



Interim Consolidated Financial Statements
Three and Six months Ended September 30, 2014 and 2013

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.

Interim Consolidated Statements of Financial Position
(Expressed In Canadian Dollars)

As at	September 30, 2014 \$	March 31, 2014 \$
Assets	(Unaudited)	
Current		
Cash	7,876	5,893
Amounts receivable (Note 4)	10,271	6,626
Prepaid expenses (Note 5)	395,711	380,090
Total Assets	413,858	392,609
Liabilities and Shareholders' Deficiency		
Current Liabilities		
Accounts payable and accruals (Notes 13, 14 and 15)	743,333	741,684
Shareholder's loan (Note 14)	571,705	556,947
Provision for environmental remediation (Note 7)	50,000	-
Total Current Liabilities	1,365,038	1,298,631
Loans payable (Note 9)	200,000	100,000
Debenture (Note 14)	462,210	423,150
Convertible debenture (Note 8)	49,243	-
Total Liabilities	2,076,491	1,821,781
Shareholders' Deficiency		
Capital stock (Note 10)	38,945,423	38,932,423
Share-based payments reserve (Note 11)	415,101	421,101
Equity portion of convertible debt (Note 8)	9,931	-
Deficit	(41,033,088)	(40,782,696)
Total Shareholders' Deficiency	(1,662,633)	(1,429,172)
Total Liabilities and Shareholders' Deficiency	413,858	392,609

GOING CONCERN (Note 1)

COMMITMENTS AND CONTINGENCIES (Notes 6, 14 and 15)

SUBSEQUENT EVENTS (Note 17)

APPROVED ON BEHALF OF THE BOARD:

Signed "Chris Irwin" _____, Director

Signed "James Brady" _____, Director

HORNBY BAY MINERAL EXPLORATION LTD.

Interim Consolidated Statements of Operations and Comprehensive Loss

(Expressed In Canadian Dollars)

(Unaudited)

For periods ended September 30,	Three months ended		Six months ended	
	2014	2013	2014	2013
	\$	\$	\$	\$
Expenditures				
Exploration and evaluation expenses				
Lease rental payments	46,321	46,409	46,321	46,409
Technical consulting	950	14,787	14,620	77,629
Program planning and reports	4,648	16,361	15,462	48,727
Camp and support	50,038	3,035	50,898	8,365
Equipment rental	-	-	992	-
Licences and permits	-	734	2,530	2,129
Total exploration and evaluation expenses	101,957	81,326	130,823	183,259
General and administration expenses				
Share-based payments	-	67,458	13,000	67,458
Professional fees	30,982	30,693	47,968	62,865
Shareholders' information	12,952	20,006	15,225	25,183
Office and general	625	3,629	1,398	6,078
Travel and promotion	1,174	-	1,174	-
Interest and accretion on debenture	21,802	16,275	43,234	32,550
Interest and bank charges	1,566	63	3,571	153
Total general and administration expenses	69,100	138,124	125,569	194,287
Net loss and comprehensive loss for the period	(171,057)	(219,450)	(256,392)	(377,546)
Loss per share – basic and diluted	(0.003)	(0.004)	(0.004)	(0.007)
Weighted average number of common shares outstanding	58,063,814	57,006,412	58,063,814	57,342,782

See accompanying notes to the unaudited interim consolidated financial statements.

HORNBY BAY MINERAL EXPLORATION LTD.

Interim Consolidated Statements of Cash Flows

(Expressed In Canadian Dollars)

(Unaudited)

For the six months ended September 30,	2014	2013
	\$	\$
Cash flows from		
Operating activities		
Net (loss) income for the period	(256,392)	(377,546)
Adjust for: operating items not involving cash		
Share-based payments	13,000	67,458
Accrued interest and accretion on debenture	42,234	32,550
Change in non-cash working capital:		
Amounts receivable	(3,644)	2,346
Prepaid expenses	(15,622)	(8,696)
Accounts payable and accruals	1,649	25,739
Provision for environmental remediation	50,000	(86,278)
	(167,775)	(344,427)
Financing activities		
Proceeds on issuance of flow-through common shares	-	100,000
Proceeds from loan	100,000	-
Proceeds from convertible debenture	55,000	-
Shareholder's loan	14,758	239,909
	169,758	339,909
Increase (decrease) in cash	1,983	(4,518)
Cash at beginning of period	5,893	4,743
Cash at end of period	7,876	225
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	2,250	-
Issuance of shares as cost of loan financing	13,000	-
Taxes paid	-	-

See accompanying notes to the unaudited interim consolidated financial statements.

HORNBY BAY MINERAL EXPLORATION LTD.
Interim Consolidated Statements of Changes in Shareholders' Deficiency
(Expressed In Canadian Dollars)
(Unaudited)

	Number of Shares	Capital Stock \$	Share- based Payments Reserve \$	Equity Portion of Convertible Debenture \$	Deficit \$	Total Shareholder's Deficiency \$
Balance April 1, 2013	56,785,405	38,858,623	330,643	-	(40,199,276)	(1,010,010)
Net loss for the period	-	-	-	-	(377,546)	(377,546)
Issuance of flow-through common shares	1,000,000	100,000	-	-	-	100,000
Premium on flow-through common shares	-	(20,200)	-	-	-	(20,200)
Share-based payments	-	-	67,458	-	-	67,458
Issuance of warrants	-	(23,000)	23,000	-	-	-
Balance September 30, 2013	57,785,405	38,915,423	421,101	-	(40,576,822)	(1,240,298)
Net loss for the period	-	-	-	-	(205,874)	(205,874)
Issuance of shares as cost of loan financing	200,000	17,000	-	-	-	17,000
Share consolidation	(25,161)	-	-	-	-	-
Reconciliation adjustment	(255)	-	-	-	-	-
Balance March 31, 2014	57,959,989	38,932,423	421,101	-	(40,782,696)	(1,429,172)
Net loss for the period	-	-	-	-	(256,392)	(256,392)
Issuance of shares as cost of loan financing	200,000	13,000	-	-	-	13,000
Convertible debenture	-	-	-	9,931	-	9,931
Options expired unexercised	-	-	(6,000)	-	6,000	-
Balance September 30, 2014	58,159,989	38,945,423	415,101	9,931	(41,033,088)	(1,662,633)

See accompanying notes to the unaudited interim consolidated financial statements.

HORNBY BAY MINERAL EXPLORATION LTD.

Notes to the Interim Consolidated Financial Statements

For the three and six months ended September 30, 2014 and 2013

(Expressed in Canadian dollars)

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 on 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 400-365 Bay Street, Toronto, ON M5H 2V1. 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 September 30, 2014, the Company had 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 September 30, 2014, the Company had a working capital deficiency of \$951,179 (March 31, 2014 - \$906,021). 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 unaudited condensed interim consolidated financial statements. Such adjustments could be material.

2. BASIS OF PRESENTATION

(i) Statement of compliance

These unaudited condensed interim consolidated financial statements ("interim consolidated financial statements") of Hornby Bay Mineral Exploration Ltd. and its subsidiary, as at and for the three and six months ended September 30, 2014 and 2013, have been prepared in accordance with IAS 34, Interim Financial Reporting, and do not include all of the information required for full annual consolidated financial statements. Accordingly, certain information and disclosures normally included in annual financial statements prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed.

These interim consolidated financial statements of the Company for the three and six months ended September 30, 2014 and 2013 were approved and authorized for issue by the Board of Directors on November 28, 2014.

(ii) Significant accounting judgements, estimates and assumptions

The preparation of interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of

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Notes to the Interim Consolidated Financial Statements
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assets, liabilities and contingent liabilities at the date of the interim consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and these differences could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

- Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

- Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

- Contingencies

Refer to Note 15.

(iii) Basis of consolidation

The 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 15). 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.

These interim consolidated financial statements were prepared under the historical cost basis, except for certain assets which are measured at fair value as explained in the accounting policies set out in Note 3 to the Audited Annual Financial Statements for the years ended March 31, 2014 and 2013. In addition, these interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

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3. FUTURE ACCOUNTING PRONOUNCEMENTS

Certain pronouncements were issued by the IASB or the International Financial Reporting Interpretations Committee (“IFRIC”) that are mandatory for the Company’s accounting periods beginning on April 1, 2014 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 have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 effective date has yet to be determined. Early adoption is permitted.

IAS 32 – Financial Instruments: Presentation (“IAS 32”) was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted.

4. AMOUNTS RECEIVABLE

	September 30, 2014	March 31, 2014
HST/GST receivable	\$ 7,271	\$ 6,626
Trade receivable	3,000	-
	<u>\$ 10,271</u>	<u>\$ 6,626</u>

5. PREPAID EXPENSES

	September 30, 2014	March 31, 2014
Advances	\$ 367,454	\$ 367,454
Other	28,257	12,636
	<u>\$ 395,711</u>	<u>\$ 380,090</u>

During the year ended March 31, 2011, the Company entered into an agreement with a supplier whereby the Company advanced \$600,000 to be applied against future invoices. As at September 30, 2014, there was a remaining balance of \$367,454 (March 31, 2014 - \$367,454). Other prepaid expenses are for advances to legal counsel and technical consultants to perform work related to the Company’s B.C. property.

6. EXPLORATION AND EVALUATION PROPERTIES

(a) **COPPERMINE RIVER, NUNAVUT**

The Company holds a 100% interest in certain mineral leases and mineral claims in the Coppermine River area of Nunavut. The leases are subject to a 1% net smelter royalty and/or a 1% gross diamond royalty to a maximum of \$10,000,000.

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(b) **UNAD JV, NUNAVUT**

Pursuant to agreements dated December 31, 2006, the Company holds a 50% interest in certain mineral claims in the Coppermine River area of Nunavut.

(c) **ONTARIO GOLD PROPERTIES**

The Company holds a 100% interest in certain gold leases near Timmins, Ontario.

(d) **B.C. PROPERTIES**

The Company holds a 100% interest in certain Crown grants in the Camsell and Similkameen area of British Columbia and a 5% net smelter return royalty interest on certain parts of the Similkameen Copper Mine.

7. PROVISION FOR ENVIRONMENTAL REMEDIATION

During the period ended September 30, 2014, the Company was made aware by Nunavut's Aboriginal Affairs and Northern Development Canada (AANDC) that some upgrades were required to be made to the Company's camp facilities in order to comply with current environmental regulations, such as storage of heating oil tanks and drilling salt containers, cleanup of salt-contaminated soil, and repairs to a small tear in one of the berms. Also, a berm near the drill site must be constructed to protect the several diesel drilling fuel drums. This work must be carried out by May 31, 2015. The camp heating oil system must also be upgraded by July 15, 2015 to comply with the land use permit. In connection with this work, the Company must modify and submit, by March 31, 2015, its Spill Contingency Plan and Abandonment and Restoration Plan to include preventive measures for the heating oil system. As at September 30, 2014, a provision of \$50,000 has been recognized, which is Management's best estimate of the cost of the remediation work as of the period then ended. These costs have been included under camp and support costs on the consolidated statements of loss and comprehensive loss.

8. CONVERTIBLE DEBENTURE

During Q1 2014, the Company issued a \$55,000 principal amount of unsecured convertible promissory note (the "Note"). The Note will bear interest at a rate of 9% per annum, calculated annually and will be due two years from the date of issuance. Each \$0.10 of the principal amount of the Note is convertible into units, each unit consists of one common share ("Common Share") in the capital of the Company and one Common Share purchase warrant ("Warrant"). Each Warrant is exercisable to purchase one Common Share at a price of \$0.20 per Common Share for a period of two years following the issuance of the Note. The securities issued in connection with the loan are subject to a statutory four month hold period from the date of issuance. The proceeds of the Financing will be used for general working capital purposes.

The debenture is classified as a liability, with the exception of the portion relating to the conversion feature, resulting in the carrying value of the debenture being less than face value. The discount is being accreted over the term of the debenture utilizing the effective interest rate method at a 20.0% (2013 – \$Nil) discount rate. An amount of \$2,272 and \$4,174, respectively, was recorded as accretion expense on the statement of loss and comprehensive loss for the three and six months ended September 30, 2014 (September 30, 2013 - \$Nil).

9. LOANS PAYABLE

On March 20, 2014, the Company completed a non-brokered private placement financing of \$100,000 principal amount of unsecured promissory notes ("Notes") from an unrelated party. The Notes are due 18 months from the date of closing and bear interest at a rate of 9% per annum, payable monthly. In addition, each lender has been issued 2,000 common shares of the Company for every \$1,000 principal amount of Notes subscribed for in the financing for an aggregate issuance of 200,000 shares. These shares were valued at \$17,000, which represents the closing market price of the shares on the day that the financing was completed. The securities issued in connection with this financing are subject to a regulatory-imposed

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4-month hold period from the date of closing.

On June 27, 2014, the Company completed a non-brokered private placement financing of \$100,000 principal amount of unsecured promissory notes (the "Notes"). The Notes are due 18 months from the date of closing and bear interest at a rate of 9% per annum, payable monthly. The Notes are senior in rank to all other indebtedness of the Company. In addition, each lender has been issued 2,000 common shares of the Company for every \$1,000 principal amount of Notes subscribed for in the financing for an aggregate issuance of 200,000 shares. These shares were valued at \$13,000, which represents the closing market price of the shares on the day that the financing was completed. The securities issued in connection with this financing are subject to a regulatory-imposed 4-month hold period from the date of closing. The proceeds of the financing will be used for general working capital purposes.

10. CAPITAL STOCK

(i) As at September 30, 2014 and March 31, 2014, the Company's authorized number of common shares was unlimited without par value.

(ii) **Common Shares**

Issued	Number of Shares	Amount
58,159,989 common shares		
Balance at March 31, 2011, March 31, 2012 and March 31, 2013	56,785,405	\$38,858,623
Issuance of flow-through common shares ¹	1,000,000	100,000
Fair value of warrants issued ¹	-	(23,000)
Premium on flow-through shares	-	(20,200)
Issuance of shares as cost of loan financing (Note 8)	200,000	17,000
Cancellation of shares ²	(25,161)	-
Reconciliation adjustment ³	(255)	-
Balance at March 31, 2014	57,959,989	\$38,932,423
Issuance of shares as cost of loan financing (Note 8)	200,000	13,000
Balance at September 30, 2014	58,159,989	\$38,945,423

1 On June 21, 2013, the Company announced that it had closed a non-brokered private placement (the "Offering") consisting of 1,000,000 flow-through units (the "FT Units") of the Company at a price of \$0.10 per FT Unit, for aggregate gross proceeds of \$100,000. Each FT Unit is comprised of one common share in the capital of the Company and one common share purchase warrant. Each warrant is exercisable to purchase one common share at a price of \$0.20 per common share for a period of two years following the closing of the Offering. A fair value in the amount of \$23,000 was allocated to the warrants issued in connection with this private placement (Note 10).

2 Effective November 17, 2013, 25,161 shares of the Corporation were cancelled pursuant to a 100:1 share consolidation and subsequent 1:100 split. The result of the transaction was the elimination of all shareholdings of less than 100 shares. Shareholders whose shares were eliminated pursuant to this process are entitled to receive a cash payment equal to the number of pre-consolidation common shares held by such holder multiplied by the volume weighted average trading price per pre-consolidation common share on the TSX Venture Exchange during the five consecutive trading days prior to November 18, 2013, which is equal to \$0.055 per share. The cost to the Company to compensate those shareholders whose shares were eliminated in the transaction will be less than \$1,399.

3 Adjustment made to reconcile to the transfer agent's record of issued and outstanding common shares of the Company.

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11. SHARE-BASED PAYMENTS RESERVE

	Number of Options	Weighted Average Exercise Price	Grant Date Value of Options	Number of Warrants	Weighted Average Exercise Price	Grant Date Value of Warrants	Total Value
Balance April 1, 2013	4,866,666	\$ 0.16	\$ 330,643	-	\$ -	\$ -	\$330,643
Granted	900,000	0.12	67,458	1,000,000	0.20	23,000	90,458
Balance March 31, 2014	5,766,666	\$ 0.16	\$ 398,101	1,000,000	\$ 0.20	\$ 23,000	\$421,101
Forfeited	(66,666)	(0.30)	(6,000)	-	-	-	(6,000)
Balance September 30, 2014	5,700,000	\$ 0.15	\$ 392,101	1,000,000	\$ 0.20	\$ 23,000	\$415,101

Warrants

Pursuant to the issuance of FT Units on June 21, 2013 (Note 9(ii)¹), the Company issued 1,000,000 common share purchase warrants. Each warrant is exercisable to purchase one common share at a price of \$0.20 per common share for a period of two years following the closing of the Offering. The grant date fair value of the warrants was estimated to be \$23,000, using the Black-Scholes option pricing model assuming a risk-free interest rate of 1.23% on the date of issue, an expected life of two years, an expected volatility of 172% and expected dividends of \$Nil.

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.

On August 23, 2013, 900,000 options to purchase common shares of the Company were granted to directors, officers and consultants of the Company at an exercise price of \$0.12 per share for a period of three years. The shares issuable upon exercise of the options are subject to a four-month hold period from the original date of grant. The grant date fair value of the options was estimated to be \$67,458, using the Black-Scholes option pricing model assuming a risk-free interest rate of 1.34% on the date of issue, an expected life of three years, an expected volatility of 137% and expected dividends of \$Nil.

On June 16, 2014, 66,666 options expired unexercised. Options to purchase common shares outstanding at September 30, 2014 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)
2,500,000	2,500,000	0.20	261,818	11-Aug-15	0.86
200,000	200,000	0.20	18,300	27-Oct-15	1.07
100,000	100,000	0.20	11,000	9-Nov-15	1.11
2,000,000	2,000,000	0.10	33,525	26-Oct-15	1.07
900,000	900,000	0.12	67,458	22-Aug-16	1.90
5,700,000	5,700,000	0.15	398,101		1.11

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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:

Expiry Date	Grant date share price \$	Exercise price \$	Expected volatility %	Expected option life (Years)	Expected dividend yield %	Risk-free interest rate %
11-Aug-15	0.20	0.20	109	5	0	2.0
26-Oct-15	0.03	0.10	129	3	0	1.2
27-Oct-15	0.20	0.20	116	5	0	2.1
9-Nov-15	0.20	0.20	135	5	0	2.2
22-Aug-16	0.10	0.12	137	3	0	1.3

12. 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 evaluation of its properties. The capital of the Company consists of shareholder's loan, debenture, 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 three and six monthss ended September 30, 2014 or 2013. The Company and its subsidiary are not subject to externally imposed capital requirements.

13. FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis 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 annual consolidated financial statements for the years ended March 31, 2014 and 2013.

Financial assets and financial liabilities as at September 30, 2014, and March 31, 2014 were as follows:

September 30, 2014	Loans and receivables	Other liabilities	Total
Cash	\$ 7,876	\$ -	\$ 7,876
Accounts payable and accruals	-	(743,333)	(743,333)
Shareholder's loan	-	(571,705)	(571,705)
Loan payable	-	(200,000)	(200,000)
Convertible debenture	-	(49,243)	(49,243)
Debenture	-	(462,210)	(462,210)
	\$ 7,876	\$ (2,026,491)	\$ (2,018,615)

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March 31, 2014	Loans and receivables	Other liabilities	Total
Cash	\$ 5,893	\$ -	\$ 5,893
Accounts payable and accruals	-	(741,683)	(741,683)
Shareholder's loan	-	(556,947)	(556,947)
Loan payable	-	(100,000)	(100,000)
Debenture	-	(423,150)	(423,150)
	\$ 5,893	\$ (1,821,780)	\$ (1,815,887)

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 as at and during the three and six months ended September 30, 2014 and 2013.

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 September 30, 2014, the Company had cash and an amounts receivable balance of \$15,147 (March 31, 2014 - \$12,519) to settle current liabilities of \$1,365,038 (March 31, 2014 - \$1,298,631). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms, except for the convertible debenture described in Note 8, loan described in Note 9, the debenture described in Note 14, and the provision described in Note 14. The shareholder's loan is described in Note 14.

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 September 30, 2014 and March 31, 2014, 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.

(d) Fair value

Fair value estimates are made at the statement of financial position 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

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cash, amounts receivable, and accounts payable and accruals on the statement of financial position approximate fair value because of the limited term of the instruments. It is not possible to determine if the shareholder's loan or the debenture are at fair value as there is no comparable market value for such loans.

At September 30, 2014 and March 31, 2014 the Company had no financial instruments that are carried at fair value.

14. RELATED PARTY TRANSACTIONS

The amounts due to related parties of the Company at the reporting date, as disclosed in the table below, arose as a result of transactions entered into with the related parties in the ordinary course of business.

Amounts owed to related parties for the period ended:

	<u>September 30, 2014</u>	<u>March 31, 2014</u>
Officers and directors	\$ 104,970	\$ 70,668
Shareholder's loan	\$ 571,705	\$ 556,947
Interest and accretion on debenture	\$ 39,060	\$ 70,796
Debenture	\$ 462,210	\$ 423,150

The amount owing to officers and directors relates to \$81,270 (March 31, 2014 - \$65,018) for legal services provided by a director of the Company prior to and during the three months ended September 30, 2014, and the remaining \$23,250 (March 31, 2014 - \$5,650) is owed to an officer of the Company for management services rendered during the period. During the three months ended September 30, 2014, no professional fees were paid to the officer and director for legal services (September 30, 2013 - \$3,757).

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 which is payable at maturity and matures on November 1, 2017. The Company may extend the maturity date to November 1, 2022 with 30 days notice. 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 shareholder's 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.

The fair value of the debenture was estimated at \$325,500 on the date of issuance using an interest rate of 20%. The debenture will be accreted to its maturity value using the effective interest rate method at an annual interest rate of 20%. Interest and accretion on the debenture of \$21,802 (September 30, 2013 - \$16,275) was recorded during the three months ended September 30, 2014. An amount of \$39,060 was recorded in interest and accretion on the debenture during the six months ended September 30, 2014 (September 30, 2013 - \$32,550).

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Compensation of key management personnel of the Company

The remuneration of directors and other members of key management personnel during the three and six months ended September 30, 2014 and 2013 was as follows:

	Three months ended September 30, 2014	2014	Six months ended September 30, 2013	2013
	\$	\$	\$	\$
Salaries including bonuses	15,000	15,000	30,000	30,000
Share-based payments ¹	-	-	-	-
	15,000	15,000	30,000	30,000

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.

15. 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 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 recorded a provision of \$580,537 during the year ended March 31, 2012, which is included in Accounts payable and accruals on the consolidated statement of financial position. No adjustments have been made to the provision as at and during the three months ended September 30, 2014.

b) Pursuant to the issuance of 1,000,000 flow-through shares on June 21, 2013, the Company will renounce \$100,000 of qualified exploration expenditures with an effective date of December 31, 2013. The Company has spent the full amount of the flow-through funds prior to its deadline of December 31, 2014. A premium liability on flow-through shares in the amount of \$20,200 had been recognized on the consolidated statement of financial position, which represented the premium between the quoted market price and the price paid by investors for the flow-through shares. The related flow-through expenditures were renounced to shareholders in February 2014 and the premium liability was reversed and recognized in the consolidated statement of operations and comprehensive loss during the year ended March 31, 2014.

c) Environmental Contingencies

The Company's exploration and evaluation activities are subject to various federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations. A provision for environmental remediation has been recognized at September 30, 2014 in the amount of \$50,000. The nature of this provision is disclosed in Note 7.

16. 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 September 30, 2014 and March 31, 2014, and for the three and six months ended September 30, 2014 and 2013.

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17. SUBSEQUENT EVENTS

- a) Subsequent to the period ended September 30, 2014, a director and officer of the Company advanced \$6,200 to the Company for working capital purposes. The terms of the shareholder loan are detailed in Note 14.
- b) Subsequent to the period ended September 30, 2014, Hornby entered into a loan agreement with an unrelated third party for an amount of \$48,000. The funds will be used to make lease rental payments on its land leases in Nunavut. The loan is unsecured, due on demand, and non-interest bearing.