

**HORNBY BAY MINERAL EXPLORATION LTD.
MANAGEMENT DISCUSSION AND ANALYSIS
THREE AND NINE MONTHS ENDED DECEMBER 31, 2012**

GENERAL

This Management's Discussion and Analysis ("MD&A") relates to the performance, financial condition and future prospects of Hornby Bay Mineral Exploration Ltd. ("Hornby Bay", "HBE" or the "Company") and should be read in conjunction with the Unaudited Interim Consolidated Financial Statements for the three and nine months ended December 31, 2012 and 2011, and Notes thereto. Readers are cautioned that the MD&A contains forward-looking statements and that actual events may vary from management's expectations. Readers are encouraged to consult the Company's Audited Consolidated Financial Statements and corresponding Notes to the financial statements for the years ended March 31, 2012 and 2011, for additional details. The Unaudited Interim Consolidated Financial Statements and MD&A are presented in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts are presented in Canadian dollars unless otherwise specified. This discussion addresses matters we consider important for an understanding of our financial condition and results of operations as of February 25, 2013 and for the three and nine months ended December 31, 2012. Readers are encouraged to read the Company's public information filings which can be accessed and viewed through a link to the Company's Canadian Securities Commissions filings via the System for Electronic Data Analysis and Retrieval (SEDAR) at www.sedar.com

This section contains forward-looking statements and should be read in conjunction with the risk factors described in "Risks and Uncertainties" and the "Cautionary Statement on Forward-Looking Information" at the end of this MD&A.

1. Corporate Overview

In 1996, the Company was incorporated in Ontario with its primary focus on uranium exploration in Nunavut, Canada. Nunavut is the only territory and/or province that has settled its native land claim issues.

The Company is a reporting issuer in Ontario, British Columbia and Alberta and trades on the TSX Venture Exchange under the symbol HBE.

2. 2012/2013 exploration season and plans

Hornby Bay Mineral Exploration Ltd. is exploring for uranium on its Coppermine River Property and on part of a Joint Venture Property in the Hornby Bay Basin, Nunavut. The Coppermine Property is 100% owned by HBE and consists of 16 claims and 40 leases covering 117,933 acres (47,725 hectares). The Company has a joint venture on a small portion of Hornby Bay's lease claim holdings with MIE Metals Corporation. The Company has been sharing mobilization, demobilization and camp costs of Hornby Bay's camp with MIE. Hornby Bay is the operator of 10 mineral claims of the property, covering 25,825 acres (10,451 hectares), and owns 13 mineral claims and one mining lease of the joint venture, covering 36,144 acres (14,627 hectares). The Company's properties are located in the northern region of the Early Proterozoic Wopmay Orogen, where the units of the orogen are overlain by Middle Proterozoic sedimentary rocks of the deeper, eastern lobe of the Hornby Bay Basin. During the three and nine months ended December 31, 2012 the Company did not conduct any field-based activities on its Nunavut properties.

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Because of the drastic reversal of the uranium markets worldwide following the tragedy in Japan, the Company has postponed until 2013 the Nunavut exploration program that was initially planned for the 2011 exploration season.

On April 20, 2012, the Company submitted to the Ministry of Northern Development and Mines renewal applications regarding four of its gold mining leases in the Timmins area in Ontario. On October 18, 2012, the Company received confirmation from the Ministry that the renewal of the mining leases was approved.

The Company is planning an exploration program to be conducted on the gold mining leases that it owns in the Timmins area in Ontario. The exploration program will include drilling of targets defined by earlier exploration, establishment of geophysical grids, ground magnetic, VLF-EM, and IP resistivity surveying, and compilation of the new geophysical data with historic data. Continuation of ground geophysical investigations of previously defined airborne electromagnetic conductors have the role of defining new target areas for future exploration and would also contribute to prioritization of already identified targets. HBE will also continue radiometric prospecting and geological and structural mapping of the properties. The Ontario exploration program is expected to be completed in 2013.

Hornby Bay 5% Net Smelter Return Royalty (NSR) - Copper Mountain Mining Corporation Holdings (CUM) – Princeton, British Columbia

During the three months ended December 31, 2012, the Company conducted legal surveys under the guidance of a B.C. land surveyor/consultant on all of Hornby Bay's 5% NSR boundaries. Hornby Bay owns a 5% NSR on 4,000 acres of CUM's 18,000 acre copper-gold-silver mine leases at Princeton, British Columbia. The 5% NSR covers 22.3% of CUM's mining leases, and consists of several areas within the holdings, but HBE's 5% NSR areas are not currently being mined by CUM. There are a number of known mineralized areas within the Hornby Bay's 5% NSR area. Both airborne photographic surveys and ground legal surveys were completed during the three months ended December 31, 2012 and the data is being compiled for filing with B.C. government departments in the near future. A review of all documentation pertaining to Hornby Bay's 5% NSR has been underway for most of 2012 and is on-going. Management anticipates that further specifics regarding the assessment of the value of this royalty, and further actions contemplated by Hornby Bay, will be reported early in 2013.

The Phase One Legal Survey covering about 50% of Hornby Bay's 5% Net Smelter Royalty on all minerals produced, has been approved by the Surveyor General of B.C. under Section 42 of the Mineral Tenure Act, on February 8, 2013. These Mining Leases compose the Northern portion of the 5% NSR and are adjacent to areas currently being mined by Copper Mountain Mining Corp.

The Phase Two Legal Survey, initiated in late 2012, of the South 5% NSR Royalty areas, will be completed and submitted to the Surveyor General B.C. as soon as weather conditions permit. The company expects the additional fieldwork to take about three weeks. Hornby Bay's 5% NSR (4,000 acres) covers 22.3% of all Mining Leases and Mineral Rights within Copper Mountain Mining Corporation's Copper Mountain-Princeton B.C. 18,000 acre Mineral Holdings.

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3. Exploration Expenses

During the three months ended December 31, 2012 the Company spent \$131,927 on exploration compared to \$72,939 during the three months ended December 31, 2011. During the nine months ended December 31, 2012 the Company spent \$2514,908 on exploration compared to \$175,046 during the nine months ended December 31, 2011. The increase over the prior period is mainly due to the increased use of technical consultants and program planning and report costs during the current period, mainly done on the Company's BC property, and is offset by decreased camp and support costs.

	Three months ended December 31,		Nine months ended December 31,	
	2012	2011	2012	2011
Exploration Expenses				
Lease rental overpayment	\$ -	\$ -	\$ 46,409	\$ 46,409
Technical consulting	79,446	7,071	117,338	15,965
Program planning and reports	42,407	17,710	72,600	52,843
Airborne geophysics	4,273	9,038	8,324	9,038
Surveying	838		838	
Licences and permits	-	20	803	206
Camp and support	4,674	39,800	5,307	47,290
Ground geophysics	-	-	-	1,500
Drilling	-	-	-	721
Recording fees and taxes	289	-	289	1,074
	\$ 131,927	\$ 72,939	\$ 251,908	\$ 175,046

4. Liquidity and Capital Resources

The Company has no operating revenues and relies primarily on equity financings as well as the exercise of warrants and options to fund its exploration and administrative costs.

The Company's operations consist of the exploration and evaluation of its various properties, a process that is ongoing, and is dependent on many factors some of which are beyond the Company's control. The Company maintains a policy of reviewing its working capital requirements on a continuous basis and is mindful of its property and administrative commitments.

At December 31, 2012, the Company had a working capital deficiency of \$465,767 compared to a working capital deficiency of \$1,520,682 at March 31, 2012. Cash balances were \$3,337 at December 31, 2012 compared with \$5,458 at March 31, 2012.

The Company has a need for equity capital and because of limited working capital and continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing. It is not possible to predict whether financing efforts will be successful.

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Selected Annual Information

	2012	2011	2010 ¹
	\$	\$	\$
Total revenues	-	-	18,747
Net loss	1,070,324	1,446,756	541,629
Basic & diluted net loss per share	0.02	0.03	0.01
Total assets	381,053	552,880	14,577

¹ Reported under Canadian Generally Accepted Accounting Principles

5. Results of Operations

During the three months ended December 31, 2012, the Company recorded a net loss and comprehensive loss of \$224,566. This is compared to a loss of \$119,125 for the three-month comparative period in 2011. During the nine months ended December 31, 2012, the Company recorded a net loss and comprehensive loss of \$476,537. This is compared to a loss of \$350,086 for the nine-month comparative period in 2011. The increase over the prior year is mainly attributable to share-based payments made in the current period in the form of options granted, as well as an increase in technical consulting fees, program planning and report costs and travel and promotion for work on, and travel to, the Company's BC property site. This increase is offset by decreased office and general expenses as well as decreased camp and support costs during the nine months ended December 31, 2012 versus 2011. The following schedule provides the details of general and administration expenses.

	Three months ended December 31,		Nine months ended December 31,	
	2012	2011	2012	2011
General and Administration Expenses				
Professional fees	\$ 46,914	\$ 37,258	\$ 108,717	\$ 114,878
Travel and promotion	-	-	34,416	1,385
Shareholders' information	6,906	6,208	34,836	30,365
Office and general	(189)	2,632	7,540	19,806
Interest and bank charges	7,555	88	7,666	285
Share-based payments	31,453	-	31,453	8,321
	\$ 92,639	\$ 46,186	\$ 224,629	\$ 175,040

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Summary of Quarterly Results

	Fiscal 2013			Fiscal 2012
	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter
	\$	\$	\$	\$
Total Revenues	-	-	-	-
Net loss (income)	224,566	175,855	76,116	720,238
Net loss (income) per share ¹	0.004	0.003	0.001	0.01
Shares issued & outstanding ¹	56,785,405	56,785,405	56,785,405	56,785,405

	Fiscal 2012			Fiscal 2011
	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter
	\$	\$	\$	\$
Total Revenues	-	-	-	-
Net loss (income)	119,125	136,686	94,275	(78,532)
Net loss (income) per share ¹	0.002	0.002	0.002	0.005
Shares issued & outstanding ¹	56,785,405	56,785,405	56,785,405	56,785,405

¹ Basic and diluted

6. Outstanding Share Data

The following is the outstanding share data and outstanding securities that are convertible into common shares of the Company as of February 25, 2013:

	# outstanding	Weighted average exercise price
Common shares	56,785,405	N/A
Derivatives:		
Stock options	4,949,999	\$0.19

7. Commitments

Pursuant to the issuance of 8,346,820 flow-through shares on September 9, 2010 the Company has renounced \$1,318,421 of qualified exploration expenditures with an effective date of December 31, 2010. The Company was required to spend these flow-through funds by December 31, 2011 but was unable to do so. As of December 31, 2011, the amount remaining to be spent was approximately \$882,000. The Company has indemnified the subscribers of current and previous flow-through share offerings against any tax related amounts that become payable by the shareholder as a result of the Company not meeting its expenditure commitments. As a result of this indemnification, the Company has recorded a provision of \$580,537 during the year ended March 31, 2012. No adjustments have been made to the provision as at and during the three and nine months ended December 31, 2012.

8. Critical Judgements and Estimates

The Company's management makes judgments in its process of applying the Company's accounting policies in the preparation of its unaudited condensed interim consolidated financial statements. In addition, the preparation of financial data requires that the Company's

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management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The critical judgments and estimates applied in the preparation of the Company's unaudited condensed interim consolidated financial statements are consistent with those applied and disclosed in Note 3 to the Company's Audited Consolidated Financial Statements for the years ended March 31, 2012 and 2011.

9. Future Accounting Pronouncements

Certain pronouncements were issued by the IASB or IFRIC that are mandatory for accounting periods beginning after April 1, 2012 or later periods. Many of these updates are not applicable or are not consequential to the Company. For a comprehensive discussion on future accounting policies that may impact the Company, please refer to the Company's Unaudited Condensed Interim Consolidated Financial Statements for the three and nine months ended December 31, 2012 and the Audited Consolidated Financial Statements, related notes and MD&A for the years ended March 31, 2012 and 2011.

10. Financial Instruments

Details of the significant accounting policies and methods adopted for financial instruments (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses) for each class of financial asset and financial liability are disclosed in Note 3 to the Audited Consolidated Financial Statements for the years ended March 31, 2012 and 2011.

Financial Instrument Risk Factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no changes in the risks, objectives, policies or procedures during the periods ended December 31, 2012 and 2011.

Credit risk

The Company's credit risk is primarily attributable to cash. The Company has no significant concentration of credit risk arising from operations. Cash consists of bank deposits which have been invested with reputable financial institutions, from which management believes the risk of loss to be remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2012, the Company had a cash and amounts receivable balance of \$18,042 (March 31, 2012 - \$12,995) to settle current liabilities of \$855,204 (March 31, 2012 - \$1,901,735). All of the Company's financial liabilities have

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contractual maturities of less than 30 days and are subject to normal trade terms, except for the debenture described in Note 13. The shareholder's loan is described in Note 13.

Market risk

(a) Interest rate risk

The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. Management considers interest rate risk to be minimal given that, as at December 31, 2012, no amounts were held in short-term deposit certificates.

(b) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk. The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

(c) Price risk

The Company is exposed to price risk with respect to commodity prices. Changes in commodity prices will impact the economics of development of the Company's mineral exploration properties. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. Price risk is remote since the Company is not currently a revenue producing entity.

Fair value

The Company has designated its cash and amounts receivable as loans and receivables, which are measured at amortized cost. Accounts payable and accruals, promissory note, and shareholder's loan are classified as other financial liabilities, which are measured at amortized cost.

Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates. The carrying amounts for cash, amounts receivable, promissory note and accounts payable and accruals on the balance sheet approximate fair value because of the limited term of the instruments. It is not possible to determine if the shareholder's loan is at fair value as there is no comparable market value for such a loan.

At December 31, 2012, the Company had no financial instruments that are carried at fair value.

11. Litigation

- (a)** The Company had been named a defendant in legal proceedings brought by a former officer of the Company. The former officer had claimed approximately \$30,000 in settlement of a promissory note and approximately \$170,000 damages for breach of contract. During the year ended March 31, 2011, the Company paid \$30,000 in settlement of the promissory note that

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was outstanding. During the period ended December 31, 2012, these legal proceedings were fully and finally settled between the parties without cost.

- (b) An action had been brought by the Company against a former officer of the company and his spouse for damages in the amount of \$72,166 for breach of fiduciary duty and conversion. During the period ended December 31, 2012, this action was fully and finally settled between the parties without cost.

12. Off Balance Sheet Arrangements

The Company has no off balance sheet arrangements.

13. Related Party Transactions

Included in current liabilities is an amount owing to a shareholder of \$96,230 (March 31, 2012 - \$1,168,395), as well as a debenture and related accrued interest as described below. On November 1, 2012, the Shareholder's loan, which was previously due on demand and non-interest bearing, was cancelled and a secured debenture for principal of \$1,500,000 was issued in its place. The debenture bears interest at 3% per annum and matures on November 1, 2017. The Company may extend the maturity date to November 1, 2022. The debenture is included in non-current liabilities on the Statement of Financial Position at December 31, 2012. Interest on the debenture of \$7,520 was accrued at December 31, 2012. Advances to the Company, and payments made on its behalf by the Shareholder in excess of the \$1,500,000 principal loan amount are included on the Statement of Financial Position as Shareholder's loan. The loan continues to be unsecured, due on demand and non-interest bearing. As security for the debenture, the Company has granted a security interest to the Holder over its 5% Net Smelter Return Royalty on certain parts of the Similkameen Copper Mine located in British Columbia.

Included in accounts payable at December 31, 2012 is an amount owing to an officer and director of the Company of \$39,387 (March 31, 2012 - \$26,593), which relates to legal services provided by the director prior to and during the period ended December 31, 2012. During the three months ended December 31, 2012, professional fees paid to this officer and director totaled \$Nil (2011 - \$23). During the nine months ended December 31, 2012 professional fees paid to this officer and director totaled \$16,509 (2011 - \$7,196).

14. Directors and Officers Compensation

During the three months ended December 31, 2012 the Company paid \$15,000 to an officer of the Company as remuneration for services provided (December 31, 2011 - \$15,000). During the nine months ended December 31, 2012 the Company paid \$45,000 to an officer of the Company as remuneration for services provided (December 31, 2011 - \$45,000).

During the period ended December 31, 2012, the Company granted 2,000,000 options to directors, officers and consultants of the Company. Each option is convertible into one common share of the Company at an exercise price of \$0.10 per common share until October 26, 2015.

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15. Subsequent Events

During the period ended December 31, 2012 a Shareholder of the Company advanced \$26,000 to the Company and paid \$35,000 in invoices on the Company's behalf.

Subsequent to the period ended December 31, 2012, 83,333 options expired unexercised.

16. Risks & Uncertainties

Exploration

The Company's exploration projects are subject to conditions beyond its control that can affect the carrying costs and development costs for varying lengths of time. Such conditions include environmental hazards, unusual or unexpected geological formations or pressures and periodic interruptions due to inclement or hazardous weather conditions. Such risks could result in damage to, or destruction of, mineral properties or facilities, personal injury, environmental damage, delays in exploration programs, monetary losses and possible legal liability. Mineral exploration is highly speculative in nature, involves many risks and frequently is non-productive. There is no assurance that exploration efforts will be successful. Success in establishing reserves is a result of a number of factors, including the quality of management, the Company's level of geological and technical expertise, the quality of land holdings, the availability of suitable contractors, and other factors. Through high standards and continuous improvement the Company works to reduce these risks and maintains insurance to cover normal business risks.

If mineralization is discovered, it may take several years in the initial phases of exploration and development activities until a production decision is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish proven and probable reserves through drilling, to determine the optimal metallurgical process to extract the metals from the ore and to construct mining and processing facilities. Because of these uncertainties, no assurance can be given that exploration programs will result in the establishment of resources or reserves. Whether a resource deposit will ultimately be commercially viable depends on a number of factors, including the particular attributes of the deposit such as the deposit's size, financing costs and the prevailing prices for the applicable resource. Also of key importance are government regulations, including those relating to prices, taxes, royalties, land tenure, land use and environmental protection.

Financing

In the absence of cash flow from operations the Company relies on the capital markets to fund operations. Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that additional funding will be available, or available under terms favourable to the Company. Failure to obtain such additional finance could result in delay or the indefinite postponement of further exploration and the development of the Company's properties.

Licenses and Permits, Laws and Regulations

The Company's exploration activities require permits from various government authorities, and are subject to extensive federal provincial and local laws and regulations governing prospecting,

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exploration, development, production, exports, taxes, labour standards, occupational health and safety, mine safety and other matters. Such laws and regulations are subject to change, can become stringent and compliance can therefore become more costly. The Company relies on the expertise and commitment of its management team, their advisors, its employees and contractors to ensure compliance with current laws and fosters a climate of open communication and co-operation with regulatory bodies.

The Company believes that it holds all necessary licenses and permits under applicable laws and regulations and believes it is presently complying in all material respects with the terms of such licenses and permits. However, such licenses and permits are subject to change in various circumstances. There can be no guarantee that the Company will be able to maintain or obtain all necessary licenses and permits that may be required to explore and develop its properties, commence construction or operation of mining facilities or to maintain continued operations.

Environmental, Health and Safety

The Company's activities are subject to extensive federal, provincial and local laws and regulations governing environmental protection and employee health and safety. Environmental legislation is evolving in a manner that is creating stricter standards, where enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The company is also subject to various reclamation-related conditions imposed under federal or provincial rules and permits, and there can be no assurance that they will not change in the future in a manner that could have a material effect on the Company's financial condition, liquidity or results of operations.

17. Forward Looking Statements

Certain statements contained in the section "Description of the Business" of this MD&A constitutes forward-looking statements. These statements relate to future events or the Company's future performance, business prospects or opportunities. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Information concerning the interpretation of drill results, mineral resource and reserve estimates and capital cost estimates may also be deemed as forward-looking statements as such information constitutes a prediction of what mineralization might be found to be present and how much capital will be required if and when a project is actually developed. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about:

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- general business and economic conditions;
- the supply and demand for, deliveries of, and the level and volatility of prices of base metals, and uranium, among others;
- the availability of financing for the Company's exploration and development projects on reasonable terms;
- the ability to procure equipment and operating supplies in sufficient quantities and on a timely basis;
- the ability to attract and retain skilled staff;
- market competition;
- the accuracy of the Company's resource estimate (including, with respect to size, grade and recoverability) and the geological, operational and price assumptions on which it is based;
- tax benefits and tax rates.

These forward-looking statements involve risks and uncertainties relating to, among other things, changes in commodity and, particularly, gold prices, uranium and copper prices, access to skilled mining development and mill production personnel, results of exploration and development activities, the Company's limited experience with production and development stage mining operations, uninsured risks, regulatory changes, defects in title, availability of materials and equipment, timeliness of government approvals, actual performance of facilities, equipment and processes relative to specifications and expectations and unanticipated environmental impacts on operations. Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, the risk factors incorporated by reference herein. See **"Risks and Uncertainties"** for additional information. The Company cautions that the foregoing list of important factors is not exhaustive. Investors and others who base themselves on the Company's forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. The Company also cautions readers not to place undue reliance on these forward-looking statements. Moreover, these forward-looking statements may not be suitable for establishing strategic priorities and objectives, future strategies or actions, financial objectives and projections other than those mentioned above.