



**JAMES BAY RESOURCES LIMITED**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015**

**NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

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

	June 30, 2015 \$	December 31, 2014 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	442,771	132,915
Restricted cash	-	8,333
Prepaid expenses (Note 17)	51,494	106,317
Amounts receivable	35,168	25,390
<b>Total current assets</b>	<b>529,433</b>	<b>272,955</b>
Long-term prepaid (Note 6)	104,050	104,050
Exploration and evaluation assets (Note 6)	4,268,021	4,086,924
Equipment	91,688	104,494
<b>Total assets</b>	<b>4,993,192</b>	<b>4,568,423</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Notes 15 and 16)	765,283	565,656
Due to shareholder (Notes 8)	-	317,469
<b>Total current liabilities</b>	<b>765,283</b>	<b>883,125</b>
<b>Long term liabilities</b>		
Convertible debentures (Note 9)	3,057,982	-
<b>Total Liabilities</b>	<b>3,823,265</b>	<b>883,125</b>
<b>EQUITY</b>		
Common shares (Note 10)	17,142,711	14,801,211
Share-based payments reserve (Note 11)	527,000	302,000
Warrant reserve (Note 12)	2,214,569	2,214,569
Shares to be issued (Note 10)	-	2,341,500
Warrants to be issued (Note 10)	1,125,600	1,125,600
Deficit	(19,839,953)	(17,099,582)
<b>Total common shareholders' equity</b>	<b>1,169,927</b>	<b>3,685,298</b>
<b>Total equity and liabilities</b>	<b>4,993,192</b>	<b>4,568,423</b>

**NATURE OF OPERATIONS AND GOING CONCERN** (Note 1)  
**COMMITMENTS AND CONTINGENCIES** (Notes 6 and 17)  
**SUBSEQUENT EVENTS**

**APPROVED ON BEHALF OF THE BOARD:**

Signed "STEPHEN SHEFSKY", Director

Signed "MARK BRENNAN", Director

See accompanying notes to the condensed consolidated interim financial statements

**JAMES BAY RESOURCES LIMITED**  
**Condensed Consolidated Statements of Loss and Comprehensive Loss**  
Expressed in Canadian dollars  
As at

	Three months ended		Six months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
<b>Expenses</b>				
Management salaries and benefits (Note 16)	89,669	44,863	202,864	98,804
Professional fees (Note 16)	182,450	30,533	375,804	49,993
Office and general (Note 16)	76,264	58,882	138,687	117,292
Due diligence expense	2,429	-	54,996	-
Exploration costs - James Bay Lowlands (Note 7)	1,438	4,334	5,867	11,010
Share based payments	323,000	-	323,000	-
Evaluation costs (Note 6)	13,446	546,682	30,324	1,718,184
Transfer agent and listing fees	9,158	6,056	13,213	14,109
Business development	21,894	4,499	26,751	6,883
Amortization	1,210	285	2,428	3,382
<b>Loss before the undernoted</b>	<b>(720,958)</b>	<b>(696,134)</b>	<b>(1,173,934)</b>	<b>(2,019,657)</b>
Foreign exchange (loss) gain	35,497	754	53,339	(15,535)
Interest (expense)	(61,031)	(9,791)	(73,379)	(14,790)
Impairment on equity investment (Note 13)	(918,515)	-	(1,546,398)	-
<b>Net loss and comprehensive loss for the period</b>	<b>(1,665,007)</b>	<b>(705,171)</b>	<b>(2,740,372)</b>	<b>(2,049,982)</b>
<b>Loss for the period attributable to:</b>				
Non-controlling interest	-	(290,772)	-	(924,960)
Common shareholders	(1,665,007)	(414,399)	(2,740,372)	(1,125,022)
<b>Net loss and comprehensive loss for the period</b>	<b>(1,665,007)</b>	<b>(705,171)</b>	<b>(2,740,372)</b>	<b>(2,049,982)</b>
<b>Loss per share attributable common shareholders</b>				
Basic and diluted	(0.04)	(0.01)	(0.07)	(0.04)
Weighted average number of shares outstanding – basic and diluted	41,474,070	30,074,071	40,812,959	29,701,259

See accompanying notes to the consolidated financial statements

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

	For the six months ended	
	June 30, 2015	June 30, 2014
	\$	\$
<b>Cash used in operating activities:</b>		
Net loss for the period	(2,740,372)	(2,049,982)
Add (deduct) items not affecting cash:		
Amortization	7,786	16,207
Share-based payments	323,000	12,761
Accrued interest	76,995	15,172
Foreign exchange (loss) gain	5,389	-
Net change in non-cash working capital	149,075	822,653
Net cash (used in) operating activities	<u>(2,178,127)</u>	<u>(1,183,189)</u>
<b>Cash used in by investing activities:</b>		
Increase in restricted cash	-	(33,165,000)
Interest in exploration and evaluation assets	(160,185)	(190,989)
Acquisition of equipment	-	(1,841)
Net cash (used in) investing activities	<u>(160,185)</u>	<u>(33,357,830)</u>
<b>Cash provided by financing activities:</b>		
Proceeds from letter of credit	-	33,165,000
Proceeds from convertible debentures	2,999,895	-
Advances from shareholders	998,198	802,664
Receipts on share subscription	-	211,970
Repayments to shareholders (Note 9)	(1,349,925)	(743,817)
Proceeds from private placements	-	1,181,660
Share issue costs	-	(89,825)
Net cash provided by financing activities	<u>2,648,168</u>	<u>34,527,652</u>
Net cash flow during the period	309,856	(13,367)
Effect of change in foreign exchange	-	48,760
Cash, beginning of period	132,915	36,571
Cash, end of period	<u><u>442,771</u></u>	<u><u>71,964</u></u>

**JAMES BAY RESOURCES LIMITED**  
**Condensed Consolidated Statements of Changes in Equity**  
**For the six months ended June 30, 2015 and 2014**  
Expressed in Canadian dollars

	Common shares \$	Share-based payments reserve \$	Warrants \$	Common shares and warrants to be issued	Deficit \$	Total equity \$
Balance, December 31, 2014	14,801,211	302,000	2,214,569	3,467,100	(17,099,581)	3,685,299
Shares issued to M2 Advisors	2,341,500	-	-	(2,341,500)	-	-
Stock options expired	-	(98,000)	-	-	-	(98,000)
Stock options grant	-	323,000	-	-	-	323,000
Loss for the period	-	-	-	-	(2,740,372)	(2,740,372)
Balance, June 30, 2015	<u>17,142,711</u>	<u>527,000</u>	<u>2,214,569</u>	<u>1,125,600</u>	<u>(19,839,953)</u>	<u>1,169,927</u>

	Common shares \$	Share-based payments reserve \$	Warrant reserve \$	Non-controlling interest \$	Deficit \$	Total equity \$
Balance, December 31, 2013	9,261,904	287,833	-	(78,077)	(9,442,176)	29,484
Share-based payments	-	14,167	-	-	-	14,167
Private placements	2,400,424	-	-	-	-	2,400,424
Share issue costs	(234,865)	-	(116,211)	-	-	(351,076)
Issuance of warrants	(794,763)	-	794,763	-	-	-
Issuance of finder warrants	-	-	32,036	-	-	32,036
Loss for the period	-	-	-	(924,960)	(1,125,022)	(2,049,982)
Balance, June 30, 2014	<u>10,632,700</u>	<u>302,000</u>	<u>710,588</u>	<u>(1,003,037)</u>	<u>(10,567,198)</u>	<u>75,053</u>

## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015 and 2014

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 is currently involved in the exploration and evaluation of oil and gas interests in Nigeria and has interests in resource properties in the Porcupine mining district of Ontario, Canada (the "Claims"). The Company has not determined whether its properties contain economically recoverable reserves. The Company has not yet discovered any deposits, nor has it earned any revenues.

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

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

As at June 30, 2015, the Company had a working capital deficiency of \$235,850 (December 31, 2014 - \$610,170), had incurred losses since inception, and had an accumulated deficit of \$19,839,953 (December 31, 2014 - \$17,099,582) which has been funded primarily by the issuance of equity. The ability of the Company to continue as a going concern is dependent upon its ability to raise sufficient funds to meet its obligations as they become due. While the Company has been successful in securing financing in the past, there is no assurance that it will be able to do so in the future. Because of continuing operating losses, the Company's continuance as a going concern is dependent on its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operation.

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

On October 29, 2014, the Company voluntarily delisted its shares from the TSX Venture Exchange ("TSXV"). The Company's shares are listed on the Canadian Securities Exchange ("CSE") effective October 30, 2014. Upon delisting of the Company's shares from the TSXV, the Company did not complete its previously announced Change of Business ("COB") to oil and gas issuer as it is a specific procedure under TSXV policies and rules. The Company is listed on the CSE as an oil and gas issuer.

The head office, principal address and records office of the Company is located at 79 Wellington Street West, TD Tower South, Suite 2100, P.O. Box 139, Toronto Dominion Centre, Toronto, Ontario, Canada, M5K 1H1. These condensed consolidated interim financial statements of the Company for the six months ended June 30, 2015 were approved and authorized for issue by the Board of Directors on August 6, 2015.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015 and 2014

Expressed in Canadian dollars

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### 2. BASIS OF PREPARATION

These condensed consolidated interim financial statements of the Company and its subsidiaries were prepared in accordance with IFRS as issued by the International Accounting Standard Board (“IASB”) and in accordance with International Accounting Standards (“IAS”) 34, Interim financial reporting. These condensed consolidated interim financial statements do not include all of the information required for the full annual consolidated financial statements and should be read in conjunction with the most recent audited annual consolidated financial statements of the Company as at and for the year ended December 31, 2014. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting except for cash flow information. The policies set out below were consistently applied to all the periods presented unless otherwise noted below.

### 3. RECENT ACCOUNTING PRONOUNCEMENTS AND CHANGES IN ACCOUNTING POLICIES

#### *Recent accounting pronouncements*

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

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted though management does not anticipate early adoption of the standard.

IFRS 11 – Joint Arrangements (“IFRS 11”) was amended in May 2014 adding new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. This amendment becomes effective for annual periods beginning on or after January 1, 2016 and management does not anticipate early adoption of the standard.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption permitted.

IAS 24 - Related Party Disclosures (“IAS 24”) was amended by the IASB on December 12, 2013. The amendments clarify the identification and disclosure requirements for related party transactions when key management personnel services are provided by a management entity. The amendments are effective for annual periods beginning on or after July 1, 2014.

#### *Changes in Accounting Policies*

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



## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015 and 2014

Expressed in Canadian dollars

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### 3. RECENT ACCOUNTING PRONOUNCEMENTS AND CHANGES IN ACCOUNTING POLICIES (continued)

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

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

### 4. PRINCIPLES OF CONSOLIDATION

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

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

\* During the year ended December 31, 2014, control of Crestar Integrated Natural Resources Limited was lost and as such the Company ceased consolidation of these accounts from the date of the loss of control (Note 13).

#### *Subsidiaries*

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

Non-controlling interest represents equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interest is presented as a component of equity. The loss and each component of other comprehensive loss are attributed to non-controlling interests where applicable. See Note 13.

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

The preparation of these condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed consolidated interim financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed consolidated interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods. Such estimates and assumptions affect the carrying value of assets, the determination of impairment charges of non-current assets, impact decisions as to when exploration and evaluation costs should be capitalized or expensed, and affect estimates for asset retirement obligations and reclamation costs. Other significant estimates made by the Company include factors affecting valuations of share-based payments, warrants and income tax accounts. The Company regularly

## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015 and 2014

Expressed in Canadian dollars

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

reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

#### *(a) Capitalization of exploration and evaluation assets*

Management has determined that exploration and evaluation costs incurred may have future economic benefits. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, proximity of other operating facilities and discoveries, operating management expertise and existing permits. See Note 6 for details of exploration and evaluation assets.

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

While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates may include, but are not limited to estimates of the discounted future cash flows expected to be derived from the Company's properties, costs to sell the properties and the appropriate discount rate.

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

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

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

#### *(d) Share-based payments and warrants*

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

#### *(e) Consolidation of subsidiaries*

The Company consolidates subsidiaries over which it has control. Management assesses control in accordance with IFRS 10 Consolidated Financial Statements and has determined it controls each of its subsidiaries. Judgement was applied when considering whether the Company controls Crestar Integrated Natural Resources Limited as the Company's ownership percentage is less than 50%. See Note 13 for details about this investment.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015 and 2014

Expressed in Canadian dollars

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

#### (f) Valuation of investment in associate

The valuation of investment in associate is assessed when events occur that indicate impairment. These indicators include a significant technical difficulty regarding the investee operations, significant adverse changes in the market, economic, or legal environment in which the investee operates, changes in the investee's financial condition, significant financial difficulty of the investee and the investee's liquidity.

#### (g) Contingencies

Refer to Note 17.

### 6. PETROLEUM PROPERTY INTERESTS

#### EVALUATION COSTS

As at June 30, 2015, the Company incurred an accumulated balance of \$5,770,404 in pre-licensing costs in connection with certain resource properties in Nigeria. The balance consisted of \$5,208,391 relating to oil and gas asset and \$562,013 relating pre-licensing mineral property.

Description	Six months-ended			Total
	June 30, 2015	2014	2013	
	\$	\$	\$	\$
Management fees	24,430	268,270	263,205	555,905
Consulting fees	-	2,832,211 <sup>(i)</sup>	20,200	2,852,411
Travel, meals and accommodation	-	218,585	135,589	354,174
Professional fees	3,239	343,755	49,433	396,427
Technical reports	-	170,336	-	170,336
Environmental	-	62,186	-	62,186
Due diligence	-	11,049	-	11,049
License and permit	-	3,359	-	3,359
Commitment fee	-	908,638	-	908,638
Amortization	-	13,644	13,279	26,923
General and administrative expense	2,655	270,830	155,511	428,996
Balance	30,324	5,102,863	637,217	5,770,404

<sup>(i)</sup>Included in consulting fees in fiscal 2014 is a balance of \$2,341,500 (December 31, 2013 - \$nil) in non-cash share based payments. See note 10(vii).

## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015 and 2014

Expressed in Canadian dollars

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### 6. PETROLEUM PROPERTY INTERESTS (continued)

#### OML 90 PROJECT

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

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

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

- US\$100,000 due 90 days from the date of execution of JOA or within 24 hours of the execution of the JOA and Deed of Assignment (“DOA”), whichever is earlier (paid in 2012).
- US\$200,000 due upon approval from Department of Petroleum Resources (“DPR”) of the assignment of direct interest in OML 90 project to the Company (paid in 2013).
- US\$300,000 to be released upon the grant of government permit for drilling activity and arrival of a drill rig at the OML 90 project. A preliminary government permit was received in March 2014. As of June 30, 2015, a drill rig has not yet been installed at OML 90. Of the original US\$300,000, US\$100,000 (\$104,050) was paid as an advance. The remaining \$253,320 (US\$200,000) has not yet been paid or accrued. The amount advanced in 2013 is shown as a long-term prepaid expense in the statement of financial position.
- US\$1,000,000 upon completion of a final independent report of P1 reserves of at least 7,000,000 proven recoverable barrels of oil, or if such reserve levels are not attained, the Company shall pay US\$0.10 per barrel of oil produced, to a maximum of US\$1,000,000. As this condition has not been met, this amount has not accrued.
- US\$900,000 upon the completion of 60 days of commercial production. As this condition has not been met, this amount has not accrued.

Included in restricted cash as at December 31, 2014 was \$253,320 (US\$200,000), with \$126,660 (US\$100,000) of that amount held in an escrow account and the remaining \$126,660 (US\$100,000) held in a trust account with the Company’s legal representatives.

Furthermore, the Company will pay a monthly management retainer of US\$30,000 which will commence upon the date of the drill rig arriving at the OML 90 project and ending on the commencement of commercial production. The Company will provide funds required to finance the OML 90 project to its initial production of hydrocarbons (oil) on a commercially viable scale. Any sunk costs incurred exclusively by the Vendor will be reimbursed up to a maximum of US\$500,000. As this condition has not been met, this amount has not accrued.

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

The DPR is currently reviewing all marginal field licenses to determine if the current owners have done enough work to keep their license. The nature and extent of work is not clearly defined by the DPR.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015 and 2014

Expressed in Canadian dollars

### 6. PETROLEUM PROPERTY INTERESTS (continued)

#### EXPLORATION AND EVALUATION ASSETS

The Company capitalized a total of \$4,268,021 in exploration and evaluation assets post licensing related to its interest in OML 90. During the six month period ended June 30, 2015, the Company incurred further costs for exploration and evaluation of assets of \$181,097. Details are as follows:

Description	Six months- ended June 30, 2015	Year ended December 31, 2014	Year ended December 31, 2013	Total
	\$	\$		\$
Acquisition costs	-	-	207,080	207,080
Management and consulting fees	65,909	163,082	410,544	639,535
Environmental	-	92,161	-	92,161
Travel, meals and accommodation	-	4,210	17,205	21,415
Professional fees	9,745	16,467	8,790	35,002
Legal fees	11,718	28,216	5,067	45,001
Share-based payments	-	2,704,089	23,852	2,727,941
Amortization	5,359	7,507	21,760	34,626
General and administrative expense	88,366	111,375	265,519	465,260
Balance	181,097	3,127,107	959,817	4,268,021

#### D&H Solutions AS

On March 21, 2011, the Company signed a memorandum of understanding (the "MoU") to conduct due diligence, and if a suitable target is identified, to form a special purpose vehicle (the "SPV") with D&H Solution AS ("D&H") to further evaluate the identified oil and gas opportunities in Nigeria, and if suitable, negotiate an agreement to acquire and develop such assets.

On January 5, 2012, a new agreement was signed with D&H. The new agreement called for the transfer of all Nigerian agreements and the corporations that held 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 agreed to retain certain senior management of D&H as senior management of JBENL. In consideration, the Company 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 were to be issued as follows:

- 3,000,000 units upon the closing of a definitive agreement being entered into with regards to an acquisition of an interest in an oil and gas project in Nigeria and upon attaining mining licenses from the Ministry of Mines in Nigeria; and
- 3,000,000 units upon the Company reaching 1,500 barrels oil equivalent ("BOE") per day or a minimum recoverable estimate of 50 million BOE.

Simultaneously with each issuance of the units above, D&H would 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.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015 and 2014

Expressed in Canadian dollars

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### 6. PETROLEUM PROPERTY INTERESTS (continued)

#### EXPLORATION AND EVALUATION ASSETS (continued)

The obligations created and transactions contemplated by the agreement with D&H were subject to receipt of all requisite corporate, regulatory, shareholder and court approvals (if required) and consents, and, where required, the shareholders of the Company.

On July 31, 2014, the agreement dated January 5, 2012, was terminated in exchange for the following consideration:

- The Company agreed to issue 3,000,000 units of the Company to D&H. The Company issued these units on October 30, 2014, the first day the Company's shares were listed on CSE as an oil and gas issuer. Each unit is comprised of one common share and one-half of one common purchase warrant. Each warrant comprising part of the units is exercisable for a common share at a price of \$1.25 for 2 years from the date of issuance (Notes 10(v) and 12(v)).
- The Company agreed to convert \$147,288 of debt owing to D&H into the Company's equity. The Company issued 147,288 units to settle this debt on December 19, 2014. Each unit is comprised of one common share and one half of one common purchase warrant. Each warrant comprising part of the units is exercisable for a common share at a price of \$1.25 for 5 years from the date of issuance (Notes 10(vi) and 12(vi)).

#### MAK MERA

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

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

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

The Company received the mining license in 2013 in respect of an interest in an oil and gas project in Nigeria under a definitive agreement. However, no amounts have been accrued relating to the above units and options as TSXV approval has not been obtained for the change of business. The conditions contained in the agreement with MAK MERA had to be met on or prior to December 31, 2013, otherwise, any obligations of the Company under the agreement shall cease to exist. The conditions were not met by December 31, 2013 and as such the above share issuances have not been made and no amounts have been accrued for them in these condensed consolidated interim financial statements.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015 and 2014

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### 7. MINERAL PROPERTY INTERESTS

#### James Bay Property, Ontario, Canada

The Company acquired, by staking, certain claims in Ontario, Canada. In February 2013, the Company engaged MacDonald Mines Exploration Ltd. ("MacDonald") to complete a GPS survey of all corner claim posts following the proper protocol as defined by the Ministry of Northern Development and Mines. This survey formed the basis for a report of work, which was submitted for assessment credits in March 2014. During the year ended June 30, 2015, the Company incurred \$3,010 of interest on consulting fees payable (December 31, 2013 - \$198,489 of consulting fees) to MacDonald to complete the GPS survey and \$16,332 (December 31, 2013 - \$nil) in exploration and evaluation costs. These costs were expensed in the statement of loss and comprehensive loss.

As part of the MacDonald agreement, the Company was obligated to issue 50,000 warrants to MacDonald exercisable for five years with an exercise price equal to the issue price of the financing required to be completed in relation to the change of business.

The Company issued 50,000 warrants to MacDonald on October 30, 2014 which coincides with the effective listing of the Company's shares on the CSE as an oil and gas issuer. The warrants entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on October 30, 2019. The value of \$23,126 was expensed in the statement of loss and comprehensive loss (Note 12(viii)).

On December 19, 2014, the Company settled an aggregate total debt of \$55,338 owing to MacDonald through the issuance of an aggregate of 55,338 units. Each unit is comprised of one common share and one-half warrant. Each warrant is exercisable for a common share at a price of \$1.25 for 5 years from the date of issuance.

### 8. DUE TO SHAREHOLDER

The amount due to shareholder is unsecured, bears interest at 6% per annum, and is due on demand. The amount is due to the President and Chief Executive Officer, who is also a shareholder and director of the Company. In April 2015, the shareholder loan balance was converted to convertible debentures. See Note 9.

### 9. CONVERTIBLE DEBENTURES

The Company closed the \$2,925,000 non-brokered private placement of unsecured convertible debentures (the "Debentures"). Each Debenture bear an interest rate of 15% per annum, payable semi-annually, and has a maturity date that is three years following the date of issuance. The Debenture are convertible, in whole or in part at the option of the holders, into common shares of the Company at a conversion price of \$0.17 per common share.

The net proceeds from the debenture offering (the "offering") will be used to fund the Company's working capital including litigation issues stemming from the Company's enforcement of its right to acquire a 45% participating interest in OML 25 in Nigeria.

The Company concurrently sold and assigned, pursuant to separate agreements with each subscriber, a pro rata (based on all the subscribers) entitlement for up to an aggregate of 30% of the net proceeds of litigation related to the failed closing of the OML 25 project (Note 13), if any (whether as a result of final judgment by a court of competent jurisdiction or settlement for which no appeal or further proceeding may be taken (the "Final Award")), after deduction of all related costs and taxes incurred by the Company in the Litigation (the "Net Final Amount"), payable to the Holders within 60 days from the receipt of the Final Award, if any. In the event the Company prepays the Debentures in full prior to that date which is one year from the date of issue and prior to date of the Final Award, then the amount payable to the Holders under the agreement will be adjusted to reflect an aggregate entitlement of 15% of any Net Final Amount.

Mr. Stephen Shefsky purchased an aggregate of \$1,349,925 of Debentures in the Offering by way of the conversion into Debentures of an aggregate of \$1,349,925 of advances (including interest accrued thereon) which Mr. Shefsky has made to the Company over the past year. The Advances, which were made to finance the working capital of the Company, were unsecured, bore interest at a rate of 6%, and were due on demand. Mr. Shefsky entered into a

## Notes to the Condensed Consolidated Financial Statements

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### 9. CONVERTIBLE DEBENTURES (continued)

separate agreement of purchase and sale entitling him to a pro rata share of the Net Final Amount of any Litigation, as described above.

Mr. Mark Brennan, a director of the Company, purchased an aggregate of \$175,000 of Debentures in the Offering. Mr. Brennan entered into a separate agreement of purchase and sale entitling him to a pro rata share of the Net Final Amount of any Litigation, as described above.

The offering was considered and approved by the board of directors of the Company, with Mr. Shefsky and Mr. Brennan declaring a conflict and recusing themselves from voting on the Offering. There was no materially contrary view or abstention by any director approving the Offering. Following completion of the Offering, Mr. Brennan owns or controls, directly and indirectly, an aggregate of 4,902,000 Common Shares. Assuming the conversion into Common Shares of the full principal amount of the Debentures purchased by Mr. Brennan in the Offering, Mr. Brennan will beneficially own or control, directly and indirectly, an aggregate of 5,931,411 Common Shares, or 12.51% of the issued and outstanding common shares on a partially-diluted basis.

Following completion of the Offering, Mr. Shefsky owns or controls, directly and indirectly, an aggregate of 5,347,667 Common Shares. Assuming the conversion into common shares of the full principal amount of the Debentures resulting from the conversion of the advances which were purchased by Mr. Shefsky in the Offering, Mr. Shefsky will beneficially own or control, directly or indirectly, an aggregate of 13,288,402 common shares, or 28.38% of the issued and outstanding common shares on a partially-diluted basis.

### 10. SHARE CAPITAL

- (a) **Authorized** - Unlimited common shares, with no par value  
(b) **Issued** - 41,474,070 common shares

	#	\$
Balance, December 31, 2013 and 2014	28,040,350	9,261,904
Private placement <sup>(i)</sup>	1,930,424	1,930,424
Share issue costs <sup>(i)</sup>	-	(203,463)
Warrants valuation <sup>(i)</sup>	-	(639,135)
Private placement <sup>(ii)</sup>	470,000	470,000
Share issue costs <sup>(ii)</sup>	-	(31,403)
Warrants valuation <sup>(ii)</sup>	-	(155,628)
Private placement <sup>(iii)</sup>	3,810,670	3,810,670
Share issue costs <sup>(iii)</sup>	-	(990,435)
Warrants valuation <sup>(iii)</sup>	-	(1,261,338)
Private placement <sup>(iv)</sup>	520,000	520,000
Share issue costs <sup>(iv)</sup>	-	(33,198)
Warrants valuation <sup>(iv)</sup>	-	(172,159)
Shares issued to D&H <sup>(v)</sup>	3,000,000	2,220,000
Shares issued to D&H <sup>(vi)</sup>	147,288	54,497
Shares issued to MacDonald	55,338	20,475
Balance, December 31, 2014	37,974,070	14,801,211
Shares issued to M2 Advisors <sup>(vii)</sup>	3,500,000	2,341,500
Balance, June 30, 2015	41,474,070	17,142,711

<sup>(i)</sup> On January 31, 2014, the Company raised proceeds of \$1,930,424 by way of a non-brokered private placement of 1,930,424 units at a price of \$1.00 per unit. Each unit is comprised of one common share and one warrant. Each



## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015 and 2014

Expressed in Canadian dollars

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### 10. SHARE CAPITAL (continued)

warrant comprising part of the units is exercisable for a common share at a price of \$1.25 for 3 years from the date of issuance.

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

Included in deferred financing fees and subscription payable as at December 31, 2013 are \$194,816 share issue cost and \$1,170,004 subscription received in advance in connection with the private placement. Of this amount, \$970,368 was included in restricted cash on the statement of financial position.

The President, CEO and a director, along with another director, participated in the private placement for gross proceeds of \$500,000 and \$100,000, respectively.

- (ii) On June 10, 2014, the Company raised proceeds of \$470,000 by way of a non-brokered private placement of 470,000 units at a price of \$1.00 per unit. Each unit is comprised of one common share and one warrant. Each warrant comprising part of the units is exercisable for a common share at a price of \$1.25 for 3 years from the date of issuance.

The finders received cash commission of 6% of the gross proceeds raised through the finders and 28,200 finder warrants. Each finder warrant entitles the holder to acquire one common share at a price of \$1.00 for thirty-six months from the date of issuance. The Company paid a total amount of \$36,749 for commission, filing fees, legal and other share issue costs.

- (iii) On July 28, 2014, the Company raised proceeds of \$3,810,670 by way of a non-brokered private placement of 3,810,670 units at a price of \$1.00 per unit. Each unit is comprised of one common share and one common share purchase warrant. Each warrant comprising part of the units is exercisable for a common share at a price of \$1.25 for 3 years from the date of issuance.

The finders received cash commission of 6% of the gross proceeds raised through the finders and 3,628,640 finder warrants. Of the total amount, 228,640 finder warrants were issued and entitled the holders to acquire one common share at a price of \$1.00 for thirty-six months from the date of issuance. The remaining 3,400,000 finder warrants entitle the holder to acquire one common share at a price of \$1.25 for thirty-six months from the date of issuance. As of June 30, 2015, these warrants have not been issued. The Company paid a total amount of \$272,259 for commission, filing fees, legal and other share issue costs.

- (iv) On October 30, 2014, the Company raised proceeds of \$520,000 by way of a non-brokered private placement of 520,000 units at a price of \$1.00 per unit. Each unit is comprised of one common share and one common share purchase warrant. Each warrant comprising part of the units is exercisable for a common share at a price of \$1.25 for 3 years from the date of issuance.

The finders received cash commission of 6% of the gross proceeds raised through the finders and 31,200 finder warrants. Each finder warrant entitles the holder to acquire one common share at a price of \$1.00 for thirty-six months from the date of issuance. The Company paid a total amount of \$38,349 for commission, filing fees, legal and other share issue costs.

- (v) On October 30, 2014, the Company issued 3,000,000 units to D&H valued at \$0.74 per unit pursuant to a termination agreement (see Note 6). Each unit is comprised of one common share and one-half of one common share purchase warrant. Each warrant comprising part of the units is exercisable for one common share at a price of \$1.25 for 2 years from the date of issuance.

- (vi) On December 19, 2014, the Company settled an aggregate total debt of \$147,288 through issuance of 147,288 units and an aggregate total debt of \$55,338 through issuance of 55,338 units to D&H and MacDonald,

## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015 and 2014

Expressed in Canadian dollars

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### 10. SHARE CAPITAL (continued)

respectively. Each unit is comprised of one common share and one-half of one common purchase warrant. Each warrant comprising part of the units is exercisable for a common share at a price of \$1.25 for 5 years from the date of issuance.

(vii) On February 4, 2015, the Company issued to a consultant 3,500,000 common shares in the capital of the Company. The shares were issued in accordance with the terms of a service agreement between the Company and M2 Advisors completed during the year ended December 31, 2014. On February 4, 2015, the Company issued 3,500,000 common shares in the capital of the Company. The shares are subject to a statutory hold period of four months from the date of issuance.

Further, the Company is obligated to issue an additional 3,400,000 finder warrants under the terms of the service agreement. At December 31, 2014 and June 30, 2015, the Company recorded a valuation of \$1,125,600 as warrants to be issued on the statement of financial position.

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

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

The following reconciles the share options outstanding:

	<u>Six months ended</u>		<u>Year-ended</u>	
	June 30, 2015		December 31, 2014	
	Number	Weighted	Number	Weighted
	of options	average	of options	average
	#	exercise price	#	exercise price
		\$		\$
<b>Balance, beginning of period</b>	<b>800,000</b>	<b>0.66</b>	<b>800,000</b>	<b>0.66</b>
Expired	(200,000)	0.75	-	-
Grant	5,285,000	0.25	-	-
Balance, end of period	<u>5,885,000</u>	<u>0.29</u>	<u>800,000</u>	<u>0.66</u>

## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015 and 2014

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

The Company has the following share options outstanding at June 30, 2015:

Estimated Grant Date Fair Value \$	Outstanding Options #	Options Exercisable #	Exercise Price \$	Expiry Date
204,000	600,000	600,000	0.63	June 1, 2017
323,000	5,285,000	5,285,000	0.25	May 4, 2020
527,000	5,885,000	5,885,000		

On May 4, 2015, the Company granted 5,285,000 stock options to directors, officers, consultants and employees of the Company. The fair value of the options was estimated using the Black-Scholes option-pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk free interest rate of 1.08%; expected forfeiture rate of 0% and expected life of 5 years. An amount of \$323,000 was recorded relating to these stock options for the six month period ended June 30, 2015

### 12. WARRANT RESERVE

	#	\$
Balance, December 31, 2013	-	-
Warrants issued <sup>(i)</sup>	1,930,424	639,135
Finder's warrants issued <sup>(i)</sup>	60,397	21,839
Warrant issue costs	-	(100,668)
Warrants issued <sup>(ii)</sup>	470,000	155,628
Finder's warrants issued <sup>(ii)</sup>	28,200	10,197
Warrant issue costs	-	(15,545)
Warrants issued <sup>(iii)</sup>	3,810,670	1,261,338
Finder's warrants issued <sup>(iii)</sup>	228,640	82,653
Warrant issue costs	-	(490,076)
Warrants issued <sup>(iv)</sup>	520,000	172,159
Finder's warrants issued <sup>(iv)</sup>	31,200	11,281
Warrant issue costs	-	(16,430)
Warrants issued to D&H <sup>(v)</sup>	1,500,000	442,987
Warrants issued to D&H <sup>(vi)</sup>	73,644	12,317
Warrants issued to MacDonald <sup>(vi)</sup>	27,669	4,628
Warrants issued to MacDonald <sup>(vii)</sup>	50,000	23,126
Balance, December 31, 2014 and June 30, 2015	8,730,844	2,214,569

<sup>(i)</sup> In connection with the January 31, 2014, private placement (Note 10(b)(i)), the Company issued 1,930,424 warrants which entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on January 31, 2017. The estimated fair value of the warrants of \$639,135 was estimated using the Black-Scholes option-pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.14% and an expected life of 3 years.

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

## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015 and 2014

Expressed in Canadian dollars

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### 12. WARRANT RESERVE (continued)

- (ii) In connection with the June 10, 2014, private placement (Note 10(b)(ii)), the Company issued 470,000 warrants which entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on June 10, 2017. The estimated fair value of the warrants of \$155,628 was estimated using the Black-Scholes option-pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.17% and an expected life of 3 years.

The finders received 28,200 finders' warrants which entitle the holder to purchase one common share of the Company at a price of \$1.00 expiring on June 10, 2017. The estimated fair value of the finder warrants of \$10,197

was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.17% and an expected life of 3 years.

- (iii) In connection with the July 28, 2014, private placement (Note 10(b)(iii)), the Company issued 3,810,670 warrants which entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on July 28, 2017. The estimated fair value of the warrants of \$1,261,338 was estimated using the Black-Scholes option-pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.12% and an expected life of 3 years.

The finders received 3,628,640 finders' warrants. 228,640 finder's warrants were issued and entitle the holders to purchase one common share of the Company at a price of \$1.00 expiring on July 28, 2017. The estimated fair value of the these finder's warrants of \$82,653 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.12% and an expected life of 3 years. The remaining 3,400,000 finders' warrants entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on July 28, 2017. The estimated fair value of the finder warrants of \$1,125,600 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.14% and an expected life of 3 years. As of June 30, 2015, 3,400,000 finders' warrants have yet to be issued.

- (iv) In connection with the October 30, 2014, private placement (Note 10(b)(iv)), the Company issued 520,000 warrants which entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on October 30, 2017. The estimated fair value of the warrants of \$172,159 was estimated using the Black-Scholes option-pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.15% and an expected life of 3 years

The finders received 31,200 finders' warrants, which entitle the holder to purchase one common share of the Company at a price of \$1.00 expiring on October 30, 2017. The estimated fair value of the finder warrants of \$11,281 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.15% and an expected life of 3 years.

- (v) In connection with units issued to D&H (Note 10(b)(v)), the Company issued 1,500,000 warrants which entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on October 30, 2017. The estimated fair value of the warrants of \$442,987 was estimated using the Black-Scholes option-pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.01% and an expected life of 2 years.

- (vi) In connection with units issued to D&H and MacDonald (Note 10(b)(vi)), the Company issued 101,313 warrants which entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on December 19, 2019. The estimated fair value of the warrants of \$16,945 was estimated using the Black-Scholes option-pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 86%, a risk-free interest rate of 1.12% and an expected life of 5 years.

- (vii) On October 30, 2014, the Company issued 50,000 warrants to MacDonald (Note 7) which entitles the holder to purchase one common share of the Company at a price of \$1.25 expiring on December 19, 2019. The estimated

## Notes to the Condensed Consolidated Financial Statements

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### 12. WARRANT RESERVE (continued)

fair value of the warrants of \$23,126 was estimated using the Black-Scholes option-pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 92%, a risk-free interest rate of 1.54% and an expected life of 5 years.

The Company estimated the expected volatility using a combination of historical volatilities of similar companies and the historical price of the shares of the Company when estimating the fair value of warrants issued.

The following reconciles the warrants outstanding:

	<u>Six months ended</u>		<u>Year-ended</u>	
	June 30, 2015		December 31, 2014	
	Number	Exercise price	Number	Exercise price
	of warrants		of warrants	
	#	\$	#	\$
Balance, beginning of period	8,730,844	1.24	-	-
Warrants issued	-	-	8,382,407	1.25
Finder's warrants issued	-	-	348,437	1.00
Balance, end of period	<u>8,730,844</u>	<u>1.24</u>	<u>8,730,844</u>	<u>1.24</u>

The Company has the following warrants outstanding as at June 30, 2015:

Estimated Fair Value (net of issue costs)	Outstanding Warrants	Warrants Exercisable	Exercise Price	Expiry Date
\$	#	#	\$	
538,468	1,930,424	1,930,424	1.25	January 31, 2017
21,839	60,397 <sup>(a)</sup>	60,397	1.00	January 31, 2017
140,083	470,000	470,000	1.25	June 10, 2017
10,197	28,200 <sup>(b)</sup>	28,200	1.00	June 10, 2017
771,262	3,810,670	3,810,670	1.25	July 28, 2017
82,653	228,640 <sup>(c)</sup>	228,640	1.00	July 28, 2017
155,728	520,000	520,000	1.25	October 30, 2017
11,281	31,200 <sup>(d)</sup>	31,200	1.00	October 30, 2017
442,987	1,500,000	1,500,000	1.25	October 30, 2019
23,126	50,000	50,000	1.25	October 30, 2019
16,945	101,313	101,313	1.25	December 19, 2019
<u>2,214,569</u>	<u>8,730,844</u>	<u>8,730,844</u>		

(a) These are finder's warrants issued in connection with the January 31, 2014, private placement.

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

(c) These are finder's warrants issued in connection with the July 28, 2014 private placement.

(d) These are finder's warrants issued in connection with the October 30, 2014 private placement.

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### 13. INVESTMENT IN CRESTAR INTERGRATED NATURAL RESOURCE (“CINRL” or “Crestar”)

The Company, through its wholly owned subsidiary JBENL has a 45% ownership interest in CINRL with the remaining 55% portion held by an indigenous Nigerian corporation Crestar Hydrocarbon Exploration and Production Company Limited (“CHEPCL”)

From the acquisition of the Company’s interest in CINRL in September 2013 to June 2014, the Company had fully consolidated the accounts of CINRL even though it owned less than 50% of the shares. During this period it was determined that the Company had control over CINRL due the following factors: The Company had entered into a Financial and Technical Services Agreement with CINRL whereby the Company was appointed the Financial and Technical Partner with respect to acquiring oil and gas projects in Nigeria. This agreement provided that the Company shall arrange to provide the funding to CINRL and shall meet all required financial obligations. The Company was responsible for providing technical assistance, appointing personnel and carrying out the evaluation, development and production from the projects. JBENL’s President and Chief Executive Officer is also the President and Chief Executive Officer of CINRL, and a shareholder and member of the Board of Directors of CHEPCL.

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

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

The above agreement between CINRL and JBENL was amended on June 17, 2014 to reflect a change of party from CINRL to CHEPCL.

In June 2014, CINRL was selected as the winning bidder for a 45% participating interest in active Oil Mining Lease No. 25 (“OML 25”) in the Niger Delta region, offered by joint venture partners The Shell Petroleum Development Company of Nigeria Limited, Total E&P Nigeria Limited, and Nigerian AGIP Oil Limited Company (collectively the “Shell JV”).

Concurrent with the signing of the Agreement for Assignment of OML 25 on July 3, 2014, an agreement came into force with a prospective future investor of CINRL to provide CINRL with a loan for the full acquisition cost of the asset. The agreement further provided that the future investor would provide all technical services required under the operation of OML 25, such agreement was subject only to the formal closing of the acquisition. As consideration, the prospective investor was expected to assume a 56% effective interest in CINRL and net revenue proceeds from the interest in the OML 25 asset were expected to be adjusted accordingly. Given the agreement in place, it was determined that the Company lost control of CINRL on July 3, 2014. Related to this loss of control, the Company recorded a loss attributable to non-controlling interest of stated loss pick-up \$Nil (December 31, 2014 - \$2,208,438) through the date of the loss of control, and a gain on deconsolidation of \$Nil (December 31, 2014 - \$28,823,548). A further impairment on equity investment in CINRL of \$1,546,398 (December 31, 2014 - \$2,260,880), was also recorded in the statement of loss and comprehensive loss for the period ended June 30, 2015. This balance represents additional funding by Company to CINRL subsequent to the change of Financial and Technical Services Agreement from CINRL to CHEPCL for the six months ended June 30, 2015.

See subsequent event, note 18.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015 and 2014

Expressed in Canadian dollars

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### 14. CAPITAL MANAGEMENT

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

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

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period ended June 30, 2015. The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the CSE which requires adequate working capital of at least \$50,000. As of June 30, 2015, the Company is in compliance with the policies of the CSE.

### 15. FINANCIAL INSTRUMENTS

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

#### *Credit risk*

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

#### *Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have liquidity to meet liabilities when due. At June 30, 2015, the Company had cash and restricted cash of \$Nil (December 31, 2014 - \$141,248) to settle current liabilities of \$765,283 (December 31, 2014 - \$883,125). The Company has a working capital deficiency of \$235,850 (December 31, 2014 working capital deficiency of \$610,170). 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 interest-bearing debt due to debenture holders as described in Note 7. The Company's current policy is to invest excess cash in investment-grade short-term guaranteed investment certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

##### (b) Price risk

The ability of the Company to pursue its resource interests and the future profitability of the Company is directly related to the market price of oil and gas.

##### (c) Foreign currency risk

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

## Notes to the Condensed Consolidated Financial Statements

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### 15. FINANCIAL INSTRUMENTS (continued)

#### *Sensitivity analysis*

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve-month period.

As at June 30, 2015, the Company has net monetary liabilities denominated in US dollars of approximately USD\$83,802 (December 31, 2014 - USD\$326,887). 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 USD\$8,381 (December 31, 2014 - \$37,922) based on the balance of these amounts held in US dollars at June 30, 2015.

#### *Fair value*

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

#### *Fair value hierarchy and liquidity risk disclosure*

Fair value measurements are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). As at June 30, 2015 and 2014, the Company had no financial instruments to classify in the fair value hierarchy.

### 16. RELATED PARTY DISCLOSURES

These condensed consolidated interim financial statements include balances and transactions with directors and officers of the Company and/or corporations related to them. During the six months ended June 30, 2015 and year ended December 31, 2014 the Company entered into the following transactions involving related parties:

The Company incurred legal fees of approximately \$222,878 (December 31, 2014 - \$269,059) with a law firm of which a partner, is a director of the Company. This amount is included in professional fees on the statement of loss and comprehensive loss. As of June 30, 2015, included in accounts payable and accrued liabilities is \$135,866 (December 31, 2014 - \$93,190) owing to this law firm.

In accordance with IAS 24, key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The remuneration of directors and other members of key management personnel for the period ended June 30, 2015 and year ended December 31, 2014 were as follows:

	June 30, 2015	December 31, 2014
	\$	\$
Management salaries and benefits and director fees*	202,864	893,051
Share-based payments	275,024	14,167

\*reflected in the statement of loss and comprehensive loss.

Included in accounts payable and accrued liabilities as at June 30, 2015 is approximately \$8,650 (December 31, 2014 - \$2,496) management travel expenses reimbursement and \$75,000 (December 31, 2014 - \$40,000) director fees.

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



## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015 and 2014

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### 16. RELATED PARTY DISCLOSURES (continued)

See also Notes 8, 9, 10, and 17.

### 17. COMMITMENTS AND CONTINGENCIES

The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to \$1,584,000 be made upon the occurrence of certain events such as a change of control and termination. As a triggering event has not taken place, the contingent payments have not been reflected in these condensed consolidated interim financial statements. Under these management contracts, \$840,000 is due within one year.

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

Under the terms of a financing agreement entered into during 2014, the Company may be liable for a \$2,000,000 payment should a certain oil and gas property in Nigeria be acquired.

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

The Company is party to legal proceedings in the ordinary course of its operations related to legally binding agreements with various third parties under consulting agreements. As at June 30, 2015, one such proceeding was ongoing, relating to a services agreement in Nigeria. A former consultant of the Company is claiming that a payment in the amount of 3.5 million common shares of the Company is owing to them. The Company believes this claim to be without merit. Management does not expect the outcome of this proceeding to have a materially adverse effect on the results of the Company's financial position or results of operations and therefore this amount has not been reflected in these financial statements. Should any losses result from the resolution of this dispute, that amount will be charged to operations in the year that it is determined.

### 18. SUBSEQUENT EVENT

Certain recent events have led to the renewal of negotiations among Crestar and the Shell JV who along with the NNPC currently control OML 25. Crestar and partners will work together moving forward to continue these negotiations in order to secure 45% of OML 25. Pursuant to an agreement reached between Crestar and its partner, the sum of US\$408 million which was previously held in an escrow account has been released. The escrow account was originally set up in connection with a potential acquisition of the 45% interest in OML 25. Given the previously announced material delays with the acquisition and the ultimate termination of the initial purchase agreement as a result of those delays, it was determined that the funds should be released from escrow at this time. Notwithstanding this release from escrow, US\$45 million remains as a deposit with the vendors of OML 25 while negotiations for the acquisition of OML 25 continue.

In addition and in connection with this renewed process, Crestar's partner has agreed to fund a portion of consortium costs previously incurred by Crestar in an amount equal to US\$11 million, payable US\$3.5 million immediately and US\$7.5 million on a deferred basis. The sum of US\$29 million was placed into a new escrow account by Crestar's partner pending agreement of final terms of the acquisition transaction.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015 and 2014

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### 18. SUBSEQUENT EVENT (continued)

In the event that terms can be agreed for the acquisition of OML 25 and Crestar's partner agrees to proceed with the investment, the funds in the escrow will be released to Crestar's partner. Should Crestar's partner, as its discretion, decide not to proceed with the potential investment, an additional payment of US\$20 million will be made to Crestar with the remaining funds in the new escrow being released to its partner.

On July 9, 2015, the Company received US\$3.5 million from Crestar's partner on behalf of Crestar. The proceeds will be used to fund Crestar's working capital and to repay existing debt to the Company.