JAMES BAY RESOURCES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012 AND 2011

JAMES BAY RESOURCES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

McGovern, Hurley, Cunningham, LLP
Chartered Accountants

2005 Sheppard Avenue East, Suite 300
Toronto, Ontario
M2J 5B4, Canada
Phone 416-496-1234
Fax 416-496-0125
Email info@mhc-ca.com
Web www.mhc-ca.com

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, 2012 and 2011 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 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, 2012 and 2011 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, 2012 and a cumulative deficit as at December 31, 2012. 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

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 16, 2013

JAMES BAY RESOURCES LIMITED
Consolidated Statements of Financial Position
Expressed in Canadian dollars
As at December 31,

	2012 $	2011 $
ASSETS		
Current assets		
Cash and cash equivalents	1,261,307	4,791,243
Restricted cash (Note 8)	497,450	834,047
Prepaid expenses (Note 15)	165,406	74,248
Amounts receivable	41,839	25,156
Total current assets	1,966,002	5,724,694
Long-term prepaid (Note 15)	103,898	-
Exploration and evaluation assets (Note 8)	-	2,433,662
Equipment (Note 16)	131,114	339
Total assets	2,201,014	8,158,695
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 14)	176,167	104,765
EQUITY		
Common shares (Note 9)	9,261,904	9,261,904
Share-based payments reserve (Note 10)	1,422,550	1,294,394
Warrant reserve (Notes 7 and 11)	1,217,372	1,217,372
Deficit (Note 7)	(9,876,979)	(3,719,740)
Total equity	2,024,847	8,053,930
Total equity and liabilities	2,201,014	8,158,695

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
COMMITMENTS AND CONTINGENCIES (Notes 10 and 15)

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,

	2012	2011
	$	$
Expenses		
Management salaries and benefits	142,279	300,238
Professional fees (Note 14)	266,400	116,742
Office and general (Note 14)	185,492	133,791
Consulting fees	20,167	42,993
Due diligence on oil and gas property (Note 8)	217,724	1,233,304
Evaluation costs (Note 8)	2,869,003	-
Shareholder relations	40,190	25,384
Transfer agent and listing fees	40,602	19,684
Amortization	207	182
Loss before the undernoted	(3,782,064)	(1,872,318)
Foreign exchange (loss) gain	(27,644)	18,735
Write-off of exploration and evaluation assets (Note 8)	(2,433,662)	-
Loss on held-for-trading investments (Note 13)	-	(201,120)
Gain on loan	-	132,871
Interest income	41,931	64,526
Net loss and comprehensive loss for the year	(6,201,439)	(1,857,306)
Loss per share		
Basic and diluted	(0.22)	(0.07)
Weighted average number of shares outstanding – basic and diluted	28,040,350	28,040,350

See accompanying notes to the consolidated financial statements

JAMES BAY RESOURCES LIMITED

Consolidated Statements of Cash Flows

Expressed in Canadian dollars
For the years ended December 31,

	2012	2011
	$	$
Cash used in operating activities:		
Net loss for the year	(6,201,439)	(1,857,306)
Add (deduct) items not affecting cash:		
Amortization	5,953	182
Share-based compensation	172,356	-
Write-off of exploration and evaluation assets	2,433,662	-
Foreign exchange loss (gain)	15,020	(24,742)
Loss on held-for-trading investments	-	201,120
Gain on loan	-	(132,871)
Interest income	-	(13,898)
Net change in non-cash working capital	300,158	(213,269)
Net cash used in operating activities	(3,274,290)	(2,040,784)
Cash (used in) provided by investing activities:		
Sale of marketable securities	-	206,380
Repayment of loan	-	285,473
Interest in exploration and evaluation assets	-	5,000
Acquisition of equipment	(136,728)	-
Increase in long-term prepaid	(103,898)	-
Net cash (used in) provided by investing activities	(240,626)	496,853
Decrease in cash and cash equivalents	(3,514,916)	(1,543,931)
Effect of change in foreign exchange	(15,020)	24,742
Cash and cash equivalents, beginning of year	4,791,243	6,310,432
Cash and cash equivalents, end of year	1,261,307	4,791,243

Cash and cash equivalents are as follows:		
Cash	250,911	113,970
Cash equivalents	1,010,396	4,677,273
Cash and cash equivalents	1,261,307	4,791,243

See accompanying notes to the consolidated financial statements

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

	Common shares $	Share-based Payments Reserve $	Warrant Reserve $	Accumulated Deficit $	Total Equity $
Balance, December 31, 2011	9,261,904	1,294,394	1,217,372	(3,719,740)	8,053,930
Share-based compensation	-	172,356	-	-	172,356
Expiry of stock options	-	(44,200)	-	44,200	-
Loss for the year	-	-	-	(6,201,439)	(6,201,439)
Balance, December 31, 2012	9,261,904	1,422,550	1,217,372	(9,876,979)	2,024,847

	Common shares $	Share-based Payments Reserve $	Warrant Reserve $	Accumulated Deficit $	Total Equity $
Balance, December 31, 2010	9,261,904	1,294,394	1,217,372	(1,862,434)	9,911,236
Loss for the year	-	-	-	(1,857,306)	(1,857,306)
Balance, December 31, 2011	9,261,904	1,294,394	1,217,372	(3,719,740)	8,053,930

1. NATURE OF OPERATIONS AND GOING CONCERN

James Bay Resources Limited (the "Company" or "James Bay") was incorporated on November 5, 2007. The Company has interests in resource properties in the Porcupine mining district of Ontario, Canada (the "Claims") and is currently involved in the exploration and evaluation of oil and gas interests in Nigeria. In connection with a change of business to become and oil and gas company, on October 11, 2012, the Company announced that it had filed a National Instrument 51-101 report to pursue conditional approval its change of business under the policies of the TSX Venture Exchange. The Company has not determined whether the 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 the 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, 2012, the Company had working capital of $1,789,835 (2011 - $5,619,929), had incurred losses since inception, and had an accumulated deficit of $9,876,979 (2011 - $3,719,740) 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. Material uncertainties as mentioned above cast significant doubt upon the Company's ability to continue as a going concern.

The Company's shares are listed on the TSX Venture Exchange. The head office, principal address and records office of the Company are 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, 2012 were approved and authorized for issue by the board of directors on April 16, 2013.

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

Certain new accounting standards, amendments to standards and interpretations have been issued.

IAS 1 Financial Statements Presentation ("IAS 1")
IAS 1 was amended by the IASB in June 2011. As a result of the amendment, items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The Company has not yet assessed the impact of the standard on its consolidated financial statements.

IFRS 9 Financial Instruments ("IFRS 9")
IFRS 9 was issued by the IASB in November 2009 with additions in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is assessing the impact of this new standard on its consolidated financial statements.

IFRS 10 Consolidated Financial Statements ("IFRS 10")
IFRS 10 was issued by the IASB in May 2011 and will replace IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 is a new standard which identifies the concept of control as the determining factor in assessing whether an entity should be included in the consolidated financial statements of the parent company. Control is comprised of three elements: power over an investee; exposure, or rights, to variable returns from involvement with the investee; and the ability to use power over the investee to affect returns. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 10 on its consolidated financial statements.

IFRS 11 Joint Arrangements ("IFRS 11")
IFRS 11 was issued by the IASB in May 2011 and will replace IAS 31 Interest in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 is a new standard which focuses on classifying joint arrangements by their rights and obligations rather than their legal form. Entities are classified into two groups: joint operations and joint ventures. A joint operation exists when the parties have rights to the assets and obligations for the liabilities of a joint arrangement. A joint venture exists when the parties have rights to the net assets of a joint arrangement. Assets, liabilities, revenues and expenses in a joint operation are accounted for in accordance with the arrangement. Joint ventures are accounted for using the equity method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 11 on its consolidated financial statements.

IFRS 13 Fair Value Measurement ("IFRS 13")
IFRS 13 was issued by the IASB in May 2011. IFRS 13 is a new standard which provides a precise definition of fair value and a single source of fair value measurement considerations for use across IFRS. IFRS 13 clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. It also establishes disclosures about fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 13 on its consolidated financial statements.

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%
2255431 Ontario Inc., Canada	100%
James Bay Energy Nigeria Limited, Nigeria	100%
D&H Energy Nigeria Limited, Nigeria	100%
Ondobit Limited, Nigeria	100%

Subsidiaries
Subsidiaries are entities over which the Company has control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefit from its activities. Generally, the Company has a shareholding of more than one half of the voting rights in its subsidiaries. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases. Intercompany transactions are eliminated on consolidation.

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 compensation, 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.

(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.

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

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

(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) Contingencies
Refer to Notes 8, 10 and 15

6. SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign 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 are charged to profit or loss.

(b) Cash and cash equivalents

Cash equivalents include money market instruments which are readily convertible into cash or have maturities at the date of purchase of less than ninety days.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) 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.

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.

(d) 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.

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.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Income tax (continued)

Deferred tax (continued)

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.

(e) 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 due diligence costs related to its search for a suitable oil and gas property in Nigeria (Note 8) have been expensed as they relate to work performed in advance of the Company securing a license to explore any specific project.

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, 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 Properites".

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 expenditures are not expected to be recovered, they are charged to profit or loss.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) 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
Vehicles	-	30%	declining balance basis
Computer hardware	-	55%	declining balance basis
Furniture and fixtures	-	20%	declining balance basis

(g) 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.

(h) 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 and cash equivalents, restricted cash and amounts receivable.

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

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

Financial assets (continued)

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 statement of financial position at fair value with changes in fair value recognised in profit or loss.

The Company has designated its cash equivalents at fair value through 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 though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of loss and comprehensive 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 and comprehensive 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 Company 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.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

Financial assets (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.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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

The Company's financial liabilities include accounts payable and accrued liabilities.

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 as other financial liabilities. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the 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.

Expressed in Canadian dollars

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) 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. For all periods presented, the loss available to common shareholders equals the reported loss. 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 as the effects of including all outstanding options and warrants would be anti-dilutive. As at December 31, 2012 and 2011, all outstanding options and warrants were anti-dilutive.

(j) 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, 2012 and 2011.

7. CHANGE IN ACCOUNTING POLICY

In a report dated July 19, 2012, the Accounting Standards Board's IFRS Discussion Group concluded that the accounting under IFRS for the modification of warrants issued as part of a private placement unit should not trigger an expense; rather the modification would trigger a reclassification within equity, or alternatively no recognition at all. In consideration of this new guidance, the Company has elected to change its policy to not value warrant modifications. This policy has been applied retrospectively.

The impact on the consolidated statement of financial position as at December 31, 2011 and the consolidated statements of loss and comprehensive loss for year ended December 31, 2011 is as follows:

	Year ended December 31, 2011
Net loss, original	(1,931,306)
Changes	74,000
Net loss, restated	(1,857,306)

The change did not have an impact on loss per share for the year ended December 31, 2011.

	December 31, 2011, original	Changes	December 31, 2011, restated
Warrant reserve	1,403,372	(186,000)	1,217,372
Deficit	(3,905,740)	186,000	(3,719,740)

Expressed in Canadian dollars

8. EXPLORATION AND EVALUATION ASSETS

James Bay Property, Ontario, Canada

The Company acquired, by staking, certain claims in Ontario, Canada.

Balance, December 31, 2010	$ 2,438,662
Recovery	(5,000)
Balance, December 31, 2011	$ 2,433,662
Write-off	(2,433,662)
Balance, December 31, 2012	$ -

On June 29, 2012, the Company announced that it had signed an agreement to acquire a 47% interest in a Nigerian oil and gas project (see below). As a result of the Company's change in focus to pursuing oil and gas assets in Nigeria, the James Bay Property was written off.

Nigeria Oil and Gas Properties

D&H Solutions AS ("D&H")

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.

8. EXPLORATION AND EVALUATION ASSETS (continued)

Nigeria Oil and Gas Properties (continued)

The Company also assumed D&H's agreement to acquire a 47% interest in certain oil and gas interests in Nigeria through the formation of a joint operation with the vendor. As consideration for the transfer of the interest, the Company will be required to pay US$2,500,000 ($2,492,000). These payments are to commence only upon completion of due diligence by the Company and to occur over a period of time defined by the accomplishment of project milestones, ending with the achievement of commercial production. In addition, on the commencement of commercial production the Company will pay a monthly management retainer of US$30,000 ($30,000) to the seller in return for the seller performing its ordinary legal and regulatory duties as marginal field license holder. The Company will also be required to pay up to US$500,000 ($498,000) in capital contribution to the project as required to finance the joint operation until the commencement of commercial production. Related to this agreement, the Company paid US$50,000 ($50,000) for the first installment in exclusivity, data purchase and administrative fees during 2011. The second and final installment of US$50,000 ($50,000) was paid in March 2012. The transfer of these oil and gas interests is dependent upon the successful remediation of a claim brought against the vendor relating to the termination of a prior business relationship related to these oil and gas interests. Subsequent to December 31, 2012, this dispute was resolved.

Upon the completion of the due diligence process, the Company is required pay US$100,000 (paid; $100,000).

Included in restricted cash is the US$500,000 ($498,000) capital contribution discussed above which is held in an Escrow account. Included in restricted cash as at December 31, 2011 is an amount of $834,047 representing the unspent portion of $2,000,000 originally placed in escrow for the purpose of conducting the initial due diligence to identify and secure the acquisition of oil and gas properties in Nigeria.

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:

- 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 upon the Company reaching 1,500 BOE per day or a minimum recoverable estimate of 50 million BOE; and

- Cash payment of US$165,000 upon signing a definitive agreement (paid).

If a target is identified through this process, completion of an acquisition could represent a Change of Business under the TSX Venture Exchange policies. As a result, any such transaction would be subject to a number of conditions.

During the year ended December 31, 2012, the Company incurred $217,724 (2011 - $1,233,304) in due diligence costs related to its search for a suitable oil and gas asset in Nigeria. Once such assets are identified, related costs are considered to be evaluation costs, and are so identified on the consolidated statement of loss and comprehensive loss.

During the year ended December 31, 2012, the Company incurred $2,869,003 in evaluation costs related to pursing certain oil and gas assets in Nigeria; such costs are detailed below.

Expressed in Canadian dollars

8. EXPLORATION AND EVALUATION ASSETS (continued)

Nigeria Oil and Gas Properties (continued)

Description		Amount
Acquisition costs	$	247,941
Management fees		826,553
Share-based compensation		172,356
Consulting fees		540,106
Travel and accommodation		363,011
Professional fees		273,316
Legal fees		134,780
Transfer agent and listing fees		9,702
Amortization		4,906
General and administrative expense		296,332
Balance at December 31, 2012	$	2,869,003

9. SHARE CAPITAL

(a) **Authorized** - Unlimited common shares

(b) **Issued** - 28,040,350 common shares

	#	$
Balance at December 31, 2010, 2011 and 2012	28,040,350	9,261,904

10. 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 10% 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.

Expressed in Canadian dollars

10. SHARE-BASED PAYMENTS (continued)

Subsequent to December 31, 2012, certain amendments were made to the Company's stock option plan which will allow for an increase to the number of stock options issued to a maximum of 20% of the Company's issued and outstanding capital at the date of grant.

The following reconciles the share options outstanding:

	Year ended December 31, 2012		Year ended December 31, 2011	
	Number of options #	Weighted average exercise price $	Number of options #	Weighted average exercise price $
Balance, beginning of year	2,765,000	0.75	2,765,000	0.75
Expired	(120,000)	(0.75)	-	-
Balance, end of year	2,645,000	0.75	2,765,000	0.75

The Company has the following share options outstanding at December 31, 2012:

Estimated Grant Date Fair Value $	Outstanding Options #	Options Exercisable #	Exercise Price $	Expiry Date
768,944	1,350,000	1,350,000	0.75	April 2, 2013*
383,250	1,095,000	1,095,000	0.75	September 17, 2013
98,000	200,000	200,000	0.75	June 11, 2015
1,250,194	2,645,000	2,645,000		

*These options expired, unexercised, on April 2, 2013

The weighted average exercise price of options exercisable at December 31, 2012 is $0.75 (December 31, 2011 - $0.75).

During the year ended December 31, 2012, the Company committed to granting 600,000 stock options. These options are expected to vest as follows: 1/3 immediately, 1/3 on the first anniversary of the grant date and 1/3 on the second anniversary of the grant date. The grant of the options is contingent on the Company passing an amendment to the Plan, allowing for additional options to be granted. Subsequent to December 31, 2012 this amendment was passed and the options were granted. 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 98%; risk free interest rate of 1.8% and expected life of five years. An expense of $172,356 was recorded relating to these stock options during the year ended December 31, 2012.

Expressed in Canadian dollars

11. WARRANT RESERVE

As at December 31, 2010, 2011 and 2012, 3,723,925 warrants were outstanding with a grant date fair value of $1,217,372.

As of December 31, 2012, the following warrants were outstanding:

Estimated Grant Date Fair Value $	Outstanding Warrants #	Exercise Price $	Expiry Date
1,217,372	3,723,925	1.25	July 24, 2013

(i) On June 20, 2011, the Company extended the expiry date of common share purchase warrants issued by the Company in connection with the IPO financing that closed on July 24, 2008. The expiry date for all these warrants was extended until July 24, 2012.

(ii) On March 20, 2012, the Company extended the expiry date of common share purchase warrants issued by the Company in connection with the 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.

12. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The capital structure of the Company consists of equity attributable to common shareholders comprised of common shares, warrant reserve, share-based payments reserve and 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 years ended December 31, 2012 and 2011. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

13. 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 cash and cash equivalents and amounts receivable. The Company has no significant concentration of credit risk arising from operations. Cash equivalents consist of guaranteed investment certificates that have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Management believes that the credit risk concentration with respect to cash equivalents and 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, 2012, the Company had cash and cash equivalents of $1,261,307 (December 31, 2011 - $4,791,243) to settle current liabilities of $176,167 (December 31, 2011 - $104,765). The Company has working capital of $1,789,835 at December 31, 2012 (December 31, 2011 - $5,619,929). 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 no interest-bearing debt. 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.

(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 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. The Company’s cash equivalents as at December 31, 2012 are held at a fixed interest rate of 1.3% and are therefore not subject to fluctuations in interest rates.

As at December 31, 2012, the Company has net monetary assets denominated in US dollars of approximately $603,700 (US $605,800). 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 $60,300 based on the balance of these amounts held in US dollars at December 31, 2012.

Expressed in Canadian dollars

13. FINANCIAL INSTRUMENTS (Continued)

Fair value
The carrying value of cash, restricted cash, amounts receivable and accounts payable and accrued liabilities 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 30, 2012 and 2011, the Company's financial instruments carried at fair value consisted of cash equivalents which were classified as Level 2 in the fair value hierarchy.

14. 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, 2012 and 2011 the Company entered into the following transactions involving related parties:

The Company rents office space from a corporation controlled by a director of the Company. During the year ended December 31, 2012, approximately $36,326 (December 31, 2011 - $60,955) was charged by this corporation. The amount is included in office and general expense on the statement of loss and comprehensive loss.

The Company incurred legal fees of approximately $211,600 (December 31, 2011 - $57,280) 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, 2012, included in accounts payable and accrued liabilities is $24,165 (December 31, 2011 - $29,227) owing to this law firm.

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, 2012 and 2011 were as follows:

	2012 $	2011 $
Management salaries and benefits	735,846	284,738

Included in accounts payable and accrued liabilities as at December 31, 2012 is approximately $25,499 (2011 - $nil) management travel expenses reimbursement.

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

14. RELATED PARTY DISCLOSURES (Continued)

During the year ended December 31, 2011, the Company realized a net loss on held for trading investments of $201,120. The loss consisted of losses on the expiry of non-trading common share purchase warrants held in CDR Minerals Inc. and Morumbi Oil & Gas Inc. of $140,000 and $90,000, respectively, and a gain on the sale of 500,000 common shares of Largo Resources Ltd. of $28,880. Largo Resources Ltd. and Morumbi Oil & Gas Inc. are considered related parties to the Company, by virtue of sharing certain directors and officers in common. As at December 31, 2012, the Company did not have any investments in other companies.

During the year ended December 31, 2011, the Company received an early repayment of its loan receivable from Morumbi Oil & Gas Inc. Pursuant to this repayment, the Company recognized a gain of $132,871.

15. COMMITMENTS AND CONTINGENCIES

The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to $864,000 be made upon the occurrence of certain events such as a change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements. Additional minimum management contract commitments remaining under these contracts are approximately $1,022,000, of which $620,000 is due within one year and the remainder is due within two years.

The Company is subject to a lease commitment for premises in Nigeria expiring in September 2017. Additional minimum lease payments required under this lease total approximately $603,000, of which $127,000 will be incurred within one year. The first two years of this lease have been paid in advance and are included in current and long term prepaid expenses as at December 31, 2012. Subsequent to December 31, 2012, the Company entered into a lease agreement for office space in Canada expiring on November 30, 2014. Minimum lease payments under this lease total approximately $85,000, of which $38,000 will be incurred within one year.

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.

Expressed in Canadian dollars

16. EQUIPMENT

Cost	**Office equipment**	**Furniture and fixtures**	**Computer equipment**	**Vehicles**	**Total**
Balance December 31, 2011 and 2010	-	909	-	-	909
Additions	9,928	120,900	3,900	2,000	136,728
Balance December 31, 2012	9,928	121,809	3,900	2,000	137,637

Accumulated amortization	**Office equipment**	**Furniture and fixtures**	**Computer equipment**	**Vehicles**	**Total**
Balance, December 31, 2010	-	389	-	-	389
Amortization	-	181	-	-	181
Balance December 31, 2011	-	570	-	-	570
Amortization	1,276	3,072	1,555	50	5,953
Balance December 31, 2012	1,276	3,642	1,555	50	6,523

Carrying value	**Office equipment**	**Furniture and fixtures**	**Computer equipment**	**Vehicles**	**Total**
Balance, December 31, 2010	-	520	-	-	520
Balance December 31, 2011	-	339	-	-	339
Balance December 31, 2012	8,652	118,167	2,345	1,950	131,114

Expressed in Canadian dollars

17. INCOME TAXES

a) Provision for Income Taxes

Major items causing the Company's income tax rate to differ from the federal statutory rate of 26.75% (2011 - 28.25%) in Canada were as follows:

	2012 $	2011 $
(Loss) before income taxes	(6,201,439)	(1,857,306)
Expected income tax recovery based on statutory rate	(1,659,000)	(525,000)
Adjustment to expected income tax benefit:		
Non-deductible items for tax purposes	3,000	19,000
Change in statutory tax rates	(1,538,000)	65,000
Effects of foreign exchange on deferred tax balances	(24,000)	-
Other	50,000	-
Benefit of tax losses not recognized	3,168,000	441,000
Deferred income tax provision	-	-

b) Deferred tax assets have not been recognized in respect of the following items:

	2012 $	2011 $
Non-capital loss carry-forwards	724,000	449,000
Operating tax losses - Nigeria	118,000	11,000
Share issue costs	-	68,000
Exploration and evaluation assets - Canada	849,000	188,000
Exploration and evaluation assets - Nigeria	2,493,000	300,000
Equipment	2,000	2,000
	4,186,000	1,018,000

Expressed in Canadian dollars

17. INCOME TAXES (Continued)

c) Tax Loss Carry-Forwards

As at December 31, 2012, the Company had approximately $3,205,000 (2011 - $3,205,000) of Canadian exploration and development expenditures and $4,134,000 (2011 - $1,237,000) of Nigerian exploration and operating expenditures. These losses can be may be utilized to reduce taxable income of future years under certain circumstances.

As at December 31, 2012, the Company had approximately $2,733,000 (2011 - $1,779,000) of non-capital losses in Canada, which can be used to reduce taxable income in future years. The losses expire as follows:

Year of Expiry	**Amount $**
2027	7,000
2028	107,000
2029	102,000
2030	812,000
2031	751,000
2032	954,000
	2,733,000

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.