JAMES BAY RESOURCES LIMITED

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH AND SIX MONTH PERIOD ENDED JUNE 30, 2013 AND 2012

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited financial statements of the Company have been prepared by and are the responsibility of the Company’s management. The Company’s independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity’s auditor.

Emphasis of Matter

We draw attention to Note 1 in the interim condensed consolidated financial statements which describes that the Company has a history of losses and a need for working capital. These conditions, along with other matters as 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.

JAMES BAY RESOURCES LIMITED

Condensed interim Consolidated Statements of Financial Position

Expressed in Canadian dollars

As at	June 30, 2013 $	December 31, 2012 $
ASSETS		
Current assets		
Cash and cash equivalents	231,429	1,261,307
Restricted cash (Note 7)	314,967	497,450
Prepaid expenses (Note 15)	173,221	165,406
Amounts receivable	35,238	41,839
Deferred financing fee	100,000	-
Total current assets	854,855	1,966,002
Long-term prepaid (Note 15)	36,613	103,898
Equipment (Note 6)	145,946	131,114
Exploration and evaluation assets (Note 7)	320,492	-
Total assets	1,357,906	2,201,014
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 14)	345,358	176,167
Shareholder loan (Note 8)	200,000	-
Total current liabilities	545,358	176,167
EQUITY		
Common shares (Note 9)	9,261,904	9,261,904
Share-based payments reserve (Note 10)	713,401	1,422,550
Warrant reserve (Notes 11)	1,217,372	1,217,372
Deficit	(10,380,129)	(9,876,979)
Total equity	812,548	2,024,847
Total equity and liabilities	1,357,906	2,201,014

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

APPROVED ON BEHALF OF THE BOARD:

Signed "STEPHEN SHEFSKY" , Director

Signed "MARK BRENNAN" , Director

See accompanying notes to the condensed interim consolidated financial statements

JAMES BAY RESOURCES LIMITED

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

Expressed in Canadian dollars

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
	$	$	$	$
Expenses				
Management salaries and benefits	58,891	79,175	100,675	155,336
Transfer agent and listing fees	4,211	5,340	13,003	14,184
Professional fees (Note 14)	117,313	10,643	132,604	39,070
Office and general (Note 14)	49,986	44,017	113,701	108,732
Due diligence on oil and gas property		-	-	217,724
Exploration costs – James Bay Lowlands (Note 7)	5,083	-	177,115	-
Business development	36,424	5,047	74,265	8,117
Consulting fees	-	434	-	10,167
Evaluation costs	170,644	801,665	626,214	1,115,423
Amortization	18,462	-	19,220	339
	461,014	946,321	1,256,797	1,669,092
Loss before the undernoted	(461,014)	(946,321)	(1,256,797)	(1,669,092)
Interest income	262	13,495	2,708	27,720
Foreign exchange (loss) gain	(18,715)	806	(18,004)	(16,186)
Write-down of exploration and evaluation assets	-	(2,433,662)	-	(2,433,662)
Net loss and comprehensive loss for the period	(479,467)	(3,365,682)	(1,272,093)	(4,091,220)
Loss per share				
Basic and diluted	(0.02)	(0.12)	(0.05)	(0.15)
Weighted average common shares outstanding				
Basic and diluted	28,040,350	28,040,350	28,040,350	28,040,350

See accompanying notes to the condensed interim consolidated financial statements

JAMES BAY RESOURCES LIMITED
Condensed Interim Consolidated Statements of Cash Flows
Expressed in Canadian dollars

	For the six months ended June 30, 2013	June 30 2012
	$	$
Cash used in operating activities:		
Net loss for the period	(1,272,093)	(4,091,220)
Add (deduct) items not affecting cash:		
Amortization	19,220	939
Share-based compensation expenses	-	104,301
Write-off of exploration and evaluation assets		2,433,662
Net change in non-cash working capital	135,261	473,387
Net cash used in operating activities	(1,117,612)	(1,078,931)
Cash (used in) provided by investing activities:		
Exploration and evaluation assets	(260,697)	
Acquisition of equipment	(34,052)	(3,745)
Net cash (used in) provided by investing activities	(294,749)	(3,745)
Financing activities		
Receipt of shareholder loan	200,000	
Change in cash	(1,212,361)	(1,082,676)
Cash and cash equivalents, beginning of period	1,261,307	4,791,243
Restricted fund	497,450	
Cash and cash equivalents, end of period	546,396	3,708,567

Cash and cash equivalents are as follows:		
Cash	231,429	358,817
Restricted fund	314,967	3,349,750
	546,396	3,708,567

See accompanying notes to the condensed interim consolidated financial statements

JAMES BAY RESOURCES LIMITED
Condensed Interim 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, 2012	9,261,904	1,422,550	1,217,372	(9,876,979)	2,024,847
Share-based compensation	-	59,795	-	-	59,795
Expiry of stock options	-	(768,944)	-	768,944	-
Loss for the period	-	-	-	(1,272,094)	(1,272,094)
Balance, June 30, 2013	9,261,904	713,401	1,217,372	(10,380,129)	812,548

	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	-	104,301	-	-	104,301
Expiry of stock options	-	(44,200)	-	44,200	-
Loss for the period	-	-	-	(4,091,220)	(4,091,220)
Balance, June 30, 2012	9,261,904	1,354,495	1,217,372	(7,766,760)	4,067,011

See accompanying notes to the condensed interim consolidated financial statements

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.

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to a going concern which contemplates that the Company will be able to realize its assets and settle its liabilities in the normal course as they come due for the foreseeable future. As at June 30, 2013, the Company had no source of operating cash flows and reported a net loss for the three-month period then ended of $479,467 and a deficit of $10,380,113. In order to fund operations and maintain rights under licenses and agreements, the Company must secure sufficient future funding. In these circumstances, there exists significant doubt as to the ability of the Company to continue to meet its obligations as they come due and, hence the ultimate appropriateness of the use of accounting principles applicable to a going concern. The Company has an immediate need for additional capital and, while it has been successful in obtaining short term loan (see Notes 8) in order to meet its funding requirements, there can be no assurance that it will be able to do so in the future.

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 condensed interim consolidated financial statements of the Company for the period ended June 30, 2013 were approved and authorized for issue by the board of directors on August 8, 2013.

2. BASIS OF PREPARATION

These condensed interim 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 condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information. The policies set out below were consistently applied to all the periods presented unless otherwise noted below.

3. RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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 has not yet assessed the impact of the standard on its condensed interim 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 adoption of IFRS 10 did not have an impact on the Company's result of operations, financial position and disclosure.

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 Ventures. 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 adoption of IFRS 11 did not have an impact on the Company's result of operations, financial position and disclosure.

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 adoption of IFRS 13 did not have an impact on the Company's result of operations, financial position and disclosure.

4. PRINCIPLES OF CONSOLIDATION

The condensed interim 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 condensed interim 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 condensed interim consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim 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.

Expressed in Canadian dollars

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 7 and 15

6. EQUIPMENT

Cost	**Office equipment** $	**Furniture and fixtures** $	**Computer equipment** $	**Vehicles** $	**Total** $
Balance December 31, 2012	9,928	121,809	3,900	2,000	137,637
Additions	3,220	1,284	24,747	4,498	33,749
Balance June 30, 2013	13,148	123,093	28,647	6,498	171,386

Accumulated amortization	**Office equipment**	**Furniture and fixtures**	**Computer equipment**	**Vehicles**	**Total**
Balance December 31 2012	1,276	3,642	1,555	50	6,523
Amortization	849	12,549	4,995	524	18,917
Balance June 30, 2013	2,125	16,191	6,550	574	25,440

Carrying value	**Office equipment**	**Furniture and fixtures**	**Computer equipment**	**Vehicles**	**Total**
Balance December 31, 2012	8,652	118,167	2,345	1,950	131,114
Balance June 30, 2013	11,023	106,902	22,097	5,924	145,946

7. EXPLORATION AND EVALUATION ASSETS

Nigeria Oil and Gas Property

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.

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. 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. Upon the completion of the due diligence process, the Company paid US$100,000. In addition, on the commencement of commercial production the Company will pay a monthly management retainer of US$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 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 for the first installment in exclusivity, data purchase and administrative fees during 2011. The second and final installment of US$50,000 was paid in March 2012.

Included in restricted cash is US$300,000, with US$100,000 of that amount held in an escrow account and the remaining US$200,000 held in a trust account with our legal representatives.

Expressed in Canadian dollars

7. EXPLORATION AND EVALUATION ASSETS (continued)

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).

During the six months ended June 30, 2013, the Company incurred $626,214 (December 31, 2012 - $2,869,003) in evaluation costs related to pursing certain oil and gas assets in Nigeria. Details are as follows:

Nigeria Oil and Gas Property

Description		Amount
Management fees	$	318,986
Professional fees		30,028
Administrative expense		17,645
Technical work		7,102
Consulting fees		20,470
Travel, meals and accommodation		122,944
Office and general		109,039
Balance at June 30, 2013	$	626,214

On May 17, 2013, the Honourable Minister of Petroleum Resources (HMPR) have granted approval to the assignment of the 47% participating interest in the Ogedeh marginal field located in OML 90 to D&H Energy Nigeria Limited. As at June 30, 2013, the Company capitalized a total of $320,492 in exploration and evaluation assets post licensing.

Expressed in Canadian dollars

7. EXPLORATION AND EVALUATION ASSETS (continued)

James Bay Property, Ontario, Canada

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 capitalized a total of $2,433,662 in exploration and evaluation assets. 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 in 2012 fiscal year.

Balance, December 31, 2010	$ 2,438,662
Recovery	(5,000)
Balance, December 31, 2011	$ 2,433,662
Write-off	(2,433,662)
Balance, December 31, 2012 and June 30, 2013	$ -

In February 2013, the Company engaged 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 once all data has been reviewed from MacDonald Mines. The Company incurred approximately $172,000 to complete the GPS. These costs were expensed in the statement of loss and comprehensive loss.

8. DUE TO SHAREHOLDERS

The amounts due to shareholders are unsecured, interest bearing at 6% per annum, due on November 30, 2013.

9. SHARE CAPITAL

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

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

	#	$
Balance at December 31, 2011, 2012 and June 30, 2013	28,040,350	9,261,904

Expressed in Canadian dollars

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 20% of the Company's issued and outstanding capital at the time of granting of options for a maximum term of five years. The Plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding share capital increases. In no case (calculated at the time of grant) shall the Plan result in:

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

The following reconciles the share options outstanding:

	Six month period ended June 30, 2013		Year ended December 31, 2012	
	Number of options #	Weighted average exercise price $	Number of options #	Weighted average exercise price $
Balance, beginning of period	2,645,000	0.75	2,765,000	0.75
Expired	(1,350,000)	(0.75)	(120,000)	(0.75)
Balance, end of period	1,295,000	0.75	2,645,000	0.75

The Company has the following share options outstanding at June 30, 2013:

Estimated Grant Date Fair Value $	Outstanding Options #	Options Exercisable #	Exercise Price $	Expiry Date
383,250	1,095,000	1,095,000	0.75	September 17, 2013
98,000	200,000	200,000	0.75	June 11, 2015
481,250	1,295,000	1,295,000		

The weighted average exercise price of options exercisable at June 30, 2013 is $0.75 (December 31, 2012 - $0.75).

On June 1, 2012, the Company granted 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 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 $59,795 was recorded relating to these stock options during the six month period ended June 30, 2013.

Expressed in Canadian dollars

11. WARRANT RESERVE

As at December 31, 2011 and 2012 and June 30, 2013, 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

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.

The above warrants remain unexercised as of July 24, 2013 and expired.

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 six month period ended June 30, 2013. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

13. FINANCIAL INSTRUMENTS

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

Credit risk
The Company's credit risk is primarily attributable to cash and cash equivalents and amounts receivable. The Company has no significant concentration of credit risk arising from operations. Cash equivalents consist of guaranteed investment certificates that have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Management believes that the credit risk concentration with respect to cash equivalents and amounts receivable is remote.

Liquidity risk
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At June 30, 2013, the Company had cash and cash equivalents of $231,429 (December 31, 2012 - $1,261,307) to settle current liabilities of $545,342 (December 31, 2012 - $176,167). The Company has working capital of $309,513 at June 30, 2013 (December 31, 2012 - $1,789,835). 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 June 30, 2013 are held at a fixed interest rate of 1.3% and are therefore not subject to fluctuations in interest rates.

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 June 30, 2013 and December 31, 2012, the Company’s financial instruments carried at fair value consisted of cash equivalents which were classified as Level 2 in the fair value hierarchy.

Expressed in Canadian dollars

14. RELATED PARTY DISCLOSURES

These condensed interim consolidated financial statements include balances and transactions with directors and officers of the Company and/or corporations related to them. During the period ended June 30, 2013 and December 31, 2012 the Company entered into the following transactions involving related parties:

During the six month period, the Company incurred $97,500 in legal fees with a law firm of which a partner is a director of the Company. As of June 30, 2013, approximately $134,300 is included in accounts payable and accrued liabilities.

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 six months ended June 30, 2013 and year ended December 31, 2012 were as follows:

	June 30, 2013 $	December 31, 2012 $
Management salaries and benefits	176,325	735,846

As at June 30, 2013, included in accounts payable and accrued liabilities is approximately $26,000 (December 31, 2012 - $25,499) relating to management fees and travel expense reimbursement.

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

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 condensed interim 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.

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.