

**JAMES BAY RESOURCES LIMITED**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the three and six months period ended June 30, 2012**

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 interim consolidated financial statements for the three and six months period ended June 30, 2012. Those financial statements are prepared in accordance with International Financial Reporting Standings ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The Company's reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars. The following Management's Discussion and Analysis ("MD&A") has been prepared as at August 15, 2012.

## **HIGHLIGHTS**

- **The Company has entered into a Joint Operating Agreement ("JOA") with an oil and gas field owner in Nigeria.**
- **In June, 2012, the Company appointed Adeniyi Olaniyan as Chief Operating Officer and Country Manager for James Bay Energy Nigeria Limited.**
- **D&H Solutions to second management personnel to James Bay to increase its capabilities to source and develop oil & gas exploration and production assets**
- **Company enters into agreement with domestic oil and gas service provider Mak Mera**
- **Extends the expiry date of 3,723,925 warrants for one year.**

## **COMPANY OVERVIEW**

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

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

### **History and corporate structure**

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

February 27, 2012, the Company incorporated a wholly owned Nigerian subsidiary, James Bay Energy Nigeria Limited. In 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 100% ownership interest to James Bay Coal LLC to James Bay. James Bay Coal LLC is a US entity and a wholly owned subsidiary of James Bay. James Bay Coal LLC was later converted from a Delaware corporation to a Delaware limited liability company called James Bay Energy Nigeria LLC.

## History and corporate structure (continued)

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

2255431 Ontario Inc., Canada	100%
James Bay Energy Nigeria LLC ("JBEN LLC"), USA	100%
James Bay Energy Nigeria Limited ("JBENL"), Nigeria	100%
D&H Energy Nigeria Limited ("DHENL"), Nigeria	100%
Ondobit Limited ("OL"), Nigeria	100%

## EXPLORATION AND EVALUATION ACTIVITIES

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

#### Introduction

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

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

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

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

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

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

## EXPLORATION AND EVALUATION ASSETS

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

Description	Amount
Balance at January 1, 2009	\$ 2,529,529
Assaying	3,924
Drilling	(27,292)
Fuel and transportation	46,613
Mapping and airborne geophysics	(105,133)
Site management and Supplies	(14,888)
Staking costs	(1,366)
Travel and accommodation	142
Balance at December 31, 2009	\$ 2,431,529
Costs incurred during the year	7,133
Balance at December 31, 2010	\$ 2,438,662
Costs recovered during the year:	(5,000)
Balance at December 31, 2011 and June 30, 2012	\$ 2,433,662

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

### **Nigeria Oil and Gas Properties**

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

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

On January 5, 2012, a new agreement was signed with D&H. The new agreement calls for the transfer of all Nigerian agreements and the corporations that currently hold these agreements into a wholly owned Nigerian subsidiary of the Company. This subsidiary (James Bay Energy Nigeria Limited, "JBENL") was incorporated on February 27, 2012. In addition, the Company will retain certain senior management of D&H as senior management of JBENL. In consideration the Company has agreed to issue to D&H share based compensation in the form of units consisting of one common share and one half of one common share purchase warrant, each whole common share purchase warrant entitling the holder to acquire one common share at a price of \$1.25 for a period of two years from issuance. The units are to be issued as follows:

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

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

The Company also assumed D&H's agreement to acquire a 47% interest in certain oil and gas interest in Nigeria through the formation of a joint operation with the seller. As consideration for the transfer of the interest, the Company will be required to pay US\$2,500,000. These payments are to commence only upon completion of due diligence by the Company and to occur over a period of time defined by the accomplishment of project landmarks, ending with the achievement of commercial production. In addition, on the commencement of commercial production the Company will pay a monthly management retainer of US\$30,000 to the seller in return for the seller performing its ordinary legal and regulatory duties as marginal field license holder. The Company will also be required to pay up to US\$500,000 in capital contribution to the project as required to finance the joint operation until the commencement of commercial production. Related to this agreement, the Company paid US\$50,000 for the first installment in exclusivity, data purchase and administrative fees during the 2011 year. The second installment of US\$50,000 was paid in March 2012.

Upon the completion of the due diligence process, the Company is required pay US\$100,000, spread into 5 monthly installments of US\$20,000. At June 30, 2012, the Company paid a total of US\$80,000; the final installment was paid in July 2012.

Included in restricted cash is US\$500,000 in capital contribution to the project as required to finance the joint operation until the commencement of commercial production and US\$20,000 installment held in a trust account.

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

### **Nigeria Oil and Gas Property**

#### **MAK MERA**

On March 9, 2011, James Bay entered into a letter of intent with a Nigerian oil & gas service provider, MAK MERA. On February 6, 2012, a new agreement with MAK MERA was signed. The new consulting services agreement calls for the issuance of common shares of the Company to MAK MERA as follows:

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

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

## RESULTS OF OPERATIONS AND CASH FLOWS

### Revenue

The Company is in the development stage and therefore did not have revenues from operations. Interest income for the three months period ended June 30, 2012 was \$13,495 (June 30, 2011 - \$144,046). The Company deposited approximately \$3,350,000 in cashable GICs at an interest rate of 1.30%.

### Expenses

The Company recorded total expense recovery of \$526,325 for the three months period ended June 30, 2012 as compared to \$599,193 operating expense in the comparative period in 2011.

### Net loss and comprehensive loss

For the period ended June 30, 2012, the Company recorded net income of \$540,626 with basic and diluted income per share of \$0.02. This change is mainly attributable to the recovery of due diligence expenses as detailed below.

### Year-to-date

Interest income for the six months period ended June 30, 2012 was \$27,720 (June 30, 2011 - \$169,820). Included in 2011 amount is \$142,100 loan interest received from Morumbi loan. The loan was repaid in prior year.

Expense for the six month period ended June 30, 2012 totalled \$566,446 as compared to \$790,265 in the comparative period in 2011. The decrease in expense is mainly attributable to the recovery of due diligence expense incurred in Nigeria in the amount of \$1,451,028. The due diligence expense was incurred over the 2011 and 2012 period. The Company spent \$1,233,304 in 2011 and \$217,724 in 2012 which was fully recovered subsequent to the completion of the due diligence process.

Also included in expense are \$1,093,805 exploration costs. These pre-licensing costs were expensed in the statement of comprehensive loss. Included in exploration costs are the following items:

Description	Amount
Acquisition costs	\$ 131,183
Management fees	232,951
Share-based compensation	104,301
Consulting fees	108,700
Travel and accommodation	92,744
Professional fees	209,364
Legal fees	108,183
General and administrative expense	106,379
Balance at June 30, 2012	\$ 1,093,805

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

**SUMMARY OF QUARTERLY RESULTS**

	Quarter-ended			
	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
Working Capital	\$4,063,866	\$4,876,068	\$5,619,929	\$6,164,370
Exploration and evaluation Assets	2,433,662	2,433,662	2,433,662	2,433,662
Operating expenses (recovery)	(526,325)	1,092,771	518,279	637,774
Interest Income	13,495	14,225	13,990	13,587
Loss and comprehensive loss (Income)	(540,626)	1,095,538	544,486	526,827
Loss and comprehensive loss per share (Income)	(0.02)	0.04	0.02	0.02

	Quarter-ended			
	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010
Working capital	\$6,597,151	\$6,908,443	\$6,925,849	\$7,072,141
Exploration and evaluation Assets	2,433,662	2,438,662	2,438,662	2,438,662
Operating expenses (recovery)	599,193	191,072	(5,145)*	221,454
Share-based compensation	-	-	42,000	17,644
Interest Income	144,046	25,774	20,481	44,079
Loss and comprehensive loss	673,939	186,054	29,914	165,575
Loss and comprehensive loss per share	0.02	0.01	0.00	0.01

\* Expenses in the fourth quarter of 2010 and second quarter of 2012 were reduced by the recovery of due diligence fees.

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



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

### **CASH FLOWS**

#### **Operating Activities**

The Company had a net outflow of \$734,370 from operating activities (June 30, 2011 – \$672,188).

#### **Investing Activities**

The Company had a net inflow of \$13,446 (June 30, 2011– \$154,210).

#### **Financing Activities**

The Company had no financing activities during the period.

### **LIQUIDITY**

The Company had opening cash and cash equivalents balance of \$4,791,243 and \$834,243 restricted cash. The Company used \$734,370 in operating activities and recovered \$13,446 in investing activities during the period. At June 30, 2012, the Company had cash and cash equivalents of \$4,228,567 including US\$520,000 restricted cash held in a trust account.

#### **Common shares**

At June 30, 2012, the Company had issued and outstanding 28,040,350 common shares. There were no additional common shares issued between the period from July 1, 2012 to August 15, 2012.

#### **Warrants**

At June 30, 2012, a total of 3,723,925 warrants were outstanding, with each warrant entitling the holder to purchase one common share of the Company with expiry date of July 24, 2013 at a price of \$1.25.

#### **Stock options**

At June 30, 2012, a total of 2,765,000 stock options are issued and outstanding with expiry dates ranging from April 2, 2013 through to June 11, 2015. The weighted average exercise price for all stock options is \$0.75. All stock options entitle the holder to purchase common shares of the Company. There were no additional stock options granted or exercised between the period from July 1, 2012 to August 15, 2012.

## **OUTLOOK**

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

## **SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

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

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

Management has determined that exploration and evaluation costs incurred during the year may have future economic benefits. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, proximity of other operating facilities and discoveries, operating management expertise and existing permits. See Note 7 for details of capitalized exploration and evaluation assets.

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

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

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

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

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

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

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

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

## **SIGNIFICANT ACCOUNTING POLICIES**

### *(a) Foreign Currencies*

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

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

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

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

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

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

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

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

### *(d) Income Tax*

#### **Current tax**

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

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

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

### **Deferred tax**

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

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

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

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

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

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

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

The Company's property interests are in the exploration and evaluation stage and accordingly the Company follows the practice of capitalizing all costs relating to the acquisition of, exploration for and evaluation of mineral claims and crediting all revenues received against the cost of the related claims. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned mineral claims are charged to operations at the time of any abandonment or when it has been determined that there is evidence of a permanent impairment. The recoverability of amounts shown for

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

exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition. The Company recognizes in profit or loss costs recovered on exploration and evaluation assets when amounts received or receivable are in excess of the carrying amount. Upon transfer of "Exploration and evaluation costs" into "Mine Development", all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalised within "Mine development". After production starts, all assets included in "Mine development" are transferred to "Producing Mines".

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

### *(f) Equipment*

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

Office equipment	-	20%, declining balance basis
Vehicles	-	30%, declining balance basis
Computer software	-	100%, declining balance basis

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

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

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

### *(h) Financial instruments*

#### *Financial assets*

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

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

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

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

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

### Subsequent measurement

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

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

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

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

### Loans and receivables

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

### Derecognition

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

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

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

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

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

### **Impairment of financial assets**

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

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

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

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

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

### *Financial liabilities*

#### **Initial recognition and measurement**

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

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

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

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

### Subsequent measurement

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

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

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

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

#### Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate ("EIR") method. Gains and losses are recognized in the consolidated statement of operations when the liabilities are derecognized, as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the statement of operations.

#### Derecognition

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

#### *Fair value of financial instruments*

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

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

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

Basic loss per share is calculated by dividing the loss available to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss available to common shareholders equals the reported loss. Diluted loss per share is calculated by assuming that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. In the Company's case, diluted loss per share is the same as basic loss per share as the effects of including all outstanding options and warrants would be anti-dilutive. As at March 31, 2012, all outstanding options and warrants were anti-dilutive.



## **FINANCIAL INSTRUMENTS**

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

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

### **Credit risk**

The Company's credit risk is primarily attributable to guaranteed investment certificates and amounts receivable and the loan receivable. The Company has no significant concentration of credit risk arising from operations. Guaranteed investment certificates have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Financial instruments included in amounts receivable at June 30, 2012 and 2011 consist of sales tax due from the Federal Government of Canada. Management believes that the credit risk concentration with respect to these financial instruments is remote.

### **Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At June 30, 2012, the Company had cash and cash equivalents of \$3,708,567 (June 30, 2011 - \$4,791,243) to settle current liabilities of \$271,604 (June 30, 2011 - \$104,765) The Company's financial liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms.

### **Market risk**

#### **(a) Interest rate risk**

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

#### **(b) Price risk**

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

#### **(c) Foreign currency risk**

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

### **Sensitivity analysis**

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a period ended: The Company's cash equivalents as at June 30, 2012 are held at a fixed interest rate of 1.2% and are therefore not subject to fluctuations in interest rates. A change in interest rates of 1% will result in a corresponding change in net loss of approximately \$33,500 based on the cash balance at June 30, 2012.

## **FINANCIAL INSTRUMENTS (continued)**

### **Sensitivity analysis (continued)**

As at June 30, 2012, the Company has US cash and cash equivalents of approximately \$811,877 (US \$797,443). 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 \$79,700 based on the balance of these assets held in US dollars at June 30, 2012.

### **Fair Value**

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

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

Fair value measurements are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). As at December 31, 2011 and June 30, 2012, cash equivalents were Level 2.

## RECENT ACCOUNTING PRONUCEMENTS

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

IAS 1 – Financial Statements Presentation.

On June 16, 2011, the IASB issued amendments to IAS 1 *Financial Statement Presentation*. These amendments improve presentation of components of other comprehensive income. The new requirements are effective for annual periods beginning on or after July 1, 2012. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

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

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

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

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

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

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

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

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

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

## RELATED PARTY DISCLOSURES

These condensed interim consolidated financial statements include balances and transactions with directors and officers of the Company and/or corporations related to them. During the six month period ended June 30, 2012 and 2011 the Company entered into the following transactions involving related parties.

The Company rent office space from a corporation controlled by a director of the Company. During the period ended June 30, 2012, approximately \$24,171 (June 30, 2011 - \$30,000) was charged by this corporation. The amount is included in office and general expense on the statement of comprehensive loss.

The Company incurred legal fees of approximately \$45,418 (June 30, 2011 - \$17,176) paid to a law firm of which a partner is a director of the Company. This amount is included in professional fees on the statement of comprehensive loss.

The remuneration of directors and other members of key management personnel were as follows:

	2012	2011
	\$	\$
Management salaries and benefits	<u>431,447</u>	<u>147,533</u>

Included in accounts payable and accrued liabilities is approximately \$103,456 management travel expenses reimbursement.

## COMMITMENTS AND CONTINGENCIES

The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to \$504,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these financial statements. Additional minimum management contract commitments remaining under these contracts are approximately \$508,000. In March 2011, the Company renewed the sublease agreement for another 18 months, resulting in a lease commitment of approximately \$9,700 as at June 30, 2012.

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

## OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

## **RISKS AND UNCERTAINTIES**

### **Additional Capital**

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

### **No History of Profitability**

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

### **Government Regulations**

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

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

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

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

### **Mining Risks and Insurance**

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

### **Competition**

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

### **Environmental Protection**

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

### **Aboriginal Claims**

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

### **Conflicts of Interest**

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

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

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

**Additional Information**

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