JAMES BAY RESOURCES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND DECEMBER 31, 2009

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INDEPENDENT AUDITORS' 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 balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations, comprehensive loss and deficit, and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles 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, 2010 and 2009, and their financial performance and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 21, 2011

JAMES BAY RESOURCES LIMITED

(A Development Stage Company)
CONSOLIDATED BALANCE SHEETS
As at December 31,

	2010	2009
ASSETS		
Current		
Cash and cash equivalents	$ 6,310,432	$ 7,847,068
Prepaid expenses	12,202	12,431
Amounts receivable (Note 3)	747,244	1,972
	7,069,878	7,861,471
Long-term		
Equipment	521	702
Loan receivable (Note 4)	138,704	-
Marketable Securities (Note 5)	407,500	190,000
Interest in mineral properties and deferred exploration expenditures (Note 6)	2,438,662	2,431,529
	$ 10,055,265	$ 10,483,702
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 11)	$ 144,029	$ 41,386
SHAREHOLDERS' EQUITY		
Common shares (Note 7)	9,261,904	9,261,904
Contributed surplus (Note 10)	1,964,648	1,782,201
Warrants (Note 8)	1,329,372	1,217,372
Deficit	(2,644,688)	(1,819,161)
	9,911,236	10,442,316
	$ 10,055,265	$ 10,483,702

COMMITMENTS AND CONTINGENCIES (Notes 1, 11, 12 and 16)

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

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

For the Years Ended December 31,

	2010	2009
Expenses		
Stock-based compensation	$ 182,447	$ 370,106
Management salaries and benefits (Note 11)	286,819	255,286
Professional fees (Note 11)	89,505	221,170
Office and general (Note 11)	98,357	116,216
Consulting fees	23,417	74,067
Shareholder relations (Note 11)	66,899	73,321
Warrant extension valuation (Note 8)	112,000	-
Transfer agent and listing fees	26,482	16,734
Amortization	181	3,972
	886,107	1,130,872
Loss before the undernoted	(886,107)	(1,130,872)
Foreign exchange loss	(51,422)	(56,558)
Net loss on held-for-trading investments (Notes 4 and 5)	(22,500)	-
Gain on loan (Note 5)	37,764	-
Gain on termination of letter agreement (Note 5)	-	190,000
Interest income	96,738	214,795
Net loss and comprehensive loss for the year	(825,527)	(782,635)
Deficit at beginning of year	(1,819,161)	(1,036,526)
Deficit at end of year	$ (2,644,688)	$ (1,819,161)

Loss per share		
Basic and diluted	$ (0.03)	$ (0.03)

Weighted average common shares outstanding		
Basic and diluted	28,040,350	28,040,350

See accompanying notes to the consolidated financial statements.

JAMES BAY RESOURCES LIMITED

(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2010 and 2009

	2010	2009
Cash used in operating activities:		
Net loss for the year	$ (825,527)	$ (782,635)
Add (deduct) items not affecting cash:		
Amortization	181	3,972
Stock–based compensation	182,447	370,106
Warrant extension valuation	112,000	-
Foreign exchange loss	47,000	46,650
Gain on loan (Note 5)	(37,764)	-
Gain on termination of letter agreement (Note 5)	-	(190,000)
Loss on held-for-trading investments (Notes 4 and 5)	22,500	-
Interest accretion	(28,440)	-
Net change in non-cash working capital	(637,400)	38,790
	(1,165,003)	(513,117)
Cash used in investing activities:		
Interest in mineral properties	(12,133)	157,213
Recoveries from interest in mineral properties	-	(171,103)
Exercise of investment in warrants (Note 5)	(85,000)	-
Due diligence fee received	22,500	-
Issuance of loans	(1,000,000)	(576,500)
Repayment of loan	750,000	529,850
Acquisition of equipment	-	(372)
	(324,633)	(60,912)
Changes in cash and cash equivalents during the year	(1,489,636)	(574,029)
Effect of changes in foreign exchange on cash and cash equivalent balances	(47,000)	-
Cash and cash equivalents at beginning of year	7,847,068	8,421,097
Cash and cash equivalents at end of year	$ 6,310,432	$ 7,847,068
Cash and cash equivalents are as follows:		
Cash	$ 2,182,814	$ 126,040
Cash equivalents	4,127,618	7,721,028
Cash and cash equivalents	$ 6,310,432	$ 7,847,068
Supplemental information:		
Income taxes paid	$ -	$ -
Interest paid	$ -	$ -
Change in accrued mineral property expenditures	$ (5,000)	$ (111,890)

Continued...

1. NATURE OF OPERATIONS AND GOING CONCERN

James Bay Resources Limited (the "Company" or "James Bay") was incorporated on November 5, 2007. The Company is a development stage entity as defined by the Canadian Institute of Chartered Accountants' (the "CICA") Accounting Guideline 11 and currently has interests in resource properties in the Porcupine mining district of Ontario, Canada (the "Claims"). The Company is in the process of exploring its resource properties for mineral resources and has not determined whether the properties contain economically recoverable reserves. The Company has not yet discovered any deposits, nor has it earned any income from the Claims.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of interest in mineral properties and deferred exploration expenditures and 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, 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. Changes in future conditions could require a material write-down of the carrying values.

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.

The Company has a need for equity capital and financing for working capital and exploration and development of its properties. Because of continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. Management believes it will be successful in raising the necessary funding to continue operations in the normal course of operations, however, there is no assurance that these funds will be available on terms acceptable to the Company or at all.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles 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.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") consistently applied. Outlined below are those policies considered significant.

a) Principles of consolidation

The consolidated financial statements include the amounts of the Company, its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated on consolidation.

Continued...

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Interest in mineral properties and deferred exploration expenditures

Exploration expenses relating to mineral properties in which the Company has an interest are deferred until the properties are brought into production, at which time they are amortized on a unit-of-production basis. Other general exploration expenses are charged to operations as incurred. The cost of mineral properties abandoned or sold and their related deferred exploration costs are expensed to operations in the year of abandonment or sale. Costs include the cash consideration and the fair market value of the shares issued for the acquisition of mineral properties, net of any recoveries. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company are recorded in the accounts at the time of payment.
The Company reviews capitalized costs on its mineral properties on a periodic basis and will recognize impairment in value based upon current exploration or production results, if any, and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. Management's assessment of the property's estimated current value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

c) 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:

Computer equipment	-	30%, declining balance basis
Computer software	-	100%, declining balance basis

The Company recognizes an impairment loss on equipment when events or changes in circumstances cause its carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. An impairment loss is measured as the excess of the carrying value of the asset over its estimated fair value.

d) Measurement uncertainty and use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Such estimates and assumptions affect the carrying value of assets, impact decisions as to when exploration and development 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 stock-based compensation, warrants, marketable securities 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Asset retirement obligations

The Company recognizes the fair value of a liability for asset retirement obligations in the year in which it is incurred when a reasonable estimate of a fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimated undiscounted cash flows are recognized as an increase or decrease in the carrying amount of the liability for an asset retirement obligation and the related asset retirement cost capitalized as part of the carrying amount of the related long-lived asset. As at December 31, 2010 and 2009, management has determined that there are no significant asset retirement obligations.

f) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Using this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the enacted or substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

g) Stock-based compensation

The Company records compensation cost based on the fair value method of accounting for stock-based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to capital stock.

h) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the year, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would decrease loss per share. Warrants included in Note 8 and options included in Note 9 have not been included in diluted loss per share as they are anti-dilutive.

Continued...

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial instruments and derivatives

Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale" financial assets, "held-to-maturity", "loans and receivables", or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net loss for the year. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive loss until the asset is removed from the balance sheet or until any impairment is determined to be other than temporary. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net loss for the year, unless the instrument is a cash flow hedge and hedge accounting is applied, in which case changes in fair value are recognized in other comprehensive loss.

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).

j) Cash and cash equivalents

The Company classified cash, redeemable investment deposits, and deposits with original maturities less than or equal to three months as cash and cash equivalents.

k) Translation of foreign currencies and foreign subsidiaries

The functional and reporting currency of the Company is the Canadian dollar. Transactions in foreign currencies are translated into the currency of measurement at the exchange rates in effect on the transaction date. Monetary balance sheet items expressed in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are recognized in operations.

The Company's integrated foreign subsidiaries are financially or operationally dependent on the Company. The Company uses the temporal method to translate the accounts of its integrated operations into Canadian dollars. Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the period, except for amortization, which is translated on the same basis as the related asset. The resulting exchange gains or losses are recognized in operations.

Continued...

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Recent accounting pronouncements not yet adopted

(i) International Financial Reporting Standards
In January 2006, the Canadian Accounting Standards Board ("AcSB") announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that the Company will be required to prepare IFRS consolidated financial statements for the interim periods and fiscal year ends beginning in 2011. An initial analysis that identifies the high level differences between Canadian GAAP and IFRS that may impact the Company was completed during 2009. The full impact of the required changes to accounting systems, processes and training and development required for key personnel has been assessed during 2010. The Company will continue its analysis of accounting and disclosure differences, continue to work with external consultants to assess the impact on its internal controls, and work on a changeover plan as necessary. There will be changes in accounting policies related to the adoption of IFRS and these may materially impact the Company's consolidated financial statements in the future.

(ii) Business Combinations, Consolidated Financial Statements and Non-Controlling Interests
The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. Section 1582 replaces section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3 - Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace section 1600, Consolidated Financial Statements. Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27 - Consolidated and Separate Financial Statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will adopt these standards on January 1, 2011 and does not anticipate the standards will have a material impact on the Company's financial statements.

3. AMOUNTS RECEIVABLE

On September 2, 2010, the Company entered into an agreement to acquire certain coal assets. The completion of the transaction was subject to the signing of a definitive purchase and sale agreement, among other conditions. A definitive purchase and sale agreement was not signed and the transaction was not completed. Subsequent to December 31, 2010, the Company was reimbursed for due diligence costs incurred totaling $733,496. This amount is included in amounts receivable on the balance sheet as at December 31, 2010. The Company also received 1,000,000 warrants in Hendricks Resources Limited, a private corporation, subsequent to December 31, 2010. The warrants are exercisable into 1,000,000 shares of Hendricks Resources Limited at US$1.20 per share until January 31, 2013.

Continued...

4. LOAN RECEIVABLE

On August 13, 2010, the Company entered into a loan agreement with Morumbi Oil & Gas Inc. ("Morumbi") to extend a net amount of $250,000 which requires Morumbi to repay an aggregate of $275,000 plus interest on or before August 13, 2013. The loan bears an interest rate of 5% for the first year and 9% for the following two years and is secured against the assets of Morumbi. As consideration for the loan, the Company received a total of 500,000 warrants of Morumbi. Each warrant entitles the Company to acquire one common share of Morumbi at a price of $0.25 for a period of three years. These warrants expire on August 13, 2013.

The fair value of these warrants was estimated at $75,000 using the Black Scholes option pricing model with the following assumptions: expected dividend yield – 0%; expected volatility – 112%; risk-free interest rate – 1.74%; and expected life – three years. The value of these warrants has been applied against the carrying value of the loan receivable and will be recognized as income over the term of the loan.

The loan is also convertible at the Company's option into: a 10% working interest in the Morumbi McKinley well (the “Well”); a 7% royalty over production from the Well (which royalty decreases to 3.5% once the loan and interest are repaid in full); or the outstanding principal amount can be converted into units of Morumbi at a conversion price of $0.25 per unit (the “Conversion Option”). Each unit is comprised of one common share and one half of one common share purchase warrant. Each whole warrant will be exercisable into one common share of Morumbi at a price of $0.40 until August 13, 2011.

The Conversion Option was valued at $55,000. The fair value of the Conversion Option was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield – 0%; expected volatility 81%; risk-free interest rate – 0.89%; and expected life – four months. This amount was recorded as an asset on the balance sheet and has also been applied against the carrying value of the loan receivable. The Conversion Option was available until December 13, 2010 and it expired on that date. The value of $55,000 was recorded as a loss from held-for-trading investments on the statement of operations for the year ended December 31, 2010.

The loan is being accreted to its face value using an effective interest rate of 41%.

Certain directors and officers of the Company are also directors and officers of Morumbi.

5. MARKETABLE SECURITIES

As at December 31, 2010, the Company’s marketable securities consisted of the following:

	Note	Security Description	Fair value December 31, 2010 $
Royal Coal Corp.	(i)	1,000,000 warrants	140,000
Largo Resources Ltd.	(ii)	500,000 common shares	177,500
Morumbi Oil & Gas Inc.	(iii)	500,000 warrants	90,000
			407,500

As at December 31, 2009, the Company’s marketable securities consisted of the following:

	Note	Security Description	Fair value December 31, 2009 $
CDR Minerals Inc. (Subsequently changed to Royal Coal Corp.)	(i)	1,000,000 warrants	190,000

Continued...

5. MARKETABLE SECURITIES (continued)

(i) Royal Coal Corp. (formerly CDR Minerals Inc.)

On June 29, 2009 the Company entered into a letter of agreement with CDR Minerals Inc. ("CDR"), regarding a proposed business combination. As part of the agreement, the Company provided a loan of US$500,000 ($576,500) to CDR. The loan bore interest at 7.5% and was due upon closing of the business combination with a provision that if the business combination was not completed, the interest rate would increase to 15%. The loan was also convertible at the option of the Company at any time prior to the due date at a rate of $0.50 per share. The business combination was not completed and the loan and accrued interest were repaid in full prior to December 31, 2009. The Company received 1,000,000 CDR warrants on October 21, 2009, exercisable at a price of $0.50 for a period of two years following the date of issue. In addition, CDR agreed to pay a corporate finance fee of $200,000 to the Company in the event that warrants are exercised.

The fair value of these warrants was originally estimated at $190,000 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk free interest rate of 1.5% and expected life of 2 years. The estimated fair value of these warrants has been recorded as gain on termination of letter of agreement in the statement of operations for the year ended December 31, 2009.

During 2010, CDR completed an amalgamation with Amalfi Capital Corporation, a public company which trades on the TSX Venture Exchange. The amalgamated company then changed its name to Royal Coal Corp. All warrants of CDR were exchanged for warrants of Royal Coal Corp. on a one-for-one basis, having the same terms as the original CDR warrants.

The fair value of these warrants as at December 31, 2010 was estimated at $140,000 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 146%; risk free interest rate of 1.5% and expected life of 0.81 years. The unrealized loss of $50,000 has been recorded as a loss on held-for-trading investments in the statement of operations for the year ended December 31, 2010.

(ii) Largo Resources Ltd.

On August 30, 2010**,** the Company entered into a short term bridge loan agreement with Largo Resources Ltd. ("Largo"). As part of the agreement, the Company provided a loan of $750,000 to Largo. The loan bore interest at 12%, was to mature on August 31, 2011 and was secured against all the assets of Largo and its subsidiaries. The Company has the right at any time up to August 31, 2011 to convert up to 50% of the outstanding loan balance into units of Largo at a conversion price of $0.17 per unit. Each unit would be comprised of one common share of Largo and one half of one common share purchase warrant with each whole warrant exercisable into a common share of Largo for $0.25 for a period of twelve months from August 30, 2010. In addition, as consideration for the loan, the Company received 500,000 share purchase warrants of Largo. Each warrant is exercisable for one common share of Largo at an exercise price of $0.17 for a period of one year following the date of issue.

The fair value of these warrants was estimated at $25,000 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 70%; risk free interest rate of 1.22% and expected life of 1 year. The value of these warrants was applied against the carrying value of the loan receivable and was to be recognized as income over the term of the loan.

The conversion option was valued at $88,000. The fair value of the conversion option was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 94%; risk-free interest rate of 0.94%; and expected life of three months. This amount was recorded as an asset on the balance sheet and was also applied against the carrying value of the loan receivable. The conversion option was available until November 30, 2010.

Continued...

5. MARKETABLE SECURITIES (continued)

During 2010, the Company received $776,677 from Largo which consisted of $750,000 principal repayment, $22,500 of due diligence fees and $4,177 of interest income. The carrying values of the loan and conversion option asset totaled $712,236 at the time of repayment. The difference between this and the $750,000 face value of the loan has been recorded as a gain on loan in the statement of operations for the year ended December 31, 2010.

On October 17, 2010, the Company exercised the 500,000 share purchase warrants of Largo at an exercise price of $0.17. At December 31, 2010, the Company recorded an unrealized gain of $67,500 on this investment. The shares were sold subsequent to year-end.

A director of the Company is also a director of Largo.

(iii) Morumbi Oil & Gas Inc.

See Note 4. The fair value of these warrants as at December 31, 2010 was estimated at $90,000 using the Black Scholes option pricing model with the following assumptions: expected dividend yield – 0%; expected volatility – 112%; risk-free interest rate – 1.74%; expected life – 2.6 years.

6. INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

James Bay Property, Ontario, Canada

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

Balance at December 31, 2008	$ 2,529,529
Costs incurred (recovered) during the year:	
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
	$ (98,000)
Balance at December 31, 2009	$ 2,431,529
Costs incurred during the year:	
Staking costs	7,133
Balance, December 31, 2010	$ 2,438,662

During 2009, the Company sold certain survey data and other property related supplies resulting in a net recovery in deferred expenditures.

Continued...

7. CAPITAL STOCK

(a) Authorized - Unlimited common shares

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

	#	$
Balance at December 31, 2008, 2009 and 2010	28,040,350	9,261,904

8. WARRANTS

The following table reflects the continuity of warrants for the:

	Number #	Amount $
Balance at December 31, 2008	5,250,175	1,445,572
Expired	(1,526,250)	(228,200)
Balance at December 31, 2009	3,723,925	1,217,372
Revaluation of warrants – extended term (i)	-	112,000
Balance at December 31, 2010	3,723,925	1,329,372

(i) On June 7, 2010, the Company extended the expiry date of common share purchase warrants issued by the Company in connection with the initial public offering (the "IPO") financing that closed on July 24, 2008. The expiry date for all these warrants has now been extended until July 24, 2011. The incremental fair value of the warrants created by the extension of the expiry date of $112,000 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 78%; risk free interest rate of 3.12%; expected life of 1.12 years. These warrants have an exercise price of $2.00.

9. STOCK OPTIONS

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. 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.

On June 11, 2010, the Company granted a total of 200,000 stock options. The options vested immediately. Each option allows the holder to purchase one share of the Company at an exercise price of $0.75 for a period of five years from the date of grant. The estimated grant date fair value of these options was estimated at $0.49 each using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 105%; risk free interest rate of 2.7%; and expected life of five years.

Continued...

9. STOCK OPTIONS (continued)

The following table reflects the continuity of stock options for 2010 and 2009:

	December 31, 2010		December 31, 2009	
	Number of stock options #	Weighted average exercise price $	Number of stock options #	Weighted average exercise price $
Balance, beginning of year	3,201,835	0.85	3,201,835	0.85
Granted	200,000	0.75	-	-
Expired	(636,835)	0.85	-	-
Balance, end of year	2,765,000	0.75	3,201,835	0.85

The Company has the following stock options and compensation options outstanding at December 31, 2010:

Estimated Grant Date Fair Value $	Outstanding Options #	Options Exercisable #	Exercise Price $	Expiry Date
783,750	1,350,000	1,350,000	0.75	April 2, 2013
5,700	10,000	10,000	0.75	April 16, 2013
421,750	1,205,000	1,205,000	0.75	September 17, 2013
98,000	200,000	200,000	0.75	June 11, 2015
1,309,200	2,765,000	2,765,000	0.75	

The weighted average exercise price of options exercisable at December 31, 2010 is $0.75 (2009 - $0.89).

The weighted average contractual life of options outstanding at December 31, 2010 is 2.6 years (2009 – 2.9 years).

10. CONTRIBUTED SURPLUS

	2010	2009
Balance, beginning of year	$ 1,782,201	$ 1,183,895
Stock-based compensation expense	182,447	370,106
Warrants expired, reallocation of valuation	-	228,200
Balance, end of year	$ 1,964,648	$ 1,782,201

11. RELATED PARTY TRANSACTIONS

The Company rents office space from a corporation controlled by a director of the Company. During 2010, approximately $42,742 (2009 - $30,962) was charged by this corporation. These amounts are included in office and general expense in the statement of operations. In July 2010, the Company renewed the sublease agreement for another 15 months. The Company has remaining lease commitments of approximately $40,000 all due within one year.

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11. RELATED PARTY TRANSACTIONS (continued)

The Company incurred consulting fees and management fees of approximately $312,319 (2009 - $315,286) during the year ended December 31, 2010. Of the $312,319, a total of $252,319 (2009 - $255,286) was paid to an officer and to a director and is included in management salaries and benefits in the statement of operations. A company controlled by a director of the Company was paid $60,000 (2009 - $60,000) which is included in shareholder relations in the statement of operations.

The Company incurred legal fees of approximately $39,700 (2009 - $64,000) paid to a law firm of which a partner is a director of the Company. These amounts are included in professional fees in the statement of operations. At December 31, 2010, there is $67,012 (2009 - $6,290) included in accounts payable and accrued liabilities owing to this law firm. These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

See Notes 4 and 5.

Related party transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

12. COMMITMENTS AND CONTINGENCIES

a) The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to $648,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements. Additional minimum management contract commitments remaining under these contracts are approximately $680,000.

b) The Company’s mining and exploration activities are subject to various federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company 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.

13. 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 at December 31, 2010 consists of equity attributable to common shareholders comprised of common shares, warrants, contributed surplus 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 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, 2010 and 2009. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

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14. FINANCIAL INSTRUMENTS

The Company has designated its cash equivalents and marketable securities as held-for-trading, measured at fair value. Amounts receivable and loan receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

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

Credit risk
The Company's credit risk is primarily attributable to guaranteed investment certificates, amounts receivable and the loan receivable. The Company has no significant concentration of credit risk arising from operations. Guaranteed investment certificates have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Financial instruments included in amounts receivable consist of goods and services tax due from the Federal Government of Canada and a reimbursement of due diligence expenses (see Note 3). The Company also has credit risk in the form of a loan receivable which has a carrying value of $138,704 as at December 31, 2010. Management believes that the credit risk concentration with respect to these financial instruments 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, 2010, the Company had cash and cash equivalents of $6,310,432 (December 31, 2009 - $7,847,068) to settle current liabilities of $144,029 (December 31, 2009 - $41,386). 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 deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The loan receivable bears interest at a fixed rate and therefore does not give rise to interest rate risk.

(b) Price risk
The ability of the Company to develop its property and the future profitability of the Company is directly related to the market price of certain minerals. The Company is also exposed to market risk in trading its investments and unfavourable market conditions could result in dispositions of investments at less than favorable prices.

(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. The Company is therefore subject to gains and losses due to fluctuations in the US dollar relative to the Canadian dollar. The Company does not hedge its foreign exchange risk.

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14. FINANCIAL INSTRUMENTS (continued)

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 year:

The Company's cash equivalents as at December 31, 2010 are held at a fixed interest rate of 1.1% and are therefore not subject to fluctuations in interest rates. A change in interest rates of 1% will result in a corresponding change in net loss of approximately $21,800 based on the cash and cash equivalents balance at December 31, 2010.

As at December 31, 2010, the Company has cash and cash equivalents of approximately $2,012,000 (US $2,023,000) and amounts receivable of approximately $733,000 (US $729,000) in US funds. 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 $274,000 based on the balance of these assets held in US dollars at December 31, 2010.

A 10% decrease in the closing prices on its portfolio investments would result in a corresponding change in net loss of approximately $48,000. This estimated impact on net loss includes the estimated value of the non-traded warrants held, as determined using the Black-Scholes option pricing model.

Fair Value
The carrying value of cash equivalents, marketable securities, amounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the financial instruments. The fair value of the loan receivable approximates its carrying value given the short amount of time passed since its inception.

Fair Value hierarchy and liquidity risk disclosure
At December 31, 2010, the Company's financial instruments that are carried at fair value, consisting of cash equivalents and marketable securities (Note 5), have been classified in the following levels:

	Level 1	Level 2	Level 3
	$	$	$
Cash equivalents	-	4,127,618	-
Marketable securities			
Publicly traded marketable securities	177,500	-	-
Non-trading warrants on public marketable securities	-	230,000	-

As at December 31, 2009, the Company's financial instruments that are carried at fair value, consisting of cash equivalents and marketable securities (Note 5), have been classified in the following levels:

	Level 1	Level 2	Level 3
	$	$	$
Cash equivalents	-	7,721,028	-
Marketable securities			
Non-trading warrants on private marketable securities	-	-	190,000

During 2009, the level 3 classification increased by $190,000 as a result of the receipt of warrants of CDR, a private corporation. During 2010, CDR completed a transaction whereby it became a public company. As a result, the value of these warrants was reclassified to level 2. See Note 5.

Continued...

15. INCOME TAXES

a) Provision for Income Taxes
Major items causing the Company's income tax rate to differ from the federal statutory rate of approximately 31% (2009 – 33%) are as follows:

	2010 $	2009 $
Loss before taxes:	(825,527)	(782,635)
Expected income tax benefit based on statutory rate	(256,000)	(258,000)
Adjustments to benefit resulting from:		
Stock-based compensation	91,000	122,000
Gain on loan	(13,000)	-
Changes and differences in tax rates	(20,000)	86,000
Other	16,000	-
Change in valuation allowance	182,000	50,000
Income tax provision	-	-

b) Future Tax Balances
The tax effects of temporary differences that give rise to future income tax assets and liabilities at December 31 are as follows:

	2010 $	2009 $
Future income tax assets		
Non-capital losses	246,000	55,000
Loan receivable	34,000	-
Marketable securities	(44,000)	(54,000)
Resource properties	193,000	193,000
Share issue costs	141,000	195,000
Equipment	2,000	1,000
	572,000	390,000
Valuation allowance	(572,000)	(390,000)
Net future tax asset	-	-

c) Tax Loss Carry-Forwards
As at December 31, 2010, the Company had approximately $3,210,000 (2009 - $3,200,000) of Canadian exploration and development expenditures, which, under certain circumstances, may be utilized to reduce taxable income of future years.

As at December 31, 2010, the Company had approximately $979,000 (2009 - $218,000) of non-capital losses in Canada, which can be used to reduce taxable income in future years. The losses expire as follows:

Year of Expiry	Amount ($)
2027	7,000
2028	107,000
2029	102,000
2030	763,000
	979,000

Continued...

16. SUBSEQUENT EVENT

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 (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 these assets. It is intended that James Bay will earn a 50% interest in the SPV on the condition that the Company invests up to US$32 million. As part of the initial MoU, James Bay has deposited US$2 million in an escrow account to provide initial funding assurances to its future joint venture partner D&H for purposes of conducting the initial due diligence to identify and secure the acquisition of oil & gas property targets. An additional up to US$10 million will be invested by James Bay after signing an agreement to acquire an advanced oil & gas project, with the funds due within 30 days of receipt of all regulatory approvals, with the up to US$20 million balance to be invested within one year of signing an acquisition agreement in respect of an identified target.

On March 9, 2011, James Bay entered into a letter of intent with a Nigerian oil & gas service provider, MAK MERA. Subject to locating and completing an acquisition of a target oil & gas asset, James Bay will pay US$300,000 and will issue up to 12 million shares to MAK MERA based on the following schedule:

a) US$300,000 to be paid and 3 million shares to be issued upon successful completion of due diligence and acquisition of oil & gas assets in Nigeria;
b) 3 million shares to be issued upon the Company reaching 1,500 boe per day;
c) 3 million shares to be issued upon the Company reaching 4,000 boe per day; and
d) 3 million shares to be issued upon the Company reaching 5,500 boe per day.

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, including TSX Venture Exchange acceptance and if required shareholder approval.