



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**MARCH 31, 2018 AND 2017**

## **INTRODUCTION**

The Management's Discussion and Analysis ("MD&A") of James Bay Resources Limited (the "Company" or "James Bay") should be read in conjunction with the Company's consolidated audited financial statements for the years ended December 31, 2017 and 2016. Those financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and all amounts shown in this MD&A and in the financial statements are expressed in Canadian dollars, unless otherwise noted. This MD&A was reviewed and approved by the Company's Audit Committee and Board of Directors on May 25, 2018.

## **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.

## **COMPANY OVERVIEW**

James Bay is a junior resource company originally focused on the acquisition and exploration of base and precious metal mineral properties, with activities centered in Canada.

In 2011, the Company entered into a preliminary agreement to conduct due diligence to identify potential oil and gas acquisition targets in Nigeria.

In 2012, the Company signed an agreement to acquire a 47% interest in the Ogedeh Marginal Field Award on the Farmed-Out Area within the Oil Mining Licence 90 ("OML 90 Project" or the "Ogedeh Project"). The OML 90 Project has been placed on hold given the economics in current market conditions.

The Company, through its wholly owned subsidiary, James Bay Energy Nigeria Limited ("JBENL") has a 45% ownership interest in Crestar Integrated Natural Resources Limited ("CINRL" or "Crestar") with the remaining 55% portion held by an indigenous Nigerian corporation, Crestar Hydrocarbon Exploration and Production Company Limited ("CHEPCL").

## CORPORATE STRUCTURE

In February 2012, the Company incorporated a wholly owned Nigerian subsidiary, James Bay Energy Nigeria Limited (“JBENL”). Pursuant to an agreement signed with D&H Solution AS, 100% share ownership interest of D&H Energy Nigeria Limited (“DHENL”) and Ondobit Limited (“OL”) were transferred to JBENL on March 9, 2012.

In April 2012, 2255431 Ontario Inc., (a wholly owned subsidiary of the Company), assigned its 100% ownership interest of James Bay Coal LLC (“JBC LLC”) to James Bay. JBC LLC is a US entity and a wholly owned subsidiary of James Bay. JBC LLC was later converted from a Delaware corporation to a Delaware limited liability company called James Bay Energy Nigeria LLC (“JBEN LLC”). Subsequently, 2255431 Ontario Inc. was wound up in June 2013.

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”).

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

James Bay Energy Nigeria LLC, USA	100%
James Bay Energy Nigeria Limited, Nigeria	100%
D&H Energy Nigeria Limited, Nigeria	100%
Ondobit Limited, Nigeria*	100%

\*In November 2017, Ondobit Limited was dissolved.

## COMPANY HIGHLIGHTS

As noted in a press release on January 30, 2017, CINRL which is owned by the Company and certain indigenous Nigerian partners, commenced legal proceedings in the High Court of Justice in England, against the Nigerian subsidiary of Seplat Petroleum Development Company PLC (“Seplat”) on January 27, 2017. CINRL’s claim alleged bad faith conduct by Seplat’s subsidiary, Newton Energy Limited (“Newton”), relating to the proposed acquisition of OML 25 in the Niger Delta region. The dispute in the English High Court was on US\$20.5 million held in escrow, which CINRL alleged should have been released to CINRL had Newton not sent its bad faith election that it intended to finance the OML 25 purchase.

On April 2, 2018, the Company announced that the settlement offer in the litigation between CINRL and Newton has been accepted. The litigation relates to proceedings brought in January 2017 by CINRL in the English High Court over the deposit of US\$20.5 million currently held in an escrow account, following a protracted dispute over the acquisition of OML 25 from the Shell JV. Under the terms of the settlement offer, James Bay receives US\$10.5 million of the escrowed funds, plus interest at 8% from January 3, 2018, along with its legal costs in relation to the action.

On April 16, 2018, the Company received US\$10.5 million plus interest of US\$227,820 in connection with the litigation between CINRL and Newton. The interest was for the period from January 3, 2018 to the date of acceptance of the settlement offer on March 21, 2018. The Company also received US \$1.2 million from Seplat as an agreed payment for costs of the action, which amount was received subsequent to March 31, 2018.

During the period ended March 31, 2018, the convertible debenture holders re-lent \$231,666 to the Company to finance working capital. The re-lent amount carries the same terms as the original convertible debentures.

## **PETROLEUM PROPERTY INTERESTS**

### **OML 25 PROJECT**

In June 2014, CINRL was selected as the winning bidder for a 45% participating interest in active Oil Mining Lease 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 Company Limited (collectively the “Shell JV”). CINRL obtained terms for a loan from a prospective future investor, for the full purchase price of OML 25.

The Nigerian National Petroleum Corporation (“NNPC”) attempted to block the sale and acquire the interest for itself. Crestar commenced injunction proceedings in January 2015 in the Nigerian Federal High Court to bar the Shell JV from effecting a transfer to NNPC or anyone else, which injunctions were granted on a preliminary basis. The Shell JV subsequently sought to discharge the injunctions, but the Federal High Court dismissed the Shell JV’s application on March 6, 2015. Further court proceedings were instituted by the Shell JV, but ultimately those have been unsuccessful.

The Federal High Court of Nigeria also has ruled in favor of Crestar and granted an injunction in favour of Crestar which effectively has frozen any potential plans by the NNPC to acquire the 45% participating interest in OML 25 being divested by the Shell JV. As of the date hereof this injunction continues to remain in place.

Certain events during 2015 led to the renewal of negotiations among CINRL and the Shell JV who along with the NNPC currently control OML 25. Pursuant to an agreement reached between CINRL and Seplat Petroleum Development Company PLC (“Seplat”), the sum of US\$408 million which was previously advanced by Newton Energy Limited (“Newton”) was placed in an escrow account in respect of the purchase price payable for OML 25. Given the material delays with the acquisition and the NNPC’s blockage of the closing of the initial purchase agreement for OML 25, it was determined that the funds should be released from escrow. Notwithstanding this release from escrow, the initial US\$45,320,000 deposit remains with the Shell JV while the Company and Seplat worked to complete the acquisition of OML 25.

In connection with this renewed process, Seplat agreed to fund a portion of consortium costs previously incurred by CINRL in an amount equal to US\$11 million. The sum of US\$29 million was placed into a new escrow account by Seplat pending agreement of final terms of the acquisition transaction.

CINRL received a repayment from Seplat in the amount of \$4,459,000 (US\$3,500,000) in July 2015 and a further, \$9,687,750 (US\$7,500,000) in June 2016, which amounts were in each case transferred to the Company as repayment of amounts previously advanced to CINRL.

CINRL commenced legal proceedings in the High Court of Justice in England, against the Nigerian subsidiary of Seplat on January 27, 2017. On April 2, 2018, the Company announced that the settlement offer of this litigation has been accepted. Under the terms of the settlement offer, on April 16, 2018, the Company received US\$10.5 million plus interest of US\$227,820 from the escrowed funds. The interest was for the period from January 3, 2018 to the date of acceptance of the settlement offer on March 21, 2018. The Company also received US \$1.2 million from Seplat as an agreed payment for costs of the action, which amount was received subsequent to March 31, 2018.

## FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

### RESULTS OF OPERATIONS

#### Revenue

The Company is in the exploration and evaluation stage and therefore, did not have revenues from operations.

#### Expenses

For the three months ended March 31, 2018, the Company recorded total expenses of \$38,864 (March 31, 2017- \$51,593). The decrease is mainly due to lower management salaries and benefits and office and general expenses by approximately \$12,729 which primarily reflects the Company's minimal operating activities in the year. The majority of management's time and focus and the Company's resources were invested in pushing forward OML 25 during the year. In addition, the Company did not incur any due diligence nor granted any share based payments in 2017.

#### Net loss and comprehensive loss

For the three months ended March 31, 2018, the Company recorded a net loss of \$1,220,487 ~~156,718~~ (March 31, 2017 - \$610,769).

(i) There has been no expense recovery from CINRL

(ii) Impairment in CINRL of \$989,910 ~~48,874~~ (2017 - \$558,190) and

(iii) Loss from CINRL of \$290,027 ~~331,063~~ (2017 - \$166,781)

The major change is the increase in loss from equity in CINRL of \$125,745 ~~64,282~~. CINRL has been dormant for the past year. The Company maintains a small head office in Nigeria and have reduced all costs to the minimum.

First quarter net loss and comprehensive loss was \$1,220,487 ~~156,718~~ (March 31, 2017 - \$610,769), reflecting an increase of \$609,718 ~~545,949~~ from the same period in 2017. The increase is mainly due to the increase in loss from equity and increase in impairment of equity in CINRL.

### CASH FLOWS

#### Operating Activities

For the three months ended March 31, 2018, the Company had net cash outflow of \$1,039,414 ~~271,083~~ (March 31, 2017 - \$261,322) from operating activities. It is a major increase in cash outflow from the prior year. The Company charged a significant amount of its operating costs to CINRL where the Company's human capital and working capital were directed.

#### Investing Activities

For the three months ended March 31, 2018, the Company had a net cash outflow of \$1,279,937 (March 31, 2017 - \$724,975) from investing activities. The cash outflow is mainly due to advances to equity investment in CINRL.

#### Financing Activities

For the three months ended March 31, 2018, the Company had a net cash inflow of \$231,666 (March 31, 2017 - \$nil) from financing activities. During the period, the debenture holders re-lent \$231,666 to finance the day to day operations of the Company.

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

**SUMMARY OF QUARTERLY RESULTS**

	Quarter-ended			
	March 31, 2018 \$	December 31, 2017 \$	September 30, 2017 \$	June 30, 2017 \$
Working capital (deficiency)	(4,207,476) <del>143,705</del>	(2,990,093)	(86,651)	665,398
Operating expenses (income)	38,864	(67,943)	37,028	49,872
Interest expense (recovery)	2,771	23,084	(7,917)	6,613
Net loss and comprehensive loss	1,220,487) <del>156,718</del>	1,810,958	824,237	985,132
Net loss and comprehensive loss per share attributable to the common shareholders of the Company (basic and diluted)	0.03	0.04	0.02	0.02

	Quarter-ended			
	March 31, 2017 \$	December 31, 2016 \$	September 30, 2016 \$	June 30, 2016 \$
Working capital	1,656,759	2,417,057	5,784,409	9,051,840
Operating expenses (income)	51,593	171,822	(144,108)	(5,394)
Interest expense (recovery)	5,847	(2,788)	(3,491)	(137,248)
Net loss (income) and comprehensive loss (income) - restated	610,769	2,911,004	(1,575,093)	(8,892,676)
Net loss (income) and comprehensive loss (income) per share attributable to the common shareholders of the Company – restated (basic and diluted)	0.01	0.07	0.04	(0.21)

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 in fiscal 2018.

## LIQUIDITY AND OUTLOOK

As at March 31, 2018, the Company had no source of operating cash inflows and reported a net loss and comprehensive loss of \$1,156,718 for the three-month period and a deficit of \$21,567,458. The Company's continuance as a going concern is dependent upon its ability to obtain equity capital and financing for its working capital and for the exploration, development and operation of its properties.

On April 16, 2018, the Company received US\$10.5 million plus interest of US\$227,820 in connection with the litigation between CINRL and Newton. The interest was for the period from January 3, 2018 to the date of acceptance of the settlement offer on March 21, 2018. See Subsequent Events below.

The Company's opinion concerning liquidity and its ability to avail itself in the future of the financing options mentioned above are based on currently available information. To the extent that this information proves to be inaccurate, future availability of financing may be adversely affected. Factors that could affect the availability of financing include the Company's performance (as measured by various factors including the progress and results of its exploration work) and equity markets, investor perceptions and expectations of past and future performance, the global financial climate.

## CAPITAL RESOURCES

### Common shares

At March 31, 2018 and April 27, 2018, the Company had 41,474,070 common shares issued and outstanding.

### Stock options

At March 31, 2018 and April 27, 2018, a total of 5,150,000 stock options were issued and outstanding with expiry dates ranging from May 4, 2020 to September 15, 2020. The weighted average exercise price for all stock options is \$0.25. All stock options entitle the holder to purchase common shares of the Company.

### Warrants

At March 31, 2018 and April 27, 2018, the Company had 151,313 issued and outstanding warrants with expiry dates ranging from October 30, 2019 to December 19, 2019. The weighted average exercise price for all warrants issued and outstanding as at March 31, 2018 was \$1.25.

## 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 cash and cash equivalents and amounts receivable. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to cash and cash equivalents and 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 March 31, 2018, the Company had cash and cash equivalents of \$59,446 (December 31, 2017 - \$68,300) to settle current liabilities of \$4,368,546~~304,776~~ (December 31, 2017 - \$3,159,395). The Company has working capital deficiency of \$4,207,476~~143,705~~ (December 31, 2017 - \$2,990,093). The Company's current financial liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms. The convertible debentures with a face value of \$1,580,856~~443,044~~ are due in 2018.

## FINANCIAL INSTRUMENTS (continued)

### *Market risk*

#### (a) Interest rate risk

The Company has cash balances and interest-bearing debt due to convertible debenture holders as described in Note 10. 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. The Company's convertible debentures bear interest at a fixed interest rate.

#### (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.

### *Sensitivity analysis*

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

As at March 31, 2018, the Company has net monetary liabilities of \$1,441,112 denominated in US dollars (December 31, 2017 - USD\$87,882). A 10% change in the value of the Canadian dollar relative to the US dollar would result in a corresponding change in net income approximately \$144,111 (December 31, 2017 – USD \$8,788) based on the balance of these amounts held in US dollars as at March 31, 2018.

### *Fair value*

The carrying value of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the financial instruments. Management believes the carrying value of the convertible debentures approximates its fair value. The derivative liabilities are recorded at their estimated fair values.

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

Fair value measurements are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). As at March 31, 2018 and 2017, the Company designated its derivative liabilities from convertible debentures as fair value through profit and loss which is measured at fair value and classified as Level 2.

## 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, 2018 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 2 - Share-based Payment ("IFRS 2") was amended in June 2016, clarifying the accounting for certain types of share-based payment transactions. The amendments provide requirements on accounting for the effects of vesting and non-vesting conditions of cash-settled share-based payments, withholding tax obligations for share-based payments with a net settlement feature, and when a modification to the terms of a share-based payment changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for the year beginning on January 1, 2018.

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.

IFRS 16 – Leases ("IFRS 16") was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted if IFRS 15 has also been applied.

IFRS 10 – Consolidated Financial Statements ("IFRS 10") and IAS 28 – Investments in Associates and Joint Ventures ("IAS 28") were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

## **RECENT ACCOUNTING PRONOUNCEMENTS AND CHANGES IN ACCOUNTING POLICIES** **(continued)**

IAS 12 – Income Taxes (“IAS 12”) was amended in January 2016 to clarify that, among other things, unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument’s holder expects to recover the carrying amount of the debt instrument by sale or by use; the carrying amount of an asset does not limit the estimation of probable future taxable profits; and estimates for future taxable profits exclude tax deduction resulting from the reversal of deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017.

IFRIC 22 – Foreign currency transactions and advance consideration (“IFRIC 22”) was issued in December 2016 by the IASB. IFRIC 22 clarifies the date that should be used for translation when a foreign currency transaction involves an advance payment or receipt. The Interpretation is applicable for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact on the adoption of this standard.

IFRIC 23 - Uncertainty over Income Tax Treatments (“IFRIC 23”) was issued in June 2017 by the IASB. IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The extent of the impact of adoption of the Interpretation has not yet been determined.

### *Changes in Accounting Policies*

The Company has adopted the following amendments, effective January 1, 2017. The changes were made in accordance with the applicable transitional provisions.

IAS 7 – Statement of Cash Flows (“IAS 7”) was amended in January 2016 to clarify that disclosures shall be provided that enable users of financial statements to evaluate changes in liabilities arising from financing activities. There was no material impact on the consolidated financial statements as a result of the adoption of this amendment.

IAS 12 – Income Taxes (“IAS 12”) was amended in January 2016 to clarify that, among other things, unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument’s holder expects to recover the carrying amount of the debt instrument by sale or by use; the carrying amount of an asset does not limit the estimation of probable future taxable profits; and estimates for future taxable profits exclude tax deduction resulting from the reversal of deductible temporary differences. There was no material impact on the consolidated financial statements as a result of the adoption of this amendment.

## **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 period ended March 31, 2018 and 2017, the Company entered into the following transactions involving related parties:

The Company incurred legal fees of approximately \$200,147 (March 31, 2017 - \$59,460) with a law firm of which a partner, is a director of the Company, of which, approximately \$180,132 (March 31, 2017 - \$53,614) has been charged to CINRL. This amount is included in professional fees on the consolidation statement of (loss) income and comprehensive (loss) income. As of March 31, 2018, included in accounts payable and accrued liabilities is \$200,147 (March 31, 2017 - \$59,460) owing to this law firm. The balance was paid in full subsequent to period end.

The Company rents office space from a corporation with a common director. [Mark Brennan ceased to be director as of April 29, 2017]. As of March 31, 2018 \$nil (March 31, 2017 - \$15,030) was charged by this corporation. The Company started renting office space to Cerrado Gold, a corporation with a common director beginning November 2017. During the three months ended March 31, 2018, approximately \$7,984 (March 31, 2017 - \$nil) was charged to this corporation. The amounts are included in office and general expense on the consolidated statements of (loss) income and comprehensive (loss) income.

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 March 31, 2018 and 2017 were as follows:

	March 31, 2018	March 31, 2017
Management salaries	\$ 229,994	\$246,767
Director's fees	20,000	20,000
	<u>249,994</u>	<u>266,767</u>

During the period ended March 31, 2018, included in accounts payable and accrued liabilities are payments of \$211,994 (March 31, 2017 - paid \$208,767) to two executive officers, of which, \$202,775 (March 31, 2017 \$199,767) has been charged as management fees to CINRL.

Also included as of March 31, 2018 is \$80,000 (March 31, 2017 - \$20,000) of Director's Fees. The balance outstanding was paid in full subsequent to period end.

With the exception of accrued salaries, all of the above amounts payable to related parties are unsecured, non-interest bearing, with no fixed term of repayment.

## COMMITMENTS AND CONTINGENCIES

The Company is party to certain management contracts, which contain clauses requiring additional payments of up to \$1,800,000 be made upon the occurrence of certain events such as a change of control and additional payments of up to \$872,000 be made upon termination of contracts. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements. As of March 31, 2018, under these management contracts, management has committed to \$990,000 of salaries and benefits due within one year.

The Company is subject to a lease commitment for a premise in Canada expiring in January 2019 with the following expected future payments:

	\$
2018	<u>68,000</u>
2019	<u>6,000</u>
Total	<u>74,000</u>

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 a third party. The Company believes these claims 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 no amounts have been reflected in these financial statements. Should any losses result from the resolution of these dispute, that amount will be charged to operations in the year that it is determined.

In June 2017, the Company lent CINRL £200,000 GBP as a form of security for legal costs. In August 2017, the Company's President and CEO provided a letter of guarantee in the amount of USD \$575,000 also as a form of security for legal costs. Both of these security forms are protected by the litigation until such time when the court orders are released. As a result of the settlement reached April 16, 2018 in this action, these amounts previously held as security for legal costs were scheduled to be release subsequent to March 31, 2018.

## **OFF BALANCE SHEET ARRANGEMENTS**

The Company has no off balance sheet arrangements.

### **Subsequent Events**

#### **Settlement Offer**

On April 2, 2018, the Company announced that its settlement offer in the litigation between CINRL and Newton has been accepted. The litigation relates to proceedings brought in January 2017 by CINRL in the English High Court over the deposit of US\$20.5 million currently held in an escrow account, following a protracted dispute over the acquisition of OML 25 from the Shell JV. Under the terms of the settlement offer, James Bay received US\$10.5 million of the escrowed funds, plus interest at 8% from January 3, 2018, along with its legal costs in relation to the action.

On April 16, 2018, the Company received US\$10.5 million plus interest of US\$227,820 in connection with the litigation between CINRL and Newton. The interest was for the period from January 3, 2018 to the date of acceptance of the settlement offer on March 31, 2018. The Company also received US\$1.2 million from Seplat as an agreed payment for costs of the action, which amount was received subsequent to March 31, 2018.

#### **Litigation Payout**

In connection with the convertible debentures issued in 2015 (Note 9), the Company sold and assigned, pursuant to separate agreements with each subscriber, a pro rata entitlement (based on all the subscribers) for up to an aggregate of 30% of the net proceeds of litigation related to the OML 25 project (Note 8). The payout amount is calculated after deduction of all related costs and taxes incurred by the Company in the litigation, payable to the debenture holders within 60 days from the receipt of the Final Award.

Subsequent to period end, the Company paid US\$2.7 million to convertible debenture holders ("Holder"). Each Holder received an amount based on a pro rata share of their participating interest in the original convertible debenture issued in 2015. The final amount will be adjusted after all related costs including taxes and litigation costs recoveries are determined.

#### **Convertible Debenture Conversion**

Pursuant to the convertible debenture agreement, the Holder has the right to request that the Corporation, at any time prior to 5:00 p.m. on May 29, 2018 (Time of Expiry), convert the outstanding principal amount (in whole or in part) into common shares at the rate of one (1) Common Share for each \$0.17 of principal amount.

In April 2018, three debenture holders elected to convert their holdings into common shares of the Company. Three other debenture holders, including the Company President and CEO have elected the payout option. The remaining

two debenture holders have until May 29, 2018 to exercise the conversion right. The Company plans to issue the shares from the exercise of the conversion right effective May 29, 2018.

## **RISKS AND UNCERTAINTIES**

The Company, through its subsidiary, holds an interest in a petroleum property in Nigeria. As such, it is exposed to the laws governing the Nigerian petroleum industry with respect to matters such as taxation, environmental compliance, and other regulatory and political factors as well as shifts in politics and labor unrest, any of which could adversely affect the Company and its future exploration and production activities.

### **Additional Capital**

The Company conducted due diligence to identify potential acquisition targets of onshore/offshore Nigerian oil and gas projects. If the results are favourable, Company will require additional capital which may come from future financings. 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 resources, the rate of inflation, the inventory of resources 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 resources, and increased production due to improved extractor and production methods. The resource industry in general is intensely competitive and there is no assurance that, even if commercial quantities and qualities of resources are discovered, a market will exist for profitable sale. Commercial viability of precious and base metals and oil and gas 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.



### **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 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 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.

### **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 government or the courts in favor of the aboriginal people resolve such a claim, it could materially adversely affect the business of James Bay only for the James Bay lowlands property. 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 director and officer 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.

### **Additional Information**

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



## CORPORATE INFORMATION

### BOARD OF DIRECTORS

Stephen Shefsky	Founder and Director, President & CEO
Wayne Egan	Non-Executive Chairman
Mark Brennan	Founder and Director
Jon Pereira	Director
Jean J. Gauthier	Director
Adeniyi Olaniyan	Director

### OFFICE LOCATION

#### Corporate Head Office

79 Wellington Street West,  
TD Tower South, Suite 2100  
Toronto, Ontario  
M5K 1H1

#### Nigeria Office

19a Agodogba Street Parkview Estate  
Ikoyi Lagos, Lagos, Nigeria

### SUBSIDIARY COMPANIES

James Bay Energy Nigeria, LLC  
James Bay Energy Nigeria Limited  
D&H Energy Nigeria Limited

### LEGAL COUNSEL

#### WeirFoulds LLP

Toronto, Ontario, Canada

#### Sefton Fross

Lagos, Nigeria

#### Amsterdam & Partners LLP

London, England

### AUDITOR

#### UHY McGovern Hurley LLP

Toronto, Ontario, Canada

#### KPMG Nigeria

Lagos, Nigeria

### REGISTRAR & TRANSFER AGENT

#### TSX Trust

Toronto, Ontario, Canada

### BANKER

#### CIBC

Toronto, Ontario, Canada

#### First Bank

Lagos, Nigeria

### STOCK EXCHANGE

#### Canadian Stock Exchange

Ticker symbol "JBR"