



**James Bay**  
Resources Limited

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JAMES BAY RESOURCES LIMITED

2011 ANNUAL REPORT



May 25, 2012

Dear Fellow Shareholders,

On behalf of the Board of Directors, I am pleased to report to you on our progress in 2011 and provide our outlook for 2012.

During 2011 James Bay signed an agreement with D&H Solutions AS ("D&H") to expand its capabilities for the sourcing and development of Nigerian oil and gas projects. The revised agreement with D&H is designed to provide the basis for James Bay to proceed with its initiatives while utilizing the extensive experience and qualifications of D&H's personnel in Nigeria.

James Bay and D&H (a 50/50 partnership between Hemla II AS of Norway and Korea's DSME (Daewoo Shipbuilding and Marine Engineering) have identified a number of potential oil & gas acquisition targets. The parties have agreed that any acquisition of an exploration or near-term producing oil and gas opportunity in Nigeria would be brought into a 100% owned subsidiary of James Bay incorporated in Nigeria. James Bay has entered into a management agreement with D&H, pursuant to which Mr. Knut Sovold will be seconded as President and CEO of James Bay's 100% owned subsidiary in Nigeria, as well as further D&H management personnel as required and agreed upon by the parties.

During the second half of 2011, we made significant progress in conducting due diligence on two very exciting prospective oil and gas projects in Nigeria. Subject to securing a project and receiving all required regulatory and stock exchange approvals that may be required, James Bay is looking forward to becoming an oil and gas producing company during the first half of 2013.

James Bay is also pleased to announce that it has also signed an agreement with an indigenous Nigerian oil and gas service provider, Mak Mera Limited ("Mak Mera"). Mak Mera provides upstream oil and gas expertise and has extensive contacts that will help facilitate James Bay's efforts in securing projects and services in Nigeria.

James Bay and D&H have also agreed that for certain large-scale gas acquisition targets which may be identified in Nigeria, James Bay will have the first right of refusal to contribute up to 15% of the capital required at the initial funding stage.

James Bay continues to maintain 104 highly prospective mining claims covering 1367 claim units (21,872 ha) in 2008 in the southern "Ring of Fire" area of the James Bay Lowlands, Thunder Bay Mining Division, Ontario. Numerous magnetic surveys were flown over 100% of the property revealing attractive geophysical conductors and anomalies that warranted drilling. Although we have identified more than 20 additional attractive geophysical anomalies on our property, the Board decided to suspend the drilling operation near the end of 2008. In light of recent announcements made by the Ontario Government and Cliffs Natural Resources Inc. on infrastructure development, management believes our claims hold significant value. The Board is currently reviewing James Bay's options with regards to further exploration.

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

Signed,

**"Stephen Shefsky"**

Stephen Shefsky  
President





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Resources Limited

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**JAMES BAY RESOURCES LIMITED**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the years ended December 31, 2011 and 2010**

The following Management's Discussion and Analysis ("MD&A") has been prepared as at April 26, 2012. The Company's reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars. The MD&A of James Bay Resources Limited (the "Company" or "James Bay") should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2011. Those financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

## **CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")**

The Accounting Standards Board of Canada ("AcSB") requires that Canadian publicly accountable enterprises adopt IFRS effective January 1, 2011.

The Company's consolidated financial statements are the Company's first IFRS consolidated annual financial statements to be presented in accordance with IFRS for the year ended December 31, 2011. Previously, the Company prepared its consolidated annual and consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

Although IFRS employs a conceptual framework that is similar to Canadian GAAP, there are significant differences in recognition, measurement and disclosure. For further information, please refer to the Company's consolidated financial statements and notes for the year ended December 31, 2011.

## **COMPANY OVERVIEW**

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

In March 21, 2011 the Company entered into a preliminary agreement to conduct due diligence to identify potential oil and gas acquisition targets in Nigeria. Management's goal is to continue seeking additional opportunities to add value for shareholders.

### **History and corporate structure**

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

## **EXPLORATION AND EVALUATION ACTIVITIES**

### **James Bay Lowlands property (the "Property")**

#### **Introduction**

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

## EXPLORATION AND EVALUATION ACTIVITIES (continued)

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

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

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

On September 5, 2011, the three E Block claims cancelled. As of November 1, 2011, there is sufficient assessment work to keep the main contiguous block of claims in good standings for just under 2 years.

In April 2012, a 2000 metre . 10 hole diamond drill program is proposed the property drill testing previously untested airborne magnetic and electromagnetic anomalies. The plan is subject to approval.

## EXPLORATION AND EVALUATION ASSETS

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

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

## EXPLORATION AND EVALUATION ACTIVITIES (continued)

### Oil and Gas Properties

#### D&H Solutions AS ("D&H")

On March 21, 2011, the Company signed a memorandum of understanding (the "MoU") to conduct due diligence, and if a suitable target is identified, to form a special purpose vehicle (the "SPV") with D&H Solution AS (~~%D&H+~~) (a 50/50 partnership between Hemla of Norway and Korea's DSME (Daewoo Shipbuilding and Marine Engineering) to further evaluate the identified oil & gas opportunities in Nigeria, and if suitable, negotiate an agreement to acquire and develop such assets.

Subsequent to December 31, 2011, 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 a definitive agreement being entered into with regards to an acquisition of an interest in an oil and gas project in Nigeria, and
- 3,000,000 units upon the Company reaching 1,500 barrels oil equivalent (~~%BOE+~~) per day or a minimum recoverable estimate of 50 million BOE.

Simultaneously with each issuance of the units above, D&H will receive a further 300,000 stock options exercisable for a period of five years following the date of issue, with the exercise price set in the context of the market on the date of issue.

The Company also assumes D&H's agreement to acquire a 47% interest in certain oil and gas interest in Nigeria through the formation of a joint operation with the seller. As consideration for the transfer of the interest, the Company will be required to pay US\$2,500,000. These payments are to commence only upon completion of due diligence by the Company and to occur over a period of time defined by the accomplishment of project landmarks, ending with the achievement of commercial production. In addition, on the commencement of commercial production the Company will pay a monthly management retainer of US\$30,000 to the seller in return for the seller performing its ordinary legal and regulatory duties as marginal field license holder. The Company will also be required to pay up to US\$500,000 in capital contribution to the project as required to finance the joint operation until the commencement of commercial production. Related to this agreement, the Company paid US\$50,000 for the first installment in exclusivity, data purchase and administrative fees during the 2011 year. The second installment of US\$50,000 was paid subsequent to year-end.

## **EXPLORATION AND EVALUATION ACTIVITIES (continued)**

### **Oil and Gas Property**

#### **MAK MERA**

On March 9, 2011, James Bay entered into a letter of intent with a Nigerian oil & gas service provider, MAK MERA. Subsequent to December 31, 2011, a new agreement with MAK MERA was signed. The new consulting services agreement calls for the issuance of common shares of the Company to MAK MERA as follows:

- 3,500,000 common shares upon a definitive agreement being entered into with regards to an acquisition of an interest in an oil and gas project in Nigeria, and
- 3,000,000 common shares upon the Company reaching 1,500 boe per day or a minimum recoverable estimate of 50 million BOE.

If a target is identified through this process, completion of an acquisition could represent a Change of Business under the TSX Venture Exchange policies. As a result, any such transaction would be subject to a number of conditions, including TSX Venture Exchange acceptance and if required shareholder approval.

As of December 31, 2011, approximately US\$1,180,000 of the US\$2 million placed in an escrow account was drawn down for the purpose of conducting the initial due diligence to identify and secure the acquisition of oil & gas property targets in Nigeria. The expenses incurred in relation to the due diligence were approximately US\$1,069,000 (\$1,089,676). US\$11,000 (\$11,000) remained payable from the escrow account related to these expenses as at December 31, 2011. As at December 31, 2011, the restricted cash balance of \$834,047 (US\$820,000) represented the unspent funds in the escrow account.

Included in cash and cash equivalents is approximately \$60,000 funds held by the Company's solicitor for payment of the second installment in connection with the acquisition of oil & gas interest in Nigeria. Included in prepaid expenses is approximately \$58,000 in prepaid office rent in Nigeria.

## SELECTED ANNUAL FINANCIAL INFORMATION

The consolidated financial statements of the Company to which this MD&A relates were prepared in accordance with International Financial Reporting Standards (IFRS). These are the Company's first IFRS annual consolidated financial statements and IFRS 1, First Time Adoption of IFRS has been applied. An explanation of how the transition from Canadian GAAP to IFRS has affected the reported consolidated statements of financial position, comprehensive loss and changes in equity of the Company is provided in note 18 to the December 31, 2011 annual statements. This note includes information on the provisions of IFRS 1 and the exemptions that the Company elected to apply, reconciliations of equity, net income and comprehensive income for comparative periods and equity at the date of transition, December 31, 2009, December 31, 2010 and for the year ended December 31, 2011.

The following table sets out the annual financial information of James Bay and is derived from the Company's audited financial statements for the years ended December 31, 2009, 2010 and 2011.

### Summary of Consolidated Statement of Financial Position

	December 31, 2011 IFRS (\$)	December 31, 2010 IFRS (\$)	December 31, 2009 Canadian GAAP (\$)
Current assets	5,724,694	7,069,878	7,861,471
Current liabilities	104,765	144,029	41,386
Working capital	5,619,929	6,925,849	7,820,085
Total assets	8,158,695	10,055,265	10,483,702
Shareholders' equity	8,053,930	9,911,236	10,442,316
Deficit	3,905,740	1,974,434	1,819,161

	December 31, 2011 IFRS (\$)	December 31, 2010 IFRS (\$)	December 31, 2009 Canadian GAAP (\$)
Expenses	1,946,318	886,107	1,130,872
Net loss and comprehensive loss	1,931,306	825,527	782,635
Net loss per share	0.07	0.03	0.03
Weighted average number of shares	28,040,350	28,040,350	28,040,350

Notes: Net loss per share on a diluted basis is the same as basic net loss per share, as all factors which were considered in the calculation are anti-dilutive.

## RESULTS OF OPERATIONS AND CASH FLOWS

### Revenue

The Company is in the development stage and therefore did not have revenues from operations. Interest income for the year ended December 31, 2011 was \$64,526 (December 31, 2010 - \$96,738).

The Company deposited approximately \$4,654,000 in cashable GICs at an interest rate of 1.20%. Year-to-date GIC interest income was approximately \$50,628 (December 31, 2010 - \$64,120).

### Net loss and comprehensive loss

For the year ended December 31, 2011, the Company recorded net loss and comprehensive loss of \$1,931,306 with basic and diluted loss per share of \$0.07, reflecting an increase of \$1,105,779 as compared to 2010. This increase is mainly attributable to the increase in due diligence expense as detailed below.

### Expenses

The Company recorded total expenses of \$1,946,318 for the year ended December 31, 2011 as compared to \$886,107 in the comparative period in 2010. The reasons for the increase in expense are as follows:

- On March 21, 2011, the Company signed an MoU to conduct due diligence to further evaluate the identified oil & gas opportunities in Nigeria, and if suitable, negotiate an agreement to acquire and develop such assets. The Company placed US\$2 million in an escrow account.

The Company incurred a total of \$1,233,304 due diligence expense on oil & gas properties in Nigeria, of which US\$1,180,000 was drawn down from the US\$2 million placed in the escrow account. The \$1,233,304 due diligence expense consisted of: \$831,040 consulting fees; \$362,940 office and general expenses incurred in Nigeria; and \$39,324 professional fees.

- Professional fees increased to \$116,742 for the year ended December 31, 2011 as compared to \$89,505 for the same period in 2010, reflecting an increase of \$27,237 due to additional fees paid in relation to IFRS conversion.
- Office and general fees increased to \$133,791 for the year ended December 31, 2011 as compared to \$98,357 for the same period in 2010, reflecting an increase of \$35,434. This is mainly due to the increase in rent and general office expenses in addition to travel in seeking new business opportunities.

### Fourth quarter

Interest income was \$13,990, reflecting a decrease of \$6,491 from the same period in 2010. Expenses were \$518,279, reflecting an increase of \$523,424 from the same period in 2010. This is mainly due to increase of due diligence on oil and gas property in the fourth quarter of 2011. Net loss and comprehensive loss was \$544,486 as compared to \$29,914. The change in net loss is attributable to a reimbursement of due diligence expense incurred in prior year.

## SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION (continued)

### SUMMARY OF QUARTERLY RESULTS

The quarterly results for the period ended December 31, 2011 and 2010 have been restated on an IFRS basis as follows:

Quarter ended	IFRS basis			
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2010
Working Capital	\$5,619,929	\$6,164,370	\$6,597,151	\$6,908,443
Exploration and evaluation Assets	2,433,662	2,433,662	2,433,662	2,438,662
Operating expenses	518,279	637,774	599,193	191,072
Interest Income	13,990	13,587	144,046	25,774
Loss and comprehensive loss	544,486	526,827	673,939	186,054
Loss and comprehensive loss per share	0.02	0.02	0.02	0.01

Quarter ended	IFRS basis			
	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Working capital	\$6,925,849	\$7,072,141	\$7,491,805	\$7,671,285
Exploration and evaluation Assets	2,438,662	2,438,662	2,438,662	2,438,631
Operating (income) expenses	(5,145)*	221,454	665,234	190,566
Share-based compensation	42,000	17,644	73,605	49,198
Interest Income	20,481	44,079	16,025	16,153
Loss and comprehensive loss	29,914	165,575	625,099	190,941
Loss and comprehensive loss per share	0.00	0.01	0.02	0.01

\* Expenses in the fourth quarter of 2010 were reduced by the reimbursement of due diligence fees.

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

## **SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION (continued)**

### **CASH FLOWS**

#### **Operating Activities**

The Company had a net outflow of \$2,040,784 from operating activities (December 31, 2010 . \$1,165,003).

#### **Investing Activities**

The Company had a net inflow of \$496,853 (December 31, 2010 . \$324,633 net outflow) from sale of investments and repayment of loan. The Company had a \$5,000 refund on expenses incurred in the James Bay Lowlands during the year.

During the year, the \$250,000 loan to Morumbi Resources Inc. (~~to Morumbi~~) was repaid. Since Morumbi repaid the loan prior to the first anniversary date of the loan agreement, the policies of the TSX Venture Exchange required the immediate termination of the Morumbi warrants held by the Company. At December 31, 2011, the value of Morumbi warrants was written-off.

#### **Financing Activities**

The Company had no financing activities during the year.

#### **Fourth quarter**

Cash used in operations was \$1,441,577, reflecting an increase of \$800,958 from the same period in 2010. Cash received from investing was \$40,473, reflecting an increase of 102,973 from the same period in 2010. This is mainly due to sale of marketable securities and repayment of loan.

### **LIQUIDITY**

The Company had opening cash and cash equivalents balance of \$6,310,432. The Company used \$2,040,784 in operating activities and received \$496,853 cash from investing activities during the year. The effect of change in foreign exchange was \$24,742. At December 31, 2011, the Company had cash and cash equivalents of \$4,791,243 and \$834,047 restricted cash. On January 5, 2012, the cash restriction was lifted.

#### **Common shares**

At December 31, 2011, the Company had issued and outstanding 28,040,350 common shares. There were no additional common shares issued between the period from January 1, 2011 to December 31, 2011 and to April 26, 2012.

#### **Warrants**

At December 31, 2011, a total of 3,723,925 warrants were outstanding, with each warrant entitling the holder to purchase one common share of the Company with expiry date of July 24, 2012. The Company have extended the expiry date of the 3,723,925 common share purchase warrants issued by the Company in connection with the initial public offering (the ~~the IPO~~) financing that closed on July 24, 2008 to July 24, 2013 subsequent to December 31, 2011. The exercise price of these warrants has been reduced from \$2.00 to \$1.25 per warrant.

#### **Stock options**

At December 31, 2011, a total of 2,765,000 stock options are issued and outstanding with expiry dates ranging from April 2, 2013 through to June 11, 2015. The weighted average exercise price for all stock options is \$0.75. All stock options entitle the holder to purchase common shares of the Company. There were no additional stock options issued or exercised between the period from January 1, 2011 to December 31, 2011.

## OUTLOOK

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

## SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods. Such estimates and assumptions affect the carrying value of assets, the determination of impairment charges of non-current assets, impact decisions as to when exploration and evaluation costs should be capitalized or expensed, and affect estimates for asset retirement obligations and reclamation costs. Other significant estimates made by the Company include factors affecting valuations of share-based compensation, warrants, investments 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 during the year may have future economic benefits. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, proximity of other operating facilities and discoveries, operating management expertise and existing permits. See Note 7 for details of capitalized exploration and evaluation assets.

### *(b) Impairment of exploration and evaluation assets*

While assessing whether any indications of impairment exist for mineral properties and deferred exploration expenditures, 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 mineral properties and deferred exploration expenditures. Internal sources of information include the manner in which mineral properties and deferred exploration expenditures 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 after-tax cash flows expected to be derived from the Company's properties, costs to sell the properties and the appropriate discount rate.

Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation assets.

### *(c) Income taxes and recoverability of potential deferred tax assets*

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

## **SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

### *(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.

## **SIGNIFICANT ACCOUNTING POLICIES**

### *(a) Foreign Currencies*

The presentation currency of the Company and the functional currency of the Company and each of its subsidiaries is the Canadian dollar.

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

### *(b) Cash and cash equivalents*

Cash equivalents include money market instruments which are readily convertible into cash or have maturities at the date of purchase of less than ninety days.

### *(c) Share-based payments*

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in the share-based payment 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 equity-settled employee benefits reserve.

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

### *(d) Income Tax*

#### **Current tax**

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for

## **SIGNIFICANT ACCOUNTING POLICIES (continued)**

current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

### **Deferred tax**

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

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

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

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 deferred tax assets against deferred tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its deferred tax assets and liabilities on a net basis.

### *(e) Exploration and evaluation assets*

Once a license to explore an area has been secured, expenditures on exploration and evaluation activities, net of government assistance received, are capitalized to mineral properties and deferred exploration. Deferred exploration expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential. The Company's due diligence costs related to its search for a suitable oil and gas property in Nigeria (Note 7) have been expensed directly to the Consolidated Statements of Comprehensive Loss as they relate to work performed in advance of the Company securing a license to explore any specific project.

The Company's property interests are in the exploration and evaluation stage and accordingly the Company follows the practice of capitalizing all costs relating to the acquisition of, exploration for and evaluation of mineral claims and crediting all revenues received against the cost of the related claims. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned mineral claims 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

## SIGNIFICANT ACCOUNTING POLICIES (continued)

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 costs+ into %Mine Development+, all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalised within %Mine development+. After production starts, all assets included in %Mine development+ are transferred to %Producing Mines+.

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

### (f) Equipment

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

Office equipment	-	20%, declining balance basis
Computer software	-	100%, declining balance basis

### (g) Impairment of non-financial assets

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

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

### (h) Financial instruments

#### Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at FVTPL, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives. The Company determines the classification of its financial assets at initial recognition.

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

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

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

## SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 statement of financial position at fair value with changes in fair value recognised in finance income and finance costs in the statement of comprehensive loss.

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

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of comprehensive loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

### Loans and receivables

The Company has designated its cash, restricted cash, and amounts receivables 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 comprehensive loss. The losses arising from impairment are recognised in the statement of comprehensive loss.

### Derecognition

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

- The rights to receive cash flows from the asset have expired; and
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and either:

(a) the Company has transferred substantially all the risks and rewards of the asset; or

(b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

## **SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Impairment of financial assets**

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

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive 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 statement of comprehensive 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 the statement of comprehensive 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.

## **SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Company's financial liabilities include accounts payable and accrued liabilities.

### **Subsequent measurement**

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

#### **Financial liabilities at fair value through profit or loss**

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

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

#### **Other financial liabilities**

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate (EIR) method. Gains and losses are recognized in the consolidated statement of operations 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 the statement of operations.

#### **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.

#### ***(i) Loss per share***

Basic loss per share is calculated by dividing the loss available to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss available to common shareholders equals the reported loss. Diluted loss per share is calculated by assuming that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. In the Company's case, diluted loss per share is the same as basic loss per share as the effects of including all outstanding options and warrants would be anti-dilutive. As at December 31, 2011 and 2010, all outstanding options and warrants were anti-dilutive.

## FINANCIAL INSTRUMENTS

The Company has designated its cash equivalents and investments as fair value through profit or loss, measured at fair value. Cash, restricted cash equivalents, amounts receivable and loan receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

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

### Credit risk

The Company's credit risk is primarily attributable to guaranteed investment certificates and amounts receivable and the loan receivable. The Company has no significant concentration of credit risk arising from operations. Guaranteed investment certificates have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Financial instruments included in amounts receivable at December 31, 2011 and 2010 consist of sales tax due from the Federal Government of Canada. Management believes that the credit risk concentration with respect to these financial instruments is remote.

### Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At December 31, 2011, the Company had cash and cash equivalents (including restricted cash) of \$5,625,290 (December 31, 2010 - \$6,310,432; January 1, 2010 - \$7,847,068) to settle current liabilities of \$104,765 (December 31, 2010 - \$144,029; January 1, 2010 - \$41,386). The Company's financial liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms.

### Market risk

#### (a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The loan receivable bears interest at a fixed rate and therefore does not give rise to interest rate risk.

#### (b) Price risk

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

#### (c) Foreign currency risk

The Company is subject to foreign exchange risk as the Company has certain assets and liabilities, and makes certain expenditures, in US dollars. The Company is therefore subject to gains and losses due to fluctuations in the US dollar relative to the Canadian dollar. The Company does not hedge its foreign exchange risk.

### Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a year ended: The Company's cash equivalents as at December 31, 2011 are held at a fixed interest rate of 1.2% and are therefore not subject to fluctuations in interest rates. A change in interest rates of 1% will result in a corresponding change in net loss of approximately \$46,500 based on the cash balance at December 31, 2011.

## **FINANCIAL INSTRUMENTS (continued)**

### Sensitivity analysis (continued)

As at December 31, 2011, the Company has US cash and cash equivalents of approximately \$834,000 (US \$820,000). 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 \$83,000 based on the balance of these assets held in US dollars at December 31, 2011.

### **Fair Value**

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

### Fair Value hierarchy and liquidity risk disclosure

Fair value measurements are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). As at December 31, 2011, December 31, 2010 and January 1, 2010, cash equivalents were Level 2. As at December 31, 2010 and January 1, 2010, investments consisting of common shares were level 1 and investments consisting of warrants were Level 2.

## **CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

### **Transition to International Financial Reporting Standards**

As stated in Note 18 of the consolidated financial statements, these are the Company's annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies in Notes 6 and 18 have been applied as follows:

- É in preparing the consolidated financial statements for the year ended December 31, 2011;
- É the comparative information for the year ended December 31, 2010;
- É the statement of financial position as at December 31, 2010; and
- É the preparation of an opening IFRS statement of financial position on the Transition Date, January 1, 2010.

### **First-time adoption of International Financial Reporting Standards**

In preparing these consolidated financial statements, the Company has applied IFRS 1, First-time Adoption of International Financial Reporting Standards, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 gives entities adopting IFRS for the first time a number of optional and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The following are the optional exemptions available under IFRS 1 that the Company has elected to apply:

#### *Share-based payment transactions*

The Company elected to not apply IFRS 2, Share-based Payments, to equity instruments granted before November 7, 2002 and those granted but fully vested before the date of transition to IFRS. As a result, the Company has applied IFRS 2 for stock options granted after November 7, 2002 that is not fully vested at January 1, 2010.

## CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION (continued)

### *Changes in Existing Decommissioning, Restoration and Similar Liabilities – IFRIC 1*

The Company did not apply the recognition and measurement principles of IFRIC 1 prior to January 1, 2010.

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The changes made to the consolidated statements of financial position and consolidated statements of comprehensive income have resulted in reclassifications of various amounts on the consolidated statements of cash flows, however as there have been no changes to the net cash flows, no reconciliations have been presented. In preparing the condensed consolidated financial statements, the Company reflected the result of transition in the following tables:

### Reconciliation of consolidated balance sheet as of January 1, 2010

Note	Previous Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7,847,068	-	7,847,068
Prepaid expenses	12,431	-	12,431
Amounts receivable	1,972	-	1,972
	<u>7,861,471</u>	-	<u>7,861,471</u>
Exploration and evaluation assets	2,431,529	-	2,431,529
Equipment	702	-	702
Investments	190,000	-	190,000
	<u>10,483,702</u>	-	<u>10,483,702</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	<u>41,386</u>	-	<u>41,386</u>
<b>EQUITY</b>			
Common shares	9,261,904	-	9,261,904
Share-based payments reserve	(a) 1,782,201	(243,575)	1,538,626
Warrant reserve	1,217,372	-	1,217,372
Deficit	(a) (1,819,161)	243,575	(1,575,586)
	<u>10,442,316</u>	-	<u>10,442,316</u>
	<u>10,483,702</u>	-	<u>10,483,702</u>

**CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION (continued)**

**Reconciliation of consolidated balance sheet as of December 31, 2010**

	Note	Previous Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		6,310,432	-	6,310,432
Prepaid expenses		12,202	-	12,202
Amounts receivable		747,244	-	747,244
		7,069,878	-	7,069,878
Exploration and evaluation assets		2,438,662	-	2,438,662
Equipment		521	-	521
Investments		407,500	-	407,500
Loan receivable		138,704	-	138,704
		10,055,265	-	10,055,265
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		144,029	-	144,029
<b>EQUITY</b>				
Common shares		9,261,904	-	9,261,904
Share-based payments reserve	(a)	1,964,648	(670,254)	1,294,394
Warrant reserve		1,329,372	-	1,329,372
Deficit	(a)	(2,644,688)	670,254	(1,974,434)
		9,911,236	-	9,911,236
		10,055,265	-	10,055,265

**CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION (continued)**

**Reconciliation of consolidated statement of comprehensive loss for the year ended December 31, 2010**

	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
	\$	\$	\$
<b>Expenses</b>			
Share-based compensation	182,447	-	182,447
Management salaries and benefits	286,819	-	286,819
Professional fees	89,505	-	89,505
Office and general	98,357	-	98,357
Consulting fees	23,417	-	23,417
Shareholder relations	66,899	-	66,899
Warrant extension valuation	112,000	-	112,000
Transfer agent and listing fees	26,482	-	26,482
Amortization	181	-	181
<b>Loss before the undernoted</b>	<b>886,107</b>	<b>-</b>	<b>886,107</b>
Foreign exchange loss	51,422	-	51,422
Net loss on fair value through profit or loss investments	22,500	-	22,500
Gain on loan	(37,764)	-	(37,764)
Interest income	(96,738)	-	(96,738)
<b>Comprehensive loss for the year</b>	<b>825,527</b>	<b>-</b>	<b>825,527</b>
<b>Loss per share</b>			
Basic and diluted	(0.03)	-	(0.03)
Weighted average number of shares outstanding . basic and diluted	28,040,350	-	28,040,350

**Note**

(a) On transition to IFRS, the Company elected to change its accounting policy for the treatment of share-based payments whereby amounts recorded for expired unexercised share options and warrants are transferred to deficit. Previously, the Company's Canadian GAAP policy was to leave such amounts in contributed surplus. The impact of the change was a decrease to deficit and a decrease to share-based payments reserve of \$670,254 at December 31, 2010 (January 1, 2010 - \$243,575).

## RECENT ACCOUNTING PRONOUCEMENTS

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

### *IFRS 9, Financial Instruments (“IFRS 9”)*

This amendment addresses the classification and measurement of financial assets. IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. This new standard is effective for the Company’s annual consolidated financial statements commencing January 1, 2015. The Company is assessing the impact of this new standard on its consolidated financial statements.

### *IFRS 10 Consolidated Financial Statements (“IFRS 10”)*

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 Consolidated and Separate Financial Statements. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 10 on its consolidated financial statements.

### *IFRS 11 Joint Arrangements (“IFRS 11”)*

IFRS 11 replaces the guidance in IAS 31 Interests in Joint Ventures. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previously jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11, joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment’s opening balance is tested for impairment in accordance with IAS 28 Investments in Associates and IAS 36 Impairments of Assets. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its consolidated financial statements for the annual period beginning January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 11 on its consolidated financial statements.

### *IFRS 13 Fair Value Measurement (“IFRS 13”)*

IFRS 13 converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 13 on its consolidated financial statements.

## RELATED PARTY DISCLOSURES

The audited consolidated financial statements include balances and transactions with directors and officers of the Company and/or corporations related to them. During the year ended December 31, 2011 and 2010 the Company entered into the following transactions involving related parties:

The Company rents office space from a corporation controlled by a director of the Company. During the year, approximately \$60,955 (December 31, 2010 - \$42,742) was charged by this corporation. The amount is included in office and general expense on the statement of comprehensive loss. In March 2011, the Company renewed the sublease agreement for another 18 months, resulting in a lease commitment of approximately \$38,800 as at December 31, 2011.

The Company incurred legal fees of approximately \$29,200 (December 31, 2010 - \$39,700) paid to a law firm of which a partner is a director of the Company. This amount is included in office and general expense on the statement of comprehensive loss.

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

James Bay Coal Co., USA	100%
2255431 Ontario Limited, Canada	100%

The remuneration of directors and other members of key management personnel during the years ended December 31, 2011 and 2010 was as follows:

	2011	2010
	\$	\$
Management salaries	284,738	312,319
Share-based payments	-	98,000
Share-based payments	<u>284,738</u>	<u>410,319</u>

## COMMITMENTS AND CONTINGENCIES

The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to \$504,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these financial statements. Additional minimum management contract commitments remaining under these contracts are approximately \$508,000. In March 2011, the Company renewed the sublease agreement for another 18 months, resulting in a lease commitment of approximately \$38,800 as at December 31, 2011.

The Company's mining and exploration activities are subject to various federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

## OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

## **RISKS AND UNCERTAINTIES**

### **Additional Capital**

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

### **No History of Profitability**

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

### **Government Regulations**

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

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

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

## **RISKS AND UNCERTAINTIES (continued)**

### **Mining Risks and Insurance**

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

### **Competition**

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

### **Environmental Protection**

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

### **Aboriginal Claims**

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

### **Conflicts of Interest**

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

### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

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

### **Additional Information**

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

**JAMES BAY RESOURCES LIMITED**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

**JAMES BAY RESOURCES LIMITED**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of James Bay Resources Limited

We have audited the accompanying consolidated financial statements of James Bay Resources Limited and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011, and December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive loss, the consolidated statements of cash flows and the consolidated statements of changes in equity for the years ended December 31, 2011 and 2010 and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of James Bay Resources Limited and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010, and their financial performance and cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

McGOVERN, HURLEY, CUNNINGHAM, LLP



Chartered Accountants  
Licensed Public Accountants

TORONTO, Canada

April 24, 2012

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



**JAMES BAY RESOURCES LIMITED**  
**Consolidated Statements of Financial Position**  
Expressed in Canadian dollars

As at

	December 31, 2011 \$	December 31, 2010 \$ (Note 18)	January 1, 2010 \$ (Note 18)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents (Note 7)	4,791,243	6,310,432	7,847,068
Restricted cash (Note 7)	834,047	-	-
Prepaid expenses (Note 7)	74,248	12,202	12,431
Amounts receivable (Note 7)	25,156	747,244	1,972
	<u>5,724,694</u>	<u>7,069,878</u>	<u>7,861,471</u>
Exploration and evaluation assets (Note 7)	2,433,662	2,438,662	2,431,529
Equipment	339	521	702
Investments (Note 8)	-	407,500	190,000
Loan receivable (Note 9)	-	138,704	-
	<u>8,158,695</u>	<u>10,055,265</u>	<u>10,483,702</u>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	<u>104,765</u>	<u>144,029</u>	<u>41,386</u>
<b>EQUITY</b>			
Common shares (Note 10)	9,261,904	9,261,904	9,261,904
Share-based payments reserve (Note 11)	1,294,394	1,294,394	1,538,626
Warrant reserve (Note 12)	1,403,372	1,329,372	1,217,372
Deficit	<u>(3,905,740)</u>	<u>(1,974,434)</u>	<u>(1,575,586)</u>
	<u>8,053,930</u>	<u>9,911,236</u>	<u>10,442,316</u>
	<u>8,158,695</u>	<u>10,055,265</u>	<u>10,483,702</u>

**COMMITMENTS AND CONTINGENCIES** (Note 17)

**APPROVED ON BEHALF OF THE BOARD:**

Signed "STEPHEN SHEFSKY" \_\_\_\_\_, Director

Signed "MARK BRENNAN" \_\_\_\_\_, Director

See accompanying notes to the consolidated financial statements

**JAMES BAY RESOURCES LIMITED**  
**Consolidated Statements of Comprehensive Loss**  
Expressed in Canadian dollars  
For the years ended December 31,

	2011	2010
<b>Expenses</b>		
Share-based compensation	\$ -	\$ 182,447
Management salaries and benefits	300,238	286,819
Professional fees (Note 15)	116,742	89,505
Office and general (Note 15)	133,791	98,357
Consulting fees	42,993	23,417
Due diligence on oil & gas property (Note 7)	1,233,304	-
Shareholder relations	25,384	66,899
Warrant extension valuation (Note 12)	74,000	112,000
Transfer agent and listing fees	19,684	26,482
Amortization	182	181
	<hr/>	<hr/>
<b>Loss before the undernoted</b>	(1,946,318)	(886,107)
Foreign exchange gain (loss)	18,735	(51,422)
Loss on held-for-trading investments (Note 8)	(201,120)	(22,500)
Gain on loan	132,871	37,764
Interest income	64,526	96,738
	<hr/>	<hr/>
<b>Net loss and comprehensive loss for the year</b>	\$ <u>(1,931,306)</u>	\$ <u>(825,527)</u>
<b>Loss per share</b>		
Basic and diluted	\$ <u>(0.07)</u>	\$ <u>(0.03)</u>
Weighted average number of shares outstanding – basic and diluted	<u>28,040,350</u>	<u>28,040,350</u>

See accompanying notes to the consolidated financial statements

**JAMES BAY RESOURCES LIMITED**  
**Consolidated Statements of Cash Flows**  
Expressed in Canadian dollars  
For the years ended December 31,

	2011	2010
<b>Cash used in operating activities:</b>		
Net loss for the year	\$ (1,931,306)	\$ (825,527)
Add (deduct) items not affecting cash:		
Amortization	182	181
Share-based compensation	-	182,447
Foreign exchange (gain) loss	(24,742)	47,000
Warrant extension valuation	74,000	112,000
Gain on loan	(132,871)	(37,764)
Loss on held-for-trading investment	230,000	22,500
Gain on held-for-trading investment	(28,880)	-
Interest income	(13,898)	(28,440)
Net change in non-cash working capital	(213,269)	(637,400)
Net cash used in operating activities	(2,040,784)	(1,165,003)
<b>Cash used in investing activities:</b>		
Sale of marketable securities	206,380	-
Exercise of investment in warrants	-	(85,000)
Due diligence fee received	-	22,500
Repayment (issuance) of loan	285,473	(250,000)
Interest in mineral properties	5,000	(12,133)
Net cash provided by (used in) investing activities	496,853	(324,633)
<b>Change in cash and cash equivalents during the year</b>	(1,543,931)	(1,489,636)
Effect of change in foreign exchange	24,742	(47,000)
Cash and cash equivalents at beginning of year	6,310,432	7,847,068
Cash and cash equivalents at end of year	\$ 4,791,243	\$ 6,310,432
<b>Cash and cash equivalents are as follows:</b>		
Cash	\$ 113,970	\$ 2,182,814
Cash equivalents	4,677,273	4,127,618
Cash and cash equivalents	\$ 4,791,243	\$ 6,310,432

See accompanying notes to the consolidated financial statements

**JAMES BAY RESOURCES LIMITED**  
**Consolidated Statements of Changes in Equity**  
Expressed in Canadian dollars

	Common shares \$	Share-based Payments Reserve \$	Warrant Reserve \$	Accumulated Deficit \$	Total Equity \$
Balance, December 31, 2010	9,261,904	1,294,394	1,329,372	(1,974,434)	9,911,236
Share-based compensation	-	-	74,000	-	74,000
Loss for the year	-	-	-	(1,931,306)	(1,931,306)
Balance, December 31, 2011	9,261,904	1,294,394	1,403,372	(3,905,740)	8,053,930

	Common shares \$	Share-based Payments Reserve \$	Warrant Reserve \$	Accumulated Deficit \$	Total Equity \$
Balance, January 1, 2010	9,261,904	1,538,626	1,217,372	(1,575,586)	10,442,316
Share-based compensation	-	182,447	112,000	-	294,447
Expiry of warrants and stock options	-	(426,679)	-	426,679	-
Loss for the year	-	-	-	(825,527)	(825,527)
Balance, December 31, 2010	9,261,904	1,294,394	1,329,372	(1,974,434)	9,911,236

See accompanying notes to the consolidated financial statements

**JAMES BAY RESOURCES LIMITED**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2011 and 2010**  
Expressed in Canadian dollars

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

James Bay Resources Limited (the "Company" or "James Bay") was incorporated on November 5, 2007. The Company currently has interests in resource properties in the Porcupine mining district of Ontario, Canada (the "Claims") and during 2011, was involved in the evaluation of oil and gas related opportunities in Nigeria. The Company is in the process of exploring its resource properties for mineral resources and has not determined whether the properties contain economically recoverable reserves. The Company has not yet discovered any deposits, nor has it earned any income from the Claims.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration and evaluation assets and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, 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. Changes in future conditions could require a material write-down of the carrying values.

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

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

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

The Company's shares are listed on the TSX Venture Exchange. The head office, principal address and records office of the Company are located at 20 Victoria Street, Suite 800, Toronto, Ontario, Canada, M5C 2N8. These consolidated financial statement of the Company for the years ended December 31, 2011 and 2010 were approved and authorized for issue by the board of directors on April 24, 2012.

**JAMES BAY RESOURCES LIMITED**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2011 and 2010**  
Expressed in Canadian dollars

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**2. BASIS OF PREPARATION**

*(a) Conversion to IFRS*

These annual consolidated financial statements of the Company and its subsidiaries were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). As these financial statements represent the Company's initial presentation of its results and financial position under IFRS, they were prepared in accordance with International Accounting Standard ("IAS") 1, Presentation of Financial Statements and by IFRS 1, First-time Adoption of IFRS. These annual consolidated financial statements have been prepared in accordance with accounting policies based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations. The policies set out below were consistently applied to all the periods presented unless otherwise noted below.

The Company's consolidated financial statements were previously prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Canadian GAAP differs in some areas from IFRS. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 18 discloses the impact of the transition to IFRS on the Company's consolidated statements of financial position as at January 1, 2010 and December 31, 2010 and the consolidated statements of comprehensive loss for the year ended December 31, 2010.

The preparation of financial statements in accordance with IAS 1 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

**3. RECENT ACCOUNTING PRONOUNCEMENTS**

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

*IFRS 9, Financial Instruments ("IFRS 9")*

This amendment addresses the classification and measurement of financial assets. IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. This new standard is effective for the Company's annual consolidated financial statements commencing January 1, 2015. The Company is assessing the impact of this new standard on its consolidated financial statements.

**JAMES BAY RESOURCES LIMITED**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2011 and 2010**  
Expressed in Canadian dollars

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**3. RECENT ACCOUNTING PRONOUNCEMENTS (continued)**

*IFRS 10 Consolidated Financial Statements ("IFRS 10")*

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 Consolidated and Separate Financial Statements. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 10 on its consolidated financial statements.

*IFRS 11 Joint Arrangements ("IFRS 11")*

IFRS 11 replaces the guidance in IAS 31 Interests in Joint Ventures. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previously jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11, joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 Investments in Associates and IAS 36 Impairments of Assets. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its consolidated financial statements for the annual period beginning January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 11 on its consolidated financial statements.

*IFRS 13 Fair Value Measurement ("IFRS 13")*

IFRS 13 converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 13 on its consolidated financial statements.

**4. PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. (Note 15)

*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.

**JAMES BAY RESOURCES LIMITED**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2011 and 2010**  
Expressed in Canadian dollars

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**5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods. Such estimates and assumptions affect the carrying value of assets, the determination of impairment charges of non-current assets, impact decisions as to when exploration and evaluation costs should be capitalized or expensed, and affect estimates for asset retirement obligations and reclamation costs. Other significant estimates made by the Company include factors affecting valuations of share-based compensation, warrants, investments 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 during the year may have future economic benefits. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, proximity of other operating facilities and discoveries, operating management expertise and existing permits. See Note 7 for details of capitalized exploration and evaluation assets.

*(b) Impairment of exploration and evaluation assets*

While assessing whether any indications of impairment exist for mineral properties and deferred exploration expenditures, 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 mineral properties and deferred exploration expenditures. Internal sources of information include the manner in which mineral properties and deferred exploration expenditures 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 after-tax cash flows expected to be derived from the Company's properties, costs to sell the properties and the appropriate discount rate.

Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation assets.

**JAMES BAY RESOURCES LIMITED**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2011 and 2010**  
Expressed in Canadian dollars

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

*(c) Income taxes and recoverability of potential deferred tax assets*

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

*(d) Share-based payments and Warrants*

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

*(e) Contingencies*

Refer to Note 17

**6. SIGNIFICANT ACCOUNTING POLICIES**

*(a) Foreign Currencies*

The presentation currency of the Company and the functional currency of the Company and each of its subsidiaries is the Canadian dollar.

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

*(b) Cash and cash equivalents*

Cash equivalents include money market instruments which are readily convertible into cash or have maturities at the date of purchase of less than ninety days.

**JAMES BAY RESOURCES LIMITED**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2011 and 2010**  
Expressed in Canadian dollars

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**6. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(c) Share-based payments*

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in the share-based payment 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 equity-settled employee benefits reserve.

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

*(d) Income Tax*

**Current tax**

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

**Deferred tax**

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

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

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

**JAMES BAY RESOURCES LIMITED**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2011 and 2010**  
Expressed in Canadian dollars

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**6. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(d) Income Tax (continued)*

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

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

*(e) Exploration and evaluation assets*

Once a license to explore an area has been secured, expenditures on exploration and evaluation activities, net of government assistance received, are capitalized to exploration and evaluation assets. Deferred exploration expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential. The Company's due diligence costs related to its search for a suitable oil and gas property in Nigeria (Note 7) have been expensed directly to the Consolidated Statements of Comprehensive Loss as they relate to work performed in advance of the Company securing a license to explore any specific project.

The Company's property interests are in the exploration and evaluation stage and accordingly the Company follows the practice of capitalizing all costs relating to the acquisition of, exploration for and evaluation of mineral claims and crediting all revenues received against the cost of the related claims. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned mineral claims 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 "Mine Development", all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalised within "Mine development". After production starts, all assets included in "Mine development" are transferred to "Producing Mines".

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

**JAMES BAY RESOURCES LIMITED**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2011 and 2010**  
Expressed in Canadian dollars

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**6. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(f) Equipment*

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

Office equipment	-	20%, declining balance basis
Computer software	-	100%, declining balance basis

*(g) Impairment of non-financial assets*

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

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

*(h) Financial instruments*

*Financial assets*

Financial assets within the scope of IAS 39 are classified as financial assets at FVTPL, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives. The Company determines the classification of its financial assets at initial recognition.

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

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

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

*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 statement of financial position at fair value with changes in fair value recognised in finance income and finance costs in the statement of comprehensive loss.

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**6. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(h) Financial instruments (continued)*

*Financial assets (continued)*

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

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of comprehensive loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

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

Derecognition

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

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

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.

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**6. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(h) Financial instruments (continued)*

*Financial assets (continued)*

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive 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 statement of comprehensive 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 the statement of comprehensive 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.

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**6. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Subsequent measurement

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

*(h) Financial instruments (continued)*

*Financial liabilities (continued)*

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 the consolidated statement of operations. The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate ("EIR") method. Gains and losses are recognized in the consolidated statement of operations 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 the statement of operations.

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.

*(i) Loss per share*

Basic loss per share is calculated by dividing the loss available to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss available to common shareholders equals the reported loss. Diluted loss per share is calculated by assuming that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. In the Company's case, diluted loss per share is the same as basic loss per share as the effects of including all outstanding options and warrants would be anti-dilutive. As at December 31, 2011 and 2010, all outstanding options and warrants were anti-dilutive.

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**7. EXPLORATION AND EVALUATION ASSETS**

**James Bay Property, Ontario Canada**

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

Balance, January 1, 2010	\$ 2,431,529
Additions	<u>7,133</u>
Balance, December 31, 2010	\$ 2,438,662
Recovery	<u>(5,000)</u>
Balance, December 31, 2011	<u>\$ 2,433,662</u>

**Nigeria Oil & Gas Property**

On March 21, 2011, the Company signed a memorandum of understanding (the "MoU") to conduct due diligence, and if a suitable target is identified, to form a special purpose vehicle (the "SPV") with D&H Solution AS ("D&H") (a 50/50 partnership between Hemla of Norway and Korea's DSME (Daewoo Shipbuilding and Marine Engineering)) to further evaluate the identified oil & gas opportunities in Nigeria, and if suitable, negotiate an agreement to acquire and develop such assets.

Subsequent to December 31, 2011, 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 a definitive agreement being entered into with regards to an acquisition of an interest in an oil and gas project in Nigeria, and
- 3,000,000 units upon the Company reaching 1,500 barrels oil equivalent ("BOE") per day or a minimum recoverable estimate of 50 million BOE.

Simultaneously with each issuance of the units above, D&H will receive a further 300,000 stock options exercisable for a period of five years following the date of issue, with the exercise price set in the context of the market on the date of issue.

The Company also assumes D&H's agreement to acquire a 47% interest in certain oil and gas interest in Nigeria through the formation of a joint operation with the seller. As consideration for the transfer of the interest, the Company will be required to pay US\$2,500,000. These payments are to commence only upon completion of due diligence by the Company and to occur over a period of time defined by the accomplishment of project landmarks, ending with the achievement of commercial production. In addition, on the commencement of commercial production the Company will pay a monthly management retainer of US\$30,000 to the seller in return for the seller performing its ordinary legal and regulatory duties as marginal field license holder. The Company will also be required to pay up to US\$500,000 in capital contribution to the project as required to finance the joint operation until the commencement of commercial production. Related to this agreement, the Company paid US\$50,000 for the first installment in exclusivity, data purchase and administrative fees during the 2011 year. The second installment of US\$50,000 was paid subsequent to year-end.

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**7. EXPLORATION AND EVALUATION ASSETS (continued)**

**Nigeria Oil & Gas Property**

On March 9, 2011, James Bay entered into a letter of intent with a Nigerian oil & gas service provider, MAK MERA. Subsequent to December 31, 2011, a new agreement with MAK MERA was signed. The new consulting services agreement calls for the issuance of common shares of the Company to MAK MERA as follows:

- 3,500,000 common shares upon a definitive agreement being entered into with regards to an acquisition of an interest in an oil and gas project in Nigeria, and
- 3,000,000 common shares upon the Company reaching 1,500 BOE per day or a minimum recoverable estimate of 50 million BOE.

If a target is identified through this process, completion of an acquisition could represent a Change of Business under the TSX Venture Exchange policies. As a result, any such transaction would be subject to a number of conditions, including TSX Venture Exchange acceptance and if required shareholder approval.

As of December 31, 2011, approximately US\$1,180,000 of the US\$2 million placed in an escrow account was drawn down for the purpose of conducting the initial due diligence to identify and secure the acquisition of oil & gas property targets in Nigeria. The expenses incurred in relation to the due diligence were approximately US\$1,069,000 (\$1,089,676). US\$11,000 (\$11,000) remained payable from the escrow account related to these expenses as at December 31, 2011. As at December 31, 2011, the restricted cash balance of \$834,047 (US\$820,000) represented the unspent funds in the escrow account.

Included in cash and cash equivalents is approximately \$60,000 funds held by the Company's solicitor for payment of the second installment in connection with the acquisition of oil & gas interest in Nigeria. Included in prepaid expenses is approximately \$58,000 in prepaid office rent in Nigeria.

**8. INVESTMENTS**

As at December 31, 2011, the Company's marketable securities consisted of the following:

	<u>Note</u>	<u>Security Description</u>	Fair value December 31, 2011 \$
Hendricks Resources Limited	(iii)	1,000,000 warrants	-

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

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

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**8. INVESTMENTS (continued)**

As at January 1, 2010, the Company's marketable securities consisted of the following:

	<u>Note</u>	<u>Security Description</u>	Fair value January 1, 2010 \$
Royal Coal Corp.	(i)	1,000,000 warrants	<u>190,000</u>

**(i) Royal Coal Corp. (Formerly CDR Minerals Inc.)**

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

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

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

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

These warrants expired during the year ended December 31, 2011. Accordingly a loss of \$140,000 has been recorded as part of the net loss on held-for-trading investments in the statement of comprehensive loss for the year ended December 31, 2011.

**(ii) Morumbi Oil & Gas Inc.**

See Note 9. The fair value of these warrants as at December 31, 2010 was estimated at \$90,000 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield – 0%; expected volatility – 112%; risk-free interest rate – 1.74%; expected life – 2.6 years.

As Morumbi repaid the loan in full prior to the first anniversary date of the loan agreement, the policies of the TSX Venture Exchange required the immediate termination of the Morumbi warrants held by the Company. During the year ended December 31, 2011, the Company realized a loss of \$90,000 related to the termination of the Morumbi Warrants.

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**8. INVESTMENTS (continued)**

**(iii) Hendricks Resource Limited**

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

As the fair value for these warrants could not be reasonably assessed by the Company, the Company was precluded by IAS 39 from valuing these warrants at fair value. The warrants are thus being carried at their original cost of Nil.

**(iv) Largo Resources Ltd.**

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

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

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

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

On October 17, 2010, the Company exercised the 500,000 share purchase warrants of Largo at an exercise price of \$0.17. The Company realized a gain of \$96,380 on the disposition of the 500,000 share purchase warrants.

On January 17, 2011, the Company disposed of its full shareholdings in Largo, realizing an additional gain of \$28,880 during 2011.

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**9. LOAN RECEIVABLE**

On August 13, 2010, the Company entered into a loan agreement with Morumbi Oil & Gas Inc. ("Morumbi") to extend a net amount of \$250,000 which requires Morumbi to repay an aggregate of \$275,000 plus interest on or before August 13, 2013. The loan bears an interest rate of 5% for the first year and 9% for the following two years and is secured against the assets of Morumbi. As consideration for the loan, the Company received a total of 500,000 warrants of Morumbi. Each warrant entitles the Company to acquire one common share of Morumbi at a price of \$0.25 for a period of three years. Certain directors and officers of the Company are also directors and officers of Morumbi. The loan was repaid in full during the year ended December 31, 2011 (Note 8(ii)).

**10. SHARE CAPITAL**

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

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

	#	\$
Balance at January 1, 2010, December 31, 2010 and December 31, 2011	<u>28,040,350</u>	<u>9,261,904</u>

**11. SHARE-BASED PAYMENTS**

The Company has an incentive stock option plan (the "Plan") whereby the Company can grant to directors, officers, employees and consultants options to purchase shares of the Company. The Plan provides for the issuance of stock options to acquire up to 10% of the Company's issued and outstanding capital at the time of granting of options for a maximum term of five years. The Plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding share capital increases. In no case (calculated at the time of grant) shall the Plan result in:

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

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

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**11. SHARE-BASED PAYMENTS (continued)**

The following reconciles the share options outstanding during the year:

	<u>From January 1, 2011 to December 31, 2011</u>		<u>From January 1, 2010 to December 31, 2010</u>	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Balance, beginning of year	2,765,000	0.75	3,201,835	0.85
Granted	-	-	200,000	0.75
Expired	-	-	(636,835)	(0.85)
Balance, end of year	<u>2,765,000</u>	<u>0.75</u>	<u>2,765,000</u>	<u>0.75</u>

The Company has the following share options and compensation options outstanding at December 31, 2011:

Estimated Grant Date Fair Value \$	Outstanding Options #	Options Exercisable #	Exercise Price \$	Expiry Date
768,944	1,350,000	1,350,000	0.75	April 2, 2013
5,700	10,000	10,000	0.75	April 16, 2013
421,750	1,205,000	1,205,000	0.75	September 17, 2013
98,000	200,000	200,000	0.75	June 11, 2015
<u>1,294,394</u>	<u>2,765,000</u>	<u>2,765,000</u>		

The weighted average exercise price of options exercisable at December 31, 2011 is \$0.75 (December 31, 2010 - \$0.75).

The weighted average contractual life of options outstanding at December 31, 2011 is 1.6 years (December 31, 2010 – 2.6 years).

**12. WARRANTS**

The following table reflects the continuity of warrants:

	Number #	Amount \$
Balance at December 31, 2009	3,723,925	1,217,372
Revaluation of warrants – extended term <sup>(i)</sup>	-	<u>112,000</u>
Balance at December 31, 2010	3,723,925	1,329,372
Revaluation of warrants – extended term <sup>(iii)</sup>	-	<u>74,000</u>
Balance December 31, 2011	<u>3,723,925</u>	<u>1,403,372</u>

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

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**12. WARRANTS (continued)**

- (ii) On June 20, 2011, the Company extended the expiry date of common share purchase warrants issued by the Company in connection with the IPO financing that closed on July 24, 2008. The expiry date for all these warrants was extended until July 24, 2012. The incremental fair value of the warrants created by the extension of the expiry date of \$74,000 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 84%; risk free interest rate of 1.49%; expected life of 1.09 years. These warrants have an exercise price of \$2.00. Expected volatility is estimated by considering historic average share price volatility.

As of December 31, 2011, the following warrants were outstanding:

Estimated Grant Date Fair Value \$	Outstanding Warrants #	Exercise Price \$	Expiry Date
1,403,372	3,723,925	2.00	July 24, 2012

Subsequent to December 31, 2011, the Company extended the expiry date of common share purchase warrants issued by the Company in connection with the initial public offering (the "IPO") financing that closed on July 24, 2008. The expiry date for these warrants has now been extended until July 24, 2013. The exercise price of these warrants has been reduced from \$2.00 to \$1.25 per warrant.

**13. CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The capital structure of the Company at December 31, 2011 consists of equity attributable to common shareholders comprised of common share-based payments reserve, warrant reserve and deficit. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed.

The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the years ended December 31, 2011 and 2010. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

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**14. FINANCIAL INSTRUMENTS**

The Company has designated its cash equivalents and investments as fair value through profit or loss, measured at fair value. Cash, restricted cash, amounts receivable and loan receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

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

**Credit risk**

The Company's credit risk is primarily attributable to guaranteed investment certificates and amounts receivable. The Company has no significant concentration of credit risk arising from operations. Guaranteed investment certificates have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Financial instruments included in amounts receivable at December 31, 2011 and 2010 consist of sales tax due from the Federal Government of Canada. Management believes that the credit risk concentration with respect to these financial instruments is remote.

**Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At December 31, 2011, the Company had cash and cash equivalents (including restricted cash) of \$5,625,290 (December 31, 2010 - \$6,310,432; January 1, 2010 - \$7,847,068) to settle current liabilities of \$104,765 (December 31, 2010 - \$144,029; January 1, 2010 - \$41,386). The Company's financial liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms.

**Market risk**

(a) **Interest rate risk**

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The loan receivable bears interest at a fixed rate and therefore does not give rise to interest rate risk.

(b) **Price risk**

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

(c) **Foreign currency risk**

The Company is subject to foreign exchange risk as the Company has certain assets and liabilities, and makes certain expenditures, in US dollars. The Company is therefore subject to gains and losses due to fluctuations in the US dollar relative to the Canadian dollar. The Company does not hedge its foreign exchange risk.

**Sensitivity analysis**

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a year ended: The Company's cash equivalents as at December 31, 2011 are held at a fixed interest rate of 1.2% and are therefore not subject to fluctuations in interest rates. A change in interest rates of 1% will result in a corresponding change in net loss of approximately \$46,500 based on the cash balance at December 31, 2011.

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**14. FINANCIAL INSTRUMENTS (continued)**

Sensitivity analysis (continued)

As at December 31, 2011, the Company has US cash and cash equivalents of approximately \$834,000 (US \$820,000). 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 \$83,000 based on the balance of these assets held in US dollars at December 31, 2011.

Fair Value

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

Fair Value hierarchy and liquidity risk disclosure

Fair value measurements are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). As at December 31, 2011, December 31, 2010 and January 1, 2010, cash equivalents were Level 2. As at December 31, 2010 and January 1, 2010, investments consisting of common shares were level 1 and investments consisting of warrants were Level 2.

**15. RELATED PARTY DISCLOSURES**

These consolidated financial statements include balances and transactions with directors and officers of the Company and/or corporations related to them. During the year ended December 31, 2011 and 2010 the Company entered into the following transactions involving related parties:

The Company rents office space from a corporation controlled by a director of the Company. During the year ended December 31, 2011, approximately \$60,955 (December 31, 2010 - \$42,742) was charged by this corporation. The amount is included in office and general expense on the statement of comprehensive loss. In March 2011, the Company renewed the sublease agreement for another 18 months, resulting in a lease commitment of approximately \$38,800 as at December 31, 2011.

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**15. RELATED PARTY DISCLOSURES (continued)**

The Company incurred legal fees of approximately \$29,200 (December 31, 2010 - \$39,700) paid to a law firm of which a partner is a director of the Company. This amount is included in professional fees on the statement of comprehensive loss.

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

James Bay Coal Co., USA	100%
2255431 Ontario Limited, Canada	100%

The remuneration of directors and other members of key management personnel during the year ended December 31, 2011 and 2010 were as follows:

	2011	2010
	\$	\$
Management salaries	284,738	312,319
Share-based payments	-	98,000
	<u>284,738</u>	<u>410,319</u>

**16. INCOME TAXES**

a) Provision for Income Taxes

Major items causing the Company's income tax rate to differ from the federal statutory rate of 28% (2010 - 31%) were as follows:

	2011	2010
	\$	\$
(Loss) before income taxes	<u>(1,931,306)</u>	<u>(825,527)</u>
Expected income tax recovery based on statutory rate	(546,000)	(256,000)
Adjustment to expected income tax benefit:		
Warrant extension	21,000	-
Share-based compensation	-	91,000
Taxable gain on sale of marketable securities	(9,000)	-
Gain on loan	-	(13,000)
Change in tax rates	65,000	(20,000)
Other	28,000	16,000
Tax benefits not recognized	<u>441,000</u>	<u>182,000</u>
Deferred income tax provision	<u>-</u>	<u>-</u>

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**16. INCOME TAXES (continued)**

b) Deferred tax assets have not been recognized in respect of the following items:

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Non-capital loss carry-forwards	750,000	246,000
Loan receivable	-	34,000
Marketable securities	-	(44,000)
Share issue costs	68,000	141,000
Exploration and evaluation assets	193,000	193,000
Equipment	2,000	2,000
	<u>1,013,000</u>	<u>572,000</u>

c) Tax Loss Carry-Forwards

As at December 31, 2011, the Company had approximately \$3,205,000 (2010 - \$3,210,000) of Canadian exploration and development expenditures, which under certain circumstances, may be utilized to reduce taxable income of future years.

As at December 31, 2011, the Company had approximately \$3,016,000 (2010 - \$1,028,000) of non-capital losses in Canada, which can be used to reduce taxable income in future years. The losses expire as follows:

<b>Year of Expiry</b>	<b>Amount \$</b>
2027	7,000
2028	107,000
2029	102,000
2030	812,000
2031	1,988,000
	<u>3,016,000</u>

**17. COMMITMENTS AND CONTINGENCIES**

The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to \$504,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these financial statements. Additional minimum management contract commitments remaining under these contracts are approximately \$508,000.

In March 2011, the Company renewed the sublease agreement for another 18 months, resulting in a lease commitment of approximately \$38,800 as at December 31, 2011.

The Company's mining and exploration activities are subject to various federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

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**18. TRANSITION TO IFRS**

The Company's financial statements for the year ending December 31, 2011 are the first annual financial statements that comply with IFRS and these consolidated financial statements were prepared as described in note 2, including the application of IFRS 1.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

**Initial elections upon adoption**

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

**IFRS Exemption Options**

1. *Share-based payments* - IFRS 2, Share-based Payments, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date.
2. *Changes in Existing Decommissioning, Restoration and Similar Liabilities – IFRIC 1* The Company did not apply the recognition and measurement principles of IFRIC 1 prior to January 1, 2010.

**IFRS Mandatory Exceptions**

**Estimates** - Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

**Adjustments on transition to IFRS**

On transition to IFRS, the Company elected to change its accounting policy for the treatment of share-based payments whereby amounts recorded for expired unexercised share options and warrants are transferred to deficit. Previously, the Company's Canadian GAAP policy was to leave such amounts in contributed surplus. The impact of the change was a decrease to deficit and a decrease to share-based payments reserve of \$670,254 at December 31, 2010 (January 1, 2010 - \$243,575)

**Reconciliations of Canadian GAAP to IFRS**

IFRS 1 requires an entity to reconcile equity, comprehensive loss and cash flows for prior periods. The changes made to the consolidated statements of financial position and consolidated statements of comprehensive loss have resulted in reclassifications of various amounts on the consolidated statements of cash flows, however as there have been no changes to the net cash flows, no reconciliations have been presented.

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**18. TRANSITION TO IFRS (continued)**

**Reconciliation of consolidated statement of financial position as of January 1, 2010**

	<b>Previous Canadian GAAP</b>	<b>Effect of transition to IFRS</b>	<b>IFRS</b>
	\$	\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7,847,068	-	7,847,068
Prepaid expenses	12,431	-	12,431
Amounts receivable	1,972	-	1,972
	<hr/>		<hr/>
Total current assets	7,861,471	-	7,861,471
Exploration and evaluation assets	2,431,529	-	2,431,529
Equipment	702	-	702
Investments	190,000	-	190,000
	<hr/>		<hr/>
<b>Total assets</b>	<b>10,483,702</b>	<b>-</b>	<b>10,483,702</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	41,386	-	41,386
	<hr/>		<hr/>
<b>EQUITY</b>			
Common shares	9,261,904	-	9,261,904
Share-based payments reserve (a)	1,782,201	(243,575)	1,538,626
Warrant reserve	1,217,372	-	1,217,372
Deficit (a)	(1,819,161)	243,575	(1,575,586)
	<hr/>		<hr/>
Total equity	10,442,316	-	10,442,316
	<hr/>		<hr/>
Total liabilities and equity	10,483,702	-	10,483,702
	<hr/>		<hr/>

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**18. TRANSITION TO IFRS (continued)**

**Reconciliation of consolidated statement of financial position as of December 31, 2010**

	<b>Previous Canadian GAAP</b>	<b>Effect of transition to IFRS</b>	<b>IFRS</b>
	\$	\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6,310,432	-	6,310,432
Prepaid expenses	12,202	-	12,202
Amounts receivable	747,244	-	747,244
	<hr/>		<hr/>
Total current assets	7,069,878	-	7,069,878
Exploration and evaluation assets	2,438,662	-	2,438,662
Equipment	521	-	521
Investments	407,500	-	407,500
Loan receivable	138,704	-	138,704
	<hr/>		<hr/>
Total assets	10,055,265	-	10,055,265
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	144,029	-	144,029
	<hr/>		<hr/>
<b>EQUITY</b>			
Common shares	9,261,904	-	9,261,904
Share-based payments reserve (a)	1,964,648	(670,254)	1,294,394
Warrant reserve	1,329,372	-	1,329,372
Deficit (a)	(2,644,688)	670,254	(1,974,434)
	<hr/>		<hr/>
Total equity	9,911,236	-	9,911,236
	<hr/>		<hr/>
Total liabilities and equity	10,055,265	-	10,055,265
	<hr/>		<hr/>

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**18. TRANSITION TO IFRS (continued)**

**Reconciliation of consolidated statement of comprehensive loss for the year ended December 31, 2010**

	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
	\$	\$	\$
<b>Expenses</b>			
Share-based compensation	182,447	-	182,447
Management salaries and benefits	286,819	-	286,819
Professional fees	89,505	-	89,505
Office and general	98,357	-	98,357
Consulting fees	23,417	-	23,417
Shareholder relations	66,899	-	66,899
Warrant extension valuation	112,000	-	112,000
Transfer agent and listing fees	26,482	-	26,482
Amortization	181	-	181
<b>Loss before the undernoted</b>	<b>886,107</b>	<b>-</b>	<b>886,107</b>
Foreign exchange loss	51,422	-	51,422
Net loss on fair value through profit or loss investments	22,500	-	22,500
Gain on loan	(37,764)	-	(37,764)
Interest income	(96,738)	-	(96,738)
<b>Comprehensive loss for the year</b>	<b>825,527</b>	<b>-</b>	<b>825,527</b>
<b>Loss per share</b>			
Basic and diluted	(0.03)	-	(0.03)
Weighted average number of shares outstanding – basic and diluted	28,040,350	-	28,040,350

**Note**

(a) On transition to IFRS, the Company elected to change its accounting policy for the treatment of share-based payments whereby amounts recorded for expired unexercised share options and warrants are transferred to deficit. Previously, the Company's Canadian GAAP policy was to leave such amounts in contributed surplus. The impact of the change was a decrease to deficit and a decrease to share-based payments reserve of \$670,254 at December 31, 2010 (January 1, 2010 - \$243,575).

## **CORPORATE INFORMATION**

### **Directors**

Stephen Shefsky\*  
President, CEO, Secretary  
Toronto, Ontario, Canada

Mark Brennan\*\*  
Toronto, Ontario, Canada

Wayne Egan\*, \*\*  
Toronto, Ontario, Canada

Jon Pereira\*  
Toronto, Ontario, Canada

Mike Sylvestre\*  
Port Hope, Ontario, Canada

Knut Sovold  
Norway

### **Officers**

Stephen Shefsky  
*President, CEO, Secretary*

Eric Szustak C.A.  
*Chief Financial Officer*

**\*Member Audit Committee**

**\*\*Member Compensation Committee**

### **Offices**

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

### **Transfer Agent**

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

### **Auditors**

McGovern, Hurley, Cunningham LLP  
Toronto, Ontario

### **Canadian Legal Counsel**

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

### **Shares Traded**

TSX Venture Exchange  
Symbol JBR

### **Annual Meeting**

June 28th, 2012 at 2:00 p.m.  
Weirfoulds LLP (Mason Room)  
130 King Street West, Suite 1500  
Toronto, Ontario  
M5X 1J5