Condensed Consolidated Financial Statements
(unaudited)
Second Quarter ended June 30, 2012

SABINA GOLD & SILVER CORP.

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

	June 30, 2012 (unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents (note 4)	$ 79,798	$ 80,009
Short-term investments	73,100	79,900
Accounts receivable (note 5)	1,928	2,013
Inventory	7,656	977
Prepaid expenses	1,442	718
Total current assets	163,924	163,617
Non-current assets:		
Available-for-sale investments (note 6)	84	88
Property and equipment (note 7)	9,475	3,095
Mineral properties (note 8)	145,245	112,085
Hackett silver royalty	34,754	34,754
Reclamation deposits	359	284
Total non-current assets	189,917	150,306
Total assets	$ 353,841	$ 313,923
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 7,188	$ 1,541
Flow-through share premium liability (note 11)	3,268	1,128
Capital and other taxes payable	7	20
Total current liabilities	10,463	2,689
Non-current liabilities:		
Provision for site reclamation	1,917	1,917
Deferred income tax liability (note 14)	26,690	25,711
Total non-current liabilities	28,607	27,628
Total liabilities	39,070	30,317
Equity:		
Share capital (note 9)	329,219	297,336
Contributed surplus	19,294	15,454
Accumulated other comprehensive loss	(123)	(80)
Retained deficit	(33,619)	(29,104)
Total equity	314,771	283,606
Total liabilities and equity	$ 353,841	$ 313,923

Nature of operations (note 1)
Commitments (note 13)

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

Approved on behalf of the Board:

"Rob Pease" Director ***"Terry Eyton"*** Director

SABINA GOLD & SILVER CORP.

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

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Expenses:				
Administration and general	$ 85	$ 508	$ 177	$ 602
Depreciation	12	11	24	21
Insurance	36	35	71	61
Interest and other	-	(33)	7	20
Listing, transfer and shareholder	271	171	542	557
Professional services	111	152	303	268
Salaries and severance	467	412	913	879
Share-based payments (note 10)	-	233	3,061	4,428
Travel	138	215	234	418
	1,120	1,704	5,332	7,254
Loss from operating activities	(1,120)	(1,704)	(5,332)	(7,254)
Net finance income:				
Interest income	572	581	1,161	920
Amortization of flow-through premium (note 11)	-	3,080	1,128	4,105
	572	3,661	2,289	5,025
Income (loss) before income taxes	(548)	1,957	(3,043)	(2,229)
Income tax recovery (expense):				
Deferred (note 14)	205	(4,959)	(1,472)	(6,531)
	205	(4,959)	(1,472)	(6,531)
Loss for the period	(343)	(3,002)	(4,515)	(8,760)
Other comprehensive income:				
Unrealized gain (loss) on available-for-sale investments, net of tax	(45)	(18)	(43)	(45)
Comprehensive loss	$ (388)	$ (3,020)	$ (4,558)	$ (8,805)
Basic and diluted loss per share	$ (0.00)	$ (0.02)	$ (0.03)	$ (0.06)
Weighted average number of common shares outstanding	161,670,659	159,662,891	161,340,474	153,918,094

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

SABINA GOLD & SILVER CORP.

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Share capital:				
Balance, beginning of period	$ 298,719	$ 290,242	$ 297,336	$ 201,282
Shares issued during the period, net of issue costs	33,275	157	34,039	94,333
Flow through premium transferred to deferred liability (note 9)	(3,268)	-	(3,268)	(6,875)
Shares issued for royalty acquisition (note 8)	-	5,190	-	5,190
Fair value of options exercised	-	80	619	335
Deferred income tax on share transactions	493	-	493	1,404
Balance, end of period	329,219	295,669	329,219	295,669
Contributed surplus:				
Balance, beginning of period	19,060	15,090	15,454	9,842
Fair value of share-based payments of options vesting	-	234	3,061	4,428
Fair value of share-based payments capitalized to mineral properties	234	58	1,398	1,367
Fair value of options transferred to share capital	-	(80)	(619)	(335)
Balance, end of period	19,294	15,302	19,294	15,302
Accumulated other comprehensive income:				
Balance, beginning period	(78)	(42)	(80)	(15)
Unrealized gains (losses) on available for sale investments, net of tax	(45)	(18)	(43)	(45)
Balance, end of period	(123)	(60)	(123)	(60)
Retained earnings:				
Balance, beginning of period	(33,276)	(22,192)	(29,104)	(16,434)
Loss for the period	(343)	(3,002)	(4,515)	(8,760)
Retained deficit, end of period	(33,619)	(25,194)	(33,619)	(25,194)
Total shareholders' equity	$ 314,771	$ 285,717	$ 314,771	$ 285,717

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

SABINA GOLD & SILVER CORP.

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

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Cash provided by (used in) operating activities:				
Loss for the period	$ (343)	$ (3,002)	$ (4,515)	$ (8,760)
Adjustments for:				
Depreciation	12	11	24	21
Deferred income tax expense	(205)	4,959	1,472	6,531
Interest income	(572)	(581)	(1,161)	(920)
Amortization of flow-through premium liability	-	(3,080)	(1,128)	(4,105)
Share-based payments	-	233	3,061	4,428
	(765)	1,542	2,268	5,955
Accounts receivable	(115)	(520)	(698)	(1,017)
Inventories	546	430	(6,679)	(4,086)
Prepaid expenses	(81)	(213)	(724)	(463)
Accounts payable and accrued liabilities	(1,914)	278	5,647	6,409
Capital and other taxes payable	-	(35)	(13)	(8)
Cash used in operating activities	(2,672)	(1,520)	(4,714)	(1,970)
Interest received	777	391	1,944	481
Net cash used in operating activities	(1,895)	(1,129)	(2,770)	(1,489)
Cash flows provided by (used in) investing activities				
Expenditures on deferred exploration, net of recoveries	(21,867)	(25,063)	(31,199)	(31,941)
Expenditures on property and equipment	(3,955)	(842)	(7,006)	(1,821)
Purchase of short-term investments	(1,200)	(1,532)	6,800	(23,532)
Expenditures on reclamation deposits	(75)	-	(75)	-
Net cash used in investing activities	(27,097)	(27,437)	(31,480)	(57,294)
Cash flows provided by (used in) investing activities				
Issuance of common shares for cash, net of issue costs	33,275	157	34,039	94,333
Net Increase (decrease) in cash and cash equivalents	4,283	(28,409)	(211)	35,550
Cash and cash equivalents, beginning of period	75,515	117,522	80,009	53,563
Cash and cash equivalents, end of period	$ 79,798	$ 89,113	$ 79,798	$ 89,113

The accompanying notes are an integral part of these condensed consolidated interim 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 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 condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including International Accounting Standard 34 – Interim Financial Reporting.

They do not include all of the information required for full audited annual financial statements.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 10, 2012

(b) Basis of measurement:

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

(c) Functional and presentation currency:

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

2. Basis of preparation, continued:

(d) Use of estimates and judgments:

The preparation of the condensed consolidated interim 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. Revisions to estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3. Future changes in accounting standards:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended June 30, 2012, and have not been applied in preparing these condensed consolidated interim financial statements. The Company's assessment of the impact of these new standards and amendments is detailed below.

IFRS 9, Financial Instruments

This standard 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.

The following standards are assessed not to have any impact on the Company's financial statements:

- IFRS 10 Consolidated Financial Statements for accounting periods on or after January 1, 2013;
- IFRS 11 Joint Arrangement for accounting periods on or after January 1, 2013;
- IFRS 12 Disclosures of Involvement with Other Entities for accounting periods on or after January 1, 2013;
- IFRS 13 Fair Value Measurement for accounting periods on or after January 1, 2013; and
- IAS 27 Separate Financial Statements for accounting periods on or after January 1, 2013
- IAS 28 Investments in Associates and Joint Ventures

(Tabular dollar amounts expressed in thousands of Canadian dollars)

4. Cash and cash equivalents

	June 30, 2012	December 31, 2011
Bank balances	$ 10,998	$ 9,437
Redeemable investments	68,800	70,572
Cash and cash equivalents	$ 79,798	$ 80,009

5. Accounts receivable

	June 30, 2012	December 31, 2011
GST receivable	$ 1,199	$ 518
Interest receivable	600	1,380
Other trade receivables	129	115
Total trade and other receivables	$ 1,928	$ 2,013

6. Available-for-sale investments:

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

Cost	**Mega Precious**
Balance at December 31, 2011	$ 140
Additions	-
Balance at March 31, 2012	140
Additions	39
Balance at June 30, 2012	$ 179
Accumulated unrealized holding gains (losses)	
Balance at December 31, 2011	$ (52)
Changes in value	2
Balance at March 31, 2012	(50)
Changes in value	(45)
Balance at June 30, 2012	$ (95)
Carrying value	
At December 31, 2011	$ 88
At March 31, 2012	$ 90
At June 30, 2012	$ 84

The fair value of these investments has been determined by reference to their quoted closing bid price at the reporting date. Shares of Mega Precious are listed on the TSX Venture Exchange.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

7. Property and equipment:

Cost		Exploration camp and equipment		Office and equipment		Total
Balance at December 31, 2011	$	4,352	$	504	$	4,856
Additions		3,044		9		3,053
Balance at March 31, 2012		7,396		513		7,909
Additions		3,953		2		3,955
Balance at June 30, 2012	$	11,349	$	515	$	11,864
Accumulated amortization						
Balance at December 31, 2011	$	(1,596)	$	(165)	$	(1,761)
Additions		(210)		(12)		(222)
Balance at March 31, 2012	$	(1,806)	$	(177)	$	(1,983)
Additions		(385)		(21)		(406)
Balance at June 30, 2012		(2,191)		(198)		(2,389)
Carrying value						
At December 31, 2011	$	2,756	$	339	$	3,095
At March 31, 2012	$	5,590	$	336	$	5,926
At June 30, 2012	$	9,158	$	317	$	9,475

(Tabular dollar amounts expressed in thousands of Canadian dollars)

8. Mineral properties:

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

Summary – All Properties	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
Balance, beginning of period	$ 122,789	$ 135,286	$ 112,085	$ 126,895
Exploration and other expenditures	22,545	20,345	32,707	28,736
Acquisition costs	-	10,238	542	10,238
Proceeds on option agreement	(89)	(56)	(89)	(56)
Balance, end of period	$ 145,245	$ 165,813	$ 145,245	$ 165,813

	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
Back River (Nunavut)				
Balance, beginning of period	$ 99,875	$ 50,599	$ 92,191	$ 46,027
Additions:				
Drilling	10,858	8,626	12,914	9,889
Economic assessment	831	18	1,116	74
Environmental assessment	1,840	315	2,520	376
Geology & geophysics	310	478	560	641
Management & administration	164	175	582	459
Property maintenance	-	-	15	2
Stock-based compensation	233	58	1,167	674
Support	2,234	2,116	4,226	3,237
Transportation	1,637	1,607	2,482	2,458
Depreciation	393	182	602	337
	18,500	13,575	26,184	18,147
Acquisition of royalty	-	9,802	-	9,802
Balance, end of period	$ 118,375	$ 73,976	$ 118,375	$ 73,976
Hackett River (Nunavut)				
Balance, beginning of period	$ -	$ 69,041	$ -	$ 66,608
Additions:				
Drilling	-	2,294	-	2,846
Economic assessment	-	22	-	22
Environmental assessment	-	34	-	97
Geology & geophysics	-	266	-	434
Management & administration	-	102	-	226
Property maintenance	-	17	-	61
Stock-based compensation	-	-	-	693
Support	-	691	-	1,156
Transportation	-	463	-	736
Depreciation	-	65	-	116
	-	3,954	-	6,387
Capitalized selling costs		436		436
Balance, end of period	$ -	$ 73,431	$ -	$ 73,431

(Tabular dollar amounts expressed in thousands of Canadian dollars)

8. Mineral properties, continued:

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Wishbone (Nunavut)				
Balance, beginning of period	$ 9,755	$ 7,210	$ 9,342	$ 7,045
Additions:				
Drilling	2,672	649	2,685	649
Geology & geophysics	137	756	184	809
Management & administration	70	50	185	113
Property maintenance	4	1	4	50
Stock-based compensation	-	-	231	-
Support	507	440	511	440
Transportation	464	261	467	261
	3,854	2,157	4,267	2,322
Balance, end of period	$ 13,609	$ 9,367	$ 13,609	$ 9,367
Red Lake (Ontario)				
Balance, beginning of period	$ 8,777	$ 7,307	$ 7,389	$ 7,102
Additions:				
Drilling	31	-	850	197
Geology & geophysics	2	-	7	3
Management & administration	10	1	23	2
Property maintenance	-	-	9	4
	43	1	889	206
Acquisition costs	-	-	542	-
Proceeds on option agreement	(89)	(56)	(89)	(56)
Balance, end of period	$ 8,731	$ 7,252	$ 8,731	$ 7,252
Cook Lake (Manitoba)				
Balance, beginning of period	$ 3,763	$ 1,129	$ 2,997	$ 113
Additions:				
Drilling	9	278	746	739
Geology & geophysics	8	379	36	907
Property maintenance	-	-	-	6
Management & administration	3	1	4	22
	20	658	786	1,674
Balance, end of period	$ 3,783	$ 1,787	$ 3,783	$ 1,787
Nipigon (Ontario)				
Balance, beginning of period	$ 619	$ -	$ 166	$ -
Additions:				
Geology & geophysics	128	-	581	-
	128	-	581	-
Balance, end of period	$ 747	$ -	$ 747	$ -

8. Mineral properties, continued:

(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 Roscoe Postle Associates ("RPA"), contain indicated gold resources of 23.2 million tonnes grading 5.6 g/t Au for 4.16 million ounces and inferred resources of 9.3 million tonnes grading 5.6 g/t Au for 1.7 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 the 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 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. 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.

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.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

8. Mineral properties, continued:

(b) Hackett River (Nunavut)

The Hackett River project 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.

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

(i) Newman-Madsen, Red Lake:

The Company owns a 100% interest in the Newman-Madsen property. Previously, Sabina had a 50% joint venture interest in the Newman-Madsen property with Premier Gold Mines Ltd. (“Premier”). On January 17, 2012, Sabina completed the purchase of Premier’s interest in the joint venture for a cash payment of $500,000 and a 0.5% NSR royalty on the Property granted to Premier. 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.

8. Mineral properties, continued:

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

(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.

(e) Nipigon (Ontario)

Sabina owns a 100% interest in the 107 claim, 25,000 ha Nipigon project located approximately 100km north of Thunder Bay, Ontario. The Nipigon project is located along the same iron formation that hosts the Beardmore-Geraldton gold camp.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

9. Capital and other components of equity:

Authorized number of common shares

At June 30, 2012 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:

	2012		2011	
	# of shares	$	# of shares	$
Issued and outstanding as at January 1	160,638,183	297,336	142,422,692	201,282
Issued for cash, net	-	-	16,723,990	93,674
Issued on exercise of share options	500,454	764	215,000	502
Fair value of options exercised	-	619	-	255
Tax effects on share issuance	-	-	-	(5,471)
Issued and outstanding as at March 31	161,138,637	298,719	159,361,682	290,242
Issued for cash	12,103,509	33,275	-	(33)
Issued on extinguishment of royalty	-	-	750,000	5,190
Flow-through premium transferred to deferred liability	-	(3,268)	-	-
Issued on exercise of share options	-	-	82,000	190
Fair value of options exercised	-	-	-	80
Tax effects on share issuance	-	493	-	-
Issued and outstanding as at June 30	173,242,146	329,219	160,193,682	295,669

Issuance of common shares

On June 26, 2012, the Company completed a bought-deal financing. The offering was comprised of 11,896,750 flow-through common shares at $2.90 per share, including an over-allotment option which was exercised by the underwriters for total gross proceeds of $34,500,575. A cash commission of 5.0% of the gross proceeds was paid to the syndicate of underwriters. Additionally, the Company completed a non-brokered equity placement on the same terms as the brokered placement; 206,759 flow-through shares at $2.90 per share for additional gross proceeds of approximately $0.6 million. 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, 2013.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

10. Share based payments:

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

	2012			2011		
	Share options		Average exercise price	Share options		Average exercise price
Outstanding at January 1	9,253,410	$	2.53	7,097,000	$	1.48
Exercised during the period	(715,000)		2.32	(215,000)		2.34
Granted during the period	2,685,000		3.83	2,417,000		5.32
Forfeited or expired during the period	-		-	-		-
Outstanding as at March 31	11,223,410	$	2.86	9,299,000		2.46
Exercised during the period	-		-	(82,000)		2.33
Granted during the period	250,000		2.11	24,410		6.89
Forfeited or expired during the period	(70,000)		5.37	-		-
Outstanding as at June 30	11,403,410		2.85	9,241,410	$	2.47
Exercisable at June 30	11,403,410	$	2.85	8,916,410	$	2.38

The following table summarizes the outstanding options as at June 30, 2012 by year of expiry.

Year	Number		Average exercise price
2012	750,000	$	2.83
2013	2,016,000		1.22
2014	1,350,000		1.00
2015	1,851,000		1.42
2016	2,601,410		5.10
2017	2,835,000		3.67
Total	11,403,410	$	2.83

Employee compensation cost

During the three months ended June 30, 2012, the Company recorded $234 thousand (2011 - $292 thousand) in share based payment costs, of which $nil (2011 - $233 thousand) is presented as an operating expense in the statement of comprehensive loss and $233 thousand (2011 - $58 thousand) is capitalized to mineral property costs.

For the six months ended June 30, 2012 the Company recorded $4,459 thousand (2011 - $5,795 thousand) in share based payment costs, of which $3,061 thousand (2011 - $4,428 thousand) is presented as an operating expense in the statement of comprehensive loss and $1,398 thousand (2011 - $1,367 thousand) is capitalized to mineral property costs.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

10. Share based payments, continued:

Inputs for measurement of grant date fair values

The grant date fair values of share options were measured based on the Black-Scholes option pricing model. The weighted average inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following: a risk-free interest rate of 1.04% (2011 – 2.06%); a divided yield of 0% (2011 – 0%); an expected volatility of 66.2% (2011 – 71.6%) and expected lives of stock options of 3 years (2011 – 3 years). The weighted average fair value of options granted in the period was $0.93 (2011 - $3.31).

Warrants and brokers compensation options

At June 30, the following warrants and brokers' compensation options were outstanding:

	2012		2011	
	Warrants and options	Average exercise price	Warrants and options	Average exercise price
Outstanding, January 1	-	$ -	100,000	$ -
Outstanding, March 31	-	$ -	100,000	$ -
Outstanding, June 30	-	$ -	100,000	$ -

11. Flow-through share premium liability:

	Flow-through premium liability
As at December 31, 2011	$ 1,128
Amortization	(1,128)
As at March 31, 2012	$ -
Financing (i)	3,268
Amortization (ii)	-
As at June 30, 2012	$ 3,268

(i) On June 26, 2012, the Company completed a bought-deal financing that included the sale of 12,103,509 flow-through shares at a price of $2.90. This price was at a premium of $0.27 to market for a common share for total premium of $3,268 thousand.

(ii) As the financing closed on June 26, 2012 no amortization of the flow-through premium was recorded.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

12. 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 10).

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 three months ended		For the Six months ended,	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Salaries and benefits	$ 521	$ 389	$ 1,017	$ 779
Stock-based compensation, non-cash	140	211	2,913	4,016
	$ 661	$ 600	$ 3,930	$ 4,795

During the three months ended June 30, 2012, the Company paid or accrued $4,321 (2011 - $4,437); and for the six months ended June 30, 2012 $49,807 (2011 - $38,747) to Morton & Company for legal services of which $nil (2011 - $278) remained outstanding as at June 30. Morton & Company is related by virtue of a common director. Of this amount, $44,513 (2011 - $33,072) related to SEDAR filing fees that Morton & Company paid on the Company's behalf. 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.

13. 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 five years are as follows:

2012	72
2013	145
2014	130
2015	72
2016	-
	$ 419

(Tabular dollar amounts expressed in thousands of Canadian dollars)

14. 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:

		June 30, 2012		December 31, 2011
Tax loss carry forwards	$	862	$	-
Financing costs		2,015		1,854
Provision for closure and reclamation		518		518
Other		9		13
Flow-through share effect on mineral properties		(28,613)		(31,078)
Mineral properties		(1,453)		2,999
Property and equipment		(28)		(17)
Deferred tax liabilities	$	(26,690)	$	(25,711)

As at March 31, 2012, 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.

		June 30, 2012		December 31, 2011
Corporate minimum taxes paid	$	293	$	293
Unrecognized deferred tax assets	$	293	$	293

The Company has tax loss carry forwards at June 30, 2012 of $3.2 million (December 31, 2011 - $nil) that expire in 2031 and 2032.

(Tabular dollar amounts expressed in thousands of Canadian dollars)

14. Income taxes, continued:

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

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Deferred tax expense	$ (205)	$ 4,959	$ 1,472	$ 6,531
Income tax expense	$ (205)	$ 4,959	$ 1,472	$ 6,531

The provision for income taxes differs from the amount calculated using the Canadian federal and provincial statutory income tax rates of 27.0% (2011 – 28.5%) as follows:

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Expected tax expense (recovery)	$ (148)	$ 558	$ (822)	$ (635)
Share based compensation and other permanent items	-	(811)	522	92
Flow-through shares (exploration expenses renounce)	-	5,105	1,829	7,035
Other	(57)	108	(57)	39
Income tax expense	$ (205)	$ 4,959	$ 1,472	$ 6,531

The following Management's Discussion and Analysis (the "MD&A") of the financial condition and results of operations of Sabina Gold & Silver Corp. ("Sabina" or "the Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the period ended June 30, 2012. The MD&A was prepared as of August 10, 2012 and should be read in conjunction with the Company's annual audited financial statements and related notes for the year ended December 31, 2011. All figures are in Canadian dollars unless otherwise stated. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Overview

Sabina is an emerging precious metals company with the objective of becoming a mid-tier gold producer. The Company is focused on the acquisition, exploration and development of mineral resource properties. The Company's flagship assets are its Back River gold project, its prospective Wishbone grassroots exploration project, and its silver royalty on the Hackett River project and certain Wishbone claims, located in Nunavut, Canada. The Company also has interests in exploration properties in the Red Lake gold camp in Ontario, the Nipigon project in Ontario and an option on Xstrata Copper's Cook Lake property in northern Manitoba.

Q2 2012 Highlights:

- On May 29th the Company announced the results of the Preliminary Economic Assessment ("PEA") on the Back River project prepared by SRK Consulting (Canada) Inc. Highlights of the PEA include:
  - The project generates a post-tax NPV-5% of $650 million and an IRR of 25%
  - The project generates life-of-mine ("LOM") after-tax net cash flow of $1.1 billion on gross revenues of $4.6 billion with a payback period of 3 years
  - Processing rate of 5,000 tpd producing an average of 300,000 oz Au per year
  - Pre-production capital of $450 million. Sustaining capital of $388 million for total LOM capital of $839 million including closure and contingencies
  - Total cash costs of $542/oz LOM including royalties, refining and transport
  - A total of 20.7 million tonnes of mineralized material to be milled over 12.3 years with a LOM average grade of 6.13 g/t Au and metallurgical recoveries of 90%
  - Base case commodity assumptions of $1,250 Au and $1.20/litre diesel.

- On June 26, 2012, the Company completed a bought-deal financing. The offering was comprised of 11,896,750 flow-through common shares at $2.90 per share including an over-allotment option for total gross proceeds of the offering of $34,500,575. A cash commission equal to 5.0% of the gross proceeds was paid to the syndicate of underwriters. Additionally, the Company completed a non-brokered equity placement on the same terms as the brokered placement; 206,759 flow-through shares at $2.90 per share for additional gross proceeds of approximately $0.6 million. 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, 2013.

- On April 26 and June 4, the Company announced drilling results from the ongoing 2012 Back River and Wishbone exploration programs, including significant high-grade assays from Llama. Highlights include hole 12GSE182 which returned 21.76 g/t Au over 11.70m including 51.52 g/t Au over 4.50m; hole 12GSE180 which returned 8.40 g/t Au over 10.90 m and hole 12GSE168 which returned 6.73 g/t Au over 9.25 m. Hole 12GSE173 returned 9.50 g/t Au over 7.15 m and extended the Umwelt deposit a further 200 m down plunge.

- For the three months ended June 30, 2012, the Company had a loss of $343 thousand or $0.00 per share. For the six month period ended June 30, 2012, the Company had a loss of $4.5 million or $0.03 per share. The Company had cash and cash equivalents and short-term investments of $152.9 million at June 30, 2012.

Results of Operations

Back River, Nunavut

On June 9, 2009, the Company completed the acquisition of the Back River and Wishbone properties in Nunavut, Canada (collectively known as the Back River Assets) from Dundee Precious Metals Inc. ("DPM"). The Back River Assets were acquired for $7.0 million in cash and 17 million common shares on closing of the transaction. Additional shares and warrants would be issued upon successful completion of certain development milestones.

The Back River Project is located approximately 520 km NE of Yellowknife and 70 km south of Bathurst Inlet. It is comprised of 45 Federal Mineral Leases and 13 Federal Mining Claims covering approximately 52,324 hectares. The project is divided into 7 properties: Goose, George, Boot, Boulder Pond, Needle, Del and the Bath 1 Claim. The Goose property hosts the Goose, Llama and Umwelt gold deposits and the George property located 50 km to the northwest hosts the George deposits. These deposits together are called the Back River resources and consist of indicated resources of 22.3 million tonnes grading 5.59 g/t Au for 3.99 million ounces of Au, and inferred resources of 10.1 million tonnes grading 5.05 g/t Au for 2.0 million ounces of Au.

Back River Exploration Results

The objectives at Back River for 2012 are:

- To continue to expand the known resources at depth and along strike on the Goose claim block;
- To drill test remaining high potential targets on the Goose claim block;
- To drill test high priority shallow targets at the George claim block identified by the exploration tool box;
- To complete drilling identified by the Preliminary Economic Analysis ("PEA") that is required to upgrade existing resources so that the project can move towards a Pre-Feasibility Study;
- To begin evaluation of high potential targets on the Boulder claim block;

Drilling at Back River commenced on March 18 and by period end a total of 33,737 m of drilling had been completed. During the quarter five drills were currently operating on the Goose claim block and one drill each were operating on the George and Boulder claim blocks. The winter resupply was successfully completed by late May and there is currently enough fuel and materials on-site to complete the budgeted 76,000 m of drilling with supplies for up to 24,000 m of additional drilling if warranted.

A major part of the drilling on the Goose claim block has been focused on upgrading resources and performing geotechnical drilling in the proposed pit areas. This work is now complete at Llama and is in progress at Umwelt. Resource expansion drilling has been targeting the down plunge area of the Umwelt G2 Zone with two deep drills and also the down plunge area of the Llama open pit resource with one drill rig. Additionally, during the quarter, exploration drilling at a target immediately to the west of the Goose deposit identified a new discovery of mineralization, termed the Goose Hook.

Drilling at the Llama deposit was initially focussed on lake-based ice setups, targeting the East and West limbs of the deposit and centred on the core of the current open pit concept. The program was designed to upgrade resources from the inferred category to the indicated category for inclusion in a planned prefeasibility study currently slated for completion in the first half of 2013. Highlights of the program include hole12GSE141 located at the south end of the Llama deposit on section 4975N which intercepted multiple broad zones of high grade mineralization associated with the thickened fold hinge of the iron formation. Results from the hole include 15.16 g/t Au over 36.40 m and a second mineralized zone grading 7.15 g/t Au over 41.05 m. Hole 12GSE153 collared approximately 50 m north of hole 141 intersected 21.58 g/t Au over 12.90 m, hole 12GSE182 collared approximately 100 m north of hole 153 returned 21.76 g/t Au over 11.70 m including 51.52 g/t Au over 4.50 m at a down hole depth of only 15.80 m and hole 12GSE152 collared approximately 100 m north of hole 182 intersected 8.58 g/t Au over 20.00 m. These holes are amongst some of the best holes drilled at Llama and are all located within the PEA's proposed pit outline.

Drilling at Llama has also targeted the extension of the deposit down plunge. Hole 12GSE180 returned 8.40 g/t Au over 10.90 m including 12.33 g/t Au over 5.55 m and hole 12GSE168 at the fold crest between the East and West Limbs intersected 6.73 g/t Au over 9.25 m. These holes continue to identify a continuous zone of mineralization down plunge of the open pit resource and are in an area that has not yet been included in any resource calculation.

Positive initial results from extension drilling at the G2 Zone at Umwelt were also received during the quarter. Hole 12GSE173 was designed to test 200 m down plunge of the known zone and to intersect the lower part of the limb that hosts the Umwelt deposit. This hole successfully intersected mineralization at the base of the lower Main Zone East limb returning 9.50 g/t Au over 7.15 m at a vertical depth of approximately 800 m below surface and some 200 m down dip of our previous intersection of the zone. The main portion of the deposit is believed to lie up dip of this intercept. Deep drilling continues at Umwelt with further assays pending.

A new discovery was made in the quarter, termed the Goose Hook, which is interpreted to be an extension of the Goose deposit that has been folded sharply from a northeast - southwest orientation to a southwesterly orientation. Hole 12GSE178, following-up on encouraging results from earlier holes 12GSE133 (2.06 g/t Au over 2.70 m) and 12GSE138 (1.69 g/t Au over 25.00 m), intersected 3.65 g/t Au over 9.0 m within a broader mineralized zone grading 1.76 g/t Au over 41.90 m. A number of grains of visible gold were noted in the interval. This intercept is approximately 300 m west of the main Goose deposit and represents a significant zone of altered and mineralized oxide iron formation. Ongoing drilling should provide additional information necessary to better understand the geology of this new discovery.

Wishbone, Nunavut

The Wishbone Greenstone Belt surrounds the Hackett River Project as well as other smaller base and precious metal deposits. The Wishbone properties, made up of 181 mining claims, total approximately 3,000 km^2 and cover a largely unexplored highly prospective greenstone belt with the potential for both gold and VMS style deposits. Wishbone claims (133 claims) that had a high potential for VMS deposit discovery were included as part of the sale of Hackett River to Xstrata. Sabina retained certain Wishbone claims (48 claims) along the south eastern edge of the property that cover geological units which are similar to the gold-bearing hosts at Back River and are potential gold targets. In August 2011, Sabina staked 73 new claims as the result of the Company's exploration discoveries. Including the new mineral claims, the Company's Wishbone property consists of 121 claims covering approximately 1,000 km^2.

Wishbone Exploration Results

The objectives at Wishbone for 2012 are:

- To assess the Lucky 7 trend on Wishbone to determine further opportunities and define further work requirements.
- To continue assessing the Rocky area to determine if zones of higher grade mineralization are present.

During the second quarter two drills were mobilized to the Lucky 7 target to begin evaluating this discovery. The Lucky 7 trend was discovered in 2011 with hole SWB11-07 where 71.30 g/t Au over 1.50 m was intersected in an altered fault gouge zone with shearing, quartz veining and up to 5% pyrite and pyrrhotite. A second zone in the same hole graded 3.35 g/t Au over 14.65 m including 6.45 g/t Au over 10.25 m. This later zone consists of silica rich breccia fragments in a dark quartz-feldspar-biotite-pyrrhotite matrix. The results from drilling in 2012 are still pending. One drill has subsequently been moved to the Boulder property to begin evaluating targets there and the second drill has moved to the Rocky area to continue to evaluate the extensive sulphidized iron formation that underlies that area.

Red Lake, Ontario Properties

The Company owns or has a partial interest in four Red Lake properties: Newman-Madsen (100%), Golden Sidewalk (100%), Skinner (100%) and Redaurum (20% carried interest). Recent activities have been focused on the Newman-Madsen property.

Newman-Madsen

On January 17th, 2012, the company announced that under the terms of a 50/50 joint venture agreement dated June 8, 2010 that it had completed a purchase agreement to acquire Premier Gold Mines Ltd's 50% interest in the Newman-Madsen property for a cash payment of $500,000 and a 0.5% net smelter return royalty on the property.

The Newman-Madsen property is comprised of 46 patented mining claims located in the Red Lake Mining Division of Ontario, 3.5 km southwest of the Town of Red Lake and 4.5 km northeast of Claude Resources Ltd's Madsen Mine. Eight of these claims are currently under option to Mega Precious Metals (East My Ritt Option).

The Company completed 4,332 metres of drilling in 13 holes during quarter one on the Newman-Madsen property. The focus was on exploring for mineralized structures within the mafic volcanics that underlie the western half of the property, extensions of the Buffalo West Zone and the Madsen Mine trend. No significant assay results were returned although a number of potentially mineralized structures were defined.

Golden Sidewalk

The Golden Sidewalk property is comprised of 18 leasehold patent claims. There are no royalties or carried interests attached to the Golden Sidewalk property. The Golden Sidewalk Property, hosting the past-producing Bathurst Mine, is located within the Birch-Uchi greenstone belt. No work is planned on this property in 2012.

Skinner

The Skinner property is comprised of 14 mineral claims. The property is adjacent to and immediately south of Sabina's Golden Sidewalk property. Premier has a 7.5% net profit interest capped at $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. No work is planned on this property in 2012.

Redaurum

The Redaurum property is located within close proximity to the past producing Madsen Gold Mine. As a result of an option agreement with Goldcorp, the Company has a 20% carried interest to production on the Redaurum property.

Cook Lake, Manitoba

The Cook Lake properties are located in the Snow Lake region of Northern Manitoba and consist of 78 claims totalling 4,938 hectares adjacent to the north and west of HudBay Minerals' newly discovered Lalor deposit. Sabina has an option to earn up to a 100% interest in the property from Xstrata Copper by completing exploration work totalling $10 million over a five year period, ending November 2015.

The 2012 Cook Lake exploration program consisted of a Q1 drill program and a Q4 drill program. To-date a total of 11 holes for 8,045 metres have been drilled on the project from inception in September 2011 with 2,103 metres drilled in Q1 2012. On the North claim block, drilling has located the Lalor stratigraphy at depths of between 500 and 700 metres. The most promising area is on a trend defined by hole CS-006 that intersected pyritic-sericitic altered felsic volcanic rocks with minor zinc mineralization. The trend extends for over 3 km from north to south and has only been tested by two holes (CS-006 and CS-007). The other area of interest is the Raindrop horizon on the South claim block. Drill hole CS-011intersected altered felsic volcanic rocks with minor copper-zinc mineralization associated with an airborne EM anomaly. Borehole EM has detected a significant off-hole anomaly to the south of this hole where there has been no previous drilling. Two smaller off-hole anomalies were also detected to the north of the hole. Analysis of these results is ongoing and will be used to direct work in subsequent campaigns. The Company has budgeted a program of approximately 3,000 meters at a cost of $800,000 for the fourth quarter 2012.

Nipigon, Ontario

In the fall of 2011, the company staked 107 mineral claims covering over 25,000 hectares in an area approximately 100 km north of Thunder Bay, Ontario. The Nipigon Project is 100% owned and is located along the same iron formation that hosts the Beardmore-Geraldton gold camp. There has been little exploration along this prospective trend that has historically produced over 4.5 million ounces of gold from four mines the McLeod-Cockshut, Hard Rock and Mosher mines in Geraldton, and the Leitch Mine in Beardmore.

The setting of these four deposits and the geology of the belt are similar to the iron-hosted deposits in the Back River area which will allow Sabina to apply its exploration toolbox on the Nipigon Project. A 2,200 km VTEM survey was completed over the property in early 2012 which has identified a number of promising gold targets. These targets have been field evaluated and a 3,000 m drill program has been designed for later in 2012.

Summary of Results

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

	2012 Q2 (1)	2012 Q1	2011 Q4	2011 Q3
Revenue/other income	$ 572	$ 589	$ 645	$ 511
Earnings/(loss)	(343)	(3,623)	(1,319)	(2,591)
Per share	$ (0.00)	$ (0.02)	$ (0.01)	$ (0.02)
	2011 Q2	**2011 Q1 (2)**	**2010 Q4**	**2010 Q3**
Revenue/other income	$ 581	$ 339	$ 188	$ 115
Earnings/(loss)	(3,002)	(5,758)	(1,262)	(3,592)
Per share	$ (0.02)	$ (0.04)	$ (0.01)	$ (0.03)

Notes:

(1) During the three months ended June 30, 2012, the Company had no amortization of a flow-through premium and, related to flow-through expenditures, reduced deferred income tax expense. Previous quarters, including Q2 2011 ($3,080 thousand) included amortization of the flow-through premium and significant deferred income tax expense (2011 - $4,959).

(2) During the three months ended March 31, 2011, the Company reported a loss of $5,758 thousand which included $4,195 thousand for stock based compensation. In the quarter the Company granted 2,417,000 stock options to employees and directors.

Overall Performance

For the three months ended June 30, 2012, the Company reported a net loss of $343 thousand compared to a loss of $3.0 million in 2011. The loss in Q2 2012 is lower than the same period in 2011 primarily as a result of reduced deferred income tax expense offset by reduced amortization of the flow-through premium.

Q2 2012 operating expenses were $1.1 million compared to $1.7 million for the same period 2011, favourable by $0.6 million mainly due to decreased administration and general expenses. Administration and general expenses in 2011 included $0.4 million of recruiting costs associated with finding a new President and CEO, a new VP of Engineering, a new Director of Environment and starting work on finding a new VP of Corporate Development. As well, share-based payments were $nil in Q2 2012 compared to $0.2 million in Q2 2011. This was partially offset by listing, transfer and shareholder fees that were $0.1 million higher in 2012 which was due to the financing completed in Q2 compared with no financing having been undertaken in Q2 2011.

Interest income for the three month period ended June 30, 2012 was $572 thousand compared to $581 thousand in 2011. Interest decreased slightly due to a lower average cash balance of $131.8 million versus $153.1 million in 2011 but was mostly offset by a higher realised interest rate which increased to 1.73% from 1.52%.

Deferred income tax expense was substantially lower in Q2 2012 as compared to 2011 decreasing to a recovery of $205 thousand from an expense of $5.0 million. The total flow-through premium recognized in Q2 2012 was $nil compared to $3.0 million in 2011. The Company had satisfied its expenditure obligations under the flow-through financing in Q1 2012 resulting in no renunciation of expenses in Q2 2012 which accounts for the decreased deferred tax expense.

The primary costs incurred by the Company are associated with deferred exploration expenditures on its mineral properties. In Q2 2012, deferred expenditures were $22.5 million compared to $20.3 million in 2011. The increase of

$2.2 million resulted from increased exploration activity at Back River and Wishbone to further expand and define resources. Additionally, the Company had $10.2 million of acquisition costs in 2011 associated with royalty buy-backs that were not incurred in 2012 resulting in a net loss of $8.0 million less in Q2 2012 over Q2 2011.

In Q2 2012, the Company expended $18.5 million on its Back River project (2011 - $13.6 million). The increase relates to increased metres drilled of 29,655 m in Q2 2012 as compared to 26,930 m in Q2 2011. As well, significant environmental baseline activities have taken place in 2012 related to permitting and project development that were not undertaken in 2011. Wishbone expenditures of $3.9 million (2011 - $2.2 million) increased primarily due to increased drilling in 2012. In Q2 2012, 5,639 metres were drilled at Wishbone compared to 2,218 metres in Q2 2011. No costs were incurred for Hackett River in Q2 2012 following the sale of the project in 2011 (2011 - $4.0 million). Red Lake incurred costs of $43 thousand (2011 - $1 thousand) and Cook Lake had expenditures of $20 thousand (2011 - $0.7 million). The Company continues to be active on these projects but the majority of the spring drilling projects were completed in Q1. Nipigon, new in 2012, had expenditures of $0.1 million as the Company continued geophysical work on site.

For the year-to-date, Back River had spending of $26.2 million and drilling of 33,737 metres (2011 - $18.1 million; 29,333 metres); Wishbone of $4.3 million and 5,639 metres (2011 - $2.3 million; 2,218 metres); Hackett River of $nil and 0 metres (2011 - $6.4 million; 10,260 metres); Red Lake of $0.9 million and 4,332 metres (2011 - $0.2 million; 3,039 metres); Cook Lake of $0.8 million and 2,103 metres (2011 - $1.7 million; 2,713 metres) and Nipigon of $0.6 million and 0 metres (2011 - $nil; 0 metres). Additionally, the Company incurred $0.5 million of acquisition costs on the Newman Madsen property, a part of the Red Lake properties.

Liquidity and Capital Resources

The Company had cash and cash equivalents and short-term investments of $152.9 million at June 30, 2012 compared to cash and cash equivalents of $159.9 million at December 31, 2011.

On June 26, 2012, the Company completed a bought-deal financing. The offering was comprised of 11,896,750 flow-through common shares at $2.90 per share, including an over-allotment option for total gross proceeds of the offering of $34,500,575. A cash commission equal to 5.0% of the gross proceeds was paid to the syndicate of underwriters. Additionally, the Company completed a non-brokered equity placement on the same terms as the brokered placement; 206,759 flow-through shares at $2.90 per share for additional gross proceeds of approximately $0.6 million. 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, 2013.

The Company believes it has sufficient cash resources and liquidity to sustain its planned activities through 2012. The future exploration and development of the Back River project may require the Company to raise additional capital through a combination of project debt and equity financings. The Company's strategy will be to use equity financing to fund exploration activities and the maximum amount of project debt available to build mining infrastructure until sufficient cash flow is generated from mining operations.

Financial Instruments

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 quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – 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 consist of available-for-sale investments with a value of $84 thousand at June 30, 2012 ($88 thousand – December 31, 2011) are classified as Level 1.

Liabilities and Contingencies

On June 9, 2009, the Company completed an asset purchase agreement to acquire the Back River Assets from DPM for the following consideration:

(i) At closing, $7.0 million in cash and 17 million common shares (approximately 18.8% of the number of outstanding common shares post-transaction);
(ii) 5 million Series A Special Warrants; and,
(iii) 5 million Series B Special Warrants.

The Special Warrants are exercisable to receive one common share and one-half of one common share purchase warrant. The Series A Special Warrants are to be exercisable upon a decision to proceed to a feasibility study or proceed to production on the Back River Assets and in consideration of other events. The Series B Special Warrants are to be issued upon a positive production decision on the Back River Assets and in consideration of other events.

The Company has the legal obligation to reclaim exploration camps for which it holds water licenses and exploration and mining agreements. The Company has issued deposits totalling approximately $0.3 million in relation to these obligations and has recognized a provision for site reclamation of $1.9 million. In 2011 the provision was increased by $0.5 million for improvements at the Back River Project and reduced by $0.4 million subsequent to the sale of the Hackett River Project.

Contractual Obligations

The Company is obligated under operating lease agreements for the rental of its corporate head office in North Vancouver and the rental of its exploration offices in Ontario, which expire in the next five years. Minimum rental payments, net of income from sublease, in each of the next four years are as follows:

2012	$	72,131
2013		145,298
2014		129,741
2015		72,144
2016		-
	$	419,314

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements, no capital lease agreements, and no long-term debt obligations.

Outlook

The Company's strategic plan is to focus on exploring and developing its primary assets in Nunavut, the Back River and Wishbone projects, with the objective of becoming a mid-tier gold producer. The Company intends to aggressively advance development and environmental work on the Back River project in order to move the project to production. Baseline environmental studies which will be required for a draft environmental impact study (EIS) are planned to be completed in 2012. Additionally, following the completion of a positive PEA, the Company has commenced the permitting process by filing a preliminary project description (PPD) with the appropriate regulatory bodies. The Company anticipates that in Q3 2012 it will engage consultants to undertake a preliminary feasibility study ("PFS") on the project. It is estimated that the PFS work would be completed during the first half of 2013. The final feasibility study ("FS") would be completed one year following the PFS, if positive. If the project successfully passes each of these stages, a decision to proceed to mine construction could be made shortly thereafter. Concurrent with this work, the Company anticipates that it would continue to complete work necessary for a final EIS and any required regulatory licences and permits.

At the same time as the Company advances the Back River project, it will continue to aggressively explore its Nunavut properties with the objective of continuing to grow its resources and explore the many identified targets for new discoveries. The 2012 Nunavut exploration program is comprised of a 76,000 m drill program with the objectives of: expanding the known resources at depth and along strike on the Goose claim block; drill test remaining high potential targets on the Goose claim block; drill test high priority shallow targets at the George claim block; upgrade existing inferred resources as needed for inclusion in a PFS; evaluate high potential targets on other Back River claim blocks; and assess the resource potential on the Lucky 7 and Rocky trends on Wishbone.

The Company continues to evaluate gold projects outside of Nunavut. In Red Lake, Ontario at the Newman-Madsen property, Sabina acquired a 100% interest in this property in January 2012 and drilling commenced immediately thereafter. The Company drilled 4,332 m for approximately $0.8 million during the first quarter of 2012 and has plans for $250 thousand of additional work in Q3 and Q4 2012.

At the Cook Lake property in northern Manitoba located immediately adjacent to Hudbay Minerals' Lalor discovery, the Company completed 8,045 metres of drilling on targets derived from high quality Titan 24 targets and other untested historical EM anomalies. The Company has drilled 2,103 m on the property in 2012 with a cost of approximately $0.8 million and plans to further evaluate results for possible future activities.

A new 100% owned gold project in the Nipigon area of Ontario was staked in late 2011 that is analogous to the Back River project. A 2,200 km VTEM survey was flown in early 2012 and plans for the remaining 2012season include drilling 3,000 m with an expected cost of approximately $0.75 million.

Transactions with Related Parties

For the three months ended June 30, 2012, the Company paid or accrued $4,321 to Morton & Company (2011 - $4,437), which is a related party by virtue of a common director, for legal services of which $nil (2010 - $278) remained outstanding as at June 30, 2012. For the six months ended June 30, 2012, the Company paid $49,807 (2011 - $38,747) to Morton & Company. Of this amount, $44,513 (2011 - $33,072) related to SEDAR filing fees that Morton & Company paid on the Company's behalf. These transactions were in the normal course of operations and are measured at the exchange value as agreed upon by the related parties.

Critical Accounting Estimates

The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities; as well as the reported expenses during the reporting period. Such estimates and assumptions affect the determination of the potential impairment of long-lived assets and the determination of stock-based compensation and deferred income taxes. Management re-evaluates its estimates and assumptions on an ongoing basis; however, due to the nature of estimates, actual amounts could differ from its estimates. The most critical accounting policies upon which the Company depends are those requiring estimates of reserves and resources, future recoverable products and assumptions of future commodity prices.

Accounting for Exploration and Development Costs

Exploration expenditures related to mineral properties are deferred only if it is probable that these costs will be recovered from future operations. The carrying values of mineral properties are assessed at the balance sheet date to determine whether any persuasive evidence exists that the properties may be permanently impaired. The Company's progress in its development activities towards its planned operations is a key factor to be considered as part of the ongoing assessment of the recoverability of the carrying amount of capital assets and deferred exploration and development costs. If there is persuasive evidence of impairment, the asset is written down to its estimated net recoverable value. Deferred acquisition, exploration and development expenditures totalled $145.2 million at June 30, 2012 ($112.1 million – December 31, 2011).

Asset Retirement Obligations

The Company recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the acquisition, construction, development and/or normal use of the 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. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Any changes in the obligation that result from changes in estimated cash flows are recognized as adjustments of the carrying amount of the related long-lived asset and are amortized over the remaining life of the asset.

At June 30, 2012, the Company had a provision for site reclamation of $1.9 million in relation to the Back River exploration camps. Key activities required to be carried out and used in estimating the costs include: removal of Back River exploration camps, reclamation of site pads, re-vegetation as needed and post-closure site monitoring.

Stock-based Compensation

Stock-based compensation is accounted for using the fair value based method. Under the fair value based method, compensation cost is measured at fair value of the options at the date of grant and is expensed over the vesting period of the award. The Company estimates the fair value using the Black-Scholes option pricing model.

Future Changes in Accounting Standards

Future Accounting Pronouncements

Certain new accounting standards and interpretations have been published that are not mandatory for the June 30, 2012 reporting period. The following standards are assessed not to have any impact on the Company's financial statements:

- IFRS 10 Consolidated Financial Statements for accounting periods on or after January 1, 2013;
- IFRS 11 Joint Arrangement for accounting periods on or after January 1, 2013;
- IFRS 12 Disclosures of Involvement with Other Entities for accounting periods on or after January 1, 2013;
- IFRS 13 Fair Value Measurement for accounting periods on or after January 1, 2013;
- IAS 27 Separate Financial Statements for accounting periods on or after January 1, 2013; and
- IAS 28 Investments in Associates and Joint Ventures.

IFRS 9 Financial Instruments: effective for accounting periods commencing on or after January 1, 2013 is expected to have an impact on the Company; however, the extent of the impact has not yet been determined.

Disclosure Controls and Procedures ("DC&P")

Requirements of NI 52-109 include conducting an evaluation of the effectiveness of DC&P. Management conducted an assessment of the effectiveness of the DC&P in place as of December 31, 2011 and concluded that such procedures are adequate and effective to ensure accurate and complete disclosures in filings. Any system of control over disclosure procedures, particularly for junior exploration companies, no matter how well designed and implemented, has inherent limitations and may not prevent or detect all inaccuracies. These limitations include limited personnel available for such work, geographical logistics and human error among others. The Board of Directors assess the integrity of the public financial disclosures through the oversight of the Audit Committee.

Internal Control Over Financial Reporting ("ICFR")

Requirements of NI 52-109 include conducting an evaluation of the effectiveness of ICFR. Management conducted an assessment of the effectiveness of the ICFR in place as of June 30, 2012 and concluded that such procedures are adequate and effective to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in compliance with International Financial Reporting Standards. Any system of internal control over financial reporting, no matter how well designed and implemented, has inherent limitations and may not prevent or detect all misstatements. The Board of Directors assess the integrity of the public financial disclosures through the oversight of the Audit Committee.

Outstanding Share Data

As at August 10, 2012, there were 173,280,064 common shares outstanding. There were options and warrants outstanding to purchase an aggregate of 10,953,410 common shares. The options were granted to certain of the Company's executive officers, directors, employees and consultants.

Additional Information

Sabina is a Canadian public mineral exploration company listed on the TSX Exchange trading under the symbol "SBB" and is a reporting issuer in British Columbia and Alberta. Additional information relating to the Company may be obtained or viewed from the System for Electronic Data Analysis and Retrieval (SEDAR) website at www.sedar.com and on the Company's website at www.sabinagoldsilver.com.

Risks and Uncertainties

Exploration and Development of Mineral Resource Properties

The mineral exploration business is risky and most exploration projects will not become mines. Commercial development of any Sabina property will occur only if sufficient quantities of minerals with a sufficient average grade are discovered. If a mineral discovery is made, substantial financial resources will be required to establish ore reserves, develop processes to extract metal from the ore and develop mining and processing facilities at a given site.

Due to the location of the Hackett River Project and the Back River Projects, there is presently no infrastructure available to explore or, if a production decision with respect to any of such Projects is ultimately made, develop or engage in production from these Projects. As a result of the lack of infrastructure, access to these Projects is limited. However, no assurance can be given that any of the Company's projects in Nunavut will be sufficiently commercially viable to support the capital cost of developing the facilities to increase their accessibility.

Calculation of Reserves, Resources and Metal Recoveries

There is a degree of uncertainty attributable to the calculation and estimates of reserves and resources and the corresponding metal grades to be mined and recovered. Until reserves or resources are actually mined and processed, the quantities of mineralization and metal grades must be considered as estimates only. Any material change in the quantity of mineral reserves, mineral resources, grades and recoveries may affect the economic viability of the Company's properties. To date, the Company has not established reserves on any of its mineral properties.

Title to Assets

Although the Company has received title opinions for properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company's claims may be subject to prior unregistered agreements or transfers and title may be affected by unidentified or unknown defects. The Company has conducted as thorough an investigation as possible on the title of properties that it has acquired to confirm that there are no other claims or agreements that could affect its title to the concessions or claims. If title to the Company's properties is disputed it may result in the Company paying substantial costs to settle the dispute or clear title and could result in the loss of the property, which events may affect the economic viability of the Company.

Uncertainty of Funding

The ability of Sabina to continue as a going concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Sabina's principal sources of financing are the issuance of common shares, entering into option agreements, selling investment securities or selling interests in its mineral properties. Sufficient funding for future exploration and development of its properties may not be available when and as required. Failure to obtain financing on a timely basis could cause the Company to forfeit all or parts of its interests in mineral properties or reduce or terminate its operations.

Precious and Base Metal Price Fluctuations

The ability of the Company to raise funds to continue exploration of the mineral properties in which it has an interest will be significantly affected by changes in the market prices of precious and base metals. Prices for precious and base metals fluctuate on a daily basis, have historically been subject to wide fluctuations and are affected by numerous factors beyond the control of the Company such as the level of interest rates, the rate of inflation, central bank transactions, world supply of precious and base metals, foreign currency exchange rates, international investments, monetary systems, speculative activities, international economic conditions and political developments. The effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not being able to continue its planned exploration programs. Declining market prices for these metals could materially adversely affect the Company's operations and financial condition.

Government Regulation

The Company is in compliance with all material regulations applicable to its exploration activities. Existing and possible future government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards could cause additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted. Before production can commence on any properties, the Company must obtain regulatory and environmental approvals. There is no assurance that such approvals can be obtained on a timely basis or at all. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations.

Competitive Conditions

The profitability of any prospect is dictated by the market for minerals, which is influenced by many factors including changing production costs, supply and demand, inflation, and the political environment. The Company's success is also dependent on the knowledge and expertise of its management and employees and their ability to identify and advance attractive exploration projects and targets. The competition for highly qualified personnel is strong and there is no guarantee that the Company will be able to retain or attract such personnel.

Forward Looking Statements

This MD&A provides management's analysis of Sabina's historical financial and operating results and provides estimates of Sabina's future financial and operating performance based on information currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance.

Certain information set forth in this MD&A, including management's assessment of the Company's future plans and operations, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Company's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be inaccurate and, as such, undue reliance should not be placed on forward-looking statements. Sabina's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur or, if any of them do so, what benefits Sabina will derive there from. Sabina disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by applicable law.