



Condensed Interim Consolidated Financial Statements
Three Months Ended June 30, 2011 and 2010

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

HORNBY BAY MINERAL EXPLORATION LTD.
Condensed Interim Consolidated Statements of Financial Position
(Expressed In Canadian Dollars)
(Unaudited)

| As at | June 30, 2011 \$ | March 31, 2011 \$ (Note 14) | April 1, 2010 \$ (Note 14) |
|-------------------------------------------------|---------------------|-----------------------------------|----------------------------------|
| Assets | | | |
| Current | | | |
| Cash (Notes 3(x) and 10) | 59,137 | 14,265 | 5,470 |
| Amounts receivable (Notes 5 and 10) | 17,090 | 171,162 | 5,440 |
| Prepaid expenses | 367,453 | 367,453 | 3,667 |
| | <u>443,680</u> | <u>552,880</u> | <u>14,577</u> |
| Liabilities and Shareholders' Deficiency | | | |
| Current Liabilities | | | |
| Accounts payable and accruals (Notes 10) | 62,603 | 94,972 | 228,643 |
| Promissory note (Notes 11 and 12) | - | - | 30,000 |
| Shareholder's loan (Note 11) | 926,587 | 916,587 | - |
| | <u>989,190</u> | <u>1,011,559</u> | <u>258,643</u> |
| Shareholders' (Deficiency) | | | |
| Capital stock (Note 7) | 38,937,721 | 38,937,721 | 38,088,018 |
| Share-based payments reserve (Note 8) | 487,452 | 480,008 | 909,650 |
| Deficit | (39,970,683) | (39,876,408) | (39,241,734) |
| | <u>(545,510)</u> | <u>(458,679)</u> | <u>(244,066)</u> |
| | <u>443,680</u> | <u>552,880</u> | <u>14,577</u> |

GOING CONCERN (Note 1)
COMMITMENTS AND CONTINGENCIES (Note 12)
POST-REPORTING DATE EVENTS (Note 15)

APPROVED ON BEHALF OF THE BOARD:

Signed "Chris Irwin" _____, Director

Signed "Maurice Colson" _____, Director

HORNBY BAY MINERAL EXPLORATION LTD.

Condensed Interim Consolidated Statements of Operations and Comprehensive Loss
(Expressed In Canadian Dollars)
(Unaudited)

| For the three months ended June 30, | 2011 \$ | 2010 \$ |
|-------------------------------------------------------------|-------------------|-------------------|
| | | (Note 14) |
| Expenditures | | |
| Exploration Expenses | | |
| Camp and support | 7,490 | 25,000 |
| Drilling | 721 | - |
| Ground geophysics | 1,500 | 6,405 |
| Technical consulting | 6,000 | - |
| Program planning and reports | 17,639 | 30,000 |
| Licences and permits | 186 | - |
| Recording fees and taxes | 104 | 1,134 |
| | <u>33,640</u> | <u>62,539</u> |
| General and Administration Expenses | | |
| Stock-based compensation | 7,444 | - |
| Interest and bank charges | 107 | 752 |
| Office and general | 7,974 | 8,648 |
| Professional fees | 37,211 | 12,545 |
| Shareholders' information | 7,899 | 14,455 |
| | <u>60,635</u> | <u>36,400</u> |
| Net loss and comprehensive loss for the period | <u>(94,275)</u> | <u>(98,939)</u> |
| Loss per share – basic and diluted | <u>(0.00)</u> | <u>(0.00)</u> |
| Weighted average number of common shares outstanding | <u>56,785,405</u> | <u>48,438,585</u> |

See accompanying notes to the consolidated financial statements

HORNBY BAY MINERAL EXPLORATION LTD.

Condensed Interim Consolidated Statements of Cash Flows

(Expressed In Canadian Dollars)

(Unaudited)

For the three months ended June 30,

| | 2011 | 2010 |
|----------------------------------------------------------|---------------|----------------|
| | \$ | \$ |
| Cash flows from | | |
| Operating activities | | |
| Net loss for the period | (94,275) | (98,939) |
| Less: operating items not involving cash | | |
| Stock-based compensation | 7,444 | - |
| Change in non-cash working capital | | |
| Amounts receivable | 154,072 | (1,768) |
| Accounts payable and accruals | (32,369) | 98,533 |
| | <u>34,872</u> | <u>(2,174)</u> |
| Financing activities | | |
| Shareholder's loan | 10,000 | - |
| | | |
| Increase (decrease) in cash | 44,872 | (2,174) |
| Cash at beginning of period | 14,265 | 5,470 |
| Cash at end of period | 59,137 | 3,296 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Interest paid | 49 | 724 |
| Income taxes paid | - | - |

See accompanying notes to the consolidated financial statements

HORNBY BAY MINERAL EXPLORATION LTD.
Condensed Interim Consolidated Statements of Changes in Equity
(Expressed In Canadian Dollars)
(Unaudited)

| | Number of Shares | Capital Stock \$ | Share-based Payments Reserve \$ | Total Capital \$ | Retained Earnings (Deficit) \$ | Total Equity \$ |
|----------------------------------|---------------------|---------------------|---------------------------------------|---------------------|-----------------------------------------|--------------------|
| Balance April 1, 2010 | 48,438,585 | 38,088,018 | 909,650 | 38,997,668 | (39,241,734) | (244,066) |
| Net loss | - | - | - | - | (98,939) | (98,939) |
| Options expired unexercised | - | - | (645,600) | (645,600) | 645,600 | - |
| Balance June 30, 2010 | 48,438,585 | 38,088,018 | 264,050 | 38,352,068 | (38,695,073) | (343,005) |
| Net loss | - | - | - | - | (1,347,817) | (1,347,817) |
| Shares issued on rights offering | 8,346,820 | 1,335,491 | - | 1,335,491 | - | 1,335,491 |
| Warrants issued | - | (56,840) | 56,840 | - | - | - |
| Share issuance costs - cash | - | (95,075) | - | (95,075) | - | (95,075) |
| Options expired unexercised | - | - | (166,482) | (166,482) | 166,482 | - |
| Share-based payments | - | - | 325,600 | 325,600 | - | 325,600 |
| Premium on flow-through shares | - | (333,873) | - | (333,873) | - | (333,873) |
| Balance March 31, 2011 | 56,785,405 | 38,937,721 | 480,008 | 39,417,729 | (39,876,408) | (458,679) |
| Net loss | - | - | - | - | (94,275) | (94,275) |
| Share-based payments | - | - | 7,444 | 7,444 | - | 7,444 |
| Balance June 30, 2011 | 56,785,405 | 38,937,721 | 487,452 | 39,425,173 | (39,970,683) | (545,510) |

See accompanying notes to the consolidated financial statements

HORNBY BAY MINERAL EXPLORATION LTD.

Notes to the Condensed Interim Unaudited Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

1. NATURE OF OPERATIONS AND GOING CONCERN

Hornby Bay Mineral Exploration Ltd. (the "Company") currently has interests in exploration and evaluation properties in Canada. Substantially all of the Company's efforts are devoted to financing and developing these properties. There has been no determination whether the Company's interests in exploration and evaluation properties contain mineral reserves which are economically recoverable. The Company is incorporated and domiciled in Ontario, Canada. The registered address of the Company and its principal place of business is 1010-130 Adelaide Street West, Toronto, ON M5H 3P5. The Company's shares are listed on the TSX Venture Exchange.

The business of exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements.

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern, under which material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern must be disclosed. As at June 30, 2011, the Company has not yet achieved profitable operations and continues to be dependent upon its ability to obtain sufficient working capital from external financing to meet the Company's liabilities as they become payable and ultimately to generate profitable future operations. As at June 30, 2011 the Company had a working capital deficit of \$545,510. These unaudited condensed interim consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of operations, and at amounts different from those in the accompanying consolidated financial statements.

2. BASIS OF PRESENTATION

These unaudited condensed interim consolidated financial statements of the Company and its subsidiary were prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"). As these financial statements represent the Company's initial presentation of its results and financial position under IFRS, they were prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting and by IFRS 1, First-time Adoption of IFRS. These unaudited condensed interim consolidated financial statements have been prepared in accordance with the accounting policies the Company expects to adopt in its March 31, 2012 financial statements. Those accounting policies are based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that the Company expects to be applicable at that time. The policies set out below were consistently applied to all the periods presented unless otherwise noted.

HORNBY BAY MINERAL EXPLORATION LTD.

Notes to the Condensed Interim Unaudited Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

2. BASIS OF PRESENTATION (Continued)

The Company's consolidated financial statements were previously prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Canadian GAAP differs in some areas from IFRS. Certain information and footnote disclosures which are considered material to the understanding of the Company's interim financial statements and which are normally included in annual financial statements prepared in accordance with IFRS are provided in notes along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, operations, comprehensive loss, and the statements of financial position and cash flows.

As these are the Company's first set of condensed interim consolidated financial statements in accordance with IFRS, the Company's disclosures exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company's accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Company's 2011 annual consolidated financial statements prepared in accordance with Canadian GAAP. In 2012 and beyond, the Company may not provide the same amount of disclosure in the Company's interim consolidated financial statements under IFRS as the reader will be able to rely on the annual consolidated financial statements, which will be prepared in accordance with IFRS.

These consolidated financial statements were prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit or loss.

The preparation of consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been applied in the preparation of these consolidated financial statements are summarized below.

The consolidated financial statements have been prepared using accounting policies specified by those IFRSs that are in effect as at June 30, 2011.

These accounting policies have been used throughout all periods presented in the consolidated financial statements, except where the Company has applied certain accounting policies and exemptions upon transition to IFRS. The exemptions applied by the Company and the effects of transition to IFRS are presented in Note 14.

(i) Basis of consolidation

The condensed interim consolidated financial statements of the Company include the accounts of its 100% owned subsidiary, Copper Royalty Mineral Corp. (a company incorporated in British Columbia), and the proportionate accounts of all of its joint ventures (see Note 13). Unrealized gains and losses on transactions between the Company and its subsidiary and joint ventures are eliminated to the extent of the Company's interest in those entities. Amounts reported in the financial statements of jointly controlled entities have been adjusted where necessary to ensure consistency with the accounting policies of the Company.

(ii) Presentation currency

The Company's presentation and functional currency is the Canadian Dollar ("CAD"). The functional currency of the Company's subsidiary and joint ventures is CAD.

HORNBY BAY MINERAL EXPLORATION LTD.
Notes to the Condensed Interim Unaudited Consolidated Financial Statements
For the three months ended June 30, 2011 and 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iii) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploration and evaluation activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian tax legislation. Any premium between the quoted market price and the price paid by investors for flow through shares will be recognized as a liability of the Company at the time the shares are issued. When these expenditures are renounced, a deferred tax liability is set up and the initial premium liability is reversed, with the difference being recognized in the statement of operations.

(iv) Interest revenue

Interest revenue is recognized when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition

(v) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a graded-vesting basis over the period during which the employee becomes unconditionally entitled to equity instruments, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods, or when the counterparty renders the service.

(vi) Taxation

Current tax

Income tax expense, if any, represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of operations because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

HORNBY BAY MINERAL EXPLORATION LTD.

Notes to the Condensed Interim Unaudited Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. To the extent that the Company does not consider it to be probable that taxable profits will be available against which deductible temporary differences can be utilized, it provides a valuation allowance against the excess.

Deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

(vii) Exploration and evaluation property

Property option proceeds received are included in operations as 'Other Income' in the period they are received. Exploration and evaluation costs are expensed as incurred. Development costs are expensed until it has been established that a mineral deposit is commercially viable and a mine development decision has been made by the Company. Thereafter, the Company capitalizes expenditures subsequently incurred to develop the mine, prior to the start of mining operations.

(viii) Government grants

Grants are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Grants relating to intangible assets (for example, capitalized exploration and evaluation expenditures) or property, plant and equipment are deducted from the carrying amount of the asset.

(ix) Financial instruments

Financial instruments are classified into one of the following four categories: loans and receivables; fair value through profit or loss; held-to-maturity; and available-for-sale. Financial assets are initially measured at fair value. Subsequent measurement and recognition of the changes in fair value of financial instruments depends upon their initial classifications, as follows

HORNBY BAY MINERAL EXPLORATION LTD.

Notes to the Condensed Interim Unaudited Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Financial assets and financial liabilities at fair value through profit and loss include financial assets and financial liabilities that are held for trading or designated upon initial recognition as fair value through profit and loss. These financial instruments are measured at fair value with changes in fair values recognized in the consolidated Statement of Loss and Comprehensive Loss.
- Financial assets classified as available-for-sale are measured at fair value, with changes in fair values recognized as Other Comprehensive Income ("OCI") in the Statement of Comprehensive Loss, except when there is objective evidence that the asset is impaired, at which point the cumulative loss that had been previously recognized in OCI is recognized within the consolidated Statement of Loss and Comprehensive Loss.
- Financial assets classified as held-to-maturity and loans and receivables are measured subsequent to initial recognition at amortized cost using the effective interest method.
- Financial liabilities, other than financial liabilities classified as fair value through profit and loss, are measured in subsequent periods at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or where appropriate, a short period, to the net carrying amount on initial recognition.

The Company has classified its financial instruments as follows:

| <u>Asset/ Liability</u> | <u>Classification</u> | <u>Measurement</u> |
|-------------------------------|-----------------------|--------------------|
| Cash | Loans and receivables | Amortized cost |
| Amounts receivable | Loans and receivables | Amortized cost |
| Accounts payable and accruals | Other liabilities | Amortized cost |
| Promissory note | Other liabilities | Amortized cost |
| Shareholder's loan | Other liabilities | Amortized cost |

The Company's cash in the statement of financial position is comprised of cash held at financial institutions.

At the end of each reporting period, the Company assesses whether there is objective evidence that a financial asset is impaired. Impairments are measured as the excess of the carrying amount over the fair value and are recognized in the income statement.

The fair values of the Company's cash and amounts receivable, accounts payable and accruals, promissory note, and shareholder's loan approximate their carrying values because of the immediate or short-term to maturity of these financial instruments.

HORNBY BAY MINERAL EXPLORATION LTD.

Notes to the Condensed Interim Unaudited Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Provisions

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. The Company does not have any provisions as of June 30, 2011, March 31, 2011 and April 1, 2010.

(xi) Loss per share

Basic earnings per share is calculated by dividing earnings attributable to common shares divided by the weighted average number of shares outstanding during the period.

Diluted earnings per share is calculated using the denominator of the basic calculation described above adjusted to include the potentially dilutive effect of outstanding stock options and warrants. The denominator is increased by the total number of additional common shares that would have been issued by the Company assuming exercise of all stock options and warrants with exercise prices below the average market price for the year.

Shares issuable on exercise of stock options and warrants totaling 3,935,499 (June 30, 2010 – 488,333) were not included in the computation of diluted loss per share because the effect would have been anti-dilutive.

(xii) Rehabilitation provision

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground and/or environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of related ore. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the income statement as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the income statement. The Company does not have any rehabilitation provisions as of June 30, 2011, March 31, 2011 and April 1, 2010.

(xiii) Operating segments

The Company's operating segments are organized around the geographical locations of the projects. Since the Company only has interests in properties in Canada, it only has one operating segment.

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

HORNBY BAY MINERAL EXPLORATION LTD.

Notes to the Condensed Interim Unaudited Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(xiv) Use of Significant accounting judgements, estimates, and assumptions

The preparation of these unaudited condensed interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These unaudited condensed interim consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed consolidated interim financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods. Information about critical judgements and estimates in applying accounting policies that have the most significant effect on amounts recognized in the consolidated financial statements include recognition of deferred taxes, contingencies, and determination of economic viability of a project. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year include share-based payments and contingencies.

4. FUTURE ACCOUNTING PRONOUNCEMENTS

Certain pronouncements were issued by the IASB or IFRIC that are mandatory for accounting periods beginning on or after April 1, 2011 or later periods. Many of these updates are not applicable or are not consequential to the Company and have been excluded from the list below. The following pronouncements are being assessed to determine their impact on the Company's results and financial position.

IFRS 7 - Amendment to IFRS 7, Financial Instruments: Disclosure

Multiple clarifications related to the disclosure of financial instruments. The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011. The Company has not yet determined the impact of the amendments to IFRS 7 on its consolidated financial statements.

IFRS 9 - Financial Instruments: Classification and Measurement

This standard was published in November 2009 and contained requirements for financial assets. Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements for financial liabilities were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 9 on its consolidated financial statements.

IFRS 10 – Consolidated Financial Statements builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company (effective from January 1, 2013). The Company has not yet determined the impact of the amendments to IFRS 10 on its consolidated financial statements.

IFRS 11 – Joint Arrangements establishes the principles of financial reporting by entities when they have an interest in arrangements that are jointly controlled (effective from January 1, 2013). The Company has not yet determined the impact of the amendments to IFRS 11 on its consolidated financial statements.

IFRS 12 – Disclosure of Interest in Other Entities provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities (effective from January 1, 2013). The Company has not yet determined the impact of the amendments to IFRS 12 on its consolidated financial statements.

HORNBY BAY MINERAL EXPLORATION LTD.
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4. FUTURE ACCOUNTING PRONOUNCEMENTS (continued)

IFRS 13 – Fair Value Measurement defines fair value, requires disclosure of fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards (effective from January 1, 2013). The Company has not yet determined the impact of the amendments to IFRS 13 on its consolidated financial statements.

IAS 28 – Investments in Associates and Joint Ventures revised the existing standards and prescribes the accounting for investments and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures (effective January 1, 2013). The Company has not yet determined the impact of IAS 28 on its consolidated financial statements.

5. AMOUNTS RECEIVABLE

| | June 30, 2011 | March 31, 2011 | April 1, 2010 |
|-------------------|---------------|----------------|---------------|
| Other receivables | \$ - | \$ 131,385 | \$ - |
| GST receivable | 17,090 | 39,777 | 5,440 |
| | \$ 17,090 | \$ 171,162 | \$ 5,440 |

6. EXPLORATION AND EVALUATION PROPERTIES

(a) COPPERMINE RIVER, NUNAVUT

The Company holds a 100% interest in 40 mineral leases and 16 mineral claims in the Coppermine River area of Nunavut. The 40 leases are subject to a 1% net smelter royalty and/or a 1% gross diamond royalty to a maximum of \$10,000,000. Cumulative exploration and evaluation expenditures made by the Company on this project as at June 30, 2011 totaled \$23,768,021 (March 31, 2011 – \$23,734,381).

(b) UNAD JV, NUNAVUT

Pursuant to agreements dated September 30, 2006 the Company holds a 50% interest in certain mineral claims in the Coppermine River area of Nunavut (See Note 13). Cumulative exploration and evaluation expenditures made by the Company on this project as at June 30, 2011 totaled \$772,313 (March 31, 2011 – \$772,313).

(c) ONTARIO GOLD PROPERTIES

The Company holds a 100% interest in five gold leases near Timmins, Ontario. Cumulative exploration and evaluation expenditures made by the Company on this project as at June 30, 2011 totaled \$128,882 (March 31, 2011 – \$128,882).

(d) B.C. PROPERTIES

The Company holds a 100% interest in four Crown grants in the Camsell and Similkameen area of British Columbia and a 5% net smelter royalty interest on certain parts of the Similkameen Copper Mine. Cumulative exploration and evaluation expenditures made by the Company on this project as at June 30, 2011 totaled \$37,859 (March 31, 2011 – \$37,859).

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For the three months ended June 30, 2011 and 2010

7. CAPITAL STOCK

(i) As at June 30, 2011, March 31, 2011 and April 1, 2010, the Company's authorized number of common shares was unlimited without par value.

(ii) **Common Shares**

| Issued | Number of Shares | Amount |
|---------------------------------------------|-----------------------------|---------------------|
| 56,785,405 common shares | | |
| Balance at April 1, 2010 | 48,438,585 | \$38,088,018 |
| Issued by rights offering | 8,346,820 | 1,335,491 |
| Premium on flow-through shares | - | (333,873) |
| Share issue costs | - | (151,915) |
| Balance at March 31, 2011 and June 30, 2011 | 56,785,405 | \$38,937,721 |

On April 6, 2010, the Company consolidated its shares on a 1-for-3 basis. All references to common shares, per share amounts, warrants, and options for all periods presented have been retroactively restated to reflect this consolidation unless otherwise stated.

On September 9, 2010, the Company issued 8,346,820 flow-through common shares at \$0.16 per share pursuant to a rights offering to raise gross proceeds of \$1,335,491. In connection with this rights offering the Company paid solicitation fees of \$82,728.

HORNBY BAY MINERAL EXPLORATION LTD.
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For the three months ended June 30, 2011 and 2010

8. SHARE-BASED PAYMENTS RESERVE

| | Number of Options | Weighted Average Exercise Price | Value of Options | Number of Warrants | Weighted Average Exercise Price | Value of Warrants | Total Value |
|------------------------|----------------------|------------------------------------------|---------------------|--------------------------|------------------------------------------|----------------------|----------------|
| Balance April 1, 2010 | 1,765,000 | \$ 0.81 | \$ 909,650 | - | - | - | \$909,650 |
| Granted | 3,250,000 | 0.20 | 325,600 | 710,500 | 0.16 | 56,840 | 382,440 |
| Expired | (1,790,001) | 0.74 | (812,082) | - | - | - | (812,082) |
| Balance March 31, 2011 | 3,224,999 | \$ 0.25 | 423,168 | 710,500 | 0.16 | 56,840 | \$480,008 |
| Granted | - | - | 7,444 | - | - | - | 7,444 |
| Balance June 30, 2011 | 3,224,999 | \$ 0.25 | \$ 430,612 | 710,500 | 0.16 | 56,840 | \$487,452 |

Warrants

Pursuant to the issuance of 8,346,820 flow-through common shares at \$0.16 per share in connection with the rights offering (Note 7(ii)), the Company issued 710,500 broker warrants pursuant to standby commitments. Each broker warrant entitles the holder to acquire one common share of the Company at a price of \$0.16 for two years. The fair value of the warrants was estimated to be \$56,840, using the Black-Scholes option pricing model assuming a risk-free interest rate of 2% on the date of issue, an expected life of 2 years, an expected volatility of 150% and expected dividends of \$Nil. The warrants expire on September 9, 2012.

Options

The Company's Stock Option Plan (the "Plan") provides for the granting of stock options to directors, officers, employees and consultants of the Company. Share options are granted for a term not to exceed five years at exercise prices not less than the closing sale price of the shares on the TSX Venture Exchange on the trading day immediately preceding the date the options are granted, and are not transferrable. The Plan is administered by the Board of Directors, which determines individual eligibility under the Plan, number of shares reserved for optioning to each individual (not to exceed 5% of issued and outstanding shares to any one individual) and the vesting period. The maximum number of shares of the Company that are issuable pursuant to the Plan is limited to 10% of the issued and outstanding common shares.

Options to purchase common shares outstanding at June 30, 2011 carry exercise prices and remaining terms to maturity as follows:

| Number of options | Options exercisable | Exercise price | Fair value at grant date | Expiry date | Remaining contractual life outstanding |
|----------------------|------------------------|-------------------|-----------------------------|-------------|----------------------------------------------|
| # | # | \$ | \$ | | (Years) |
| 75,000 | 75,000 | 1.71 | 87,750 | 06-Mar-12 | 0.68 |
| 83,333 | 83,333 | 0.66 | 30,000 | 19-Feb-13 | 1.64 |
| 66,666 | 66,666 | 0.30 | 6,000 | 16-Jun-14 | 2.96 |
| 2,500,000 | 2,500,000 | 0.20 | 261,818 | 11-Aug-15 | 4.12 |
| 200,000 | 100,000 | 0.20 | 15,744 | 16-Sep-12 | 1.22 |
| 200,000 | 200,000 | 0.20 | 18,300 | 27-Oct-15 | 4.33 |
| 100,000 | 100,000 | 0.20 | 11,000 | 9-Nov-15 | 4.36 |
| 3,224,999 | 3,124,999 | 0.23 | 430,612 | | 3.79 |

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8. SHARE-BASED PAYMENTS RESERVE (Continued)

The fair values of options granted have been estimated on the date of grant using the Black-Scholes option-pricing model. Assumptions used in the pricing model are as follows:

| Grant Date | Grant date share price \$ | Exercise price \$ | Expected volatility % | Expected option life (Years) | Expected dividend yield % | Risk-free interest rate % |
|------------|------------------------------|----------------------|--------------------------|---------------------------------|------------------------------|------------------------------|
| 06-Mar-07 | 1.71 | 1.71 | 85 | 5 | 0 | 4.0 |
| 19-Feb-08 | 0.66 | 0.66 | 102 | 5 | 0 | 3.2 |
| 16-Jun-09 | 0.30 | 0.30 | 65 | 5 | 0 | 2.0 |
| 11-Aug-10 | 0.20 | 0.20 | 109 | 5 | 0 | 2.0 |
| 16-Sep-10 | 0.20 | 0.20 | 147 | 2 | 0 | 1.5 |
| 27-Oct-10 | 0.20 | 0.20 | 116 | 5 | 0 | 2.1 |
| 9-Nov-10 | 0.20 | 0.20 | 135 | 5 | 0 | 2.2 |

9. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of exploration and evaluation properties. The capital of the Company consists of shareholder's loan, capital stock and share-based payments reserve. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Several properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the periods ended June 30, 2011 or 2010. The Company and its subsidiary are not subject to externally imposed capital requirements.

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10. FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted (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.

Financial assets and financial liabilities as at June 30, 2011, March 31, 2011 and April 1, 2010 were as follows:

| June 30, 2011 | Loans and receivables | Other liabilities | Total |
|-------------------------------|-----------------------|-------------------|-----------|
| Cash | \$ 59,919 | \$ - | \$ 59,919 |
| Amounts receivable | 17,090 | - | 17,090 |
| Accounts payable and accruals | - | 62,603 | 62,603 |
| Shareholder's loan | - | 926,587 | 926,587 |

| March 31, 2011 | Loans and receivables | Other liabilities | Total |
|-------------------------------|-----------------------|-------------------|-----------|
| Cash | \$ 14,265 | \$ - | \$ 14,265 |
| Amounts receivables | 171,162 | - | 171,162 |
| Accounts payable and accruals | - | 94,972 | 94,972 |
| Shareholder's loan | - | 916,587 | 916,587 |

| April 1, 2010 | Loans and receivables | Other liabilities | Total |
|-------------------------------|-----------------------|-------------------|----------|
| Cash | \$ 5,470 | \$ - | \$ 5,470 |
| Amounts receivables | 5,440 | - | 5,440 |
| Accounts payable and accruals | - | 228,643 | 228,643 |
| Promissory note | - | 30,000 | 30,000 |

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 quarter ended June 30, 2011 and 2010.

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 June 30, 2011, the Company had a cash balance of \$59,137 (March 31, 2011 - \$14,265; April 1, 2010 - \$5,470) to settle current liabilities of \$989,190 (March 31, 2011 - \$1,011,559; April 1, 2010 - \$258,643). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The shareholder's loan is described in Note 11.

HORNBY BAY MINERAL EXPLORATION LTD.
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10. FINANCIAL INSTRUMENTS (Continued)

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 June 30, 2011, 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 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 June 30, 2011, the Company had no financial instruments that are carried at fair value.

11. RELATED PARTY TRANSACTIONS

The condensed interim consolidated financial statements of the Company include the accounts of its 100% owned subsidiary, Copper Royalty Mineral Corp. (a company incorporated in British Columbia), and the proportionate accounts of all of its joint ventures.

During the period, the Company entered into the following transactions in the ordinary course of business with related parties that are not subsidiaries of the Company:

| | <u>Amounts owed to related parties</u> | | |
|------------------------|----------------------------------------|------------------|-----------------|
| | <u>30-Jun-11</u> | <u>31-Mar-11</u> | <u>1-Apr-10</u> |
| Officers and directors | \$ - | \$ - | \$ 30,000 |
| Other related parties | \$ 926,587 | \$ 916,587 | \$ - |

The amount owing to officers and directors relates to a promissory note owing to a former officer of the Company, which was repaid to the former officer during the year ended March 31, 2011 (Note 12(b)).

The amount owing to other related parties relates to a shareholder loan which is due on demand, unsecured and non-interest bearing. No guarantees have been given.

HORNBY BAY MINERAL EXPLORATION LTD.
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For the three months ended June 30, 2011 and 2010

11. RELATED PARTY TRANSACTIONS (Continued)

Compensation of key management personnel of the Company

The remuneration of directors and other members of key management personnel during the period was as follows:

| | Three months ended June 30, | |
|----------------------------|-----------------------------|----------|
| | 2011 | 2010 |
| Salaries including bonuses | \$ 15,000 | \$ 7,500 |
| Share-based payments | - | - |
| Total remuneration | \$ 15,000 | \$ 7,500 |

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

12. COMMITMENTS AND CONTINGENCIES

- (a) 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 is required to expend these flow-through funds by December 31, 2011. As of June 30, 2011, the amount remaining to be expended is approximately \$977,000.

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 having met its expenditure commitments.

- (b) The Company has 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 was outstanding. The Company believes that the claims for damages are without merit and plans to vigorously defend itself. As the outcome of these proceedings cannot be reasonably determined, no further amounts have been recorded in these financial statements.

- (c) An action has 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. The action has been defended by the former officer and his spouse and the parties have exchanged affidavits of documents. The next steps in the litigation will be to schedule a settlement conference and mediation.

13. INTERESTS IN JOINT VENTURES

The Company does not have any significant assets, liabilities, revenues, expenses or cash flows from its interests in joint ventures as at and for the periods ended June 30, 2011 and 2010.

HORNBY BAY MINERAL EXPLORATION LTD.

Notes to the Condensed Interim Unaudited Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

14. TRANSITION TO IFRS

The Company's consolidated financial statements for the year ending March 31, 2012 will be the first annual financial statements that comply with IFRS and these condensed interim consolidated financial statements were prepared as described in Note 2, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Company will make this statement when it issues its March 31, 2012 annual consolidated financial statements.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was April 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be March 31, 2012. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

Initial elections upon adoption

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

IFRS Exemption Options

1. *Business combinations* – IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the Transition Date. The Company elected to apply IFRS 3 prospectively from the transition date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company did not apply IFRS 3 retrospectively to business combinations that occurred prior to its Transition Date and such business combinations have not been restated. Any goodwill arising on such business combinations before the Transition Date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying this exemption.
2. *Share-based payments* - IFRS 2, Share-based Payments, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date.
3. *IAS 27 – Consolidated and separate financial statements* - In accordance with IFRS 1, if a Company elects to apply IFRS 3 Business Combinations retrospectively, IAS 27 Consolidated and Separate Financial Statements must also be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively.

IFRS Mandatory Exceptions

Estimates - Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The changes made to the consolidated statements of financial position and consolidated statements of comprehensive loss have resulted in reclassifications of various amounts on the consolidated statements of cash flows, however as there have been no changes to the net cash flows, no reconciliations have been presented.

HORNBY BAY MINERAL EXPLORATION LTD.

Notes to the Condensed Interim Unaudited Consolidated Financial Statements

For the three months ended June 30, 2011 and 2010

14. Transition to IFRS (Continued)

Changes in accounting policies:

In addition to the exemptions and exceptions discussed above, the following narratives explain the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS policies applied by the Company.

a. Share-based payments

IFRS 2 is effective for the Company as of April 1, 2010 and is applicable to stock options and grants that are unvested at that date. The transition rules in IFRS 1 and IFRS 2 as applied by the Company result in the following:

- Stock option grants made prior to November 7, 2002 are not taken into account for IFRS 2;
- Stock option grants made subsequent to November 7, 2002 are only taken into account if they have not vested as at April 1, 2010; and,
- From April 1, 2010, all stock options, share grants and other share-based payments will be expensed in accordance with the policy stated in Note 3.

Forfeitures

Canadian GAAP - Forfeitures of awards are recognized as they occur.

IFRS – An estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. The Company estimated a 0% forfeiture rate and, as a result, no adjustments were recognized.

b. Flow-through shares

Canadian GAAP - Flow through shares are a unique Canadian tax incentive, which is the subject of specific guidance under Canadian GAAP and US GAAP.

IFRS - Does not have equivalent guidance to CICA 3465 and EIC 146 on accounting for flow-through shares. As a result, the Company needs to apply IAS 8.10 – IAS 8.12 in developing an acceptable accounting policy which, in the absence of an IFRS standard that specifically applies to a transaction, allows management to use its judgment in developing and applying an accounting policy.

The Company intends to adopt the following accounting policy:

The resource expenditure deductions for income tax purposes related to exploratory and evaluation activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian tax legislation. Any premium between the quoted market price and the price paid by investors for flow through shares will be recognized as a liability of the Company at the time the shares are issued. When these expenditures are renounced, a deferred tax liability is set up and the initial premium liability is reversed, with the difference being recognized in the statement of operations.

As a result of adopting this accounting policy, as at the Transition Date to the Opening Statement of Financial Position at April 1, 2010, the Company made an adjustment to capital stock and deficit in the amount of \$4,172,335. As at March 31, 2011, an income tax recovery of \$4,273 was recorded in the Statement of Comprehensive Loss, with a corresponding debit to capital stock on the Statement of Financial Position.

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14. Transition to IFRS (Continued)

c. Equity Reserves

Canadian GAAP –The Company recorded the value of share-based payments to contributed surplus. Warrants issued were included in capital stock.

IFRS – IFRS allows a company to record the value of share-based payments, such as outstanding options, and warrants as a separate component of shareholder's equity. IFRS requires an entity to present for each component of equity, a reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change. IFRS requires a separate disclosure of the value that relates to "Reserves for warrants", "Reserves for share-based payments" and any other component of equity. During the year ended March 31, 2011, the Company credited the share-based payment reserve for \$56,840 for warrant activity during the year.

IFRS also allows a company to transfer the amounts for expired, unexercised stock options and warrants recorded in its reserve account to the deficit account on expiry. The Company debited its reserve account and credited its deficit account at April 1, 2010 in the amount of \$3,564,905. At March 31, 2011, an additional amount of \$812,082 was credited to its deficit account.

Reconciliation of Consolidated Statement of Financial Position as of April 1, 2010

| As at | Notes | CGAAP March 31, 2010 | IFRS Adjustments 2010 | IFRS April 1, 2010 |
|---------------------------------------------------|--------|----------------------------|-----------------------------|--------------------------|
| Assets | | | | |
| Current assets | | | | |
| Cash | | \$ 5,470 | - | \$ 5,470 |
| Amounts receivable | | 5,440 | - | 5,440 |
| Prepaid expenses | | 3,667 | - | 3,667 |
| Total assets | | \$ 14,577 | - | \$ 14,577 |
| Liabilities and shareholder's equity | | | | |
| Current liabilities | | | | |
| Accounts payable and accrual | | 228,643 | - | 228,643 |
| Promissory note | | 30,000 | - | 30,000 |
| Total liabilities | | 258,643 | - | 258,643 |
| Shareholder's equity | | | | |
| Capital stock | 14.b | 33,915,683 | 4,172,335 | 38,088,018 |
| Contributed surplus | 14.c | 4,474,555 | (4,474,555) | - |
| Share-based payments reserve | 14.c | - | 909,650 | 909,650 |
| Deficit | 14.b,c | (38,634,304) | (607,430) | (39,241,734) |
| Total equity | | (244,066) | - | (244,066) |
| Total liabilities and shareholder's equity | | \$ 14,577 | - | \$ 14,577 |

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14. Transition to IFRS (Continued)

Reconciliation of Consolidated Statement of Financial Position as of June 30, 2010

| As at | Notes | CGAAP June 30, 2010 | IFRS Adjustments 2010 | IFRS June 30, 2010 |
|---------------------------------------------------|--------|---------------------------|-----------------------------|--------------------------|
| Assets | | | | |
| Current assets | | | | |
| Cash | | \$ 3,296 | - | \$ 3,296 |
| GST receivable | | 7,209 | - | 7,209 |
| Prepaid expenses | | 3,667 | - | 3,667 |
| Total assets | | \$ 14,172 | - | \$ 14,172 |
| Liabilities and shareholder's equity | | | | |
| Current liabilities | | | | |
| Accounts payable and accruals | | 327,177 | - | 327,177 |
| Promissory note | | 30,000 | - | 30,000 |
| Total liabilities | | 357,177 | - | 357,177 |
| Shareholder's equity | | | | |
| Capital stock | 14.b | 33,915,683 | 4,172,335 | 38,088,018 |
| Contributed surplus | 14.c | 4,474,555 | (4,474,555) | - |
| Share-based payments reserve | 14.c | - | 264,050 | 264,050 |
| Deficit | 14.b,c | (38,733,243) | 38,170 | (38,695,073) |
| Total equity | | (343,005) | - | (343,005) |
| Total liabilities and shareholder's equity | | \$ 14,172 | - | \$ 14,172 |

HORNBY BAY MINERAL EXPLORATION LTD.
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14. Transition to IFRS (Continued)

Reconciliation of Consolidated Statement of Financial Position as of March 31, 2011

| As at | Notes | CGAAP March 31, 2011 | IFRS Adjustments 2010 | IFRS March 31, 2011 |
|---------------------------------------------------|--------|----------------------------|-----------------------------|---------------------------|
| Assets | | | | |
| Current assets | | | | |
| Cash | | \$ 14,265 | - | \$ 14,265 |
| Amounts receivable | | 171,162 | - | 171,162 |
| Prepaid expenses | | 367,453 | - | 367,453 |
| Total assets | | \$ 552,880 | - | \$ 552,880 |
| Liabilities and shareholder's equity | | | | |
| Current liabilities | | | | |
| Accounts payable and accruals | | 94,972 | - | 94,972 |
| Shareholder's loan | | 916,587 | - | 916,587 |
| Total liabilities | | 1,011,559 | - | 1,011,559 |
| Shareholder's equity | | | | |
| Capital stock | 14.b,c | 34,826,499 | 4,111,222 | 38,937,721 |
| Contributed surplus | 14.c | 4,800,155 | (4,800,155) | - |
| Share-based payments reserve | 14.c | - | 480,008 | 480,008 |
| Deficit | 14.b,c | (40,085,333) | 208,925 | (39,876,408) |
| Total equity | | (458,679) | - | (458,679) |
| Total liabilities and shareholder's equity | | \$ 552,880 | - | \$ 552,880 |

Reconciliation of Consolidated Statement of Operations and Comprehensive Loss for the three months ended June 30, 2010

| | CGAAP | IFRS Adjustments | IFRS |
|-------------------------------------------------------------------|------------------|---------------------|------------------|
| Exploration Expenses | | | |
| Camp and support | \$ 25,000 | - | \$ 25,000 |
| Ground geophysics | 6,405 | - | 6,405 |
| Program planning and reports | 30,000 | - | 30,000 |
| Recording fees and taxes | 1,134 | - | 1,134 |
| | 62,539 | - | 62,539 |
| General and Administrative Expenses | | | |
| Interest and bank charges | 752 | - | 752 |
| Office and general | 8,648 | - | 8,648 |
| Professional fees | 12,545 | - | 12,545 |
| Shareholders' information | 14,455 | - | 14,455 |
| | 36,400 | - | 36,400 |
| Total Expenses | 98,939 | - | 98,939 |
| Net loss and comprehensive loss | (98,939) | - | (98,939) |
| Weighted average number of shares outstanding - basic and diluted | 48,438,585 | - | 48,438,585 |
| Loss per share | \$ (0.00) | \$ - | \$ (0.00) |

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Reconciliation of Consolidated Statement of Operations and Comprehensive Loss for the year ended March 31, 2011

| | Notes | CGAAP | IFRS Adjustments | IFRS |
|-------------------------------------------------------------------|-------|--------------------|---------------------|--------------------|
| Exploration Expenses | | | | |
| Airborne geophysics | | \$ 26,196 | - | \$ 26,196 |
| Assaying | | 2,039 | - | 2,039 |
| Camp and support | | 272,720 | - | 272,720 |
| Drilling | | 353,857 | - | 353,857 |
| Ground geophysics | | 102,715 | - | 102,715 |
| Helicopter | | 168,741 | - | 168,741 |
| Lease rental payments | | 73,972 | - | 73,972 |
| Program planning and reports | | 108,992 | - | 108,992 |
| Licences and permits | | 980 | - | 980 |
| Recording fees and taxes | | 3,051 | - | 3,051 |
| | | <u>1,113,263</u> | - | <u>1,113,263</u> |
| General and Administrative Expenses | | | | |
| Insurance | | 19,500 | - | 19,500 |
| Interest and bank charges | | 6,061 | - | 6,061 |
| Office and general | | 14,895 | - | 14,895 |
| Professional fees | | 214,287 | - | 214,287 |
| Salaries and benefits | | 4,452 | - | 4,452 |
| Shareholders' information | | 71,662 | - | 71,662 |
| Stock-based compensation | | 325,600 | - | 325,600 |
| Travel and promotion | | 10,909 | - | 10,909 |
| | | <u>667,366</u> | - | <u>667,366</u> |
| Loss before income taxes | | (1,780,629) | - | (1,780,629) |
| Deferred income tax recovery | 14.b | 329,600 | 4,273 | 333,873 |
| Net loss and comprehensive loss for the year | | <u>(1,451,029)</u> | <u>4,273</u> | <u>(1,446,756)</u> |
| Weighted average number of shares outstanding - basic and diluted | | 53,103,657 | - | 53,103,657 |
| Loss per share | | <u>\$ (0.03)</u> | <u>\$ -</u> | <u>\$ (0.03)</u> |

15. Post-reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization.

16. Authorization of financial statements

The condensed interim consolidated financial statements for the period ended June 30, 2011 (including comparatives) were approved by the board of directors on September 28, 2011.