# JAMES BAY RESOURCES LIMITED

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## For the three and nine months period ended September 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 nine months period ended September 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 November 29, 2012.

## HIGHLIGHTS

- The Company has entered into a Joint Operating Agreement ("JOA") and deed of assignment 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.
- The 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.
- In October 2012, the Company file for a Change of Business pursuant to Policy 5.2 of the Exchange with the resulting focus on the oil and gas industry.

## 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. 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.

On June 29, 2012, the Company announced that it had signed an agreement to acquire a 47% interest in a Nigerian oil and gas project. As a result of the Company's change in focus to pursuing oil and gas assets in Nigeria, the James Bay Property was written off. On October 11, 2012, the Company filed a National Instrument 51-101 report to pursue conditional approval its change of business under the policies of the TSX Venture Exchange.

### 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.

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% |

**JAMES BAY DIRECT INTEREST IN OIL AND GAS FIELD**

In June 2012, James Bay entered into its first Joint Operating Agreement (JOA) with an oil and gas field owner in Nigeria. The JOA and Deed of Assignment (DOA) have been filed with the Department of Petroleum Resources (DPR).

The Company's near term goal is to re-enter the well later this year with the goal of commercial production by mid-2013. After re-entry of the discovery well and an expected Long Term Test (LTT), a new well will be drilled as an appraisal well to define the in-place volumes.

The field was discovered in the early 90´s by Chevron and auctioned by the Nigerian government in the 2003 marginal field auction. The structural framework of the field has been well delineated by the interpretation of the available 3D seismic dataset and the well control logs which James Bay and its technical consultants have reviewed. Some shallow and intermediate depth reservoirs exhibit good amplitude reflections that act as direct hydrocarbon indicators (DHIs) on the seismic reports. The petro physical data evaluation by James Bay confirmed four main hydrocarbon bearing intervals, consisting of both oil and gas with one bottom hole oil sample. James Bay has prepared reserve estimates and production forecasts which are based upon wire-line logs evaluation, well drilling reports and analogue experience from comparable data from nearby producing and development fields within 5 - 10 km's of the field.

Under the terms of the JOA, James Bay will acquire a direct interest in the Project, to be held through its wholly-owned Nigerian subsidiary, D&H Energy Nigeria Limited (see James Bay press release dated June 29, 2012). In order to earn its interest in the Project, James Bay is required to pay an aggregate amount of US$2,500,000 as follows:

- The sum of US$100,000 paid upon completion of James Bay's due diligence on the Project (paid in five instalments of US$20,000 per month). The US$100,000 was disbursed commencing in March, 2012, and has been paid in full.
- The sum of US$500,000 was set aside in an escrow account upon execution of the definitive agreements (being the JOA and the DOA), after May, 2012. That US$500,000 is to be released as to US$200,000 upon approval from the DPR of the assignment of the direct interest in the Project to James Bay, and the final US$300,000 to be released upon the grant of approval licenses by the relevant government authorities and the arrival of the drill rig to re-enter an existing well on the Project.
- James Bay is obligated to pay a further US$1,000,000 upon completion of a final independent report of P1 reserves of at least 7,000,000 proven recoverable barrels of oil,

or if such reserve levels are not attained, then James Bay shall pay US$0.10 per barrel of oil produced, to a maximum of US$1,000,000. The final sum of US$900,000 is payable upon the completion of 60 days of commercial production.

James Bay has also agreed that it shall provide the joint operation funds (future capital expenditures and operating expenses) required to finance the Project to first oil. James Bay has also agreed to pay the owner a monthly management retainer fee of US$30,000, which will commence upon the date of the drill rig arriving at the Project, and ending on the commencement of commercial production. James Bay is entitled to a preferential return of 80% of the available cash flow from oil production until all costs of the joint operation (future capital expenditures and operating expenses) incurred by James Bay to get to first oil have been fully reimbursed. The remaining 20% of available cash flow during this stage of production is shared between James Bay and the owner in proportion to their relative percentage interests. After all joint operation costs have been fully recovered by James Bay, the remaining revenues shall be shared between James Bay and the owner in proportion to their relative percent interests.

Included in restricted cash is US$500,000 (CAD$491,600) in capital contribution to the project as required to finance the joint operation until the commencement of commercial production held in an Escrow account.

## Relationships in Nigeria

### 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 the closing of a definitive agreement being entered into with regards to an acquisition of an interest in an oil and gas project in Nigeria, and

- 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.

## 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 the closing 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.
- Cash payment of US$165,000 upon signing a definitive agreement (paid).

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.

## JAMES BAY MINERAL PROPERTY

### 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 expired. 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.

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

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

On June 29, 2012, the Company announced that it had signed an agreement to acquire a 47% interest in a Nigerian oil and gas project (see below). As a result of the Company's change in focus to pursuing oil and gas assets in Nigeria, the Property was written off.

## 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 month period ended September 30, 2012 was $9,296 (September 30, 2011 - $13,587). The Company deposited approximately $2,303,000 in cashable GICs at an interest rate of 1.30%.

**Expenses**
The Company recorded total expense of $1,065,637 for the three month period ended September 30, 2012 as compared to $563,774 of operating expense in the comparative period in 2011.

**Net loss and comprehensive loss**
For the period ended September 30, 2012, the Company recorded net loss of $1,081,796 with basic and diluted loss per share of $0.04 (September 30, 2011 - $452,827). This is mainly attributable to expenditures incurred in relation to exploration expenses in Nigeria. The Company concluded the due diligence process in early March 2012. Exploration costs incurred between March to September 30, 2012 totalled $865,771.

**Year-to-date**

Interest income for the nine month period ended September 30, 2012 was $37,016 (September 30, 2011 - $50,536). Included in 2011 amount is $142,100 of loan interest received from Morumbi loan. The loan was repaid in the prior year.

Expenses for the nine month period ended September 30, 2012 totalled $2,734,730 as compared to $1,354,039 in the comparative period in 2011. The increase in expense is mainly attributable to the exploration costs incurred in Nigeria and due diligence expense. The due diligence expense was incurred over the 2011 and 2012 period. The Company spent $764,406 in 2011 and $217,724 in 2012. Subsequent to the due diligence process, the Company incurred a further $1,981,194 on evaluation costs detailed as follows:

| Description | Amount |
|---|---|
| Acquisition costs | $ 253,181 |
| Management fees | 310,213 |
| Share-based compensation | 138,329 |
| Consulting fees | 494,928 |
| Travel and accommodation | 251,700 |
| Professional fees | 229,036 |
| Legal fees | 147,518 |
| Transfer agent and listing fees | 9,729 |
| Amortization | 1,192 |
| General and administrative expense | 145,368 |
| Balance at September 30, 2012 | $ 1,981,194 |

## SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION

### SUMMARY OF QUARTERLY RESULTS

| | Quarter-ended | | | |
|---|---|---|---|---|
| | **September 30, 2012** | **June 30, 2012** | **March 31, 2012** | **December 31, 2011** |
| Working Capital | $3,015,599 | $4,063,866 | $4,876,068 | $5,619,929 |
| Exploration and evaluation Assets | - | - | 2,433,662 | 2,433,662 |
| Operating expenses | 1,065,637 | 946,321 | 1,092,771 | 518,279 |
| Interest income | 9,296 | 13,495 | 14,225 | 13,990 |
| Loss and comprehensive loss | 1,081,796 | 3,365,682 | 1,095,538 | 544,486 |
| Loss and comprehensive loss per share | 0.04 | 0.12 | 0.04 | 0.02 |

| | Quarter-ended | | | |
|---|---|---|---|---|
| | **September 30, 2011** | **June 30, 2011** | **March 31, 2011** | **December 31, 2010** |
| Working capital | $6,164,370 | $6,597,151 | $6,908,443 | $6,925,849 |
| Exploration and evaluation Assets | 2,433,662 | 2,433,662 | 2,438,662 | 2,438,662 |
| Operating expenses (recovery) | 563,774 | 599,193 | 191,072 | (5,145)* |
| Share-based compensation | - | - | - | 42,000 |
| Interest income | 13,587 | 144,046 | 25,774 | 20,481 |
| Loss and comprehensive loss | 452,827 | 673,939 | 186,054 | 29,914 |
| Loss and comprehensive loss per share | 0.02 | 0.02 | 0.01 | 0.00 |

* Expenses in the fourth quarter of 2010 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.

## CASH FLOWS

### Operating Activities

The Company had a net outflow of $1,226,993 from operating activities for the three months ended September 30, 2012 (September 30, 2011 – $275,480).

Year to date the Company had net outflow of $2,305,924 from operating activities, reflecting an increase of $1,666,244 from the same period in 2011. This is mainly attributable to expenditures incurred in relation to exploration in Nigeria.

### Investing Activities

The Company had a net outflow of $1,086 from investing activities (September 30, 2011 – $nil).

Year to date the Company had net outflow of $4,831 from investing activities as compared to an inflow of $496,853 from the same period in 2011.

### Financing Activities

The Company had no financing activities during the period.

## LIQUIDITY

The Company had opening cash and cash equivalents balance of $3,708,567 and $520,000 restricted cash. The Company used $1,226,993 in operating activities and $1,086 in investing activities during the period. At September 30, 2012, the Company had cash and cash equivalents of $2,480,488 and US$500,000 (CAD$491,600) restricted cash held in a trust account.

### Common shares

At September 30, 2012, the Company had issued and outstanding 28,040,350 common shares. There were no additional common shares issued between the period from October 1, 2012 to November 29, 2012.

### Warrants

At September 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 September 30, 2012, a total of 2,645,000 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 October 1, 2012 to November 29, 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.

## 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 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. 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 September 30, 2012, the Company had cash and cash equivalents of $2,480,488 (December 31, 2011 - $4,791,243) to settle current liabilities of $280,980 (December 31, 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.

(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 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. 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 nine month period. The Company’s cash equivalents as at September 30, 2012 are held at a fixed interest rate of 1.3% 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 $23,000 based on the cash equivalents balance at September 30, 2012.

The Company has US cash and cash equivalents of approximately $610,900 (US $620,000) at September 30, 2012. 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 $62,000 based on the balance of these assets held in US dollars at September 30, 2012.

**Fair Value**
The carrying value of cash, 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.

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 September 30, 2012, cash equivalents were classified as Level 2 in the fair value hierarchy.

**RECENT ACCOUNTING PRONOUCEMENTS**

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 nine month period ended September 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 September 30, 2012, approximately $31,464 (September 30, 2011 - $46,405) 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 $120,200 (September 30, 2011 - $38,830) 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. As of September 30, 2012, included in accounts payable and accrued liabilities are approximately $74,000 related party legal fees.

The remuneration of directors and other members of key management personnel for the nine months ended September 30, 2012 and 2011 were as follows:

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Management salaries and benefits | 572,852 | 218,705 |

Included in accounts payable and accrued liabilities is approximately $87,900 management travel expenses reimbursement.

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

## 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 a triggering event has not taken place, the contingent payments have not been reflected in these financial statements. Additional minimum management contract commitments remaining under these contracts are approximately $508,000.

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.

### 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.