Sabina

GOLD & SILVER CORP.

Consolidated Financial Statements

Years ended December 31, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Sabina Gold & Silver Corp.

We have audited the accompanying financial statements of Sabina Gold & Silver Corp., which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the statements of comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements present fairly, in all material respects, the financial position of Sabina Gold & Silver Corp. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

March 26, 2012

Vancouver, Canada

SABINA GOLD & SILVER CORP.

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

	December 31, 2011	December 31, 2010 (note 13)	January 1, 2010 (note 13)
Assets			
Current assets:			
Cash and cash equivalents (note 5)	$ 80,009	$ 53,563	$ 45,017
Short-term investments	79,900	29,268	-
Accounts receivable (note 6)	2,013	476	163
Inventory	977	1,038	439
Prepaid expenses	718	113	60
Total current assets	163,617	84,458	45,679
Non-current assets:			
Available-for-sale investments (note 7)	88	151	91
Property and equipment (note 8)	3,095	2,842	2,672
Mineral properties (note 9)	112,085	126,895	94,536
Hackett silver royalty (note 9)	34,754	-	-
Reclamation deposits	284	354	354
Total non-current assets	150,306	130,242	97,653
Total assets	$ 313,923	$ 214,700	$ 143,332
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	$ 1,541	$ 1,520	$ 978
Flow-through share premium liability (note 13)	1,128	2,353	1,211
Capital and other taxes payable	20	28	27
Total current liabilities	2,689	3,901	2,216
Non-current liabilities:			
Provision for site reclamation (note 10)	1,917	1,809	1,809
Deferred income tax liability (note 17)	25,711	14,315	9,448
Total non-current liabilities	27,628	16,124	11,257
Total liabilities	30,317	20,025	13,473
Equity:			
Share capital (note 11)	297,336	201,282	128,248
Contributed surplus	15,454	9,842	9,300
Accumulated other comprehensive loss	(80)	(15)	(50)
Deficit	(29,104)	(16,434)	(7,639)
Total equity	283,606	194,675	129,859
Total liabilities and equity	$ 313,923	$ 214,700	$ 143,332

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

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

Approved on behalf of the Board:

Robert Pease — Director

Terry Eyton — Director

SABINA GOLD & SILVER CORP.

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

For the years ended December 31, 2011 and 2010

		2011		2010
Expenses:				
Administration and general	$	731	$	429
Depreciation		52		49
Insurance		128		103
Listing, transfer and shareholder		798		758
Part 12.6 tax		20		29
Professional services		479		484
Salaries and severance		1,926		1,951
Share-based payments (note 12)		5,223		1,083
Travel		681		555
		10,038		5,441
Loss from operating activities		(10,038)		(5,441)
Net finance income:				
Interest income		2,053		377
Gain on sale of investments		23		-
Amortization of flow-through premium (note 13)		8,100		2,013
		10,176		2,390
Income (loss) before income taxes		138		(3,051)
Income tax recovery (expense):				
Current		-		(4)
Deferred (note 17)		(12,808)		(5,740)
		(12,808)		(5,744)
Loss for the period		(12,670)		(8,795)
Other comprehensive income:				
Unrealized gain (loss) on available-for-sale investments, net of tax		65		5
Comprehensive loss for the period	$	(12,605)	$	(8,790)
Basic and diluted loss per share	$	(0.08)	$	(0.07)
Weighted average number of common shares outstanding		157,185,362		124,862,747

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

SABINA GOLD & SILVER CORP.

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

	Year ended December 31 2011	Year ended December 31 2010
Share capital:		
Balance, beginning of period	$ 201,282	$ 128,248
Shares issued during the period, net of issue costs	95,073	73,102
Flow-through premium transferred to deferred liability (note 13)	(6,875)	(3,155)
Shares issued for Back River royalty acquisition (note 9)	5,190	-
Shares issued on extinguishment of production rights	-	531
Fair value of options exercised	731	1,674
Fair value of warrants exercised	531	-
Deferred income tax effect of flow through shares and issuance costs	1,404	882
Balance, end of period	297,336	201,282
Contributed surplus:		
Balance, beginning of period	9,842	9,300
Fair value of share-based payments of options vesting	5,223	1,685
Fair value of share-based payments capitalized to mineral properties	1,651	531
Fair value of warrants transferred to share capital	(531)	-
Fair value of options transferred to share capital	(731)	(1,674)
Balance, end of period	15,454	9,842
Accumulated other comprehensive income:		
Balance, beginning period	(15)	(50)
Unrealized gains (losses) on available for sale investments, net of tax	(65)	35
Balance, end of period	(80)	(15)
Retained earnings:		
Balance, beginning of period	(16,434)	(7,639)
Loss for the period	(12,670)	(8,795)
Retained deficit, end of period	(29,104)	(16,434)
Total shareholders' equity	$ 283,606	$ 194,675

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

SABINA GOLD & SILVER CORP.

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

	Year ended December 31, 2011	2010
Cash provided by (used in) operating activities:		
Loss for the period	$ (12,670)	$ (8,795)
Adjustments for:		
Depreciation	52	49
Deferred income tax expense	12,808	5,740
Interest income	(2,053)	(377)
Amortization of flow-through premium liability	(8,100)	(2,013)
Gain on sale of investment	(23)	-
Share-based payments	5,223	1,083
	7,907	4,482
Accounts receivable	(384)	(98)
Inventories	61	(599)
Prepaid expenses	(605)	(53)
Accounts payable and accrued liabilities	21	542
Capital and other taxes payable	(8)	-
Cash used in operating activities	(5,678)	(4,521)
Interest received	900	167
Net cash used in operating activities	(4,778)	(4,354)
Cash flows provided by (used in) investing activities		
Expenditures on deferred exploration, net of recoveries	(56,525)	(30,005)
Expenditures on property and equipment	(2,295)	(929)
Proceeds on Hackett sale	45,558	-
Purchase of short-term investments, net	(50,632)	(29,268)
Net cash used in investing activities	(63,894)	(60,202)
Cash flows provided by (used in) financing activities		
Issuance of common shares for cash, net of issue costs	95,073	73,102
Proceeds on disposition of available-for-sale shares	45	-
Net cash from financing activities	95,118	73,102
Net Increase (decrease) in cash and cash equivalents	26,446	8,546
Cash and cash equivalents, beginning of period	53,563	45,017
Cash and cash equivalents, end of period	$ 80,009	$ 53,563

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

1. Nature of operations:

Sabina Gold & Silver Corp. (the "Company" or "Sabina") was incorporated in June 1966 under the laws of the Province of British Columbia. On October 28, 2009 the Company changed its name from Sabina Silver Corporation to Sabina Gold & Silver Corp. The Company's principal business activity is the exploration and development of mineral property interests. The Company's principal mineral properties are the Back River Project and the Wishbone Project, both of which are located in Nunavut, Canada.

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

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain economically recoverable mineral reserves. The underlying value and the recoverability of the amounts recorded as mineral properties is entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of the mineral properties, and future profitable production or proceeds from the disposition of the mineral property interest. The Company has prepared a cash flow forecast for 2012 and believes that it has sufficient funds to continue operations for at least the next twelve months.

2. Basis of preparation:

(a) Statement of compliance:

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

These are the Company's first annual consolidated financial prepared in accordance with IFRS and *IFRS 1 First-time Adoption of International Financial Reporting Standards* has been applied.

An explanation of how the transition from Canadian generally accepted accounting principles (GAAP) to IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in note 18.

The consolidated financial statements were authorized for issue by the Board of Directors on March 26, 2012.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for purposes of transition to IFRS.

2. Basis of preparation, continued:

(b) Basis of measurement:

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

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Significant areas requiring the use of management estimates relate to the determination of the impairment of mineral properties, the provision for site reclamation, share-based payments, deferred income tax assets and rates for amortization of plant and equipment. Actual results may differ from these estimates.

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

3. Significant accounting policies:

(a) Financial instruments

(i) Non-derivative financial assets

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

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

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

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

3. Significant accounting policies, continued:

(a) Financial instruments, continued

(i) Non-derivative financial assets, continued

Financial assets at fair value through profit or loss

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

Held-to-maturity financial assets

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

Loans and receivables

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

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

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

Available-for-sale financial assets

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

3. Significant accounting policies, continued:

(a) Financial instruments, continued

(ii) Non-derivative financial liabilities

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

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

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

(b) Short-term investments

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

(c) Inventories

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

3. Significant accounting policies, continued:

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Depreciation

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

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

The depreciation rates used are as follows:

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

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

3. Significant accounting policies, continued:

(e) Mineral properties

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

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

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

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

(f) Impairment

(i) Financial assets (including receivables)

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

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

3. Significant accounting policies, continued:

(f) Impairment, continued

(i) Financial assets (including receivables), continued

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

(ii) Non-financial assets

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

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

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

3. Significant accounting policies, continued:

(g) Provision for site reclamation

The Company recognizes management's best estimate of a future asset retirement obligation as a liability in the period in which it incurs a legal or constructive obligation associated with the acquisition, construction, development and/or normal use of its assets. The Company concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset which is amortized over the life of the asset.

(h) Share-based payments

The Company has a share option plan which is described in note 11. Share based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions. If the fair value of the goods or services received cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services. Share-based payments to employees and Directors are measured at the grant-date fair value of the equity instruments issued and are amortized over their applicable vesting periods. The offset to the recorded cost is to contributed surplus. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital.

(i) Finance income and finance costs

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

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

(j) Income tax

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

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

3. Significant accounting policies, continued:

(j) Income tax, continued

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

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

(k) Loss per share

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

4. Future changes in accounting standards:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these consolidated financial statements. The Company's assessment of the impact of these new standards and amendments is detailed below.

IFRS 9, Financial Instruments

This standard is set to replace IAS 39, *Financial Instruments: Recognition & Measurement*. IFRS 9 details new requirements for classifying and measuring financial assets. The standard becomes effective for annual periods beginning on or after January 1, 2015 with early adoption allowed. The implementation of this standard is expected to have an impact on the Company; however, the extent of the impact has not yet been determined.

4. Future changes in accounting standards, continued:

IFRS 10, Consolidated Financial Statements

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

IFRS 11, Joint Arrangement

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

IFRS 12, Disclosures of Involvement with Other Entities

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

IAS 28, Investments in Associates and Joint Ventures

IAS 28 has been amended to conform to changes resulting from the issuance/amendment of IFRS 10, IFRS 11 and IFRS 12.

IFRS 13, Fair Value Measurement

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

(Tabular dollar amounts expressed in thousands of Canadian dollars)

5. Cash and cash equivalents

	2011	2010	January 1, 2010
Bank balances	$ 9,437	$ 509	$ 320
Redeemable investments	70,572	53,054	44,697
Cash and cash equivalents	$ 80,009	$ 53,563	$ 45,017

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

6. Accounts receivable

	2011	2010	January 1, 2010
GST receivable	$ 518	$ 202	$ 69
Interest receivable	1,380	256	46
Other trade receivables	115	18	48
Total trade and other receivables	$ 2,013	$ 476	$ 163

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

(Tabular dollar amounts expressed in thousands of Canadian dollars)

7. Available-for-sale investments:

The fair values of available-for-sale investments for the Company's shares of Mega Precious Metals Inc. ("Mega Precious") and Atacama Minerals Corp. ("Atacama") are as follows:

Cost	Atacama	Mega Precious	Total
Balance at January 1, 2010	$ 31	$ 89	$ 120
Additions	-	20	20
Balance at December 31, 2010	31	109	140
Additions	-	31	31
Disposals	(31)	-	(31)
Balance at December 31, 2011	$ -	$ 140	$ 140
Accumulated unrealized holding gains (losses)			
Balance at January 1, 2010	$ (5)	$ (24)	$ (29)
Changes in value	11	29	40
Balance at December 31, 2010	6	5	11
Changes in value	(4)	(57)	(61)
Disposals	(2)	-	(2)
Balance at December 31, 2011	$ -	$ (52)	$ (52)
Carrying value			
At January 1, 2010	$ 26	$ 65	$ 91
At December 31, 2010	$ 37	$ 114	$ 151
At December 31, 2011	$ -	$ 88	$ 88

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

On October 26, 2011 the Company sold its investment in Atacama for net proceeds of $44,423 and resulted in a gain of $22,653.

Shares of Mega Precious are listed on the TSX Venture Exchange. The Company holds a limited portfolio which does not move in sync with the overall market and as such an estimate cannot be made as to the degree of change in the investment.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

8. Property and equipment:

Cost		Exploration camp and equipment		Office and equipment		Total
Balance at January 1, 2010	$	2,670	$	361	$	3,031
Additions		868		61		929
Balance at December 31, 2010		3,538		422		3,960
Additions		2,191		104		2,295
Disposals		(1,377)		(22)		(1,399)
Balance at December 31, 2011		4,352		504		4,856

Accumulated amortization						
Balance at January 1, 2010	$	(273)	$	(86)	$	(359)
Additions		(710)		(49)		(759)
Balance at December 31, 2010		(983)		(135)		(1,118)
Additions		(992)		(30)		(1,022)
Disposals		379		-		379
Balance at December 31, 2011	$	(1,596)	$	(165)	$	(1,761)

Carrying value						
At January 1, 2010	$	2,397	$	275	$	2,672
At December 31, 2010	$	2,555	$	287	$	2,842
At December 31, 2011	$	2,756	$	339	$	3,095

On October 4, 2011 the Company completed the sale of the Hackett River project to Xstrata Canada Corporation, Xstrata Zinc Canada Division (“Xstrata Zinc”). Sale of the project included the sale of certain pieces of property, plant and equipment that were associated with the Hackett River project (note 9). The disposition of these assets resulted in a reduction of $998 thousand to the carrying value above.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

9. Mineral properties:

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

Summary – All Properties		2011		2010
Balance, beginning of period	$	126,895	$	94,536
Exploration and other expenditures		54,363		31,242
Acquisition and selling costs		14,532		1,162
Proceeds on option agreement		(56)		(45)
Provision for site reclamation		108		-
Disposition of properties (note 9b)		(83,757)		-
Balance, end of period	$	112,085	$	126,895

Back River (Nunavut)				
Balance, beginning of period	$	46,027	$	30,228
Additions:				
Drilling		19,742		9,052
Economic assessment		459		49
Environmental assessment		1,544		394
Geology & geophysics		1,436		501
Management & administration		1,094		753
Property maintenance		97		94
Share-based payment expense		959		184
Support		5,415		2,251
Transportation		4,367		1,951
Depreciation		760		570
		35,873		15,799
Acquisition of royalty		9,806		-
Provision for site reclamation		485		-
Balance, end of period	$	92,191	$	46,027

(Tabular dollar amounts expressed in thousands of Canadian dollars)

9. Mineral properties, continued:

		2011		2010
Hackett River (Nunavut)				
Balance, beginning of period	$	66,608	$	55,105
Additions:				
Drilling		2,833		5,105
Economic assessment		22		11
Environmental assessment		96		325
Geology & geophysics		462		1,090
Management & administration		212		505
Property maintenance		63		116
Share-based payment expense		693		410
Support		1,119		1,613
Transportation		773		1,126
Depreciation		225		140
		6,498		10,441
Capitalized selling costs		4,442		1,062
Provision for site reclamation		(377)		-
Disposition of property (note 9b)		(77,171)		-
Balance, end of period	$	-	$	66,608
Wishbone (Nunavut)				
Balance, beginning of period	$	7,045	$	2,322
Additions:				
Drilling		4,853		1,746
Geology & geophysics		1,081		1,619
Management & administration		313		184
Property maintenance		49		4
Support		1,494		689
Transportation		1,034		481
		8,824		4,723
Acquisition costs		59		-
Disposition of property (note 9b)		(6,586)		-
Balance, end of period	$	9,342	$	7,045
Red Lake (Ontario)				
Balance, beginning of period	$	7,102	$	6,881
Additions:				
Drilling		244		175
Environmental assessment		-		3
Geology & geophysics		17		35
Management & administration		14		26
Property maintenance		7		3
Share-based payment expense		-		8
Transportation		-		16
		282		266
Acquisition costs		61		-
Proceeds on option agreement		(56)		(45)
Balance, end of period	$	7,389	$	7,102

(Tabular dollar amounts expressed in thousands of Canadian dollars)

9. Mineral properties, continued:

		2011		2010
Cook Lake (Manitoba)				
Balance, beginning of period	$	113	$	-
Additions:				
Drilling		1,864		-
Geology & geophysics		990		-
Management & administration		30		13
		2,884		13
Acquisition costs		-		100
Balance, end of period	$	2,997	$	113
Nipigon (Ontario)				
Balance, beginning of period	$	-	$	-
Additions:				
Geology & geophysics		2		-
		2		-
Acquisition costs		164		-
Balance, end of period	$	166	$	-

(a) Back River and Wishbone (Nunavut)

The Back River project is comprised of the George and Goose (including the Llama and Umwelt) gold deposits and, as per NI 43-101 prepared by SRK Consulting (Canada) and Doug Cater, Sabina Gold & Silver, contain measured and indicated gold resources of 22.3 million tonnes grading 5.62 g/t Au for 4.03 million ounces and inferred resources of 10.0 million tonnes grading 6.23 g/t Au for 2.02 million ounces of gold.

The Wishbone property covers a large portion of the Hackett River Greenstone Belt and hosts the Hackett River project. The combined properties total approximately 3,000 square km and cover a largely unexplored highly prospective greenstone belt.

On May 31, 2011, the Company completed the purchase of certain royalties on the Back River and Wishbone projects. The royalty required payment of 1.5% of the value of minerals mined until the royalty payments aggregated $5,000,000 after which the royalty decreased to 0.75%. The buyback was completed through the purchase of all issued and outstanding shares of R.A. Olson Consulting Ltd. (“RAOCL”) for $4.5 million in cash and the issue of 750,000 common shares of the Company. A value of $5.19 million has been attributed to the shares based on their market value at the time of issue.

The Back River project is subject to net smelter return (“NSR”) royalties payable to various parties. Prior to the acquisition, the George Lake property was subject to four royalties. Royalty 1 pays 0% on the first 800,000 ounces and pays 5% (gross before deductions) after the first 800,000 ounces of gold produced with Royalties 2 and 3 deducted from it. 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, Royalty 2 and 3 drop by 50%. The Company has purchased RAOCL, the company holding Royalty 2. Royalty 4 pays 0.45% until a total of $7.5 million has been paid after which this royalty also drops by 50%. After eliminating Royalty 2, and depending on gold price and gold production, royalties payable could range from 0.35% to 0.7% on the first 800,000 ounces and 3.5% to 4.25% thereafter.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

9. Mineral properties, continued:

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

The Goose properties, including Goose, Llama, Umwelt, Boot, Needle and Boulder, has 3 royalties payable to various parties. Royalty 1 pays 0% on the first 400,000 ounces and pays 5% (gross before deductions) after the first 400,000 ounces of gold produced and Royalties 2 and 3 are deducted from it. 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 Royalty 2 and 3 drop by 50%. The Company has purchased RAOCL, the company holding Royalty 2. After eliminating Royalty 2, and depending on gold price and gold production, royalties payable could range from 0.35% to 0.7% on the first 400,000 ounces and 3.5% to 4.25% thereafter.

(b) Hackett River (Nunavut)

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

On October 4, 2011 the Company completed the sale of the Hackett River property and certain claims on the Wishbone project to Xstrata Zinc for cash consideration of $50 million along with Sabina reserving a silver production royalty (the “Hackett Silver Royalty”) equal to 22.5% of the first 190 million ounces of payable silver from the current resource at Hackett River and other properties (the “Properties”) and 12.5% of all payable silver from the Properties thereafter at no future cost to Sabina. Additionally, Xstrata Zinc has agreed to incur not less than $50 million on exploration expenditures on the Properties over a four year period with a view of completing a NI 43-101 compliant feasibility study. If the feasibility study has not been completed by the fourth anniversary of the sale, Xstrata Zinc can elect to incur additional expenditures of not less than $10 million by each of the next three anniversaries. If at any of the fourth to seventh anniversaries Xstrata Zinc has not met the spending requirements and has not completed the feasibility study, Xstrata Zinc may elect to pay Sabina the shortfall, failing which, upon notice to Xstrata Zinc, Sabina may exercise a right to buy back the Properties for a cash purchase price equal to 100% of the expenditures incurred by Xstrata Zinc. Xstrata Zinc can pre-empt Sabina’s buy back right by electing to pay an advance royalty of $75 million.

Allocation of selling price		
Cash received, net of transaction costs	$	45,558
Hackett River mineral properties		(73,106)
Wishbone mineral properties		(6,586)
Capital assets, net		(997)
Elimination of provision for site reclamation		377
Subtotal		(34,754)
Allocation to Hackett Royalty	$	34,754

Due to the contingent nature of the Hackett Silver Royalty, the value of the royalty has been assigned based on the residual value of cash proceeds and net carrying value of the assets rather than fair value based on potential future cash flows.

9. Mineral properties, continued:

(c) Red Lake and Thunder Bay Properties (Ontario)

(i) Newman-Madsen, Red Lake:

Sabina has a 50% joint venture interest in the Newman-Madsen property with Premier Gold Mines Ltd. ("Premier"). In 2010, Sabina became operator and has commenced drilling operations. In 2009, the Company and Premier completed an option agreement with Mega Precious which granted to Mega Precious an option to acquire 100% of the East My-Ritt portion of the property for $250,000 in cash and 0.5 million Mega Precious shares. Mega Precious must incur exploration expenditures totalling $1.2 million over a 5-year period.

Subsequent to year end, on January 17, 2012 the Company announced that it had reached an agreement to acquire 100% of the Newman-Madsen property for a cash payment of $500,000 and a 0.5% net smelter return royalty on the Property granted to Premier.

(ii) Golden Sidewalk, Red Lake:

The Company owns 100% of its 18 leasehold patent claims on the Golden Sidewalk property. There are no royalties or carried interests attached to the property. The property is located in Skinner township, 67 km east-northeast of Red Lake.

(iii) Skinner, Red Lake:

Sabina owns a 100% interest in the 14 claim, 2,900 hectare Skinner property. The property is in Skinner township, 69 km east-northeast of Red Lake and adjacent to and immediately south of Sabina's Golden Sidewalk property. Premier has a 7.5% net profit interest capped at $450,000. Franco-Nevada Corporation holds a 1% net smelter return royalty and a local prospector holds another 2% net smelter return interest which can be purchased by Sabina subject to certain conditions.

(iv) Redaurum, Red Lake:

Pursuant to an option agreement with Goldcorp Inc., the Company has a 20% interest carried to production on the Redarum property located in Red Lake and in close proximity to the past producing Madsen Gold Mine.

(d) Cook Lake (Manitoba):

Sabina has an option agreement dated November 29, 2010 to earn a 100% interest in the Cook Lake properties with Xstrata Canada Corporation, Xstrata Copper Canada Division ("Xstrata Copper"). To earn the 100% option, Sabina must make a $100,000 cash payment to Xstrata Copper (paid) and incur $10 million total exploration expenditures over a five year period, ending November 29, 2015. Xstrata Copper has retained a back-in option; an NSR in the event that the back-in is not exercised; and a right of first refusal for off-take and marketing agreements.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

10. Provision for site reclamation

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

	Site restoration
Balance at January 1, 2010	$ 1,809
Increase in estimate during the year	-
Provisions reversed during the year	-
Balance at December 31, 2010	1,809
Increase in estimate during the year	485
Provisions reversed during the year (note 9b)	(377)
Balance at December 31, 2011	$ 1,917

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

11. Share capital and other components of equity:

Authorized number of common shares

At December 31, 2011 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:

(Tabular dollar amounts expressed in thousands of Canadian dollars)

11. Share capital and other components of equity, continued:

	2011			2010		
	# of shares		Amount	# of shares		Amount
Issued and outstanding as at January 1	142,422,692	$	201,282	114,079,038	$	128,248
Issued for cash, net	16,723,990		93,641	22,145,654		59,170
Tax effects on share issuance	-		(5,471)	-		(2,275)
Issued on exercise of share options	641,501		1,432	2,198,000		3,199
Fair value of options exercised	-		731	-		1,684
Issued on purchase of Back River royalty	750,000		5,190	-		-
Issued on exercise of warrants	-		-	3,900,000		10,725
Issued on Extinguishment of production rights (note 13)	-		-	100,000		531
Fair value of warrants exercised	100,000		531	-		-
Issued and outstanding as at December 31	160,638,183	$	297,336	142,422,692	$	201,282

Issuance of common shares

On March 1, 2011, the Company completed a bought-deal financing qualified by short-form prospectus of 9,091,000 common shares at a price of $5.50 per share and 6,061,000 flow-through shares at a price of $6.60 per flow-through common share for gross proceeds of $90,003,100. The Company granted the underwriters an option to purchase an additional 15% of the shares (non flow-through) to cover over-allotments. The over-allotment was exercised in full for total gross proceeds of $97,503,175. A cash commission of 5.0% of the gross proceeds was paid to the underwriters. Additionally, the Company completed a non-brokered placement on the same terms as above; 19,825 common shares at $5.50 per common share for gross proceeds of $109,038 and 188,515 flow-through shares at $6.60 per flow-through common share for gross proceeds of $1,246,179. The gross proceeds of the flow-through financings must be used to incur Canadian exploration expenditures as defined by the Income Tax Act (Canada) by December 31, 2012. In 2011, the Company incurred $50.0 million of flow-through eligible expenditures leaving a total commitment of $6.8 million of qualifying expenditures to make in 2012.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

12. Share based payments:

a) Share purchase options

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

	2011			2010		
	Share options		Average exercise price	Share options		Average exercise price
Outstanding at January 1	7,097,000	$	1.48	7,272,000	$	1.51
Exercised during the period	(665,000)		2.27	(2,198,000)		1.46
Granted during the period	2,821,410		5.12	2,223,000		1.43
Forfeited or expired during the period	-		-	(200,000)		2.08
Outstanding at December 31	9,253,410		2.53	7,097,000		1.48
Exercisable at December 31	9,253,410	$	2.53	6,897,000	$	1.45

The table below summarizes the outstanding options as at December 31, 2011 by year of expiry.

Year	Number		Average exercise price
2012	1,235,000	$	2.51
2013	2,016,000		1.22
2014	1,350,000		1.00
2015	1,951,000		1.41
2016	2,701,410		5.11
Total	9,253,410	$	2.53

Employee compensation cost

During the year ended December 31, 2011, the Company recorded $6,875 thousand (2010 - $2,216 thousand) in share based payment costs, of which $5,223 thousand (2010 - $1,083 thousand) is presented as an operating expense in the statement of comprehensive loss and $1,651 thousand (2010 - $602 thousand) is capitalized to mineral property costs.

Inputs for measurement of grant date fair values

The grand 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 2.1% (2010 – 2.1%); a divided yield of 0% (2010 – 0%); an expected volatility of 70.2% (2010 – 70.6%) and expected lives of stock options of 3 years (2010 – 3.5 years). The weighted average fair value of options granted in the period was $2.42 (2010 - $0.79).

(Tabular dollar amounts expressed in thousands of Canadian dollars)

12. Share based payments, continued:

b) Warrants and brokers compensation options

At December 31, the following warrants and brokers' compensation options were outstanding:

	2011			2010		
	Warrants and options		Average exercise price	Warrants and options		Average exercise price
Outstanding, January 1	100,000	$	-	8,900,000	$	3.23
Forfeited or expired	-		-	(5,000,000)		3.60
Exercised	(100,000)		-	(3,900,000)		2.75
Issued	-		-	100,000		-
Outstanding, December 31	-	$	-	100,000	$	-

On November 18, 2011, as a result of closing the Hackett sale transaction (note 9b), the Company issued 100,000 common shares to Teck Resources Mining Partnership ("TRMP"). The warrants were granted in 2010 on the extinguishment of TRMP's right of first offer to purchase 50% of all products derived from the Hackett project. The warrants were exercisable upon the first of several milestones being met, including the sale of the project. The Company recorded a fair value of $531 thousand which was the market value of the Company's shares on the date the warrants were issued and capitalized to mineral properties.

13. Flow-through share premium liability:

		Flow-through premium liability
As at January 1, 2010	$	1,211
Financing		3,155
Amortization		(2,013)
As at December 31, 2010	$	2,353
Financing (i)		6,875
Amortization (ii)		(8,100)
As at December 31, 2011	$	1,128

(i) On March 1, 2011, the Company completed a bought-deal financing that included the sale of 6,249,815 flow-through shares at a price of $6.60 per share. This price was at a premium of $1.10 per share to market for a total premium of $6,875 thousand.

(ii) In the year, the Company incurred amortized $8,100 thousand of the total flow through premium based on $50,020 thousand of flow-through eligible expenditures.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

14. Related parties:

Key management personnel compensation

In addition to their salaries, the Company also provides non-cash benefits to directors and executive officers. Directors and executive officers also participate in the Company's share option program (note 12).

Certain executive officers are subject to a mutual term of notice of 24 months. Upon resignation at the Company's request, they are entitled to termination benefits up to 24 months' gross salary.

Key management personnel compensation is comprised of:

	For the year ended, December 31, 2011	For the year ended, December 31, 2010
Salaries and benefits	$ 1,965	$ 1,492
Stock-based compensation, non-cash	4,810	1,047
	$ 6,775	$ 2,539

Other related party transactions

During the year ended December 31, 2011, the Company paid or accrued $44,779 (2010 - $48,318) to Morton & Company for legal services of which $3,545 (2010 - $nil) remained outstanding as at December 31, 2011. Morton & Company is related by virtue of a common director. These transactions were in the normal course of operations and the terms and conditions of the transactions were no more favourable than those available, or which might reasonably be expected to be available, for similar transactions with arm's length parties.

15. Commitments:

The Company is obligated under operating lease agreements for the rental of its corporate head office in North Vancouver and the rental of its offices in Thunder Bay, Ontario. Minimum rental payments in each of the next four years are as follows:

2012	142
2013	145
2014	129
2015	72
	$ 488

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 debtor or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and cash equivalents and accounts receivable. The Company limits its exposure to credit risk by dealing with high credit quality counterparties. The Company's cash and cash equivalents are primarily held through, or issued by, large credit worthy Canadian financial institutions. These investments mature at various dates over the current operating period. 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 2011 or 2010 and has no allowance for doubtful accounts recorded at either of December 31, 2011 or 2010.

16. Financial risk management, continued:

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. The Company manages liquidity risk through the management of its capital structure. The Company's cash and cash equivalents are highly liquid and available to meet the Company's ongoing obligations.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the 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 or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk with respect to interest earned on cash and cash equivalents including its guaranteed investment certificates. The Company does not use derivative instruments to reduce its exposure to interest risk. Based on balances at December 31, 2011 a 1% change in interest rates would result in a change in net income of $1.5 million, assuming all other variables remain constant.

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

Operational risk

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

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

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16. Financial risk management, continued:

Operational risk, continued

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

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

Capital management

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

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

Financial assets

The fair values of the Company's financial instruments consisting of cash, guaranteed investment certificates, accounts receivable and accounts payable and accruals approximate their carrying value because of their short term to maturity. The fair value of the marketable securities included in available for sale investments is determined with reference to quoted market prices. IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quotes prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's financial assets measured at fair value consists of available-for-sale investments with a value of $88 thousand at December 31, 2011 ($151 – 2010) are classified as Level 1.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

17. Income taxes:

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

	December 31, 2011	December 31, 2010	January 1, 2010
Tax loss carry forwards	$ -	$ 2,218	$ 565
Financing costs	1,854	1,084	631
Provision for closure and reclamation	518	488	488
Other	13	4	9
Flow-through share effect on mineral properties	(31,078)	(17,572)	(9,089)
Mineral properties	2,999	(518)	(2,020)
Property and equipment	(17)	(19)	(32)
Deferred tax liabilities	$ (25,711)	$ (14,315)	$ (9,448)

As at December 31, 2011, no deferred tax assets are recognized on the following temporary differences as it is not probable that sufficient future taxable profit will be available to realize such assets.

	December 31, 2011	December 31, 2010	January 1, 2010
Corporate minimum taxes paid	$ 293	$ 293	$ 293
Unrecognized deferred tax assets	$ 293	$ 293	$ 293

The Company utilized all tax loss carry forwards in the current year resulting in no loss carry forward balance at the end of year (2010 - $8.4 million).

(Tabular dollar amounts expressed in thousands of Canadian dollars)

17. Income taxes, continued:

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

	2011	2010
Current tax expense	$ -	$ 4
Deferred tax expense	12,808	5,740
Income tax expense	$ 12,808	$ 5,744

The provision for income taxes differs from the amount calculated using the Canadian federal and provincial statutory income tax rates of 28.5% (2010 – 30.0%) as follows:

	2011	2010
Expected tax expense (recovery)	$ 39	$ (915)
Share based compensation and other permanent items	(807)	(75)
Flow-through shares (exploration expenses renounce)	13,505	6,664
Other	71	70
Income tax expense	$ 12,808	$ 5,744

18. Explanation of transition to IFRSs:

As stated in note 2(a), these are the Company's first annual consolidated financial statements prepared in accordance with IFRSs.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and the opening IFRS statement of financial position at January 1, 2010 (the Company's date of transition).

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRSs has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

IFRS 1 "First-time Adoption of International Financial Reporting Standards ("IFRS 1")

IFRS 1 generally requires that first-time adopters retrospectively apply all effective IFRS standards and interpretations in effect as at the reporting date. IFRS 1 also provides for certain optional exemptions and certain mandatory exceptions to this general principle. The Company has elected under IFRS 1 to not apply IFRS 2, Share-based Payments, to share purchase options that were granted on or before November 7, 2002 or to options that were granted subsequent to November 7, 2002 and vested before the date of transition to IFRS. The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010.

The Company has elected under IFRS 1 to apply the requirements of IFRS 3, Business Combinations, prospectively from the date of transition.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

18. Explanation of transition to IFRSs, continued:

Reconciliation of Canadian GAAP to IFRS

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRSs has affected the Company's financial position and financial performance is in the following tables and the notes that accompany the tables.

Reconciliation of Assets, Liabilities and Equity
As at January 1, 2010

	Ref	Mineral Properties	Flow-through premium liability	Deferred income tax liability	Share capital	Deficit
As reported under CGAAP		$ 95,534	$ -	$ 8,628	$ 124,361	$ (723)
Effect of transition to IFRSs						
Deferred tax on mineral properties	(a)	(998)	-	(998)	-	-
Flow-through share issuance and amortization of premium	(b)	-	1,211	1,818	3,887	(6,916)
As reported under IFRS		$ 94,536	$ 1,211	$ 9,448	$ 128,248	$ (7,639)

As at December 31, 2010

	Ref	Mineral Properties	Flow-through premium liability	Deferred income tax liability	Share capital	Deficit
As reported under CGAAP		$ 128,116	$ -	$ 10,947	$ 196,656	$ (4,866)
Effect of transition to IFRSs						
Deferred tax on mineral properties	(a)	(1,221)	-	(1,221)	-	-
Flow-through share issuance and amortization of premium	(b)	-	2,353	4,589	4,626	(11,568)
As reported under IFRS		$ 126,895	$ 2,353	$ 14,315	$ 201,282	$ (16,434)

(Tabular dollar amounts expressed in thousands of Canadian dollars)

18. Explanation of transition to IFRSs, continued:

Reconciliation of loss and comprehensive loss for the year ended December 31, 2010

	Ref		Year ended December 31, 2010
Net loss – as reported under CGAAP		$	(4,143)
Effect of transition to IFRSs			
Amortization of flow-through premium	(b)		2,013
Future income tax impact			(6,665)
Net loss – as reported under IFRS		$	(8,795)

(a) Under IFRS, no deferred tax liability is recognized on acquisition of a mineral property asset in a transaction that is not a business combination, and at the time of the transaction, there is no impact on profit and loss for accounting or tax purposes. Under Canadian GAAP, a deferred tax liability is recognized on such a transaction.

On transition to IFRS, the deferred tax liability associated with the Back River acquisition was reversed with an associated reduction in mineral property. In addition, the deferred tax liability related to stock-based compensation capitalized to mineral properties was also reversed.

(b) Under IFRS the premium paid for flow-through shares in excess of the market value of common shares with no flow-through feature is credited to a deferred liability account. As eligible expenditures are incurred, the deferred gain is amortized into earnings for the period.

Under CGAAP, the full proceeds received from issuance of the flow-through shares is recorded to share capital.

Additionally, as it is the Company's policy to capitalize mineral property expenditures, a deferred tax liability is recognized with a corresponding charge to income tax expense as expenditures are incurred. Under CGAAP, this amount was charged to share capital. As a result of this policy change the Company has recorded a deferred liability account which relates to the amount of qualifying expenditures yet to be made relating to flow-through financings.

19. Subsequent events:

On January 17, 2012 the Company announced that it had acquired Premier Gold Mines Ltd's ("Premier") 50% joint venture interest in the Newman-Madsen Project in Red Lake, Ontario, Canada. The purchase agreement consisted of a cash payment of $500,000 and 0.5% net smelter return royalty on the Property.