Sabina

GOLD & SILVER CORP.

Consolidated Financial Statements

Years ended December 31, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Sabina Gold & Silver Corp.

We have audited the accompanying consolidated financial statements of Sabina Gold & Silver Corp. which comprise the consolidated statement of financial position as at December 31, 2012 an 2011, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sabina Gold & Silver Corp. as at December 31, 2012 and 2011, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
Vancouver, Canada
March 26, 2013

SABINA GOLD & SILVER CORP.

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

	December 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents (note 5)	$ 51,394	$ 80,009
Short-term investments	65,000	79,900
Accounts receivable (note 6)	1,981	2,013
Inventory	3,115	977
Prepaid expenses	1,242	718
Total current assets	122,732	163,617
Non-current assets:		
Investment in Mega-Precious (note 7)	72	88
Property and equipment (note 8)	10,669	3,095
Mineral properties (note 9)	175,809	112,085
Hackett silver royalty (note 9)	34,754	34,754
Reclamation deposits	359	284
Total non-current assets	221,663	150,306
Total assets	$ 344,395	$ 313,923
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 2,552	$ 1,541
Flow-through share premium liability (note 13)	308	1,128
Capital and other taxes payable	2	20
Total current liabilities	2,862	2,689
Non-current liabilities:		
Provision for site reclamation (note 10)	2,151	1,917
Deferred income tax liability (note 17)	33,887	25,711
Total non-current liabilities	36,038	27,628
Total liabilities	38,900	30,317
Equity:		
Share capital (note 11)	330,121	297,336
Contributed surplus	18,734	15,454
Accumulated other comprehensive loss	(128)	(80)
Deficit	(43,232)	(29,104)
Total equity	305,495	283,606
Total liabilities and equity	$ 344,395	$ 313,923

Nature of operations (note 1)
Commitments (note 15)
Subsequent events (note 9(d))

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

Approved on behalf of the Board:

"Robert Pease" Director *"Terry Eyton"* Director

SABINA GOLD & SILVER CORP.

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

For the years ended December 31, 2012 and 2011

		2012		2011
Expenses:				
Administration and general	$	376	$	731
Depreciation		48		52
Insurance		146		128
Listing, transfer and shareholder		838		798
Part 12.6 tax		2		20
Professional services		567		479
Salaries and severance		2,476		1,926
Share-based payments (note 12)		3,261		5,223
Travel		386		681
Write-down of mineral properties (note 9d)		3,803		-
		11,903		10,038
Loss from operating activities		(11,903)		(10,038)
Net finance income:				
Interest income		2,363		2,053
Gain on sale of investments		-		23
Amortization of flow-through share premium liability (note 13)		4,088		8,100
		6,451		10,176
Income (loss) before income taxes		(5,452)		138
Deferred income tax expense (note 17)		(8,676)		(12,808)
Loss for the period		(14,128)		(12,670)
Other comprehensive income:				
Unrealized gain (loss) on available-for-sale investments, net of tax		(48)		65
Comprehensive loss for the period	$	(14,176)	$	(12,605)
Basic and diluted loss per share	$	(0.08)	$	(0.08)
Weighted average number of common shares outstanding		167,400,374		157,185,362

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

SABINA GOLD & SILVER CORP.

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

	Year ended December 31	
	2012	2011
Share capital:		
Balance, beginning of period	$ 297,336	$ 201,282
Shares issued during the period, net of issue costs	34,154	95,073
Flow-through premium transferred to flow-through share premium deferred liability (note 13)	(3,268)	(6,875)
Shares issued for Back River royalty acquisition (note 9a)	-	5,190
Fair value of options exercised	1,406	731
Fair value of warrants exercised	-	531
Deferred income tax effect of flow through shares and issuance costs	493	1,404
Balance, end of period	330,121	297,336
Contributed surplus:		
Balance, beginning of period	15,454	9,842
Fair value of share-based payments related to options vesting	3,261	5,223
Fair value of share-based payments capitalized to mineral properties	1,425	1,651
Fair value of warrants transferred to share capital	-	(531)
Fair value of options transferred to share capital	(1,406)	(731)
Balance, end of period	18,734	15,454
Accumulated other comprehensive income:		
Balance, beginning period	(80)	(15)
Unrealized gains (losses) on available for sale investments, net of tax	(48)	(65)
Balance, end of period	(128)	(80)
Deficit:		
Balance, beginning of period	(29,104)	(16,434)
Loss for the period	(14,128)	(12,670)
Deficit, end of period	(43,232)	(29,104)
Total shareholders' equity	$ 305,495	$ 283,606

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

SABINA GOLD & SILVER CORP.

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

	Year ended December 31, 2012	2011
Cash provided by (used in) operating activities:		
Loss for the period	$ (14,128)	$ (12,670)
Adjustments for:		
Depreciation	48	52
Deferred income tax expense	8,676	12,808
Interest income	(2,363)	(2,053)
Amortization of flow-through share premium liability	(4,088)	(8,100)
Gain on sale of investment	-	(23)
Share-based payments	3,261	5,223
Write-down of mineral properties	3,803	-
	9,337	7,907
Accounts receivable	163	(384)
Inventories	(2,138)	61
Prepaid expenses	(524)	(605)
Accounts payable and accrued liabilities	1,011	21
Capital and other taxes payable	(18)	(8)
Cash used in operating activities	(6,297)	(5,678)
Interest received	2,232	900
Net cash used in operating activities	(4,065)	(4,778)
Cash flows provided by (used in) investing activities		
Expenditures on deferred exploration, net of recoveries	(64,123)	(56,525)
Expenditures on property and equipment	(9,406)	(2,295)
Proceeds on Hackett sale	-	45,558
Increase in reclamation deposits	(75)	-
Sale (purchase) of short-term investments, net	14,900	(50,632)
Net cash used in investing activities	(58,704)	(63,894)
Cash flows provided by (used in) financing activities		
Issuance of common shares for cash, net of issue costs	34,154	95,073
Proceeds on disposition of available-for-sale shares	-	45
Net cash from financing activities	34,154	95,118
Net Increase (decrease) in cash and cash equivalents	(28,615)	26,446
Cash and cash equivalents, beginning of period	80,009	53,563
Cash and cash equivalents, end of period	$ 51,394	$ 80,009

The accompanying notes are an integral part of these consolidated 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 and silver royalties 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 2013 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on March 26, 2013.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

2. Basis of preparation, continued:

(b) Basis of measurement:

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

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the Company and its subsidiary's functional currency. All tabular financial information presented in Canadian dollars has been rounded to the nearest thousand.

(d) Use of estimates and judgments:

The preparation of the consolidated 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. Revision to estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3. Significant accounting policies:

(a) Financial instruments

(i) Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date that they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets: cash and cash equivalents, short-term investments and accounts receivables and available-for-sale financial assets.

3. Significant accounting policies, continued:

(a) Financial instruments, continued

(i) Non-derivative financial assets, continued

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The Company does not have any assets at fair value through profit or loss.

Held-to-maturity financial assets

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized costs using the effective interest rate method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years. The Company does not have any held-to-maturity financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, short-term investments and accounts receivable.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less and guaranteed investment certificates with no penalty for early redemption.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Company's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

3. **Significant accounting policies, continued:**

(a) Financial instruments, continued

(ii) Non-derivative financial liabilities

All financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or they expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities and capital and other taxes payable.

Such financial liabilities are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

(iii) Share capital

Common Shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Flow-through common shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences.

Upon issuance of flow-through shares, the quoted value or the non-flow-through share price, as appropriate, is used to record the increase to share capital. The difference between the amount recognized in common shares and the amount paid by the investor is recognized as a flow-through share premium liability which is reversed into earnings when eligible expenditures are made extinguishing the obligation. A deferred tax liability and the associated income tax expense are recorded when eligible expenditures are made.

(b) Short-term investments

Short-term investments consist of investments with terms to maturity at acquisition of greater than 90 days but not more than one year and are designated as loans and receivables.

(c) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on a weighted average cost formula, and includes expenditures incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

3. Significant accounting policies, continued:

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated amortization and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and are recognized net within other income in the statement of comprehensive loss.

(ii) Depreciation

Depreciation is calculated on the depreciable amount, which is the cost of an asset, less its residual value.

Depreciation on corporate assets is recognized in the statement of comprehensive loss on a declining balance basis or on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, based on how this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Depreciation for exploration assets is capitalized to mineral properties in the statement of financial position.

The depreciation rates used are as follows:

Leasehold improvements	10% declining balance
Office furniture	20% declining balance
Computer and other equipment	30% declining balance
Exploration camp and equipment	Straight-line over estimated useful life (2-10 years)

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

3. Significant accounting policies, continued:

(e) Mineral properties

The cost of acquiring mineral properties and related exploration and evaluation costs are deferred on an individual area of interest basis until the properties are placed into production, sold or abandoned. Once a license to explore an area has been secured, directly attributable expenditures on exploration and evaluation activities are capitalized to mineral properties. Costs incurred to acquire an interest in a mineral property are capitalized as a mineral property acquisition cost. Costs incurred prior to obtaining the right to explore are expensed as incurred.

Management reviews the carrying value of capitalized exploration costs at least annually. In the case of undeveloped projects there may be no resources; or only inferred or indicated resources to form a basis for the impairment review. The impairment review is based on the exploration and evaluation results to-date and a status report regarding the Company's intentions for development of the mineral property.

Once an economically viable reserve has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to construction in progress within property, plant and equipment.

Subsequent recovery of the resulting carrying value depends on the successful development or sale of the undeveloped project. If a project does not prove viable, all unrecoverable costs associated with the project are written off.

(f) Impairment

(i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

3. Significant accounting policies, continued:

(f) Impairment, continued

(i) Financial assets (including receivables), continued

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in unrealized gains/losses on available-for-sale financial assets in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized in profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets primarily mineral properties, the Hackett silver royalty, and property and equipment, other than inventories, are reviewed each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In calculating the recoverable amount the Company used discounted cash flow techniques to determine fair value when it is not possible to determine fair value either by quotes from an active market or a binding sales agreement. Discounted cash flow techniques require management to make estimates and assumptions concerning future production revenues and expenses. The determination of discounted cash flows is dependent on a number of factors, including future metal prices, the amount of reserves, the cost of bringing the project into production, production schedules, production costs, sustaining capital expenditures and site reclamation costs. Additionally, these reviews take into account factors such as political, social, legal and environmental regulations. These factors may change due to changing economic conditions or the accuracy of certain assumptions and, hence, affect the recoverable amount. The Company uses its best efforts to fully understand all of the aforementioned to make an informed decision based upon historical and current facts surrounding its mineral properties.

An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of comprehensive income.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there had been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

3. Significant accounting policies, continued:

(g) Provision for site reclamation

The Company recognizes management's best estimate of a future asset retirement obligation as a liability in the period in which it incurs a legal or constructive obligation associated with the acquisition, construction, development and/or normal use of its 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.

(h) Share-based payments

The Company has a share option plan which is described in note 12. Share based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions. If the fair value of the goods or services received cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services. Share-based payments to employees and Directors are measured at the grant-date fair value of the equity instruments issued and are amortized over their applicable vesting periods. The offset to the recorded cost is to contributed surplus. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital.

(i) Finance income and finance costs

Finance income comprises interest income on funds invested, gains on the disposal of available-for-sale financial assets, increases in the fair value of financial assets, and increases in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues, using the effective interest method.

Finance costs comprise interest expense, interest charges relating to flow through share issuances, declines in the fair value of financial assets at fair value through profit or loss, and impairment losses recognized on financial assets.

(j) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in the statement of comprehensive loss except to the extent that the tax relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3. Significant accounting policies, continued:

(j) Income tax, continued

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset the tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

(k) Loss per share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise share options granted to employees and share purchase warrants. Due to the loss for the period, basic and diluted loss per share is the same.

4. Future changes in accounting standards:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2012, and have not been applied in preparing these consolidated 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.

4. Future changes in accounting standards, continued:

IFRS 10, Consolidated Financial Statements

IFRS 10 replaces IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. IFRS 10 establishes a single control model that applies to all entities, or 'structured entities' as they are referred in the new standard. Under IFRS 10, management will be required to exercise significant judgement to determine entities which are controlled, and therefore consolidated. The standard becomes effective for annual periods beginning on or after January 1, 2013 with early adoption allowed. The Company does not believe that the implementation of this standard will have an impact on its consolidated financial statements.

IFRS 11, Joint Arrangement

IFRS 11 will replace IAS 31, *Interests in Joint Ventures*. This standard will focus on the rights and obligations of the joint arrangement rather than the current model of focusing on the legal form of the arrangement. IFRS 11 removes the option to apply proportional consolidation and classifies joint arrangements into two types; joint operations and joint ventures. A joint operation is an arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities relating to the arrangement. A joint venture is an arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. This standard will be effective for annual periods beginning on or after January 1, 2013. The Company does not believe that implementation of this standard will have an impact on its consolidated financial statements.

IFRS 12, Disclosures of Involvement with Other Entities

This standard is new and will comprehensively address disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This standard will be effective for annual periods beginning on or after January 1, 2013. The Company does not believe that implementation of this standard will have an impact on its consolidated financial statements.

IFRS 13, Fair Value Measurement

IFRS 13 replaces fair value guidance throughout existing IFRS standards, amendments and interpretations with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and details disclosure requirements around fair value measurements. IFRS 13 does not, however, change the requirements regarding which items should be measured or disclosed at fair value. This standard will be effective for annual periods beginning on or after January 1, 2013. The Company does not believe that implementation of this standard will have a significant impact on its consolidated financial statements.

IAS 27, Separate Financial Statements

IAS 27 sets the standards to be applied in accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. The Company does not believe that implementation of this standard will have an impact on its consolidated financial statements.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

4. Future changes in accounting standards, continued:

IAS 28, Investments in Associates and Joint Ventures

IAS 28 has been amended to conform to changes resulting from the issuance/amendment of IFRS 10, IFRS 11 and IFRS 12. The Company does not believe that implementation of this standard will have an impact on its consolidated financial statements.

5. Cash and cash equivalents

	2012	2011
Bank balances	$ 294	$ 9,437
Redeemable investments	51,100	70,572
	$ 51,394	$ 80,009

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

6. Accounts receivable

	2012	2011
GST receivable	$ 462	$ 518
Interest receivable	1,514	1,380
Other trade receivables	5	115
	$ 1,981	$ 2,013

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

(Tabular dollar amounts expressed in thousands of Canadian dollars)

7. 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	**2012**	**2011**
Balance at January 1	$ 140	$ 109
Additions	39	31
Balance at December 31	$ 179	$ 140

Accumulated unrealized holding gains (losses)		
Balance at January 1	$ (52)	$ 5
Changes in value	(55)	(57)
Balance at December 31	$ (107)	$ (52)

Carrying value		
At December 31	$ 72	$ 88

The fair value of these investments has been determined by reference to their quoted closing bid price at the reporting date.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

8. Property and equipment:

Cost		Exploration camp and equipment		Office and equipment		Total
Balance at January 1, 2011	$	3,538	$	422	$	3,960
Additions		2,191		104		2,295
Disposals		(1,377)		(22)		(1,399)
Balance at December 31, 2011		4,352		504		4,856
Additions		9,382		24		9,406
Balance at December 31, 2012	$	13,734	$	528	$	14,262

Accumulated amortization						
Balance at January 1, 2011	$	(983)	$	(135)	$	(1,118)
Additions		(992)		(30)		(1,022)
Disposals		379		-		379
Balance at December 31, 2011		(1,596)		(165)		(1,761)
Additions		(1,784)		(48)		(1,832)
Balance at December 31, 2012	$	(3,380)	$	(213)	$	(3,593)

Carrying value						
At December 31, 2011	$	2,756	$	339	$	3,095
At December 31, 2012	$	10,354	$	315	$	10,669

(Tabular dollar amounts expressed in thousands of Canadian dollars)

9. Mineral properties:

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

Summary – All Properties	2012	2011
Balance, beginning of period	$ 112,085	$ 126,895
Exploration and other expenditures	66,830	54,363
Acquisition and selling costs	542	14,532
Proceeds on option agreement	(89)	(56)
Provision for site reclamation	235	108
Disposition of properties (note 9(b))	-	(83,757)
Write-down of properties (note 9(d))	(3,794)	-
Balance, end of period	$ 175,809	$ 112,085

The following is a summary of exploration and development costs incurred by property:

	2012	2011
Back River (Nunavut)	$ 149,797	$ 92,191
Wishbone (Nunavut)	15,705	9,342
Red Lake (Ontario)	8,820	7,389
Cook Lake (Manitoba)	-	2,997
Nipigon (Ontario)	1,487	166
	$ 175,809	$ 112,085

Back River (Nunavut)		
Balance, beginning of period	$ 92,191	$ 46,027
Additions:		
Drilling	27,130	19,742
Economic assessment	3,938	459
Environmental assessment	7,551	1,544
Geology & geophysics	1,455	1,436
Management & administration	1,556	1,094
Property maintenance	113	97
Share-based payments	1,194	959
Support	7,307	5,415
Transportation	5,348	4,367
Depreciation	1,779	760
	57,371	35,873
Acquisition of royalty	-	9,806
Provision for site reclamation	235	485
Balance, end of period	$ 149,797	$ 92,191

(Tabular dollar amounts expressed in thousands of Canadian dollars)

9. Mineral properties, continued:

	2012	2011
Hackett River (Nunavut)		
Balance, beginning of period	$ -	$ 66,608
Additions:		
Drilling	-	2,833
Economic assessment	-	22
Environmental assessment	-	96
Geology & geophysics	-	462
Management & administration	-	212
Property maintenance	-	63
Share-based payments	-	693
Support	-	1,119
Transportation	-	773
Depreciation	-	225
	-	6,498
Capitalized selling costs	-	4,442
Provision for site reclamation	-	(377)
Disposition of property (note 9(b))	-	(77,171)
Balance, end of period	$ -	$ -
Wishbone (Nunavut)		
Balance, beginning of period	$ 9,342	$ 7,045
Additions:		
Drilling	3,585	4,853
Geology & geophysics	600	1,081
Management & administration	319	313
Property maintenance	4	49
Share-based payments	231	-
Support	952	1,494
Transportation	672	1,034
	6,363	8,824
Acquisition costs	-	59
Disposition of property (note 9(b))	-	(6,586)
Balance, end of period	$ 15,705	$ 9,342
Red Lake (Ontario)		
Balance, beginning of period	$ 7,389	$ 7,102
Additions:		
Drilling	861	244
Geology & geophysics	46	17
Management & administration	58	14
Property maintenance	13	7
	978	282
Acquisition costs	542	61
Proceeds on option agreement	(89)	(56)
Balance, end of period	$ 8,820	$ 7,389

(Tabular dollar amounts expressed in thousands of Canadian dollars)

9. Mineral properties, continued:

		2012		2011
Cook Lake (Manitoba)				
Balance, beginning of period	$	2,997	$	113
Additions:				
Drilling		755		1,864
Geology & geophysics		28		990
Management & administration		9		30
Depreciation		5		-
		797		2,884
Write-down of property		(3,794)		-
Balance, end of period	$	-	$	2,997
Nipigon (Ontario)				
Balance, beginning of period	$	166	$	-
Additions:				
Drilling		808		-
Geology & geophysics		513		2
		1,321		2
Acquisition costs		-		164
Balance, end of period	$	1,487	$	166

(a) Back River and Wishbone (Nunavut)

The Back River project is comprised of the George and Goose (including the Llama and Umwelt) gold deposits.

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 their 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 after deducting Royalties 2 and 3. 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, Royalties 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.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

9. Mineral properties, continued:

(a) Back River and Wishbone (Nunavut), continued

The Goose property, which includes the Goose, Llama, Umwelt, Boot, Needle and Boulder claims, 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 after deducting Royalties 2 and 3. 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 Royalties 2 and 3 each 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.

(b) Hackett River (Nunavut)

The Hackett River project consists of approximately 10,637 hectares and 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.

9. Mineral properties, continued:

(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.

(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.

In the fourth quarter of 2012, the Company completed a review of Cook Lake results and has decided to not continue exploration efforts on the Cook Lake property. Accordingly, costs aggregating $3,794,000 relating to Cook Lake were written-off. Subsequent to the year, on January 15, 2013 notice was given to Xstrata Copper indicating that the Company had terminated the option agreement as per the terms of the agreement. Expenditures on the property exceeded the committed expenditures required under the agreement resulting in no additional commitment on the part of the Company.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

10. Provision for site reclamation:

The Company has recorded a provision for the estimated cost of site reclamation relating to exploration activities at its Back River project.

The Company recognizes the full amount of the provision, as if the work were to be completed immediately, in the current period and does not discount and accrete the provision.

	2012	2011
Balance at January 1	$ 1,917	$ 1,809
Increase in estimate during the year	234	485
Provisions reversed during the year (note 9(b))	-	(377)
Balance at December 31	$ 2,151	$ 1,917

11. Share capital and other components of equity:

Authorized number of common shares

At December 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	Amount	# of shares	Amount
Issued and outstanding as at January 1	160,638,183	$ 297,336	142,422,692	$ 201,282
Issued for cash, net	12,103,509	33,251	16,723,990	93,641
Tax effects on share issuance	-	(2,775)	-	(5,471)
Issued on exercise of share options	790,457	903	641,501	1,432
Fair value of options exercised	-	1,406	-	731
Issued on purchase of Back River royalty	-	-	750,000	5,190
Fair value of warrants exercised	-	-	100,000	531
Issued and outstanding as at December 31	173,532,149	$ 330,121	160,638,183	$ 297,336

Issuance of common shares

On June 26, 2012, the Company completed a bought-deal financing. The offering was comprised of 11,896,750 flow-through common shares at $2.90 per share, including an over-allotment option which was exercised by the underwriters for total gross proceeds of $34,500,575. A cash commission of 5.0% of the gross proceeds was paid to the syndicate of underwriters. Additionally, the Company completed a non-brokered equity placement on the same terms as the brokered placement; 206,759 flow-through shares at $2.90 per share for additional gross proceeds of approximately $0.6 million. The gross proceeds of the flow-through financings must be used to incur Canadian exploration expenditures as defined by the Income Tax Act (Canada) by December 31, 2013.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

12. Share based payments:

a) Share purchase options

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

	2012			2011		
	Number of options		Average exercise price	Number of options		Average exercise price
Outstanding at January 1	9,253,410	$	2.53	7,097,000	$	1.48
Exercised during the period	(1,365,000)		2.05	(665,000)		2.27
Granted during the period	3,105,000		3.64	2,821,410		5.12
Forfeited or expired during the period	(740,000)		4.31	-		-
Outstanding at December 31	10,253,410		2.81	9,253,410		2.53
Exercisable at December 31	10,253,410	$	2.81	9,253,410	$	2.53

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

Year	Number of options		Average exercise price
2013	2,016,000	$	1.22
2014	1,270,000		1.00
2015	1,681,000		1.42
2016	2,416,410		5.09
2017	2,870,000		3.61
Total	10,253,410	$	2.81

Employee compensation cost

During the year ended December 31, 2012, the Company recorded $4,686 thousand (2011 - $6,875 thousand) in share based payment costs, of which $3,261 thousand (2011 - $5,223 thousand) is presented as an operating expense in the statement of comprehensive loss and $1,425 thousand (2011 - $1,651 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 1.1% (2011 – 2.1%); a dividend yield of 0% (2011 – 0%); an expected volatility of 61.6% (2011 – 70.2%) and expected lives of stock options of 3 years (2011 – 3 years). The weighted average fair value of options granted in the period was $1.51 per share (2011 - $2.42).

(Tabular dollar amounts expressed in thousands of Canadian dollars)

12. Share based payments, continued:

Stock option plan

The Company has a share option plan that allows it to grant options to its employees, officers, directors and consultants. A rolling maximum of 10% of the common shares issued may be granted. The exercise price of each option shall not be less than the closing market price for the common shares on the trading day prior to the date of the grant. Options may have a maximum term of ten years. Vesting conditions of options is at the discretion of the Board of Directors at the time the options are granted.

The Plan also provides for a cashless exercise option provision which is, in substance, a stock appreciation right and for which the stock options can only be equity-settled. When the cashless option is exercised the full amount of equity related to the options exercised is recorded in share capital.

b) Warrants and brokers' compensation options

On November 18, 2011, as a result of closing the Hackett sale transaction (note 9(b)), the Company issued 100,000 common shares to Teck Resources Mining Partnership ("TRMP"), relating to warrants which 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.

13. Flow-through share premium liability:

	2012	2011
January 1	$ 1,128	$ 2,353
Financing (i)	3,268	6,875
Amortization (ii)	(4,088)	(8,100)
December 31	$ 308	$ 1,128

(i) On June 26, 2012, the Company completed a bought-deal financing that included the sale of 12,103,509 flow-through shares at a price of $2.90. This price was at a premium of $0.27 to market for a common share for total premium of $3,268 thousand.

(ii) In the period the Company incurred $38,561 thousand of flow-through eligible expenditures. $31,788 thousand of these expenditures relate to the financing completed in June 2012 of $35,100 thousand, leaving $3,312 thousand of expenditures yet to be incurred to satisfy the requirements of the Income Tax Act (Canada) related to the flow-through financing. The remaining $6,773 thousand relate to extinguishing the remaining flow-through obligation from the March 2011 financing.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

14. 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 12).

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 year ended	
	December 31, 2012	December 31, 2011
Salaries and benefits	$ 2,446	$ 1,965
Stock-based compensation, non-cash	3,113	4,810
	$ 5,559	$ 6,775

Other related party transactions

During the year ended December 31, 2012, the Company paid or accrued $53,521 (2011 - $44,779) to Morton & Company for legal services of which $nil (2011 - $3,545) remained outstanding as at December 31, 2012. Morton & Company is related by virtue of a common director. Of this amount, $43,757 (2011 - $33,072) related to SEDAR filing fees that Morton & Company paid on behalf of the Company. 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.

15. 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 office in Thunder Bay, Ontario. Minimum rental payments in each of the next three years are as follows:

2013	$ 145
2014	130
2015	72
	$ 347

Special purchase warrants:

In addition to the warrants listed in note 12(b), the following special purchase warrants have been issued in relation to the acquisition of the Back River assets that are exercisable upon certain conditions being met.

(i) 5 million Series A Special Unit Warrants; and

(ii) 5 million Series B Special Unit Warrants.

15. Commitments, continued:

The Series A Special Unit Warrants are exercisable for no additional consideration 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 Unit Warrants are exercisable for no additional consideration upon a positive production decision on the Back River Assets and in consideration of other events. The Series A and Series B Special Unit Warrants are exercisable to receive one common share and one-half of one common share purchase warrant. One whole share purchase warrant entitles the holders to purchase one common share at a price of $1.07 per share until June 9, 2014.

On October 4, 2011, in recognition of Inuit rights under the Nunavut Land Claims Agreement, the Company signed a memorandum of understanding with the Kitikmeot Inuit Association ("KIA") for the creation of a development trust (the "Trust") whereby Sabina would establish and contribute to the Trust from funds received on its silver royalty on the Hackett River project. The Trust would provide short and long term benefits to the Inuit of the Kitikmeot region, including training and education initiatives and infrastructure projects that would serve to support sustainable economic development in the region.

Under the terms of the agreement, the Trust would receive 3% of Sabina's net proceeds from the silver royalty on the Hackett River and Wishbone properties sold to Xstrata Zinc. The Trust would be comprised of a maximum of six trustees of which a majority would be KIA appointees with at least one Sabina appointee. Funds contributed to the Trust would be allocated by the Trustees to initiatives that provide benefits to the Kitikmeot region. A portion of the Trust funds would be retained for allocation after mine or project closure. Payments may be made to the Trust in shares at Sabina's election and subject to regulatory approval. To kick off the initiative, prior to creation of the Trust, Sabina paid approximately $1.4 million to an existing KIA fund which provides for development and community initiatives in the region, which was capitalized to mineral properties.

16. Financial risk management:

Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

16. Financial risk management, continued:

Risk management framework, continued

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

Credit risk

Credit risk is the risk of an unexpected loss if a debtor or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and cash equivalents, short-term investments, accounts receivable and reclamation deposits. The Company limits its exposure to credit risk by dealing with high credit quality counterparties. The Company's cash and cash equivalents, short-term investments and reclamation deposits are primarily held through, or issued by, large credit worthy Canadian financial institutions. These investments mature at various dates over 2013. The Company's receivables consist primarily of sales taxes due from the Federal Government of Canada and interest from Canadian financial institutions. The Company has not experienced any bad debts on its receivables in 2012 or 2011 and has no allowance for doubtful accounts recorded at either of December 31, 2012 or 2011.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. Liquidity risk is managed through capital structure. The Company's cash and cash equivalents are liquid and available to meet the Company's ongoing obligations.

Market risk

Market risk is the risk that changes in market values, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its financial instruments. Market risk management seeks to limit exposures to acceptable values, while optimizing return. The Company is exposed to interest rate and equity price risk. The Company has no material foreign exchange exposures.

16. Financial risk management, continued:

Market risk, continued

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk with respect to interest earned on cash and cash equivalents including its guaranteed investment certificates and its short-term investments. The Company does not use derivative instruments to reduce its exposure to interest risk. Based on balances at December 31, 2012 a 1% change in interest rates would result in a change in net income of $1.6 million, assuming all other variables remain constant.

The Company is exposed to equity price risk as it holds marketable Canadian securities as investments that are classified as available-for-sale.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Operational risk, continued

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance when this is effective.

16. Financial risk management, continued:

Capital management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, share options or share purchase warrants.

The Company considers the components of shareholders' equity to be its capital. There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

Financial assets

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 quotes 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 consists of available-for-sale investments with a value of $72 thousand at December 31, 2012 (2011 - $88) are classified as Level 1.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

17. 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 and liabilities as follows:

	December 31, 2012	December 31, 2011
Tax loss carry forwards	$ 4,660	$ -
Financing costs	1,683	1,854
Provision for closure and reclamation	581	518
Other	17	13
Flow-through share effect on mineral properties	(41,489)	(31,078)
Mineral properties	663	2,999
Property and equipment	(2)	(17)
Deferred tax liabilities	$ (33,887)	$ (25,711)

As at December 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.

	December 31, 2012	December 31, 2011
Corporate minimum taxes carried forward	$ 293	$ 293
Unrecognized deferred tax assets	$ 293	$ 293

The Company has tax loss carry forwards at December 31, 2012 of $17.3 million that expire in 2031 and 2032 at the end of year (2011 - $nil).

(Tabular dollar amounts expressed in thousands of Canadian dollars)

17. Income taxes, continued

Movement in temporary differences during the year:

December 31, 2012	Opening Balance	Recognized in Income Tax Expense	Recognized in Other Comprehensive Income (loss)	Recognized in Shareholders' Equity	Closing Balance
Deferred tax assets:					
Tax loss carry forwards	$ -	$ 4,660	$ -	$ -	$ 4,660
Financing costs	1,854	(664)	-	493	1,683
Provision for closure and reclamation	518	63	-	-	581
Mineral properties	2,999	(2,336)	-	-	663
Other	13	(3)	7	-	17
Deferred tax liabilities:					
Flow-through share effect on mineral properties	(31,078)	(10,411)	-	-	(41,489)
Property and equipment	(17)	15	-	-	(2)
	$ (25,711)	$ (8,676)	$ 7	$ 493	$ (33,887)

(Tabular dollar amounts expressed in thousands of Canadian dollars)

17. Income taxes, continued

Movement in temporary differences during the year:

December 31, 2011	Opening Balance	Recognized in Income Tax Expense	Recognized in Other Comprehensive Income (loss)	Recognized in Shareholders' Equity	Closing Balance
Deferred tax assets:					
Tax loss carry forwards	$ 2,218	$ (2,218)	$ -	$ -	$ -
Financing costs	1,084	(634)	-	1,404	1,854
Provision for closure and reclamation	488	30	-	-	518
Mineral properties	(518)	3,517	-	-	2,999
Other	4	1	8	-	13
Deferred tax liabilities:					
Flow-through share effect on mineral properties	(17,572)	(13,506)	-	-	(31,078)
Property and equipment	(19)	2	-	-	(17)
	$ (14,315)	$ (12,808)	$ 8	$ 1,404	$ (25,711)

(Tabular dollar amounts expressed in thousands of Canadian dollars)

17. Income taxes, continued:

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

		2012		2011
Deferred income tax expense	$	8,676	$	12,808

The provision for income taxes differs from the expected amount calculated using the Canadian federal and provincial statutory income tax rates of 27.0% (2011 – 28.5%) as follows:

		2012		2011
Expected tax expense (recovery)	$	(1,472)	$	39
Share based compensation and other permanent items		(207)		(807)
Flow-through shares (exploration expenses renounced)		10,411		13,506
Other		(56)		70
Income tax expense	$	8,676	$	12,808

The following Management's Discussion and Analysis ("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 December 31st, 2012. The MD&A was prepared as of March 26, 2013 and should be read in conjunction with the Company's annual audited financial statements and related notes for the years ended December 31st, 2012 and 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 focused on the objective of becoming a mid-tier gold producer through acquisition, exploration and development of mineral resource properties. The Company's flagship assets 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, all located in Nunavut, Canada. The Company also has exploration properties in the Red Lake gold camp and Nipigon, both in Ontario.

2012 Highlights:

- For the year ended December 31, 2012, the Company reported a loss of $14.1 million or $0.08 per share. The Company had cash and cash equivalents and short-term investments of $116.4 million at December 31, 2012.

- Subsequent to the end of the year, on February 15, 2013, the Company announced an updated resource estimate for Back River. The new mineral resource is comprised of measured and indicated resources of 24.2 million tonnes grading 6.0 g/t for 4.7 million ounces of gold, and inferred resources of 7.7 million tonnes grading 7.8 g/t for 1.9 million ounces of gold. Remodelling from first principles was conducted on all deposits and in combination with 2012 drilling, resulted in increasing overall confidence and grade, and added approximately 740,000 ounces (or 13%) of gold in all categories.

- In October, the Company completed its exploration programs in Nunavut for the 2012 season. The Company completed 68,861 meters of drilling in the year, focused on infill, geotechnical and extension drilling at the Llama, Umwelt, Goose and George deposits in support of the planned Back River Pre-Feasibility Study ("PFS").

- Exploration highlights include continued success in all areas; improvements in and near proposed open pits, extensions of existing deposits and new discoveries. Both the Umwelt and Llama deposits were extended approximately 400 metres south of previous drilling and both remain open along strike and to depth. New zones of gold mineralization were identified including the Wing Zone, located on the Goose property between the proposed Umwelt and Llama open pits; and the Goose Hook, located immediately to the west of the Goose Main deposit. Assay highlights included hole 12GSE141 with 15.16 g/t over 36.40 m including 7.15 g/t over 41.05 m on Llama; hole 12GSE217 with 51.93 g/t over 16.10 m on Umwelt; hole 12GSE226 with 12.69 g/t over 15.45 m at Wing; hole 12GSE178 with 3.65 g/t over 9.0 m at Goose Hook; and hole 12GRL090 at Locale 1 on the George property which returned 24.20 g/t over 25.45 m.

- On May 29th the Company announced the results of the Preliminary Economic Assessment ("PEA") on the Back River Project. Highlights of the PEA include: a post-tax NPV (5%) of $650 million and an IRR of 25%; life-of-mine ("LOM") after-tax net cash flow of $1.1 billion and project payback of 3 years (based on a US$1,250/oz gold price); average annual production of 300,000 ounces of gold over a 12.3 year mine life; and, total LOM capital of $838 million and total LOM cash costs of $542/oz including royalties.

- In June 2012, the Company filed a preliminary project description ("PPD") for the Back River Project with the Nunavut Impact Review Board ("NIRB"). This filing triggered the environmental assessment process and associated permitting activities. The Company anticipates that permitting will take between two and three years to complete. In December 2012, the Company received a response from the Minister of Aboriginal Affairs and Northern Development indicating that the project would be subject to a Part 5 screening process as NIRB had recommended and the Company had expected.

- On June 26, 2012, the Company completed a bought-deal financing. The offering was comprised of 11,896,750 flow-through common shares at $2.90 per share for total gross proceeds of approximately $34.5 million. Additionally, the Company completed a non-brokered equity placement on the same terms as the brokered placement for additional gross proceeds of approximately $0.6 million. The total gross proceeds of $35.1 million must be used to incur Canadian exploration expenditures as defined by the Income Tax Act (Canada) by December 31, 2013.

- In August, the Company initiated a PFS on the Back River Project. The Company engaged Tetra Tech WEI Inc., as the lead consultant, responsible for overall delivery of the PFS, process and infrastructure design, operating and capital expenditures and economic modelling, AMC Consultants Ltd., responsible for geology and mining and Knight Piésold Consultants Ltd., responsible for tailings design, geotechnical, and hydrogeology.

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 ("the Project"), is located approximately 520 km NE of Yellowknife and 70 km south of Bathurst Inlet. It is comprised of 57 Federal Mineral Leases and 16 Federal Mining Claims covering approximately 52,805 hectares. The project is divided into 7 properties: Goose, George, Boot, Boulder, Needle, Del and the Bath 1 Claim. The Goose property hosts the Goose, Llama and Umwelt gold deposits. The George property, located 50 km to the northwest, hosts the George gold deposits.

Back River Project Development

On May 29, 2012, the Company announced the results of the PEA on the Back River Project completed by SRK Consulting (Canada) Inc. ("SRK"). The PEA contemplates a scenario with concurrent open-pit and underground mining operations delivering mineralized material from the Llama, Umwelt, Goose and George deposits to a centralized 5,000 tonne per day ("tpd") processing facility located near the Umwelt deposit. Gold production is projected to average approximately 300,000 ounces per year over 12.3 years for total production of 3,677,000 ounces of gold, beginning in late 2016 or early 2017. Highlights of the PEA include:

- The project generates a post-tax NPV-5% of $650 million and an IRR of 25%
- The project generates LOM after-tax net cash flow of $1.1 billion on gross revenues of $4.6 billion with a payback period of 3 years
- Processing rate of 5,000 tpd producing an average of 300,000 ounces of gold per year
- Pre-production capital of $450 million; sustaining capital of $388 million for total LOM capital of $838 million including closure and contingencies
- Total cash costs of $542/oz LOM including royalties, refining and transport
- A total of 20.7 million tonnes of mineralized material to be milled over 12.3 years with a LOM average grade of 6.13 g/t gold and metallurgical recoveries of 90%
- Base case commodity assumptions of $1,250 Au and $1.20/litre diesel.

In August 2012, the Company initiated a PFS, engaging Tetra Tech WEI Inc. to act as the lead consultant responsible for overall delivery of the PFS, process and infrastructure design, operating and capital expenditures and economic modelling; AMC Consultants Ltd. ("AMC"), responsible for geology and mining and Knight Piésold Consultants Ltd. ("KP"), responsible for tailings design, geotechnical, and hydrogeology.

Site visits by representatives of each of the engineering firms, a project kick-off and planning session, initial project scoping and determination of trade-off studies to be completed were all completed in Q3. In Q4 worked continued on the geology, mining, logistics and infrastructure aspects of the PFS. Site field programs for geotechnical and hydrogeology were completed in October 2012 by SRK, at which time the program results were handed over to AMC and KP for analysis and engineering to be incorporated in to the PFS. The Company estimates that the work on the PFS will be completed by the end of Q3, 2013.

In June, 2012, the Company submitted a PPD for the Back River Project to NIRB and other required permitting authorities and Inuit organizations. The PPD marked the commencement of the environmental assessment phase of the Project. Following a review of the submission, NIRB recommended to the Minister of Aboriginal Affairs and Northern Development that the Project should advance to a Part 5 or Part 6 Screening. The Honourable John Duncan, Minister of Aboriginal Affairs and Northern Development Canada has concurred with NIRB's screening decision dated September 25, 2012 recommending that the Back River Project move forward to a Part 5 regional public review.

In 2012, the Company collected environmental and socio-economic baseline data in the Project area. This data will be used with information collected over previous years to determine potential effects, both positive and negative, of the proposed Project. It is expected that some additional data may be collected in 2013 to provide supplemental information and address potential alternatives to infrastructure locations. The Company also began a program of community and government engagement, involving meetings, presentations and community and site visits.

Back River Exploration Results

Exploration work at Back River during 2012 was focused on infill, geotechnical and extension drilling at the Llama, Umwelt and George deposits as well as drill testing of exploration targets proximal to the existing deposits on the Goose and George properties.

Drilling commenced on March 18 and was completed by October 6, using up to eight drill rigs, for a total of 68,861m. Drilling included 23,801m of infill, 24,212m of extension, 14,481m of new target drilling and 6,367m of geotechinal. All drill hole data and assay results for the 2012 drilling were received by year end and have been incorporated into the geologic and resource modeling completed in support of the ongoing PFS.

On February 15, 2013, the Company announced its updated resources for Back River (summarized below) incorporating the results from the 2012 drilling campaign. The Company anticipates that it would file the updated 43-101 compliant Back River Project technical report by the end of March 2013.

Classification	***Location***	***Tonnes (kt)***	***Au (g/t)***	***Ounces (koz)***
Open Pit Measured	Goose	2,168	4.4	304
Open Pit Indicated	Goose	4,616	4.1	609
	Llama	3,085	5.8	577
	Umwelt	4,780	5.6	867
Total Open Pit Indicated		**12,481**	**5.1**	**2,053**
Total Open Pit M&I		**14,649**	**5.0**	**2,357**
Underground Indicated	Goose	998	7.2	232
	Llama	501	7.2	115
	Umwelt	3,817	8.4	1,026
	George	4,230	6.8	925
Total Underground Indicated		**9,546**	**7.5**	**2,298**
Total M&I OP + UG		***24,195***	***6.0***	***4,655***
Open Pit Inferred	Goose	156	3.4	17
	Llama	23	5.6	4
	Umwelt	134	3.4	15
Total Open Pit Inferred		**313**	**3.6**	**36**
Underground Inferred	Goose	298	6.7	65
	Llama	780	7.7	192
	Umwelt	1,926	9.9	612
	George	4,348	7.3	1,015
Total Underground Inferred		**7,352**	**8.0**	**1,884**
Total Inferred OP + UG		***7,665***	***7.8***	***1,920***

Notes:

1. CIM definition standards were used for the Mineral Resources.
2. The Qualified Persons are Dinara Nussipakynova, P Geo. and Andrew Fowler MAusIMM CP (Geo) both of AMC Mining Consultants (Canada) Ltd.
3. Open pit Mineral Resources are constrained by an optimized pit shell at a gold price of $1500 oz Au.
4. The cut off grade applied to the open pit resource is 1.0 g/t Au and the underground is 4.0 g/t Au.
5. Metallurgical recovery varies with gold grade. For example, for the average grade of the open pits recoveries ranges between 88-89%.
6. The George Mineral Resources (LCP - North, LCP - South, Locale 1, Locale 2, GH & Slave) were estimated within mineral domains expanded to a minimum width of 2 m.
7. Using drilling results to December 31, 2012.
8. Numbers may not add due to rounding.

Umwelt

During the 2012 drilling season, infill resource conversion, extension and geotechnical drilling were undertaken at the Umwelt deposit. Significant results include: drill hole 12GSE238 at G2 which intersected 18.81 g/t over 25.7m and 12GSE214, an oblique geotechnical hole testing the bottom of the pit shell which returned 18.81 g/t Au over 21.90m. Extension drilling was successful in extending the mineralization at depth; highlights include drill hole 12GSE191 which returned 9.73 g/t Au over 5.70m and drill hole 12GSE217 which returned 51.93 g/t Au over 16.10m. The Umwelt mineralization has been extended over 400m down plunge from previous drilling completed in 2011. Mineralization remains open at depth.

Llama

Drilling at the Llama deposit during 2012 focused on infill resource conversion drilling and testing extension and geotechnical targets. Notable results of the infill conversion program drilling include: drill hole 12GSE141 which intersected 15.16 g/t Au over 36.40m, drill hole 12GSE152 which returned 8.58 g/t Au over 20.00m and drill hole 12GSE153 which intersected 21.58g/t Au over 12.90m.

Significant results from extension drilling at Llama include: hole 12GSE193 which targeted the antiform closure and returned 3.10 g/t Au over 5.45 m; hole 12GSE226 intersected 7.14 g/t Au over 4.05 m in the deep extension of the Llama Main West zone; drill hole 12GSE231, a 100 m step-out to the southeast of 12GSE226, returned intercepts of 14.31 g/t Au over 2.00 m, and 16.34 g/t Au over 1.55 m; and, drill hole 12GSE239 returned 6.90 g/t Au over 8 m. This confirms that mineralization at Llama extends at least 400 m south of the pre-2012 drilling and is open at depth.

Wing Zone

During 2012, the Wing Zone, a new shallow mineralized zone located 600 m south of the proposed Llama open pit, was discovered. The zone was discovered when Llama extension drilling tested a shallow folded portion of iron formation to the west of the deep Llama mineralization. The first drill hole into this new zone, hole 12GSE226, intersected 12.68 g /t Au over 15.45 m in the western limb of the fold starting at a down-hole depth of 52 m. The drill hole then went on to intersect the eastern limb of the fold returning several significant intercepts including 5.86 g/t Au over 1.05 m, 3.91 g/t Au over 3.00 m, 4.19 g/t Au over 2.95 m and 17.63 g/t Au over 0.60 m at a depth between 213.10 m and 245.80 m. Further drilling is required to confirm the overall size and grade potential of the Wing Zone.

Goose Main

A limited amount of drilling was completed on the Goose Main deposit to provide resource conversion data and geotechnical drilling information. All assays and drilling data have been received and incorporated into the geologic and resource model being completed in support of the ongoing PFS.

Goose Hook

A new discovery was made immediately to the west of the Goose deposit, named the Goose Hook. The Goose Hook is interpreted to be an extension of the Goose Main deposit that has been folded sharply from a northeast – southwest orientation to a southwesterly orientation. Hole 12GSE138, following up encouraging results from earlier holes, intersected 3.65 g/t Au over 9.0 m within a broader mineralized zone grading 1.76 g/t Au over 41.90 m. This intercept is approximately 300 m west of Goose Main and represents a significant zone of altered and mineralized oxide iron formation.

George

During 2012, the drilling program at the George deposits was focused on resource conversion from inferred to indicated categories and deposit extension. Drilling results were reported for Locale 1, Locale 2, Lone Cow Pond and Lone Cow Pond South.

At Locale 1, highlights include drill hole 12GRL058 which returned 16.16 g/t Au over 7.85 m, 12GRL063 which returned 6.12 g/t Au over 18.40 m and 12GRL064 which returned 16.85 g/t Au over 4.82 m. At Locale 2, encouraging results include drill holes 12GRL062: 4.11 g/t Au over 22.00 m, 12GRL065: 4.18 g/t Au over 7.40 m, 12GRL070: 4.76 g/t Au over 11.65 m and 1.82 g/t over 42.20 m and 12GRL076: 12.84 g/t Au over 23.00 m. At Lone Cow Pond, holes 12GRL069: 25.18 g/t Au over 4.00 m and 12GRL071: 11.11 g/t Au over 4.60 m, confirmed the high-grade nature of mineralization. At Lone Cow Pond South, a significant intercept was returned from hole 12GRL080 which assayed 16.54 g/t Au over 25.45 m. Results continue to demonstrate the potential at the George deposits.

In addition, drilling at the George area also focused on evaluating shallow, near surface exploration targets that could positively impact future operations on this property. Significant results were received from the Fold Forest target area, where drill holes 12GRL046 and 12GRL047 intersected broad zones of mineralized oxide iron formation in a thickened antiform structure that can be traced for at least a 1.0 km strike length. Hole 12GRL046 intersected 5.92 g/t Au over 5.00 m including 11.04 g/t Au over 1.0 m within a broader 32.75 m wide interval of highly anomalous gold enriched iron formation. Drill hole 12GRL047, 300 m north of 12GRL046, intersected a 66.5 m wide zone of anomalously gold enriched iron formation including 7.37 g/t Au over 2.0 m and 5.79 g/t Au over 1.0 m. The iron formations encountered at Fold Forest are significantly thicker than the narrow units that are common at George. This, coupled with the sulphide mineralization, stratigraphic orientation, strength of alteration and density of veining offer good potential for a large thick deposit to be found in the system.

Boulder

The Boulder claim block, located approximately 15 km north of the Goose property, is underlain by folded iron formation similar to that of the Goose mineralized iron formations. Drilling at Boulder in 2012 was focused on a number of highly prospective areas and returned positive results. Drill hole 12BRP001 returned 4.43 g/t Au over 10.00 m including 5.78 g/t Au over 6.0 m in extensive altered and locally sulphidized iron formation. The intersection is 120 metres vertically below a historic (1993) hole; drill hole 93P003, which returned 3.91 g/t Au over 12.15 m. While subsequent drilling was less encouraging, there is still much scope for discovery at Boulder and 6 additional claims were staked during the fourth quarter to cover the interpreted extension of the Boulder iron formation beneath the younger sediments to the north. Additionally, the location of the Boulder claim block, situated just north of the Goose property between George and Goose properties further justify continued follow up in the 2013 exploration program.

Wishbone, Nunavut

The Wishbone Greenstone Belt, located approximately 60 km south west of the Back River Project, surrounds the Hackett River project as well as other smaller base and precious metal deposits. The Wishbone mineral properties made up of 181 mining claims, total approximately 3,000 km^2 and cover a largely unexplored highly prospective greenstone belt with potential for both base and precious metal discoveries. Wishbone claims (133 claims) that had potential for base metal discoveries 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 2011, 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 1,000 km^2.

Wishbone Exploration Results

Exploration on the Wishbone property during 2012 focused on mapping and drilling at the Lucky 7 trend target areas and drilling at the Rocky target area to determine if zones of higher grade mineralization are present. The Lucky 7 target proved difficult to follow; though wide, low grade mineralized zones were intersected. For example, drill hole SWB-12-50 returned 0.69g/t Au over 19m and SWB-12-53 returned 0.73g/t Au over 20m, including 1.36g/t Au over 6m.

Targets around the Rocky property were drill tested with continued intercepts of lower grade material. At the Rocky East target drill hole SWB-12-72 returned 0.39g/t Au over 18m, drill hole SWB-12-73 intersected1.84g/t Au over 3.8m and 0.58g/t over 9.8m and drill hole SWB-12-74 intersected 0.56g/t Au over 14.9m and 0.41g/t Au over 11.25m.

Geologic assessment of the Wishbone exploration targets is ongoing.

Hackett River Silver Royalty, Nunavut

The Hackett River project consists of approximately 10,637 hectares and 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.

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, 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 composed 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).

In 2012, the Company completed 4,332 metres of drilling in 13 holes during the first 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 were returned although a number of potentially mineralized structures were defined. Geologic assessment of the property continues.

Golden Sidewalk

The Golden Sidewalk property is composed 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 was completed on this property in 2012.

Skinner

The Skinner property is composed 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 was completed 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' Lalor deposit. Sabina had 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. A total of $3.8 million of exploration work has been done on the property which includes 8,139 metres of drilling in 11 drill holes. Following an assessment of results, the Company determined that it had not identified sufficient potential for an economic mineral system. Consequently, on January 15, 2013, the Company provided notice to Xstrata Copper terminating the option agreement.

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 by the Company and is located along the same iron formation that hosts the Beardmore-Geraldton gold camp. This prospective trend has historic gold production of 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.

In early 2012, a 2,200 km airborne (VTEM) survey was completed which identified a number of prospective conductors. In the second half of 2012, a number of these targets were drill tested in 13 drill holes for a total of 3,746 m. Targeting was focused on zones with both geophysical and geological characteristics with potential for the presence of mineralized iron formation. All assays have been received with no anomalous gold values being returned. Geologic assessment of the property continues.

Summary of Results

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

	2012 Q4	**2012 Q3** (1)	**2012 Q2** (2)	**2012 Q1**
Revenue/other income	$ 569	$ 633	$ 572	$ 589
Earnings/(loss)	(4,999)	(4,614)	(343)	(4,172)
Per share	$ (0.03)	$ (0.03)	$ (0.00)	$ (0.02)
	2011 Q4	**2011 Q3**	**2011 Q2**	**2011 Q1** (3)
Revenue/other income	$ 645	$ 511	$ 581	$ 339
Earnings/(loss)	(1,319)	(2,591)	(3,002)	(5,758)
Per share	$ (0.01)	$ (0.02)	$ (0.02)	$ (0.04)
	2010 Q4	**2010 Q3**	**2010 Q2**	**2012 Q1**
Revenue/other income	$ 188	$ 115	$ 49	$ 25
Earnings/(loss)	(1,262)	(3,592)	(1,729)	(2,212)
Per share	$ (0.01)	$ (0.03)	$ (0.01)	$ (0.02)

Notes:

(1) During the three months ended September 30, 2012 the Company's reported loss of $4,614 thousand includes recognition of flow-through premium amortization of $2,058 thousand related to spending qualifying exploration expenditures. As well, the Company also recognized a deferred income tax expense of $5,784 thousand, again related to the renunciation of the qualifying exploration expenditures.

(2) During the three months ended June 30, 2012, the Company had no amortization of a flow-through premium and, reduced deferred income tax expense related to flow-through expenditures. Previous quarters, including Q2 2011 ($3,080 thousand) included amortization of the flow-through premium and significant deferred income tax expense (Q2 2011 - $4,959).

(3) 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.

Overall Performance

For the year ended December 31, 2012, the Company reported a net loss of $14.1 million compared to a loss of $12.7 million in 2011. The increase of $1.4 million was the net result of a write-off of the Cook Lake mineral property and lower net finance income, offset by decreased share-based payments costs and lower deferred income tax expense.

Year to date operating expenses were $11.9 million compared to $10.0 million for the same period 2011. In Q4, 2012, the Company wrote-off the carrying value of its Cook Lake property of $3.8 million. Following a review of exploration results at Cook Lake, the Company determined that it would not continue with its option on the property and, consequently, all deferred exploration costs were written-off. Share based compensation payments decreased in 2012 by $2.0 million due to primarily to a decrease in the option value. Approximately 10% more share purchase options were granted and vested in 2012 compared to the same period in 2011.

Interest income in 2012 was $2.4 million compared to $2.1 million in 2011, higher by 15% due to higher average cash balances ($138.2 million in 2012 versus $131.0 million in 2011) and a higher realised interest rate which increased to 1.71% from 1.54%.

The total flow-through premium income recognized in 2012 was $4.1 million compared to $8.1 million in 2011. In addition to timing differences related to renunciation of eligible expenditures, the Company had a larger flow-through premium in 2011, both in terms of gross premium amount and percentage of share price.

Deferred income tax expense was $8.7 million in 2012 compared to $12.8 million in 2011; the difference was the result of less flow-through financing completed in the period and timing of renunciation of flow-through eligible expenditures.

The primary costs incurred by the Company are associated with exploration and evaluation of its mineral properties and are deferred until the properties are placed into production, sold or abandoned. In 2012, total deferred expenditures were $66.8 million compared to $54.4 million in 2011. The increase of $12.4 million resulted from increased activity on the Back River Project, which increased by $21.5 million and was partially offset by reduced activity on Wishbone and a sale of Hackett River, reducing exploration expenditures by $2.5 million and $6.5 million respectively over the same period in 2011.

Exploration expenditures totaled $57.4 million on Back River in 2012 (2011 $35.9 million) due to increased exploration, environmental and economic assessment activity at Back River. Direct drilling costs increased by $7.4 million due primarily to increased drill meters (69,661 meters in 2012 compared to 62,021 meters in 2011) including a significant component of infill and geotechnical drilling supporting the ongoing PFS. Environmental assessment expenditures increased by $6.0 million due to collection of environmental baseline data and commencement of the regulatory permitting process. Economic assessment expenditures increased by $3.5 million related to completion of a PEA and commencement of a PFS.

Exploration expenditures totaled $6.4 million on Wishbone in 2012 (2011 - $8.8 million), lower than the prior year due primarily to decreased drilling (7,480 meters in 2012 compared to 11,629 meters in 2011) as drills were reassigned from Wishbone to the Back River project. No costs were incurred on the Hackett River project in 2012 (2011 - $6.5 million) following the completion the sale of the assets to Xstrata in October 2011. Red Lake had expenditures of $1.0 million (2011 - $282 thousand); and, Nipigon of $1.3 million (2011 - $2 thousand) as drilling began on those projects in 2012.

Liquidity and Capital Resources

The Company had cash and cash equivalents and short-term investments of $116.4 million at December 31, 2012 compared to cash and cash equivalents of $159.9 million at December 31, 2011.

On June 26, 2012, the Company completed a bought-deal financing. The offering was comprised of 11,896,750 flow-through common shares at $2.90 per share, including an over-allotment option for total gross proceeds of the offering of approximately $34.5 million. A cash commission equal to 5.0% of the gross proceeds was paid to the syndicate of underwriters. Additionally, the Company completed a non-brokered equity placement on the same terms as the brokered placement; 206,759 flow-through shares at $2.90 per share for additional gross proceeds of approximately $0.6 million. The gross proceeds of the flow-through financings must be used to incur Canadian exploration expenditures as defined by the Income Tax Act (Canada) by December 31, 2013. To date, the Company has incurred $25.1 million of flow-through eligible expenditures, with another $10.0 million yet to be incurred.

The Company believes it has sufficient cash resources and liquidity to sustain its planned activities through 2013. 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 and cash equivalents, guaranteed investment certificates, accounts receivable, and accounts payable and accruals approximate their carrying values because of their short terms 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 fair value of $72 thousand at December 31, 2012 ($88 thousand – December 31, 2011) which 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 Unit Warrants; and,
(iii) 5 million Series B Special Unit Warrants.

The Series A Special Unit Warrants are exercisable for no additional consideration 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 Unit Warrants are exercisable for no additional consideration upon a positive production decision on the Back River Assets and in consideration of other events. The Series A and Series B Special Unit Warrants are exercisable to receive one common share and one-half of one common share purchase warrant. One whole share purchase warrant entitles the holders to purchase one common share at a price of $1.07 per share until June 9, 2014.

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 $2.2 million. In 2012 the provision was increased by $0.3 million for increased disturbance at the Back River Project.

On October 4, 2011, in recognition of Inuit rights under the Nunavut Land Claims Agreement, the Company signed a memorandum of understanding with the Kitikmeot Inuit Association ("KIA") for the creation of a development trust (the "Trust") whereby Sabina would establish and contribute to the Trust from funds received on its silver royalty on the Hackett River project. The Trust would provide short and long term benefits to the Inuit of the Kitikmeot region, including training and education initiatives and infrastructure projects that would serve to support sustainable economic development in the region.

Under the terms of the agreement, the Trust would receive 3% of Sabina's net proceeds from the silver royalty on the Hackett River and Wishbone properties sold to Xstrata Zinc. The Trust would be comprised of a maximum of six trustees of which a majority would be KIA appointees with at least one Sabina appointee. Funds contributed to the Trust would be allocated by the Trustees to initiatives that provide benefits to the Kitikmeot region. A portion of the Trust funds would be retained for allocation after mine or project closure. Payments may be made to the Trust in shares at Sabina's election and subject to regulatory approval. To kick off the initiative, prior to creation of the Trust, Sabina paid approximately $1.4 million to an existing KIA fund which provides for development and community initiatives in the region.

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 three years. Minimum rental payments, net of income from sublease, in each of the next three years are as follows:

2013	$	145,303
2014		129,746
2015		72,149
	$	347,198

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 complete development and environmental work on the Back River Project in order to advance the project to production.

To this end, the 2013 program is focussed on work to complete the on-going PFS and support a potential subsequent feasibility study ("FS"). The PFS is expected to be completed by the end of Q3 2013. At the same time, the Company will continue to move forward with baseline environmental studies to support the completion of a draft environmental impact statement by year end.

At the same time as the Company advances the development of the Back River Project, it will continue to explore its Nunavut properties focused primarily on adding value in and around existing resources, exploiting high potential satellite targets and greenfield discovery concepts. The exploration program for 2013 is balanced to optimize and support the completion of the PFS and FS studies, to provide options and alternatives for possible production sequences and to test target concepts where there is the possibility of significant new discovery. The Company has planned a total of 45,000-50,000 meters of drilling in 2013 including infill, geotechnical and geomechanical drilling as well as exploration of high potential greenfield-type targets. Back River Project expenditures are estimated to be approximately $63 million in 2013, including exploration, development, environmental and site infrastructure activities.

Following the completion of the PFS, if successful, the Company plans to commence a FS and estimates that the study would take approximately one year to complete. 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. If the project successfully passes each of these stages, a decision to proceed to mine construction could be made shortly thereafter. Based on preliminary estimated timelines, a production decision may be possible in 2015. Detailed construction timelines have not yet been developed for the Project; however, preliminary guidance in the PEA was that mine construction may be completed over a two-year period.

The Company continues to evaluate gold projects outside of Nunavut. Geologic assessment is ongoing on the Company's 100% owned Newman-Madsen property in Red Lake and additional work is planned in 2013. The Company also plans to follow up on its 100% owned gold project in the Nipigon area of Ontario which was staked in late 2011 and is analogous to the Back River project.

Transactions with Related Parties

For the year ended December 31, 2012, the Company paid or accrued $53,521 to Morton & Company (2011 - $44,779), which is a related party by virtue of a common director, for legal services of which $nil (2011 - $3,545) remained outstanding as at December 31, 2012. Of this amount, $43,757 (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 evaluation expenditures totalled $175.8 million at December 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 results 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 December 31, 2012, the Company had a provision for site reclamation of $2.2 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 method. Under the fair value 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 December 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;
- IAS 27 Separate Financial Statements 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, 2015 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, 2012 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 December 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 March 26, 2013, there were 173,577,432 common shares outstanding. There were options and warrants outstanding to purchase an aggregate of 13,003,410 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. The value of Sabina's silver royalty on the Hackett River property is dependent on, among other factors, the ability of Xstrata to define sufficient quantities of minerals that can be economically produced.

Due to the location of the Hackett River Project and the Back River Project, 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.