James Bay
Resources Limited

JAMES BAY RESOURCES LIMITED

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013

JAMES BAY RESOURCES LIMITED
Condensed Interim Consolidated Statements of Financial Position
Expressed in Canadian dollars
As at

	March 31, 2014 $	December 31, 2013 $
ASSETS		
Current assets		
Cash	151,072	36,571
Restricted cash (Notes 8 and 10)	33,165,000	1,076,728
Prepaid expenses (Note 19)	94,790	131,120
Amounts receivable	62,720	57,182
Deferred financing fees (Note 12)	-	194,816
Total current assets	33,473,582	1,496,417
Long-term prepaid (Note 8)	104,050	104,050
Exploration and evaluation assets (Note 8 and 18)	1,013,615	959,817
Equipment (Note 7)	133,017	142,647
Total assets	34,724,264	2,702,931
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Notes 9 and 18)	772,208	859,253
Subscription payable (Note 12)	-	1,170,004
Due to shareholders (Note 11)	445,750	644,190
Letter of credit (Note 10)	33,165,000	-
Total Liabilities	34,382,958	2,673,447
EQUITY		
Share Capital (Note 12)	10,349,730	9,261,904
Warrant reserve (Note 13)	560,307	-
Share-based payments reserve (Note 14)	296,333	287,833
Deficit	(10,152,799)	(9,442,176)
Total common shareholders’ equity	1,053,571	107,561
Non-controlling interest (Note 15)	(712,265)	(78,077)
Total equity	341,306	29,484
Total equity and liabilities	34,724,264	2,702,931

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
COMMITMENTS AND CONTINGENCIES (Notes 8 and 19)

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

	For the three months ended	
	March 31, 2014	March 31, 2013
	$	$
Expenses		
Management salaries and benefits	53,941	41,784
Professional fees (Note 18)	19,460	15,291
Office and general (Note 18)	58,410	63,716
Exploration costs – James Bay Lowlands (Note 8)	6,676	172,032
Evaluation costs (Note 8)	1,171,502	455,570
Transfer agent and listing fees	8,053	8,792
Business development	2,384	37,841
Amortization	3,097	758
	(1,323,523)	(795,784)
Loss before the undernoted		
Foreign exchange gain (loss)	(16,289)	711
Interest (expense) income	(4,999)	2,446
Net loss and comprehensive loss for the period	(1,344,811)	(792,627)
Loss for the period attributable to:		
Non-controlling interest (Note 15)	(634,188)	-
Common shareholders	(710,623)	(792,627)
Net loss and comprehensive loss for the period	(1,344,811)	(792,627)
Loss per share attributable common shareholders		
Basic and diluted	(0.02)	(0.03)
Weighted average number of shares outstanding – basic and diluted	29,320,069	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 three months ended March 31, 2014	March 31, 2013
	$	$
Cash used in operating activities:		
Net loss for the period	(1,344,811)	(792,627)
Add (deduct) items not affecting cash:		
Amortization	9,252	4,679
Share-based payments	7,649	33,288
Accrued interest	2,000	-
Net change in non-cash working capital	996,780	170,038
Net cash used in operating activities	(329,130)	(584,622)
Cash used in investing activities:		
Increase in restricted cash	(33,165,000)	-
Interest in exploration and evaluation assets	(37,570)	-
Acquisition of equipment	(1,841)	(34,757)
Net cash used in investing activities	(33,204,411)	(34,757)
Cash provided by financing activities:		
Proceeds from letter of credit	33,165,000	-
Proceeds from private placement	711,660	-
Share issue costs on private placement	(73,300)	-
Repayments to shareholders	(743,817)	-
Advances from shareholders	539,739	-
Net cash provided by financing activities	33,599,282	-
Change in cash	65,741	(619,379)
Effect of change in foreign exchange	48,760	-
Cash and cash equivalents, beginning of period	36,571	1,261,307
Cash and cash equivalents, end of period	151,072	641,928
Cash and cash equivalents as at March 31		
Cash	151,072	233,610
Cash equivalents	-	408,318
	151,072	641,928
Supplemental Information		
Amortization capitalized to exploration and evaluation assets	2,219	-
Share-based payments capitalized to exploration and evaluation assets	851	-
Finders' warrants issued	21,839	-
Change in accounts payable relating to share issue costs	14,175	-
Change in accounts payable relating to exploration and evaluation assets	13,157	-

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

	Share Capital	Share-based payments reserve	Warrant reserve	Deficit	Non-controlling interest	Total equity
	$	$	$	$	$	$
Balance, December 31, 2013	9,261,904	287,833	-	(9,442,176)	(78,077)	29,484
Share-based payments	-	8,500	-	-	-	8,500
Private placements	1,930,424	-	-	-	-	1,930,424
Share issue costs	(203,463)	-	(100,667)	-	-	(304,130)
Issuance of warrants	(639,135)	-	639,135	-	-	-
Issuance of finder warrants	-	-	21,839	-	-	21,839
Loss for the period	-	-	-	(710,623)	(634,188)	(1,344,811)
Balance, March 31, 2014	10,349,730	296,333	560,307	(10,152,799)	(712,265)	341,306

	Share Capital	Share-based payments reserve	Warrant reserve	Deficit	Non-controlling interest	Total equity
	$	$	$	$	$	$
Balance, December 31, 2012	9,261,904	1,422,550	1,217,372	(9,876,979)	-	2,024,847
Share-based payments	-	33,288	-	-	-	33,288
Loss for the period	-	-	-	(792,627)	-	(792,627)
Balance, March 31, 2013	9,261,904	1,455,838	1,217,372	(10,669,606)	-	1,265,508

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 is currently involved in the exploration and evaluation of oil and gas interests in Nigeria and has interests in resource properties in the Porcupine mining district of Ontario, Canada (the "Claims"). In connection with a change of business to become and oil and gas company, on October 11, 2012, the Company announced that it had filed a National Instrument 51-101 report to pursue conditional approval for its change of business under the policies of the TSX Venture Exchange ("TSXV"). The Company has not yet received approval for its proposed change of business. The Company has not determined whether its properties contain economically recoverable reserves. The Company has not yet discovered any deposits, nor has it earned any revenues.

The business of exploring for minerals and oil and gas involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable operations. The Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, the ability of the Company to secure an interest in new properties or the ability of the Company to complete additional financings, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions, and political uncertainty.

As at March 31, 2014, the Company had a working capital deficiency of $909,376 (December 31, 2013 – $1,177,030), had incurred losses since inception, and had an accumulated deficit of $10,152,799 (December 31, 2013 - $9,442,176) which has been funded primarily by the issuance of equity. The ability of the Company to continue as a going concern is dependent upon its ability to raise sufficient funds to meet its obligations as they become due. While the Company has been successful in securing financing in the past, there is no assurance that it will be able to do so in the future. Because of continuing operating losses, the Company's continuance as a going concern is dependent on its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operation.

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore, be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying condensed interim consolidated financial statements. Such adjustments could be material. Material uncertainties as mentioned above cast significant doubt upon the Company's ability to continue as a going concern.

The Company's shares are listed on the TSXV. 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 for the three months ended March 31, 2014 were approved and authorized for issue by the board of directors on May 30, 2014.

2. BASIS OF PREPARATION

These condensed interim consolidated financial statements of the Company and its subsidiaries were prepared in accordance with IFRS as issued by the International Accounting Standard Board ("IASB") and in accordance with International Accounting Standards ("IAS") 34, Interim financial reporting. These condensed interim consolidated financial statements do not include all of the information required for the full annual consolidated financial statements and should be read in conjunction with the most recent audited annual consolidated financial statements of the Company as at and for the year ended December 31, 2013. 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 AND CHANGES IN ACCOUNTING POLICIES

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

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

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

IAS 32 – Financial Instruments: Presentation ("IAS 32") was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The adoption of this standard did not result in any changes to the Company's disclosure of its financial instruments.

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

4. PRINCIPLES OF CONSOLIDATION

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

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

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.

Non-controlling interest represents equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interest is presented as a component of equity. The loss and each component of other comprehensive loss are attributed to non-controlling interests where applicable. See Note 15.

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 payments, warrants and income tax accounts. The Company regularly reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

(a) Capitalization of exploration and evaluation assets
Management has determined that exploration and evaluation costs incurred may have future economic benefits. In making this judgement, management has assessed various sources of information including but not limited to the petrophysics, resource volume and production forecasts, 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.

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

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

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

(d) Share-based payments and warrants
Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviours and corporate performance. Such judgments and assumptions are inherently uncertain. Warrants are valued in a similar way. Changes in these assumptions affect the fair value estimates.

(e) Consolidation of subsidiaries
The Company consolidates subsidiaries over which it has control. Management assesses control in accordance with IFRS 10 - Consolidated financial statements and has determined it controls each of its subsidiaries. Judgement was applied when considering whether the Company controls Crestar Integrated Natural Resources Limited as the Company's ownership percentage is less than 50%. See Note 15 for details about this investment.

(f) Functional currency
Determination of functional currency involves significant judgment and other companies may make different judgments based on similar facts. The Company reconsiders the functional currency of its entities if there is a change in the underlying transactions, events and conditions which determine their primary economic environment. The determination of functional currency affects the carrying value of non-current assets included in the statement of financial position and, as a consequence, the amortization of those assets included in the statement of loss. It also impacts exchange gains and losses included in the statement of loss and in equity.

(g) Contingencies
Refer to Notes 8 and 19.

6. SIGNIFICANT ACCOUNTING POLICIES

(a) Presentation and functional currencies
The presentation currency of the Company and the functional currency of the Company and each of its subsidiaries is the Canadian dollar.

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

(b) Share-based payments
Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in the share-based payments note.

The fair value is determined at the grant date of the equity-settled share-based payments and is recognized on a graded-vesting basis over the period during which the employee becomes unconditionally entitled to the equity instruments, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

(c) Income tax
Current tax
Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the condensed interim consolidated statement of comprehensive loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax
Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

6. SIGNIFICANT ACCOUNTING POLICIES

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its deferred tax assets and liabilities on a net basis.

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

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

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

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

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

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

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)
Financial assets (continued)
Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required. The Company did not have any derivatives during the periods ended March 31, 2014 and 2013.

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

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

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

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

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

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)
Financial assets (continued)

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

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

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

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

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

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

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

Financial liabilities at fair value through profit or loss

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

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

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)
Financial liabilities (continued)

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

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

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

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

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

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

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

Expressed in Canadian dollars

7. EQUIPMENT

Cost	Office equipment $	Furniture and fixtures $	Computer equipment $	Vehicles $	Total $
Balance December 31, 2012	9,928	121,809	3,900	2,000	137,637
Additions	3,100	8,165	37,718	3,862	52,845
Balance December 31, 2013	13,028	129,974	41,618	5,862	190,482
Additions	-	-	1,841	-	1,841
Balance March 31, 2014	13,028	129,974	43,459	5,862	192,323

	Office equipment	Furniture and fixtures	Computer equipment	Vehicles	Total
Balance December 31, 2012	1,276	3,642	1,555	50	6,523
Amortization	1,406	25,130	13,322	1,454	41,312
Balance December 31, 2013	2,682	28,772	14,877	1,504	47,835
Amortization	517	5,060	5,567	327	11,471
Balance March 31, 2014	3,199	33,832	20,444	1,831	59,306

Carrying value	Office equipment	Furniture and fixtures	Computer equipment	Vehicles	Total
Balance December 31, 2013	10,346	101,202	26,741	4,358	142,647
Balance March 31, 2014	9,829	96,142	23,015	4,031	133,017

8. EXPLORATION AND EVALUATION ASSETS

Petroleum Property Interests

OML 90 PROJECT

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

The Company has paid US$50,000 for transfer of due diligence data and administrative fees and US$50,000 for an exclusivity period.

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

- US$100,000 due 90 days from the date of execution of the JOA or within 24 hours of the execution of the JOA and Deed of Assignment ("DOA"), whichever is earlier (paid in 2012).

- US$200,000 due upon approval from the Department of Petroleum Resources ("DPR") of the assignment of a direct interest in the OML 90 Project to the Company (paid in 2013).

- US$300,000 to be released upon the grant of a government permit for drilling activity at the OML 90 Project. Of this amount, US$100,000 ($104,050) was paid in 2013, which is included in long-term prepaid. The remaining US$200,000 ($212,720) has not yet been paid as the permit has not yet been granted.

- US$1,000,000 upon completion of a final independent report of P1 reserves of at least 7,000,000 proven recoverable barrels of oil, or if such reserve levels are not attained, the Company shall pay US$0.10 per barrel of oil produced, to a maximum of US$1,000,000.

- US$900,000 upon the completion of 60 days of commercial production.

Included in long-term prepaid as at March 31, 2014 and December 31, 2013 is US$100,000 ($104,050) payment made in advance of the receipt of the grant of government permit for drilling activity and arrival of a drill rig at the OML 90 Project.

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

Furthermore, the Company will pay a monthly management retainer of US$30,000 which will commence upon the date of the drill rig arriving at the OML 90 Project and ending on the commencement of commercial production. The Company will provide funds required to finance the OML 90 Project to its initial production of hydrocarbons (oil) on a commercially viable scale. Any sunk costs incurred exclusively by the Vendor will be reimbursed up to a maximum of US$500,000.

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

Expressed in Canadian dollars

8. EXPLORATION AND EVALUATION ASSETS (continued)

Evaluation Costs

During the three months ended March 31, 2014, the Company incurred $1,152,421 (March 31, 2013 - $446,700) in pre-licensing costs related to pursing certain oil and gas assets and $19,081 (March 31, 2013 - $8,870) in pre-licensing costs related to a mineral property in Nigeria. Details are as follows:

Description	March 31, 2014	March 31, 2013
	$	$
Management fees	131,961	207,688
Consulting fees	17,488	7,042
Travel, meals and accommodation	75,138	118,642
Professional fees	43,414	8,586
Technical reports	119,269	-
Environmental	11,587	-
Financing commitment fees (Note 9)	677,835	-
Amortization	6,155	-
General and administrative expense	88,655	113,612
Balance	1,171,502	455,570

Included in management fees is $6,800 (March 31, 2013 –$29,959) non-cash share-based payments made to an officer of the Company.

Exploration and Evaluation Asset

On May 17, 2013, the Honourable Minister of Petroleum Resources ("HMPR") granted approval for the assignment of the 47% participating interest in the OML 90 Project to the Company's subsidiary, D&H Energy Nigeria Limited. As at March 31, 2014, the Company capitalized a total of $1,013,615 in exploration and evaluation assets post licensing.

Description	Three months ended March 31, 2014	Twelve months ended December 31, 2013	Total
	$	$	$
Acquisition costs	-	207,080	207,080
Management and consulting fees	24,395	410,544	434,939
Travel, meals and accommodation	-	17,205	17,205
Professional fees	3,370	8,790	12,160
Legal fees	380	5,067	5,447
Share-based payments	851	24,574	25,425
Amortization	2,219	21,760	23,979
General and administrative expense	22,583	264,797	287,380
Balance	53,798	959,817	1,013,615

8. EXPLORATION AND EVALUATION ASSETS (continued)

Petroleum Property Interests (continued)

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 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.

Upon any issuance of the units above, D&H is also entitled to 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 obligations created and transactions contemplated by the agreement with D&H are also subject to receipt of all requisite corporate, regulatory, shareholder and court approvals (if required) and consents, including the approval of the TSXV and, where required, the shareholders of the Company.

The Company received the mining licenses in 2013 in respect of an interest in an oil and gas project in Nigeria under a definitive agreement. However, no amounts have been accrued relating to the above units and options as TSXV approval has not been obtained for the change of business. The Company has not been able to secure the required financing for this oil & gas project which is a condition for the TSXV approval for the change of business.

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

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

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

8. EXPLORATION AND EVALUATION ASSETS (continued)

Petroleum Property Interests (continued)

MAK MERA (continued)
The Company received the mining licences in 2013 in respect of an interest in an oil and gas project in Nigeria under a definitive agreement. However, no amounts have been accrued in these condensed interim consolidated financial statements relating to the above common shares as TSXV approval has not been obtained for the change of business. The Company has not been able to secure the required financing for this oil & gas project which is a condition for the TSXV approval for the change of business. The conditions contained in the agreement with MAK MERA must be met on or prior to December 31, 2013, otherwise, any obligations of the Company under the agreement shall cease to exist. The conditions were not met by December 31, 2013.

Mineral Property Interests
James Bay Property, Ontario, Canada
The Company acquired, by staking, certain claims in Ontario, Canada. 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.

In February 2013, the Company engaged MacDonald Mines Exploration Ltd. ("MacDonald") to complete a GPS survey of all corner claim posts following the proper protocol as defined by the Ministry of Northern Development and Mines. This survey formed the basis for a report of work, which was submitted for assessment credits in March 2014. During the three months ended March 31, 2014, the Company incurred $3,010 (2013 - $167,365 of consulting fees) of interest on consulting fees payable to MacDonald to complete the GPS survey. These costs were expensed in the statement of loss.

As part of the MacDonald agreement, the Company will issue 50,000 warrants to MacDonald exercisable for five years with an exercise price equal to the issue price of the financing required to be completed in relation to the change of business. This warrant issuance is subject to TSXV approval of the change of business and as such approval has not yet been received, no amounts have been recorded in these condensed interim consolidated financial statements relating to these warrants.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Company has agreed to pay non-refundable financing fees of US$600,000 ($663,300) to arrangers and an underwriter who have been engaged to assist the Company in securing financing for an acquisition of an oil and gas asset in Nigeria. As of March 31, 2014, US$400,000 ($441,440) has been paid.

Of the remaining US$200,000 ($221,100), US$100,000 ($110,550) is included in accounts payable and accrued liabilities and the final balance of US$100,000 ($110,550) is due upon the Company attaining certain milestones. These milestones have not been met as at March 31, 2014.

10. LETTER OF CREDIT

The Company is pursuing certain oil and gas assets in Nigeria. During the three months ended March 31, 2014, the Company received a US$30,000,000 ($33,165,000) letter of credit from a lender through its subsidiary, Crestar Integrated Natural Resources Limited in relation to an oil and gas project. The letter of credit is unsecured, non-interest bearing and due on demand. The proceeds received are presented as restricted cash as the lender must approve any use of the funds.

Expressed in Canadian dollars

11. DUE TO SHAREHOLDERS

The amounts due to shareholders are unsecured, bear interest at 6% per annum, and are due on demand. The principal is comprised of an advance of $49,738 (December 31, 2013 - $100,000) from a shareholder and director and an advance of $390,000 (December 31, 2013 - $530,000) from the President and CEO of the Company, who is also a shareholder and director of the Company. During the period ended March 31, 2014, $743,817 was repaid to these individuals and $539,739 of new advances were received by the Company.

12. SHARE CAPITAL

(a) **Authorized** - Unlimited common shares, with no par value

(b) **Issued** – 29,970,774 common shares

	#	$
Balance, December 31, 2012 and 2013	28,040,350	9,261,904
Private placement [i]	1,930,424	1,930,424
Share issue costs	-	(203,463)
Warrants valuation	-	(639,135)
Balance, March 31, 2014	29,970,774	10,349,730

[i] On January 31, 2014, the Company raised proceeds of $1,930,424 by way of a non-brokered private placement of 1,930,424 units (“Units”) at a price of $1.00 per Unit. Each Unit is comprised of one common share and one warrant. Each warrant comprising part of the Units is exercisable for a common share at a price of $1.25 for thirty-six months from the date of issuance.

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

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

13. WARRANT RESERVE

	#	$
Balance, December 31, 2012	3,723,925	1,217,372
Warrants expired [i]	(3,723,925)	(1,217,372)
Balance, December 31, 2013	-	-
Warrants issued [ii]	1,930,424	639,135
Finder’s warrants issued [ii]	60,397	21,839
Warrant issue costs	-	(100,667)
Balance, March 31, 2014	1,990,821	560,307

[i] 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. These warrants expired on July 24, 2013.

Expressed in Canadian dollars

13. WARRANT RESERVE (continued)

(ii) In connection with January 31, 2014 private placement (Note 12(b)(i)), the Company issued 1,930,424 warrants which entitle the holder to purchase one common share of the Company at a price of $1.25 expiring on January 31, 2017. The estimated fair value of the warrants of $639,135 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.14% and an expected life of 3 years.

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

The Company estimated the expected volatility using historical volatilities from traded shares in the Company's peer group when estimating the fair value of warrants issued on January 31, 2014, as it believes that this methodology better reflects the expected future volatility of the Company's shares.

As of March 31, 2014, the following warrants were outstanding:

	Three months ended March 31, 2014		Year-ended December 31, 2013	
	Number of warrants #	Exercise price $	Number of warrants #	Exercise price $
Balance, beginning of period	-	-	3,723,925	1.25
Warrants expired	-	-	(3,723,925)	(1.25)
Warrants issued	1,930,424	1.25	-	-
Finder's warrants issued	60,397	1.00	-	-
Balance, end of period	1,990,821	1.24	-	-

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

Estimated Fair Value (net of issue costs) $	Outstanding Warrants #	Warrants Exercisable #	Exercise Price $	Expiry Date
538,468	1,930,424	1,930,424	1.25	January 31, 2017
21,839	60,397(i)	60,397	1.00	January 31, 2017
560,307	1,990,821	1,990,821		

(i) These are finder's warrants issued in connection with January 30, 2014, private placement.

Expressed in Canadian dollars

14. 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:

	Three months ended March 31, 2014		Year-ended December 31, 2013	
	Number of options #	Weighted average exercise price $	Number of options #	Weighted average exercise price $
Balance, beginning of period	800,000	0.66	2,645,000	0.75
Granted	-	-	600,000	0.63
Expired	-	-	(2,445,000)	0.75
Balance, end of period	800,000	0.66	800,000	0.66

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

Estimated Grant Date Fair Value $	Outstanding Options #	Options Exercisable #	Exercise Price $	Expiry Date
98,000	200,000	200,000	0.75	June 11, 2015
204,000	600,000	400,000	0.63	June 1, 2017
302,000	800,000	600,000		

The weighted average exercise price of options exercisable at March 31, 2014, is $0.67 (December 31, 2013 - $0.67).

On June 1, 2012, the Company granted 600,000 stock options to an officer of the Company. The issuance of the options was contingent on the Company passing an amendment to the Plan, allowing for additional options to be granted. The amendment to the Plan was passed on February 4, 2013. These options are 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 recalculated on February 4, 2013 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 95%; risk free interest rate of 1.32%; expected forfeiture rate of 0% and expected life of 4.3 years. An amount of $8,500 (March 31, 2013 - $33,288) was recorded relating to these stock options for the three months ended March 31, 2014.

Expressed in Canadian dollars

15. NON-CONTROLLING INTEREST

The Company has an effective 45% interest in its Nigerian subsidiary, Crestar Integrated Natural Resources Limited ("Crestar") and the remaining 55% portion represents a non-controlling interest. For the three months ended March 31, 2014, losses attributable to the non-controlling interest of $634,188 (March 31, 2013 - $nil) have been recognized in the condensed interim consolidated financial statements.

The Company has fully consolidated Crestar even though it owns less than 50% of the shares for the following reasons: The Company has entered into a Financial and Technical Service Agreement with Crestar whereby the Company is appointed the Financial and Technical Partner with respect to acquiring oil and gas projects in Nigeria. The Company shall provide the funding to Crestar and shall meet all required financial obligations. The Company is responsible for providing technical assistance, appointing personnel and carrying out the evaluation, development and production from the projects. The Company's Country Manager and Chief Operating Officer is the President and CEO of Crestar.

Summarized financial information for Crestar is as follows:

	March 31, 2014	December 31, 2013
	$	$
Current and total assets	33,239,212	59,639
Current and total liabilities	34,542,611	202,362
Net loss and comprehensive loss	1,153,069	206,190

16. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of its properties. The capital structure of the Company consists of equity attributable to common shareholders comprised of common shares, warrant reserve, share-based payments reserve, deficit and amounts due to shareholders. 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 three months ended March 31, 2014. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

17. FINANCIAL INSTRUMENTS

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

Credit risk
The Company's credit risk is primarily attributable to amounts receivable. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to amounts receivable is remote.

Liquidity risk
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At March 31, 2014, the Company had cash and restricted cash of $33,316,072 (December 31, 2013 - $1,113,299) to settle current liabilities of $34,382,958 (December 31, 2013 - $2,673,447). The Company has working capital deficiency of $909,376 (December 31, 2013 – $1,177,030). The Company's financial liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk
(a) Interest rate risk
The Company has cash balances and 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.

As at March 31, 2014, the Company has net monetary liabilities denominated in US dollars of approximately US$327,140 (December 31, 2013 – net monetary liabilities of US$351,500). A 10% change in the value of the Canadian dollar relative to the US dollar would result in a corresponding change in net loss of approximately US$32,714 based on the balance of these amounts held in US dollars at March 31, 2014.

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

Expressed in Canadian dollars

17. FINANCIAL INSTRUMENTS (continued)

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 March 31, 2014 and December 31, 2013, the Company had no financial instruments to classify in the fair value hierarchy.

18. 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 three months ended March 31, 2014 and 2013, the Company entered into the following transactions involving related parties:

The Company rents office space from a corporation with common directors and officers. During the three months ended March 31, 2014, approximately $10,051 (March 31, 2013 - $13,934) was charged by this corporation. The amount is included in office and general expense on the statement of loss. As of March 31, 2014, included in accounts payable and accrued liabilities is $7,511 (December 31, 2013 - $44,147) owing to this corporation.

During the three months ended March 31, 2014, the Company incurred legal fees of approximately $39,474 (March 31, 2013 - $nil) with a law firm of which a partner is a director of the Company. Of this amount, $19,460 is included in professional fees on the statement of loss with the remaining amount included in exploration and evaluation assets on the statement of financial position. As of March 31, 2014, included in accounts payable and accrued liabilities is $131,094 (December 31, 2013 - $191,620) owing to this law firm.

In accordance with IAS 24, key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company. The remuneration of directors and other members of key management personnel for the three months ended March 31, 2014 and 2013 were as follows:

	March 31, 2014 $	March 31, 2013 $
Management salaries and benefits	160,205	105,748
Share-based payments	8,500	-

Included in accounts payable and accrued liabilities as at March 31, 2014 is approximately $14,932 (December 31, 2013 - $966) for management travel expenses reimbursement.

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

See also Notes 11 and 12.

19. 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 $574,000, of which $322,000 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 $501,000, of which $134,000 will be incurred within one year. The first two years relating to this lease were paid in advance and $74,048 is included in current prepaid expenses as at March 31, 2014, relating to this lease.

During 2012, the Company entered into a lease agreement for office space in Canada expiring on November 30, 2014. Minimum lease payments under this lease, which total approximately $47,000 will be incurred within one year.

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

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.