



JAMES BAY RESOURCES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

JAMES BAY RESOURCES LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of James Bay Resources Limited

We have audited the accompanying consolidated financial statements of James Bay Resources Limited and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of loss and comprehensive loss, consolidated statements of cash flows and consolidated statements of changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of James Bay Resources Limited and its subsidiaries as at December 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company had continuing losses during the year ended December 31, 2014 and a cumulative deficit and working capital deficiency as at December 31, 2014. These conditions along with other matters set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP



Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 28, 2015

JAMES BAY RESOURCES LIMITED

Consolidated Statements of Financial Position

Expressed in Canadian dollars

As at December 31,

	2014 \$	2013 \$
ASSETS		
Current assets		
Cash	132,915	36,571
Restricted cash (Note 8 and 10)	8,333	1,076,728
Prepaid expenses (Note 17)	106,317	131,120
Amounts receivable	25,390	57,182
Deferred financing fees (Note 10)	-	194,816
Total current assets	272,955	1,496,417
Long-term prepaid (Note 8)	104,050	104,050
Exploration and evaluation assets (Note 8)	4,086,924	959,817
Equipment (Note 7)	104,494	142,647
Total assets	4,568,423	2,702,931
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Notes 15 and 16)	565,656	859,253
Subscription payable (Note 10)	-	1,170,004
Due to shareholders (Notes 9 and 19)	317,469	644,190
Total Liabilities	883,125	2,673,447
EQUITY		
Common shares (Note 10)	14,801,211	9,261,904
Share-based payments reserve (Note 11)	302,000	287,833
Warrant reserve (Note 12)	2,214,569	-
Shares to be issued (Note 20)	2,341,500	-
Warrants to be issued (Note 20)	1,125,600	-
Deficit	(17,099,582)	(9,442,176)
Total common shareholders' equity	3,685,298	107,561
Non-controlling interest (Note 13)	-	(78,077)
Total equity	3,685,298	29,484
Total equity and liabilities	4,568,423	2,702,931

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

COMMITMENTS AND CONTINGENCIES (Notes 8 and 17)

SUBSEQUENT EVENTS (Note 20)

APPROVED ON BEHALF OF THE BOARD:

Signed "STEPHEN SHEFSKY", Director

Signed "MARK BRENNAN", Director

See accompanying notes to the consolidated financial statements

JAMES BAY RESOURCES LIMITED
Consolidated Statements of Loss and Comprehensive Loss
Expressed in Canadian dollars
For the years ended December 31,

	2014	2013
	\$	\$
Expenses		
Management salaries and benefits	376,045	217,397
Professional fees (Note 16)	355,652	396,361
Office and general (Note 16)	302,842	351,422
Due diligence	41,067	166,464
Exploration costs – James Bay Lowlands (Note 8)	42,468	198,489
Evaluation costs (Note 8)	5,102,863	637,217
Transfer agent and listing fees	33,017	23,281
Business development (recovery)	(9,932)	52,512
Share-based payments	1,426	-
Amortization	6,874	6,169
Loss before the undernoted	(6,252,322)	(2,049,312)
Foreign exchange (loss) gain	(62,783)	13,359
Interest (expense)	(24,078)	(12,215)
Break fees (Note 8)	(27,991,600)	-
Impairment on equity investment (Note 13)	(2,260,880)	-
Gain on deconsolidation (Note 13)	28,823,548	-
Gain on settlement of debt for equity (Notes 10 and 12)	110,709	-
Loss before income taxes	(7,657,406)	(2,048,168)
Deferred income tax recovery (Note 18)	-	161,300
Net loss and comprehensive loss for the year	(7,657,406)	(1,886,868)
Loss for the year attributable to:		
Non-controlling interest (Note 13)	(2,208,438)	(113,405)
Common shareholders	(5,448,968)	(1,773,463)
Net loss and comprehensive loss for the year	(7,657,406)	(1,886,868)
Loss per share attributable common shareholders		
Basic and diluted	(0.24)	(0.06)
Weighted average number of shares outstanding – basic and diluted	31,900,948	28,040,350

See accompanying notes to the consolidated financial statements

JAMES BAY RESOURCES LIMITED

Consolidated Statements of Cash Flows

For the years ended December 31,

Expressed in Canadian dollars

	2014	2013
	\$	\$
Cash used in operating activities:		
Net loss for the year	(7,657,406)	(1,886,868)
Add (deduct) items not affecting cash:		
Amortization	39,994	19,724
Share-based payments	11,405	(6,375)
Shares and warrants issued and to be issued for services	2,389,728	-
Gain on settlement of debt for equity	(110,709)	-
Accrued interest	1,364	14,190
Non-cash loss on deconsolidation	78,077	-
Deferred income tax recovery	-	(161,300)
Net change in non-cash working capital	942,102	(272,570)
Net cash (used in) operating activities	<u>(4,305,445)</u>	<u>(2,293,199)</u>
Cash used in by investing activities:		
Interest in exploration and evaluation assets	(394,544)	(554,455)
Acquisition of equipment	(1,841)	(52,845)
Net cash (used in) investing activities	<u>(396,385)</u>	<u>(607,300)</u>
Cash provided by financing activities:		
Proceeds from letter of credit (Note 8)	33,165,000	-
Repayment from letter of credit (Note 8)	(33,165,000)	-
Advances from shareholders	1,553,893	754,000
Repayments to shareholders	(1,881,978)	(124,000)
Receipts on private placements	5,561,090	1,170,004
Share issue costs	(434,831)	-
Deferred financing fees	-	(123,786)
Net cash provided by financing activities	<u>4,798,174</u>	<u>1,676,218</u>
Net cash flow during the year	96,344	(1,224,281)
Effect of change in foreign exchange	-	(455)
Cash, beginning of year	36,571	1,261,307
Cash, end of year	<u>132,915</u>	<u>36,571</u>

SUPPLEMENTAL INFORMATION (Note 19)

JAMES BAY RESOURCES LIMITED
Consolidated Statements of Changes in Equity
Expressed in Canadian dollars

	Common shares \$	Share-based payments reserve \$	Warrant reserve \$	Deficit \$	Non-controlling interest \$	Common shares and warrants to be issued \$	Total equity \$
Balance, December 31, 2013	9,261,904	287,833	-	(9,442,176)	(78,077)	-	29,484
Private placements	6,731,094	-	-	-	-	-	6,731,094
Common shares to be issued	-	-	-	-	-	2,341,500	2,341,500
Finder warrants to be issued	(753,000)	-	(372,600)	-	-	1,125,600	-
Share issue costs	(421,224)	-	(208,424)	-	-	-	(629,648)
Issuance of warrants as part of private placement	(2,228,260)	-	2,228,260	-	-	-	-
Issuance of finder warrants	(84,275)	-	84,275	-	-	-	-
Issuance of units in connection with OML 90	2,220,000	-	442,987	-	-	-	2,662,987
Issuance of units in connection with debt for equity	74,972	-	16,945	-	-	-	91,917
Issuance of warrants in connection with exploration costs	-	-	23,126	-	-	-	23,126
Share-based payments	-	14,167	-	-	-	-	14,167
Loss of control of CINRL	-	-	-	(2,208,438)	78,077	-	(2,130,361)
Loss for the year	-	-	-	(5,448,968)	-	-	(5,448,968)
Balance, December 31, 2014	14,801,211	302,000	2,214,569	(17,099,582)	-	3,467,100	3,685,298

	Common shares \$	Share-based payments reserve \$	Warrant reserve \$	Deficit \$	Non-controlling interest \$	Common shares and warrants to be issued \$	Total equity \$
Balance, December 31, 2012	9,261,904	1,422,550	1,217,372	(9,876,979)	-	-	2,024,847
Share-based payments	-	17,477	-	-	-	-	17,477
Expiry of stock options	-	(1,152,194)	-	1,152,194	-	-	-
Expiry of warrants	-	-	(1,217,372)	1,217,372	-	-	-
Deferred income tax recovery	-	-	-	(161,300)	-	-	(161,300)
Non-controlling interest	-	-	-	-	35,328	-	35,328
Loss for the year	-	-	-	(1,773,463)	(113,405)	-	(1,886,868)
Balance, December 31, 2013	9,261,904	287,833	-	(9,442,176)	(78,077)	-	29,484

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
December 31, 2014 and 2013
Expressed in Canadian dollars

1. NATURE OF OPERATIONS AND GOING CONCERN

James Bay Resources Limited (the "Company" or "James Bay") was incorporated on November 5, 2007. The Company is currently involved in the exploration and evaluation of oil and gas interests in Nigeria and has interests in resource properties in the Porcupine mining district of Ontario, Canada (the "Claims"). The Company has not determined whether its properties contain economically recoverable reserves. The Company has not yet discovered any deposits, nor has it earned any revenues.

The business of exploring for minerals and oil and gas involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable operations. The Company's continued existence is dependent upon the preservation of its interests in its underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, the ability of the Company to secure an interest in new properties or the ability of the Company to complete additional financings, 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 unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions, and political uncertainty.

As at December 31, 2014, the Company had working capital deficiency of \$610,170 (2013 - \$1,177,030), had incurred losses since inception, and had an accumulated deficit of \$17,099,582 (2013 - \$9,442,176) which has been funded primarily by the issuance of equity. The ability of the Company to continue as a going concern is dependent upon its ability to raise sufficient funds to meet its obligations as they become due. While the Company has been successful in securing financing in the past, there is no assurance that it will be able to do so in the future. Because of continuing operating losses, the Company's continuance as a going concern is dependent on its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operation.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern. Accordingly, they 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 business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material. The material uncertainties noted above together cast significant doubt upon the Company's ability to continue as a going concern.

On October 29, 2014, the Company voluntarily delisted its shares from the TSX Venture Exchange ("TSXV"). The Company's shares are listed on the Canadian Securities Exchange ("CSE") effective October 30, 2014. Upon delisting of the Company's shares from the TSXV, the Company did not complete its previously announced Change of Business ("COB") to oil and gas issuer as it is a specific procedure under TSXV policies and rules. The Company is listed on the CSE as an oil and gas issuer.

The head office, principal address and records office of the Company is located at 20 Victoria Street, Suite 800, Toronto, Ontario, Canada, M5C 2N8. These consolidated financial statements of the Company for the year ended December 31, 2014 were approved and authorized for issue by the board of directors on April 28, 2015.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
December 31, 2014 and 2013
Expressed in Canadian dollars

2. BASIS OF PREPARATION

These consolidated financial statements of the Company and its subsidiaries were prepared in accordance with International Financial Reporting Standards (“IFRS”) on a going concern basis, under the historical cost basis. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information. The policies set out below were consistently applied to all the periods presented unless otherwise noted below.

3. RECENT ACCOUNTING PRONOUNCEMENTS AND CHANGES IN ACCOUNTING POLICIES

Recent accounting pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2015 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following has not yet been adopted and is being evaluated to determine its impact on the Company.

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 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 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted though management does not anticipate early adoption of the standard.

IFRS 11 – Joint Arrangements (“IFRS 11”) was amended in May 2014 adding new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. This amendment becomes effective for annual periods beginning on or after January 1, 2016 and management does not anticipate early adoption of the standard.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption permitted.

IAS 24 - Related Party Disclosures (“IAS 24”) was amended by the IASB on December 12, 2013. The amendments clarify the identification and disclosure requirements for related party transactions when key management personnel services are provided by a management entity. The amendments are effective for annual periods beginning on or after July 1, 2014.

Changes in Accounting Policies

The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

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 adoption of this standard did not result in any changes to the Company’s disclosure of its financial instruments.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
December 31, 2014 and 2013
Expressed in Canadian dollars

3. RECENT ACCOUNTING PRONOUNCEMENTS AND CHANGES IN ACCOUNTING POLICIES
(continued)

IAS 36 – Impairments of Assets (“IAS 36”) was amended by the IASB in May 2013 to clarify the requirements to disclose the recoverable amounts of impaired assets and require additional disclosures about the measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The adoption of this standard did not result in any changes to the Company’s disclosure of its assets.

4. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries.

James Bay Energy Nigeria LLC, USA	100%
James Bay Energy Nigeria Limited, Nigeria	100%
D&H Energy Nigeria Limited, Nigeria	100%
Ondobit Limited, Nigeria	100%
Crestar Integrated Natural Resources Limited, Nigeria	45%*

* During the year ended December 31, 2014, control of Crestar Integrated Natural Resources Limited was lost and as such the Company ceased consolidation of these accounts from the date of the loss of control (Note 13).

Subsidiaries

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

Non-controlling interest represents equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interest is presented as a component of equity. The loss and each component of other comprehensive loss are attributed to non-controlling interests where applicable. See Note 13.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these 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 consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated 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. Such estimates and assumptions affect the carrying value of assets, the determination of impairment charges of non-current assets, impact decisions as to when exploration and evaluation costs should be capitalized or expensed, and affect estimates for asset retirement obligations and reclamation costs. Other significant estimates made by the Company include factors affecting valuations of share-based payments, warrants and income tax accounts. The Company regularly reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

(a) Capitalization of exploration and evaluation assets

Management has determined that exploration and evaluation costs incurred may have future economic benefits. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, proximity of other operating facilities and discoveries, operating management expertise and existing permits. See Note 8 for details of exploration and evaluation assets.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
December 31, 2014 and 2013
Expressed in Canadian dollars

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(b) Impairment of exploration and evaluation assets

While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates may include, but are not limited to estimates of the discounted future cash flows expected to be derived from the Company's properties, costs to sell the properties and the appropriate discount rate.

Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, and/or adverse current economics can result in an impairment of the carrying amounts of the Company's exploration and evaluation assets.

(c) Income taxes and recoverability of potential deferred tax assets

The Company is subject to income and other taxes in various jurisdictions. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax filings are subject to audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

(d) Share-based payments and warrants

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 behaviours and corporate performance. Such judgments and assumptions are inherently uncertain. Warrants are valued in a similar way. Changes in these assumptions affect the fair value estimates.

(e) Consolidation of subsidiaries

The Company consolidates subsidiaries over which it has control. Management assesses control in accordance with IFRS 10 Consolidated Financial Statements and has determined it controls each of its subsidiaries. Judgment was applied when considering whether the Company controls Crestar Integrated Natural Resources Limited as the Company's ownership percentage is less than 50%. See Note 13 for details about this investment.

(f) Valuation of investment in associate

The valuation of investment in associate is assessed when events occur that indicate impairment. These indicators include a significant technical difficulty regarding the investee operations, significant adverse changes in the market, economic, or legal environment in which the investee operates, changes in the investee's financial condition, significant financial difficulty of the investee and the investee's liquidity.

(g) Contingencies

Refer to Note 17.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
December 31, 2014 and 2013
Expressed in Canadian dollars

6. SIGNIFICANT ACCOUNTING POLICIES

(a) Presentation and functional currencies

The presentation currency of the Company and the functional currency of the Company and each of its subsidiaries is the Canadian dollar.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Gains and losses on translation are charged to profit or loss.

(b) 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. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in the share-based payments note.

The fair value is determined at the grant date of the equity-settled share-based payments and is recognized on a graded-vesting basis over the period during which the employee becomes unconditionally entitled to the 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. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve. Upon exercise of the stock options, the consideration paid, together with the amount previously recognized in share based payments reserve, is recorded as an increase in common shares. Unexercised stock options and warrants are transferred to deficit.

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 the counterparty renders the service.

(c) Income Tax

Current tax

Income tax expense 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 comprehensive loss 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.

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. Such 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.

JAMES BAY RESOURCES LIMITED

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

Expressed in Canadian dollars

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Income tax (continued)

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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 current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its deferred tax assets and liabilities on a net basis.

(d) Exploration and evaluation assets

Once a license to explore an area has been secured, expenditures on exploration and evaluation activities, net of government assistance received, are capitalized to exploration and evaluation assets. Deferred exploration expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

The Company's property interests are in the exploration and evaluation stage and accordingly, the Company follows the practice of capitalizing all costs relating to the acquisition of, exploration for and evaluation of properties and crediting all revenues received against the cost of the related claims. Such costs include, but are not exclusive to, acquisition, geological, geophysical studies, exploratory drilling and sampling.

At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned properties are charged to operations at the time of any abandonment or when it has been determined that there is evidence of a permanent impairment. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition. The Company recognizes in profit or loss costs recovered on exploration and evaluation assets when amounts received or receivable are in excess of the carrying amount. Upon transfer of "Exploration and evaluation assets" into "Development Assets", all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalised within "Development Assets". After production starts, all assets included in "Development Assets" are transferred to "Producing Properties".

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed. To the extent that exploration and evaluation assets are not expected to be recovered, they are charged to profit or loss.

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6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Equipment

Equipment is carried at cost less accumulated amortization. Amortization is calculated over the estimated useful life of the assets at the following annual rates:

Office equipment	-	20%	declining balance basis
Furniture and fixtures	-	20%	declining balance basis
Computer equipment	-	55%	declining balance basis
Vehicles	-	30%	declining balance basis

(f) Impairment of non-financial assets

The carrying values of capitalized exploration and evaluation assets and equipment are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use. For exploration and evaluation assets, indicators of impairment would include: exploration of a right to explore, no budgeted or planned material expenditures in an area or a decision to discontinue exploration in a specific area.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to profit or loss so as to reduce the carrying amount to its recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation/amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss in the period of reversal.

(g) Financial instruments

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, (i.e., the date that the Company commits to purchase or sell the asset).

The Company's financial assets include cash, restricted cash and amounts receivable.

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6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in profit or loss.

The Company evaluates its financial assets at fair value through profit or loss to determine whether the intent to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Company may elect, in rare circumstances, to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale or held-to-maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

The Company has designated its cash, restricted cash, and amounts receivable as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method ("EIR"), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of loss. The losses arising from impairment are recognised in profit or loss.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; and
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
 - (a) the Company has transferred substantially all the risks and rewards of the asset; or
 - (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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Notes to the Consolidated Financial Statements
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6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

JAMES BAY RESOURCES LIMITED

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6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) *Financial instruments (continued)*

The Company's financial liabilities include accounts payable and accrued liabilities, subscription payable and due to shareholders.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in profit or loss. The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Other financial liabilities

The Company has designated its accounts payable and accrued liabilities, subscription payable and due to shareholders as other financial liabilities. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate ("EIR") method. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

(h) *Loss per share*

Basic loss per share is calculated by dividing the loss available to common shareholders by the weighted average number of common shares outstanding in the period. Diluted loss per share is calculated by assuming that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. In the Company's case, diluted loss per share is the same as basic loss per share for the years ended December 31, 2014 and 2013, as the effects of including all outstanding options and warrants would be anti-dilutive.

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6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) *Decommissioning Liabilities*

A legal or constructive obligation to incur decommissioning liabilities may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either a unit-of-production or the straight-line method as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

The Company had no material decommissioning liabilities as at December 31, 2014 and 2013.

(j) *Investment in associate*

Investments in associates are accounted for using the equity method based on the Company's ability to exercise significant influence over the operating and financial policies of the investee. Investments of this nature are recorded at original cost and adjusted periodically to recognize the Company's proportionate share of the associate's net income or losses after the date of investment, additional contributions made and dividends received. Investments are written down when there has been a significant or prolonged decline in fair value.

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7. EQUIPMENT

Cost	Office equipment \$	Furniture and fixtures \$	Computer equipment \$	Vehicles \$	Total \$
Balance December 31, 2012	9,928	121,809	3,900	2,000	137,637
Additions	3,100	8,165	37,718	3,862	52,845
Balance December 31, 2013	13,028	129,974	41,618	5,862	190,482
Additions	-	-	1,841	-	1,841
Balance December 31, 2014	13,028	129,974	43,459	5,862	192,323
Accumulated amortization	Office equipment \$	Furniture and fixtures \$	Computer equipment \$	Vehicles \$	Total \$
Balance December 31, 2012	1,276	3,642	1,555	50	6,523
Amortization	1,406	25,130	13,322	1,454	41,312
Balance December 31, 2013	2,682	28,772	14,877	1,504	47,835
Amortization	1,646	20,240	16,801	1,307	39,994
Balance December 31, 2014	4,328	49,012	31,678	2,811	87,829
Carrying value	Office equipment \$	Furniture and fixtures \$	Computer equipment \$	Vehicles \$	Total \$
Balance December 31, 2013	10,346	101,202	26,741	4,358	142,647
Balance December 31, 2014	8,700	80,962	11,781	3,051	104,494

The net book value of the Company's equipment by geographic location is as follows: Canada - \$7,559 (2013 - \$8,694) and Nigeria \$96,935 (2013 - \$133,953).

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8. EXPLORATION AND EVALUATION ASSETS

Petroleum Property Interests

OML 90 PROJECT

In June 2012, the Company entered into a Joint Operating Agreement (“JOA”) with an oil and gas field owner in Nigeria (the “Vendor”). Under the terms of the agreement, the Company will acquire a 47% interest in the Ogedeh Marginal Field Award on the Farmed-Out Area within the Oil Mining Licence 90 (“OML 90 Project”) in Nigeria.

The Company shall pay US\$50,000 (paid) for transfer of due diligence data and administrative fees and US\$50,000 (paid) for an exclusivity period.

As consideration for the transfer of the interest, the Company is required to pay an aggregate of US\$2,500,000 as follows:

- US\$100,000 due 90 days from the date of execution of JOA or within 24 hours of the execution of the JOA and Deed of Assignment (“DOA”), whichever is earlier (paid in 2012).
- US\$200,000 due upon approval from Department of Petroleum Resources (“DPR”) of the assignment of direct interest in OML 90 project to the Company (paid in 2013).
- US\$300,000 to be released upon the grant of government permit for drilling activity and arrival of a drill rig at the OML 90 project. A preliminary government permit was received in March 2014. As of December 31, 2014, a drill rig has not yet been installed at OML 90. Of the original US \$300,000, US\$100,000 (\$104,050) was paid as an advance in 2013. The remaining US\$200,000 (\$232,000) has not yet been paid or accrued. The amount advanced in 2013 is shown as a long term prepaid expense in the statement of financial position.
- US\$1,000,000 (\$1,160,000) upon completion of a final independent report of P1 reserves of at least 7,000,000 proven recoverable barrels of oil, or if such reserve levels are not attained, the Company shall pay US\$0.10 per barrel of oil produced, to a maximum of US\$1,000,000 (\$1,600,000). As this condition has not been met, this amount has not accrued.
- US\$900,000 (\$1,044,000) upon the completion of 60 days of commercial production. As this condition has not been met, this amount has not accrued.

Included in restricted cash as at December 31, 2013 was US\$200,000 (\$212,720), with US\$100,000 (\$106,360) of that amount held in an escrow account and the remaining US\$100,000 (\$106,360) held in a trust account with the Company’s legal representatives.

Furthermore, the Company will pay a monthly management retainer of US\$30,000 which will commence upon the date of the drill rig arriving at the OML 90 project and ending on the commencement of commercial production. The Company will provide funds required to finance the OML 90 project to its initial production of hydrocarbons (oil) on a commercially viable scale. Any sunk costs incurred exclusively by the Vendor will be reimbursed up to a maximum of US\$500,000 (\$580,000). As this condition has not been met, this amount has not accrued.

The Company is entitled to a preferential return of 80% of the available cash flow from oil production at OML 90 until all costs of the joint operation (future capital and operating expenditures) incurred by the Company to get the first oil have been fully reimbursed. The remaining 20% of available cash flow during this stage of production is shared between the Company and the Vendor in proportion to their relative percentage interest. After all joint operation costs have been fully recovered by the Company, the remaining revenue shall be shared between the Company and Vendor in proportion to their relative ownership interests.

JAMES BAY RESOURCES LIMITED

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8. EXPLORATION AND EVALUATION ASSETS (continued)

Petroleum Property Interests (continued)

OML 25 PROJECT

In June 2014, Crestar Integrated Natural Resources Limited (“CINRL”) was selected as the winning bidder for a 45% participating interest in active Oil Mining Lease No. 25 (“OML 25”) in the Niger Delta region, offered by joint venture partners The Shell Petroleum Development Company of Nigeria Limited, Total E&P Nigeria Limited, and Nigerian AGIP Oil Company Limited (collectively the “Shell JV”). Related to the bidding process a temporary letter of credit of US\$30,000,000 (\$33,165,000) was received and subsequently repaid. Through a prospective future investor, CINRL obtained a loan for the full purchase price of OML 25. Such amount remains in an escrow account awaiting closing of the acquisition. However, the Nigerian National Petroleum Corporation (“NNPC”) has blocked the closing by attempting to exercise pre-emption rights. The Company intends to vigorously pursue closing of the acquisition of OML 25 through legal processes available to it in Nigeria.

CINRL incurred US\$26,000,000 (\$27,991,600) break fees related to the structuring of this acquisition. The amount is recorded in the statement of loss and comprehensive loss.

Evaluation Costs

During the year-ended December 31, 2014, the Company incurred \$5,102,863 (December 31, 2013 - \$nil) in pre-licensing costs related to pursuing OML 25. On July 3, 2014 the Company lost control of CINRL (note 13), from this date onward, none of the evaluation costs incurred in CINRL are reflected in the consolidated financial statements of the Company.

During the year-ended December 31, 2013, the Company incurred \$637,217 in pre-licensing costs related to pursuing OML 90. On May 17, 2013, the Honourable Minister of Petroleum Resources (“HMPR”) granted approval for the assignment of the 47% participating interest in the OML 90 Project to the Company’s subsidiary, D&H Energy Nigeria Limited. The expenditures incurred after May 17, 2013, on the OML 90 Project were capitalized to the exploration and evaluation asset.

Description	2014	2013
	\$	\$
Management fees	268,270	263,205
Consulting fees	2,832,211	20,200
Travel, meals and accommodation	218,585	135,589
Professional fees	343,755	49,433
Technical reports	170,336	-
Environmental	62,186	-
Due diligence	11,049	-
License and permit	3,359	-
Commitment fee	908,638	-
Amortization	13,644	13,279
General and administrative expense	270,830	155,511
Balance	5,102,863	637,217

Included in management fees is a balance of \$11,405 (December 31, 2013 – a credit balance of \$6,375) in non-cash share-based payments made to an officer of the Company. Included in consulting fees is a balance of \$2,341,500 (December 31, 2013 - \$nil) in non-cash share based payments. See note 20.

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8. EXPLORATION AND EVALUATION ASSETS (continued)

Petroleum Property Interests (continued)

Exploration and Evaluation Asset

As at December 31, 2014, the Company capitalized a total of \$4,086,924 (2013 - \$959,817) in exploration and evaluation assets post licensing related to its interest in OML 90.

Description	Year ended	Year ended	Total
	December 31, 2014	December 31, 2013	
	\$	\$	\$
Acquisition costs	-	207,080	207,080
Management and consulting fees	163,082	410,544	573,626
Environmental	92,161	-	92,161
Travel, meals and accommodation	4,210	17,205	21,415
Professional fees	16,467	8,790	25,257
Legal fees	28,216	5,067	33,283
Share-based payments	2,704,089	23,852	2,727,941
Amortization	7,507	21,760	29,267
General and administrative expense	111,375	265,519	376,894
Balance	3,127,107	959,817	4,086,924

D&H Solutions AS

On March 21, 2011, the Company signed a memorandum of understanding (the "MoU") to conduct due diligence, and if a suitable target is identified, to form a special purpose vehicle (the "SPV") with D&H Solution AS ("D&H") to further evaluate the identified oil and gas opportunities in Nigeria, and if suitable, negotiate an agreement to acquire and develop such assets.

On January 5, 2012, a new agreement was signed with D&H. The new agreement calls for the transfer of all Nigerian agreements and the corporations that currently hold these agreements into a wholly owned Nigerian subsidiary of the Company. This subsidiary (James Bay Energy Nigeria Limited, "JBENL") was incorporated on February 27, 2012. In addition, the Company will retain certain senior management of D&H as senior management of JBENL. In consideration, the Company has agreed to issue to D&H share based compensation in the form of units consisting of one common share and one half of one common share purchase warrant, each whole common share purchase warrant entitling the holder to acquire one common share at a price of \$1.25 for a period of two years from issuance. The units are to be issued as follows:

- 3,000,000 units upon the closing of a definitive agreement being entered into with regards to an acquisition of an interest in an oil and gas project in Nigeria and upon attaining mining licenses from the Ministry of Mines in Nigeria; and
- 3,000,000 units upon the Company reaching 1,500 barrels oil equivalent ("BOE") per day or a minimum recoverable estimate of 50 million BOE.

Simultaneously with each issuance of the units above, D&H will receive a further 300,000 stock options exercisable for a period of five years following the date of issue, with the exercise price set in the context of the market on the date of issue.

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8. EXPLORATION AND EVALUATION ASSETS (continued)

Petroleum Property Interests (continued)

Exploration and Evaluation Asset (continued)

The obligations created and transactions contemplated by the agreement with D&H are subject to receipt of all requisite corporate, regulatory, shareholder and court approvals (if required) and consents, and, where required, the shareholders of the Company.

On July 31, 2014, the agreement dated January 5, 2012, was terminated in exchange for the following consideration:

- The Company has agreed to issue 3,000,000 units of the Company to D&H. The Company issued these units on October 30, 2014, the first day the Company's shares were listed on CSE as an oil and gas issuer. Each unit is comprised of one common share and one-half of one common purchase warrant. Each warrant comprising part of the units is exercisable for a common share at a price of \$1.25 for 2 years from the date of issuance (Notes 10(b)(v) and 12(vi)).
- The Company has agreed to convert \$147,288 of debt owing to D&H into the Company's equity. The Company issued 147,288 units to settle this debt on December 19, 2014. Each unit is comprised of one common share and one half of one common purchase warrant. Each warrant comprising part of the units is exercisable for a common share at a price of \$1.25 for 5 years from the date of issuance (Notes 10(b)(vi) and 12(vii)).

MAK MERA

On March 9, 2011, James Bay entered into a letter of intent with a Nigerian oil and gas service provider, MAK MERA. On February 1, 2012, a new agreement with MAK MERA was signed. The new consulting services agreement calls for the issuance of cash and common shares of the Company to MAK MERA as follows:

- Cash payment of US\$165,000 upon signing a definitive agreement (paid).
- 3,500,000 common shares upon the closing of a definitive agreement being entered into with regards to an acquisition of an interest in an oil and gas project in Nigeria and upon attaining mining licenses from the Ministry of Mines in Nigeria;
- 3,000,000 common shares if the project achieves:
 - (i) Average production of at least 1,500 BOE per day over a period of 60 days, or
 - (ii) A minimum recoverable estimate of 50 million BOE.

The obligations created and transactions contemplated by the agreement with MAK MERA are subject to receipt of all requisite corporate, regulatory, shareholder and court approvals (if required) and consents and where required, the shareholders of the Company. The obligations also are subject to the Company obtaining approval for a change of business by the TSXV.

The Company received the mining license in 2013 in respect of an interest in an oil and gas project in Nigeria under a definitive agreement. However, no amounts have been accrued relating to the above units and options as TSXV approval has not been obtained for the change of business. The conditions contained in the agreement with MAK MERA must be met on or prior to December 31, 2013, otherwise, any obligations of the Company under the agreement shall cease to exist. The conditions were not met by December 31, 2013 and as such the above share issuances have not been made and no amounts have been accrued for them in these consolidated financial statements.

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8. EXPLORATION AND EVALUATION ASSETS (continued)

Mineral Property Interests

James Bay Property, Ontario, Canada

The Company acquired, by staking, certain claims in Ontario, Canada. In February 2013, the Company engaged MacDonald Mines Exploration Ltd. ("MacDonald") to complete a GPS survey of all corner claim posts following the proper protocol as defined by the Ministry of Northern Development and Mines. This survey formed the basis for a report of work, which was submitted for assessment credits in March 2014. During the year ended December 31, 2014, the Company incurred \$3,010 of interest on consulting fees payable (December 31, 2013 - \$198,489 of consulting fees) to MacDonald to complete the GPS survey and \$16,332 (December 31, 2013 - \$nil) in exploration and evaluation costs. These costs were expensed in the statement of loss and comprehensive loss.

As part of the MacDonald agreement, the Company was obligated to issue 50,000 warrants to MacDonald exercisable for five years with an exercise price equal to the issue price of the financing required to be completed in relation to the change of business.

The Company issued 50,000 warrants to MacDonald on October 30, 2014 which coincides with the effective listing of the Company's shares on the CSE as an oil and gas issuer. The warrants entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on October 30, 2019. The value of \$23,126 was expensed in the statement of loss and comprehensive loss (Note 12(viii)).

On December 19, 2014, the Company settled an aggregate total debt of \$55,338 owing to MacDonald through the issuance of an aggregate of 55,338 units. Each unit is comprised of one common share and one-half warrant. Each warrant is exercisable for a common share at a price of \$1.25 for 5 years from the date of issuance.

9. DUE TO SHAREHOLDERS

The amounts due to shareholders are unsecured, bear interest at 6% per annum, and are due on demand. The principal is comprised of an advance of \$nil (December 31, 2013 - \$100,000) from a shareholder and director and an advance of \$316,105 (December 31, 2013 - \$530,000) from the President and CEO of the Company, who is also a shareholder and director of the Company. As of December 31, 2014, accrued interest is \$1,364 (December 31, 2013 - \$14,190).

At December 31, 2013, the Company had an outstanding shareholder loan balance of \$644,190. During the year-ended December 31, 2014, the Company received additional advances of \$1,553,893 from the shareholders. The Company repaid \$1,881,978 during the year, This balance includes \$18,919 of interest and \$1,863,059 of principal balance.

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10. SHARE CAPITAL

- (a) **Authorized** - Unlimited common shares, with no par value
(b) **Issued** – 37,974,070 common shares

	#	\$
Balance, December 31, 2012 and 2013	28,040,350	9,261,904
Private placement ⁽ⁱ⁾	1,930,424	1,930,424
Share issue costs ⁽ⁱ⁾	-	(203,463)
Warrants valuation ⁽ⁱ⁾	-	(639,135)
Private placement ⁽ⁱⁱ⁾	470,000	470,000
Share issue costs ⁽ⁱⁱ⁾	-	(31,403)
Warrants valuation ⁽ⁱⁱ⁾	-	(155,628)
Private placement ⁽ⁱⁱⁱ⁾	3,810,670	3,810,670
Share issue costs ⁽ⁱⁱⁱ⁾	-	(990,435)
Warrants valuation ⁽ⁱⁱⁱ⁾	-	(1,261,338)
Private placement ^(iv)	520,000	520,000
Share issue costs ^(iv)	-	(33,198)
Warrants valuation ^(iv)	-	(172,159)
Shares issued to D&H ^(v)	3,000,000	2,220,000
Shares issued to D&H ^(vi)	147,288	54,497
Shares issued to MacDonald ^(vi)	55,338	20,475
Balance, December 31, 2014	37,974,070	14,801,211

(i) On January 31, 2014, the Company raised proceeds of \$1,930,424 by way of a non-brokered private placement of 1,930,424 units at a price of \$1.00 per unit. Each unit is comprised of one common share and one warrant. Each warrant comprising part of the units is exercisable for a common share at a price of \$1.25 for 3 years from the date of issuance.

The finder received cash commission of 6% of the gross proceeds raised through the finder and 60,397 finder's warrants. Each finder's warrant entitles the holder to acquire one common share at a price of \$1.00 for thirty-six months from the date of issuance. The Company paid a total amount of \$282,291 for commission, filing fees, travel, legal and other share issue costs.

Included in deferred financing fees and subscription payable as at December 31, 2013 are \$194,816 share issue cost and \$1,170,004 subscription received in advance in connection with the private placement. Of this amount \$970,368 was included in restricted cash on the statement of financial position.

The President and Director, who is also the CEO and a director, participated in the private placement for gross proceeds of \$500,000 and \$100,000, respectively.

(ii) On June 10, 2014, the Company raised proceeds of \$470,000 by way of a non-brokered private placement of 470,000 units at a price of \$1.00 per unit. Each unit is comprised of one common share and one warrant. Each warrant comprising part of the units is exercisable for a common share at a price of \$1.25 for 3 years from the date of issuance.

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10. SHARE CAPITAL (continued)

The finders received cash commission of 6% of the gross proceeds raised through the finders and 28,200 finder warrants. Each finder warrant entitles the holder to acquire one common share at a price of \$1.00 for thirty-six months from the date of issuance. The Company paid a total amount of \$36,749 for commission, filing fees, legal and other share issue costs.

- (iii) On July 28, 2014, the Company raised proceeds of \$3,810,670 by way of a non-brokered private placement of 3,810,670 units at a price of \$1.00 per unit. Each unit is comprised of one common share and one common share purchase warrant. Each warrant comprising part of the units is exercisable for a common share at a price of \$1.25 for 3 years from the date of issuance.

The finders received cash commission of 6% of the gross proceeds raised through the finders and 3,628,640 finder warrants. Of the total amount, 228,64 finder warrants were issued and entitled the holders to acquire one common share at a price of \$1.00 for thirty-six months from the date of issuance. The remaining 3,400,000 finder warrants entitle the holder to acquire one common share at a price of \$1.25 for thirty-six months from the date of issuance. As of December 31, 2014, these warrants have not been issued. The Company paid a total amount of \$272,259 for commission, filing fees, legal and other share issue costs.

- (iv) On October 30, 2014, the Company raised proceeds of \$520,000 by way of a non-brokered private placement of 520,000 units at a price of \$1.00 per unit. Each unit is comprised of one common share and one common share purchase warrant. Each warrant comprising part of the units is exercisable for a common share at a price of \$1.25 for 3 years from the date of issuance.

The finders received cash commission of 6% of the gross proceeds raised through the finders and 31,200 finder warrants. Each finder warrant entitles the holder to acquire one common share at a price of \$1.00 for thirty-six months from the date of issuance. The Company paid a total amount of \$38,349 for commission, filing fees, legal and other share issue costs.

- (v) On October 30, 2014, the Company issued 3,000,000 units to D&H valued at \$0.74 per unit pursuant to a termination agreement (see Note 8). Each unit is comprised of one common share and one-half of one common purchase warrant. Each warrant comprising part of the units is exercisable for one common share at a price of \$1.25 for 2 years from the date of issuance.
- (vi) On December 19, 2014, the Company settled an aggregate total debt of \$147,288 through issuance of 147,288 units and an aggregate total debt of \$55,338 through issuance of 55,338 units to D&H and MacDonald, respectively. Each unit is comprised of one common share and one-half of one common purchase warrant. Each warrant comprising part of the units is exercisable for a common share at a price of \$1.25 for 5 years from the date of issuance.

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11. SHARE-BASED PAYMENTS

The Company has an incentive stock option plan (the "Plan") whereby the Company can grant to directors, officers, employees and consultants options to purchase shares of the Company. The Plan provides for the issuance of stock options to acquire up to 20% of the Company's issued and outstanding capital at the time of granting of options for a maximum term of five years. The Plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding share capital increases. In no case (calculated at the time of grant) shall the Plan result in:

- the number of options granted in a 12-month period to any one consultant exceeding 2% of the issued shares of the Company;
- the aggregate number of options granted in a 12-month period to any one individual exceeding 5% of the outstanding shares of the Company;
- the number of options granted in any 12-month period to employees or consultants undertaking investor relations activities exceeding in aggregate 2% of the issued shares of the Company;
- the aggregate number of common shares reserved for issuance to any one individual upon the exercise of options granted under the Plan or any previously established and outstanding stock option plans or grants exceeding 5% of the issued shares of the Company in any 12-month period.

The following reconciles the share options outstanding:

	<u>Year-ended</u> December 31, 2014		<u>Year-ended</u> December 31, 2013	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Balance, beginning of year	800,000	0.66	2,645,000	0.75
Granted	-	-	600,000	0.63
Expired	-	-	(2,445,000)	0.75
Balance, end of year	<u>800,000</u>	0.66	<u>800,000</u>	0.66

The Company has the following share options outstanding at December 31, 2014:

Estimated Grant Date Fair Value \$	Outstanding Options #	Options Exercisable #	Exercise Price \$	Expiry Date
98,000	200,000	200,000	0.75	June 11, 2015
204,000	600,000	600,000	0.63	June 1, 2017
302,000	800,000	800,000		

On June 1, 2012, the Company granted 600,000 stock options to an officer of the Company. The issuance of the options was contingent on the Company passing an amendment to the Plan, allowing for additional options to be granted. The amendment to the Plan was passed on February 4, 2013. The fair value of the options was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 95%; risk free interest rate of 1.32%; expected forfeiture rate of 0% and expected life of 4.3 years. An amount of \$14,167 (December 31, 2013 - \$17,477) was recorded relating to these stock options for the year-ended December 31, 2014.

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12. WARRANT RESERVE

	#	\$
Balance, December 31, 2012	3,723,925	1,217,372
Warrants expired ⁽ⁱ⁾	(3,723,925)	(1,217,372)
Balance, December 31, 2013	-	-
Warrants issued ⁽ⁱⁱ⁾	1,930,424	639,135
Finder's warrants issued ⁽ⁱⁱ⁾	60,397	21,839
Warrant issue costs	-	(100,668)
Warrants issued ⁽ⁱⁱⁱ⁾	470,000	155,628
Finder's warrants issued ⁽ⁱⁱⁱ⁾	28,200	10,197
Warrant issue costs	-	(15,545)
Warrants issued ^(iv)	3,810,670	1,261,338
Finder's warrants issued ^(iv)	228,640	82,653
Warrant issue costs	-	(490,076)
Warrants issued ^(v)	520,000	172,159
Finder's warrants issued ^(v)	31,200	11,281
Warrant issue costs	-	(16,430)
Warrants issued to D&H ^(vi)	1,500,000	442,987
Warrants issued to D&H ^(vii)	73,644	12,317
Warrants issued to MacDonald ^(vii)	27,669	4,628
Warrants issued to MacDonald ^(viii)	50,000	23,126
Balance, December 31, 2014	8,730,844	2,214,569

⁽ⁱ⁾ On March 20, 2012, the Company extended the expiry date of common share purchase warrants issued by the Company in connection with the Initial Public Offering ("IPO") financing that closed on July 24, 2008. The expiry date for all these warrants was extended until July 24, 2013 at a reduced price of \$1.25. These warrants expired on July 24, 2013.

⁽ⁱⁱ⁾ In connection with the January 31, 2014, private placement (Note 10(b)(i)), the Company issued 1,930,424 warrants which entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on January 31, 2017. The estimated fair value of the warrants of \$639,135 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.14% and an expected life of 3 years.

The finders received 60,397 finders warrants which entitle the holder to purchase one common share of the Company at a price of \$1.00 expiring on January 31, 2017. The estimated fair value of the finder's warrants of \$21,839 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.14% and an expected life of 3 years.

⁽ⁱⁱⁱ⁾ In connection with the June 10, 2014, private placement (Note 10(b)(ii)), the Company issued 470,000 warrants which entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on June 10, 2017. The estimated fair value of the warrants of \$155,628 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.17% and an expected life of 3 years.

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12. WARRANT RESERVE (continued)

The finders received 28,200 finders warrants which entitle the holder to purchase one common share of the Company at a price of \$1.00 expiring on June 10, 2017. The estimated fair value of the finder warrants of \$10,197 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.17% and an expected life of 3 years.

- (iv) In connection with the July 28, 2014, private placement (Note 10(b)(iii)), the Company issued 3,810,670 warrants which entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on July 28, 2017. The estimated fair value of the warrants of \$1,261,338 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.12% and an expected life of 3 years.

The finders received 3,628,640 finders warrants. 228,640 finders warrants were issued and entitle the holders to purchase one common share of the Company at a price of \$1.00 expiring on July 28, 2017. The estimated fair value of the these finder's warrants of \$82,653 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.12% and an expected life of 3 years. The remaining 3,400,000 finders warrants entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on July 28, 2017. The estimated fair value of the finder warrants of \$1,125,600 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.14% and an expected life of 3 years. As of December 31, 2014, 3,400,000 finders warrants have yet to be issued (see Note 20).

- (v) In connection with the October 30, 2014, private placement (Note 10(b)(iv)), the Company issued 520,000 warrants which entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on October 30, 2017. The estimated fair value of the warrants of \$172,159 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.15% and an expected life of 3 years.

The finders received 31,200 finders warrants which entitle the holder to purchase one common share of the Company at a price of \$1.00 expiring on October 30, 2017. The estimated fair value of the finder warrants of \$11,281 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.15% and an expected life of 3 years.

- (vi) In connection with units issued to D&H (Note 10(b)(v)), the Company issued 1,500,000 warrants which entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on October 30, 2017. The estimated fair value of the warrants of \$442,987 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.01% and an expected life of 2 years.

- (vii) In connection with units issued to D&H and MacDonald (Note 10(b)(vi)), the Company issued 101,313 warrants which entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on December 19, 2019. The estimated fair value of the warrants of \$16,945 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 86%, a risk-free interest rate of 1.12% and an expected life of 5 years.

- (viii) On October 30, 2014, the Company issued 50,000 warrants to MacDonald (Note 8) which entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on December 19, 2019. The estimated fair value of the warrants of \$23,126 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 92%, a risk-free interest rate of 1.54% and an expected life of 5 years.

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12. WARRANT RESERVE (continued)

The Company estimated the expected volatility using a combination of historical volatilities of similar companies and the historical price of the shares of the Company when estimating the fair value of warrants issued.

The following reconciles the warrants outstanding:

	<u>Year-ended</u> December 31, 2014		<u>Year-ended</u> December 31, 2013	
	Number of warrants #	Exercise price \$	Number of warrants #	Exercise price \$
Balance, beginning of year	-	-	3,723,925	1.25
Warrants expired	-	-	(3,723,925)	(1.25)
Warrants issued	8,382,407	1.25	-	-
Finder's warrants issued	348,437	1.00	-	-
Balance, end of year	<u>8,730,844</u>	<u>1.24</u>	<u>-</u>	<u>-</u>

The Company has the following warrants outstanding as at December 31, 2014:

Estimated Fair Value (net of issue costs) \$	Outstanding Warrants #	Warrants Exercisable #	Exercise Price \$	Expiry Date
538,468	1,930,424	1,930,424	1.25	January 31, 2017
21,839	60,397 ^(a)	60,397	1.00	January 31, 2017
140,083	470,000	470,000	1.25	June 10, 2017
10,197	28,200 ^(b)	28,200	1.00	June 10, 2017
771,262	3,810,670	3,810,670	1.25	July 28, 2017
82,653	228,640 ^(c)	228,640	1.00	July 28, 2017
155,728	520,000	520,000	1.25	October 30, 2017
11,281	31,200 ^(d)	31,200	1.00	October 30, 2017
442,987	1,500,000	1,500,000	1.25	October 30, 2019
23,126	50,000	50,000	1.25	October 30, 2019
16,945	101,313	101,313	1.25	December 19, 2019
<u>2,214,569</u>	<u>8,730,844</u>	<u>8,730,844</u>		

(a) These are finder's warrants issued in connection with the January 31, 2014, private placement.

(b) These are finder's warrants issued in connection with the June 10, 2014, private placement.

(c) These are finder's warrants issued in connection with the July 28, 2014 private placement.

(d) These are finder's warrants issued in connection with the October 30, 2014 private placement.

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13. INVESTMENT IN CRESTAR INTERGRATED NATURAL RESOURCE (“CINRL”)

The Company, through its wholly-owned subsidiary JBENL has a 45% ownership interest in CINRL with the remaining 55% portion held by an indigenous Nigerian corporation Crestar Hydrocarbon Exploration and Production Company Limited (“CHEPCL”)

From the acquisition of the Company’s interest in CINRL in September 2013 to June 2014 the Company had fully consolidated the accounts of CINRL even though it owned less than 50% of the shares. This was because it was felt at that time the Company had control over CINRL due the following reasons: The Company had entered into a Financial and Technical Services Agreement with CINRL (such agreement amended on June 17, 2014 to reflect a change of party from CINRL to CHEPCL) whereby the Company was appointed the Financial and Technical Partner with respect to acquiring oil and gas projects in Nigeria. This agreement provided that: the Company shall arrange to provide the funding to CINRL and shall meet all required financial obligations. The Company was responsible for providing technical assistance, appointing personnel and carrying out the evaluation, development and production from the projects. JBENL’s President and Chief Executive Officer is also the President and Chief Executive Officer of CINRL, and a shareholder and member of the Board of Directors of CHEPCL.

In consideration of the Company’s obligations to provide the funding to CINRL, the revenue proceeds from the contract area or any asset of CINRL shall be allocated in the following manner:

- a. The parties shall first deduct any amounts owing to third parties in accordance with their participatory interest under the project document;
- b. 80% of the remaining revenue proceeds (after deductions under (a) above) shall be allocated to the Company;
- c. The remaining 20% of revenue proceeds (after deductions under (a) and (b) above) shall be shared between CINRL and the Company in accordance with their respective ownership interest.

Concurrent with the signing of the Agreement for Assignment of OML 25 on July 3, 2014, an agreement came into force with a prospective future investor of CINRL to provide CINRL with a loan for the full acquisition cost of the asset. The agreement further provided that the future investor would provide all technical services required under the operation of OML 25, such agreement was subject only to the formal closing of the acquisition (see Note 8). As consideration, the prospective investor was expected to assume a 56% effective interest in OML 25 and net revenue proceeds from the asset were expected to be adjusted accordingly. Given the agreement in place, it was determined that the Company lost control of CINRL on July 3, 2014. Related to this loss of control, the Company recorded a loss attributable to non-controlling interest of \$2,208,438 through the date of the loss of control, and a gain on deconsolidation of \$28,823,548. A further impairment on equity investment in CINRL of \$2,260,880, was also recorded in the statement of loss and comprehensive loss for the year ended December 31, 2014.

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14. 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 its properties. The capital structure of the Company consists of equity attributable to common shareholders comprised of common shares, warrant reserve, share-based payments reserve, deficit. 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, or is pursuing an interest in, 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 year-ended December 31, 2014. The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the Canadian Securities Exchange ("CSE") which requires adequate working capital of \$50,000. As of December 31, 2014, the Company may not be compliant with the policies of the CSE. The impact of this violation is not known and is ultimately dependent on the discretion of the CSE.

15. FINANCIAL INSTRUMENTS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no significant changes in the risks, objectives, policies and procedures from the previous period.

Credit risk

The Company's credit risk is primarily attributable to amounts receivable. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to amounts receivable is 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. At December 31, 2014, the Company had cash and restricted cash of \$141,248 (December 31, 2013 - \$1,113,299) to settle current liabilities of \$883,125 (December 31, 2013 - \$2,673,447). The Company has a working capital deficiency of \$610,170 (December 31, 2013 working capital deficiency of \$1,177,030). The Company's financial liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk

(a) Interest rate risk

The Company has cash balances and interest-bearing debt due to shareholders as described in Note 9. The Company's current policy is to invest excess cash in investment-grade short-term guaranteed investment certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(b) Price risk

The ability of the Company to pursue its resource interests and the future profitability of the Company is directly related to the market price of oil and gas.

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15. FINANCIAL INSTRUMENTS (continued)

Market risk (continued)

(c) Foreign currency risk

The Company is subject to foreign exchange risk as the Company has certain assets and liabilities, and makes certain expenditures, in US dollars and Nigerian Naira. The Company is therefore subject to gains and losses due to fluctuations in the US dollar and the Nigerian Naira relative to the Canadian dollar. The Company does not hedge its foreign exchange risk.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve month period.

As at December 31, 2014, the Company has net monetary liabilities denominated in US dollars of approximately US\$326,887 (2013 –US\$351,500). A 10% change in the value of the Canadian dollar relative to the US dollar would result in a corresponding change in net loss of approximately \$37,922 (2013 – \$37,591) based on the balance of these amounts held in US dollars at December 31, 2014.

Fair value

The carrying value of cash, restricted cash, amounts receivable, accounts payable and accrued liabilities, subscription payable and due to shareholders approximate their fair value due to the relatively short periods to maturity of the financial instruments.

Fair value hierarchy and liquidity risk disclosure

Fair value measurements are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). As at December 31, 2014 and 2013, the Company had no financial instruments to classify in the fair value hierarchy.

16. RELATED PARTY DISCLOSURES

These consolidated financial statements include balances and transactions with directors and officers of the Company and/or corporations related to them. During the years ended December 31, 2014 and 2013 the Company entered into the following transactions involving related parties:

The Company rents office space from a corporation with a common officer. During the year ended December 31, 2014, approximately \$40,535 (December 31, 2013 - \$49,030) was charged by this corporation. The amount is included in office and general expense on the statement of loss and comprehensive loss. As of December 31, 2014, included in accounts payable and accrued liabilities is \$707 (December 31, 2013 - \$44,147) owing to this corporation.

The Company incurred legal fees of approximately \$269,059 (December 31, 2013 - \$236,689) with a law firm of which a partner, is a director of the Company. This amount is included in professional fees on the statement of loss and comprehensive loss. As of December 31, 2014, included in accounts payable and accrued liabilities is \$93,190 (December 31, 2013 - \$191,620) owing to this law firm.

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16. RELATED PARTY DISCLOSURES (continued)

In accordance with IAS 24, key management personnel are those 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. The remuneration of directors and other members of key management personnel for the years ended December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
	\$	\$
Management salaries and benefits and director fees*	893,051	777,257
Share-based payments	14,167	17,477

*reflected in the statement of loss and comprehensive loss and exploration and evaluation asset

Included in accounts payable and accrued liabilities as at December 31, 2014 is approximately \$2,496 (2013 - \$191,620) management travel expenses reimbursement and \$40,000 (2013 - \$nil) director fees.

All of the above amounts payable to related parties are unsecured, non-interest bearing, with no fixed terms of repayment.

See also Notes 9, 10, 17 and 20.

17. COMMITMENTS AND CONTINGENCIES

The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to \$1,584,000 be made upon the occurrence of certain events such as a change of control and termination. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements. Under these management contracts, \$840,000 is due within one year.

During 2013, the Company entered into an agreement with a corporation which will work with the Company to facilitate the acquisition of oil and gas projects. Pursuant to the agreement, the Company will pay a fee of 2% of the transaction cost on the closing of an acquisition. The Company may also be required to pay an additional fee of 2% of the transaction cost in equal quarterly payments over 10 years. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

Under the terms of a financing agreement entered into during 2014, the Company may be liable for a \$2,000,000 payment should a certain oil and gas property in Nigeria be acquired.

The Company's exploration and evaluation activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company 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.

The Company is party to legal proceedings in the ordinary course of its operations related to legally binding agreements with various third parties under consulting agreements. As at December 31, 2014 one such proceeding was ongoing, relating to a services agreement in Nigeria. A former consultant of the Company is claiming that a payment in the amount of 3.5 million common shares of the Company is owing to them. The Company believes this claim to be without merit. Management does not expect the outcome of this proceeding to have a materially adverse effect on the results of the Company's financial position or results of operations and therefore this amount has not been reflected in these financial statements. Should any losses result from the resolution of this dispute, that amount will be charged to operations in the year that it is determined.

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18. INCOME TAXES

a) Provision for Income Taxes

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2013 - 26.75%) were as follows:

	2014	2013
	\$	\$
Loss before income taxes	(7,657,406)	(2,048,168)
Expected income tax recovery based on statutory rate	(2,029,000)	(543,000)
Adjustment to expected income tax benefit:		
Expenses not deductible for tax purposes	2,000	1,000
Other	(2,000)	12,700
Change in foreign exchange rates	486,000	(6,000)
Difference in tax rates	(40,000)	-
Benefit of tax assets not recognized	1,583,000	374,000
Deferred income tax (recovery)	-	(161,300)
Deferred income tax recognized in equity	-	161,300
Total taxation	-	-

b) Deferred Income Tax

Recognized deferred tax assets (liabilities) in Nigeria were as follows:

	2014	2013
	\$	\$
Resources property costs - Nigeria	(404,000)	-
Non-capital loss carry-forwards - Nigeria	404,000	-
Total	-	-

Deferred Income Tax (continued)

Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	2014	2013
	\$	\$
Non-capital loss carry-forwards - Canada	6,358,000	2,819,000
Non-capital loss carry-forwards - Nigeria	5,700,000	5,453,000
Resource property costs - Canada	3,446,000	3,403,000
Resource property costs - Nigeria	-	6,000
Investment in CINRL - Canada	3,387,000	-
Investment in CINRL - Nigeria	785,000	-
Equipment - Nigeria	13,000	12,000
Total	19,689,000	11,693,000

JAMES BAY RESOURCES LIMITED

Notes to the Consolidated Financial Statements

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Expressed in Canadian dollars

18. INCOME TAXES (continued)

c) Tax Loss Carry-Forwards

As at December 31, 2014, the Company had approximately \$3,446,000 (2013 – \$3,403,000) of Canadian exploration and development expenditures and \$5,700,000 (2013 – \$5,459,000) of Nigerian exploration and operating expenditures. These losses may be utilized to reduce taxable income of futures years under certain circumstances

As at December 31, 2014, the Company had approximately \$6,358,000 (2013 - \$2,819,000) of non-capital losses in Canada, which can be used to reduce taxable income in future years. The losses expire as follows:

<u>Year of expiry</u>	<u>Amount (\$)</u>
2027	7,000
2028	107,000
2029	102,000
2030	812,000
2031	751,000
2032	900,000
2033	140,000
2034	3,539,000
	<u>6,358,000</u>

The Company's Nigerian exploration and operating tax losses noted above can be utilized indefinitely against future Nigerian taxable profits as these losses do not expire.

19. SUPPLEMENTAL INFORMATION – STATEMENT OF CASH FLOWS

	<u>2014</u>	<u>2013</u>
	<u>\$</u>	<u>\$</u>
Unit issuance for interest in exploration and evaluation asset (Notes 10(b)(v) and 12(vi))	2,662,987	-
Units issued for settlement of debt (Notes 10(b)(vi) and 12(vii))	91,917	-
Interest paid	18,919	-
Warrants issued for services (Note 12(viii))	23,126	-
Amortization recorded to exploration and evaluation asset	7,507	21,760
Share-based payments recorded to exploration and evaluation assets	1,417	23,852

20. SUBSEQUENT EVENTS

Share issuance

On February 4, 2015, the Company issued to a consultant 3,500,000 common shares in the capital of the Company. The shares were issued in accordance with the terms of a service agreement between the Company and CINRL completed during the year ended December 31, 2014. The shares are subject to a statutory hold period of four months from the date of issuance. At December 31, 2014, the Company recorded a value of \$2,341,500 as shares to be issued on the statement of financial position.

Further, the Company is obligated to issue an additional 3,400,000 finder warrants under the terms of the service agreement. At December 31, 2014, the Company recorded a valuation \$1,125,600 as warrants to be issued on the statement of financial position.

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20. SUBSEQUENT EVENTS (continued)

Convertible debenture

On April 16, 2015, the Company announced a non-brokered private placement of unsecured convertible debentures in the amount of \$3 million. Each debenture shall bear an interest rate of 15%, payable semi-annually, and have a maturity date that is three years following the date of issuance. The debenture shall be convertible, in whole or in part at the option of the holders into common shares of the Company at a conversion price of \$0.17 per common share.

The offering is expected to close over a series of tranches, with the final tranche to close on or before May 31, 2015. The net proceeds from the offering will be used to fund the Company's working capital including litigation issues stemming from the Company's enforcement of its right to acquire a 45% participating interest in OML-25 in Nigeria.

The Company will also concurrently sell and assign, pursuant to separate agreements with each subscriber, a pro rata (based on all the subscribers) entitlement for up to an aggregate of 30% of the net proceeds of litigation related to the failed closing of the OML 25 project (Note 8), if any (whether as a result of final judgment by a court of competent jurisdiction or settlement for which no appeal or further proceeding may be taken (the "Final Award")), after deduction of all related costs and taxes incurred by the Company in the Litigation (the "Net Final Amount"), payable to the Holders within 60 days from the receipt of the Final Award, if any. In the event the Company prepays the Debentures in full prior to that date which is one year from the date of issue and prior to date of the Final Award, then the amount payable to the Holders under the agreement will be adjusted to reflect an aggregate entitlement of 15%.

On March 20, 2015, the Company received \$250,000 advance from a shareholder in connection with the convertible debenture (see also "Due to shareholder" below).

Due to shareholder

Subsequent to year-end, the Company received approximately \$1,043,900 of additional advances from the President and CEO of the Company, who is also a shareholder and director of the Company. In April 2015, \$1,349,925 of advances (including accrued interest and unpaid salary) provided by the President and CEO were converted into the convertible debentures noted above.

Stock Options

Subsequent to year-end, due to the resignation of a director, 200,000 stock options expired unexercised.