JAMES BAY RESOURCES LIMITED

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013

JAMES BAY RESOURCES LIMITED

Condensed Interim Consolidated Statements of Financial Position

Expressed in Canadian dollars
As at

	June 30, 2014	December 31, 2013
	$	$
ASSETS		
Current assets		
Cash	71,964	36,571
Restricted cash (Notes 7, 8 and 18)	32,221,970	1,076,728
Prepaid expenses (Note 17)	59,439	131,120
Amounts receivable	78,362	57,182
Deferred financing fees (Notes 10 and 18)	4,850	194,816
Total current assets	32,436,585	1,496,417
Long-term prepaid (Note 7)	104,050	104,050
Exploration and evaluation assets (Notes 7 and 16)	1,182,752	959,817
Equipment (Note 6)	124,533	142,647
Total assets	33,847,920	2,702,931
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 16)	832,687	859,253
Subscription payable (Notes 10 and 18)	211,970	1,170,004
Due to shareholders (Note 9)	718,210	644,190
Letter of credit (Notes 8 and 18)	32,010,000	-
Total Liabilities	33,772,867	2,673,447
EQUITY		
Share Capital (Note 10)	10,632,700	9,261,904
Warrant reserve (Note 11)	710,588	-
Share-based payments reserve (Note 12)	302,000	287,833
Deficit	(10,567,198)	(9,442,176)
Total common shareholders' equity	1,078,090	107,561
Non-controlling interest (Note 13)	(1,003,037)	(78,077)
Total equity	75,053	29,484
Total equity and liabilities	33,847,920	2,702,931

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
COMMITMENTS AND CONTINGENCIES (Notes 7 and 17)
SUBSEQUENT EVENT (Note 18)

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

As at

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	$	$	$	$
Expenses				
Management salaries and benefits (Note 16)	44,863	58,891	98,804	100,675
Professional fees (Note 16)	30,533	117,313	49,993	132,604
Office and general (Note 16)	58,882	49,986	117,292	113,701
Exploration costs – James Bay Lowlands (Note 7)	4,334	5,083	11,010	177,115
Evaluation costs (Note 7)	546,682	170,644	1,718,184	626,214
Transfer agent and listing fees	6,056	4,211	14,109	13,003
Business development	4,499	36,424	6,883	74,265
Amortization	285	18,462	3,382	19,220
	696,134	461,014	2,019,657	1,256,797
Loss before the undernoted	(696,134)	(461,014)	(2,019,657)	(1,256,797)
Foreign exchange (loss) gain	754	(18,715)	(15,535)	(18,004)
Interest (expense) income	(9,791)	262	(14,790)	2,708
Net loss and comprehensive loss for the period	(705,171)	(479,467)	(2,049,982)	(1,272,093)
Loss for the period attributable to:				
Non-controlling interest (Note 13)	(290,772)	-	(924,960)	-
Common shareholders	(414,399)	(479,469)	(1,125,022)	(1,272,093)
Net loss and comprehensive loss for the period	(705,171)	(479,469)	(2,049,982)	(1,272,093)
Loss per share attributable common shareholders				
Basic and diluted	(0.01)	(0.02)	(0.04)	(0.05)
Weighted average number of shares outstanding				
Basic and diluted	30,074,071	28,040,350	29,701,259	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

	Six months ended	
	June 30, 2014	June 30, 2013
	$	$
Cash used in operating activities:		
Net loss for the period	(2,049,982)	(1,272,093)
Add (deduct) items not affecting cash:		
Amortization	16,207	19,220
Share-based payments	12,761	59,795
Accrued interest	15,172	-
Net change in non-cash working capital	822,653	257,949
Net cash used in operating activities	(1,183,189)	(935,129)
Cash used in investing activities:		
Increase in restricted cash	(33,165,000)	-
Increase in exploration and evaluation assets	(190,989)	(260,697)
Acquisition of equipment	(1,841)	(34,052)
Net cash used in investing activities	(33,357,830)	(294,749)
Cash provided by financing activities:		
Proceeds from letter of credit	33,165,000	-
Proceeds from private placements	1,181,660	-
Share issue costs on private placements	(89,825)	-
Receipts on share subscription	211,970	-
Repayments to shareholders	(743,817)	-
Advances from shareholders	802,664	200,000
Net cash provided by financing activities	34,527,652	200,000
Change in cash	(13,367)	(1,029,878)
Effect of change in foreign exchange	48,760	-
Cash, beginning of period	36,571	1,261,307
Cash, end of period	71,964	231,429
Supplemental Information		
Amortization capitalized to exploration and evaluation assets	3,748	-
Share-based payments capitalized to exploration and evaluation assets	1,406	-
Finders' warrants issued	32,036	-
Change in accounts payable relating to share issue costs	34,400	-
Change in accounts payable relating to exploration and evaluation assets	26,792	59,795

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	Warrants reserve	Share-based payments 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	-	-	14,167	-	-	14,167
Private placements	2,400,424	-	-	-	-	2,400,424
Share issue costs	(234,865)	(116,211)	-	-	-	(351,076)
Issuance of warrants	(794,763)	794,763	-	-	-	-
Issuance of finder warrants	-	32,036	-	-	-	32,036
Loss for the period	-	-	-	(1,125,022)	(924,960)	(2,049,982)
Balance, June 30, 2014	10,632,700	710,588	302,000	(10,567,198)	(1,003,037)	75,053

	Share Capital	Warrants reserve	Share-based payments 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	-	59,795	-	-	-	59,795
Expiry of stock options	-	(768,944)	-	768,944	-	-
Loss for the period	-	-	-	(1,272,094)	-	(1,272,094)
Balance, June 30, 2013	9,261,904	713,401	1,217,372	(10,380,129)	-	812,548

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 June 30, 2014, the Company had a working capital deficiency of $1,336,282 (December 31, 2013 – $1,177,030), had incurred losses since inception, and had an accumulated deficit of $10,507,198 (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 six months ended June 30, 2014 were approved and authorized for issue by the board of directors on August 28, 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.

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%
Indigenous Oil & Gas Company, 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 13.

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 7 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 the Indigenous Company as the Company's ownership percentage is less than 50%. See Note 13 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.

(g) Contingencies
Refer to Notes 7 and 17.

6. EQUIPMENT

Cost	Office equipment $	Furniture and fixtures $	Computer equipment $	Vehicles $	Total $
Balance December 31, 2012	9,928	121,809	3,900	2,000	137,637
Additions	3,100	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 June 30, 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	823	10,120	8,358	654	19,955
Balance June 30, 2014	3,505	38,892	23,235	2,158	67,790

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 June 30, 2014	9,523	91,082	20,224	3,704	124,533

7. 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 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 June 30, 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.

7. EXPLORATION AND EVALUATION ASSETS (continued)

Evaluation Costs

During the six months ended June 30, 2014, the Company incurred $1,718,184 (June 30, 2013 - $626,214) in pre-licensing costs related to pursing certain oil and gas assets and pre-licensing costs related to a mineral property in Nigeria. Details are as follows:

Description	June 30, 2014	June 30, 2013
	$	$
Management fees	253,663	318,986
Consulting fees	33,720	20,470
Travel, meals and accommodation	194,314	122,944
Professional fees	195,099	30,028
Technical reports	169,124	7,102
Environmental	61,744	-
Due diligence	10,970	-
License and permit	3,335	-
Commitment fee	607,479	-
Amortization	12,788	-
General and administrative expense	175,948	126,684
Balance	1,718,184	626,214

Included in management fees is $11,324 (June 30, 2013 –$Nil) 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 June 30, 2014, the Company capitalized a total of $1,182,752 in exploration and evaluation assets post licensing.

Description	Six months ended June 30, 2014	Twelve months ended December 31, 2013	Total
	$	$	$
Acquisition costs	-	207,080	207,080
Management and consulting fees	41,926	410,544	452,470
Environmental	90,199	-	90,199
Technical report	12,000	-	12,000
Travel, meals and accommodation	1,322	17,205	18,527
Professional fees	6,562	8,790	15,352
Legal fees	11,059	5,067	16,126
Share-based payments	1,406	24,574	25,980
Amortization	3,748	21,760	25,508
General and administrative expense	54,713	264,797	319,510
Balance	222,935	959,817	1,182,752

7. 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, James Bay Energy Nigeria Limited ("JBENL"). 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 as at June 30, 2014. 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.

7. EXPLORATION AND EVALUATION ASSETS (continued)

Petroleum Property Interests (continued)

MAK MERA (continued)
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 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 six months ended June 30, 2014, the Company incurred $3,010 (2013 - $171,766 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.

8. LETTER OF CREDIT

The Company is pursuing certain oil and gas assets in Nigeria. During the six months ended June 30, 2014, the Company received a US$30,000,000 ($32,010,000) letter of credit from a lender through its Indigenous Company 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.

In July 2014, the Company returned the letter of credit of US$30,000,000 ($32,010,000) to a lender.

9. 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 $49,739 (December 31, 2013 - $100,000) from a shareholder and director and an advance of $652,925 (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 six months ended June 30, 2014, $743,817 was repaid to these individuals and $802,664 of new advances were received by the Company.

Subsequent to June 30, 2014, the full principal and accrued interest were repaid to the shareholders.

10. SHARE CAPITAL

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

(b) **Issued** – 30,440,774 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 (i)	-	(203,463)
Warrants valuation(i)	-	(639,135)
Private placement (ii)	470,000	470,000
Share issue costs(ii)	-	(31,402)
Warrants valuation(ii)	-	(155,628)
Balance, June 30, 2014	30,440,774	10,632,700

(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.

Included in deferred financing fees and subscription payable as at December 31, 2013 are $194,816 share issue cost and $1,170,004 subscription received in advance in connection with the private placement.

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.

(ii) On June 10, 2014, the Company raised proceeds of $470,000 by way of a non-brokered private placement of 470,000 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 28,200 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 $36,750 for commission, filing fees, legal and other share issue costs.

11. 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)
Warrants issued [(iii)]	470,000	155,628
Finder's warrants issued [(iii)]	28,200	10,197
Warrant issue costs	-	(15,544)
Balance, June 30, 2014	2,489,021	710,588

[(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.

[(ii)] In connection with January 31, 2014 private placement (Note 10(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.

[(ii)] In connection with June 10, 2014 private placement (Note 10(b)(ii)), the Company issued 470,000 warrants which entitle the holder to purchase one common share of the Company at a price of $1.25 expiring on June 10, 2017. The estimated fair value of the warrants of $155,628 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 1.17% and an expected life of 3 years.

The finder received 28,200 finder's warrants which entitle the holder to purchase one common share of the Company at a price of $1.00 expiring on June 10, 2017. The estimated fair value of the finder's warrants of $10,197 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 1.17% 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 and June 10, 2014, as it believes that this methodology better reflects the expected future volatility of the Company's shares.

11. WARRANT RESERVE (continued)

As of June 30, 2014, the following warrants were outstanding:

	Six months ended June 30, 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	2,400,424	1.25	-	-
Finder's warrants issued	88,597	1.00	-	-
Balance, end of period	2,489,021	1.24	-	-

The Company has the following warrants outstanding as at June 30, 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
140,084	470,000	470,000	1.25	June 10, 2017
10,197	28,200(ii)	28,200	1.00	June 10, 2017
710,588	2,489,021	2,489,021		

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

(ii) These are finder's warrants issued in connection with June 10, 2014, private placement.

12. 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.

12. SHARE-BASED PAYMENTS (continued)

The following reconciles the share options outstanding:

	Six months ended June 30, 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 June 30, 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	600,000	0.63	June 1, 2017
302,000	800,000	800,000		

The weighted average exercise price of options exercisable at June 30, 2014, is $0.66 (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 $14,167 (June 30, 2013 - $59,795) was recorded relating to these stock options for the six months ended June 30, 2014.

13. NON-CONTROLLING INTEREST

The Company, through its wholly-owned subsidiary JBENL has 45% ownership interest in an indigenous oil and gas company (the “Indigenous Company”) and the remaining 55% portion represents a non-controlling interest.

The Company has fully consolidated with the Indigenous Company 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 the Indigenous Company 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 the Indigenous Company 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 also the President and Chief Executive Officer of the Indigenous Company.

13. NON-CONTROLLING INTEREST (continued)

In consideration of the Company`s obligations to provide the funding to the Indigenous Company, the revenue proceeds from the contract area or any asset of the Indigenous Company shall be allocated in the following manners:

a. The parties shall first deduct any amounts owing to third parties in accordance with their participatory interest under the project document;
b. 80% of the remaining revenue proceeds (after deductions under (a) above) shall be allocated to JBENL;
c. The remaining 20% of revenue proceeds (after deductions under (a) and (b) above) shall be shared between the Indigenous Company and JBENL in accordance with their respective ownership interest.

Summarized financial information for the Indigenous Company is as follows:

	June 30, 2014	December 31, 2013
	$	$
Current and total assets	32,094,250	59,639
Current and total liabilities	(33,872,120)	202,362
Net loss and comprehensive loss	1,681,745	206,190

Effective June 17, 2014, the Financial and Technical Services Agreement was amended to reflect a change of party from the Indigenous Company to a related company. All terms in the November 6, 2013 agreement between JBENL and the Indigenous Company remains in effect.

14. 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 six months ended June 30, 2014. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

15. 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 June 30, 2014, the Company had cash and restricted cash of $32,293,934 (December 31, 2013 - $1,113,299) to settle current liabilities of $33,772,867 (December 31, 2013 - $2,673,447). The Company has working capital deficiency of $1,336,282 (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 June 30, 2014, the Company has net monetary liabilities denominated in US dollars of approximately US$213,932 (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$21,393 (December 31, 2013 – US$35,150) based on the balance of these amounts held in US dollars at June 30, 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.

15. 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 June 30, 2014 and December 31, 2013, the Company had no financial instruments to classify in the fair value hierarchy.

16. RELATED PARTY

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 six months ended June 30, 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 six months ended June 30, 2014, approximately $21,514 (June 30, 2013 - $27,258) was charged by this corporation. The amount is included in office and general expense on the statement of loss. As of June 30, 2014, included in accounts payable and accrued liabilities is $959 (December 31, 2013 - $44,147) owing to this corporation.

During the six months ended June 30, 2014, the Company incurred legal fees of approximately $136,716 (June 30, 2013 - $97,500) with a law firm of which a partner is a director of the Company. Of this amount, $10,815 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 June 30, 2014, included in accounts payable and accrued liabilities is $189,965 (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 six months ended June 30, 2014 and 2013 were as follows:

	June 30, 2014 $	June 30, 2013 $
Management salaries and benefits	336,896	176,325
Share-based payments	14,167	59,795

Included in accounts payable and accrued liabilities as at June 30, 2014 is approximately $207,581 (December 31, 2013 - $185,240) for management travel expenses reimbursement and salaries.

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

See also Notes 9 and 10.

17. COMMITMENTS AND CONTINGENCIES

The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to $1,224,000 be made upon the occurrence of certain events such as a change of control and termination. As a triggering event has not taken place, the contingent payments have not been reflected in these condensed interim consolidated financial statements. Under these management contracts, $582,000 is due within one year.

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 $366,500, of which $122,000 will be incurred within one year. The first two years relating to this lease were paid in advance and $37,024 is included in current prepaid expenses as at June 30, 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 total approximately $19,000 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.

18. SUBSEQUENT EVENT

Private placement

On July 28, 2014, the Company announced that it has raised gross proceeds of $3,810,670 by way of a non-brokered private placement (the "Offering") of 3,810,670 units ("Units") at a price of $1.00 per Unit. Each Unit is comprised of one common share (a "Common share") and one common share purchase warrant (a "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.

In connection with the Offering, the Company has paid to eligible persons (the "Finders") an aggregate of $228,640 and has issued 228,640 finder's warrants ("Finder's Warrants) equal to the 6% of the aggregate number of Units placed by the Finders in the Offering. Each Finder's Warrant is exercisable to acquire one Common Share at a price of $1.00 per Common Share for thirty-six months from the date of issuance.

Included in deferred financing fees is $4,850 share issue cost in connection with the private placement.

As at June 30, 2014, the Company had received proceeds toward this financing of $211,970. These funds were recorded as subscription payable in the statement of financial position as the financing had not been closed as at June 30, 2014.