



Interim Consolidated Financial Statements
Three and Six Months Ended September 30, 2017 and 2016

Notice of No Auditor Review of Interim Financial Statements

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 condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by CPA Canada for a review of interim financial statements by an entity's auditor.

November 28, 2017

"James Brady"
Chief Executive Officer

"Arvin Ramos"
Chief Financial Officer

HORNBY BAY MINERAL EXPLORATION LTD.

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

As at	September 30, 2017 \$	March 31, 2017 \$
Assets	(Unaudited)	
Current		
Cash	25,266	7,450
Amounts receivable (Note 4)	4,346	3,535
Prepaid expenses (Note 5)	-	5,000
Total current assets	29,612	15,985
Prepaid expenses (Note 5)	289,953	314,954
Total Assets	319,565	330,939
Liabilities and Shareholders' Deficiency		
Current Liabilities		
Accounts payable and accruals (Notes 13, 14 and 15)	928,448	879,241
Shareholder's loan (Note 14)	656,714	576,381
Loans payable (Note 9)	369,744	369,744
Provision for environmental remediation (Note 7)	50,000	50,000
Total Current Liabilities	2,004,906	1,875,366
Debenture (Note 14)	798,699	731,203
Convertible debenture (Note 8)	182,900	182,900
Total Liabilities	2,986,505	2,789,469
Shareholders' Deficiency		
Capital stock (Note 10)	38,968,423	38,968,423
Share-based payments reserve (Note 11)	67,962	67,962
Equity portion of convertible debt (Note 8)	27,986	27,986
Deficit	(41,731,311)	(41,522,901)
Total Shareholders' Deficiency	(2,666,940)	(2,458,530)
Total Liabilities and Shareholders' Deficiency	319,565	330,939

GOING CONCERN (Note 1)

COMMITMENTS AND CONTINGENCIES (Notes 6, 14 and 15)

SUBSEQUENT EVENTS (Note 20)

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 the periods ended September 30,	Three months ended,		Six months ended,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Revenue				
Royalty income	-	105,121	-	251,545
Sale of assets (Note 17)	-	-	-	3,000
	-	105,121	-	254,545
Expenditures				
Exploration and evaluation expenses				
Lease rental payments	15,599	15,504	17,712	15,504
Technical consulting	22,775	(2,550)	55,096	1,575
Program planning and reports	298	1,338	463	1,318
Camp and support	-	-	-	1,875
Licenses and permits	-	-	-	-
Recording fees and taxes	-	737	-	2,806
Total exploration and evaluation expenses	38,672	15,029	73,271	23,078
General and administrative expenses				
Professional fees	17,117	37,306	33,492	53,751
Shareholders' information	5,196	12,337	6,495	14,567
Office and general	918	3,360	1,325	4,513
Interest and accretion on debenture	33,748	33,081	67,496	66,522
Interest and bank charges	13,100	12,723	26,331	25,689
Total general and administration expenses	70,079	98,807	165,042	165,042
Total expenditures	(108,751)	(113,836)	(208,410)	(188,120)
Net (loss) income and comprehensive (loss) income for the period	(108,751)	(8,715)	(208,410)	66,425
Earnings (loss) per share – basic	(0.002)	(0.000)	(0.004)	0.001
Earnings (loss) per share – diluted	(0.002)	(0.000)	(0.004)	0.001
Weighted average number of common shares outstanding – basic and diluted	58,159,989	58,159,989	58,159,989	58,159,989
Weighted average number of common shares outstanding - diluted	58,159,989	58,159,989	58,159,989	61,559,989

See accompanying notes to the consolidated financial statements.

HORNBY BAY MINERAL EXPLORATION LTD.

Interim Consolidated Statements of Cash Flows

(Expressed In Canadian Dollars)

(Unaudited)

For the periods ended September 30,	2017 \$	2016 \$
Cash flows from		
Operating activities		
Net income (loss) for the period	(208,410)	66,425
Adjust for: operating items not involving cash		
Accrued interest and accretion on debenture	67,496	66,522
Change in non-cash working capital:		
Amounts receivable	(810)	(78,071)
Prepaid expenses	30,000	-
Accounts payable and accruals	49,207	(32,683)
	(62,517)	22,194
Financing activities		
Proceeds from loan	-	45,500
Shareholder's loan	80,333	(53,826)
	80,333	(8,326)
Increase (decrease) in cash	17,816	13,868
Cash at beginning of period	7,450	927
Cash at end of period	25,266	14,795
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	-	-
Taxes paid	-	-
Issuance of shares for advisory services	-	-

See accompanying notes to the consolidated financial statements.

HORNBY BAY MINERAL EXPLORATION LTD.

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, 2016	58,159,989	38,968,423	135,421	27,986	(41,443,242)	(2,311,412)
Net income for the period	-	-	-	-	66,425	66,425
Options forfeited	-	-	(67,459)	-	67,459	-
Balance September 30, 2016	58,159,989	38,968,423	67,962	27,986	(41,309,358)	(2,244,987)
Net loss for the period	-	-	-	-	(213,543)	(213,543)
Balance March 31, 2017	58,159,989	38,968,423	67,962	27,986	(41,522,901)	(2,458,530)
Net loss for the period	-	-	-	-	(208,410)	(208,410)
Balance September 30, 2017	58,159,989	38,968,423	67,962	27,986	(41,731,311)	(2,666,940)

HORNBY BAY MINERAL EXPLORATION LTD.

Notes to the Consolidated Financial Statements

For the periods ended September 30, 2017 and 2016

(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 and trade under the symbol, "HBE".

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, 2017, 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, 2017, the Company had a working capital deficiency of \$1,975,294 (March 31, 2017 - \$1,859,381). 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 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 periods ended September 30, 2017 and 2016, 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 periods ended September 30, 2017 and 2016 were approved and authorized for issue by the Board of Directors on November 28, 2017.

(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 assets,

HORNBY BAY MINERAL EXPLORATION LTD.
Notes to the Consolidated Financial Statements
For the periods ended September 30, 2017 and 2016
(Expressed in Canadian dollars)

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 16). 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, 2017 and 2016. In addition, these interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

HORNBY BAY MINERAL EXPLORATION LTD.
Notes to the Consolidated Financial Statements
For the periods ended September 30, 2017 and 2016
(Expressed in Canadian dollars)

3. ACCOUNTING PRONOUNCEMENTS

(i) Future Accounting Pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for the Company's accounting periods beginning on April 1, 2018 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. The amendments to IFRS 9 are effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

4. AMOUNTS RECEIVABLE

	September 30, 2017	March 31, 2017
HST/GST receivable	\$ 4,346	\$ 3,535

Amounts in Trade receivable relate to net smelter return (“NSR”) royalties owing on the Company's 5% NSR royalty on the Copper Mountain Mine in the Princeton, BC area (Note 18) as at the period end date.

5. PREPAID EXPENSES

	September 30, 2017	March 31, 2017
Total current prepaid expenses	\$ -	\$ 2,000
Advances – non-current	289,953	314,954
Total non-current prepaid expenses	\$ 289,953	\$ 314,954

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 for demobilization of drilling equipment at the Company's Nunavut property site. As at September 30, 2017, there was a remaining balance of \$289,953 (March 31, 2017 - \$314,954).

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. During the prior year, Hornby's Management decided to drop 18 leases that formed part of its Nunavut property. This was done to save the Company money as the 18 leases are considered to be outside of the Company's strategic holdings within the total land package.

HORNBY BAY MINERAL EXPLORATION LTD.
Notes to the Consolidated Financial Statements
For the periods ended September 30, 2017 and 2016
(Expressed in Canadian dollars)

(b) **UNAD JV, NUNAVUT**

Hornby holds 100% of 5 mineral claims in the Coppermine River area of Nunavut.

(c) **ONTARIO GOLD PROPERTIES**

The company owns a 100% interest in Mining Lease 107313 comprising 20 claims within or on the Destor Porcupine/Pipestone Fault within the Porcupine Ontario Mining District near Timmins, Ontario, running NE towards Quebec and SW towards Chapleau.

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

The Company holds a 100% interest in four Crown grants in the area of the Independence Cu-Mo deposit in British Columbia, and a 5% NSR royalty interest on certain parts of the Copper Mountain Mining Corporation operating mine.

7. PROVISION FOR CAMP DECOMMISSIONING AND ENVIRONMENTAL REMEDIATION

During the year ended March 31, 2015, the Company was made aware by Nunavut's Aboriginal Affairs and Northern Development Canada (AANDC) that some upgrades were needed to be made to the Company's permanent camp facilities in order to comply with current environmental regulations, such as storage of fuel tanks and salt containers, soil cleanup, and repairs to one of the berms. Certain other work needed to be done to comply with the land use permit. Hornby Bay's Management considered this work and the cost of completion and decided instead to dismantle its permanent Nunavut camp facilities. Given that the camp is used infrequently and is expensive to maintain, Hornby Bay has opted to dismantle the existing, permanent camp and will use temporary facilities in future if and when it may carry out field activities from time to time. The Company initially recognized a provision of \$50,000 for the cost of environmental remediation work, which was Management's best estimate of the cost to complete the work. The amount was later reallocated as a provision for camp decommissioning as at March 31, 2015. During the three months ended June 30, 2015, much of the work to dismantle the camp was completed and the provision was reversed. To allow for any residual environmental obligations as a result of the camp decommissioning work, the Company has recognized a provision in the amount of \$50,000, which is included on the Statement of financial position as at September 30, 2017.

8. CONVERTIBLE DEBENTURES

During 2015, the Company issued a \$55,000 principal amount of unsecured convertible promissory note (the "Note"). The Note bears interest at a rate of 9% per annum, calculated annually and matures on June 4, 2016. 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 were 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 equity portion of this debt totals \$9,931. The discount is being accreted over the term of the debenture utilizing the effective interest rate method at a 20.0% (2016 – 20.0%) discount rate. The debenture is fully accreted and, as such, no amount was recorded as accretion expense on the consolidated statements of loss and comprehensive loss for the three months ended September 30, 2017 (September 30, 2016 - \$415).

On January 17, 2015, Hornby entered into a secured, convertible promissory note (the "Note") with the same party (the "Lender") for an amount of \$100,000 (the "Principal Amount"). The funds were used to make lease rental payments on its land leases in Nunavut, and cover other working capital needs.

HORNBY BAY MINERAL EXPLORATION LTD.
Notes to the Consolidated Financial Statements
For the periods ended September 30, 2017 and 2016
(Expressed in Canadian dollars)

The Note bears interest at a rate of 9% per annum, calculated annually and originally matured on January 12, 2017 (the "Maturity Date"). The Lender may at any time, at its sole option, convert, in whole or in part, the Principal Amount into units (the "Units") of the Company at a conversion price of \$0.10 per Unit. Each Unit consists of one common share ("Common Share") in the capital of the Company and one Common Share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one Common Share of the Company at an exercise price of \$0.20 on or before the Maturity Date. The securities issued pursuant to the financing will be subject to a statutory four-month hold period.

The indebtedness was secured by a security interest on the Company's right, title, and interest in, and to, its East Clavos gold property consisting of mining lease 107313, comprising 20 claims on 322.837 hectares about 45 km east northeast of Timmins, and all proceeds thereof and therefrom. 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 equity portion of this convertible debt totals \$18,055. The discount will be accreted over the term of the debenture utilizing the effective interest rate method at a 20.0% (2016 – 20.0%) discount rate. The debenture is fully accreted and, as such, no amount was recorded as accretion expense, however, interest of \$4,500 was accrued on the consolidated statements of loss and comprehensive loss for the period ended September 30, 2017 (September 30, 2016 - \$9,860). During the period ended September 30, 2017, the debt has been assigned to the Company's CEO who provided compensation to the lender. In connection with the assignment of this debt to Hornby's CEO, the security interest on the Company's East Clavos gold property has been discharged and the property is now unencumbered. The maturity dates of the loans and debentures have been extended.

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 were due September 20, 2015 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 Company has paid interest of \$Nil and accrued interest of \$2,250 and \$4,500, respectively, on the consolidated statements of loss and comprehensive loss during the three and six months ended September 30, 2017 (September 30, 2016 - \$2,250 and \$4,500).

During the year ended March 31, 2016, the Company re-negotiated the term of the Notes with the lenders, who agreed to a six-month extension of the expiry date of the Notes to March 20, 2016. In June 2016, the Company negotiated another extension in terms. The Notes are now due on January 31, 2017. In connection with the extensions, Hornby must pay an additional extension fee of 12%, or \$1,000 monthly.

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 December 27, 2015 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 proceeds of the financing will be used for general working capital purposes. The Company has paid interest of \$Nil and accrued interest of \$2,250 and \$4,500, respectively, on the consolidated statements of loss and comprehensive loss during the three and six months ended September 30, 2017 (September 30, 2016 - \$2,250 and \$4,500).

During the year ended March 31, 2016, the Company re-negotiated the term of the Notes with the lenders, who agreed to a six-month extension of the expiry date of the Notes to June 27, 2016. The Company has negotiated a further extension to December 15, 2017. In connection with the extension, Hornby must pay an additional extension fee of 12%, or \$1,000 monthly.

HORNBY BAY MINERAL EXPLORATION LTD.
Notes to the Consolidated Financial Statements
For the periods ended September 30, 2017 and 2016
(Expressed in Canadian dollars)

The Company is party to a loan agreement entered into in the prior year for an aggregate of \$168,500 with an unrelated third party (the "Lender"). Proceeds of the loan were used to pay for lease rental payments of its Nunavut leases, and for legal counsel for professional services (Note 19). The loan is unsecured and bears interest at 9% per annum. The Company has accrued interest of \$10,058 on the consolidated statements of loss and comprehensive loss for the period ended September 30, 2017 (September 30, 2016 - \$9,433). During the period ended September 30, 2017, the loan has been assigned to the Company's CEO who provided compensation to the lender.

10. CAPITAL STOCK

- (i) As at September 30, 2017 and March 31, 2017, the Company's authorized number of common shares was unlimited without par value.
- (ii) **Common Shares**

Issued	Number	Amount
58,159,989 common shares	of Shares	
Balance at March 31, 2017 and September 30, 2017	58,159,989	\$38,968,423

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, 2016	4,300,000	\$ 0.10	\$ 135,421	-	\$ -	\$ -	\$135,421
Forfeited	(900,000)	(0.12)	(67,459)	-	-	-	(67,459)
Balance March 31, 2017 and September 30, 2017	3,400,000	\$ 0.10	\$ 67,962	-	\$ -	\$ -	\$ 67,962

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 outstanding to purchase common shares at September 30, 2017 have a weighted average exercise price of \$0.10. Individual options grants 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)
3,400,000	3,400,000	0.10	67,962	26-Nov-18	1.16

HORNBY BAY MINERAL EXPLORATION LTD.
Notes to the Consolidated Financial Statements
For the periods ended September 30, 2017 and 2016
(Expressed in Canadian dollars)

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 %
26-Nov-18	0.02	0.10	122	3	0	0.7

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.

The 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.

The Company and its subsidiary are not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months. As of September 30, 2017, the Company may not be compliant with the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV.

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 September 30, 2017 or 2016.

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.

Financial assets and financial liabilities as at September 30, 2016 and March 31, 2016 were as follows:

September 30, 2016	Loans and receivables	Other liabilities	Total
Cash	\$ 25,266	\$ -	\$ 25,266
Accounts payable and accruals	-	(928,448)	(928,448)
Shareholder's loan	-	(656,714)	(656,714)
Loan payable	-	(369,744)	(369,744)
Convertible debenture	-	(182,900)	(182,900)
Debenture	-	(798,699)	(798,699)
	\$ 25,266	\$ (2,936,505)	\$ (2,911,239)

HORNBY BAY MINERAL EXPLORATION LTD.
Notes to the Consolidated Financial Statements
For the periods ended September 30, 2017 and 2016
(Expressed in Canadian dollars)

March 31, 2017	Loans and receivables	Other liabilities	Total
Cash	\$ 3,535	\$ -	\$ 3,535
Accounts payable and accruals	-	(879,241)	(879,241)
Shareholder's loan	-	(576,381)	(576,381)
Loan payable	-	(369,744)	(369,744)
Convertible debenture	-	(182,000)	(182,000)
Debenture	-	(731,203)	(731,203)
	\$ 3,535	\$ (2,739,469)	\$ (2,735,934)

Financial Instrument Risk Factors

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 Consolidated Financial Statements for the Years Ended March 31, 2017 and 2016.

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 periods ended September 30, 2017 and 2016.

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, 2017, the Company had cash and an amounts receivable balance of \$29,612 (March 31, 2017 - \$10,985) to settle current liabilities of \$2,004,906 (March 31, 2017 - \$1,875,366). As such, liquidity risk for the Company should be considered high. 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, the loans described in Note 9, the debenture and shareholder's loan described in Note 14, and the provision described in Note 15. Interest payable on the convertible debenture, debenture and loans payable will further impact the Company's liquidity risk and working capital.

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, 2017 and March 31, 2017, no amounts were held in short-term deposit certificates. Interest rates on the debentures and loans are fixed and therefore interest rate risk is considered by Management to be low.

(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.

HORNBY BAY MINERAL EXPLORATION LTD.
Notes to the Consolidated Financial Statements
For the periods ended September 30, 2017 and 2016
(Expressed in Canadian dollars)

(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 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, 2017 and March 31, 2017 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 periods ended:

	<u>September 30, 2017</u>	<u>March 31, 2017</u>
Officers and directors	\$ 254,389	\$ 231,989
Shareholder's loan	\$ 656,714	\$ 576,381
Interest and accretion on debenture	\$ 67,496	\$ 121,867
Debenture	\$ 798,699	\$ 731,203

Included in the amount owing to officers and directors is \$117,859 (March 31, 2017 - \$112,139) for legal services provided by a director of the Company prior to and during the period ended September 30, 2017. During the six months then ended, \$Nil was paid to the officer and director for legal services (September 30, 2016 - \$9,606). The remaining balance owing to officers and directors of \$136,800 (March 31, 2017 - \$119,850) is owed to an officer of the Company for management services rendered during the period; \$Nil was paid to this officer during the six months ended September 30, 2017 (September 30, 2016 - \$15,750).

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 Copper Mountain 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 \$67,496 was recorded on the Statement of Loss and Comprehensive Loss during the six months ended September 30, 2017 (September 30, 2016 - \$56,246).

HORNBY BAY MINERAL EXPLORATION LTD.
Notes to the Consolidated Financial Statements
For the periods ended September 30, 2017 and 2016
(Expressed in Canadian dollars)

Compensation of key management personnel of the Company

The remuneration of directors and other members of key management personnel during the periods ended September 30, 2017 and 2016 was as follows:

For the periods ended September 30,	Three months ended,		Six months ended,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Salaries including bonuses	10,000	15,000	25,000	30,000
Share-based payments ¹	-	-	-	-
	10,000	15,000	25,000	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. ¹No share-based payments were paid to key management personnel during the period ended September 30, 2017.

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 period ended September 30, 2017.

b) 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. Hornby has made, and expects to make in the future, expenditures to comply with such laws and regulations. A provision for environmental remediation in the amount of \$50,000 is included on the Statement of Financial Position as at September 30, 2017. 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 and for the periods ended September 30, 2017 and 2016.

17. SALE OF ASSETS

In connection with the decommissioning of Hornby's camp facilities in Nunavut (See Note 7), the Company realized income of \$3,000 during the period ended September 30, 2016 on the sale of some idle assets that were located on-site and no longer of use to the Company. No such sales were realized during the period ended September 30, 2017.

HORNBY BAY MINERAL EXPLORATION LTD.
Notes to the Consolidated Financial Statements
For the periods ended September 30, 2017 and 2016
(Expressed in Canadian dollars)

18. ROYALTY INCOME

During the six months ended September 30, 2016, the Company received US\$113,288 (CAD\$146,424), and accrued US\$87,293 (CAD\$105,121) related to period July 1 to September 30, 2016, on its 5% NSR royalty holding connected with Copper Mountain Mining Corporation's ("Copper Mountain") operating mine in the Princeton, BC area (Note 4). This royalty payment was in relation to mining production during the period January to June 2016. No royalties have been received during the period ended September 30, 2017.

19. LEGAL PROCEEDINGS

Hornby filed a claim in the Supreme Court of British Columbia against Copper Mountain related to Copper Mountain's failure to pay Hornby's five percent (5%) net smelter returns royalty (the "NSR") covering part of the Copper Mountain Mine. The claim requests special damages for non-payment of due royalties and general damages for breach of contract. The Company has received some payments without adequate disclosure.

20. SUBSEQUENT EVENTS

Subsequent to September 30, 2017, the Company received \$25,000 refund from the prepaid amount for the demobilization of drilling equipment at the Company's Nunavut property site (see Note 5).