



Consolidated Financial Statements

Years ended December 31, 2016 and 2015



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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, 2016 and December 31, 2015, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

### *Auditors' Responsibility*

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

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

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



*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sabina Gold & Silver Corp. as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

**KPMG LLP (Signed)**

Chartered Professional Accountants

March 17, 2017

Vancouver, Canada

# SABINA GOLD & SILVER CORP.

## Consolidated Statements of Financial Position

	December 31, 2016	December 31, 2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 8,161	\$ 4,564
Short-term investments	31,700	13,814
Accounts receivable (note 5)	351	261
Inventory	1,397	1,170
Prepaid expenses	69	131
Total current assets	41,678	19,940
Non-current assets:		
Investments (note 6)	1,690	748
Property and equipment (note 7)	7,163	9,957
Mineral properties (note 8)	287,293	283,394
Hackett silver royalty (note 9)	34,754	34,754
Reclamation deposits	2,227	2,229
Total non-current assets	333,127	331,082
Total assets	\$ 374,805	\$ 351,022
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,134	\$ 641
Flow-through share premium liability (note 13)	-	577
Current portion of capital lease obligation (note 15)	56	110
Total current liabilities	1,190	1,328
Non-current liabilities:		
Capital lease obligation (note 15)	174	218
Provision for site reclamation (note 10)	2,174	2,067
Deferred income tax liability (note 18)	32,881	35,390
Total non-current liabilities	35,229	37,675
Total liabilities	36,419	39,003
Equity:		
Share capital (note 11)	386,613	355,355
Contributed surplus	23,961	24,043
Accumulated other comprehensive income	1,289	33
Deficit	(73,477)	(67,412)
Total equity	338,386	312,019
Total liabilities and equity	\$ 374,805	\$ 351,022

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, 2016 and 2015

	2016	2015
Expenses:		
Administration and general	\$ 429	\$ 429
Depreciation and accretion	55	76
Insurance	102	134
Listing, transfer and shareholder	391	536
Part XII.6 tax	4	-
Professional services	334	409
Salaries and severance	1,804	2,048
Share-based payments (note 12(a))	143	1,578
Travel	152	200
Write-down of mineral properties (note 8(a))	7,099	4,227
Loss on disposition of property and equipment	-	66
	10,513	9,703
Loss from operating activities	(10,513)	(9,703)
Net finance income:		
Interest income	497	396
Amortization of flow-through premium (note 13)	577	114
	1,074	510
Loss before impairment and disposition of investments	(9,439)	(9,193)
Disposition of investments (note 6)	1,343	(9)
Impairment of investments (note 6)	-	(2,015)
Loss before income taxes	(8,096)	(11,217)
Deferred income tax recovery (note 18)	2,031	1,700
Loss for the period	(6,065)	(9,517)
Other comprehensive income (loss):		
Available-for-sale investments, change in fair value, net of tax	2,599	(1,184)
Available-for-sale investments, disposal transferred to profit and loss	(1,343)	1,807
Unrealized gain on available-for-sale investments	1,256	623
Comprehensive loss	\$ (4,809)	\$ (8,894)
Basic and diluted loss per share	\$ (0.03)	\$ (0.05)
Weighted average number of common shares outstanding	212,271,954	195,649,954

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

# SABINA GOLD & SILVER CORP.

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

For the years ended December 31, 2016 and 2015

	2016	2015
Share capital:		
Balance, beginning of period	\$ 355,355	\$ 352,435
Shares issued, net of share issue costs	30,458	3,568
Fair value of options transferred to share capital	260	36
Flow-through premium transferred to deferred liability (note 13)	-	(691)
Deferred income tax effect of flow through shares and issuance costs	540	7
Balance, end of period	386,613	355,355
Contributed surplus:		
Balance, beginning of period	24,043	21,682
Fair value of share-based payments included in operating expenses	143	1,578
Fair value of share-based payments capitalized to mineral properties	35	819
Fair value of options transferred to share capital	(260)	(36)
Balance, end of period	23,961	24,043
Accumulated other comprehensive income (loss):		
Balance, beginning of period	33	(590)
Other comprehensive income	1,256	623
Balance, end of period	1,289	33
Deficit:		
Balance, beginning of period	(67,412)	(57,895)
Loss for the period	(6,065)	(9,517)
Deficit, end of period	(73,477)	(67,412)
Total shareholders' equity	\$ 338,386	\$ 312,019

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

# SABINA GOLD & SILVER CORP.

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

For the years ended December 31, 2016 and 2015

	2016	2015
Cash provided by (used in) operating activities:		
Loss for the period	\$ (6,065)	\$ (9,517)
Adjustments for:		
Depreciation and accretion	55	76
Deferred income tax recovery	(2,031)	(1,700)
Part XII.6 tax	4	-
Interest income	(497)	(396)
Impairment of investment	-	2,015
Write-down of mineral properties	7,099	4,227
Loss (gain) on disposition of investment	(1,343)	9
Loss on disposition of assets	-	66
Amortization of flow-through premium liability	(577)	(114)
Share-based payments	143	1,578
	(3,212)	(3,756)
Accounts receivable	38	121
Inventories	(227)	224
Prepaid expenses	62	14
Accounts payable and accrued liabilities	(161)	57
	(3,500)	(3,340)
Interest received	369	405
Net cash used in operating activities	(3,131)	(2,935)
Cash flows provided by (used in) investing activities:		
Expenditures on deferred exploration*	(6,894)	(14,652)
Expenditures on property and equipment	(572)	(83)
Decrease in reclamation deposits	2	-
Net proceeds(purchases) of short-term investments	(17,886)	14,686
Proceeds on disposition of investment	1,718	33
Proceeds on disposition of assets	-	14
Net cash used in investing activities	(23,632)	(2)
Cash flows provided by (used in) financing activities:		
Issue of common shares for cash, net of share issue costs	30,458	3,568
Capital leases	(98)	(102)
Net cash provided by financing activities	30,360	3,466
Net increase in cash and cash equivalents	3,597	529
Cash and cash equivalents, beginning of period	4,564	4,035
Cash and cash equivalents, end of period	\$ 8,161	\$ 4,564

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

\*Changes in accounts payable and accrued liabilities of \$646 thousand (2015 - \$1.6 million) related to deferred exploration costs are included in investing activities for the year ended December 31, 2016.

# SABINA GOLD & SILVER CORP.

Notes to Consolidated Financial Statements

(Tabular dollar amounts expressed in thousands of Canadian dollars)

For the years ended December 31, 2016 and 2015

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## 1. Nature of operations:

Sabina Gold & Silver Corp. (the "Company" or "Sabina") was incorporated in June 1966 under the laws of the Province of British Columbia. On October 28, 2009 the Company changed its name from Sabina Silver Corporation to Sabina Gold & Silver Corp. The Company's principal business activity is the exploration and development of mineral property interests. The Company's principal assets are the Back River Gold Project and its silver royalty on the Hackett River project, both of which are located in Nunavut, Canada. The Company also has exploration properties in Nunavut and in the vicinity of the Red Lake gold camp in Ontario.

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

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

## 2. Basis of preparation:

### (a) Statement of compliance

These 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 17, 2017.

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. In addition these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

### (c) Functional and presentation currency

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



# SABINA GOLD & SILVER CORP.

Notes to Consolidated Financial Statements

(Tabular dollar amounts expressed in thousands of Canadian dollars)

For the years ended December 31, 2016 and 2015

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## 2. Basis of preparation, continued:

### (d) Use of estimates and judgments

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

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

## 3. Significant accounting policies:

### (a) Financial instruments

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

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

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

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

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

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

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

# SABINA GOLD & SILVER CORP.

Notes to Consolidated Financial Statements

(Tabular dollar amounts expressed in thousands of Canadian dollars)

For the years ended December 31, 2016 and 2015

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## 3. Significant accounting policies, continued:

### (a) Financial instruments, continued

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

##### *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.

##### *Available-for-sale financial assets*

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

#### (ii) Non-derivative financial liabilities

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

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

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

# SABINA GOLD & SILVER CORP.

Notes to Consolidated Financial Statements

(Tabular dollar amounts expressed in thousands of Canadian dollars)

For the years ended December 31, 2016 and 2015

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## 3. Significant accounting policies, continued:

### (a) Financial instruments, continued

#### (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.

### (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.

# SABINA GOLD & SILVER CORP.

Notes to Consolidated Financial Statements

(Tabular dollar amounts expressed in thousands of Canadian dollars)

For the years ended December 31, 2016 and 2015

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## 3. Significant accounting policies, continued:

### (e) Property, plant and equipment, continued

#### (ii) Depreciation

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

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

The depreciation rates used are as follows:

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

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

### (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.

# SABINA GOLD & SILVER CORP.

Notes to Consolidated Financial Statements

(Tabular dollar amounts expressed in thousands of Canadian dollars)

For the years ended December 31, 2016 and 2015

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## 3. Significant accounting policies, continued:

### (g) Impairment, continued

#### (i) Financial assets (including receivables), continued

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.

# SABINA GOLD & SILVER CORP.

Notes to Consolidated Financial Statements

(Tabular dollar amounts expressed in thousands of Canadian dollars)

For the years ended December 31, 2016 and 2015

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## 3. Significant accounting policies, continued:

### (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 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.

# SABINA GOLD & SILVER CORP.

Notes to Consolidated Financial Statements

(Tabular dollar amounts expressed in thousands of Canadian dollars)

For the years ended December 31, 2016 and 2015

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## 3. Significant accounting policies, continued:

### (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 employees and share purchase warrants. For the year ended December 31, 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 a number of new standards and interpretations effective for January 1, 2016; however, none of these new standards had an impact on the Company's consolidated financial statements.

## 4. Future changes in accounting standards:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended December 31, 2016, and have not been applied in preparing these consolidated financial statements. The Company's assessment of the impact of these new standards and amendments is detailed below.

### IFRS 9, Financial Instruments

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

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## 4. Future changes in accounting standards, continued:

### 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's current office lease expires in October 2017 and is not expected to be extended to be effective on or after January 1, 2019. The Company will continue to assess the impact of this new standard for any new leases that are in place prior to January 1, 2019.

## 5. Accounts receivable:

	2016	2015
GST receivable	\$ 38	\$ 96
Interest receivable	285	157
Other trade receivables	28	8
	\$ 351	\$ 261

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

## 6. Available-for-sale investments:

At December 31, 2016 and December 31, 2015, 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, 2016 the Company had 3,250,000 common shares of Pure Gold with a fair value of \$1.7 million. At December 31, 2015 the Company had 6,500,000 common shares of Pure Gold with a fair value of \$0.7 million.

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

During year ended December 31, 2015, the Company recorded impairment losses of \$2.0 million with respect to its investment in Pure Gold. During the year ended December 31, 2016 there were no impairment losses.



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## 7. Property and equipment:

<b>Cost</b>	Exploration camp and equipment	Office and equipment	Total
Balance at January 1, 2015	\$ 24,056	\$ 583	\$ 24,639
Additions	-	83	83
Dispositions	(24)	(505)	(529)
Balance at December 31, 2015	24,032	161	24,193
Additions	587	3	590
Dispositions	(17)	-	(17)
Balance at December 31, 2016	\$ 24,602	164	\$ 24,766
<b>Accumulated depreciation</b>			
Balance at January 1, 2015	\$ (10,706)	\$ (419)	\$ (11,125)
Depreciation	(3,497)	(61)	(3,558)
Dispositions	20	427	447
Balance at December 31, 2015	(14,183)	(53)	(14,236)
Depreciation	(3,311)	(50)	(3,361)
Dispositions	(6)	-	(6)
Balance at December 31, 2016	\$ (17,500)	\$ (103)	\$ (17,603)
<b>Carrying value</b>			
At December 31, 2015	\$ 9,849	\$ 108	\$ 9,957
At December 31, 2016	\$ 7,102	\$ 61	\$ 7,163

At December 31, 2016, the net book value of exploration camp and equipment assets held under capital lease arrangements was \$202 thousand (December 31, 2015 - \$288 thousand).

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## 8. Mineral properties:

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

	2016	2015
Back River (Nunavut)	\$ 276,935	\$ 265,977
Wishbone (Nunavut)	4,632	11,731
Red Lake (Ontario)	5,726	5,686
	<b>\$ 287,293</b>	<b>\$ 283,394</b>

### Summary - All Properties

	2016	2015
Balance, beginning of period	283,394	270,214
Exploration and other expenditures	10,890	17,407
Provision for site reclamation	108	-
Write-down of mineral properties	(7,099)	(4,227)
Balance, end of period	<b>287,293</b>	<b>283,394</b>

	2016	2015
<b>Back River (Nunavut)</b>		
Balance, beginning of period	\$ 265,977	\$ 248,593
Additions:		
Drilling and camp support	1,501	237
Economic assessment	1,638	5,741
Environmental assessment	3,010	4,578
Geology & geophysics	822	1,357
Management & administration	397	997
Property maintenance	132	109
Support	-	49
Share-based payments	34	819
Provision for site reclamation	108	-
Depreciation	3,316	3,497
	<b>10,958</b>	<b>17,384</b>
Balance, end of period	<b>\$ 276,935</b>	<b>\$ 265,977</b>

### Wishbone (Nunavut)

Balance, beginning of period	\$ 11,731	\$ 15,957
Property maintenance	-	1
Write-down of mineral properties	(7,099)	(4,227)
Balance, end of period	<b>\$ 4,632</b>	<b>\$ 11,731</b>

### Red Lake (Ontario)

Balance, beginning of period	\$ 5,686	\$ 5,664
Additions:		
Geology & geophysics	37	15
Management & administration	-	5
Property maintenance	3	2
	<b>40</b>	<b>22</b>
Balance, end of period	<b>\$ 5,726</b>	<b>\$ 5,686</b>

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## 8. Mineral properties, continued:

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

The Company owns 100% of the Back River project which is comprised of the George and Goose property areas. The Back River project has 43-101 compliant gold mineral reserves and resources in eight known deposits, namely Llama, Umwelt, Goose Main and Echo on the Goose property and Locale 1 & 2, LCP, GH and Slave on the George property. 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 3,000 square km and cover a largely unexplored highly prospective greenstone belt.

On May 31, 2011, the Company completed the purchase of certain royalties on the Back River and Wishbone projects. The royalty required payment of 1.5% of the value of minerals mined until the royalty payments aggregated \$5.0 million after which the royalty decreased to 0.75%. The buyback was completed through the purchase of all issued and outstanding shares of R.A. Olson Consulting Ltd. (Royalty 2, noted below) for \$4.5 million in cash and the issue of 750,000 common shares of the Company. A value of \$5.2 million 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, 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. As a result of this assessment, the Company recorded write-downs totalling \$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. During 2015, the Company recorded write-downs totalling \$4.2 million on the Wishbone property for mineral claims that were relinquished during the year and certain non-core mineral claims.

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

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## 8. Mineral properties, continued:

### (b) Red Lake and Thunder Bay Properties (Ontario), continued:

#### (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 had to incur not less than \$80 million on 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 a right to buy back the Properties for a cash purchase price equal to 100% of the expenditures incurred by Glencore. Glencore can pre-empt Sabina's buy back right by electing to pay an advance royalty of \$75 million. As at December 31, 2016, Glencore had incurred sufficient exploration expenditures to satisfy its \$80 million spending commitment.

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

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

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## 10. Provision for site reclamation:

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

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

		2016		2015
Balance at January 1	\$	2,067	\$	2,067
Increase in estimate during the year		107		-
Balance at December 31	\$	2,174	\$	2,067

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

### Authorized number of common shares

At December 31, 2016, the authorized share capital of the Company was comprised of an unlimited number of common shares without par value. The number of issued and outstanding common shares is as follows:

	2016		2015	
	# of shares	\$	# of shares	\$
Issued and outstanding as at January 1	199,688,668	355,355	194,019,926	352,435
Issued for cash, net of share issuance costs	19,790,750	30,252	5,518,742	3,503
Issued on exercise of stock options	581,484	206	150,000	65
Fair value of options exercised	-	260	-	36
Deferred income tax effect of share issue costs	-	540	-	7
Flow-through share premium liability (note 13)	-	-	-	(691)
Issued and outstanding at December 31	220,060,902	386,613	199,688,668	355,355

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.

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

The gross proceeds from the two 2015 private placements have been reduced by \$691 thousand, being the flow-through premium liability (see Note 13) and \$28 thousand in issue costs.

The gross proceeds of both of these flow-through financings must be used to incur Canadian exploration expenditures as defined by the Income Tax Act (Canada) by December 31, 2016. At December 31, 2016, the Company had incurred sufficient flow-through eligible expenditures to satisfy the requirements of these flow-through financings.

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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:

	2016		2015	
	Number of options	Average exercise price	Number of options	Average exercise price
Outstanding as at January 1	16,755,000	\$ 1.92	12,002,410	\$ 2.63
Exercised during the period	(581,484)	0.58	(150,000)	0.43
Forfeited or expired during the period	(2,391,516)	4.60	(2,910,410)	1.36
Granted during the period	190,000	0.91	7,813,000	0.59
Outstanding at December 31	13,972,000	1.49	16,755,000	1.92
Exercisable as at December 31	13,472,000	\$ 1.53	15,955,000	\$ 1.96

As permitted under the Company's Stock Option Plan, 485,000 options were exercised as stock appreciation rights during the twelve months ended December 31, 2016, resulting in the issuance of 250,484 common shares with no cash proceeds. The common shares issued represent the difference between the market price of the common shares at the date of issuance and the exercise price of the stock options exercised divided by the market price at the exercise date. The difference between the number of options exercised and the number of shares issued is included in forfeited or expired options in the table above. In addition, 331,000 options were exercised during the twelve months ended December 31, 2016 for cash proceeds of \$206 thousand.

The following table summarizes the outstanding options as at December 31, 2016 by year of expiry. Of the outstanding options, 500,000 options were not fully vested at December 31, 2016.

Year	Number of options	Average exercise price
2017	2,115,000	3.78
2018	2,625,000	2.48
2019	2,370,000	0.94
2020	6,672,000	0.60
2021	190,000	0.91
	13,972,000	\$ 1.49

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## 12. Share-based payments, continued:

### (a) Share purchase options, continued

#### Employee compensation cost

During the year ended December 31, 2016, the Company recorded \$0.2 million (2015 - \$2.4 million) in share-based payment costs, of which \$143 thousand (2015 - \$1.6 million) is presented as an operating expense in the consolidated statement of comprehensive loss and \$34 thousand (2015 - \$0.8 million) is capitalized to mineral property costs.

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

The grant date fair values of share options were measured based on the Black-Scholes option pricing model. The weighted average inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following: a risk-free interest rate of 0.68% (2015 - 0.66%); a dividend yield of 0% (2015 - 0%); an expected volatility of 65.6% (2015 - 66.4%) and expected lives of stock options of 5.0 years (2015 - 5.0 years). The weighted average fair value of options granted in the period was \$0.50 per share (2015 - \$0.31). 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, 2016, 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 share premium liability:

	2016	2015
January 1	\$ 577	\$ -
Financing	-	691
Amortization	(577)	(114)
December 31	\$ -	\$ 577

On July 14, 2015, the Company completed a non-brokered private placement of 2,661,600 flow-through shares at a price of \$0.50 per common share. This price was at a premium of \$0.045 to market price at the date of announcement for a total flow-through premium of \$120 thousand. On November 25, 2015 the Company completed a non-brokered private placement of 2,857,142 flow-through shares at a price of \$0.77 per common share. This price was at a premium of \$0.20 to market price at the date of announcement for a total flow-through premium of \$571 thousand. The flow-through premium liability is amortized over the period in which the funds are used. During the year ended December 31, 2016, the Company fully incurred the remaining required flow-through eligible expenditures associated with these financings.

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## 14. Related parties:

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

		2016	2015
Salaries and benefits	\$	2,017	\$ 1,854
Stock-based compensation, non-cash		134	1,796
	\$	2,151	\$ 3,650

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 34 months. In 2015, the Company recognized an expense of \$473 thousand for termination benefits for a former executive, of which \$421 thousand was paid in 2015 and the balance in 2016.

## 15. Capital and operating leases and commitments:

### a) Obligation under capital leases

The Company has financed certain mobile equipment used at its Back River exploration camp by entering into capital leasing arrangements. Minimum lease payments as at December 31, 2016 are as follows:

2017	\$	57
2018		52
2019		141
Total minimum lease payments		250
Less amount representing interest (at 5.7%)		(20)
Present value of net minimum capital payments		230
Current portion of obligation under capital leases		(56)
	\$	174

### b) Operating leases

In June, 2015, the Company completed a sublease agreement for its corporate head office in Vancouver, commencing December 1, 2015 and expiring October 30, 2017. Minimum rental payments for this lease total: 2017 \$54 thousand.

### c) Commitments:

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

Under the terms of the agreement, the Trust would receive 3% of Sabina's net proceeds from the silver royalty on the Hackett River and Wishbone properties sold to Glencore plc (formerly Xstrata Zinc). The Trust would be comprised of a maximum of six trustees of which a majority would be KIA appointees with at least one Sabina appointee. Funds contributed to the Trust would be allocated by the Trustees to initiatives that provide benefits to the Kitikmeot region. A portion of the Trust funds would be retained for allocation after mine or project closure. Payments may be made to the Trust in shares at Sabina's election and subject to regulatory approval. To implement the initiative, prior to creation of the Trust in 2011, Sabina paid approximately \$1.4 million to an existing KIA fund which provides for development and community initiatives in the region, which was capitalized to mineral properties.



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## 16. Financial risk management:

### Overview

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

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

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

### Risk management framework

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

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

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

### 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 2017. 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 2016 or 2015 and has no allowance for doubtful accounts recorded at either of December 31, 2016 or 2015.

### 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.

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## 16. Financial risk management, continued:

### 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, 2016, 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.

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

### Capital Management

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

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

## 17. Fair value measurements:

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

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

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

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

# SABINA GOLD & SILVER CORP.

Notes to Consolidated Financial Statements

(Tabular dollar amounts expressed in thousands of Canadian dollars)

For the years ended December 31, 2016 and 2015

## 18. Income taxes:

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

	2016	2015
Tax loss carry forwards	\$ 20,900	\$ 18,934
Financing costs	441	114
Provision for closure and reclamation	587	558
Other	(15)	46
Flow-through share effect on mineral properties	(48,893)	(48,282)
Mineral properties	(9,670)	(9,647)
Property and equipment	3,769	2,887
Deferred tax liabilities	\$ (32,881)	\$ (35,390)

The Company has tax loss carry forwards at December 31, 2016 of \$77.4 million that expire from 2031 to 2036 (2015 - \$70.1 million).

At December 31, 2016 the Company has deductible temporary differences of nil (2015 - \$2.2 million) related to capital losses and other associated deductions not recognized as it is not probable that future taxable capital gains will be available to utilize these deductions.

Movement in temporary differences during the year:

	Opening Balance	Recognized in Income Tax Expense	Recognized in Other Comprehensive Income (loss)	Recognized in Shareholders' Equity	Closing Balance
December 31, 2016					

### Deferred tax assets:

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

### Deferred tax liabilities:

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)

# SABINA GOLD & SILVER CORP.

Notes to Consolidated Financial Statements

(Tabular dollar amounts expressed in thousands of Canadian dollars)

For the years ended December 31, 2016 and 2015

## 18. Income taxes, continued:

Movement in temporary differences during the year:

December 31, 2015	Opening Balance	Recognized in Income Tax Expense	Recognized in Other Comprehensive Income (loss)	Recognized in Shareholders' Equity	Closing Balance
<b>Deferred tax assets:</b>					
Tax loss carry forwards	\$ 15,466	\$ 3,468	\$ -	\$ -	18,934
Financing costs	484	(378)	-	7	113
Provision for closure and reclamation	558	-	-	-	558
Other	37	10	-	-	47
<b>Deferred tax liabilities:</b>					
Mineral properties	(7,638)	(2,009)	-	-	(9,647)
Flow-through shares	(47,940)	(342)	-	-	(48,282)
Property and equipment	1,936	951	-	-	2,887
	\$ (37,097)	\$ 1,700	\$ -	\$ 7	\$ (35,390)

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

	For the year ended December 31,	
	2016	2015
Expected tax recovery	\$ (2,186)	\$ (3,028)
Share based compensation and other permanent differences	(300)	665
Flow-through renunciation	611	342
Other	(156)	321
Income tax recovery	\$ (2,031)	\$ (1,700)

## 19. Subsequent event:

Subsequent to the year, on February 28, 2017, the Company completed a bought deal private placement flow-through financing of 3,150,000 flow-through common shares at a price of \$1.75 per share and an additional 320,000 flow-through common shares at the offering price for total gross proceeds of approximately \$6.1 million. The total gross proceeds from the financing must be used to incur Canadian exploration expenditures as defined by the Income Tax Act (Canada) by December 31, 2018.