Sabina

GOLD & SILVER CORP.

# Consolidated Financial Statements

## Years ended December 31, 2015 and 2014

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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 statements of financial position as at December 31, 2015 and 2014, 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 audits. We conducted our audits 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 consolidated 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 in our audits 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, 2015 and 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 24, 2016
Vancouver, Canada

# SABINA GOLD & SILVER CORP.

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

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 4,564 | $ 4,035 |
| Short-term investments | 13,814 | 28,500 |
| Accounts receivable (note 5) | 261 | 391 |
| Inventory | 1,170 | 1,480 |
| Prepaid expenses | 131 | 145 |
| Total current assets | 19,940 | 34,551 |
| Non-current assets: | | |
| Investments (note 6) | 748 | 2,181 |
| Property and equipment (note 7) | 9,957 | 13,513 |
| Mineral properties (note 8) | 283,394 | 270,214 |
| Hackett silver royalty (note 9) | 34,754 | 34,754 |
| Reclamation deposits | 2,229 | 2,229 |
| Total non-current assets | 331,082 | 322,891 |
| Total assets | $ 351,022 | $ 357,442 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 641 | $ 2,216 |
| Flow-through share premium liability (note 13) | 577 | - |
| Current portion of capital lease obligation (note 15) | 110 | 110 |
| Total current liabilities | 1,328 | 2,326 |
| Non-current liabilities: | | |
| Capital lease obligation (note 15) | 218 | 320 |
| Provision for site reclamation (note 10) | 2,067 | 2,067 |
| Deferred income tax liability (note 18) | 35,390 | 37,097 |
| Total non-current liabilities | 37,675 | 39,484 |
| Total liabilities | 39,003 | 41,810 |
| Equity: | | |
| Share capital (note 11) | 355,355 | 352,435 |
| Contributed surplus (note 12) | 24,043 | 21,682 |
| Accumulated other comprehensive loss | 33 | (590) |
| Deficit | (67,412) | (57,895) |
| Total equity | 312,019 | 315,632 |
| Total liabilities and equity | $ 351,022 | $ 357,442 |

Nature of operations (note 1)
Commitments (note 15)

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

Approved on behalf of the Board:

**"Bruce McLeod"** Director **"Tony Walsh"** 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, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| Expenses: | | |
| Administration and general | $ 429 | $ 376 |
| Depreciation and accretion | 76 | 71 |
| Insurance | 134 | 177 |
| Listing, transfer and shareholder | 536 | 796 |
| Professional services | 409 | 565 |
| Salaries and severance | 2,048 | 1,881 |
| Share-based payments (note12(a)) | 1,578 | 806 |
| Travel | 200 | 257 |
| Write-down of mineral properties (note 8(a), (c)) | 4,227 | 1,500 |
| Loss on disposition of mineral properties (note 8 (b)) | - | 900 |
| Loss on disposition of property and equipment | 66 | - |
| | 9,703 | 7,329 |
| Loss from operating activities | (9,703) | (7,329) |
| Net finance income: | | |
| Interest income | 396 | 776 |
| Amortization of flow-through premium (note 13) | 114 | - |
| | 510 | 776 |
| Loss before impairment and disposition of investments | (9,193) | (6,553) |
| Disposition of investments (note 6) | (9) | - |
| Impairment of investments (note 6) | (2,015) | (194) |
| Loss before income taxes | (11,217) | (6,747) |
| Deferred income tax recovery (note 18) | 1,700 | 1,605 |
| Loss for the period | (9,517) | (5,142) |
| Other comprehensive income (loss): | | |
| Available-for-sale investments, net change in fair value | (1,184) | (613) |
| Available-for-sale investments, impairment and disposal transferred to profit and loss | 1,807 | 194 |
| Unrealized gain (loss) on available-for-sale investments | 623 | (419) |
| Comprehensive loss | $ (8,894) | $ (5,980) |
| Basic and diluted loss per share | $ (0.05) | $ (0.03) |
| Weighted average number of common shares outstanding | 195,649,954 | 194,019,926 |

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

# SABINA GOLD & SILVER CORP.

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

For the years ended December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| Share capital: | | |
| Balance, beginning of period | $ 352,435 | $ 352,435 |
| Shares issued during the period, net of costs | 3,575 | - |
| Flow-through premium transferred to deferred liability (note 13) | (691) | - |
| Fair value of options exercised | 36 | - |
| Balance, end of period | 355,355 | 352,435 |
| Share purchase warrants: | | |
| Balance, beginning of period | - | 357 |
| Fair value of warrants expired | - | (357) |
| Balance, end of period | - | - |
| Contributed surplus: | | |
| Balance, beginning of period | 21,682 | 19,880 |
| Fair value of share-based payments included in operating expenses | 1,578 | 806 |
| Fair value of share-based payments capitalized to mineral properties | 819 | 639 |
| Fair value of options transferred to share capital | (36) | - |
| Fair value of warrants transferred from share purchase warrants (note 12(b)) | - | 357 |
| Balance, end of period | 24,043 | 21,682 |
| Accumulated other comprehensive loss: | | |
| Balance, beginning of period | (590) | (171) |
| Other comprehensive income (loss) | 623 | (419) |
| Balance, end of period | 33 | (590) |
| Deficit: | | |
| Balance, beginning of period | (57,895) | (52,753) |
| Loss for the period | (9,517) | (5,142) |
| Deficit, end of period | (67,412) | (57,895) |
| Total shareholders' equity | $ 312,019 | $ 315,632 |

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)

For the years ended December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| Cash provided by (used in) operating activities: | | |
| Loss for the period | $ (9,517) | $ (5,142) |
| Adjustments for: | | |
| Depreciation and accretion | 76 | 71 |
| Deferred income tax expense (recovery) | (1,700) | (1,605) |
| Interest income | (396) | (776) |
| Impairment of investment | 2,015 | 194 |
| Write-down of mineral properties | 4,227 | 1,500 |
| Loss on disposition of mineral properties | - | 900 |
| Loss on disposition of investments | 9 | - |
| Loss on disposition of assets | 66 | - |
| Amortization of flow-through premium liability | (114) | - |
| Share-based payments | 1,578 | 806 |
| | (3,756) | (4,052) |
| Accounts receivable | 121 | 403 |
| Inventories | 224 | 846 |
| Prepaid expenses | 14 | 73 |
| Accounts payable and accrued liabilities | 57 | (177) |
| Cash used in operating activities | (3,340) | (2,907) |
| Interest received | 405 | 907 |
| Net cash used in operating activities | (2,935) | (2,000) |
| Cash flows provided by (used in) investing activities: | | |
| Expenditures on deferred exploration* | (14,652) | (21,822) |
| Expenditures on property and equipment | (83) | (25) |
| Disposition of assets | 14 | - |
| Increase in reclamation deposits | - | (1,870) |
| Proceeds on sale of short-term investments | 14,686 | 26,176 |
| Net cash provided by/(used in) investing activities | (35) | 2,459 |
| Cash flows provided by (used in) financing activities: | | |
| Issue of common shares for cash | 3,568 | - |
| Capital leases | (102) | (69) |
| Proceeds on disposition of investment | 33 | - |
| Net cash provided by/(used in) financing activities | 3,499 | (69) |
| Net increase in cash and cash equivalents | 529 | 390 |
| Cash and cash equivalents, beginning of period | 4,035 | 3,645 |
| Cash and cash equivalents, end of period | $ 4,564 | $ 4,035 |

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

*Changes in accounts payable and accrued liabilities of $1.6 million related to deferred exploration costs are included in investing activities for the year ended December 31, 2015.

## 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 assets are the Back River Gold Project and its silver royalty on the Hackett River project, both of which are located in Nunavut, Canada. The Company also has exploration properties in Nunavut and in the vicinity of the Red Lake gold camp in Ontario.

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 and evaluating its mineral property interests and has not yet determined whether its mineral properties, other than the Back River property, are economically viable. The Company has completed a feasibility study for the Back River project which demonstrates positive economics and has advanced the environmental assessment on project. The Company has not yet determined if necessary financing for the construction of the Back River project can be obtained on satisfactory terms. The underlying value and the recoverability of the amounts recorded as mineral properties and silver royalty are 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. Management has forecast its cash requirements for the next fiscal year and believes that the Company has sufficient funds to continue operations for at least the next twelve months. This assessment is based on the Company's budget, its available cash and short-term investments and that certain of the Company's expenditures are discretionary in nature, and which can be deferred as required without significant impact on the Company or its mineral properties.

## 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 24, 2016.

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

(b) Basis of measurement and consolidation:

These consolidated financial statements include the financial statements of Sabina and its wholly owned subsidiary, Sabina Back River Ltd. All significant intercompany balances and transactions are eliminated on consolidation.

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 of the present value of costs to be incurred in the future. In addition these consolidated 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’s functional currency. All tabular financial information presented in Canadian dollars has been rounded to the nearest thousand.

**2. Basis of preparation, continued:**

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS 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 judgement is applied in the determination of the Company's ability to continue as a going concern. Significant areas requiring the use of management estimates relate to the assessment of impairment of its mineral properties and the Hackett silver royalty (note 3(f)(ii)), the provision for site reclamation (notes 3(g) and 10), share-based payments (notes 3(i) and 12(a)), deferred income tax assets (notes 3(k) and 18). Actual results may differ from these estimates.

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

**3. 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, accounts receivables, reclamation deposits and available-for-sale financial assets.

*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 financial assets measured 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.

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

*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, accounts receivable, and reclamation deposits.

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. Impairment losses are recognised if there is objective evidence of impairment that occurred after the initial recognition of the asset. Objective evidence would be if there has been a significant or prolonged decline in the fair value of the equity securities below its cost. The significance of the decline in fair value is assessed using both quantitative and qualitative factors. Volatility of the fair value may be considered in determining whether the decline is significant. Prolonged is measured against the period of time that the fair value has been below cost. When an investment is sold or no longer classified as available-for-sale, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(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.

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

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.

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

(iii) Share capital, continued

*Flow-through common shares, continued*

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 amounts recognized in common shares and the amount paid by the investor is recognized as a flow-through share premium liability which is amortized 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.

(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 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:

| | |
|---|---|
| Office furniture | 20% declining balance |
| Computer and other equipment | 30% declining balance |
| Leasehold improvements | Straight-line over life of lease |
| Exploration camp and equipment | Straight-line over estimated useful life, ranging from 2 to 16 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 and when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. 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.

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.

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

(f) Impairment, continued:

(ii) Non-financial assets, continued:

The carrying amounts of the Company's non-financial assets, other than inventories, primarily being its mineral properties, the Hackett silver royalty, and property and equipment, 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 uses 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 profit or loss.

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.

(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) Leases

(i) Determining whether an arrangement contains a lease

At inception of an arrangement, the Company determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Company separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognized using the Company's incremental borrowing rate.

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

(h) Leases, continued

(ii) Leased asset

Assets held by the Company under leases that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Company's statement of financial position.

(iii) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(i) Share-based payments

The Company has a share option plan which is described in note 12(a). 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.

(j) 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.

(k) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or 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:**

(k) 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 nor 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.

(l) 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, which comprise share options granted to employees and share purchase warrants. Due to the loss for the year, basic and diluted loss per share are the same.

(m) Changes in accounting policies - new and amended standards

There were a number of new standards and interpretations effective for January 1, 2015, however none of these new standards had an impact on the Company's consolidated financial statements.

**4. Future changes in accounting standards:**

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended December 31, 2015, 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 replaces IAS 39, Financial Instruments: Recognition & Measurement. IFRS 9 details new requirements for classifying and measuring financial assets. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss model" for the impairment of financial assets IFRS 9 also provides new guidance on the application of hedge accounting. The standard becomes effective for annual periods beginning on or after January 1, 2018 with early adoption allowed. The extent of the impact of adoption of IFRS 9 has not yet been determined.

IFRS 16, Leases

In January 2016, the IASB published IFRS 16, Leases which will replace IAS 17, Leases. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases, with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods; changes the accounting for sale and leaseback arrangements; and introduces new disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain circumstances. The Company has yet to assess the impact of this new standard on its consolidated financial statements.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

## 5. Accounts receivable:

| | | 2015 | | 2014 |
|---|---|---|---|---|
| GST receivable | $ | 96 | $ | 215 |
| Interest receivable | | 157 | | 166 |
| Other trade receivables | | 8 | | 10 |
| | $ | 261 | $ | 391 |

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

## 6. Available-for-sale investments:

The fair values of available-for-sale investments for the Company's shares of Pure Gold Mining Inc. ("Pure Gold"), Mega Precious Metals Inc.("Mega"), Yamana Gold Inc. ("Yamana"), and Teuton Resources Corp. ("Teuton") are reported below:

| **Cost** | | 2015 | | 2014 |
|---|---|---|---|---|
| Balance at January 1 | $ | 2,944 | $ | 191 |
| Additions (note 8(b)(i)) | | - | | 2,753 |
| Dispositions | | (214) | | - |
| Balance at December 31 | $ | 2,730 | $ | 2,944 |
| | | | | |
| **Accumulated unrealized holding losses** | | | | |
| Balance at January 1 | $ | (763) | $ | (153) |
| Changes in fair value recorded in other comprehensive income | | (1,184) | | (417) |
| Changes in fair value recorded directly in impairment | | (217) | | (193) |
| Dispositions | | 182 | | - |
| Balance at December 31 | $ | (1,982) | $ | (763) |
| | | | | |
| **Carrying value** | | | | |
| At December 31 | $ | 748 | $ | 2,181 |

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

On June 22, 2015, the Company's shares in Mega were exchanged for shares in Yamana as a result of the acquisition of Mega by Yamana and based on an exchange ratio established for the transaction.

During the year ended December 31, 2015, the Company sold its shares in Yamana and Teuton for proceeds of $32 thousand .

At December 31, 2015, the Company's remaining available-for-sale investment is in Pure Gold. During the year ended December 31, 2015, the Company recorded impairment losses of $2.0 million on its investment in Pure Gold.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

## 7. Property and equipment:

| Cost | Exploration camp and equipment | Office and equipment | Total |
|---|---|---|---|
| Balance at January 1, 2014 | $ 24,031 | $ 583 | $ 24,614 |
| Additions | 25 | - | 25 |
| Balance at December 31, 2014 | 24,056 | 583 | 24,639 |
| Additions | - | 83 | 83 |
| Dispositions | (24) | (505) | (529) |
| Balance at December 31, 2015 | $ 24,032 | 161 | $ 24,193 |
| **Accumulated depreciation** | | | |
| Balance at January 1, 2014 | $ (6,854) | $ (348) | $ (7,202) |
| Depreciation | (3,852) | (71) | (3,923) |
| Balance at December 31, 2014 | (10,706) | (419) | (11,125) |
| Depreciation | (3,497) | (61) | (3,558) |
| Dispositions | 20 | 427 | 447 |
| Balance at December 31, 2015 | $ (14,183) | $ (53) | $ (14,236) |
| **Carrying value** | | | |
| At December 31, 2014 | $ 13,350 | $ 164 | $ 13,514 |
| At December 31, 2015 | $ 9,849 | $ 108 | $ 9,957 |

At December 31, 2015, the net book value of exploration camp and equipment assets held under capital lease arrangements was $288 thousand (2014 - $412 thousand).

## 8. Mineral properties:

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

| | 2015 | 2014 |
|---|---|---|
| Back River (Nunavut) | $ 265,977 | $ 248,593 |
| Wishbone (Nunavut) | 11,731 | 15,957 |
| Red Lake (Ontario) | 5,686 | 5,664 |
| | $ 283,394 | $ 270,214 |

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

| **Summary - All Properties** | 2015 | 2014 |
|---|---|---|
| Balance, beginning of period | $ 270,214 | $ 249,550 |
| Exploration and other expenditures | 17,407 | 26,313 |
| Provision for site reclamation | - | (496) |
| Write-down of mineral properties | (4,227) | (1,538) |
| Disposition of mineral properties | - | (3,615) |
| Balance, end of period | $ 283,394 | $ 270,214 |

(Tabular dollar amounts expressed in thousands of Canadian dollars)

**8. Mineral properties, continued:**

| | 2015 | 2014 |
|---|---|---|
| **Back River (Nunavut)** | | |
| Balance, beginning of period | $ 248,593 | $ 223,110 |
| Additions: | | |
| Drilling | 237 | 3,794 |
| Economic assessment | 5,741 | 8,392 |
| Environmental assessment | 4,578 | 4,423 |
| Geology & geophysics | 1,357 | 1,038 |
| Management & administration | 997 | 1,515 |
| Property maintenance | 109 | 115 |
| Share-based payments | 819 | 639 |
| Support | 49 | 1,432 |
| Transportation | - | 778 |
| Depreciation | 3,497 | 3,853 |
| | 17,384 | 25,979 |
| Provision for site reclamation | - | (496) |
| Balance, end of period | $ 265,977 | $ 248,593 |
| **Wishbone (Nunavut)** | | |
| Balance, beginning of period | $ 15,957 | $ 15,810 |
| Additions: | | |
| Geology & geophysics | - | 89 |
| Property maintenance | 1 | 58 |
| | 1 | 147 |
| Write-down of mineral properties | (4,227) | - |
| Balance, end of period | $ 11,731 | $ 15,957 |
| **Red Lake (Ontario)** | | |
| Balance, beginning of period | $ 5,664 | $ 9,094 |
| Additions: | | |
| Geology & geophysics | 15 | 44 |
| Management & administration | 5 | 116 |
| Property maintenance | 2 | 9 |
| Transportation | - | 16 |
| | 22 | 185 |
| Disposition of mineral properties | - | (3,615) |
| Balance, end of period | $ 5,686 | $ 5,664 |

**8. Mineral properties, continued:**

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

The Company owns 100% of the Back River project which is comprised of the George and Goose property areas. The Back River project has 43-101 compliant gold mineral reserves and resources in eight known deposits, namely Llama, Umwelt, Goose Main and Echo on the Goose property and Locale 1 & 2, LCP, GH and Slave on the George property.

The Company owns 100% of certain mineral claims on the Wishbone Greenstone Belt which is adjacent to and surrounding the Hackett River Greenstone Belt and hosts the Hackett River silver-zinc project. The Wishbone property and the Back River project area 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 $5.0 million 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. (Royalty 2, noted below) for $4.5 million in cash and the issue of 750,000 common shares of the Company. A value of $5.2 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. The following royalties apply to the George Lake property. Royalty 1 pays 0% on the first 800,000 ounces and pays 5% (gross before sub-royalty 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%. Royalty 4 pays 0.45% until a total of $7.5 million has been paid after which this royalty also drops by 50%. Royalties payable, (excluding Royalty 2 which is owned by the Company) depending on gold price and gold production, could range from 0.35% to 0.7% on the first 800,000 ounces and 3.5% to 4.25% thereafter.

The Goose property is subject to the following royalties. Royalty 1 pays 0% on the first 400,000 ounces and pays 5% (gross before sub-royalty deductions) after the first 400,000 ounces of gold produced after deducting Royalty 2. 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%. Royalties payable (excluding Royalty 2 which is owned by the Company), depending on gold price and gold production, could range from 0.35% to 0.7% on the first 400,000 ounces and 3.5% to 4.25% thereafter.

In Q2 2015, the Company relinquished certain non-material mineral claims on its Wishbone property after an internal assessment of exploration results and ongoing assessment requirements. In 2015, the Company recorded write-downs totalling $4.2 million for mineral claims that were relinquished during the year and certain non-core mineral claims on its Wishbone property.

**8. Mineral properties, continued:**

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

(i) Newman-Madsen, Red Lake:

The Newman-Madsen property is a 760 hectare property comprised of 38 patent claims. The property was subject to a a 0.5% NSR royalty payable to Premier Gold Mines Ltd.

On June 24, 2014, the Company completed the sale of the Company's 100% owned Newman-Madsen property to Pure Gold Mining Inc. ("Pure Gold", formerly Laurentian Goldfields Ltd.). As consideration, Sabina received 6.5 million shares of Pure Gold representing approximately 6.3% of the total issued and outstanding shares of Pure Gold. Sabina was also granted a participation right in future financings in order to maintain its ownership percentage (until the earlier of 24 months or the date when Sabina ceases to hold at least 3.5% of the issued and outstanding shares of Pure Gold). The shares were subject to a four month hold period. The shares received had a fair value of $0.42 per share or $2.73 million on the closing date. On closing, the Company recorded a loss on the transaction of approximately $0.9 million, net of transaction costs.

(ii) Golden Sidewalk, Red Lake:

The Company owns 100% of its Golden Sidewalk property comprised of 900 hectares, 6 mineral claims and 12 mining leases. 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% of its Skinner property comprised of 2,900 hectares and 19 mineral claims. 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 $0.5 million. 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 14 patent claims Redaurum property located at Red Lake.

**(c) Nipigon (Ontario)**

Sabina owns a 100% interest in the 28 mineral claims, 6,304 hectare Nipigon project located approximately 100 km north of Thunder Bay, Ontario. Management determined that this property does not meet its criteria for ongoing exploration work and reduced the carrying value of $1.5 million to nil as at December 31, 2014.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

## 9. Hackett silver royalty:

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 Greenstone Belt to Glencore plc ("Glencore", formerly Xstrata Zinc) for cash consideration of $50 million along with Sabina retaining a silver production royalty (the "Hackett Silver Royalty") equal to 22.5% of the first 190 million ounces of payable silver from the then 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, Glencore had 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 (October 4, 2015), Glencore could 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, Glencore may elect to pay Sabina the shortfall, failing which, upon notice to Glencore, Sabina may exercise a right to buy back the Properties for a cash purchase price equal to 100% of the expenditures incurred by Glencore. Glencore can pre-empt Sabina's buy back right by electing to pay an advance royalty of $75 million. As at December 31, 2015, Glencore had incurred sufficient exploration expenditures to satisfy its $80 million spending commitment.

| Disposition price allocation | | |
|---|---|---|
| Hackett River property | $ | 73,106 |
| Wishbone property | | 6,586 |
| Capital assets | | 997 |
| Site reclamation provision | | (377) |
| Net assets | | 80,312 |
| Cash received, net of transaction costs | | (45,558) |
| Balance allocated to Hackett Royalty | $ | 34,754 |

Due to the contingent nature of the Hackett Silver Royalty, the royalty interest is carried at carrying value of the assets remaining after deduction of the deposit proceeds, rather than fair value based on potential future cash flows.

## 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 is unable to reliably estimate when the work will be performed and accordingly 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.

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Balance at January 1 | $ | 2,067 | $ | 2,563 |
| Increase/(decrease) in estimate during the year | | - | | (496) |
| Balance at December 31 | $ | 2,067 | $ | 2,067 |

(Tabular dollar amounts expressed in thousands of Canadian dollars)

## 11. Share capital and other components of equity:

### Authorized number of common shares

At December 31, 2015, 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:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | # of shares | $ | # of shares | $ |
| Issued and outstanding as at January 1 | 194,019,926 | 352,435 | 194,019,926 | 352,435 |
| Issued for cash, net of share issue costs | 5,518,742 | 3,510 | - | - |
| Less: flow-through share premium (note 13) | - | (691) | - | - |
| Issued on exercise of share options | 150,000 | 65 | - | - |
| Fair value of options exercised | - | 36 | - | - |
| Issued and outstanding at December 31 | 199,688,668 | 355,355 | 194,019,926 | 352,435 |

On July 14, 2015, the Company completed a non-brokered private placement of 2,661,600 flow-through shares at a price of $0.50 per common share. This private placement was fully subscribed by directors and employees of the Company. On November 25, 2015, the Company completed a non-brokered private placement of 2,857,142 flow-through shares at a price of $0.77 per common share.

The gross proceeds from these two private placements have been reduced by $691 thousand, being the flow-through premium liability (see note 13) and $21 thousand in share issue costs, net of tax.

The gross proceeds of both of these flow-through financings must be used to incur Canadian exploration expenditures as defined by the Income Tax Act (Canada) by December 31, 2016. At December 31, 2015, the Company had incurred approximately $1.3 million of flow-through eligible expenditures and has approximately $2.3 million of qualifying expenditures yet to be incurred to satisfy the requirements of these flow-through financings.

## 12. Share-based payments:

### (a) Share purchase options

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 are 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.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

**12. Share-based payments, continued:**

**(a) Share purchase options, continued**

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

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Number of options | | Average exercise price | Number of options | | Average exercise price |
| Outstanding as at January 1 | 11,952,410 | $ | 2.63 | 11,602,410 | $ | 2.96 |
| Exercised during the period | (150,000) | | 0.43 | - | | - |
| Forfeited or expired during the period | (2,910,410) | | 1.36 | (2,595,000) | | 2.18 |
| Granted during the period | 7,813,000 | | 0.59 | 2,945,000 | | 0.94 |
| Outstanding at December 31 | 16,705,000 | | 1.92 | 11,952,410 | | 2.63 |
| Exercisable as at December 31 | 15,955,000 | $ | 1.96 | 11,952,410 | $ | 2.63 |

The following table summarizes the outstanding options as at December 31, 2015 by year of expiry. Of the outstanding options, 750,000 options were not fully vested at December 31, 2015.

| Year | Number of options | | Average exercise price |
|---|---|---|---|
| 2016 | 2,157,000 | $ | 5.04 |
| 2017 | 2,115,000 | | 3.79 |
| 2018 | 2,575,000 | | 2.50 |
| 2019 | 2,470,000 | | 0.94 |
| 2020 | 7,388,000 | | 0.59 |
| | 16,705,000 | $ | 1.92 |

**Employee compensation cost**

During the year ended December 31, 2015, the Company recorded $2.4 million (2014 - $1.4 million) in share-based payment costs, of which $1.6 million (2014 - $0.8 million) is presented as an operating expense in the statement of comprehensive loss and $0.8 million (2014 - $0.6 million) 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 0.66% (2014 – 1.23%); a dividend yield of 0% (2014 – 0%); an expected volatility of 66.4% (2014 – 68.9%) and expected lives of stock options of 5.0 years (2014 – 3.5 years). The weighted average fair value of options granted in the period was $0.31 per share (2014 - $0.46). The expected volatility is estimated by considering historic average share price volatility.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

## 12. Share-based payments, continued:

### (b) Special unit warrants

On June 9, 2009, the Company completed an asset purchase agreement to acquire the Back River Assets from Dundee Precious Metals Inc. ("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 were 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. Upon exercise of the Special Unit Warrants, DPM would receive one common share and one-half of one common share purchase warrant. One whole share purchase warrant entitled the holder to purchase one common share at a price of $1.07 per share until June 9, 2014.

On October 9, 2013, the Company announced its decision to proceed with the commencement of the feasibility for the Back River Project, consequently, in accordance with the Back River purchase agreement, the Company issued 5 million shares and 5 million one-half of one common share purchase warrants to Dundee Precious Metals. On June 9, 2014, all of the share purchase warrants associated with both Series A and Series B Special Unit Warrants expired unexercised. At December 31, 2015, the 5 million common shares related to Series B Special Unit Warrants remain issuable upon a positive production decision.

## 13. Flow-through share premium liability:

| | 2015 | 2014 |
|---|---|---|
| January 1 | $ - | $ - |
| Financing (i) | 691 | - |
| Amortization (ii) | (114) | - |
| December 31 | $ 577 | $ - |

(i) On July 14, 2015, the Company completed a non-brokered private placement of 2,661,600 flow-through shares at a price of $0.50 per common share. This price was at a premium of $0.045 to market price at the date of announcement for a total flow-through premium of $120 thousand. On November 25, 2015 the Company completed a non-brokered private placement of 2,857,142 flow-through shares at a price of $0.77 per common share. This price was at a premium of $0.20 to market price at the date of announcement for a total flow-through premium of $571 thousand. The flow-through premium liability is amortized over the period in which the funds are used.

(ii) In the period, the Company incurred approximately $1.3 million of flow-through eligible expenditures, all of which relate to the financing completed in July 2015. The Company has $2.3 million of expenditures yet to be incurred to satisfy the requirements of the 2015 flow-through share financings.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

## 14. Related parties:

Key management personnel, comprised of directors and officers, received compensation as follows:

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Salaries and benefits | $ | 1,854 | $ | 1,982 |
| Stock-based compensation, non-cash | | 1,796 | | 940 |
| | $ | 3,650 | $ | 2,922 |

Upon resignation at the Company's request, certain executives are entitled to termination benefits up to 24 months' gross salary. For the President and Chief Executive Officer, in the first 12 months of employment, termination benefits are capped at 12 months, thereafter, one additional month for each completed year of service to a maximum of 24 months. In addition to the amounts noted above, in Q1 2015, the Company recognized an expense of $473 thousand for termination benefits for a former executive, of which $421 thousand has been paid with the balance in accrued liabilities.

## 15. Capital and operating leases and commitments:

a) Obligation under capital leases:

The Company has financed certain mobile equipment used at its Back River exploration camp by entering into capital leasing arrangements. Minimum lease payments as at December 31, 2015 are as follows:

| | | |
|---|---|---|
| 2016 | $ | 114 |
| 2017 | | 57 |
| 2018 | | 52 |
| 2019 | | 141 |
| Total minimum lease payments | | 364 |
| Less amount representing interest (at 5.7%) | | (36) |
| Present value of net minimum capital payments | | 328 |
| Current portion of obligation under capital leases | | (110) |
| | $ | 218 |

b) Operating leases:

The Company was obligated under an operating lease agreement for the rental of its corporate head office in North Vancouver and which expired in November 2015. In June, 2015, the Company completed a sublease agreement for its corporate head office in Vancouver, commencing December 1, 2015 and expiring October 30, 2017. Minimum rental payments for these leases total: 2016 $65 thousand, 2017 $54 thousand.

## 15. Capital and operating leases and commitments, continued:

c) Commitments:

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 Glencore plc (formerly 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 implement the initiative, prior to creation of the Trust in 2011, 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.

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.

**16. Financial risk management, continued:**

**Credit risk**

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to the carrying value of 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 2016. 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 2015 or 2014 and has no allowance for doubtful accounts recorded at either of December 31, 2015 or 2014.

**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 and short term investments 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.

Interest rate risk is the risk that the fair value of 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 of these instruments at December 31, 2015, a plus or minus 1% change in interest rates would result in a change in net income of $0.2 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.

**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.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

**17. Fair value measurements:**

The fair value of financial instruments that are measured subsequent to initial recognition at their fair value, is measured within a 'fair value hierarchy' which has the following levels:

(i) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
(ii) Level 2: valuation techniques using 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
(iii) Level 3: valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of financial assets and financial liabilities at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The fair value of the Company's cash and cash equivalents, short-term investments, accounts receivables, and accounts payable and accrued liabilities approximate their carrying amounts due to the short-term maturities of these instruments.

The fair value of the Company's reclamation deposit is not expected to differ materially from its carrying value given the interest rate being received (level two of the fair value hierarchy) and the carrying value of its investments is based on the quoted market price of the related shares in publicly traded companies to which the investment relates (level one of the fair value hierarchy).

**18. 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 are as follows:

| | 2015 | 2014 |
|---|---|---|
| Tax loss carry forwards | $ 18,934 | $ 15,466 |
| Financing costs | 114 | 484 |
| Provision for closure and reclamation | 558 | 558 |
| Other | 46 | 39 |
| Flow-through share effect on mineral properties | (48,282) | (47,940) |
| Mineral properties | (9,647) | (7,638) |
| Property and equipment | 2,887 | 1,934 |
| Deferred tax liabilities | $ (35,390) | $ (37,097) |

The Company has tax loss carry forwards at December 31, 2015 of $70.1 million that expire from 2031 to 2035 (2014 - $54.9 million).

At December 31, 2015, the Company has deductible temporary differences of approximately $2.2 million related to capital losses and other associated deductions not recognized as it is not probable that future taxable capital gains will be available to utilize these deductions.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

**18. Income taxes, continued:**

Movement in temporary differences during the year:

| December 31, 2015 | 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 | $ 15,466 | $ 3,468 | $ - | $ - | $ 18,934 |
| Financing costs | 484 | (378) | - | 7 | 113 |
| Provision for closure and reclamation | 558 | - | - | - | 558 |
| Other | 37 | 10 | - | - | 47 |
| **Deferred tax liabilities:** | | | | | |
| Mineral properties | (7,638) | (2,009) | - | - | (9,647) |
| Flow-through shares | (47,940) | (342) | - | - | (48,282) |
| Property and equipment | 1,936 | 951 | - | - | 2,887 |
| | $ (37,097) | $ 1,700 | $ - | $ 7 | $ (35,390) |

Movement in temporary differences during the year:

| December 31, 2014 | 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 | $ 13,452 | $ 2,014 | $ - | $ - | $ 15,466 |
| Financing costs | 1,037 | (553) | - | - | 484 |
| Provision for closure and reclamation | 692 | (134) | - | - | 558 |
| Mineral properties | (5,865) | (1,773) | - | - | (7,638) |
| Other | 19 | 21 | (3) | - | 37 |
| **Deferred tax liabilities:** | | | | | |
| Flow-through share effect on mineral properties | (47,940) | - | - | - | (47,940) |
| Property and equipment | (94) | 2,030 | - | - | 1,936 |
| | $ (38,699) | $ 1,605 | $ (3) | $ - | $ (37,097) |

(Tabular dollar amounts expressed in thousands of Canadian dollars)

**18. Income taxes, continued:**

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

| | For the year ended December 31, 2015 | 2014 |
|---|---|---|
| Deferred income tax recovery | $ (1,700) | $ (1,605) |
| Income tax recovery | $ (1,700) | $ (1,605) |

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

| | For the year ended December 31, 2015 | 2014 |
|---|---|---|
| Expected tax recovery | $ (3,028) | $ (1,822) |
| Share based compensation and other permanent differences | 665 | 218 |
| Flow-through renunciation | 342 | - |
| Change in unrecognized deferred tax assets | 294 | - |
| Other | 27 | (1) |
| Income tax recovery | $ (1,700) | $ (1,605) |

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 year ended December 31, 2015. The MD&A was prepared as of March 24, 2016 and should be read in conjunction with the Company's annual audited financial statements and related notes for the years ended December 31, 2015 and 2014. 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, (feasibility study completed in September 2015 and currently undergoing environmental assessment) and its silver royalty on the Hackett River project, all located in Nunavut, Canada. The Company also has exploration properties in Nunavut and in the vicinity of the Red Lake gold camp in Ontario.

## 2015 Highlights:

- The Company had cash and cash equivalents and short-term investments of $18.4 million at December 31, 2015.

- In May 2015, the Company completed and announced positive results of a feasibility study ("6KFS") on the Back River gold project. The base case economics, in Canadian dollars, were based on a gold price of US$1,200 per ounce and an exchange rate of 0.87 (US$:C$). The highlights of the study include a post-tax internal rate of return ("IRR") of 21.7% and net present value ("NPV") (at a 5% discount rate) of $539 million with a payback period of 2.2 years over a 10 year mine life. The Project would have a processing rate of 6,000 tonnes per day ("tpd") producing an average of ~346,000 oz Au per year. The initial capital was estimated to be $695 million and sustaining capital $529 million (including closure). Total life-of-mine ("LOM") cash costs were US$535/oz Au (including third party royalties, refining and transport) and LOM all-in sustaining cash costs were US$648/oz Au LOM (including sustaining capital).

- In July 2015, based on recommendations in the 6KFS, the Company commenced a feasibility study on a lower capex initial project option on the Back River gold project.

- In September 2015, the Company completed and announced positive results of its initial project feasibility study ("3KFS") on the Back River gold project. The base case economics, in Canadian dollars, assumed a gold price of US$1,150 per ounce and an exchange rate of 0.80 (US$:C$). The Project's highlights include:

    - A post-tax IRR of 24.2% and NPV (at a 5% discount rate) of $480.3 million;
    - LOM post-tax net cash flow of $782 million on gross revenues of $3.2 billion with a payback period of 2.9 years (from start of operations);
    - Processing rate of 3,000 tpd with average gold production of 244,000 oz in the first 8 years;
    - Produces an average of ~198,000 oz Au per year (post commencement of commercial production);
    - Majority of production from open pit mining method (72% LOM) with no underground production scheduled until year 3 (after payback);
    - Initial capital estimate of $415 million and sustaining capital estimate of $185 million;
    - Total LOM cash costs of US$534/oz Au (including third party royalties, refining and transport). LOM all-in sustaining cash costs of US$598/ oz Au LOM (including sustaining capital);
    - A total of 12.4 million tonnes of ore to be milled over 11.8 years with a LOM average grade of 6.3 grams per tonne ("g/t") Au and metallurgical recoveries of 93%;
    - Diesel price of $0.91/L (delivered) for power generation; and
    - Open pit strip ratio of 10.5:1 over LOM.

- In the second quarter, the Company completed a six-week field program at the Goose property. The program primarily consisted of geo-technical drilling and environmental baseline work to support the Back River final environmental impact study ("FEIS"). In addition, the Company completed two exploration drill holes focused on shallow targets at Hivogani and Nalaot. Results from these holes identified a new target type and gold mineralization style and continued to demonstrate project-wide gold endowment and potential for greenfield resource growth.

- In the third quarter, the Company conducted a field exploration program focused on generating new targets at the Goose project in both the greywacke and iron formation host lithologies which have potential for large-scale, shallow-tiered resource discoveries. The program consisted of geological mapping, prospecting, channel sampling, till sampling, core re-logging, and induced polarization (IP) geophysics programs. A prospecting program resulted in the discovery of the Kogoyok target, a new zone of outcropping mineralization where grab samples have returned gold values including 33.86g/t, 28.10g/t and 18.23g/t.

- In January 2015, the Company announced that it had completed the review process on its draft environmental impact statement (“DEIS”). The Company received the Pre-Hearing Conference Decision document from the Nunavut Impact Review Board (‘NIRB’). The NIRB report summarizes the collaboration and discussion with all participants on subjects such as caribou, marine/shipping, socio economic effects, tailing storage, among others and the commitments made by the Company to incorporate further data, reasonable mitigation measures, and preferred processes into the Project and its FEIS. In December 2015, the Company submitted the FEIS to NIRB. The FEIS was deemed conformant with NIRB requirements and a technical review process commenced. Final public hearings are scheduled for April 25-30, 2016 in Cambridge Bay, Nunavut.

- In July 2015, the Company completed a flow-through equity financing of 2,661,600 flow-through common shares at $0.50 per share for gross proceeds of approximately $1.3 million. The July financing was fully subscribed by directors and employees and resulted in a significant increase in insider ownership. In November, 2015, the Company completed a flow-through equity financing of 2,857,142 flow-through common shares at $0.77 per share for gross proceeds of approximately $2.2 million.

- During the year, the Company focused on a number of cost saving measures, including additional staff reductions, a 50% reduction of directors’ fees and a reduction of the number of board members.

- For the year ended December 31, 2015, the Company reported a loss of $9.5 million or $0.05 per share.

## 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 (“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 (see below in Liabilities and Contingencies section for details of contingent shares and warrants).

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 47 Federal Mineral Leases and 17 Federal Mining Claims covering approximately 54,000 hectares. The project is divided into Goose, George, Boot, Boulder, Del and Bath. The Goose property hosts the Goose, Llama, Echo and Umwelt gold deposits. The George property, located approximately 50 km to the northwest, hosts six known gold deposits.

The 2015 work program for Back River focused on de-risking the Project and advancing towards development by completing feasibility studies and continuing the environmental assessment process and completing various exploration programs.

***Back River Project Exploration***

Exploration targeting and resource expansion modeling activities continue to highlight areas of high potential and opportunity for discovery. The Company has a significant number of exploration targets on the Goose and George properties which it plans to continue to evaluate.

In Q2 2015, in conjunction with its geotechnical field program, the Company completed two exploration drill holes focused on shallow targets at Hivogani and Nalaot. Results from these holes identified a new target type and gold mineralization style and continued to demonstrate project-wide gold endowment and potential for greenfield resource growth. The majority of the existing resources at Back River are hosted in conventional iron formation stratigraphy. Results at the Hivogani target indicate that potential exists for gold resources to be found within structurally controlled gold zones outside of or peripheral to the conventional iron formation hosted zones, which is a feature that has been found in other Canadian projects associated with banded iron formations.

The Hivogani target is a sediment-hosted target located approximately 1400 m southwest of the Goose Main deposit. It lies outside of the main iron formation which is the host rock to the majority of Back River's current resources. One drill hole, totaling 140m, tested part of an anomalous chargeability zone delineated by a induced polarization survey completed in 2014. Drill hole 15GSE491 encountered gold values over a broad interval of greater than 100m. The mineralization is hosted in altered, quartz-veined and structurally deformed clastic sedimentary and felsic intrusive rock units. Significant gold values from the hole include 0.82g/t gold over 13.75m including 2.71g/t over 1.00m, 3.67g/t over 1.0m, 1.89g/t over 1.0m and 1.87g/t over 0.75m as well as 1.2g/t over 1.35m, 1.29g/t over 1.0m and an additional 1.29g/t over 1.0m.

The second drill hole (15GSE490), totaling 240.5m at the Nalaot was designed for follow-up within the main iron formation stratigraphy. It is located approximately 250m west of the Echo deposit and immediately east of drill hole 14GSE487 which returned 4.52g/t gold over 5.00m (previously released in 2014) . Results, including a section with visible gold that returned values of 3.61g/t over 2.00m, have highlighted the continued potential for shallow resource growth along this geologically favourable and largely undrilled horizon.

In Q3 2015, the Company conducted a field exploration campaign focused on generating new targets at the Goose project in both the greywacke and iron formation host lithologies specifically targeting large-scale, shallow-tiered resource discoveries. The program consisted of geological mapping, prospecting, channel sampling, till sampling, core re-logging, and induced polarization (IP) geophysics programs.

A total of 54 line kilometers of IP surveying were completed on four grids across the property at the Hivogani, Llama North, Jackaroo, and Radar areas. Geologic mapping targeted high-priority areas and key felsic intrusive horizons. Coupled with prospecting of preliminary geophysics, mapping activities produced a total of 197 rock samples including several channel samples from the Hivogani area. Additionally, a total of 229 till samples were collected on 3 grids where outcrop exposure was less conducive to mapping and prospecting of newly identified geophysical anomalies and geologic targets.

Preliminary exploration assay results from the program have identified a new near surface high priority iron formation drill target at the Goose property. The Kogoyok discovery focuses on a 650 meter strike length of iron formation stratigraphy, bookended by two exploration drillholes from 2011 at its eastern and western ends. The new showing area is located 1,500 meters west of the Echo Deposit and 2,000 meters southeast of the Umwelt deposit and 1,200 meters from the planned processing facility. Observations from the 2011 drill core, together with coincident geophysical anomalies along the segment, provided an exploration framework for confirmatory fieldwork during the 2015 August fieldwork program. This culminated in the discovery of the Kogoyok showing. Rock sample assays at the Kogoyok target are encouraging, highlighted by the discovery of a new series of mineralized occurrences where grab samples have returned gold values including 33.86g/t, 28.10g/t and 18.23g/t. Further gold assays associated with the Kogoyok target partially define approximately 650 meters of significantly gold-mineralized iron formation stratigraphy. Kogoyok is further characterized as having favourable geophysical signatures in a setting comparable to that of the currently known deposits at the Goose property.

Program analytical results, geophysical processing, and data integration are expected to continue to provide upgraded targeting and exploration target de-risking throughout the property. Property-scale modelling of gold-endowed trends has continued to demonstrate the potential for new resource discoveries as well as large scale resource extensions.

***Back River Project Development***

Following completion of a prefeasibility study ("PFS") in October, 2013 and various optimization studies in 2014, in October, 2014, the Company engaged engineering firms to complete the Back River 6KFS with a target production rate of 6,000 tpd. The team was comprised of JDS Energy & Mining Inc. (lead FS consultant, mine engineering, logistics and transportation, project economics and capital and operating costs); Hatch Ltd. (metallurgy, process and infrastructure design); and SRK Consulting (waste and water management, geotechnical and tailings design), Knight Piésold Ltd. (rock mechanics and ground support) and AMC Consultants Pty Ltd. (geology and resource definition).

On May 20, 2015, the Company completed and announced results of its 6KFS on the Back River project. Base case economics in Canadian dollars, were based on a gold price of US$1,200/oz Au and an exchange rate of 0.87 (US$:C$). The highlights include a post-tax IRR of 21.7% and net present value NPV (at a 5% discount rate) of $539 million with a payback period of 2.2 years over a 10 year mine life. The Project would have a processing rate of 6,000 tpd producing an average of ~346,000 oz Au per year. The initial capital was estimated to be $695 million and sustaining capital was estimated to be $529 million (including closure). Total LOM cash costs were US$535/oz Au (including third party royalties, refining and transport) and LOM all-in sustaining cash costs were US$648/ oz Au LOM (including sustaining capital).

In July, 2015, based on recommendations of the 6KFS, the Company commenced a feasibility study on a lower capex initial project option on the Back River Project, focused on decreasing construction capital requirements by increasing cut-off grade and decreasing the annual production rate while maintaining or improving return on investment.

On September 14, 2015, the Company completed and announced positive results of its 3KFS on the Back River gold project. Base case economics are in Canadian dollars, based on a gold price of US$1,150/oz Au and an exchange rate of 0.80 (US$:C$). The Project's highlights include:

- The Project would generate a post-tax IRR of 24.2% and NPV (based on a 5% discount rate) of $480.3 million;
- The Project would generate LOM post-tax net cash flow of $782 million on gross revenues of $3.2 billion with a payback period of 2.9 years (from start of operations);
- Processing rate of 3,000 tpd produces an average of ~198,000 oz Au per year (post commencement of commercial production);
- Average production of 244,000 oz Au in the first 8 years;
- Majority of production from open pit mining method (72% LOM) with no underground production scheduled until year 3 (after payback);
- Initial capital estimate of $415 million and sustaining capital estimate of $185 million;
- Total LOM cash costs of US$534/oz Au (including third party royalties, refining and transport). LOM all-in sustaining cash costs of US$598/ oz Au LOM (including sustaining capital);
- A total of 12.4 million tonnes of ore to be milled over 11.8 years with a LOM average grade of 6.3 grams per tonne ("g/t") Au and metallurgical recoveries of 93%;
- Base case assumptions of delivered diesel price of $0.91/L for power generation; and
- Open pit strip ratio of 10.5:1 over LOM.

**Comparison to the 6KFS Project**

The differences between the 6KFS and the 3KFS are shown in the table below; the main differences are:

- An updated gold price of $1,150/ounce and exchange rate of $US:$C 0.80;
- The 3KFS has a 49% improvement on capital efficiency over the 6KFS (NPV/Initial CAPEX);
- Increased cut-off grades resulting in an overall increase in the head grade to 6.30 g/t;
- Removal of the George property from the mine plan resulting in a lower cost, simplified mining schedule;
- A more simplified plan with mining focused on four mining areas (open pit at Llama, Umwelt and Goose Main and underground at Umwelt) versus fifteen mining areas (open pit and underground) that included George and Echo in the 6KFS;
- A significantly higher proportion of pre-fabricated modules targeting less on-site labour requirements; and
- Reduced fuel and freight requirements.

| | Unit | 6KFS | 3KFS |
|---|---|---|---|
| **Gold Price** | US$/oz | 1,200 | 1,150 |
| **Exchange Rate** | US$/C$ | 0.87 | 0.80 |
| **Gold Production** | Moz | 3.39 | 2.32 |
| **Mine Life** | Years | 9.6 | 11.8 |
| **Initial CAPEX** | C$M | 695 | 415 |
| **Sust. Capital Cost** | C$M | 440 | 185 |
| **Closure Cost** | C$M | 86 | 64 |
| **OP Mining Cost** | C$/t mined | 3.95 | 3.35 |
| **UG Mining Cost** | C$/t mined | 49.11 | 63.61 |

| | | | |
|---|---|---|---|
| **Processing Cost** | C$/t milled | 26.04 | 37.16 |
| **Site Services Cost** | C$/t milled | 13.08 | 11.08 |
| **Freight Cost** | C$/t milled | 4.48 | 4.42 |
| **Ore Haulage**[1] | C$/t hauled | 19.35 | 0 |
| **G&A Cost** | C$/t milled | 13.61 | 18.28 |
| **Operating Cost** | C$/t milled | 96.25 | 114.58 |
| **Cash Costs**[2] | US$/oz | 535 | 534 |
| **AISC**[3] | US$/oz | 648 | 598 |
| **Total Cash Costs**[4] | US$/oz | 850 | 763 |
| **After tax IRR** | % | 21.7 | 24.2 |
| **After tax** $NPV_{5\%}$ | $M | 539 | 480 |
| **Payback** | Years | 2.2 | 2.9 |

([1]): Ore Haulage is 0 in the FS due to the removal of George from the mine plan
([2]): (Refining Costs + Insurance + Transport Costs + Third Party Royalties + Operating Costs) / Payable Au oz
([3]): (Refining Costs + Insurance + Transport Costs + Third Party Royalties + Operating Costs + Sustaining Capital Costs) / Payable Au oz
([4]): (Refining Costs + Insurance + Transport Costs + Third Party Royalties + Operating Costs + Initial, Sustaining and Closure Capital Costs) / Payable Au oz

On October 29, 2015, the Company completed and filed its NI 43-101 compliant technical report on the Project entitled "Technical Report for the Initial Project Feasibility Study on the Back River Gold Property, Nunavut dated October 28, 2015 on www.sedar.com.

Mr. Angus Campbell, P. Geo. and Vice-President, Exploration and Mr. Wes Carson, P. Eng. and Vice President, Project Development are Qualified Persons under the terms of NI 43-101 and have reviewed the technical content of this MD&A for the Back River Project and approved its dissemination.

***Back River Project Environmental Assessment and Community Engagement***

In January, 2014, the Company submitted the Back River draft environmental impact study DEIS and associated water license applications for the Back River Gold Project to the NIRB and the Nunavut Water Board ("NWB") respectively. The DEIS presents scientific and community based knowledge that determined key aspects of the natural and socio-economic environments in the region. Project interactions were identified; residual effects assessed and proposed mitigation and monitoring plans developed for the construction, operation and closure of the Project. In February, 2014, the Company received notice from NIRB that the Back River DEIS conformed to the environmental assessment guidelines. In March 2014, the Company received information requests from the technical review process. In July, 2014, the Company submitted its information request responses to NIRB followed by responses to the technical comments in October, 2014. Technical review meetings were held on November 13-15, 2014 and the pre-hearing conference was held November 17-19, 2014; both meetings were held in Cambridge Bay, Nunavut. In December, 2014, the NIRB released its Pre-Hearing Conference Decision document, which summarized the collaboration and discussion with all participants on subjects such as caribou, marine/shipping, socio economic effects, tailing storage, among others and the commitments made by the Company to incorporate further data, reasonable mitigation measures and preferred processes into the Project and its FEIS.

In Q1 2015, the Company determined that given the probable development timeline for Back River, the current NIRB/NWB coordinated environmental assessment process was not optimal for the Company. The coordinated process provides companies the option to concurrently complete the regulatory review with NIRB and NWB. By opting out of the coordinated process, the Company can focus its resources on the FEIS for NIRB while investigating project development and financing alternatives. The Company expects that this change should not impact the receipt of the Project Certificate; however, the water licence and other necessary permits for the Projects may take up to an additional six months to be completed.

In Q2 2015, the Company collected additional environmental baseline data during the six-week field program at site and continued to advance the completion of the FEIS. In addition, the Company carried out a series of community tours in the Kitikmeot region which provided a forum to continue to inform the communities about the planned Project. The Company filed the Back River FEIS on November 23, 2015. On December 9, 2015, NIRB determined that the document was conformant with NIRB requirement and a final technical review period was commenced. Final hearings on the project are scheduled to occur during the last week of April, 2016, with a recommendation from NIRB to follow. If the project successfully passes through this stage of review, the Company could be in a position to complete the environmental assessment phase and potentially receive a Project Certificate in mid-2016.

In April, 2014, the Company and the Kitikmeot Inuit Association ("KIA") jointly announced that they had finalized the details of two agreements for the Development Trust and Capacity Funding. The KIA is the surface title holder of 104,278 square kilometers of Inuit owned lands in the Kitikmeot region, including the majority of the lands that comprise the Back River Project. The KIA represents the interests of Inuit beneficiaries in the region under the Nunavut Land Claims Act ("NLCA") and is a participant in the environmental assessment process of Back River.

In recognition of Inuit rights under the NLCA, Sabina and the KIA have finalized a Development Trust Fund Agreement whereby Sabina will establish and contribute to the Development Trust (the "Trust") on behalf of the KIA. The Trust will be established with an objective of contributing funding towards short and long term KIA development projects and initiatives including training and education as well as infrastructure projects that will serve to support sustainable economic development in the region. The Trust would receive 3% of Sabina's net proceeds from the silver royalty retained by Sabina on the Hackett River and Wishbone properties sold to Glencore Canada Plc ("Glencore"), formerly Xstrata Zinc Canada Ltd. In 2011, 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 Kitikmeot Region.

Under the terms of the Capacity Agreement dated March 4, 2014, Sabina will fund the KIA based on an agreed work plan and budget for the environmental assessment and permitting processes. Funding will occur over the period of the environmental assessment and permitting process. This funding will enable the KIA to employ staff, retain certain technical specialists and to conduct such administrative and management functions as are required with the process.

### Hackett River Silver Royalty, Nunavut

The Hackett River project consists of approximately 13,000 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 Glencore plc ("Glencore", formerly 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, Glencore had 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 had not been completed by October 4, 2015, Glencore could 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 Glencore has not met the spending requirements and has not completed the feasibility study, Glencore may elect to pay Sabina the shortfall, failing which, upon notice to Glencore, Sabina may exercise a right to buy back the Properties for a cash purchase price equal to 100% of the expenditures incurred by Glencore. Glencore can pre-empt Sabina's buy back right by electing to pay an advance royalty of $75 million.

Glencore has completed work to advance the project. Key project accomplishments were: in 2012 approximately 51,500 meters of diamond drilling was completed, including 43,500 meters of exploration both near known deposits and on new targets and 8,000 meters of geotechnical and metallurgical drilling; baseline environmental studies; and, commencement of economic evaluation studies; and, in 2013 approximately 38,500 meters of drilling was completed at Hackett; approximately 6,000 meters of geotechnical drilling was completed at the proposed infrastructure sites; and, various airborne surveys were completed across the Hackett River property. As at December 31, 2015, Glencore had incurred sufficient exploration expenditures to satisfy its $80 million spending commitment.

On February 11, 2015, Glencore reported updated mineral resources for the Hackett River project as at December 31, 2014; a total of 87 million tonnes of mineral resources were reported in the mineral resource statement comprised of indicated resources of 27 million tonnes (Zn 4.5%, 0.6 Pb%, 0.5 Cu%, Ag 130 g/t, Au 0.3 g/t) and inferred resources of 60 million tonnes (Zn 3.5%, 0.5 Pb%, 0.4 Cu%, Ag 150 g/t, Au 0.2 g/t). Glencore disclosed that Aline Côté, Project Manager for Xstrata Zinc, served as the Competent Person in connection with this mineral resource estimate. These resources are unchanged from Glencore's prior year resources for Hackett River. Glencore is not an issuer in Canada and therefore is not obliged to file a 43-101 technical report on the new resource. As Hackett River is a material asset to Sabina, securities regulations require that Sabina complete a technical report on the project. This report was announced and filed by Sabina on www.sedar.com on March 12, 2014. Readers are cautioned that mineral resources, which are not mineral reserves, do not demonstrate economic viability.

## Wishbone, Nunavut Property

The Wishbone Greenstone Belt surrounds the Hackett River Project as well as other smaller base and precious metal deposits. The Wishbone mineral claims cover a largely unexplored highly prospective greenstone belt with the potential for both gold and VMS style deposits. Wishbone claims that had a high potential for VMS deposit discovery were included as part of the sale of Hackett River to Glencore. 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. The Wishbone property is currently divided into the Wishbone, Malley and Needle properties which are comprised of 54 claims and one lease covering approximately 47,672 hectares.

In Q2 2015, the Company relinquished certain non-material mineral claims on its Wishbone property after an internal assessment of exploration results and ongoing assessment requirements. As a result, the Company has recorded a write-off of approximately $0.2 million for those properties. In Q4 2015, the Company recorded an additional write-down of $4.0 million for certain non-core mineral claims on its Wishbone property.

## Red Lake, Ontario Properties

The Company owns or has a partial interest in three Red Lake properties: Golden Sidewalk (100%), Skinner (100%) and Redaurum (20% carried interest).

**Newman-Madsen**

The Newman-Madsen property is composed of 38 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. In June, 2014, the Company completed the sale of the Company's 100% owned Newman-Madsen property to Pure Gold Mining Inc. ("Pure Gold", formerly Laurentian Goldfields Ltd.). As consideration, Sabina received 6.5 million shares of Pure Gold representing approximately 6.3% of its total issued and outstanding shares. Sabina was also granted a participation right in future financings in order to maintain its ownership percentage (until the earlier of 24 months or the date when Sabina ceases to hold at least 3.5% of the issued and outstanding shares of Pure Gold). Sabina has not elected to exercise its participation right in any subsequent financings.

**Golden Sidewalk**

The Golden Sidewalk property is composed of 6 claims and 12 leases. 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. A limited field program of mapping and geochemical sampling was completed on portions of the property during Q3 2014. Work completed during Q2 2015 consisted of field geo-referencing of existing claims to provide conformity towards changes in Ontario mineral title regulations.

**Skinner**

The Skinner property is composed of 19 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 $0.5 million. 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. A limited field program of mapping and geochemical sampling was completed on portions of the property during Q3 2014. Work completed during Q2 2015 consisted of field geo-referencing of existing claims to provide conformity towards changes in Ontario mineral title regulations.

**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.

## Nipigon, Ontario

In the fall of 2011, the Company staked 114 mineral claims covering over 26,555 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. In 2014, management determined that this property does not meet its criteria for ongoing exploration work and has reduced the carrying value of $1.5 million to nil during the year ended December 31, 2014.

## Summary of Results

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Total assets | $ 351,022 | $ 357,442 | $ 363,902 |
| Interest income | 396 | 776 | 1,485 |
| Earnings/(loss) | (9,517) | (5,142) | (9,521) |
| Per share | $ (0.05) | $ (0.03) | $ (0.05) |

| | 2015 Q4 (1) | 2015 Q3 | 2015 Q2 (2) | 2015 Q1 |
|---|---|---|---|---|
| Total assets | $ 351,022 | $ 354,083 | $ 353,591 | $ 356,278 |
| Interest income | 70 | 98 | 99 | 129 |
| Earnings/(loss) | (4,616) | (869) | (2,520) | (1,512) |
| Per share | $ (0.03) | $ (0.00) | $ (0.01) | $ (0.01) |
| | **2014 Q4 (3)** | **2014 Q3** | **2014 Q2 (4)** | **2014 Q1** |
| Total assets | $ 357,442 | $ 360,652 | $ 363,623 | $ 361,524 |
| Interest income | 151 | 188 | 197 | 240 |
| Earnings/(loss) | (2,260) | (512) | (767) | (1,603) |
| Per share | $ (0.02) | $ (0.00) | $ (0.00) | $ (0.01) |

Notes:
1. During the three months ended December 31, 2015, the Company's loss of $4.6 million includes a write-down of mineral properties of $4.0 million.
2. During the three months ended June 30, 2015, the Company's reported loss of $2.5 million includes a write-down of mineral properties of $0.2 million and an impairment of equity investments of $1.8 million.
3. During the three months ended December 31, 2014, the Company's reported loss of $2.3 million includes a write-down of mineral properties of $1.5 million and equity investments of $0.2 million.
4. During the three months ended December 31, 2014, the reported loss of $0.8 million includes a loss of $0.8 million on disposition of a mineral property.

## Overall Performance

For the quarter ended December 31, 2015, the Company reported a net loss of $4.6 million, unfavourable by $2.4 million compared to the same period of 2014. The difference quarter-over-quarter was largely the result of a write-down of $4.0 million on certain non-core Wishbone mineral properties (2014 - $1.5 million) and share-based payments of $1.0 million (2014 - $nil), partially offset by deferred income tax recovery of $1.2 million (2014 - $0.2 million).

For the year ended December 31, 2015, the Company reported a net loss of $9.5 million compared to a net loss of $5.1 million for the same period in 2014. The loss in 2015 was higher by $4.4 million primarily as a result of: higher write-downs on mineral properties ($2.7 million); a higher impairment loss on an equity investment ($1.8 million); and, increased share-based payments ($0.8 million). In 2015, the Company recorded write-downs of $4.2 million on certain non-core Wishbone mineral properties and an impairment loss of $2.0 million on an equity investment. In 2014, the Company had a loss of $0.9 million on disposition of its Newman Madsen property, recorded a write-down of $1.5 million on its Nipigon property and had an impairment loss on an equity investment of $0.2 million.

For the year, operating expenses (excluding the loss on disposition of the Newman Madsen property in the prior year and the write-down of mineral properties in 2014 and 2015) were $0.5 million higher in 2015 than the comparable period of 2014 due to higher share-based payments ($0.8 million) partially offset by lower operating expenses ($0.3 million). In 2015, the Company granted 7.8 million stock options to employees and directors at an average fair value of $0.31 per share compared to 2.9 million granted in 2014 at a fair value of $0.46 per share. Of the 7.8 million stock options granted, 2.1 million were granted in Q4 2015 for fiscal 2016 and 1.4 million were granted as bonus options for 2015 in lieu of cash bonuses. Stock options were granted in 2015 for 2016 following the announcement by the federal government of proposed changes to increase income tax rates on stock option benefits in 2016. Partially offsetting was lower operating expenses resulting from a number of cost saving measures (see table below), including staff reductions, a 50% reduction of directors' fees and a reduction of the number of board members.

| | | |
|---|---|---|
| Insurance | $43 thousand | Reduced certain liability limits; premium reductions |
| Listing, transfer and shareholder | $260 thousand | Reduced directors fees, share listing and filing fees and attendance at investor conferences. |
| Professional services | $156 thousand | Reduced accounting/audit and human resources related services. |
| Travel | $56 thousand | Reduced travel activity, largely investor relations related. |

Partially offsetting was higher salaries and severances which was $167 thousand higher than the comparable period due to termination benefits paid in 2015. Excluding severances, salaries were $229 thousand lower than the comparable period due to staffing reductions.

For the year, interest income was lower by $0.4 million in 2015 than the same period in 2014 due largely to lower cash balances in the period. Partially offsetting was $0.1 million for amortization of flow-through premium related to the flow-through financing completed in July 2015. For the year, deferred income tax recovery was higher by $0.1 million as a result of higher losses in the period.

In 2015, total deferred exploration and evaluation expenditures were $17.4 million compared to $26.3 million in 2014. The decrease of $8.9 million was primarily the result of decreased economic assessment costs and reduced drilling and site support activities at Back River. In 2015, economic assessment activities were focused on the completion of the feasibility studies on Back River. In 2014, the economic assessment activities included various optimization studies, commencement of the 6KFS in Q3 2014 and a field program of geo-technical and geo-mechanical drilling along with associated site support.

## Liquidity and Capital Resources

The Company had cash and cash equivalents and short-term investments of $18.4 million at December 31, 2015 compared to cash and cash equivalents of $32.5 million at December 31, 2014.

On July 14, 2015, the Company completed a non-brokered private placement of 2,661,600 flow-through common shares at a price of $0.50 per common share. This private placement was fully subscribed by directors and employees of the Company. On November 25, 2015, the Company completed a non-brokered private placement of 2,857,142 flow-through common shares at a price of $0.77 per common share. The gross proceeds of both of these flow-through financings must be used to incur Canadian exploration expenditures as defined by the Income Tax Act (Canada) by December 31, 2016. At December 31, 2015, the Company had incurred approximately $1.3 million of flow-through eligible expenditures and has approximately $2.3 million of qualifying expenditures yet to be incurred to satisfy the requirements of these flow-through financings.

The Company has forecast its cash requirements for the next fiscal year and believes it has sufficient cash resources and liquidity to sustain its planned activities. This assessment is based on the Company's budget, its available cash and short-term investments and that certain of the Company's expenditures are discretionary in nature, and which can be deferred as required without significant impact on the Company or its mineral properties. 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.

## 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. The Company's available-for-sale investments had a fair value of $0.7 million at December 31, 2015 ($2.2 million – December 31, 2014).

On June 22, 2015, the Company's shares in Mega Precious Metals Inc. ("Mega") were exchanged for shares of Yamana Gold Inc. ("Yamana") as a result of the acquisition of Mega by Yamana and based on an exchange ratio established for the transaction. During the year ended December 31, 2015, the Company sold its shares of Teuton Resources Corp. and Yamana for proceeds of $32 thousand.

At December 31, 2015, the Company's remaining available-for-sale investment was in Pure Gold Mining Inc. ("Pure Gold"). During the year, the Company recorded impairment losses of $2.0 million on its investment in Pure Gold.

## Liabilities and Contingencies

On June 9, 2009, the Company completed an asset purchase agreement to acquire the Back River Assets from Dundee Precious Metals Inc. ("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 were 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. Upon exercise of the Special Unit Warrants, DPM would receive one common share and one-half of one common share purchase warrant. One whole share purchase warrant entitled the holder to purchase one common share at a price of $1.07 per share until June 9, 2014.

On October 9, 2013, the Company announced its decision to proceed with the commencement of the FS for the Back River Project, consequently, in accordance with the Back River purchase agreement, the Company issued 5 million shares and 2.5 million common share purchase warrants to DPM with exercise and expiry terms as noted above. On June 9, 2014, all of the share purchase warrants associated with both Series A and Series B Special Unit Warrants expired unexercised. At December 31, 2015, the 5 million common shares related to Series B Special Unit Warrants remain issuable upon a positive production decision.

The Company has the legal obligation to reclaim exploration camps for which it holds water licenses and exploration and mining agreements and has recorded a provision for site reclamation of $2.1 million. The Company has issued security deposits to the land owner, the KIA, totalling approximately $2.2 million in relation to these obligations.

In 2014, the Company and the KIA completed a Development Trust Fund Agreement whereby Sabina agreed to establish and contribute to the Trust on behalf of the KIA. The Trust will be established with an objective of contributing funding towards short and long term KIA development projects and initiatives including training and education as well as infrastructure projects that will 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 Glencore. 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.

## Contractual Obligations

The Company is obligated under operating lease agreements for the rental of its corporate head office in in Vancouver which expires on October 30, 2017. Minimum rental payments for these leases are as follows:

| (in thousands of Canadian dollars) | | |
|---|---|---|
| 2016 | $ | 65 |
| 2017 | | 54 |
| | $ | 147 |

The Company has financed certain mobile equipment used at its Back River exploration camp by entering into capital leasing arrangements. Minimum lease payments due are as follows:

| (in thousands of Canadian dollars) | |
|---|---|
| 2016 | 114 |
| 2017 | 57 |
| 2018 | 52 |
| 2019 | 141 |
| | $ 364 |

**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements and no long-term debt obligations.

## Outlook

The Company's strategic plan is to focus on exploring and developing its primary asset, the Back River gold project, with the objective of becoming an intermediate gold producer. The Company intends to progress development and environmental work on Back River in order to advance towards production.

In 2015, the Company focused on a number of activities to continue to optimize the economics and de-risk the Project, including completion of feasibility studies for two production scenarios at Back River, a 6,000 tpd and a 3,000 tpd and the ongoing environmental and permitting processes. As noted in the Highlights section of this MD&A, the Company has reported the results of its 6KFS and its 3KFS both which demonstrate robust project economics. The Company believes that given the current market environment, the 3KFS remains the most viable alternative. As a result, the Company is focused on the 3KFS which presents a viable path forward for Sabina to commence production in the Back River district. All deposits are open and potential for new discoveries is significant as demonstrated by the recent discovery of the Kogoyok mineralized zone (described in the Results of Operations section of this MD&A).

Concurrent with this work, the Company is continuing with the work necessary to support the environmental assessment and permitting process. In early 2014, the Company submitted its DEIS and received confirmation from NIRB that the submission conformed to the requirements of the EIS guidelines. The technical review of the DEIS was completed in Q4 2014. The Company has filed its FEIS and is currently in the final review phased of that study. Final hearings on the Project are scheduled for the last week of April, 2016, with a recommendation from NIRB to follow. If the project successfully passes through this stage of review, the Company could be in a position to complete the environmental assessment phase and potentially receive a Project Certificate in mid-2016.

As noted in the Results of Operations section on Back River, in Q1 2015, the Company determined that given the probable development timeline for Back River, the current NIRB coordinated environmental assessment process was not optimal for the Company. The coordinated process provides companies the option to concurrently complete the regulatory review with NIRB and NWB. By opting out of the coordinated process, the Company can focus its resources on the FEIS for NIRB while investigating project development and financing alternatives. The Company expects that this change should not impact the receipt of the Project Certificate; however, the water licence and other necessary permits for the Project may take up to an additional six months to be completed.

The Company had a cash balance of approximately $18.4 million as at December 31, 2015 and has budgeted expenditures in 2016 of $7 million for completion of ongoing environmental assessment activities and exploration and development work programs plus an additional $4 million of discretionary activities.

## 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 the provision for site-reclamation, 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 estimates 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 indicators exist 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 are indicators of impairment, the asset is written down to its estimated net recoverable value. Deferred acquisition, exploration and evaluation expenditures totalled $283.4 million at December 31, 2015 ($270.2 million – December 31, 2014).

### 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. At December 31, 2015, the Company had a provision for site reclamation of $2.1 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 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 0.66% (2014 – 1.23%); a dividend yield of 0% (2014 – 0%); an expected volatility of 66.4% (2014 – 68.9%) and expected lives of stock options of 5 years (2014 – 3.5 years). The weighted average fair value of options granted in the period was $0.31 per share (2014 - $0.46). The expected volatility is estimated by considering historic average share price volatility.

## Future Changes in Accounting Standards

The following published accounting standards are not mandatory for the December 31, 2015 reporting period. The extent of the impact of these new standards has yet to be determined.

- IFRS 9 Financial Instruments for accounting periods on or after January 1, 2018.
- IFRS 16, Leases for accounting periods on or after January 1, 2019.

## Disclosure Controls and Procedures and Internal Control Over Financial Reporting

Management conducted an evaluation of the effectiveness of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. Management concluded that the DC&P and ICFR in place as of December 31, 2015 are adequate and effective to ensure accurate and complete disclosures in filings and reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in compliance with International Financial Reporting Standards. In its assessment, the Company used *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Due to inherent limitations associated with any such controls and procedures, management recognizes that, no matter how well designed and implemented, they may not prevent or detect all inaccuracies on a timely basis. These limitations include limited personnel available for such work, geographical logistics and human error among others. The Board of Directors assesses the integrity of the public financial disclosures through the oversight of the Audit Committee.

## Outstanding Share Data

As at March 24, 2016, there were 199,888,672 common shares outstanding and there were options and warrants outstanding to purchase an aggregate of 19,576,000 common shares. The options were granted to certain of the Company's executive officers, directors and employees. The warrants were granted to DPM in connection with the purchase of Back River.

## 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 the Back River Project or any Sabina property will occur only if sufficient quantities of minerals with a sufficient average grade are discovered and can be economically produced. 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 Glencore to define sufficient quantities of minerals that can be economically produced.

Due to the location of the Back River and Hackett River projects, there is presently no infrastructure available to 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 Information

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 information. By their nature, forward-looking information is 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 information. 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 information 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 information, whether as a result of new information, future events or otherwise except as required by applicable law.