



Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

## **Management's Report**

The accompanying consolidated financial statements have been prepared by management and are in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Other information contained in this document has also been prepared by management and is consistent with the data contained in the consolidated financial statements. A system of internal control has been developed and is maintained by management to provide reasonable assurance that assets are safeguarded and financial information is accurate and reliable.

The Board of Directors approves the consolidated financial statements and ensures that management discharges its financial reporting responsibilities. The Board's review is accomplished principally through the Audit Committee, which is composed of non-executive directors. The Audit Committee meets periodically with management and the auditors to review financial reporting and control matters.

"Bruce McLeod"  
President and Chief Executive Officer

"Elaine Bennett"  
Vice President, Finance and Chief Financial Officer

Vancouver, British Columbia, Canada  
March 12, 2018



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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Sabina Gold & Silver Corp.

We have audited the accompanying consolidated financial statements of Sabina Gold & Silver Corp., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

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



*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sabina Gold & Silver Corp. as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

*KPMG LLP*

Chartered Professional Accountants

Vancouver, Canada

March 12, 2018

# SABINA GOLD & SILVER CORP.

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

	December 31, 2017	December 31, 2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 14,124	\$ 8,161
Short-term investments	18,227	31,700
Accounts receivable (note 5)	336	351
Inventory	1,640	1,397
Prepaid expenses	192	69
	<u>34,519</u>	<u>41,678</u>
Available-for-sale investments (note 6)	1,119	1,690
Property and equipment (note 7)	4,951	7,163
Mineral properties (note 8)	306,824	287,293
Hackett silver royalty (note 9)	34,754	34,754
Reclamation deposits	2,227	2,227
<b>Total assets</b>	<b>\$ 384,394</b>	<b>\$ 374,805</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,077	\$ 1,134
Flow-through share premium liability (note 13)	1,116	-
Current portion of capital lease obligation (note 15)	51	56
	<u>3,244</u>	<u>1,190</u>
Capital lease obligation (note 15)	134	174
Provision for site reclamation (note 10)	2,238	2,174
Deferred income tax liability (note 18)	33,759	32,881
<b>Total liabilities</b>	<b>39,375</b>	<b>36,419</b>
Equity:		
Share capital (note 11)	396,377	386,613
Contributed surplus (note 12)	25,054	23,961
Accumulated other comprehensive income	861	1,289
Deficit	(77,273)	(73,477)
<b>Total equity</b>	<b>345,019</b>	<b>338,386</b>
<b>Total liabilities and equity</b>	<b>\$ 384,394</b>	<b>\$ 374,805</b>

Nature of operations (note 1)  
Commitments (note 15)  
Subsequent event (note 19)

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

Approved on behalf of the Board:

"Bruce McLeod" Director

"Tony Walsh" Director

# SABINA GOLD & SILVER CORP.

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

For the years ended December 31, 2017 and 2016

	2017	2016
Expenses:		
Administration and general	\$ 487	\$ 438
Depreciation	49	50
Insurance	93	102
Listing, transfer and shareholder	508	391
Professional services	766	334
Salaries and severance	2,307	1,804
Share-based payments (note 12(a))	1,145	143
Travel	252	152
Write-down of mineral properties (note 8(a))	-	7,099
	<u>5,607</u>	<u>10,513</u>
Loss from operating activities	(5,607)	(10,513)
Net finance income:		
Interest income	564	497
Amortization of flow-through premium (note 13)	1,730	577
	<u>2,294</u>	<u>1,074</u>
Loss before disposition of available-for-sale investments	(3,313)	(9,439)
Gain on disposition of available-for-sale investments (note 6)	607	1,343
Loss before income taxes	(2,706)	(8,096)
Deferred income tax recovery (expense) (note 18)	(1,090)	2,031
Loss for the period	(3,796)	(6,065)
Other comprehensive income (loss):		
Available-for-sale investments, change in fair value, net of tax	179	2,599
Available-for-sale investments, disposal transferred to profit and loss	(607)	(1,343)
Unrealized gain (loss) on available-for-sale investments	(428)	1,256
Comprehensive loss	<u>\$ (4,224)</u>	<u>\$ (4,809)</u>
Loss per share, basic and diluted	\$ (0.02)	\$ (0.03)
Weighted average number of common shares outstanding	224,050,963	212,271,954

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

# SABINA GOLD & SILVER CORP.

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

For the years ended December 31, 2017 and 2016

	2017	2016
Share capital:		
Balance, beginning of period	\$ 386,613	\$ 355,355
Shares issued, net of share issue costs	11,628	30,458
Fair value of options transferred to share capital	778	260
Flow-through premium transferred to deferred liability (note 13)	(2,846)	-
Deferred income tax effect of flow through shares and issuance costs	204	540
Balance, end of period	396,377	386,613
Contributed surplus:		
Balance, beginning of period	23,961	24,043
Fair value of share-based payments included in operating expenses	1,145	143
Fair value of share-based payments for accrued compensation	126	35
Fair value of share-based payments capitalized to mineral properties	600	-
Fair value of options transferred to share capital	(778)	(260)
Balance, end of period	25,054	23,961
Accumulated other comprehensive income:		
Balance, beginning of period	1,289	33
Other comprehensive (loss) income	(428)	1,256
Balance, end of period	861	1,289
Deficit:		
Balance, beginning of period	(73,477)	(67,412)
Loss for the period	(3,796)	(6,065)
Balance, end of period	(77,273)	(73,477)
Total equity	\$ 345,019	\$ 338,386

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

# SABINA GOLD & SILVER CORP.

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

Years Ended December 31, 2017 and 2016

	2017	2016
Cash provided by (used in) operating activities:		
Loss for the period	(3,796)	(6,065)
Adjustments for:		
Depreciation	49	50
Deferred income tax expense (recovery)	1,090	(2,031)
Interest income	(564)	(497)
Write-down of mineral properties	-	7,099
Gain on disposition of investment	(607)	(1,343)
Amortization of flow-through premium liability	(1,730)	(577)
Share-based payments	1,145	143
Other	(12)	9
	(4,425)	(3,212)
Accounts receivable	(147)	38
Inventories	(243)	(227)
Prepaid expenses	(123)	62
Accounts payable and accrued liabilities	879	(161)
	(4,059)	(3,500)
Interest received	723	369
Net cash used in operating activities	(3,336)	(3,131)
Cash flows provided by (used in) investing activities:		
Expenditures on deferred exploration*	(16,440)	(6,894)
Expenditures on property and equipment	(63)	(572)
Decrease in reclamation deposits	-	2
Net proceeds (purchases) of short-term investments	13,473	(17,886)
Proceeds on disposition of available-for-sale investments	745	1,718
Net cash used in investing activities	(2,285)	(23,632)
Cash flows provided by (used in) financing activities:		
Issue of common shares for cash, net of share issue costs	11,629	30,458
Capital leases	(45)	(98)
Net cash provided by financing activities	11,584	30,360
Net increase in cash and cash equivalents	5,963	3,597
Cash and cash equivalents, beginning of period	8,161	4,564
Cash and cash equivalents, end of period	14,124	8,161

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

\*Changes in accounts payable and accrued liabilities of \$0.2 million (2016 – \$0.6 million) related to deferred exploration costs are included in investing activities for the year ended December 31, 2017.



# SABINA GOLD & SILVER CORP.

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

For years ended December 31, 2017 and 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 ("Back River 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, the proceeds from a financing that closed on January 19, 2018 (note 19) and that certain of the Company's expenditures are discretionary in nature, and which can be deferred as required without significant impact on the Company or its mineral properties.

## 2. Basis of preparation

### a) Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on March 12, 2018.

The accounting policies set out in note 3 have been applied consistently to all years presented in these consolidated financial statements.

### b) Basis of measurement and consolidation

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

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

### c) Functional and presentation currency

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

### d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Significant judgement is applied in the determination of the Company's ability to continue as a going concern. Significant areas requiring the use of management estimates relate to the assessment of impairment of its mineral properties and the Hackett silver royalty (note 3(g)(ii)), the provision for site reclamation

# SABINA GOLD & SILVER CORP.

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

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(notes 3(h) and 10), share-based payments (notes 3(j) and 12(a)), and deferred income tax assets (notes 3(i) and 18). Actual results may differ from these estimates.

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

### 3. Significant accounting policies

#### a) Financial instruments

##### (i) Non-derivative financial assets

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

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

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

The Company's non-derivative financial assets are its cash and cash equivalents, short-term investments, accounts receivables, available-for-sale investments and reclamation deposits.

##### *Financial assets at fair value through profit or loss*

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

##### *Held-to-maturity financial assets*

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

##### *Loans and receivables*

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

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

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## *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Company's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and presented within equity in the fair value reserve. Impairment losses are recognized if there is objective evidence of impairment that occurred after the initial recognition of the asset. Objective evidence would be if there has been a significant or prolonged decline in the fair value of the equity securities below its cost. The significance of the decline in fair value is assessed using both quantitative and qualitative factors. Volatility of the fair value may be considered in determining whether the decline is significant. Prolonged is measured against the period of time that the fair value has been below cost. When an investment is sold or no longer classified as available-for-sale, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

## (ii) Non-derivative financial liabilities

All financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or they expire.

The Company's non-derivative financial liabilities are its accounts payable and accrued liabilities.

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

## (iii) Share capital

### *Common shares*

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

### *Flow-through common shares*

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

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

## b) Cash and cash equivalents

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

## c) Short-term investments

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

## d) Inventories

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

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e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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

(ii) Depreciation

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

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

The depreciation rates used are as follows:

Office furniture	20% declining balance
Computer and other equipment	30% declining balance
Leasehold improvements	Straight-line over the life of the lease
Exploration camp and equipment	Straight-line over the estimated useful life, (2 to 16 years)

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

f) Mineral properties

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

Management reviews the carrying value of capitalized exploration costs at least annually and when facts and circumstances suggest that the carrying amount may exceed its recoverable amount, considers if any evidence of impairment exists. In the case of undeveloped projects there may be no resources; or only inferred or indicated resources to form a basis for the impairment review. The impairment review is based on the exploration and evaluation results to-date and a status report regarding the Company's intentions for development of the mineral property.

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

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

g) Impairment

(i) Financial assets (including receivables)

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

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

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

## (ii) Non-financial assets

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

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

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

## h) 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.

## i) Leases

### (i) Determining whether an arrangement contains a lease

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

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

### (ii) Leased asset

Assets held by the Company under leases that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower

# SABINA GOLD & SILVER CORP.

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of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

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

### (iii) Lease payments

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

### j) Share-based payments

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

### k) Finance income and finance costs

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

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

### l) Income tax

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

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

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

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

### m) Loss per share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares, which comprise share options granted to



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employees and share purchase warrants. For the years ended December 31, 2017 and 2016, diluted loss per share is the same as basic loss per share as the effect of all outstanding options and warrants would be anti-dilutive.

n) Changes in accounting policies – new and amended standards

There were many new standards and interpretations effective for January 1, 2017; however, none of these new standards had an impact on the Company's consolidated financial statements.

## 4. Future changes in accounting standards

A number of new accounting standards, and amendments to standards and interpretations, are not yet effective for the period ended December 31, 2017, and have not been applied in preparing these consolidated financial statements. The Company's assessment of the impact of these new standards and amendments is detailed below.

### IFRS 9, Financial Instruments

This standard replaces IAS 39, Financial Instruments: Recognition & Measurement. IFRS 9 details new requirements for classifying and measuring financial assets. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss model" for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. The standard becomes effective for annual periods beginning on or after January 1, 2018, which is the date the Company will adopt IFRS 9. An assessment has been made and the impact to the Company's consolidated financial statements will be to reclassify its available-for-sale investments to fair value through profit or loss. The Company intends to adopt IFRS 9 retrospectively without restatement of comparative amounts resulting in a reclassification of \$0.9 million from accumulated other comprehensive income to deficit on January 1, 2018. Future changes in the fair value these available-for-sale investments will be recorded directly in profit or loss. No other differences of any significance have been noted in relation to the adoption of IFRS 9.

### 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 will assess the impact of this new standard for the Company's current corporate office lease which expires in May 2020 as well as any new leases entered into prior to adoption.

## 5. Accounts receivable

	2017	2016
GST receivable	\$ 124	\$ 38
Interest receivable	127	285
Other trade receivables	85	28
	\$ 336	\$ 351

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

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## 6. Available-for-sale investments

At December 31, 2017 and December 31, 2016, the Company's available-for-sale investments were comprised of common shares of Pure Gold Mining Inc. ("Pure Gold") which were recorded in the consolidated statement of financial position at their fair value. The fair values of these investments have been determined by reference to their quoted closing bid price at the reporting date. At December 31, 2017 the Company had 1,998,000 common shares of Pure Gold with a fair value of \$1.1 million. At December 31, 2016 the Company had 3,250,000 common shares of Pure Gold with a fair value of \$1.7 million.

During the year ended December 31, 2017, the Company sold 1,252,000 common shares (2016 – 3,250,000 common shares) of Pure Gold for net proceeds of \$0.7 million (2016 – \$1.7 million). On disposition of these common shares the Company recognized gains of \$0.6 million (2016 – \$1.3 million) and such amounts were transferred from accumulated other comprehensive income to profit and loss at the time of the disposition.

There were no impairment losses during years ended December 31, 2017 and 2016 respectively.

## 7. Property and equipment

<b>Cost</b>	Exploration camp and equipment		Office and equipment		Total
Balance at January 1, 2016	\$	24,032	\$	161	\$ 24,193
Additions		587		3	590
Dispositions		(17)		-	(17)
Balance at December 31, 2016		24,602		164	24,766
Additions		3		63	66
Balance at December 31, 2017	\$	24,605	\$	227	\$ 24,832
<b>Accumulated depreciation</b>					
Balance at January 1, 2016	\$	(14,183)	\$	(53)	\$ (14,236)
Depreciation		(3,311)		(50)	(3,361)
Dispositions		(6)		-	(6)
Balance at December 31, 2016		(17,500)		(103)	(17,603)
Depreciation		(2,229)		(49)	(2,278)
Balance at December 31, 2017	\$	(19,729)	\$	(152)	\$ (19,881)
<b>Carrying value</b>					
At December 31, 2016	\$	7,102	\$	61	\$ 7,163
At December 31, 2017	\$	4,876	\$	75	\$ 4,951

At December 31, 2017, the net book value of exploration camp and equipment assets held under capital lease arrangements was \$0.1 million (December 31, 2016 - \$0.2 million).



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## 8. Mineral properties

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

<b>Summary - by property</b>	2017		2016	
Back River (Nunavut)	\$	296,460	\$	276,935
Wishbone (Nunavut)		4,632		4,632
Red Lake (Ontario)		5,732		5,726
	\$	306,824	\$	287,293
<b>Continuity - all properties combined</b>	2017		2016	
Balance, beginning of period	\$	287,293	\$	283,394
Exploration and other expenditures		19,467		10,890
Provision for site reclamation		64		108
Write-down of mineral properties		-		(7,099)
Balance, end of period	\$	306,824	\$	287,293

The following is a detailed continuity of cumulative exploration and evaluation costs incurred at Back River:

	2017		2016	
<b>Back River (Nunavut)</b>				
Balance, beginning of period	\$	276,935	\$	265,977
Additions:				
Drilling and camp support		6,835		1,501
Economic assessment		5,493		1,638
Environmental assessment		2,977		3,010
Geology & geophysics		887		822
Management & administration		238		397
Property maintenance		202		132
Provision for site reclamation		64		108
Share-based payments		600		34
Depreciation		2,229		3,316
		19,525		10,958
Balance, end of period	\$	296,460	\$	276,935

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

The Company owns 100% of the Back River Project, which is comprised of the Goose, George, Boulder, Boot and Del properties. The Back River Project has National Instrument 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. Certain additional share consideration remains payable to the previous owners should a positive production decision be reached for the Back River Project (note 12(b)).

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 1,500 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 was 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,

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Royalties 2 and 3 drop by 50%. Royalty 4 pays 0.45% until a total of \$7.5 million has been paid after which this royalty also drops by 50%. Royalties payable, (excluding Royalty 2 which is owned by the Company) depending on gold price and gold production, could range from 0.35% to 0.7% on the first 800,000 ounces and 3.5% to 4.25% thereafter.

The Goose property is subject to the following royalties. Royalty 1 pays 0% on the first 400,000 ounces and pays 5% (gross before sub-royalty deductions) after the first 400,000 ounces of gold produced after deducting Royalty 2. Royalty 2 pays 1.5% and Royalty 3 pays 0.7% until a total of \$5 million has been paid on each royalty; after \$5 million Royalties 2 and 3 each drop by 50%. Royalties payable (excluding Royalty 2 which is owned by the Company), depending on gold price and gold production, could range from 0.35% to 0.7% on the first 400,000 ounces and 3.5% to 4.25% thereafter.

In 2016, the Company completed an assessment of long-term strategic exploration opportunities on its Wishbone property, which resulted in a write-down of \$7.1 million on the Wishbone property for mineral claims that were relinquished during the year and certain non-core mineral claims which the Company determined had lower exploration potential.

b) Red Lake (Ontario)

(i) Golden Sidewalk, Red Lake:

The Company owns 100% of its Golden Sidewalk property comprised of 600 hectares, 5 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 2,610 hectares and 18 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.

## 9. Hackett silver royalty

The Hackett River project consists of approximately 10,637 hectares and is located approximately 480 km northeast of Yellowknife and approximately 60 km from the Back River Project.

On October 4, 2011, the Company completed the sale of the Hackett River property and certain claims on the Wishbone Greenstone Belt to Glencore plc ("Glencore", formerly Xstrata Zinc) for cash consideration of \$50 million along with Sabina retaining a silver production royalty (the "Hackett Silver Royalty") equal to 22.5% of the first 190 million ounces of payable silver from the then current resource at Hackett River and other properties (the "Properties") and 12.5% of all payable silver from the Properties thereafter at no future cost to Sabina. Additionally, Glencore is required to incur at least \$80 million of exploration expenditures on the Properties over a seven-year period with a view of completing a NI 43-101 compliant feasibility study. If at the seventh anniversary Glencore has not publicly announced a definitive decision to begin construction of a mine within a period of 12 months, Sabina may exercise its right to buy back the Properties for a cash purchase price equal to 100% of the expenditures incurred by Glencore. Glencore can pre-empt Sabina's buy back right by electing to pay an advance royalty of \$75 million. As at December 31, 2017, Glencore had incurred sufficient exploration expenditures to satisfy its \$80 million spending commitment.

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

## 10. Provision for site reclamation

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

The Company is unable to reliably estimate when the work will be performed and accordingly recognizes the full amount of the provision, as if the work were to be completed immediately and does not discount and accrete the provision.

	2017	2016
Balance at January 1	\$ 2,174	\$ 2,067
Increase in estimate during the year	64	107
Balance at December 31	\$ 2,238	\$ 2,174

## 11. Share capital and other components of equity

At December 31, 2017, 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:

	2017		2016	
	# of shares	\$	# of shares	\$
Issued and outstanding as at January 1	220,060,902	386,613	199,688,668	355,355
Issued for cash, net of share issuance costs	5,633,265	11,482	19,790,750	30,252
Issued on exercise of stock options	1,194,014	146	581,484	206
Fair value of options exercised	-	778	-	260
Deferred income tax effect of share issue cost	-	204	-	540
Flow-through share premium liability (note 13)	-	(2,846)	-	-
Issued and outstanding at December 31	226,888,181	396,377	220,060,902	386,613

On February 28, 2017, the Company completed a bought deal financing of 3,470,000 flow-through common shares at a price of \$1.75 per common share for gross proceeds of \$6.1 million. Costs associated with the financing totaled \$0.4 million.

On July 28, 2017, the Company announced a bought deal financing of 2,163,265 flow-through common shares at a price of \$2.85 per common share for gross proceeds of \$6.2 million. The financing was closed in two tranches, one on August 15, 2017 comprised of 1,461,510 common shares and the second on September 12, 2017 comprised of 701,755 common shares; total costs associated with the financing totaled \$0.4 million.

The gross proceeds from the two 2017 flow-through financings have been reduced by \$2.8 million, being the flow-through premium liability (see Note 13) and \$0.8 million in issue costs.

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.

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## 12. Share-based payments

### a) Share purchase options

The Company has a share option plan that allows it to grant options to its employees, officers, directors and consultants. A rolling maximum of 10% of the common shares issued may be granted. The exercise price of each option shall not be less than the closing market price for the common shares on the trading day prior to the date of the grant. Options may have a maximum term of ten years. Vesting conditions are at the discretion of the Board of Directors at the time the options are granted. The Plan also provides for a cashless exercise option provision which is, in substance, a stock appreciation right and for which the stock options can only be equity-settled. When the cashless option is exercised, the full amount of equity related to the options exercised is recorded in share capital.

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

	2017		2016	
	Number of options	Average exercise price	Number of options	Average exercise price
Outstanding as at January 1	13,972,000	\$ 1.49	16,755,000	\$ 1.92
Exercised during the period	(1,194,014)	0.74	(581,484)	0.58
Forfeited or expired during the period	(2,984,986)	3.08	(2,391,516)	4.60
Granted during the period	2,441,500	1.31	190,000	0.91
Outstanding at December 31	12,234,500	1.14	13,972,000	1.49
Not vested at December 31	(250,000)	0.43	(500,000)	0.43
Exercisable as at December 31	11,984,500	\$ 1.16	13,472,000	\$ 1.53

As permitted under the Company's Stock Option Plan, 1,639,000 options (2016 – 485,000 options) were exercised as stock appreciation rights during the year ended December 31, 2017, resulting in the issuance of 984,014 common shares (2016 – 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. Additionally, 210,000 options (2016 – 331,000 options) were exercised during the year ended December 31, 2017 for cash proceeds of \$0.1 million (2016 – \$0.2 million).

The following table summarizes the outstanding options as at December 31, 2017 by year of expiry:

Year	Number of options	Average exercise price
2018	2,310,000	\$ 2.51
2019	1,658,000	0.94
2020	5,820,000	0.60
2021	190,000	0.91
2022	2,256,500	1.32
Outstanding at December 31, 2017	12,234,500	1.14
Not vested at December 31, 2017	(250,000)	0.43
Exercisable at December 31, 2017	11,984,500	\$ 1.16

### Employee compensation cost

During the year ended December 31, 2017, the Company recorded \$1.7 million (2016 - \$0.2 million) in share-based payment costs, of which \$1.1 million (2016 - \$0.1 million) is presented as an operating expense in the consolidated statement of comprehensive loss and \$0.6 million (2016 - \$34 thousand) is capitalized to mineral property costs.

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## Inputs for measurement of grant date fair values

The grant date fair values of share options were measured based on the Black-Scholes option pricing model. The weighted average inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following: a risk-free interest rate of 1.1% (2016 – 0.7%); a dividend yield of 0% (2016 – 0%); an expected volatility of 70% (2016 – 66%) and expected lives of stock options of 5.0 years (2016 – 5.0 years). The weighted average fair value of options granted in the year was \$0.76 per option (2016 - \$0.50 per option). The expected volatility is estimated by considering historic average share price volatility.

## b) Back River share consideration

In connection with the original asset purchase dated June 9, 2009 to acquire the Back River assets from Dundee Precious Metals ("DPM"), the Company agreed to provide future equity consideration in the event certain milestones related to the project were met. At December 31, 2017, the remaining consideration consists of 5 million common shares of the Company, which would be issuable upon a positive production decision for the Back River Project.

## 13. Flow-through premium liability

	2017		2016	
January 1	\$	-	\$	577
Financing		2,846		-
Amortization		(1,730)		(577)
December 31	\$	1,116	\$	-

In the third quarter of 2017, the Company completed a bought deal flow-through financing of 2,163,265 flow-through common shares at \$2.85 per share for gross proceeds of \$6.2 million. This price was at a premium of \$0.72 per common share at the date of issuance for a total flow-through premium of \$1.6 million.

In the first quarter of 2017, the Company completed a bought deal flow-through financing of 3,470,000 flow-through common shares at \$1.75 per share for gross proceeds of \$6.1 million. This price was at a premium of \$0.37 per common share at the date of issuance for a total flow-through premium of \$1.2 million.

The total gross proceeds of \$12.2 million from the two 2017 flow-through financings must be used to incur Canadian exploration expenditures as defined by the Income Tax Act (Canada) by December 31, 2018. At December 31, 2017, the Company had incurred \$7.8 million flow-through eligible expenditures and had \$4.4 million of expenditures yet to be incurred.

The flow-through premium liability is amortized over the period in which the funds are used on qualifying expenditures.

## 14. Related parties

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

	2017		2016	
Salaries and benefits	\$	2,561	\$	2,017
Stock-based compensation, non-cash		1,026		134
	\$	3,587	\$	2,151

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.

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## 15. Capital and operating leases and commitments

### a) Obligations under capital leases

The Company has financed certain mobile equipment used at its Back River exploration camp by entering into capital leasing arrangements. Minimum lease payments as at December 31, 2017 are as follows:

2018	\$	51
2019		141
Total minimum lease payments		192
Less amount representing interest (at 5.7%)		(7)
Present value of net minimum capital payments		185
Less current portion of obligation under capital leases		(51)
Non-current portion of obligation under capital leases	\$	134

### b) Operating leases

In June 2017, the Company completed a sublease agreement for its corporate head office in Vancouver, commencing November 1, 2017 and expiring May 30, 2020. Minimum rental payments for this lease total: 2018 \$0.1 million, 2019 \$0.2 million, and 2020 \$0.1 million.

### 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.

On October 18, 2017, the Company jointly announced with the KIA completion of a binding term sheet for land tenure and Inuit benefits for the Back River Project. The term sheet sets out the principle terms that are to be included in a definitive Framework Agreement ("FA"). The FA, upon completion, would be a comprehensive agreement which would set out rights and obligations with respect to surface land access on Inuit owned land and will include an Inuit impact and benefits agreement ("IIBA") among other obligations required by the Nunavut Agreement, including the following key provisions:

- (a) A 20-year term;
- (b) Surface access rights for exploration, development, mine construction and mine operations activities; and
- (c) Certain ongoing payments, including:
  - (i) Annual payment to the KIA of up to \$1 million;
  - (ii) Issuance to the KIA of 6.7 million common shares of Sabina;
  - (iii) Grant to the KIA of a 1% net smelter royalty on future production at Back River; and
  - (iv) An initial investment of \$4 million into regional wealth creation initiatives in the Kitikmeot.

Under the binding term sheet, the parties have agreed to negotiate in good faith towards completing the FA and the other definitive agreements contemplated in the term sheet. Work is ongoing to complete the FA. The transactions contemplated in the term sheet are subject to completion of the FA and other such definitive agreements and the issuance of the 6.7 million Sabina common shares to the KIA are subject to any necessary regulatory approval.



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## 16. Financial risk management

### Overview

The Company has exposure to the numerous risks from its use of financial instruments, including credit risk, liquidity risk, market risk and operational risk.

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

### Risk management framework

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

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

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

### Credit Risk

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to the carrying value of its cash and cash equivalents, short-term investments, accounts receivable and reclamation deposits. The Company limits its exposure to credit risk by dealing with high credit quality counterparties.

The Company's cash and cash equivalents, short-term investments and reclamation deposits are primarily held through, or issued by, large credit worthy Canadian financial institutions. These investments mature at various dates over 2018. The Company's receivables consist primarily of sales taxes due from the Federal Government of Canada and interest from Canadian financial institutions. The Company has not experienced any bad debts on its receivables in 2017 or 2016 and has no allowance for doubtful accounts recorded at either of December 31, 2017 or 2016.

### Liquidity Risk

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

### Market Risk

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

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk with respect to interest earned on cash and cash equivalents including its guaranteed investment certificates and its short-term investments. The Company does not use derivative instruments to reduce its exposure to interest risk. Based on balances of these instruments at December 31, 2017, a plus or minus 1% change in interest rates would result in a change in net income of \$0.3 million, assuming all other variables remain constant.

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The Company is exposed to equity price risk as it holds marketable securities as investments classified as available-for-sale. Based on the balance invested at December 31, 2017 a 10% change in the fair value of the underlying investment would result in a change in net income of \$0.1 million.

## Capital Management

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

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

## 17. Fair value measurements

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: valuation techniques using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: valuation techniques using inputs for the asset or liability that are not based on observable market data.

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

The fair value of the Company's reclamation deposit is not expected to differ materially from its carrying value given the interest rate being received (Level 2) and the carrying value of its investments is based on the quoted market price of the related shares in publicly traded companies to which the investment relates (Level 1).

## 18. Income taxes

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

	2017	2016
Loss before income taxes	\$ (2,706)	\$ (8,096)
Canadian federal and provincial tax rates	27.0%	27.0%
Expected income tax recovery	731	2,186
Share based compensation and other permanent differences	240	300
Flow-through renunciation	(2,116)	(611)
Other	55	156
Income tax (expense) recovery	\$ (1,090)	\$ 2,031



# SABINA GOLD & SILVER CORP.

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

For years ended December 31, 2017 and 2016

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.

	2017	2016
Deferred tax assets/(liabilities)		
Tax loss carry forwards	\$ 24,224	\$ 20,900
Financing costs	490	441
Provision for closure and reclamation	604	587
Other	(7)	(15)
Flow-through share effect on mineral properties	(51,009)	(48,893)
Mineral properties	(12,438)	(9,670)
Property and equipment	4,377	3,769
Net deferred tax liabilities	\$ (33,759)	\$ (32,881)

Sabina has tax loss carry forwards at December 31, 2017 of \$89.7 million expiring from 2031 to 2037 (2016 - \$77.4 million).

Movements in temporary differences as follows:

	Opening Balance	Recognized in Income Tax Expense	Recognized in Other Comprehensive Income (Loss)	Recognized in Shareholders' Equity	Closing Balance
December 31, 2017					
<b>Deferred tax assets:</b>					
Tax loss carry forwards	\$ 20,900	\$ 3,324	\$ -	\$ -	\$ 24,224
Financing costs	441	(155)	-	204	490
Provision for closure and reclamation	587	17	-	-	604
Property and equipment	3,769	608	-	-	4,377
<b>Deferred tax liabilities:</b>					
Mineral properties	(9,670)	(2,768)	-	-	(12,438)
Flow-through shares	(48,893)	(2,116)	-	-	(51,009)
Other	(15)	-	8	-	(7)
	\$ (32,881)	\$ (1,090)	\$ 8	\$ 204	\$ (33,759)

	Opening Balance	Recognized in Income Tax Expense	Recognized in Other Comprehensive Income (Loss)	Recognized in Shareholders' Equity	Closing Balance
December 31, 2016					
<b>Deferred tax assets:</b>					
Tax loss carry forwards	\$ 18,934	\$ 1,966	\$ -	\$ -	\$ 20,900
Financing costs	113	(212)	-	540	441
Provision for closure and reclamation	558	29	-	-	587
Property and equipment	2,887	882	-	-	3,769
<b>Deferred tax liabilities:</b>					
Mineral properties	(9,647)	(23)	-	-	(9,670)
Flow-through shares	(48,282)	(611)	-	-	(48,893)
Other	47	-	(62)	-	(15)
	\$ (35,390)	\$ 2,031	\$ (62)	\$ 540	\$ (32,881)

## 19. Subsequent event

On January 19, 2018, the Company completed a private placement financing of 24,930,000 common shares at \$2.65 per common share for gross proceeds of \$66.1 million and net proceeds of \$62.1 million after deducting transaction costs of \$4.0 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 year ended December 31, 2017. The MD&A was prepared as of March 12, 2018 and should be read in conjunction with the Company's annual audited financial statements and related notes for the years ended December 31, 2017 and 2016, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All figures are in Canadian dollars unless otherwise stated.

## **Overview**

Sabina is an emerging precious metals company focused on the objective of becoming an intermediate gold producer through the exploration and development of its mineral resource properties. The Company's flagship assets are its Back River gold project ("Back River Project") (feasibility study completed in September 2015 and environmental assessment completed in December 2017), and its silver royalty on the Hackett River project, both located in Nunavut, Canada. The Company also has additional exploration properties in Nunavut and in the Red Lake gold camp region in Ontario.

## **2017 Highlights:**

- The Company ended the year with cash and cash equivalents and short-term investments of \$32.4 million.
- On December 5, 2017, the Minister of Indigenous and Northern Affairs Canada ("INAC") accepted the Nunavut Impact Review Board's ("NIRB") recommendation (received on July 18, 2017) that the Back River Project should proceed to the regulatory and licensing phase. The Company subsequently received the final Project Certificate as issued by NIRB on December 20, 2017, completing the environmental assessment process and allowing the Company to advance to the final licensing phase.
- On December 11, 2017, the Nunavut Water Board ("NWB") commenced public review of the Type A and Type B water license applications of the Company related to the initial development, mine construction and operation of the Back River Project.
- On December 19, 2017, the Company announced an investment by Zhaojin International Mining Co., Ltd. ("Zhaojin International") to purchase 24,930,000 common shares of the Company at a price of \$2.65 per share for a total investment of \$66.1 million. The financing was completed on January 19, 2018, whereby the Company received net proceeds of \$62.1 million after financing costs of \$4.0 million.
- On October 18, 2017, the Company jointly announced with the Kitikmeot Inuit Association ("KIA") completion of a binding term sheet for land tenure and Inuit benefits for the Back River Project. The term sheet sets out the principle terms that are to be included in a definitive Framework Agreement ("FA"). Upon completion, the FA would be a comprehensive agreement which would set out rights and obligations with respect to surface land access on Inuit owned land and will include an Inuit impact and benefits agreement ("IIBA") among other obligations required by the Nunavut land claims agreement ("Nunavut Agreement"), including the following key provisions:
  - A 20-year term;
  - Surface access rights for exploration, development, mine construction and mine operations activities;
  - Certain payments, including:
    - Annual payment to the KIA of up to \$1 million;
    - Issuance to the KIA of 6.7 million common shares of Sabina;
    - Grant to the KIA of a 1% net smelter royalty on future production at Back River; and,
    - An initial investment of \$4 million into regional wealth creation initiatives in the Kitikmeot.
- The Company completed two flow-through equity financings during the year for total gross proceeds of \$12.2 million. In the first quarter, the Company completed a bought deal private placement flow-through financing of 3,470,000 flow-through common shares at a price of \$1.75 per share for total gross proceeds of \$6.1 million. In the third quarter, the Company completed a non-brokered private placement flow-through financing of 2,163,265 flow-through common shares at a price of \$2.85 per share for gross proceeds of \$6.2 million. The total gross

proceeds from these financings must be used to incur Canadian exploration expenditures as defined by the Income Tax Act (Canada) by December 31, 2018.

- During the year, the Company completed a phased exploration program on the Back River Project. Initially planned as a two-phase 7,000-meter drill program at the Goose property, positive results from the spring campaign during Q2 2017 resulted in an expanded second phase to the drill program. In total, the Company completed 12,603 meters of drilling over 22 holes with significant results, including successfully demonstrating the potential for growth of the existing deposits and discovery of a new significant mineralization target, the deep iron formation ("DIF") horizon.
  - The spring campaign during Q2 2017 consisted of 2,735 meters over 5 holes. Results from this program included the expansion of mineralization on both the Umwelt and Llama deposits. Drill hole 17GSE511B at the Umwelt Vault Zone returned 16.86 grams per tonne ("g/t") gold over 13.5 meters, including 27.11 g/t gold over 7.95 meters. Drill hole 17GSE513 at Llama returned 6.52 g/t gold over 8.3 meters.
  - The summer campaign during Q3 2017 consisted of 9,868 meters over 17 holes. Results from this program included the expansion of mineralization on both the Umwelt and Llama deposits, including drill hole 17GSE516B at Llama which returned 9.48 g/t gold over 38.55 meters, including 14.43 g/t gold over 21.25 meters.
  - During Q4 2017, the Company reported additional results from the summer drill campaign, including at the Vault Zone drill hole 17GSE517 which returned 5.99 g/t gold over 33.25 meters, drill hole 17GSE522B which returned 8.65 g/t gold over 31.90 meters, and drill hole 17GSE523B intersected 9.00 g/t gold over 28.70 meters, approximately 150 meters up plunge from drill hole 17GSE517. At Llama, drill hole 17GSE524 returned 6.46 g/t gold over 6.35 meters and 8.35 g/t gold over 2.75 meters, successfully extending the mineralized structure 525 meters down plunge of the current mineral resource.
  - Additionally during Q4 2017 the Company reported its discovery of the DIF horizon, which is a new stratigraphic target identified over a distance of greater than 3 km within the Llama and Umwelt deposit trends and is analogous to the DIF and lower sediments at the Goose Main deposit.
  - Lastly during Q4 2017 the Company reported successful drilling of its regional targets, including the Echo and Kogoyok zones, which continued the extension of the mineralization trends while highlighting continuity and discovery potential of the gold endowment hosted at Back River.
- For the year ended December 31, 2017, the Company reported net loss of \$3.8 million or \$0.02 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 is located approximately 520 km NE of Yellowknife and 70 km south of Bathurst Inlet, and is comprised of 48 Federal Mineral Leases and 18 Federal Mining Claims covering approximately 55,000 hectares. It is divided into the Goose, George, Boot, Boulder, Del and Bath properties, with the Goose property hosting the Goose, Llama, Echo and Umwelt gold deposits, and the George property (located approximately 50 km northwest of Goose) hosting six known gold deposits.

The 2017 work program for was focused on de-risking the Back River Project and included:

- Completion of the environmental assessment process;
- Advancement of IIBA negotiations with KIA;
- Completion of basic engineering and development of a project execution plan;
- Completion of the water license application process;
- Completion of an exploration drill program on high-impact targets; and
- Commencement of project financing initiatives.

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

The 2017 exploration program completed 12,603 metres of drilling over two drill campaigns, with the first 2,735 metres completed in May, and the balance completed from August through to early October. Priority drill targets were selected based on their potential to enhance project economics by adding mine life or demonstrating potential to add mine life in the footprint of the proposed mine on the Goose property. These targets included the Vault Zone at Umwelt underground, a substantial step out along potential Llama underground, step out drilling at Echo, and follow up drilling of the GNS/Convergence trend and the Kogoyok target.

#### Vault Zone – Umwelt

During the spring program, drill testing commenced with one hole targeting the Vault zone at approximately 650 metres vertical depth where an interpreted zone occurs at the lower limits of the current Umwelt reserves. This interpreted zone is partly characterized by historic drill hole 12GSE217, which returned 51.93 g/t gold over 16.1 metres including 117.31 g/t gold over 2 metres and 105.2 g/t over 1 metre, drill hole 11GSE106 which returned 10.91 g/t gold over 29.85 metres including 23.46 g/t gold over 9 meters and 44.22 g/t gold over 0.8 meters and drill hole 11GSE075 which returned 13.43 g/t gold over 24.40 metres including 34.4 g/t gold over 8.25 meters and 72.8 g/t over 3.0 meters.

Drill hole 17GSE511B targeted the expansion of this zone by stepping down dip outside the current reserves and mine plan. The results of this hole returned 16.86 g/t gold over 13.5 m from 734.00 meters to 747.5 meters, including 27.11 g/t gold over 7.95 meters from 736.75 meters to 744.70 meters. Significant sulphide mineralization exists both above and below the targeted interval including 12.3 g/t gold over 1.05 meters within lower clastic sediments from 755.5 meters to 756.55 meters.

During the 2017 summer program, five drill holes totaling 4,195 metres were completed to continue testing mineralization extensions of the Vault zone. Drill hole 17GSE517 confirmed mineralization continuity in the center of the Vault zone, positioned approximately 45 meters up plunge from 12GSE217, intersecting favourable mineralization returning an intercept of 5.99 g/t gold over 33.25 meters including 26.91 g/t gold over 2.20 meters and 18.14 g/t gold over 5.40 meters. Additionally, drill hole 17GSE522B, which returned 8.65 g/t gold over 31.90 meters including 91.97 g/t gold over 1.15 meters and 13.12 g/t gold over 8.90 meters, expanded the down plunge length of the targeted zone to greater than 45 meters south of the 2012 drill hole 12GSE217. Drill hole 17GSE523B targeted approximately 150 meters up plunge from drill hole 17GSE517, further demonstrating the continuity up plunge of the mineralized corridor. This drill hole targeted the intersection of the felsic dyke with the host lower iron formation returning 9.0 g/t gold over 28.7 meters.

Intercepts of both drill hole 17GSE517, 17GSE522B and drill hole 17GSE523B were defined by strong alteration and mineralization systems within a favourable Back River geological setting that is conventional to resources hosted elsewhere on the property. Alteration consists of strong silicification and amphibole and chlorite development within oxide iron formation. Mineralization consists of arsenopyrite, pyrrhotite and localized visible gold within the highly altered and veined zones.

Two other drill holes, 17GSE520 and 17GSE525 tested the eastern margins of the zone where 17GSE520 intercepted no meaningful mineralization with the target lower iron formation and 17GSE525 returned insignificant gold value with minor arsenopyrite and pyrrhotite mineralization.

#### Llama Extension

During the spring drilling program, two drill holes totaling approximately 1,400 metres were completed to test the down plunge extension potential of the Llama mineral system to a vertical depth of approximately 600 metres. Llama underground currently has indicated resources of 211,000 ounces grading 8.72 g/t gold (which are not included in the current mineral reserves). The objective was to take a step-down plunge to test 300 metres from the current gold resources

and 200 metres from the deepest drill hole 12GSE239 (6.90 g/t gold over 8.0 metres including 15.71 g/t gold over 2.0 meters).

Drill hole 17GSE512 was designed as a positioning hole on the structure and intersected both the east and west limbs of the Llama syncline as well as a significant portion of upper iron formation stratigraphy, with assays returning 6.30 g/t gold over 2.65 meters in west limb lower iron formation. Drill hole 17GSE513 was designed as a 60-meter undercut on the same cross section as 17GSE512, which also intersected a significant portion of lower iron formation stratigraphy. Over 100 meters of lower iron formation was intersected in this drill hole, with numerous mineralized sections containing pyrrhotite, arsenopyrite and visible gold. Assays returning gold values that include 6.52 g/t gold over 8.30 meters from 618.90 meters to 627.20 meters. Present within the large iron formation were two felsic dykes, lithologies which are typically associated with gold mineralization in the Goose area deposits. In addition, a previously unknown near surface, low grade zone of iron formation with alteration, mineralization and quartz veins in clastic sediments was intersected from 69 m to 109.85 meters.

During the summer drilling program, four drill holes totaling 2,425 metres were completed that consisted of further step out drilling that focused on the extension of the Llama deposit in the down plunge direction

Drill hole 17GSE516B intersected 9.48 g/t gold over 38.55 meters including 14.44 g/t gold over 21.25 meters and 52.83 g/t over 1.0 meter within a strongly altered and mineralized lower iron formation package that is part of the continuation of the highly prospective, mineralized, Llama structure. This intercept is approximately 160 meters down plunge from drill hole 17GSE513. Drill hole 17GSE524, returned 6.46g/t Au over 6.35m and 8.35 g/t Au over 2.75m, extending the mineralized structure 525m down plunge of the current mineral resource and 55m beyond the previously discussed drill hole 17GSE516B. This intercept projects the structure parallel to the area vertically below the Umwelt deposit and remains as an exceptional exploration environment. The Llama mineralized zone has now been intersected at approximately 737 meters vertical depth and remains open.

This step out represents a substantial increase in sulphide mineralization along the structure, is open in all directions and demonstrates that the Llama gold structure is robust for a continued distance along strike of over 1,650 meters from surface to a vertical depth of 730 meters. Further drilling is proposed to test this new zone, in both the up and down plunge directions.

#### DIF Horizon

During Q4 2017 the Company reported its discovery of the DIF horizon, which is approximately 40 to 100 meters stratigraphically below the main lower iron formation at the Llama and Umwelt deposits. Assay results include drill hole 17GSE521 which returned 98.31 g/t gold over 1.13m and drill hole 17GSE528 which returned 48.65g/t Au over 0.95m.

The DIF horizon is a new stratigraphic target which has been identified over a distance of greater than 3 km within the Llama and Umwelt deposit trends and is believed to be relatively continuous and favorably folded within the Goose project area. This new horizon is analogous to the DIF and lower sediments at the Goose Main deposit, which hosts approximately 20% of the existing Goose Main resource.

#### GNS/Convergence

Drilling at the GNS/Convergence trend, which is located approximately 2 km west of the Goose deposit, was planned to test for potential near surface mineralized zones. A priority target within this trend is GNS, which has been interpreted as a potential Echo Deposit analogue: replicating the moderate size, relatively shallow gold mineralization and favourable mining geometry observed at the Echo Deposit. Drilling was planned at the GNS target to assess the extent of the highest-grade portion of the zone, down-plunge from the best 2011 intercepts. During the spring program, drill-hole 17GSE515 was completed which targeted the eastern end of the GNS/Convergence trend and intersected a short interval of iron formation with weak mineralization and alteration with no significant gold values. During the summer drill program, a second hole (17GSE529) tested open plunge controls in an effort to establish orientation of the mineralizing structure. Exploration at GNS targets continue to advance and remain fundamental in development of the geological framework that is a key tool in vectoring towards further resource potential at the Goose property.



### Echo-Kogoyok Trend

During the summer drilling program, four drill holes totaling 1,236 metres were completed along the Kogoyok and Echo trend to continue to delineate structural framework and to assess the extent of the highest-grade portion of the zone. Drill hole 17GSE518 at Echo returned an intercept of 4.41 g/t gold over 1.45 meters. Drill hole 17GSE519 at Kogoyok returned an intercept of 1.56 g/t gold over 0.80 meters and 1.45 g/t gold over 1.15 meters.

The Echo and Kogoyok results, spanning a greater than 2 km developing gold setting, enhance exploration vectoring and understanding of the property wide geologic framework. These target areas remain largely underexplored with drilling focused on defining favourable settings consisting of altered iron formation, felsic intrusive units, and structural elements associated with Back River style mineralization.

### **Back River Project Development**

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

In July 2015, based on recommendations of the 6KFS, the Company commenced a feasibility study on a lower capex, lower execution risk initial 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 3,000 tpd feasibility study ("3KFS") on the Back River Project. Base case economics in Canadian dollars were based on a gold price of US\$1,150 per ounce and an exchange rate of 0.80 (US\$:C\$). The 3KFS highlights include:

- The Back River Project would generate a post-tax IRR of 24.2% and NPV (based on a 5% discount rate) of \$480 million;
- The Back River 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
- Gold production averaging 198,000 ounces per year (post commencement of commercial production);
- Average gold production of 244,000 ounces in the first 8 years;
- Majority of production from open pit mining method (72% LOM) with no underground production scheduled until year 3;
- Initial capital estimate of \$415 million and sustaining capital estimate of \$185 million;
- Total LOM cash costs of US\$534 per ounce of payable gold (including third party royalties, refining and transport). LOM all-in sustaining cash costs of US\$598 per ounce (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 g/t Gold and metallurgical recoveries of 93%;
- Base case assumptions of delivered diesel price of \$0.91 per litre 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 Back River Project entitled "Technical Report for the Initial Project Feasibility Study on the Back River Gold Property, Nunavut, Canada" dated October 28, 2015 on [www.sedar.com](http://www.sedar.com).

During 2017, the Company completed basic engineering work for the Back River Project. This work was tasked to a joint venture between Sedgman Canada and CGT Industrial (Clark Builders, the Gisborne Group and Tarpon Energy Services), collectively ("SCGT") (process, infrastructure, and overall project assembly), Golder and Associates (geotechnical, waste/water management, closure), Nor-Ex Ice Engineering (winter road design) and Kitnuna BBE Expediting (logistics and transportation). The Company also conducted value engineering to advance and improve targeted scopes since the completion of the 3KFS.

During 2017, the Company advanced its assessment on potential metallurgical improvements including an option for flotation with the addition of regrinding concentrates before leaching (versus whole ore leach included in 3KFS) as part of value engineering and basic engineering, seeking potential improvements to overall recovery, capital, and operating costs. A full suite of metallurgical test work was conducted on the flotation flowsheet, improving the design (including process optimization, equipment specifications and plant layout) to a better than feasibility level of accuracy. After the conclusion of this work, an independent review was completed. Although both processes would have similar metallurgical recoveries and operating costs, operating risk was assessed to be lower with whole ore leach and therefore whole ore leach was recommended as the preferred process. Sabina is in the process of reviewing the recommendation. If the recommendation is acted upon, additional engineering will need to be completed on whole ore leach to establish an updated capital estimate. Several other testing programs, not dependent on the recovery process, were also completed, including grinding, detoxification, and thickening. Many of the improvements made to the flotation process design during basic engineering will be applied to whole ore leach-based plant. These improvements could include a smaller process building with associated cost reductions for everything from concrete to heating, optimized craneage, and accessibility and maintainability in the layout.

During 2017, the Company completed a geotechnical drilling program at the Back River Project's proposed Goose plant site. Information gathered from the program will confirm the ground conditions for the foundation designs for the tailings storage facility, plant site, and the bulk fuel storage pad and more accurately quantifying construction volumes, costs and schedules. Geo-mechanical drilling was completed at Umwelt underground to improve the understanding for mine planning and groundwater investigations were completed to supplement existing quantity and quality data for water that will be managed on the surface and possibly report to the process plant. The Company also completed a comprehensive geotechnical drilling program for the marine laydown area ("MLA") in the Bathurst Inlet area which has informed the layout and foundation conditions for the pads and other infrastructure along with the offloading parameters for receiving cargo.

Additionally, in 2017 the Company completed a winter ice road reconnaissance program, which achieved the objectives of de-risking this key component of project infrastructure by field truthing the alignment, and specific design aspects such as portages and sources of construction materials, constructability, maintainability, as well as operations of the proposed road.

Following the completion of basic engineering the project team has focussed on the transition to detailed engineering and a thorough working knowledge of the critical path items to deliver the Back River Project against its target of gold production in Q1 2021. As part of this process, work is continuing on estimating capital and operating costs; while an increase in capital expenditures is anticipated, it is expected to be within the sensitivities of the 3KFS.

Mr. Angus Campbell, P. Geo. and Vice-President, Exploration and Mr. Jeff Eng, P.Eng., Director, 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 November 2015, the Company filed the Back River final environmental impact statement ("FEIS") to the NIRB. On June 15, 2016, the NIRB recommended to the Minister that the Back River Project not proceed to the licensing phase at this time. On July 20, 2016, the Company submitted a response to the NIRB report to the Minister requesting that the Minister to reject the NIRB recommendation and refer it back to NIRB to set terms and conditions for a project certificate.

On January 12, 2017, the Minister, with the agreement of other responsible ministers, decided that the Back River Project should be returned to NIRB for further consideration. On February 15, 2017, the Company submitted its required FEIS Addendum. NIRB held the final public hearings May 31 through June 3, 2017 in Cambridge Bay, Nunavut. On July 18, 2017, the NIRB issued a Revised Final Hearing Report which recommended to the Minister that development of the Back River Project should proceed to the licensing phase.

On December 5, 2017, the Minister of INAC accepted NIRB's recommendation and on December 20, 2017, NIRB issued the final Project Certificate for the Back River Project, which allows the Company to advance through the final licensing phase. On December 11, 2017, NWB commenced public review of the Type A and Type B water license applications related to initial development, mine construction and operation of the Back River Project.

### *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 as noted above, was a participant in the environmental assessment process of the Back River Project.

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 \$1.6 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 the first quarter of 2016, the Company commenced negotiations with the KIA on land tenure and associated agreements, and an IIBA. The Company has agreed to fund certain KIA costs related to those negotiations.

On October 18, 2017, the Company and KIA jointly announced the execution of a binding term sheet for land tenure and Inuit benefits for the Back River Project. The term sheet sets forth the principle terms that are to be included in a definitive FA. The FA, upon completion, would be a comprehensive agreement which would set out rights and obligations with respect to surface land access on Inuit owned land and would include an IIBA among other obligations required by the Nunavut Agreement. The FA, when completed, would have a term of 20 years, and would include among others, the following key provisions and agreements:

- Land use licenses which would permit Sabina to conduct non-exclusive exploration work at Back River;
- Advanced exploration leases permitting various advanced exploration and pre-production activities at Back River;
- Commercial leases authorizing the development of mines and related operations and closure activities at the Goose Property;
- A 1% net smelter return royalty paid to the KIA on production at Back River on the properties that are subject to a commercial lease;
- A grant of 6.7 million Sabina common shares to the KIA upon the effective date of the IIBA;
- An IIBA setting out commitments associated with Inuit employment, training and education, Kitikmeot business opportunities, formation of an Inuit Environmental Advisory Committee and investments in community infrastructure projects with the objective of supporting regional wealth creation initiatives within Kitikmeot communities;
- An initial investment of \$4 million in regional wealth creation initiatives in the Kitikmeot, \$2 million of which could occur following execution of definitive agreements, and the remainder no later than upon a production decision, with additional payments commencing the third year following commercial production if Sabina-related employment targets are not achieved. The purpose of the regional wealth creation initiative is to create new long term operating jobs outside of the mine to expand and diversify the Kitikmeot economy;
- An annual payment to the KIA of up to \$1 million to cover KIAs cost of implementing the FA; and
- Water and wildlife compensation agreements including additional payments if Sabina fails to implement caribou mitigation commitments regarding calving and post-calving periods made to the Nunavut Impact Review Board.

Under the binding term sheet, the parties have agreed to negotiate in good faith towards completing the FA and the other definitive agreements contemplated in the term sheet. Work is ongoing on the FA and definitive agreements, which are targeted for completion in early 2018. The transactions contemplated in the term sheet are subject to completion of the



FA and other such definitive agreements and the issuance of the 6.7 million Sabina common shares to the KIA are subject to any necessary regulatory approval.

### **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 closing on November 14, 2011, Glencore was required to spend not less than \$80 million on the Properties ("FS Expenditures") over a seven-year period. If Glencore has not, by November 14, 2018, publicly announced a definitive decision to begin construction of a mine within 12 months, Sabina may exercise a right to buy back the 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. As at December 31, 2016, Glencore had incurred sufficient exploration expenditures to satisfy its spending commitment, but has not announced a definitive decision to begin construction of a mine.

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.

At December 31, 2017, Glencore's reported 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) for the Hackett River project. 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.

**Summary of Results**

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

	2017	2016	2015
Total assets	\$ 384,394	\$ 374,805	\$ 351,022
Loss	(3,796)	(6,065)	(9,517)
Per Share	\$ (0.02)	\$ (0.03)	\$ (0.05)

	2017	2017	2017	2017	2016	2016	2016	2016
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total assets	\$ 384,394	\$ 387,802	\$ 380,166	\$ 380,425	\$ 374,805	\$ 377,932	\$ 383,270	\$ 351,876
(Loss)/earnings	(1,332)	(469)	(566)	(1,429)	(1,958)	(3,716)	201	(592)
Per Share	\$ (0.01)	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ 0.00	\$ (0.00)

1. During the three months ended December 31, 2016, the Company's loss of \$2.0 million includes a write-down of mineral properties of \$1.9 million.

2. During the three months ended September 30, 2016, the Company's loss of \$3.7 million includes a write-down of mineral properties of \$5.2 million.

**Overall Performance**

For the three months ended December 31, 2017, the Company reported a net loss of \$1.3 million, favourable by \$0.6 million compared to the corresponding period of 2016. The difference quarter over quarter was primarily the result of a write-down (\$1.9 million) on the Wishbone properties in 2016 and higher finance income in Q4 2017 (\$0.3 million) on amortization of flow-through premium associated with flow-through financing completed in 2017. Partially offsetting were higher operating expenses (\$0.8 million) and lower deferred income tax recovery (\$0.6 million) in Q4 2017 than the comparable period. Operating expenses were higher (excluding write-downs) mainly due to higher professional services fees and higher salaries (discussed below).

For the year ended December 31, 2017, the Company reported a net loss of \$3.8 million, favourable by \$2.3 million compared to the same period of 2016. As noted above, the decrease in loss year over year was mainly due to a write-down of the Wishbone properties in 2016 (\$7.1 million), offset by higher operating expenses (\$2.2 million, detailed in the table below) and higher deferred income tax expense (\$3.1 million) in 2017 compared to 2016.

For the year ended December 31, 2017, the loss from operating activities was \$5.6 million compared to \$3.4 million in 2016 (excluding write-down). Significant increases in expenses for the year are summarized below.

Expenses	Variance \$ thousands	Description
Professional services	(432)	Increased financial advisory fees and independent engineering fees for Back River Project financing.
Salaries and severance	(503)	Increases in the number of staff and bonuses.
Listing, transfer and shareholder	(117)	Increased share listing and filing fees due to higher market capitalization of the Company.
Travel	(100)	Increased investor and marketing activities.
Share-based payments	(1,002)	Largely the result of a timing difference in when options were granted, resulting in a lower number of options granted in 2016; fair value of \$0.50 per option for 0.2 million options in 2016 compared to \$0.76 per option for 2.4 million options in the same period in 2017.

For the three and twelve-month periods ended December 31, 2017 net finance income was higher by \$0.3 million and \$1.2 million respectively than the same periods in 2016 primarily due to higher amortization of the flow-through premium associated with flow-through financings completed in 2017 and higher interest income resulting from a higher average cash balance in 2017.

For the three and twelve-month periods ended December 31, 2017, the Company realized a gain of nil and \$0.6 million respectively on the sale of Pure Gold shares (2016 – \$0.1 million and \$1.3 million). During the three and twelve-month periods ending December 31, 2017, the Company sold nil and 1.3 million common shares respectively of Pure Gold (2016 – 0.2 million and 3.3 million) for net proceeds of nil and \$0.7 million respectively (2016 - \$0.2 million and \$1.7 million).

For the three and twelve-month periods ended December 31, 2017, deferred income tax recovery of \$0.2 million and expense of \$1.1 million respectively compared to deferred income tax recovery of \$0.7 million and \$2.0 million in the same periods of 2016. For both the three and twelve-month periods, the higher expense in 2017 than the comparative 2016 results primarily from \$1.4 million deferred income tax recovery on the \$7.1 million write-down of the Wishbone properties in 2016 and timing differences associated with the deferred tax expense associated with flow-through expenditures incurred.

For the three and twelve-month periods ended December 31, 2017, total deferred exploration and evaluation expenditures were \$3.5 million and \$19.5 million compared to \$2.1 million and \$11.0 million in the comparable periods in 2016. The increase period over period was primarily the result of increased exploration drilling and economic assessment costs. Significant differences decreases/(increases) for the year ended December 31, 2017 are summarized below.

Deferred Exploration and Evaluation Expenditures	Variance \$ thousands	Description
Drilling and camp support	(5,334)	Increased exploration drilling activities in 2017.
Economic assessment	(3,855)	In 2017, increased expenditures on certain value-added engineering studies and basic engineering activities.
Share-based payments	(566)	Largely the result of a timing difference; fair value of \$0.50 per option for 15,000 options granted in 2016 compared to \$0.76 per option for 0.8 million in the same period in 2017.
Depreciation	1,087	Certain capital assets were fully depreciated in 2016.

## **Outlook**

The Company's strategic plan is focused on exploring and developing its primary asset, the Back River Project, with the objective of becoming a gold producer. In 2015, the Company reported the results of two feasibility studies (6KFS and 3KFS), both of which demonstrated positive project economics. The Company believes that the 3KFS presents the best option for Sabina to initially commence production in the Back River district.

In 2017, the Company continued to de-risk the Back River Project by completing project engineering and optimization studies as well as completing the environmental assessment process. As discussed in the Back River Project Community and Social Responsibility section of this MD&A, in December 2017, the Company received the final Project Certificate for the Back River Project issued by NIRB and NWB had commenced public review of the Type A and Type B water license applications related to initial development, mine construction and operation of the Back River Project.

The Company has budgeted \$85 million for its planned activities in 2018. The budget delivers completion of the permitting process and receipt of both Type A and B water licenses; advancement of the project debt finance process; completion of detailed engineering required for 2019 and development of the execution plan; commencement of pre-development activities, including earthworks, construction at the MLA and procurement of key infrastructure and equipment; and completion of a targeted exploration field program.

Significant opportunities for additional discoveries were identified during the 2017 drill programs, including the shallow mineralization and alteration of the DIF horizon as well as positive results from the regional targets of Echo and Kogoyok. In 2018, drilling will be conducted to follow up on significant results obtained at Llama Extension and Umwelt Vault, with additional testing of targets that include the Goose Main Trend, Echo, Kogoyok, the lower DIF horizon, and Boulder Project targets.

In addition, the Company has identified certain discretionary expenditures which are contingent on achieving project development milestones during the year. These additional expenditures will be assessed with a view to maintaining first gold production in 2021 and are contingent on advancement of project funding initiatives.

**Liquidity and Capital Resources**

The Company had cash and cash equivalents and short-term investments of \$32.4 million at December 31, 2017 compared with \$39.9 million at December 31, 2016.

On May 20, 2016, the Company completed a bought deal financing of 18,410,000 common shares at \$1.63 per common 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 bringing the total gross proceeds to 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 were and will be used to advance development of the Company's Back River gold project including basic and detailed engineering, permitting on the Back River Project, and for working capital and general corporate purposes.

**Reconciliation of Use Proceeds of May 20, 2016 Financing**

<b>Disclosed Use of Proceeds</b>	<b>Amount \$000s</b>	<b>Actual Use of Proceeds</b>	<b>Amount \$000s</b>
<b>Detailed engineering work and related owners' cost</b>	\$13,225	This work was deferred to 2018 following a delay in the permitting process	\$ 5,385
<b>Purchase long lead equipment and site infrastructure and complete field work associated with such equipment</b>	7,700	This work was deferred to 2018 following a delay in the permitting process	-
<b>Community and Inuit consultation associated with licences and agreements</b>	1,500	This work was undertaken in 2017 and is expected to continue in 2018	954
<b>Complete and submit its Type A water license application and complete other required permits</b>	3,583	Preparation of the Type A water license was largely completed in 2016. Following the NIRB recommendation in June 2016, the Company completed additional work on its FEIS and delayed the completion of the water license process. These processes were commenced in 2017 and will continue in 2018.	2,665
<b>Complete fisheries offset program</b>	375	This program was completed in 2016; monitoring of program is ongoing	266
<b>The balance for general corporate and working capital purposes</b>	5,876	Funds for general corporate and working capital	7,455
<b>Total</b>	<b>\$32,259</b>		<b>\$16,725</b>

During Q1 2017, the Company completed a bought deal private placement flow-through financing of 3,470,000 common shares at a price of \$1.75 per share for total gross proceeds of approximately \$6.1 million.

During Q3 2017, the Company completed a non-brokered private placement flow-through financing of 2,163,265 common shares at a price of \$2.85 per share for total gross proceeds of approximately \$6.2 million. The financing was completed in two tranches. The first tranche closed on August 15, 2017 for gross proceeds of approximately \$4.2 million and the second tranche closed on September 12, 2017 for gross proceeds of \$2.0 million.

The total gross proceeds of \$12.2 million from the above two flow-through financings must be used to incur Canadian exploration expenditures as defined by the Income Tax Act (Canada) by December 31, 2018. During the year ended December 31, 2017, the Company incurred \$7.8 million of flow-through eligible expenditures and had \$4.4 million of expenditures yet to be incurred.

On January 19, 2018, subsequent to year end, the Company completed a private placement financing of 24,930,000 common shares at a price of \$2.65 per share for gross proceeds of \$66.1 million. Taking into consideration financing

costs of \$4.0 million, the net proceeds of \$62.1 million will be used to advance development of the Company's Back River Project, including detailed engineering and permitting as well as for working capital and general corporate purposes.

The Company 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 the fact that certain of the Company's expenditures are discretionary in nature and 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 available-for-sale investments is determined based on quoted market prices.

During the year ended December 31, 2017, the Company sold 1,252,000 common shares in Pure Gold for net proceeds of \$0.7 million (2016 – 3,250,000 common shares for net proceeds of \$1.7 million). At December 31, 2017, the Company had 1,998,000 common shares of Pure Gold with a fair value of \$1.1 million (2016 – 3,250,000 shares at \$1.7 million).

### **Liabilities and Contingencies**

In connection with the original asset purchase dated June 9, 2009 to acquire the Back River Assets from DPM, the Company agreed to provide future equity consideration in the event that certain milestones related to the Back River Project were met. At December 31, 2017, the remaining potential consideration consists of 5 million common shares of the Company, which would be issuable upon a positive production decision for the Back River Project.

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 \$2.2 million. The Company has issued security deposits to the land owner, the KIA for this amount 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 an operating lease agreement for the rental of its corporate head office in Vancouver, which expires on May 30, 2020. Minimum rental payments for this lease are as follows:

(in thousands of Canadian dollars)		
2018	\$	118
2019		175
2020		73
	\$	366

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)		
2018	\$	51
2019		141
	\$	192

### **Off-Balance Sheet Arrangements**

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

### **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 \$306.8 million at December 31, 2017 (\$287.3 million – December 31, 2016).

### **Provision for Site Reclamation**

The Company recognizes management's best estimate of a future asset retirement obligation as a liability in the period in which it incurs a legal or constructive obligation associated with the acquisition, construction, development and/or normal use of its assets. The Company concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset which is amortized over the life of the asset. At December 31, 2017, the Company had a provision for site reclamation of \$2.2 million in relation to the Back River exploration camps. Key activities required to be carried out and used in estimating the costs include removal of the camps, reclamation of the 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 payments during the year ended December 31, 2017 are as follows: a risk-free interest rate of 1.1% (2016 – 0.7%); a dividend yield of 0% (2016 – 0%); an expected volatility of 70% (2016 – 66%) and expected lives of stock options of 5.0 years (2016 – 5.0 years). The weighted average fair value of options granted in the period was \$0.76 per option (2016 - \$0.50). The expected volatility is estimated by considering historic average share price volatility.



### **Future Changes in Accounting Standards**

A number of new accounting standards, and amendments to standards and interpretations, are not yet effective for the period ended December 31, 2017, and have not been applied in preparing these consolidated financial statements. The Company's assessment of the impact of these new standards and amendments is detailed below.

- IFRS 9 Financial Instruments

This standard replaces IAS 39, Financial Instruments: Recognition & Measurement. IFRS 9 details new requirements for classifying and measuring financial assets. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss model" for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. The standard becomes effective for annual periods beginning on or after January 1, 2018, which is the date the Company will adopt IFRS 9. An assessment has been made and the impact to the Company's consolidated financial statements will be to reclassify its available-for-sale investments to fair value through profit or loss. The Company intends to adopt IFRS 9 retrospectively without restatement of comparative amounts resulting in a reclassification of \$0.9 million from accumulated other comprehensive income to deficit on January 1, 2018. Future changes in the fair value these available-for-sale investments will be recorded directly in profit or loss. No other differences of any significance have been noted in relation to the adoption of IFRS 9.

- 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 will assess the impact of this new standard for the Company's current corporate office lease which expires in May 2020 as well as any new leases entered into prior to adoption.

### **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 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Outstanding Share Data**

As at March 12, 2018, there were 251,828,181 common shares outstanding and there were options and warrants outstanding to purchase an aggregate of 17,384,500 common shares. These shares include stock options that were granted to certain of the Company's executive officers, directors, employees and 5 million warrants granted to DPM as part of the consideration for the purchase of the Back River Assets.

### **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**

### *Risks Related to the Business of the Company*

#### *Exploration Hazards and Risks*

Natural resource exploration generally involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. These risks include, but are not limited to, the following; environmental hazards, industrial accidents, third party accidents, unusual or unexpected geological structures or formations, fires, power outages, labour disruptions, floods, explosions, cave ins, landslides, acts of God, periodic interruptions due to inclement or hazardous weather conditions, earthquakes, delays in transportation, inaccessibility to property, restrictions of courts and/or government authorities, other restrictive matters beyond the reasonable control of the Company, and the inability to obtain suitable or adequate machinery, equipment or labour. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration of precious and base metals, any of which could result in work stoppages, asset write downs, damage to or destruction of equipment and other facilities, damage to life and property, environmental damage and possible legal liability for any or all damages. The Company may become subject to liability for pollution, or hazards against which it cannot insure or against which it may elect not to insure. Any compensation for such liabilities may have a material, adverse effect on the Company's financial position.

The Company's property, business interruption and liability insurance may not provide sufficient coverage for losses related to these or other hazards. Insurance against certain risks, including certain liabilities for environmental pollution, may not be available to the Company or to other companies within the industry at reasonable terms or at all. In addition, the Company's insurance coverage may not continue to be available at commercially acceptable premiums, or at all. Any such event could have a material adverse effect on the Company's business.

#### *Exploration and Development of Natural Resource Properties*

There is no assurance that the exploration programs on the Company's current or future natural resource properties will result in the discovery of new resources or lead to the development of a commercially viable orebody. The business of exploration for minerals involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines.

The economics of developing gold, silver and base metal properties are affected by many factors including capital and operating costs, variations of the tonnage and grade of ore mined, and fluctuating mineral markets. Development projects are uncertain and it is possible that actual capital and operating costs and economic returns will differ significantly from those estimated for a project prior to production. The economic feasibility of development projects is based on many factors such as; estimation of mineral reserves, anticipated metallurgical recoveries, environmental considerations and permitting, future gold prices and anticipated capital and operating costs of these projects. The Back River Project has no operating history upon which to base estimates of future projection and cash operating costs. Particularly for development projects, estimates of Proven and Probable Mineral Reserves and cash operating costs are, to a large extent, based upon the interpretation of geologic data obtained from drill holes and other sampling techniques, and feasibility studies that derive estimates of cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the ore body, expected recovery rates of metals from the ore, estimated operating costs, anticipated climactic conditions and other factors. As a result, it is possible that actual capital and operating costs and economic returns will differ significantly from those currently estimated for a project prior to production.

Depending on the prices of gold, silver or base metals, the Company may determine that it is impractical to continue exploration or to commence development of a mineral property. Substantial expenditures are required to discover an orebody, to establish resources and reserves, to identify the appropriate metallurgical processes to extract metal from ore, and to develop the mining and processing facilities and infrastructure. The marketability of any minerals acquired or discovered may be affected by numerous factors which are beyond the Company's control and which cannot be accurately foreseen or predicted, such as market fluctuations and conditions for precious and base metals, the proximity and capacity of milling and smelting facilities, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting minerals and environmental protection. In order to commence exploitation of certain properties presently held under exploration concessions, it is necessary for the Company to apply for an exploitation concession. There can be no guarantee that such a concession will be granted. Unsuccessful exploration or development programs could have a material adverse impact on the Company's operations and financial condition.



#### *Uncertainty Relating to Production Estimates*

The Company has prepared estimates of future production and future production costs for the Back River Project. No assurance can be given that production estimates will be achieved. These production estimates are based on, among other things: the accuracy of reserve estimates; the accuracy of assumptions; metallurgical characteristics; and the accuracy of estimated rates and costs of mining and processing. Actual production may vary from estimates for a variety of reasons, including, among other things: actual ore mined varying from estimates of grade, tonnage, dilution, metallurgical and other characteristics; short term operating factors relating to the ore reserves, such as the need for sequential development of ore bodies and the processing of new or different ore grades; risk and hazards associated with mining; natural phenomena, such as inclement weather conditions, underground floods, earthquakes, pit wall failures and cave-ins; and unexpected labour shortages or strikes. Failure to achieve production estimates could have an adverse impact on the future cash flows, earnings, results of operations and financial condition of the Company.

#### *No History of Commercial Production and No Revenue from Operations*

The Company has no commenced commercial production on any of its mineral resource properties. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources and lack of revenues. There can be no assurance that significant losses will not occur in the near future or that the company will be profitable in the future. The company's operating expenses and capital expenditures may increase in the future as consultants, personnel and equipment costs associated with advancing exploration, development and commercial production of its properties increase. The company expects to continue to incur losses unless and until such time, if ever, it enters into commercial production and generates sufficient revenues to fund its continuing operations. The development of the Back River Project will require the commitment of substantial resources. There can be no assurance that the Company will generate any revenues. If the Company is unable to generate significant revenues at the Back River Project, it will not be able to earn profits or continue operations. The Company cannot provide investors with any assurance that it will ever develop a mine at the Back River Project. Development of the Back River Project will be Subject to all of the Risks Associated with Establishing New Mining Operations

Development of the Back River Project will require the construction and operation of mines, processing plants and related infrastructure. As a result, the Company is and will continue to be subject to all the risks associated with establishing new mining operations, including:

- the timing and cost, which can be considerable, of the construction of mining and processing facilities;
- the availability and cost of skilled labour, mining equipment and principal supplies needed for operations;
- the availability and cost of appropriate smelting and refining arrangements;
- the need to obtain and maintain necessary environmental and other governmental approvals and permits and the timing of the receipt of those approvals and permits;
- the availability of funds to finance construction and development activities;
- potential opposition from non-governmental organizations, aboriginal groups, environmental groups, local groups or other stakeholders which may delay or prevent development activities; and
- potential increases in construction and operating costs due to changes in the cost of labour, fuel, power, materials and supplies.

The costs, timing and complexities of developing the Back River Project may be greater than anticipated because the majority of such property interests are not located in developed areas, and as a result, its property interests are not located in developed areas, and as a result, its property interests may not be served by appropriate road access, water and power supply and other support infrastructure. Cost estimates may increase as more detailed engineering work is completed on the Back River Project. It is common in new mining operations to experience unexpected costs, problems and delays during construction, development and mine start-up. Accordingly, the Company cannot provide assurance that its activities will result in profitable mining operations at its mineral properties.

#### *General Economic Conditions*

The unprecedented events in global financial markets in the past several years have had a profound impact on the global economy. Many industries, including the mining industry, are impacted by these market conditions. Some of the key impacts of the current market turmoil include contraction in credit markets resulting in a widening of credit risk, devaluations, high volatility on global equity, commodity, foreign exchange and precious metal markets and a lack of

market confidence and liquidity. A continued or worsened slowdown in the financial markets or other economic conditions, including but not limited to, consumer spending, employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates and tax rates, may adversely affect the Company's growth and profitability. A number of issues related to economic conditions could have a material adverse effect on the Company's financial condition and results of operations, specifically;

- turmoil in the global financial markets could impact the cost and availability of financing and the Company's overall liquidity;
- the volatility of gold and other metal prices would impact the Company's revenues, profits, losses and cash flow;
- continued or worsened economic slowdown could adversely impact demand for the Company's production;
- volatile energy, commodity and consumables prices and currency exchange rates would impact the Company's production costs; and
- the devaluation and volatility of global stock markets would impact the valuation of the Company's equity and other securities.

#### *Transportation to the Back River Project is Limited and Risky*

Due to the location of the Back River Project, there is presently no infrastructure available to explore or, if a production decision is ultimately made, develop or engage in production from the Back River Project. As a result of the lack of infrastructure, access to the Back River Project is limited. The access to the Back River Project is also subject to seasonality constraints related to ocean access and winter road construction. Delays in construction and operations could result in missing particular site access timeframes. In connection with the sale of the Hackett River Project, the Company entered into an infrastructure access agreement which will provide it with the ability, on competitive commercial terms, to use the infrastructure built by Glencore for the Hackett River Project. However, no assurance can be given that either the company's Back River Project or the Hackett River Project will be sufficiently commercially viable to support the capital cost of developing the necessary infrastructure.

The inability of the Company to secure the transportation necessary to support its current and proposed operations, including in respect of development at the Back River Project may have a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects.

#### *Inadequate Infrastructure May Constrain Development and Mining Operations*

Commercial production at the Back River Project depends on adequate infrastructure. In particular, reliable power sources, water supply, transportation and surface facilities are all necessary to develop and operate a mine. Failure to adequately meet these infrastructure requirements in a timely and cost-effective manner could affect the Company's ability to commence or continue production at the Back River Project and could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows or prospects.

#### *Uncertainty of Funding*

The Company has limited financial resources, and the exploration and development of the mineral properties in which the Company has an interest require substantial financial expenditures to be made by the Company.

There can be no assurance that adequate funding will be available to the Company to enable it to maintain its interests, conduct exploration activities and, if warranted, commence development of a mineral property. Further exploration work and development of the properties in which the Company has an interest depend upon the Company's ability to obtain financing through joint venturing of projects, debt financing, equity financing or other means. 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 metals. In addition, although the Company no longer has direct exposure to base metal prices, such prices will significantly affect the manner in which Glencore carries on exploration and, if warranted, development of the Hackett River Back River Project. 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, regulation of 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.

#### *Passive Nature of Hackett River Project Royalty*

The Hackett Royalty reserved by the Company on the Hackett River Project represents an asset with substantial potential value. However, as a holder of a royalty interest, the Company will have no right to participate in the decision-making process with respect to the future exploration and, if warranted, development of the project. Glencore is the world's largest zinc producer with the financial and other resources necessary to develop the Hackett River Project along with the infrastructure that will be required to conduct a major mining operation in Nunavut. In addition, the Hackett agreement has provisions intended to create financial incentives for Glencore to incur significant exploration expenditures and to complete a feasibility study. If Glencore does not incur such expenditures or complete a feasibility study within the prescribed time periods, the Company has the right to repurchase the properties, subject to Glencore's right to pre-empt that right by paying the Company an advance royalty of \$75 million in three annual \$25 million instalments. However, notwithstanding these incentives, there can be no assurance as to if, or when, the Hackett River Project will be developed and if or when the Company will receive royalty payments therefrom.

#### *Calculation of Reserves, Resources and Precious 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.

#### *Government Regulation*

The Company's exploration operations are, and any development activities which it conducts in the future will be, subject to extensive federal, provincial, territorial and local laws and regulations governing such matters as environmental protection, management and use of toxic substances and explosives, management of natural resources, health, exploration and development of mines, production and post-closure reclamation, safety and labour, mining law reform, price controls, import and export laws, taxation, maintenance of claims, tenure, government royalties and expropriation of property. There is no assurance that future changes in such laws and regulations, if any, will not adversely affect the Company's operations. The activities of the Company require licenses and permits from various governmental authorities. The costs associated with compliance with these laws and regulations are substantial and possible future laws and regulations, changes to existing laws and regulations and more stringent enforcement of current laws and regulations by governmental authorities, could cause additional expenses, capital expenditures, restrictions on or suspensions of the Company's operations and delays in the development of its properties. Moreover, these laws and regulations may allow governmental authorities and private parties to bring lawsuits based upon damages to property and injury to persons resulting from the environmental, health and safety practices of the Company's past and current operations, or possibly even the actions of former property owners, and could lead to the imposition of substantial fines, penalties or other civil or criminal sanctions. The Company retains competent and well trained individuals and consultants in jurisdictions in which it does business. However, even with the application of considerable skill the Company may fail to comply with certain laws. Such events can lead to financial restatements, fines, penalties, and other material negative impacts on the Company.

#### *Revised NIRB Recommendation and Obtaining and Renewing of Government Permits*

New mining projects in Nunavut are subject to environmental assessment and review prior to certification and issuance of permits to authorize construction and operations. The primary environmental review and approval process applicable to the Back River Project is the environmental assessment administered by the NIRB. A project certificate, if recommended by NIRB, would be approved by the INAC at the conclusion of the environmental process. This would represent government approval and would allow the Company to pursue the necessary regulatory authorizations needed to construct and operate the Back River Project.

In July 2017, the NIRB issued a positive recommendation to INAC that development of the Company's Back River Project should proceed to the licensing phase. A project certificate was issued in December, 2017 by INAC shortly after the Minister of INAC accepted the NIRB's recommendation which allows the Company to advance through the final licensing and permitting phase.

The Company may be required to obtain and renew government licenses and permits from the KIA for its exploration activities and will additionally require permits for the development, construction and commencement of any mining operations. Obtaining or renewing the necessary governmental permits is a time-consuming process involving numerous regulatory agencies and involving public hearings and costly undertakings on the Company's part. The duration and success of the Company's efforts to obtain and renew permits are contingent upon many variables not within its control including the interpretation of applicable requirements implemented by the permitting authority. The Company may not be able to obtain or renew permits that are necessary to its operations, or the cost to obtain or renew permits may exceed what the Company believes it can ultimately recover from a given property once in production. Any unexpected delays or costs associated with the permitting process could delay the development or impede the operation of a mine.

Pursuant to the Nunavut Agreement on land claims, agreements with the KIA will be required to support production at the Back River Project including an IIBA, water and wildlife compensation, and a commercial surface access lease. Such agreements will require negotiation between the KIA and the Company. The Nunavut Agreement provides for various dispute resolution mechanisms relating to surface access to Inuit owned lands, the IIBA, and Inuit water and wildlife compensation if agreement cannot be reached. The Company and the KIA completed a binding term sheet on October 18, 2017, on the key provisions of the agreements required under the Nunavut Agreement, subject to completion of definitive agreements and associated regulatory approval. The Company believes that KIA and the Company have a positive working relationship. Loss of the current positive working relationship could have a negative effect on the Company's ability to carry out the development of the Back River Project.

KIA administers the surface title to Inuit owned lands in the Kitikmeot region of Nunavut, including surface rights over certain portions of the Back River Project. Surface rights for exploration activities have been conferred to the Company by the KIA in the form of annually renewable land use licenses. At present, the Company has adequate surface rights for exploration activities only. It is anticipated KIA will request that the Company enter into a long-term lease agreement in order to proceed with production activities, which will require negotiation. There can be no guarantee that the Company will be able to meet the future requirements for accessing surface rights.

#### *Environmental Factors*

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that any future changes in environmental regulation, will not adversely affect the Company's operations. The costs of compliance with changes in government regulations have the potential to reduce the profitability of future operations. Environmental hazards that may have been caused by previous or existing owners or operators may exist on the Company's mineral properties, but are unknown to the Company.

#### *Title to Assets*

Although the Company has received title opinions for its material properties 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 an investigation 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.

#### *Competitive Conditions*

Significant competition exists for natural resource acquisition opportunities. As a result of this competition, some of which is with large, well established mining companies with substantial capabilities and significant financial and technical resources, the Company may be unable to either compete for or acquire rights to exploit additional attractive mining

properties on terms it considers acceptable. There can be no assurance that the Company will be able to acquire any interest in additional projects that would yield resources or reserves or result in commercial mining operations.

#### *Employee Recruitment and Retention*

Recruiting and retaining qualified personnel is critical to the Company's success. The Company is dependent on the services of key executives including the Company's President and Chief Executive Officer and other experienced executives and personnel focused on managing the Company's interests. The number of persons skilled in acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As the Company's business activity grows, the Company will require additional key financial, administrative and mining personnel as well as additional operations staff. If the Company is not able to attract, hire and retain qualified personnel, its operations could be impaired.

#### *Potential Conflicts of Interest*

Reference is made to "Directors and Executive Officers – Conflicts of Interest" contained within the Company's Annual Information Form for information concerning potential conflicts of interest of the Company's directors and officers. There is no assurance that the needs of the Company will receive priority in all cases. From time to time, several companies may participate together in the acquisition and exploration of natural resource properties, thereby allowing these companies to (i) participate in larger properties and programs, (ii) acquire an interest in a greater number of properties and programs, and (iii) reduce their financial exposure to any one property or program. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired, it is expected that the directors and officers of the Company will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

#### *Information Systems Security Threats*

The Company has entered into agreements with third parties for hardware, software, telecommunications and other information technology ("IT") services in connection with its operations. The Company's operations depend, in part, on how well the Company and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts; damage to physical plants; natural disasters; terrorism; fire; power loss; hacking; computer viruses; vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software to mitigate the risk of failures.

Any of these and other events could result in information loss, system failures, business interruptions and/or increases in capital expenses, which could adversely impact the Company's reputation, business, financial condition and results of operations. Although to date the Company has not experienced any material losses relating to cyber-attacks or other information security breaches, there can be no assurance that Sabina will not incur such losses in the future. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

#### *Risks Related to the Common Shares*

##### *Reliability of Financial Statements*

In the preparation of financial statements, management may need to rely upon assumptions, make estimates or use their best judgment in determining the financial condition of the Company. Significant accounting details are described in more detail in the notes to the Company's annual consolidated financial statements for the year ended December 31, 2016. In order to have a reasonable level of assurance that financial transactions are properly authorized, assets are safeguarded against unauthorized or improper use and transactions are properly recorded and reported, the Company has implemented and continues to analyze its internal control systems for financial reporting. Although the Company believes its financial reporting and financial statements are prepared with reasonable safeguards to ensure reliability, it cannot provide absolute assurance in that regard.



*Substantial Volatility of Share Price*

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many mineral exploration companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. The price of the Common Shares is also significantly affected by short term changes in mineral prices or in the Company's financial condition or results of operations as reflected in its quarterly financial reports. Other factors unrelated to the Company's performance that may have an effect on the price of its Common Shares include the following: the extent of analytical coverage available to investors concerning the Company's business may be limited if investment banks with research capabilities do not follow the Company's securities; lessening in trading volume and general market interest in the Company's securities may affect an investor's ability to trade significant numbers of the Common Shares; and the market price of the Common Shares and size of the Company's public float may limit the ability of some institutions to invest in the Company's securities.

*Potential Dilution of Present and Prospective Shareholdings*

In order to finance future operations and development efforts, the Company may raise funds through the issue of Common Shares or the issue of securities convertible into or exercisable for Common Shares. The Company cannot predict the size of future issues of Common Shares or the issue of securities convertible into or exercisable for Common Shares or the effect, if any, that future issues and sales of the Common Shares will have on the market price of the Common Shares. Any transaction involving the issue of previously unissued shares, or securities convertible into or exercisable for shares, would result in dilution, which may be substantial, to existing holders of shares.

*Lack of Dividends*

No dividends on the Common Shares have been paid to date. The Company currently plans to retain earnings and other cash resources, if any, for the future operation and development of its business. Payment of any future dividends, if any, will be at the discretion of the Board of Directors after taking into account many factors, including the Company's operating results, financial condition, and current and anticipated cash needs.

*Tax Uncertainty*

Tax rates and methods of calculating tax in jurisdictions related to the Company's business may be subject to changes. The Company's interpretation of taxation law where it operates and as applied to its transactions and activities may be different than that of applicable tax authorities. As a result, tax treatment of certain operation, action or transactions may be challenged and reassessed by applicable tax authorities, which could result in adverse tax consequences for the Company, including additional taxes, penalties, interest and may also adversely affect the Company's ability to repatriate earnings and otherwise deploy its assets.

*Passive Foreign Investment Company ("PFIC") and Potential Adverse Income Tax Consequences to US Shareholders*

The Company was a PFIC for US federal income tax purposes during the fiscal year ended December 31, 2016 and we expect that we will be a PFIC in the current year and in future years. The determination of whether or not the Company is a PFIC is a factual determination dependent on a number of factors and cannot be made until the close of the applicable tax year and accordingly no assurances can be given regarding the Company's PFIC status for the current year or any future year. If the Company is a PFIC at any time during a US shareholder's holding period, then certain potentially adverse tax consequences could apply to any such US shareholders acquisition, ownership and disposition of common shares.

**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.