of mineral properties are assessed at the balance sheet date to determine whether any persuasive evidence exists that the properties may be permanently impaired. The Company's progress in its development activities towards its planned operations is a key factor to be considered as part of the ongoing assessment of the recoverability of the carrying amount of capital assets and deferred exploration and development costs. If there is persuasive evidence of impairment, the asset is written down to its estimated net recoverable value. Deferred acquisition, exploration and development expenditures totalled $122.8 million at March 31, 2012 ($112.1 million – December 31, 2011).

### Asset Retirement Obligations

The Company recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the acquisition, construction, development and/or normal use of the assets. The Company concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset which is amortized over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Any changes in the obligation that result from changes in estimated cash flows are recognized as adjustments of the carrying amount of the related long-lived asset and are amortized over the remaining life of the asset.

At March 31, 2012, the Company had a provision for site reclamation of $1.9 million in relation to the Back River exploration camps. Key activities required to be carried out and used in estimating the costs include: removal of Back River exploration camps, reclamation of site pads, re-vegetation as needed and post-closure site monitoring.

### Stock-based Compensation

Stock-based compensation is accounted for using the fair value based method. Under the fair value based method, compensation cost is measured at fair value of the options at the date of grant and is expensed over the vesting period of the award. The Company estimates the fair value using the Black-Scholes option pricing model.

## Future Changes in Accounting Standards

#### Future Accounting Pronouncements

Certain new accounting standards and interpretations have been published that are not mandatory for the March 31, 2012 reporting period. The following standards are assessed not to have any impact on the Company's financial statements:

- IFRS 10 Consolidated Financial Statements for accounting periods on or after January 1, 2013;
- IFRS 11 Joint Arrangement for accounting periods on or after January 1, 2013;
- IFRS 12 Disclosures of Involvement with Other Entities for accounting periods on or after January 1, 2013;
- IFRS 13 Fair Value Measurement for accounting periods on or after January 1, 2013; and
- IAS 28 Investments in Associates and Joint Ventures.

IFRS 9 Financial Instruments: effective for accounting periods commencing on or after January 1, 2013 is expected to have an impact on the Company; however, the extent of the impact has not yet been determined.

## Disclosure Controls and Procedures ("DC&P")

Requirements of NI 52-109 include conducting an evaluation of the effectiveness of DC&P. Management conducted an assessment of the effectiveness of the DC&P in place as of December 31, 2011 and concluded that such procedures are adequate and effective to ensure accurate and complete disclosures in filings. Any system of control over disclosure procedures, particularly for junior exploration companies, no matter how well designed and implemented, has inherent limitations and may not prevent or detect all inaccuracies. These limitations include limited personnel available for such work, geographical logistics and human error among others. The Board of Directors assess the integrity of the public financial disclosures through the oversight of the Audit Committee.

## Internal Control Over Financial Reporting ("ICFR")

Requirements of NI 52-109 include conducting an evaluation of the effectiveness of ICFR. Management conducted an assessment of the effectiveness of the ICFR in place as of March 31, 2012 and concluded that such procedures are adequate and effective to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in compliance with International Financial Reporting Standards. Any system of internal control over financial reporting, no matter how well designed and implemented, has inherent limitations and may not prevent or detect all misstatements. The Board of Directors assess the integrity of the public financial disclosures through the oversight of the Audit Committee.

## Outstanding Share Data

As at May 11, 2012, there were 161,138,637 common shares outstanding. There were options and warrants outstanding to purchase an aggregate of 11,223,410 common shares. The options were granted to certain of the Company's executive officers, directors, employees and consultants.

## Additional Information

Sabina is a Canadian public mineral exploration company listed on the TSX Exchange trading under the symbol "SBB" and is a reporting issuer in British Columbia and Alberta. Additional information relating to the Company may be obtained or viewed from the System for Electronic Data Analysis and Retrieval (SEDAR) website at www.sedar.com and on the Company's website at www.sabinagoldsilver.com.

## Risks and Uncertainties

*Exploration and Development of Mineral Resource Properties*

The mineral exploration business is risky and most exploration projects will not become mines. Commercial development of any Sabina property will occur only if sufficient quantities of minerals with a sufficient average grade are discovered. If a mineral discovery is made, substantial financial resources will be required to establish ore reserves, develop processes to extract metal from the ore and develop mining and processing facilities at a given site.

Due to the location of the Hackett River Project and the Back River Projects, there is presently no infrastructure available to explore or, if a production decision with respect to any of such Projects is ultimately made, develop or engage in production from these Projects. As a result of the lack of infrastructure, access to these Projects is limited. However, no assurance can be given that any of the Company's projects in Nunavut will be sufficiently commercially viable to support the capital cost of developing the facilities to increase their accessibility.

*Calculation of Reserves, Resources and Metal Recoveries*

There is a degree of uncertainty attributable to the calculation and estimates of reserves and resources and the corresponding metal grades to be mined and recovered. Until reserves or resources are actually mined and processed, the quantities of mineralization and metal grades must be considered as estimates only. Any material change in the quantity of mineral reserves, mineral resources, grades and recoveries may affect the economic viability of the Company's properties. To date, the Company has not established reserves on any of its mineral properties.

*Title to Assets*

Although the Company has received title opinions for properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company's claims may be subject to prior unregistered agreements or transfers and title may be affected by unidentified or unknown defects. The Company has conducted as thorough an investigation as possible on the title of properties that it has acquired to confirm that there are no other claims or agreements that could affect its title to the concessions or claims. If title to the Company's properties is disputed it may result in the Company paying substantial costs to settle the dispute or clear title and could result in the loss of the property, which events may affect the economic viability of the Company.

*Uncertainty of Funding*

The ability of Sabina to continue as a going concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Sabina's principal sources of financing are the issuance of common shares, entering into option agreements, selling investment securities or selling interests in its mineral properties. Sufficient funding for future exploration and development of its properties may not be available when and as required. Failure to obtain financing on a timely basis could cause the Company to forfeit all or parts of its interests in mineral properties or reduce or terminate its operations.

*Precious and Base Metal Price Fluctuations*

The ability of the Company to raise funds to continue exploration of the mineral properties in which it has an interest will be significantly affected by changes in the market prices of precious and base metals. Prices for precious and base metals fluctuate on a daily basis, have historically been subject to wide fluctuations and are affected by numerous factors beyond the control of the Company such as the level of interest rates, the rate of inflation, central bank transactions, world supply of precious and base metals, foreign currency exchange rates, international investments, monetary systems, speculative activities, international economic conditions and political developments. The effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not being able to continue its planned exploration programs. Declining market prices for these metals could materially adversely affect the Company's operations and financial condition.

*Government Regulation*

The Company is in compliance with all material regulations applicable to its exploration activities. Existing and possible future government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards could cause additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted. Before production can commence on any properties, the Company must obtain regulatory and environmental approvals. There is no assurance that such approvals can be obtained on a timely basis or at all. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations.

*Competitive Conditions*

The profitability of any prospect is dictated by the market for minerals, which is influenced by many factors including changing production costs, supply and demand, inflation, and the political environment. The Company's success is also dependent on the knowledge and expertise of its management and employees and their ability to identify and advance attractive exploration projects and targets. The competition for highly qualified personnel is strong and there is no guarantee that the Company will be able to retain or attract such personnel.

## Forward Looking Statements

This MD&A provides management's analysis of Sabina's historical financial and operating results and provides estimates of Sabina's future financial and operating performance based on information currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance.

Certain information set forth in this MD&A, including management's assessment of the Company's future plans and operations, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Company's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be inaccurate and, as such, undue reliance should not be placed on forward-looking statements. Sabina's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur or, if any of them do so, what benefits Sabina will derive there from. Sabina disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by applicable law.