



**James Bay**  
Resources Limited

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JAMES BAY RESOURCES LIMITED  
2012 ANNUAL REPORT



May 23<sup>th</sup>, 2013

Dear Fellow Shareholders:

On behalf of the Board of Directors, I am pleased to report to you on our progress in 2012 and provide our outlook for 2013.

2012 was a very busy year for James Bay and its wholly owned subsidiary James Bay Energy Nigeria Limited in Nigeria.

James Bay entered into an agreement to acquire from Bicta Energy and Management Systems Limited ("Bicta") a 47% direct interest in the Ogedeh Project in Nigeria (the "Ogedeh Project"). The Ogedeh Project is a marginal field located in the south western corner of the Nigerian National Petroleum Corporation Block OML 90 (oil mining lease) in the western Niger Delta Basin, Nigeria. The Ogedeh field was discovered by Chevron in 1993 by the drilling of the Ogedeh-1 well, in shallow water offshore from OML 90.

In order to acquire the 47% interest of the Ogedeh Field, James Bay entered into a Joint Operating Agreement with Bicta dated May 28, 2012 (the "JOA") the Deed of Assignment dated March 9, 2012 (the "DOA"), which was filed with the Department of Petroleum Resources in Nigeria ("DPR"). Last fall James Bay received approvals from the Department of Petroleum Resources in respect of the Joint Operating Agreement and the Deed of Agreement. In addition, James Bay was audited by the Department of Petroleum Resources and found to be both financially and technically capable to operate oil and gas projects in Nigeria. On January 14<sup>th</sup>, 2013, James Bay received conditional approval from the TSX Venture Exchange ("TSXV") to change its' business from mining to oil and gas exploration and production in Nigeria. At the February 4<sup>th</sup>, 2013, special meeting, shareholders voted to approve the change of business of James Bay Resources Limited as well as the transaction in which the company acquired its interest in the Ogedeh Field. We are diligently working towards receipt of the final approval of the TSXV for the change of business. The material outstanding conditions include, completion of a financing, receipt of Ministerial approval in Nigeria and completion of acceptable due diligence each of which are moving forward. James Bay is pleased to report that the Honourable Minister of Petroleum Resources has granted approval to the assignment of 47% participating interest in the Ogedeh marginal field located in OML 90.

Subject to receipt of the final approval from the TSXV, James Bay intends to re-enter the discovery well on the Ogedeh Project to facilitate two drill stem tests later this year or the first quarter of 2014 and to put the Ogedeh field on an extended well test designed to determine the next steps in the exploration and development of the field. The NI51-101 report prepared by Sproule, an Evaluation of the Contingent Oil Resources of James Bay Resources Limited in Ogedeh Field Nigeria, was published on June 30<sup>th</sup>, 2012, indicating a Discovered Original Oil In Place of 24.6MMbbl (P50) with an economic contingent oil resource of 6.6MMbbl recoverable barrels. There is a large amount of proven oil in place for the Company to target as we develop the field with additional wells in the future. We continue to source other potential projects as well, with the goal of building James Bay Resources Limited into a significant E&P company in Nigeria.

On the operational side, I note that the company made several important hires during 2012, bolstering its team of technical and operational oil and gas professionals to be in a position to move the Ogedeh Project forward upon receipt of all required approvals. In March 2012, the Company appointed Knut Sjøvold of D&H Solutions AS as a director of James Bay Resources Limited and as President & CEO of James Bay Energy Nigeria Limited. Mr. Sjøvold has more than 20 years' experience in the exploration and production business from both the executive management and technical level. He also possesses extensive experience with field evaluations as well as oil and gas operations world-wide. In June, 2012, James Bay appointed Adeniyi Olaniyan as Chief Operating Officer and Country Manager for its 100% owned Nigerian subsidiary, James Bay Energy Nigeria Limited. Mr. Olaniyan has had considerable geoscience and project management experience in several geological basins with over 20 years of international experience (Africa, Asia, Europe) in subsurface Oil and Gas E&P, Project Management, New Ventures, Asset Development and Business Planning within the Shell Group. Both gentlemen have been invaluable in progressing James Bay's interests in Nigeria over the past year.

Given all of our efforts to build a presence and future in Nigeria, we are confident that James Bay is now well positioned to capitalize on opportunities in Nigeria as soon as all required TSXV approvals have been obtained.

On behalf of the Board, we thank you for your continuing support.

Signed,

"Stephen Shefsky"

President & C.E.O.



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Resources Limited

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**JAMES BAY RESOURCES LIMITED**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2012**

The Management's Discussion and Analysis ("MD&A") of James Bay Resources Limited (the "Company" or "James Bay") should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2012. Those financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The Company's reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars. The following Management's Discussion and Analysis ("MD&A") has been prepared as at April 22, 2013.

## **HIGHLIGHTS**

- The Company has entered into a Joint Operating Agreement ("JOA") and deed of assignment with an oil and gas field owner in Nigeria.
- In June, 2012, the Company appointed Adeniyi Olaniyan as Chief Operating Officer and Country Manager for James Bay Energy Nigeria Limited.
- D&H Solutions to provide management personnel to James Bay to increase its capabilities to source and develop oil & gas exploration and production assets.
- The company appointed Knut Sovold as a Director of the Company and as President & CEO of James Bay Energy Nigeria Limited.
- The Company enters into agreement with domestic oil and gas service provider Mak Mera.
- Extends the expiry date of 3,723,925 warrants for one year.
- In October 2012, the Company filed a National Instrument 51-101 report to pursue conditional approval its change of business under the policies of the TSX Venture Exchange with the resulting focus on the oil and gas industry.

## **COMPANY OVERVIEW**

James Bay is a junior resource company originally focused on the acquisition and exploration of base and precious metal mineral properties, with activities centered in Canada. The Company has exclusive rights in the mining claims known as the James Bay Lowlands property (the "Property"), located approximately 60 km southeast of the First Nations community of Webequie, and approximately 600 km northwest of Timmins, Ontario, Canada. The Property consists of 104 unpatented claims covering a total of approximately 1,319 claim units or approximately 21,620 ha of mineral exploration rights.

In March 21, 2011 the Company entered into a preliminary agreement to conduct due diligence to identify potential oil and gas acquisition targets in Nigeria.

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. 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. On October 11, 2012, the Company filed a National Instrument 51-101 report to pursue conditional approval its change of business under the policies of the TSX Venture Exchange.

## **History and corporate structure**

The Company was incorporated on November 5, 2007 as "2153325 Ontario Inc." pursuant to the provisions of the Business Corporations Act (Ontario). By articles of amendment on November 22, 2007, the Company changed its name to its current name "James Bay Resources Limited". By articles of amendment effective June 16, 2008, the Company removed the restrictions on the issue, transfer or ownership of shares of the Company.

February 27, 2012, the Company incorporated a wholly owned Nigerian subsidiary, James Bay Energy Nigeria Limited. In pursuant to an agreement signed with D&H Solution AS, 100% share ownership interest of D&H Energy Nigeria Limited ("DHENL") and Ondobit Limited ("OL") were transferred to JBENL on March 9, 2012.

In April 2012, 2255431 Ontario Inc. (a wholly owned subsidiary of the Company) assigned 100% ownership interest to James Bay Coal LLC to James Bay. James Bay Coal LLC is a US entity and a wholly owned subsidiary of James Bay. James Bay Coal LLC was later converted from a Delaware corporation to a Delaware limited liability company called James Bay Energy Nigeria LLC.

The consolidated financial statements include the financial statements of the Company and its subsidiaries and their respective ownership listed in the following table:

2255431 Ontario Inc., Canada	100%
James Bay Energy Nigeria LLC (“JBEN LLC”), USA	100%
James Bay Energy Nigeria Limited (“JBENL”), Nigeria	100%
D&H Energy Nigeria Limited (“DHENL”), Nigeria	100%
Ondobit Limited (“OL”), Nigeria	100%

### **JAMES BAY DIRECT INTEREST IN OIL AND GAS FIELD**

In June 2012, James Bay entered into its first Joint Operating Agreement (JOA) with an oil and gas field owner in Nigeria. The JOA and Deed of Assignment (DOA) have been filed with the Department of Petroleum Resources (DPR).

The Company’s near term goal is to re-enter the well later this year with the goal of commercial production in the beginning of 2014. After re-entry of the discovery well and an expected Long Term Test (LTT), a new well will be drilled as an appraisal well to define the in-place volumes.

The field was discovered in the early 90’s by Chevron and auctioned by the Nigerian government in the 2003 marginal field auction. The structural framework of the field has been well delineated by the interpretation of the available 3D seismic dataset and the well control logs which James Bay and its technical consultants have reviewed. Some shallow and intermediate depth reservoirs exhibit good amplitude reflections that act as direct hydrocarbon indicators (DHIs) on the seismic reports. The petro physical data evaluation by James Bay confirmed four main hydrocarbon bearing intervals, consisting of both oil and gas with one bottom hole oil sample. James Bay has prepared reserve estimates and production forecasts which are based upon wire-line logs evaluation, well drilling reports and analogue experience from comparable data from nearby producing and development fields within 5 - 10 km’s of the field.

Under the terms of the JOA, James Bay will acquire a 47% direct interest in the Project, to be held through its wholly-owned Nigerian subsidiary, D&H Energy Nigeria Limited (see James Bay press release dated June 29, 2012). In order to earn its interest in the Project, James Bay is required to pay an aggregate amount of US\$2,500,000 as follows:

- The sum of US\$100,000 paid upon completion of James Bay's due diligence on the Project (paid in five instalments of US\$20,000 per month). The US\$100,000 was disbursed commencing in March, 2012, and has been paid in full.
- The sum of US\$500,000 was set aside in an escrow account upon execution of the definitive agreements (being the JOA and the DOA), after May, 2012. That US\$500,000 is to be released as to US\$200,000 upon approval from the DPR of the assignment of the direct interest in the Project to James Bay, and the final US\$300,000 to be released upon the grant of approval licenses by the relevant government authorities and the arrival of the drill rig to re-enter an existing well on the Project.
- James Bay is obligated to pay a further US\$1,000,000 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, then James Bay shall pay US\$0.10 per barrel of oil produced, to a maximum of US\$1,000,000. The final sum of US\$900,000 is payable upon the completion of 60 days of commercial production.

James Bay has also agreed that it shall provide the joint operation funds (future capital expenditures and operating expenses) required to finance the Project to first oil. James Bay has also agreed to pay the owner a monthly management retainer fee of US\$30,000, which will commence upon the date of the drill rig arriving at the Project, and ending on the commencement of commercial production. James Bay is entitled to a preferential return of 80% of the available cash flow from oil production until all costs of the joint operation (future capital expenditures and operating expenses) incurred by James Bay to get to first oil have been fully reimbursed. The remaining 20% of available cash flow during this stage of production is shared between James Bay and the owner in proportion to their relative percentage interests. After all joint operation costs have been fully recovered by James Bay, the remaining revenues shall be shared between James Bay and the owner in proportion to their relative percent interests.

Included in restricted cash is the US\$500,000 (CAD\$497,450) capital contribution to the project as required to finance the joint operation until the commencement of commercial production held in an Escrow account.

## **Relationships in Nigeria**

### **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”) (a 50/50 partnership between Hemla of Norway and Korea's DSME (Daewoo Shipbuilding and Marine Engineering)) to further evaluate the identified oil & 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 Miners 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.

The Company also assumed D&H's agreement to acquire a 47% interest in certain oil and gas interest in Nigeria through the formation of a joint operation with the seller.



## 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 6, 2012, a new agreement with MAK MERA was signed. The new consulting services agreement calls for the issuance of 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.
- Cash payment of US\$165,000 upon signing a definitive agreement (paid).

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

The Company expensed \$2,869,003 in evaluation costs detailed as follows:

<b>Description</b>	<b>Amount</b>
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

## **JAMES BAY MINERAL PROPERTY**

### **James Bay Lowlands property (the “Property”)**

#### **Introduction**

The McFauld’s Lake area has been the focus of many junior exploration companies, beginning with the discovery of significant VMS-style mineralization by Spider Resources in 2003 and more recently with the discovery of high-grade Ni-Cu mineralization in two separate areas by Noront Resources in 2007 and 2008, in addition to Chromite discoveries by Noront and Freewest Resources in 2008 and 2009. The area was previously explored by DeBeers for diamonds in which VMS mineralization was intersected during a drill program for kimberlites. Prior to these exploration activities, the McFauld’s Lake area was not extensively explored.

The exploration targets sought in the McFauld’s Lake area are nickel (Ni), copper (Cu) and platinum group elements (PGE) – known as Ni-Cu-PGE deposits – Chrome (Cr) found in chromite or chromitite deposits – copper, lead (Pb) and zinc (Zn) or Cu-Pb-Zn deposits – known as volcanogenic massive sulphide (VMS) deposits – gold (Au) associated with high sulphide iron formation, gold associated with low sulphide concentrations, and possible diamond deposits associated with kimberlite pipes.

The Company drilled the property during the fall of 2008. A total of 373 samples were collected from 11 holes totalling just over 2100 metres. The drilling program was designed to test airborne geophysical EM conductors discovered through 5 separate surveys.

On March 4, 2010, 3 mining claims were re-staked due to claim tag issues. Rather than requesting a Mining Recorder’s Order to move claim posts, it was far more efficient and cost effective to restake the claims. Under provisions of the Ontario Mining Act, a Notice of Restaking of Transferred Claim could be filed for each of the 3 claims so that the assessment work on file for the original claims would not be lost and would be directly transferred to the new mining claim. A Notice of Restaking of Transferred Claim was filed for each of the 3 claims on March 16, 2010.

On September 5, 2011, the three E Block claims expired.

In February 2013, the Company contracted with MacDonald Mines 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 will form the basis for a report of work, which will be submitted for assessment credits in April, 2013. There will be sufficient assessment credits generated by this report of work to keep the claims in good standings for 1 assessment year (and will satisfy the current extension of time that exists on certain claims with a due date of September 2013).

The Company originally capitalized \$2,433,662 since incorporation related to its James Bay Lowlands property. These costs are detailed as follows:

Description	Amount
Balance at January 1, 2009	\$ 2,529,529
Assaying	3,924
Drilling	(27,292)
Fuel and transportation	46,613
Mapping and airborne geophysics	(105,133)
Site management and Supplies	(14,888)
Staking costs	(1,366)
Travel and accommodation	142
Balance at December 31, 2009	\$ 2,431,529
Costs incurred during the year	7,133
Balance at December 31, 2010	\$ 2,438,662
Costs recovered during the year:	(5,000)
Balance at December 31, 2011	\$ 2,433,662
Write-off	(2,433,662)
Balance at 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 Property was written off.

## **RESULTS OF OPERATIONS AND CASH FLOWS**

### **Revenue**

The Company is in the exploration and evaluation development stage and therefore did not have revenues from operations. Interest income for the year ended December 31, 2012 was \$41,931 (December 31, 2011 - \$64,526). The Company deposited approximately \$1,000,454 in cashable GICs at an interest rate of 1.30%. The cashable GICs approximately decreased of \$3,600,000 as of December 31, 2012 from the same period of 2011.

Fourth quarter interest income was \$4,915, reflecting a decrease of \$9,075 from the same period in 2011.

### **Expenses**

The Company recorded total expense of \$3,782,064 for the year ended December 31, 2012 as compared to \$1,872,318 of operating expenses in the comparative period in 2011. Refer to year-to-date expenses.

Fourth quarter expenses were \$1,047,334, reflecting an increase of \$529,055 from the same period in 2011. This is mainly due to evaluation costs increased in Nigeria project.

### **Net loss and comprehensive loss**

For the year ended December 31, 2012, the Company recorded net loss of \$6,201,439 with basic and diluted loss per share of \$0.22 (December 31, 2011 - \$1,857,306). This is mainly attributable to expenditures incurred in relation to evaluation expenses incurred in Nigeria. The Company concluded the due diligence process in early March 2012. Evaluation costs incurred between March 2012 and December 31, 2012 totalled \$2,869,003. In 2012, the Company wrote down exploration and evaluation assets of \$2,433,662.

Fourth quarter net loss and comprehensive loss was \$1,028,423, reflecting an increase of \$483,937 from the same period in 2011.

### **Year-to-date expenses**

Expenses for the year ended December 31, 2012 totalled \$3,782,064 as compared to \$1,872,318 in the comparative period in 2011. The increase in expense is mainly attributable to the evaluation costs incurred in Nigeria and due diligence expense as indicated above. The due diligence expense was incurred over the 2011 and 2012 period. The Company spent \$1,233,304 in 2011 and \$217,724 in the first two months of 2012. Subsequent to the due diligence process, the Company incurred a further \$2,869,003 between March and December 2012.

## **CASH FLOWS**

### **Operating Activities**

The Company had a net outflow of \$3,274,290 from operating activities for the year ended December 31, 2012 (December 31, 2011 – \$2,040,784). This is mainly attributable to expenditures incurred in relation to evaluation costs in Nigeria.

Fourth quarter cash used in operating activities was \$968,366, reflecting a decrease of \$432,738 from the same period in 2011. This is mainly due to non-cash working capital outflow of \$831,922 in the fourth quarter in 2011.

**Investing Activities**

The Company had a net outflow of \$240,626 from investing activities for the year ended December 31, 2012 (December 31, 2011 – inflow of \$496,853). This is mainly attributed to the office equipment related costs for Nigeria office.

Fourth quarter cash used in investing activities was \$235,795, reflecting an increase of \$235,795 from the same period in 2011. This is attributable to the increase of acquisition of equipment in Nigeria office of \$131,897 and increase in long-term rent prepaid of \$103,898 in the fourth quarter 2012.

**Financing Activities**

The Company had no financing activities during the year.

**SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION****SELECTED THREE-YEAR ANNUAL INFORMATION**

For the year ended December 31,	2012 \$	2011 \$	2010 \$
Interest revenue	41,931	64,526	96,738
Expenses	3,782,064	1,872,318	774,107
Net loss and comprehensive loss	6,201,439	1,857,306	713,527
Basic and diluted loss per share	0.22	0.07	0.03
Exploration and evaluation assets	-	2,433,662	2,438,662
Total assets	2,201,014	8,158,695	10,055,265
Shareholders' equity	2,024,847	8,053,930	9,911,236

## SUMMARY OF QUARTERLY RESULTS

	Quarter-ended			
	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
Working Capital	\$1,789,835	\$3,015,599	\$4,063,866	\$4,876,068
Exploration and evaluation Assets	-	-	-	2,433,662
Operating expenses	1,047,334	1,065,637	946,321	1,092,771
Interest income	4,915	9,296	13,495	14,225
Loss and comprehensive loss	1,028,423	1,081,796	3,365,682	1,095,538
Loss and comprehensive loss per share	0.04	0.02	0.12	0.04

	Quarter-ended			
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
Working capital	\$5,619,929	\$6,164,370	\$6,597,151	\$6,908,443
Exploration and evaluation Assets	2,433,662	2,433,662	2,433,662	2,438,662
Operating expenses (recovery)	518,279	563,774	599,193	191,072
Share-based compensation	-	-	-	-
Interest income	13,990	13,587	144,046	25,774
Loss and comprehensive loss	544,486	452,827	673,939	186,054
Loss and comprehensive loss per share	0.02	0.02	0.02	0.01

Notes: Net loss per share on a diluted basis is the same as basic net loss per share, as all outstanding stock options and warrants are anti-dilutive.

### LIQUIDITY

The Company had opening cash and cash equivalents balance of \$4,791,243. The Company used \$3,274,290 in operating activities and \$240,626 in investing activities during the year. At December 31, 2012, the Company had cash and cash equivalents of \$1,261,307.

### Common shares

At December 31, 2012, the Company had issued and outstanding 28,040,350 common shares. There were no additional common shares issued between the period from January 1, 2013 to April 22 2013.

### Warrants

At December 31, 2012, a total of 3,723,925 warrants were outstanding, with each warrant entitling the holder to purchase one common share of the Company with expiry date of July 24, 2013 at a price of \$1.25. There were no additional warrants issued between the period from January 1, 2013 to April 22, 2013.

### **Stock options**

At December 31, 2012, a total of 2,645,000 stock options are issued and outstanding with expiry dates ranging from April 2, 2013 through to June 11, 2015. The weighted average exercise price for all stock options is \$0.75. All stock options entitle the holder to purchase common shares of the Company. On April 2, 2013, 1,350,000 stock options expired. At April 22, 2013, the Company have 1,295,000 stock options issued and outstanding.

### **OUTLOOK**

The Company's near-term goal is to preserve cash and cash equivalents to the greatest extent possible. The Company is seeking additional opportunities which may include acquisitions or joint ventures.

### **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.

**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.

**RECENT ACCOUNTING PRONUCEMENTS**

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.

**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 year 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) paid to a law firm of which a partner is a director of the Company. This amount is included in professional fees on the statement of comprehensive loss. As of December 31, 2012, included in accounts payable and accrued liabilities are \$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 year ended December 31, 2012 and 2011 were as follows:

	2012	2011
	\$	\$
Management salaries and benefits	<u>735,846</u>	<u>284,738</u>

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.

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.

#### **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 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.

#### **OFF BALANCE SHEET ARRANGEMENTS**

The Company has no off balance sheet arrangements.

#### **RISKS AND UNCERTAINTIES**

##### **Additional Capital**

The Company began conducting due diligence to identify potential acquisition targets of onshore/offshore Nigerian oil and gas project. If the results are favourable, Company will require additional capital which may come from future financings or the exercise of outstanding convertible securities of the Company. There can be no assurance that the Company will be able to raise such additional capital if and when required on terms it considers acceptable.

##### **No History of Profitability**

The Company is an exploration company with no history of profitability. There can be no assurance that the operations of the Company will be profitable in the future. The Company has limited financial resources and will require additional financing to further explore, develop, acquire, retain and engage in commercial production on its property interests and, if financing is unavailable for any reason, the Company may become unable to acquire and retain its mineral concessions and carry out its business plan.

##### **Government Regulations**

The Company's exploration operations are subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. For the Company to carry out mining activities, exploitation licenses must be obtained and kept current. There is no guarantee that the Company's exploitation licenses would be extended or that new exploitation licenses would be granted. In addition, such exploitation licenses could be changed and there can be no assurances that any application to renew any existing licenses will be approved. The Company may be required to contribute to the cost of providing the required infrastructure to facilitate the development of its properties. The Company will also have to obtain and comply with permits and licenses which may contain specific conditions concerning operating procedures, water use, waste disposal, spills, environmental studies, abandonment and restoration plans and financial assurances. There can be no assurance that the Company will be able to comply with any such conditions.

### **Market Fluctuation and Commercial Quantities**

The market for minerals is influenced by many factors beyond the control of the Company such as changing production costs, the supply and demand for resources, the rate of inflation, the inventory of resources producing companies, the international economic and political environment, changes in international investment patterns, global or regional consumption patterns, costs of substitutes, currency availability and exchange rates, interest rates, speculative activities in connection with resources, and increased production due to improved extractor and production methods. The resources industry in general is intensely competitive and there is no assurance that, even if commercial quantities and qualities of resources are discovered, a market will exist for profitable sale. Commercial viability of precious and base metals and oil and gas deposits may be affected by other factors that are beyond the Company's control including particular attributes of the deposit such as its size, quantity and quality, the cost of mining and processing, proximity to infrastructure and the availability of transportation and sources of energy, financing, government legislation and regulations including those relating to prices, taxes, royalties, land tenure, land use, import and export restrictions, exchange controls, restrictions on production, as well as environmental protection. It is impossible to assess with certainty the impact of various factors which may affect commercial viability so that any adverse combination of such factors may result in the Company not receiving an adequate return on invested capital.

### **Mining Risks and Insurance**

The Company is subject to the risks normally encountered in the mining industry, such as unusual or unexpected geological formations, cave-ins or flooding. The Company may become subject to liability for pollution, damage to life or property and other hazards of mineral exploration against which it or the operator of its exploration programs cannot insure or against which it or such operator may elect not to insure because of high premium costs or other reasons. Payment of such liabilities would reduce funds available for acquisition of mineral prospects or exploration and development and could have a material adverse effect on the financial position of the Company.

### **Competition**

The mineral exploration and mining industry is competitive in all phases of exploration, development and production. The Company competes with a number of other entities and individuals in the search for and the acquisition of attractive properties. As a result of this competition, the majority of which is with companies with greater financial resources than the Company, the Company may not be able to acquire attractive properties in the future on terms it considers acceptable. Finally, the Company competes with other resource companies, many of whom have greater financial resources and/or more advanced properties that are better able to attract equity investments and other capital. The ability of the Company to acquire attractive properties in the future depends not only on its success in exploring and developing its present properties and on its ability to select, acquire and bring to production suitable properties or prospects for exploration, mining and development. Factors beyond the control of the Company may affect the marketability of minerals mined or discovered by the Company. See "Risk Factors".

### **Environmental Protection**

The mining and mineral processing industries are subject to extensive governmental regulations for the protection of the environment, including regulations relating to air and water quality, mine reclamation, solid and hazardous waste handling and disposal and the promotion of occupational health and safety which may adversely affect the Company or require it to expend significant funds.

### **Aboriginal Claims**

Aboriginal rights in Ontario may be claimed on Crown or other types of tenure with respect to which mining rights have been granted. The Company is not aware of any aboriginal claims having been asserted or any legal actions relating to native issues having been instituted with respect to any of the mineral claims in which the Company has an interest. Should aboriginal claims be made against the Property and should such a claim be resolved by government or the courts in favour of the aboriginal people, it could materially adversely affect the business of James Bay only for the James Bay lowlands property. The Company is fully aware of the mutual benefits afforded by cooperative relationships with indigenous people in conducting exploration activity and is fully supportive of measures established to achieve such cooperation.

**Conflicts of Interest**

Certain of the directors and officers of the Company may also serve as directors and officers of other companies involved in gold and precious metal or other natural resource exploration and development and consequently, the possibility of conflict exists. Any decisions made by such directors involving the Company will be made in accordance with the duties and obligations of directors to deal fairly and in good faith with the Company and such other companies. In addition, such directors declare, and refrain from voting on any matters in which such directors may have a conflict of interest.

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

This MD&A contains certain forward-looking statements and information relating to the Company that are based on the beliefs of its management as well as assumptions made by and information currently available to the Company. When used in this document, the words “anticipate”, “believe”, “estimate”, “expect” and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such forward-looking statements relate to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the continued exploration of the Company’s exploration property. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievement of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made.

**Additional Information**

Additional information relating to the Company can also be found on SEDAR.

**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**

<b><u>INDEX</u></b>	<b><u>PAGE</u></b>
Auditor's Report	1
Consolidated Statements of Financial Position	2
Consolidated Statements of Loss and Comprehensive Loss	3
Consolidated Statements of Cash Flows	4
Consolidated Statements of Changes in Equity	5
Notes to the Consolidated Financial Statements	6 - 29

**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



Chartered Accountants  
Licensed Public Accountants

TORONTO, Canada

April 16, 2013

A member of UHY International, a network of independent accounting and consulting firms



# JAMES BAY RESOURCES LIMITED

## Consolidated Statements of Financial Position

Expressed in Canadian dollars

As at December 31,

	2012	2011
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
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
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 14)	176,167	104,765
<b>EQUITY</b>		
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
	\$	\$
<b>Expenses</b>		
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
<b>Loss before the undernoted</b>	<b>(3,782,064)</b>	<b>(1,872,318)</b>
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
<b>Net loss and comprehensive loss for the year</b>	<b>(6,201,439)</b>	<b>(1,857,306)</b>
<b>Loss per share</b>		
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
	\$	\$
<b>Cash used in operating activities:</b>		
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	<u>(3,274,290)</u>	<u>(2,040,784)</u>
<b>Cash (used in) provided by investing activities:</b>		
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	<u>(240,626)</u>	<u>496,853</u>
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	<u><u>1,261,307</u></u>	<u><u>4,791,243</u></u>
<b>Cash and cash equivalents are as follows:</b>		
Cash	250,911	113,970
Cash equivalents	<u>1,010,396</u>	<u>4,677,273</u>
Cash and cash equivalents	<u><u>1,261,307</u></u>	<u><u>4,791,243</u></u>

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

See accompanying notes to the consolidated financial statements

# **JAMES BAY RESOURCES LIMITED**

## **Consolidated Financial Statements**

**December 31, 2012 and 2011**

Expressed in Canadian dollars

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### **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 an 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 of 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.

# JAMES BAY RESOURCES LIMITED

## Consolidated Financial Statements

December 31, 2012 and 2011

Expressed in Canadian dollars

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### 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.

# JAMES BAY RESOURCES LIMITED

## Consolidated Financial Statements

December 31, 2012 and 2011

Expressed in Canadian dollars

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#### 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.

# JAMES BAY RESOURCES LIMITED

## Consolidated Financial Statements

December 31, 2012 and 2011

Expressed in Canadian dollars

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### 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.

# JAMES BAY RESOURCES LIMITED

## Consolidated Financial Statements

December 31, 2012 and 2011

Expressed in Canadian dollars

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### 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.



# JAMES BAY RESOURCES LIMITED

## Consolidated Financial Statements

December 31, 2012 and 2011

Expressed in Canadian dollars

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

# JAMES BAY RESOURCES LIMITED

## Consolidated Financial Statements

December 31, 2012 and 2011

Expressed in Canadian dollars

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### 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:

# JAMES BAY RESOURCES LIMITED

## Consolidated Financial Statements

December 31, 2012 and 2011

Expressed in Canadian dollars

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### 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 through 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.

# JAMES BAY RESOURCES LIMITED

## Consolidated Financial Statements

December 31, 2012 and 2011

Expressed in Canadian dollars

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### 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.

# JAMES BAY RESOURCES LIMITED

## Consolidated Financial Statements

December 31, 2012 and 2011

Expressed in Canadian dollars

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### 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.

# JAMES BAY RESOURCES LIMITED

## Consolidated Financial Statements

December 31, 2012 and 2011

Expressed in Canadian dollars

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### 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)

# JAMES BAY RESOURCES LIMITED

## Consolidated Financial Statements

December 31, 2012 and 2011

Expressed in Canadian dollars

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### 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	<u>(5,000)</u>
Balance, December 31, 2011	\$ 2,433,662
Write-off	<u>(2,433,662)</u>
Balance, December 31, 2012	<u>\$ -</u>

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.

# JAMES BAY RESOURCES LIMITED

## Consolidated Financial Statements

December 31, 2012 and 2011

Expressed in Canadian dollars

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### 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 pursuing certain oil and gas assets in Nigeria; such costs are detailed below.



# JAMES BAY RESOURCES LIMITED

## Consolidated Financial Statements

December 31, 2012 and 2011

Expressed in Canadian dollars

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### 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	<u>\$ 2,869,003</u>

### 9. SHARE CAPITAL

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

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

	#	\$
Balance at December 31, 2010, 2011 and 2012	<u>28,040,350</u>	<u>9,261,904</u>

### 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.

# JAMES BAY RESOURCES LIMITED

## Consolidated Financial Statements

December 31, 2012 and 2011

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:

	<u>Year ended</u> <u>December 31, 2012</u>		<u>Year ended</u> <u>December 31, 2011</u>	
	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	<u>2,645,000</u>	<u>0.75</u>	<u>2,765,000</u>	<u>0.75</u>

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
<u>1,250,194</u>	<u>2,645,000</u>	<u>2,645,000</u>		

\*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.

# JAMES BAY RESOURCES LIMITED

## Consolidated Financial Statements

December 31, 2012 and 2011

Expressed in Canadian dollars

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### 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.

# JAMES BAY RESOURCES LIMITED

## Consolidated Financial Statements

December 31, 2012 and 2011

Expressed in Canadian dollars

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### 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.

# JAMES BAY RESOURCES LIMITED

## Consolidated Financial Statements

December 31, 2012 and 2011

Expressed in Canadian dollars

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### 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	<u>735,846</u>	<u>284,738</u>

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.

# **JAMES BAY RESOURCES LIMITED**

## **Consolidated Financial Statements**

**December 31, 2012 and 2011**

Expressed in Canadian dollars

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### **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.

# JAMES BAY RESOURCES LIMITED

## Consolidated Financial Statements

December 31, 2012 and 2011

Expressed in Canadian dollars

### 16. EQUIPMENT

<b>Cost</b>	<b>Office equipment</b>	<b>Furniture and fixtures</b>	<b>Computer equipment</b>	<b>Vehicles</b>	<b>Total</b>
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

<b>Accumulated amortization</b>	<b>Office equipment</b>	<b>Furniture and fixtures</b>	<b>Computer equipment</b>	<b>Vehicles</b>	<b>Total</b>
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

<b>Carrying value</b>	<b>Office equipment</b>	<b>Furniture and fixtures</b>	<b>Computer equipment</b>	<b>Vehicles</b>	<b>Total</b>
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

# JAMES BAY RESOURCES LIMITED

## Consolidated Financial Statements

December 31, 2012 and 2011

Expressed in Canadian dollars

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### 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:

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
(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:

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
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



# JAMES BAY RESOURCES LIMITED

## Consolidated Financial Statements

December 31, 2012 and 2011

Expressed in Canadian dollars

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### 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:

<u>Year of Expiry</u>	<u>Amount</u> <u>\$</u>
2027	7,000
2028	107,000
2029	102,000
2030	812,000
2031	751,000
2032	954,000
	<u>2,733,000</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.

## **CORPORATE INFORMATION**

### **Directors**

Stephen Shefsky\*  
President, CEO, Secretary  
Toronto, On., Canada

Mark Brennan\*\*  
Toronto, On., Canada

Wayne Egan\*\*  
Toronto, On., Canada

Jon Pereira\*  
Toronto, On, Canada

Mike Sylvestre\*  
Port Hope, On., Canada

Knut Søvold  
Norway

### **Officers**

Stephen Shefsky  
*President, CEO, Secretary*

Eric Szustak C.A.  
*Chief Financial Officer*

**\*Member Audit Committee**

**\*\*Member Compensation Committee**

### **Offices**

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20 Victoria Street, Suite 800  
Toronto, Ontario, M5C 2N8  
Telephone: (416) 366-4200  
Facsimile: (416) 366-4201  
Website: [www.jamesbayresources.com](http://www.jamesbayresources.com)

### **Transfer Agent**

Equity Financial Trust Company  
200 University Ave., Suite 400  
Toronto, Ontario, M5H 4H1  
Tel (416) 361-0152  
Website: [www.equityfinancialtrust.com](http://www.equityfinancialtrust.com)

### **Auditors**

McGovern, Hurley, Cunningham LLP  
Toronto, Ontario  
Website: [www.mhc-ca.com](http://www.mhc-ca.com)

### **Canadian Legal Counsel**

WeirFoulds LLP  
Toronto, Ontario  
Website: [www.weirfoulds.com](http://www.weirfoulds.com)

### **Shares Traded**

TSX Venture Exchange  
Symbol JBR

### **Annual Meeting**

June 26th, 2013 at 2:00 P.M.  
Weir Foulds LLP  
Suite 4100, 66 Wellington St W.  
Toronto, Ontario. M5K 1B7



