



Condensed Consolidated Interim Financial Statements  
(unaudited)  
Second Quarter ended June 30, 2016

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The accompanying unaudited condensed interim consolidated financial statements of Sabina Gold & Silver Corp. have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements.

# SABINA GOLD & SILVER CORP.

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

	June 30, 2016 (unaudited)	December 31, 2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,697	\$ 4,564
Short-term investments	40,300	13,814
Accounts receivable (note 4)	392	261
Inventory	1,414	1,170
Prepaid expenses	189	131
<b>Total current assets</b>	<b>44,992</b>	<b>19,940</b>
Non-current assets:		
Investments (note 5)	2,940	748
Property and equipment (note 6)	8,571	9,957
Mineral properties (note 7)	289,786	283,394
Hackett silver royalty	34,754	34,754
Reclamation deposits	2,227	2,229
<b>Total non-current assets</b>	<b>338,278</b>	<b>331,082</b>
<b>Total assets</b>	<b>\$ 383,270</b>	<b>\$ 351,022</b>

## Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 674	\$ 641
Flow-through share premium liability (note 10)	34	577
Current portion of capital lease obligation (note 12)	86	110
<b>Total current liabilities</b>	<b>794</b>	<b>1,328</b>
Non-current liabilities:		
Capital lease obligation (note 12)	194	218
Provision for site reclamation	2,067	2,067
Deferred income tax liability (note 13)	35,212	35,390
<b>Total non-current liabilities</b>	<b>37,473</b>	<b>37,675</b>
<b>Total liabilities</b>	<b>38,267</b>	<b>39,003</b>
Equity:		
Share capital (note 8)	386,512	355,355
Contributed surplus (note 9)	23,974	24,043
Accumulated other comprehensive income	2,319	33
Deficit	(67,802)	(67,412)
<b>Total equity</b>	<b>345,003</b>	<b>312,019</b>
<b>Total liabilities and equity</b>	<b>\$ 383,270</b>	<b>\$ 351,022</b>

Nature of operations (note 1)  
Commitments (note 12)

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

Approved on behalf of the Board:

**"Bruce McLeod"** Director

**"Tony Walsh"** Director

# SABINA GOLD & SILVER CORP.

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

(unaudited)

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
<b>Expenses:</b>				
Administration and general	\$ 120	\$ 100	\$ 236	\$ 199
Depreciation and accretion	17	17	23	45
Insurance	26	37	51	81
Listing, transfer and shareholder	95	143	216	345
Part XII.6 tax	4	-	4	-
Professional services	121	74	225	197
Salaries and severance	332	348	708	1,294
Share-based payments (note 9(a))	12	40	119	557
Travel	76	44	115	92
Write-down of mineral properties	-	227	-	227
	803	1,030	1,697	3,037
Loss from operating activities	(803)	(1,030)	(1,697)	(3,037)
<b>Net finance income:</b>				
Interest income	107	99	175	228
Amortization of flow-through premium (note 10)	246	-	543	-
	353	99	718	228
Loss before impairment and disposition of investments	(450)	(931)	(979)	(2,809)
Disposition of investments (note 5)	689	(14)	772	(14)
Impairment of investments	-	(1,771)	-	(1,773)
Loss before income taxes	239	(2,716)	(207)	(4,596)
Deferred income tax recovery (expense)	(38)	196	(183)	564
Income/(loss) for the period	201	(2,520)	(390)	(4,032)
<b>Other comprehensive income (loss):</b>				
Available-for-sale investments, net change in fair value	2,189	1,084	3,058	589
Available-for-sale investments, disposal transferred to profit and loss	(689)	-	(772)	-
Unrealized gain (loss) on available-for-sale investments	1,500	1,084	2,286	589
Comprehensive income (loss)	\$ 1,701	\$ (1,436)	\$ 1,896	\$ (3,443)
Basic and diluted loss per share	\$ 0.00	\$ (0.01)	\$ 0.00	\$ (0.02)
Weighted average number of common shares outstanding	204,380,814	194,019,926	204,459,912	194,019,926

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

# SABINA GOLD & SILVER CORP.

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
<b>Share capital:</b>				
Balance, beginning of period	\$ 355,441	\$ 352,435	\$ 355,355	\$ 352,435
Shares issued, net of costs (note 8)	30,395	-	30,396	-
Fair value of options transferred to share capital	138	-	223	-
Deferred income tax effect of flow through shares and issuance costs	538	-	538	-
Balance, end of period	386,512	352,435	386,512	352,435
<b>Contributed surplus:</b>				
Balance, beginning of period	24,072	22,507	24,043	21,682
Fair value of share-based payments included in operating expenses	12	40	119	557
Fair value of share-based payments capitalized to mineral properties	29	-	35	308
Fair value of options transferred to share capital	(138)	-	(223)	-
Balance, end of period	23,975	22,547	23,974	22,547
<b>Accumulated other comprehensive income (loss):</b>				
Balance, beginning of period	819	(1,085)	33	(590)
Other comprehensive income (loss)	1,500	1,084	2,286	589
Balance, end of period	2,319	(1)	2,319	(1)
<b>Deficit:</b>				
Balance, beginning of period	(68,004)	(59,407)	(67,412)	(57,895)
Income/(loss) for the period	201	(2,520)	(390)	(4,032)
Deficit, end of period	(67,803)	(61,927)	(67,802)	(61,927)
<b>Total shareholders' equity</b>	<b>\$ 345,003</b>	<b>\$ 313,054</b>	<b>\$ 345,003</b>	<b>\$ 313,054</b>

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

# SABINA GOLD & SILVER CORP.

Condensed Consolidated Interim Statements of Cash Flows

(unaudited)

(Expressed in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Cash provided by (used in) operating activities:				
Loss for the period	\$ 201	\$ (2,520)	\$ (390)	\$ (4,032)
Adjustments for:				
Depreciation and accretion	17	17	23	45
Deferred income tax expense (recovery)	38	(196)	183	(564)
Part XII.6 tax	4	-	4	-
Interest income	(107)	(99)	(175)	(228)
Impairment of investment	-	1,771	-	1,773
Write-down of mineral properties	-	227	-	227
Loss (gain) on disposition of investment	(689)	14	(772)	14
Amortization of flow-through premium liability	(246)	-	(543)	-
Share-based payments	12	40	119	557
	(770)	(746)	(1,551)	(2,208)
Accounts receivable	(90)	1	(71)	48
Inventories	122	50	(244)	158
Prepaid expenses	(126)	(147)	(58)	(64)
Accounts payable and accrued liabilities	(591)	(1,064)	(472)	(667)
Cash used in operating activities	(1,455)	(1,906)	(2,396)	(2,733)
Interest received	41	95	115	253
Net cash used in operating activities	(1,414)	(1,811)	(2,281)	(2,480)
Cash flows provided by (used in) investing activities:				
Expenditures on deferred exploration*	(2,910)	(3,852)	(4,203)	(7,807)
Expenditures on property and equipment	(290)	-	(290)	-
Decrease in reclamation deposits	-	-	2	-
Proceeds on sale of short-term investments	(29,486)	5,567	(26,486)	6,488
Proceeds on disposition of investment	889	8	1,043	8
Net cash provided by/(used in) investing activities	(31,797)	1,723	(29,934)	(1,311)
Cash flows provided by (used in) financing activities:				
Issue of common shares for cash, net	30,395	-	30,396	-
Capital leases	(24)	(32)	(48)	(55)
Net cash provided by/(used in) financing activities	30,371	(32)	30,348	(55)
Net increase in cash and cash equivalents	(2,840)	(120)	(1,867)	(3,846)
Cash and cash equivalents, beginning of period	5,537	309	4,564	4,035
Cash and cash equivalents, end of period	\$ 2,697	\$ 189	\$ 2,697	\$ 189

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

\*Changes in accounts payable and accrued liabilities of \$0.5 million related to deferred exploration costs are included in investing activities for the six months ended June 30, 2016.

# SABINA GOLD & SILVER CORP.

Notes to Condensed Consolidated Interim Financial Statements  
(Tabular dollar amounts expressed in thousands of Canadian dollars)

For the three and six month periods ended June 30, 2016

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## 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 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 condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, IAS 34: Interim Financial Statements, and do not contain all of the information required for annual financial statements. These statements follow the same accounting policies and methods of application of the most recent annual audited financial statements. Accordingly, they should be read in conjunction with the most recent annual audited financial statements of the Company.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 9, 2016.

### (b) Basis of measurement and consolidation:

These condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

# SABINA GOLD & SILVER CORP.

Notes to Condensed Consolidated Interim Financial Statements  
(Tabular dollar amounts expressed in thousands of Canadian dollars)

For the three and six month periods ended June 30, 2016

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## 2. Basis of preparation, continued:

### (c) Functional and presentation currency:

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

### (d) Use of estimates and judgments:

The preparation of the condensed consolidated interim 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 are consistent with those disclosed in the Company's annual consolidated financial statements for the year ended December 31, 2015 and relate to the assessment of impairment of its mineral properties and the Hackett silver royalty, the provision for site reclamation, share-based payments and deferred income tax assets. Actual results may differ from these estimates.

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

## 3. Future changes in accounting standards:

There were no new standards effective January 1, 2016 that have an impact on the Company's financial statements. A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended June 30, 2016, and have not been applied in preparing these condensed consolidated interim financial statements. The Company's assessment of the impact of these new standards and amendments is detailed below.

### IFRS 9, Financial Instruments

This standard 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 condensed consolidated interim financial statements.

# SABINA GOLD & SILVER CORP.

Notes to Condensed Consolidated Interim Financial Statements  
(Tabular dollar amounts expressed in thousands of Canadian dollars)

For the three and six month periods ended June 30, 2016

## 4. Accounts receivable:

	June 30, 2016	December 31, 2015
GST receivable	\$ 148	\$ 96
Interest receivable	218	157
Other trade receivables	26	8
	\$ 392	\$ 261

## 5. Available-for-sale investments:

The fair values of the Company's available-for-sale investments are reported below:

Cost	2016	2015
Balance at January 1	\$ 2,730	\$ 2,944
Additions	-	-
Dispositions	(273)	-
Balance at March 31	2,457	2,944
Additions	-	33
Dispositions	(693)	(234)
Balance at June 30	\$ 1,764	\$ 2,743
<b>Accumulated unrealized holding losses</b>		
Balance at January 1	\$ (1,982)	\$ (763)
Changes in fair value recorded in other comprehensive income	869	(495)
Changes in fair value recorded directly in impairment	-	(2)
Dispositions	119	-
Balance at March 31	(994)	(1,260)
Changes in fair value recorded in other comprehensive income, net of tax	1,609	(509)
Dispositions	561	-
Balance at June 30	\$ 1,176	\$ (1,769)
<b>Carrying value</b>		
At March 31	\$ 1,463	\$ 1,684
At June 30	\$ 2,940	\$ 974

The fair values of these investments have been determined by reference to their quoted closing bid price at the reporting date (level one of the fair value hierarchy).

During the six month period ended June 30, 2016, the Company sold 2,300,000 shares in Pure Gold for net proceeds of \$1.0 million. As at June 30, 2016, the Company had 4,200,000 shares of Pure Gold remaining.



# SABINA GOLD & SILVER CORP.

Notes to Condensed Consolidated Interim Financial Statements  
(Tabular dollar amounts expressed in thousands of Canadian dollars)

For the three and six month periods ended June 30, 2016

## 6. Property and equipment:

<b>Cost</b>	Exploration camp and equipment	Office and equipment	Total
Balance at January 1, 2016	\$ 24,032	\$ 161	\$ 24,193
Adjustment	-	(7)	(7)
Balance at March 31, 2016	24,032	154	24,186
Additions	287	10	297
Balance at June 30, 2016	\$ 24,032	154	\$ 24,483
<b>Accumulated depreciation</b>			
Balance at January 1, 2016	\$ (14,183)	\$ (53)	\$ (14,236)
Depreciation	(841)	(6)	(847)
Balance at March 31, 2016	(15,024)	(59)	(15,083)
Depreciation	(814)	(15)	(829)
Balance at June 30, 2016	\$ (15,838)	\$ (74)	\$ (15,912)
<b>Carrying value</b>			
At January 1, 2016	\$ 9,849	\$ 108	\$ 9,957
At March 31, 2016	\$ 9,008	\$ 95	\$ 9,103
At June 30, 2016	\$ 8,194	\$ 80	\$ 8,571

At June 30, 2016, the net book value of exploration camp and equipment assets held under capital lease arrangements was \$245 thousand (December 31, 2015 - \$288 thousand).

# SABINA GOLD & SILVER CORP.

Notes to Condensed Consolidated Interim Financial Statements  
(Tabular dollar amounts expressed in thousands of Canadian dollars)

For the three and six month periods ended June 30, 2016

## 7. Mineral properties:

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

	June 30, 2016	December 31, 2015
Back River (Nunavut)	\$ 272,368	\$ 265,977
Wishbone (Nunavut)	11,731	11,731
Red Lake (Ontario)	5,687	5,686
	<b>\$ 289,786</b>	<b>\$ 283,394</b>

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
<b>Back River (Nunavut)</b>				
Balance, beginning of period	\$ 268,725	\$ 253,729	\$ 265,977	\$ 248,593
Additions:				
Drilling and camp support	927	145	1,502	145
Economic assessment	261	1,702	496	4,511
Environmental assessment	1,260	1,238	2,086	1,872
Geology & geophysics	267	287	382	493
Management & administration	82	461	230	761
Property maintenance	3	1	5	6
Share-based payments	29	-	35	308
Depreciation	814	875	1,655	1,749
	<b>3,643</b>	<b>4,709</b>	<b>6,391</b>	<b>9,845</b>
Balance, end of period	<b>\$ 272,368</b>	<b>\$ 258,438</b>	<b>\$ 272,368</b>	<b>\$ 258,438</b>
<b>Wishbone (Nunavut)</b>				
Balance, beginning of period	\$ 11,731	\$ 15,957	\$ 11,731	\$ 15,957
Write-down of mineral properties	-	(227)	-	(227)
Balance, end of period	<b>\$ 11,731</b>	<b>\$ 15,730</b>	<b>\$ 11,731</b>	<b>\$ 15,730</b>
<b>Red Lake (Ontario)</b>				
Balance, beginning of period	\$ 5,686	\$ 5,664	\$ 5,686	\$ 5,664
Additions:				
Geology & geophysics	-	15	-	15
Management & administration	-	3	-	3
Property maintenance	1	1	1	1
	<b>1</b>	<b>19</b>	<b>1</b>	<b>19</b>
Balance, end of period	<b>\$ 5,687</b>	<b>\$ 5,683</b>	<b>\$ 5,687</b>	<b>\$ 5,683</b>

# SABINA GOLD & SILVER CORP.

Notes to Condensed Consolidated Interim Financial Statements  
(Tabular dollar amounts expressed in thousands of Canadian dollars)

For the three and six month periods ended June 30, 2016

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## 7. 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.

# SABINA GOLD & SILVER CORP.

Notes to Condensed Consolidated Interim Financial Statements  
(Tabular dollar amounts expressed in thousands of Canadian dollars)

For the three and six month periods ended June 30, 2016

## 7. Mineral properties, continued:

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

#### (i) 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.

#### (ii) 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.

#### (iii) 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.

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

### Authorized number of common shares

At June 30, 2016, 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:

	2016		2015	
	# of shares	\$	# of shares	\$
Issued and outstanding as at January 1	199,688,668	355,355	194,019,926	352,435
Share issue costs	-	(6)	-	-
Issued on exercise of share options (note 9(a))	199,994	7	-	-
Fair value of options exercised	-	85	-	-
Balance March 31, 2016	199,888,662	355,441	194,019,926	352,435
Issued for cash, net	19,790,750	30,395	-	-
Deferred income tax effect of flow through shares and share issuance costs	-	538	-	-
Fair value of options exercised	271,490	138	-	-
Issued and outstanding at June 30	219,950,902	386,512	194,019,926	352,435

On May 20, 2016, the Company completed an equity financing of 19,790,750 Common Shares at \$1.63 per share for gross proceeds of \$32.3 million; costs associated with the financing totaled \$2.0 million.

# SABINA GOLD & SILVER CORP.

Notes to Condensed Consolidated Interim Financial Statements  
(Tabular dollar amounts expressed in thousands of Canadian dollars)

For the three and six month periods ended June 30, 2016

## 9. Share-based payments

### (a) Share purchase options

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

	2016		2015	
	Number of options	Average exercise price	Number of options	Average exercise price
Outstanding as at January 1	16,755,000	\$ 1.92	11,952,410	\$ 2.63
Exercised during the period	(199,994)	0.43	-	-
Forfeited or expired during the period	(1,944,006)	4.93	(1,486,000)	1.21
Granted during the period	190,000	0.91	4,250,000	0.42
Outstanding as at March 31	14,801,000	1.53	14,716,410	2.14
Exercised during the period	(271,490)	0.70	-	-
Forfeited or expired during the period	(82,510)	0.89	(411,900)	1.15
Outstanding at June 30	14,447,000	1.55	14,304,510	2.17
Exercisable as at June 30	13,947,000	\$ 1.58	13,554,510	\$ 2.23

As permitted under the Company's Stock Option Plan, 485,000 options were exercised as stock appreciation rights during the six months ended June 30, 2016, resulting in the issuance of 250,484 common shares with no cash proceeds. The common shares issued represent the difference between the market price of the common shares at the date of issuance and the exercise price of the stock options exercised divided by the market price at the exercise date. The difference between the number of options exercised and the number of shares issued is included in forfeited or expired options in the table above. In addition, 221,000 options were exercised during the six months ended June 30, 2016 for cash proceeds of \$138 thousand.

The following table summarizes the outstanding options as at June 30, 2016 by year of expiry. Of the outstanding options, 500,000 options were not fully vested at June 30, 2016.

Year	Number of options	Average exercise price
2016	365,000	\$ 3.73
2017	2,115,000	3.79
2018	2,625,000	2.48
2019	2,370,000	0.94
2020	6,782,000	0.60
2021	190,000	0.91
	14,447,000	\$ 1.55

# SABINA GOLD & SILVER CORP.

Notes to Condensed Consolidated Interim Financial Statements  
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For the three and six month periods ended June 30, 2016

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## 9. Share-based payments, continued:

### Employee compensation cost

During the three months ended June 30, 2016, the Company recorded \$41 thousand (2015 - \$40 thousand) in share-based payment costs, of which \$12 thousand (2015 - \$40 thousand) is presented as an operating expense in the statement of comprehensive loss and \$29 thousand (2015 - nil) is capitalized to mineral property costs.

During the six months ended June 30, 2016, the Company recorded \$154 thousand (2015 - \$900 thousand) in share-based payment costs, of which \$119 thousand (2015 - \$600 thousand) is presented as an operating expense in the statement of comprehensive loss and \$35 thousand (2015 - \$300 thousand) is capitalized to mineral property costs.

### (a) Share purchase options

#### 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 0.68% (2015 - 0.58%); a dividend yield of 0% (2015 - 0%); an expected volatility of 65.6% (2015 - 67.8%) and expected lives of stock options of 5.0 years (2015 - 5.0 years). The weighted average fair value of options granted in the period was \$0.50 per share (2015 - \$0.24). The expected volatility is estimated by considering historic average share price volatility.

### (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 June 30, 2016, the 5 million common shares related to Series B Special Unit Warrants remain issuable upon a positive production decision.

# SABINA GOLD & SILVER CORP.

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## 10. Flow-through share premium liability:

	2016
January 1, 2016	\$ 577
Amortization (i)	(297)
March 31, 2016	280
Amortization (i)	(246)
June 30, 2016	\$ 34

(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. During the first six months of 2016, the Company incurred \$2.0 million of flow-through eligible expenditures and had \$0.2 million of expenditures yet to be incurred.

## 11. Related parties:

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Salaries and benefits	\$ 416	\$ 462	\$ 833	\$ 947
Stock-based compensation, non-cash	41	40	110	626
	\$ 457	\$ 502	\$ 943	\$ 1,573

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.

## 12. 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 June 30, 2016 are as follows:

2016	\$ 58
2017	57
2018	52
2019	141
Total minimum lease payments	308
Less amount representing interest (at 5.7%)	(28)
Present value of net minimum capital payments	280
Current portion of obligation under capital leases	(86)
	\$ 194

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

### 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 \$32 thousand, 2017 \$54 thousand.

### 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.

## 13. 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:

	June 30, 2016	December 31, 2015
Tax loss carry forwards	\$ 19,860	\$ 18,934
Financing costs	546	114
Provision for closure and reclamation	558	558
Other	(114)	46
Flow-through share effect on mineral properties	(48,858)	(48,282)
Mineral properties	(10,530)	(9,647)
Property and equipment	3,326	2,887
Deferred tax liabilities	\$ (35,212)	\$ (35,390)

The Company has tax loss carry forwards at June 30, 2016 of \$73.6 million that expire from 2031 to 2036 (2015 - \$62.4 million).



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 six-month period ended June 30, 2016. The MD&A was prepared as of August 9, 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 an intermediate 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 additional exploration properties in Nunavut and in the Red Lake gold camp in Ontario.

## **Q2 2016 Highlights:**

- The Company had cash and cash equivalents and short-term investments of \$43.0 million at June 30, 2016.
- On May 20, 2016, the Company completed a bought deal financing of 18,410,000 common shares at \$1.63 per share. In addition, the over-allotment option granted to the Underwriters was exercised, in part, for 1,380,750 common shares at the offering price for total gross proceeds of approximately \$32.3 million. The Underwriters received a cash commission of 5.0% of the gross proceeds of the financing.
- On May 25, 2016, the Company announced preliminary metallurgical optimization test results on its Back River gold project. A program to assess potential metallurgical improvements including a coarser grind, long leach resonance time and flotation followed by fine grinding of concentrates was commenced in Q1 2016. The results from this first round of test work have been positive with recoveries for three of four composite samples from the main deposits showing a potential to increase in gold recoveries. Initial desktop studies have indicated that changing to a flotation circuit could have positive impacts on both capital and operating expenditures. Further flotation test work on this opportunity is ongoing.
- On June 15, 2016, the Company received the report of the Nunavut Impact Review Board ("NIRB") to the Minister of Indigenous and Northern Affairs (the "Minister") in relation to Sabina's proposal on its Back River gold project. In its report, the NIRB recommended to the Minister that the Project not proceed to the licensing and permitting phase at this time but indicated that the proposal could be reconsidered once more information is provided to address uncertainties regarding certain effects predictions and mitigation measures. The Minister is responsible to make a determination on how to proceed and has three main options: 1) reject NIRB's recommendation; 2) refer the Project back to NIRB for further review; or, 3) accept NIRB's recommendation.
- Subsequent to the quarter, on July 20, 2016, the Company submitted a response to the NIRB report to the Minister detailing what the Company believes are strong grounds for the Minister to reject the NIRB recommendation and refer it back to NIRB to set terms and conditions for a Project Certificate. The Company believes that the NIRB report does not fully consider the support of the Project by the local communities and Inuit representatives in the region or the evidence presented on the Project.
- During the quarter, the Company completed an exploration program which consisted of approximately 2,700 meters of drilling, focussed on drill testing three targets at the Goose property: Kogoyok, Hivogani and Convergence. A new discovery was made at the Convergence target where visible gold was identified within a mineralized drill interval that assayed 3.84 g/t Au over 3.70 meters. Encouraging results also continued at the Kogoyok target, where gold mineralization was intersected in drilling with visible gold identified in multiple rock units over a broad area. Drilling at the Hivogani target continued to expand the host area and further characterized the new mineralization styles.

- On June 8, 2016, the Company held its Annual General and Special Meeting of the Shareholders. All eight director nominees were elected at the meeting and the Company's proposed new Share Compensation Plan was adopted.
- For the three months ended June 30, 2016, the Company reported net income of \$0.2 million or \$0.00 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 18 Federal Mining Claims covering approximately 55,000 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 2016 work program for Back River is focused on de-risking the Project and advancing towards development by completing the environmental assessment process, completing certain value-added engineering studies and completing various exploration programs.

#### ***Back River Project Exploration***

The 2016 exploration program at Back River, consisting of approximately 2,700 meters of drilling commenced on March 15, 2016 and was completed on April 22, 2016. The program focussed on testing the sub-surface size, continuity and shape of near-surface mineralization at the Kogoyok prospect which has had no previous drilling (see Sabina news release October 13, 2015). Drill testing also occurred at the Hivogani and Convergence target areas, two drill targets with the potential for near-surface gold mineralization in the vicinity of proposed infrastructure on the Back River Project. In addition, a focused summer fieldwork program was completed in June comprised of geological mapping and prospecting programs. The objective of this summer program is to advance numerous target areas at the Goose, George, and Boulder properties, while further identifying new exploration opportunities.

The Kogoyok prospect was discovered and partially characterized through 2015 field work. New high-grade mineralization discoveries from outcrop grab samples (up to 33.86g/t Au grab sample) occur near the convergence of an untested segment of iron formation stratigraphy with gold-bearing felsic intrusions. The 2016 exploration drilling at Kogoyok consisted of 10 holes totalling 1474m, wherein numerous mineralized intercepts were encountered over a broad area at vertical intersection depths from 20 to 130m (see Sabina news release June 9, 2016). A large zone of gold mineralization was identified within the Kogoyok target, up to 10m in width over 250m strike length, coincident with visible gold identified within several units of the stratigraphy. Results from Kogoyok included drillhole16GSE492 (2.62g/t over 2.30m, with visible gold) and drillhole16GSE494 (2.37g/t over 1.90m, with visible gold).

At Convergence, a horizontal loop electromagnetic ("HLEM") geophysical survey grid covering approximately 12 line kilometres identified a total of 8 new anomalies that are coincident with Back River iron formation stratigraphy. Drill testing of one of the anomalies in hole 16GSE500 returned a new discovery with an intercept of 3.84g/t over 3.70m including visible gold noted within multiple samples (see Sabina new release June 9, 2016). Follow up drilling of an additional three holes in this zone continued to return significant gold assays analogous to Back River style mineralization. The Company is encouraged by the newly discovered gold zone with an additional five anomalies remaining for exploration follow up.

At the Hivogani zone, two drill holes spaced 500 meters apart and totaling 397 meters were completed within a broadly defined 2km target area characterized by anomalous gold values from rock and till sampling and moderate to strong induced polarization ("IP") chargeability trends. Results of the recent drilling confirmed the correlation of broad areas of gold mineralization with IP chargeability anomalies, areas of increased quartz veining, alteration, and disseminated

sulphide mineralization, as first described at Hivogani in 2015. Drill hole 16GSE509 intersected 1.0m of 2.68g/t Au in a zone of increased veining and alteration (see Sabina news release June 9, 2016). Sabina is encouraged by the new deposit model of clastic sediment-hosted gold within Back River stratigraphy and continues to actively explore the concept on a broad scale

### **Back River Project Development**

On May 20, 2015, the Company completed and announced results of its feasibility study of a 6,000 tonne per day ("tpd") operation ("6KFS") on the Back River project. Base case economics in Canadian dollars, were based on a gold price of US\$1,200 per ounce Au and an exchange rate of 0.87 (US\$:C\$). The highlights 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 tpd producing an average of ~346,000 ounces Au per year. The initial capital was estimated to be \$695 million and sustaining capital was estimated to be \$529 million (including closure). Total life-of-mine ("LOM") cash costs were US\$535 per ounce Au (including third party royalties, refining and transport) and LOM all-in sustaining cash costs were US\$648 per ounce 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 feasibility study of a 3,000 tonne per day operation ("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.

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](http://www.sedar.com).

During the quarter, work was ongoing on various project optimization studies to analyze potential impacts of current industry conditions, including: lower energy prices; opportunities for Canadian vendors for capital equipment and supplies given weakness of the Canadian dollar; and accessibility of high-quality used equipment. Work also continued on a comprehensive project execution plan focusing on identifying modular opportunities, detailed design and procurement, logistics and construction timelines for the Project. A request for proposal was issued on May 25, 2016 to four potential engineering firms for the value and basic engineering phase of the project; the proposal process is expected to take approximately eight weeks to complete.

Also during the quarter, assessment continued on potential metallurgical improvements including an option for coarser grind as part of the CIP circuit contemplated in the feasibility study; and, an option for flotation with the addition of regrinding concentrates before leaching. Positive preliminary results on the initial flotation test work were received in the quarter. Four representative composites were created, one for each of the Llama, Goose, Umwelt open pit and Umwelt

underground deposits. Recoveries for three of four composites (Umwelt open pit, Umwelt underground and Llama, representing approximately 71% of the reserves in the feasibility study) showed a potential increase in gold recoveries of approximately 2-3%. The Goose composite showed a potential reduction of approximately 3-4% in gold recovery. If further studies support the preliminary test work, this could result in an overall increase of 25,000 ounces of gold produced over the current life of mine. Initial desktop studies have also indicated that changing to a flotation circuit could have positive impacts on both capital and operating expenditures. Operating costs would largely be impacted by a potential reduction in installed power, and a reduction in reagent consumption. Further flotation test work on this opportunity is ongoing.

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 Community and Social Responsibility***

#### ***Environmental Assessment and Permitting***

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 presented scientific and traditional 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 the 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 the 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 coordinated environmental assessment process was not optimal for the Company. The coordinated process provides companies the option to concurrently complete the regulatory review with the NIRB and the NWB. 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 further series of community tours in the Kitikmeot region which provided a forum to continue to inform the communities while receiving input about the planned Project. The Company filed the Back River FEIS on November 23, 2015. On December 9, 2015, the NIRB determined that the document was conformant with NIRB guidelines and final technical review commenced.

The final public hearings on the FEIS occurred on April 25-30, 2016 in Cambridge Bay, Nunavut. During the public hearings, the Project received support from the Kitikmeot Inuit Association ("KIA"), and all of the Kitikmeot communities and federal and territorial government agencies.

On June 15, 2016, the Company received the report of the NIRB to the Minister on Sabina's proposal for the Back River gold project. In its report, the NIRB recommended to the Minister that the Project not proceed to the licensing and permitting regulatory phase at this time but indicated that the proposal could be reconsidered once more information is provided to address uncertainties regarding certain effects predictions and mitigation measures. The Minister is responsible to make a determination on how the Project should proceed and has three main options: 1) reject NIRB's recommendation; 2) refer the Project back to NIRB for further review; or, 3) accept NIRB's recommendation.

Following the receipt of the NIRB report, Sabina held numerous meetings within the communities and found that there continues to be broad support for the Project as evidenced by letters that have been sent to Minister (and posted on the NIRB website) recommending that the Project proceed.

Subsequent to the quarter, on July 20, 2016, the Company submitted a response to the NIRB report to the Minister detailing what the Company believes are strong grounds for the Minister to reject the NIRB recommendation and refer it back to NIRB to set terms and conditions for a Project Certificate.

In summary, in the view of the Company, the NIRB report:

- does not give appropriate weight to the support of the Project by Inuit representatives and communities;
- does not give appropriate weight to the socio-economic benefits of the Project to be secured under an Inuit impact and benefit agreement to be negotiated with the KIA;
- makes errors by reaching conclusions that are not consistent with the evidence submitted by experts, responsible government agencies, and the KIA on the monitoring and mitigation measures, including adaptive management for the protection of caribou;
- does not comply with requirements for considering matters under the provisions of Part 12 of the Nunavut Land Claims Agreement; and,
- does not give appropriate weight to the views, mandates and responsibilities of federal and territorial regulatory agencies, and the KIA in addressing any "uncertainties" relating to environmental protection.

#### *Land Tenure Agreements*

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 NLCA and is a participant in the environmental assessment process of Back River.

In April, 2014, the Company and the KIA jointly announced that they had finalized the details of the Development Trust and Capacity Funding agreements. 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 licencing processes. Funding will occur over the period of these processes. 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.

In Q1 2016, the Company commenced negotiations with the KIA regarding land tenure and associated agreements and have agreed to fund certain KIA costs related to those negotiations.

#### **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.

Following formal closing, which occurred on November 14, 2011, Glencore is required to spend not less than \$50 million on the Sold Properties ("FS Expenditures"). Glencore can elect to incur additional FS Expenditures of not less than \$10 million by each of the next three anniversaries. As of November, 2015, Glencore had met the aggregate required spending on the project.

If Glencore has not by the seventh anniversary of the completion date publicly announced a definitive decision to begin construction of a mine within 12 months following such seventh anniversary, Sabina may exercise a right to buy back ("Buy Back Right") the Sold Properties as they then exist for a cash purchase price equal to 100% of the FS 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 spending commitment.

At December 31, 2015, Glencore's reported mineral resources for the Hackett River project are 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 previous year's 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](http://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 50 claims and one lease covering approximately 44,000 hectares.

### **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).

#### **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.

**Summary of Results**

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

	<b>2016</b>		<b>2015</b>	
	<b>Q2</b>	<b>Q1</b>	<b>Q4 <sup>(1)</sup></b>	<b>Q3</b>
Total assets	\$ 383,270	\$ 351,876	\$ 351,022	\$ 354,083
Interest income	107	69	70	98
Earnings/(loss)	201	(592)	(4,616)	(869)
Per share	\$ 0.00	\$ (0.00)	\$ (0.03)	\$ (0.00)
	<b>2015</b>		<b>2014</b>	
	<b>Q2 <sup>(2)</sup></b>	<b>Q1</b>	<b>Q4 <sup>(3)</sup></b>	<b>Q3</b>
Total assets	\$ 353,591	\$ 356,278	\$ 357,442	\$ 360,652
Interest income	99	129	151	188
Earnings/(loss)	(2,520)	(1,512)	(2,260)	(512)
Per share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.00)

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.

**Overall Performance**

For the three-month period ended June 30, 2016, the Company reported net income of \$0.2 million, favourable by \$2.7 million compared to the same period of 2015. The difference quarter-over-quarter was largely the result of write-downs that were recognized in Q2 2015. The Company recorded an impairment loss of \$1.8 million on its equity investment in Pure Gold Mining Inc. ("Pure Gold"); and, a write-down of \$0.2 million for deferred explorations costs on certain non-core mineral claims that the Company elected to drop on its Wishbone property. Additionally, in Q2 2016, the Company realized a gain realized of \$0.7 million on the sale of a portion of its equity investment in Pure Gold.

For the six-month period ended June 30, 2016, the Company reported a net loss of \$0.4 million, favourable by \$3.6 million compared to the same period of 2015. The difference for the year was as noted above and lower operating expenses in 2016. For the six-month period in 2016, operating expenses were \$1.7 million compared to \$3.0 million in the same period in 2015, favourable by \$1.3 million. Significant variances, favourable/(unfavourable) are summarized below for the six-month period ended June 30, 2016.

Expense	Variance \$ thousands	Description
Administration and general	(\$37)	Various, including that a portion of office lease costs were allocated to deferred exploration costs in 2015, while nil was allocated 2016 due to reduction of the size of the new office.
Insurance	\$30	Reduced certain liability limits; premium reductions.
Listing, transfer and shareholder	\$129	Reduced number of directors and 50% reduction in directors' fees; reduced share listing and filing fees.
Professional services	(\$28)	Higher legal costs due to revision of share compensation plan.
Salaries and severance	\$586	Staff reductions and severances in 2015.
Share-based payments	\$438	Largely the result of a timing difference; stock options for 2016 were granted in December 2015 rather than in January; partially offsetting were grants in 2016 for a new director and employee.
Write-down of mineral properties	\$227	Write-down of non-core mineral properties which were dropped in 2015; nil in 2016.

For the three and six month periods ending June 30, 2016, net finance income was higher by \$0.3 million and \$0.5 million respectively in 2016 than the same period in 2015 due to amortization of the flow-through premium associated with flow-through financings completed in 2015.

For the three and six month periods ending June 30, 2016, the Company realized a gain of \$0.7 million and \$0.8 million respectively on the sale of certain equity investments (2015 – nil). In Q2 2015, the Company recorded an impairment loss on its equity investments of \$1.8 million (2016 – nil).

For the three and six month periods ending June 30, 2016, deferred income tax expense was \$38 thousand and \$0.2 million respectively compared to a deferred income tax recovery of \$0.2 million and \$0.6 million in the same periods in 2015. The difference was primarily the result of renunciation of flow-through expenditures incurred in 2016.

For the three and six month periods ending June 30, 2016, total deferred exploration and evaluation expenditures were \$3.6 million and \$6.3 million respectively compared to \$4.7 million and \$9.8 million in the comparable periods in 2015. The decrease of \$0.8 million and \$3.2 million was primarily the result of decreased economic assessment costs partially offset by higher drilling and environmental assessment costs. Significant variances, favourable/(unfavourable), are summarized below for the six-month period ending June 30, 2016.

Deferred Exploration Expenditures	Variance \$ thousands	Description
Drilling and camp support	(1,357)	In 2016, an exploration drilling program was completed (discussed in the Results of Operations section of this MD&A), while in 2015 the Company completed a smaller program in conjunction with other activities at site.
Economic assessment	4,015	In 2016, expenditures relate primarily to certain value-added engineering studies, while in 2015, expenditures were for completion feasibility studies on Back River.
Environmental assessment	(214)	In 2016, expenditures relate to completion of the FEIS and initial work on a Type-A water license application, while in 2015, work focused on collection of additional base-line data and community engagement meetings.
Geology & geophysics	111	Staff reductions and severance in 2015.
Management & administration	531	Staff reductions and severances in 2015; lower exploration office lease costs in 2016.
Share-based payments	273	As noted above, timing difference for 2016 stock options which were granted in December 2015 rather and in January 2016.
Depreciation	94	

### **Liquidity and Capital Resources**

The Company had cash and cash equivalents and short-term investments of \$43.0 million at June 30, 2016 compared to cash and cash equivalents of \$18.4 million at December 31, 2015.

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 June 30, 2016, the Company had approximately \$0.2 million of qualifying expenditures yet to be incurred to satisfy the requirements of these flow-through financings.

On May 20, 2016, the Company completed a bought deal financing of 18,410,000 common shares at \$1.63 per share. In addition, the over-allotment option granted to the Underwriters was exercised, in part, for 1,380,750 common shares at the offering price for total gross proceeds of approximately \$32.3 million. The Underwriters received a cash commission of 5.0% of the gross proceeds of the financing. The net proceeds of the financing will be used to advance development



of the Company's Back River gold project including detailed engineering and permitting on the Project and for working capital and general corporate purposes.

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 will 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 \$2.9 million at June 30, 2016 (\$0.7 million – December 31, 2015).

During the six-month period ended June 30, 2016, the Company sold 2,300,000 shares in Pure Gold for net proceeds of \$1.0 million.

### **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 and/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 March 31, 2016, 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 (the "Trust") 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 Vancouver which expires on October 30, 2017. Minimum rental payments for these leases are as follows:

(in thousands of Canadian dollars)		
2016	\$	32
2017		54
	\$	86

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		58
2017		57
2018		52
2019		141
	\$	308

### **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 reported the results of two feasibility studies (6KFS and 3KFS), both of which demonstrated robust project economics. The Company believes that the 3KFS presents a viable path forward for Sabina to commence production in the Back River district.

In 2016, the Company is focused on continuing to optimize the economics and de-risk the Back River project, including certain project optimization studies and the ongoing environmental and permitting processes. As discussed in the Back River Project Community and Social Responsibility section of this MD&A, on June 15, 2016, the Company received the report from NIRB on the Company's FEIS for Back River. The NIRB recommendation was that the project not proceed to the licensing and permitting phase at this time. The Federal Minister of INAC must now decide how the Project should proceed. Sabina, in its submission to the Minister following receipt of the NIRB report, presented what the Company believes to be strong grounds for the Minister to reject the NIRB recommendation and refer it back to NIRB to set terms and conditions for a Project Certificate. The Minister has three main options: 1) reject NIRB's recommendation; 2) refer the Project back to NIRB for further review; or, 3) accept NIRB's recommendation. While there is no legislative requirement regarding the timing of the Minister's decision, the Company believes that the Minister may be in a position in the fourth quarter of 2016 to make a determination on how the Project should proceed.

Depending on the outcome of the Minister's decision, the Company may need to complete additional environmental assessment processes. If the Project successfully passes through this stage of review, the Company could be in a position to complete the environmental assessment phase and receive a Project Certificate and the Company would complete and submit its Type-A water license application to the NWB.

The Company had approximately \$18.4 million of cash and cash equivalents and short-term investments as at December 31, 2015 and has budgeted expenditures of approximately \$11.0 million for planned activities on Back River and corporate costs in 2016. At June 30, 2016, the Company had \$43.0 million of cash and cash equivalents and short-term investments.

### **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 \$290.0 million at June 30, 2016 (\$283.4 million – December 31, 2015).

### **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 June 30, 2016, 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 0.68% (2015 – 0.58%); a dividend yield of 0% (2015 – 0%); an expected volatility of 65.6% (2015 – 67.8%) and expected lives of stock options of 5.0 years (2015 – 5.0 years). The weighted average fair value of options granted in the period was \$0.50 per share (2015 - \$0.24). 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 June 30, 2016 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**

Sabina's management is responsible for establishing and maintaining adequate disclosure controls and internal control over financial reporting. Any system of internal controls, no matter how well designed, has inherent limitations. As a result, even those systems determined to be effective can only provide reasonable assurance regarding the preparation and presentation of our financial statements. There have been no changes in our disclosure controls and internal control over financial reporting in the first quarter of 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Outstanding Share Data**

As at August 8, 2016, there were 220,010,902 common shares outstanding and there were options and warrants outstanding to purchase an aggregate of 19,287,000 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](http://www.sedar.com) and on the Company's website at [www.sabinagoldsilver.com](http://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.