



JAMES BAY RESOURCES LIMITED
2010 ANNUAL REPORT

May 6, 2011

Dear Fellow Shareholders,

On behalf of the Board of Directors, I am pleased to report to you on our progress in 2010 and provide our outlook for 2011.

James Bay is currently evaluating a Nigerian oil and gas opportunity and has signed a preliminary agreement with D&H Solutions, (a 50/50 partnership between Hemla AS of Norway and Korea's Daewoo Shipbuilding and Marine Engineering (DSME)), to conduct due diligence relating to the potential acquisition of significant onshore/offshore Nigerian oil & gas projects.

If a suitable project in Nigeria is located, James Bay intends to partner with D&H Solutions AS to ultimately acquire and development these assets through a special purpose vehicle ("SPV"). James Bay will earn a 50% interest in the SPV on the condition the James Bay invests US\$32 million. With our new partners Hemla and Daewoo we are confident James Bay will complete the due diligence process favourably and begin the development of a significant oil & gas Nigerian prospect. We anticipate completing this stage in the coming months and being able to announce a comprehensive overview of exciting oil & gas assets to our shareholders.

During 2010 James Bay entered into two non-binding letters of intent to acquire two metallurgic coal projects in the United States, in partnership with a large financial institution in Europe with mineral resource finance experience. The Board decided not to complete the transactions contemplated by the Letter of Intent due to market conditions, where James Bay would have suffered extensive dilution to its shares, and the partnership was unwound.

James Bay also entered into a short term bridge loan with Largo Resources Ltd., where we lent Largo \$750,000. The bridge loan was subsequently paid back earning the company \$4,000 in interest and 500,000 shares. James Bay sold 500,000 shares for a profit of \$121,000.

James Bay entered into a loan agreement with Morumbi Oil & Gas Inc. The loan was for \$250,000 and required Morumbi to repay \$275,000 plus interest on or before August 13 2013. The Morumbi loan bears interest at the rate of 5% for the first year and 9% for the proceeding 2 years. Morumbi expects to pay back the loan plus interest during May 2011.

James Bay continues to maintain 107 highly prospective mining claims covering 1367 claim units (21,872 ha) in 2008 in the southern "Ring of Fire" area of the James Bay Lowlands, Thunder Bay Mining Division, Ontario. Numerous magnetic surveys were flown over 100% of the property revealing attractive geophysical conductors and anomalies that warranted drilling. In 2008 we conducted a limited drilling campaign focused on a 5 km long electro-magnetic trend on the C and C-extension Block. A total

of 422 samples were collected from the 11 diamond drill holes totaling 2038 meters. Unfortunately, no mineralization of economic significance was intersected in any of the drill holes. Although we have identified more than 20 additional attractive geophysical anomalies on our property, the Board decided to suspend the drilling operation near the end of 2008. The Board is currently reviewing James Bay's options with regards to further exploration.

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

Signed,

“Stephen Shefsky”

Stephen Shefsky
President



James Bay
Resources Limited

Management's Discussion and Analysis

For the year ended December 31, 2010

The following Management's Discussion and Analysis ("MD&A") has been prepared as at April 26, 2011. The Company's reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars. The MD&A of James Bay Resources Limited (the "Company" or "James Bay") should be read in conjunction with the audited consolidated financial statements and the related notes prepared as of April 21, 2011 for the year ended December 31, 2010. This section contains forward-looking statements as a result of various factors, including those described under "Forward-Looking Information."

FORWARD-LOOKING INFORMATION

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

COMPANY OVERVIEW

James Bay is a junior resource company 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 107 unpatented claims covering a total of approximately 1,367 claim units or approximately 21,812 ha of mineral exploration rights.

Subsequent to December 31, 2010, 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.

SUMMARY OF FINANCIAL POSITION

(as at December 31, 2010)

Total assets	\$	10,055,265
Cash and cash equivalents		6,310,432
Working Capital		6,925,849
Total shareholders' equity		9,911,236

MINERAL EXPLORATION ACTIVITIES

James Bay Lowlands property (the “Property”)

Introduction

The McFauld’s Lake area has become an exploration hot-spot, first 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. No mineralization of economic significance was intersected in any of the drill holes.

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 August 18, 2010, Roy Spooner, Provincial Mining Recorder dismissed the dispute originally filed by Michael Peplinski on mining claims 4225347 and 4225348 in Base Map Area 525864, Thunder Bay Mining Division. There are now no liens or other impediments on any claims recorded in the name of James Bay Limited.

On November 15, 2010, an application for an extension of time to perform and file assessment work on mining claims 4225371, 4225372 and 4225373 in Base Map Area 526864 in the Thunder Bay Mining Division was granted. JBR has until September 5, 2011 to perform and file assessment work on these 3 claims (known as E Block claims). As of December 2010, there is sufficient assessment work to keep the main contiguous block of claims in good standings for at least 2 years.

While several geophysical targets remain untested, as of December 31, 2010, no work is contemplated at the present time.

MINERAL EXPLORATION ACTIVITIES (continued)

Coal Property Activities

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

Oil and Gas Property activities

In April 2011, the Company entered into a preliminary agreement with D&H Solutions AS ("D&H") to partner in conducting due diligence and identifying potential acquisition targets of significant onshore/offshore Nigerian oil and gas projects.

The Company has 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 (a 50/50 partnership between Hemla of Norway and Korea's DSME (Daewoo Shipbuilding and Marine Engineering) to further evaluate the identified oil and gas opportunities in Nigeria, and if suitable negotiate an agreement to acquire and develop these assets. It is intended that James Bay will earn a 50% interest in the SPV on the condition that the Company invests up to US\$32 million. As part of the initial MoU, James Bay will deposit US\$2 million in an escrow account to provide initial funding assurances to its future joint venture partner D&H for purposes of conducting the initial due diligence to identify and secure the acquisition of oil and gas property targets. An additional up to US\$10 million will be invested by James Bay after signing an agreement to acquire an advanced oil and gas project, with the funds due within 30 days of receipt of all regulatory approvals, with the up to US\$20 million balance to be invested within one year of signing an acquisition agreement in respect of an identified target.

The Company has also entered into a letter of intent with an established indigenous Nigerian oil and gas service provider MAK MERA. MAK MERA provides upstream oil and gas expertise and contacts that will facilitate James Bay's entry into the Nigerian hydrocarbon industry should an identified target be secured, and an agreement made for its acquisition through the SPV. Subject to locating and completing an acquisition of a target oil and gas asset, the Company will pay US\$300,000 and will issue up to 12.5 million shares representing 30% of its issued and outstanding shares to MAK MERA based on the following schedule:

- a) US\$300,000 to be paid and 3.25 million shares to be issued upon successful completion of due diligence and acquisition of oil and gas assets in Nigeria;
- b) 3.25 million shares to be issued upon the Company reaching 1,500 boe per day;
- c) 3 million shares to be issued upon the Company reaching 4,000 boe per day;
- d) 3 million shares to be issued upon the Company reaching 5,500 boe per day.

INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

The Company capitalized \$2,438,662 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

SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION

The following table sets out the annual and quarterly financial information of James Bay and is derived from the Company's audited consolidated financial statements for the years ended December 31, 2010 and 2009. The information set out below should be read in conjunction with the consolidated financial statements and related notes prepared as of April 21, 2011 for the year ended December 31, 2010 and 2009.

	Year-end December 31, 2010 (\$)	Year-end December 31, 2009 (\$)
Current assets	7,069,878	7,861,471
Current liabilities	144,029	41,386
Working capital	6,925,849	7,820,085
Total assets	10,055,265	10,483,702
Shareholders' equity	9,911,236	10,442,316
Deficit	2,644,688	1,819,161

	Year-end December 31, 2010 (\$)	Year-end December 31, 2009 (\$)
Expenses	886,107	1,130,872
Net loss and comprehensive loss	825,527	782,635
Net loss per share	0.03	0.03
Weighted average number of shares	28,040,350	28,040,350

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

SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION (continued)

RESULTS OF OPERATIONS AND CASH FLOWS – Year to date

Revenue

The Company is in the development stage and therefore did not have revenues from operations. Interest income for the year ended December 31, 2010 was \$96,738 (December 31, 2009 - \$214,795).

Net Loss

The Company recorded a loss of \$825,527 with basic and diluted loss per share of \$0.03 for the year ended December 31, 2010 reflecting an increase of \$42,892 when compared with 2009.

Expenses

The Company recorded \$886,107 in total expenses for the year ended December 31, 2010 as compared to \$1,130,872 in the comparative year. The reasons for the decrease in expense are as follows:

- Subsequent to December 31, 2010, the Company was reimbursed approximately \$733,000 for due diligence costs associated with an agreement to acquire certain coal asset. Of the \$733,000, a total of \$132,600 relates professional fees and office and general expense. In the fourth quarter of 2010, the Company reduced professional fees and office and general by approximately \$103,000 (2009 - \$Nil) and \$29,600 (2009 - \$Nil) respectively.
- Stock based compensation expense decreased to \$182,447 as compared to \$370,406 for the year ended December 31, 2009. The stock options granted in 2008 were fully vested in 2010. Of the \$182,447 stock option expensed, \$84,447 relates to these vested options. During the year, the Company granted 200,000 stock options to a new director of the Company. The estimated grant date fair value of these options was estimated at \$98,000 using the Black-Scholes option pricing model. The options vested immediately. The full value of stock-based compensation expense was charged.
- Consulting fees pertains to the geologist's time spent on administrative duties. The Company reduced exploration activities and hence reduced the consulting expense to \$23,417 (2009 - \$74,067).

The decrease in expenses is offset by warrant extension valuation of \$112,000, a non-cash item.

SUMMARY OF ANNUAL RESULTS

	2010	2009	2008
For the Year Ended December 31,	\$	\$	\$
Interest income	96,738	214,795	155,474
Net loss and comprehensive loss	825,527	782,635	1,024,670
Loss per share (basic & diluted)	0.03	0.03	0.04
Interest in mineral properties	2,438,662	2,431,529	2,529,529
Total assets	10,055,265	10,483,702	11,016,883
Shareholders' equity	9,911,236	10,442,316	10,854,845

SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION (continued)

SUMMARY OF QUARTERLY RESULTS

	2010	2010	2010	2010
Quarter ended	Dec-31	Sep-30	Jun-30	Mar-31
Working Capital	\$6,925,849	\$7,072,141	\$7,491,805	\$7,671,285
Interest in mineral properties and deferred exploration expenditures	2,438,662	2,438,662	2,438,662	2,438,631
Operating (income) expenses	(5,145)*	221,454	665,234	190,566
Stock-based compensation	42,000	17,644	73,605	49,198
Interest Income	20,481	44,079	16,025	16,153
Net (income) loss	29,914	165,575	625,099	190,941
Net (income) loss per share	0.00	0.02	0.02	0.01

	2009	2009	2009	2009
Quarter ended	Dec-31	Sep-30	Jun-30	Mar-31
Working Capital	\$7,820,085	\$7,850,606	\$8,084,200	\$8,176,246
Interest in mineral properties and deferred exploration expenditures	2,431,529	2,538,028	2,547,377	2,563,544
Operating expenses	169,760	371,737	262,573	326,802
Stock-based compensation	50,291	85,579	86,068	148,168
Interest Income	38,962	42,591	66,828	66,414
Net (income) loss	(2,644)	329,146	195,745	260,388
Net (income) loss per share	(0.00)	0.01	0.01	0.01

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

*Expenses in the fourth quarter of 2010 were reduced by the reimbursement of due diligence fees. See fourth quarter result for more details.

CASH FLOWS

Operating Activities

Cash used in operating activities was \$1,165,003 (December 31, 2009 - \$513,117). The increase is mainly due to the net change in non-cash working capital. The Company has \$747,244 tied up in amounts receivable at year-end. Of which, \$737,823 was received subsequent to December 31, 2010.

SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION (continued)

Investing Activities

The Company had a net outflow of \$324,633 (December 31, 2009 - \$60,912). The Company has reduced its exploration activities in the James Bay Lowlands, thus reduced interest in mineral expenditure to \$12,133 from \$157,213 in the prior year. During the year, the Company loaned \$250,000 to Morumbi Oil & Gas Inc. ("Morumbi") and \$750,000 to Largo Resources Ltd. ("Largo"). The Largo loan was repaid by December 31, 2010.

Financing Activities

The Company had no financing activities in 2010 or 2009.

Fourth Quarter Results

The Company generated net income of \$5,145. This is mainly attributable to the recovery of \$132,600 professional fees and office and general expenses in connection with an agreement to acquire certain coal assets.

On June 7, 2010, the Company extended the expiry date of common share purchase warrants issued by the Company in connection with the initial public offering (the "IPO") financing that closed on July 24, 2008. The expiry date for all these warrants was extended until July 24, 2011. The incremental fair value of the warrants created by the extension of the expiry date of \$112,000 was estimated using the Black-Scholes option pricing model.

LIQUIDITY

The Company had opening cash and cash equivalents balance of \$7,847,068. The Company used \$1,489,636 to finance working capital requirements and exploration activities during the year. At December 31, 2010, the Company had cash and cash equivalents of \$6,310,432.

Common shares

At December 31, 2010, the Company had issued and outstanding 28,040,350 common shares. There were no additional common shares issued between the periods from December 31, 2010 to April 26, 2011.

Warrants

At December 31, 2010, 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, 2011. There were no warrants issued or exercise between the periods from December 31, 2010 to April 26, 2011.

Stock options

At December 31, 2010, a total of 2,765,000 stock options are issued and outstanding with expiry dates ranging from April 2, 2013 through to June 11, 2015. The weighted average exercise price for all stock options is \$0.75. All stock options entitle the holder to purchase common shares of the Company. There were no additional stock options issued or exercised between the periods from December 31, 2010 to April 26, 2011.

OUTLOOK

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

CRITICAL ACCOUNTING ESTIMATES

Critical accounting estimates used in the preparation of the consolidated financial statements include the Company's estimate of the recoverable value of its mineral properties and related deferred exploration expenditures, valuation of marketable securities, warrants, as well as the value of stock-based compensation. Both of these estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

The factors affecting stock-based compensation include estimates of when stock options and warrants might be exercised and stock price volatility. The timing for exercise of options and warrants is out of the Company's control and will depend on a variety of factors, including the market value of the Company's shares and financial objectives of the stock-based instrument holders. The Company used historical data to determine volatility in accordance with the Black-Scholes model. However, the future volatility is uncertain and the model has its limitations.

The Company's recoverability of the recorded value of its mineral properties and associated deferred exploration expenses is based on current market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. The Company operates in an industry that is dependent on a number of factors including environmental, legal and political risks, the existence of economically recoverable reserves, and the ability of the Company to obtain necessary financing to complete the development and future profitable production or the proceeds of disposition thereof.

RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

International Financial Reporting Standards

In January 2006, the Canadian Accounting Standards Board ("AcSB") announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that the Company will be required to prepare IFRS consolidated financial statements for the interim periods and fiscal year ends beginning in 2011. An initial analysis that identifies the high level differences between Canadian GAAP and IFRS that may impact the Company was completed during 2009. The full impact of the required changes to accounting systems, processes and training and development required for key personnel has been assessed during 2010. The Company will continue its analysis of accounting and disclosure differences continue to work with external consultants to assess the impact on its internal controls, and work on a changeover plan as necessary. There will be changes in accounting policies related to the adoption of IFRS and these may materially impact the Company's consolidated financial statements in the future.

The following information is presented in pursuant to the October 2008 recommendations of the Canadian Performance Reporting Board relating to pre-2011 communications about IFRS conversion and to comply with Canadian Securities Administrators Staff Notice 52-320, Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards. This information is provided to allow investors and others to obtain a better understanding of our IFRS changeover plan and the resulting possible effect on our consolidated financial statement. Readers are cautioned, however that it may not be appropriate to use such information for any other purposes. This information also reflects the Company's most recent assumptions and expectations; circumstances may arise, such as changes in IFRS regulation or economic conditions, which could change these assumptions or expectations.

RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED (continued)

The Company has developed a plan for our changeover to IFRS comprised of three related phases:

- Review and Assessment
- Design
- Implementation

Phase 1: Review and Assessment Phase

The objective of this phase is to identify the required changes to the Company's accounting policies and practices resulting from the changeover to IFRS to determine the scope of the work effort required for the Design and Implementation phases.

Phase 1 involves:

- A detailed review of all relevant IFRS standards to identify differences with the Company's current accounting policies and practices
- The separate consideration of one-time accounting policy alternatives that must be addressed at the changeover date, and those accounting policy choices that will be applied on an ongoing basis in periods subsequent to the changeover to IFRS
- The prioritization of those differences that could have a more than inconsequential impact on the Company's consolidated financial statements, business processes or IT systems

Phase 2: Design Phase

Phase 2 resulted in the design and development of detailed solutions to address the differences identified in the first phase of the Company's changeover plan. These solutions will result in certain necessary changes to the Company's internal business processes and financial systems to comply with IFRS accounting and disclosure requirements.

Phase 2 involves:

- The evaluation of accounting policy alternatives
- The investigation, development and documentation of solutions to resolve differences identified in Phase 1, reflecting changes to existing accounting policies and practices, business processes, IT systems and internal controls
- The implementation of a change management strategy to address the information and training needs of internal and external stakeholders

Phase 3: Implementation Phase

In the third and final phase of our changeover plan, the Company implemented the changes to affected accounting policies and practices, business processes, systems and internal controls. These changes will be tested prior to the formal reporting requirements under IFRS to ensure all significant differences are appropriately addressed in time for the changeover.

Progress towards Completion of the Company's IFRS Changeover Plan

The Company has adopted IFRS effective January 1, 2011. The Company is required to produce IFRS-compliant consolidated financial statements for the quarter ended March 31, 2011 which would include the applicable disclosures and information for the comparative 2010 period. The securities regulators have provided an extension period for filing a company's first set of interim consolidated financial statements under IFRS. For James Bay, this extends the filing from May 30, 2011 to June 29, 2011. Absent unexpected circumstances, the Company does not presently expect to take full advantage of the extension period allowed for filing of the March 31, 2011 interim consolidated financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED (continued)

The Company has completed Phase 1 and 2 and is currently completing the final stages of Phase 3 of its changeover plan although it is a continual process as emerging practices and the accounting industry develops its consensus approach.

For all changes to policies and procedures that are identified, the effectiveness of internal controls over financial reporting and disclosure controls and procedures will also be assessed and any changes implemented. In addition, controls over the IFRS changeover process will be implemented as necessary. The Company does not expect these changes to be significant. The Company is continuing to assess the impact of the IFRS transition on its information systems; however does not anticipate significant changes to its systems arising from the transition to IFRS.

Key Differences

The Company's assessment of differences between Canadian GAAP and IFRS are based on its historical, current and expected business activities. Changes in business activities could also lead to unexpected differences to the Company's consolidated financial statements, notes and other disclosures as reported under Canadian GAAP and IFRS. Changes to business activities or transactions and/or IFRS could have material effects on James Bay's assessment below. James Bay will continue to track the difference between Canadian GAAP and IFRS on individual transactions throughout 2011. It will also analyze the effect of changes in IFRS as they occur.

The Company has identified key areas where changes in accounting policy are expected on its transition from Canadian GAAP to IFRS and these are identified below. This list is intended to highlight the areas that the Company has determined to be the most significant and should not be regarded as a complete list of changes that will result from the transition to IFRS.

First-time adoption of International Financial Reporting Standards

Standard description: IFRS 1 generally requires that the Company retrospectively apply each standard in effect as at December 31, 2011, the date of the Company's first annual IFRS consolidated financial statements, as if the Company had always applied those standards. However, IFRS 1 provides certain optional exemptions and mandatory exceptions to the principle of retrospective application. The Company has elected to apply the following transitional arrangements:

Share-based payment transactions

IFRS 2 Share-based Payment has not been applied to equity instruments that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after November 7, 2002 that vested before January 1, 2009.

Property, plant and equipment

IAS 16 Property, plant and equipment allows for property, plant and equipment to continue to be carried at cost less depreciation, same as under Canadian GAAP.

RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED (continued)

Exploration & Evaluation (“E&E”) Costs

Standard description: IFRS 6 applies to expenditures incurred on properties in the exploration and evaluation (“E&E”) phase, which begins when an entity obtains the legal rights to explore a specific area and ends when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. IFRS 6 requires entities to select and consistently apply an accounting policy specifying which E&E expenditures are capitalized and which are expensed. The International Accounting Standards Board (“IASB”) has not made a definite determination as to whether E&E costs should be capitalized or expensed.

Policy selection: The Company is in the exploration stage with respect to its investment in mineral properties and accordingly follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of mineral claims and crediting all revenues received against the cost of the related claims. Such costs include, but 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 Company has selected an IFRS policy to continue to capitalize the costs of our E&E activities. The policy will be disclosed in the notes to the consolidated financial statements.

Differences from existing Canadian GAAP: There is no material impact expected on the Company’s consolidated financial statements.

Expected transition impact: None

Expected future impact: The Company continues to evaluate its existing policy for E&E costs in the light of developments in the extractive industries project that is currently ongoing.

Impairment of Assets

Standard description: Under IAS 36, an entity is required to assess whether there is an indication of impairment at each reporting date. If such an indication exists, the entity must compare the carrying value of the asset or cash generating unit (“CGU”) to the recoverable amount. Recoverable amount is defined as the higher of an asset or CGU’s fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or CGU. An impairment loss is recognized to the extent that the carrying value exceeds the recoverable amount. Unlike Canadian GAAP, IFRS requires impairment charges to be reversed if the circumstances leading to the impairment no longer exist.

Differences from existing Canadian GAAP: Canadian GAAP provides a two-step approach to testing a long-lived asset for impairment in the event that indicators exist. The first step is a test for recoverability whereby the carrying value is compared to the undiscounted cash flows that the asset is expected to generate. If the undiscounted cash flows are lower the carrying amount of the asset, then the asset is written down to the estimated fair value, determined based on the discounted cash flows.

Policy selection: Implementation of IAS 36

Expected transition impact: James Bay does not expect an impairment loss to be recognized on transition to IFRS.

RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED (continued)

Expected future impact: This change may result in impairment losses being recognized earlier under IFRS that would not be recognized under Canadian GAAP.

Functional currency

Standard description: Under IFRS, a reporting entity must determine its own functional currency as well as the functional currency of any subsidiaries, joint ventures, significantly influenced associates or branches. The functional currency is that of the primary economic environment in which an entity operates.

Differences from existing Canadian GAAP: Canadian GAAP requires an entity to determine the functional currency of the parent company and then determine whether a subsidiary is an integrated or self-sustaining entity. This determination dictates the method of foreign exchange translation for the consolidated financial statements.

Policy selection: Implementation of IAS 21

Expected transition impact: The Company has completed its assessment and has determined that there is no change to the functional currency of its entities and as such anticipates no impact to financial reporting.

Expected future impact: None

Income taxes

There remains uncertainty around accounting for income taxes under IFRS. The IASB has recently issued an exposure draft suggesting changes to its income tax standard. The exposure draft has received a significant number of comments and it is uncertain what changes, if any, will be made.

Policy selection: To be determined (“TBD”)

Differences from existing Canadian GAAP: TBD

Expected transition impact: TBD

Expected future impact: TBD

Share-based Payments

Differences from existing Canadian GAAP:

1. Canadian GAAP allows both an accelerated method of amortization for the fair value of stock options under graded vesting as well as a straight line method. Under IFRS, the fair value of each tranche of the award is considered a separate grant based on the vesting period with the fair value of each tranche determined separately and recognized as compensation expense over the term of its respective vesting period.

RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED (continued)

2. Under IFRS, share-based payments made to non-employees* must be measured at the fair value of the goods or services received. Only if the fair value cannot be reasonably measured is the award measured at the fair value of the equity instrument. Canadian GAAP allows the choice based on the more reliable measure.
3. Under IFRS, stock-based compensation must be measured based on the estimated number of options or warrants expected to vest. Under Canadian GAAP, an estimate is not required and unvested forfeited options can be reversed. Under IFRS, you will no longer be able to reverse stock-based compensation for unvested options that are forfeited. An estimate will need to be made at the time of grant of the number of options expected to fully vest. Also, under GAAP the stock option expense can start only from the grant date, whereas under IFRS, the option expense is recognized with the commencement of services. Further, under IFRS, the cancellation of an award requires the unamortized portion of the expense to be written off while under GAAP there is no explicit guidance.

Policy selection: The Company elected not to apply IFRS 2 to equity instruments granted on or before November 7, 2002 or which vested before the Company's date of transition to IFRSs. The Company will also elect not to apply IFRS 2 to liabilities arising from share-based payment transactions which settled before the date of transition to IFRSs. Note: given that Canadian companies were required to adopt a fair value method to account for share-based payment transaction in 2004, the Company has no unvested equity instruments that are not already accounted for via a fair value approach. The Company currently used the accelerated method of amortization for the fair value of stock options under graded vesting method, and this method is aligned with IFRS.

Expected transition impact: There is no material impact expected on the Company's consolidated financial statements.

Expected future impact: Not yet quantified

*Individual provides advisory or consulting services in a *non-elected* capacity or as non-employee directors for service outside their role as director (legal, investment banking advice or loan guarantees). Employee includes elected members of the board of directors

Equipment

Differences from existing Canadian GAAP: Under IFRSs, where part of an item of equipment has a cost that is significant in relation to the cost of the item as a whole, it must be depreciated separately from the remainder of the item. Canadian GAAP is similar in this respect, however it has often not been applied to the same extent due to practicability and/or materiality

Policy selection: The Company will value equipment using the historical cost model

Expected transition impact: None

Expected future impact: None

RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED (continued)

Statement of Cash Flows

Choices: Either the direct or indirect method may be presented. Dividend paid, interest paid, interest received and dividend received can be presented as either operating or financing activities.

Policy selection: The Company will use the indirect method

Differences from existing Canadian GAAP: None

Expected transition impact: None

Expected future impact: None

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards. Section 1582 replaces section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3 - Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace section 1600, Consolidated Financial Statements. Section 1601, establishes standards for the preparation of consolidated financial statements.

Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27 - Consolidated and Separate Financial Statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

FINANCIAL INSTRUMENTS

The Company has designated its cash equivalents and marketable securities as held-for-trading, measured at fair value. 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 changes in the risks, objectives, policies and procedures from the previous year.

FINANCIAL INSTRUMENTS (continued)

Credit risk

The Company's credit risk is primarily attributable to guaranteed investment certificates, 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 consist of goods and services tax due from the Federal Government of Canada and a reimbursement of due diligence expenses. The Company also has credit risk in the form of a loan receivable which has a carrying value of \$138,704 as at December 31, 2010. Management believes that the credit risk concentration with respect to these financial instruments is remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At December 31, 2010, the Company had cash and cash equivalents of \$6,310,432 (December 31, 2009 - \$7,847,068) to settle current liabilities of \$144,029 (December 31, 2009 - \$41,386). The Company's financial liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The loan receivable bears interest at a fixed rate and therefore 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 favorable 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 twelve month year:

The Company's cash equivalents as at December 31, 2010 are held at a fixed interest rate of 1.10% 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 \$21,800 based on the cash and cash equivalents balance at December 31, 2010. As at December 31, 2010, the Company has cash and cash equivalents of approximately \$2,012,000 (US \$2,024,000) and amounts receivable of approximately \$733,000 (US \$737,000) in US funds. 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 \$274,000 based on the balance of these assets held in US dollars at December 31, 2010.

FINANCIAL INSTRUMENTS (continued)

A 10% decrease in the closing prices on its portfolio investments would result in a corresponding change in net loss of approximately \$48,000. This estimated impact on net loss includes the estimated value of the non-traded warrants held, as determined using the Black-Scholes option pricing model.

Fair Value

The carrying value of cash equivalents, marketable securities, 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

At December 31, 2010, the Company's financial instruments that are carried at fair value, consisting of cash equivalents and marketable securities, have been classified in the following levels:

	Level 1	Level 2	Level 3
	\$	\$	\$
Cash equivalents	-	4,127,618	-
Marketable securities			
Publicly traded marketable securities	177,500	-	-
Non-trading warrants on public marketable securities	-	230,000	-

As at December 31, 2009, the Company's financial instruments that are carried at fair value, consisting of cash equivalents and marketable securities, have been classified in the following levels:

	Level 1	Level 2	Level 3
	\$	\$	\$
Cash equivalents	-	7,721,028	-
Marketable securities			
Non-trading warrants on private marketable securities	-	-	190,000

During 2009, the level 3 classification increased by \$190,000 as a result of the receipt of warrants of CDR, a private corporation. During 2010, CDR completed a transaction whereby it became a public company. As a result, the value of these warrants was reclassified to level 2.

RELATED PARTY TRANSACTIONS

The Company incurred consulting fees and management fees of approximately \$312,319 (2009 - \$315,286) during the year ended December 31, 2010. Of the \$312,319, a total of \$252,319 (2009 - \$255,286) was paid to an officer and to a director and is included in management salaries and benefits in the statement of operations. A company controlled by a director of the Company was paid \$60,000 (2009 - \$60,000) which is included in shareholder relations in the statement of operations.

The Company incurred legal fees of approximately \$39,700 (2009 - \$64,000) paid to a law firm of which a partner is a director of the Company. These amounts are included in professional fees in the statement of operations. At December 31, 2010, there is \$67,012 (2009 - \$6,290) included in accounts payable and

RELATED PARTY TRANSACTIONS (continued)

accrued liabilities owing to this law firm. These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

Related party transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

COMMITMENTS AND CONTINGENCIES

- a) The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to \$648,000 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 consolidated financial statements. Additional minimum management contract commitments remaining under these contracts are approximately \$680,000.
- b) 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 conducts its operations so as to protect public health and the environment and 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.

SUBSEQUENT EVENT

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 (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 these assets. It is intended that James Bay will earn a 50% interest in the SPV on the condition that the Company invests up to US\$32 million. As part of the initial MoU, James Bay has deposited US\$2 million in an escrow account to provide initial funding assurances to its future joint venture partner D&H for purposes of conducting the initial due diligence to identify and secure the acquisition of oil & gas property targets. An additional up to US\$10 million will be invested by James Bay after signing an agreement to acquire an advanced oil & gas project, with the funds due within 30 days of receipt of all regulatory approvals, with the up to US\$20 million balance to be invested within one year of signing an acquisition agreement in respect of an identified target.

On March 9, 2011, James Bay entered into a letter of intent with a Nigerian oil & gas service provider, MAK MERA. Subject to locating and completing an acquisition of a target oil & gas asset, James Bay will pay US\$300,000 and will issue up to 12 million shares to MAK MERA based on the following schedule:

- a) US\$300,000 to be paid and 3 million shares to be issued upon successful completion of due diligence and acquisition of oil & gas assets in Nigeria;
- b) 3 million shares to be issued upon the Company reaching 1,500 boe per day;
- c) 3 million shares to be issued upon the Company reaching 4,000 boe per day; and
- d) 3 million shares to be issued upon the Company reaching 5,500 boe per day.

SUBSEQUENT EVENT (continued)

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.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

RISKS AND UNCERTAINTIES

Development Stage Company & Exploration Risks

The Company is engaged in the business of exploration and development for precious and base metals in Canada. The properties of the Company have no established reserves. There is no assurance that any of the properties can be mined profitably. Accordingly, it is not assured that the Company will realize any profits in the short to medium term, if at all. Any profitability in the future from the business of the Company will be dependent up on developing and commercially mining an economic deposit of minerals, which itself is subject to numerous risk factors. Exploration and development of mineral deposits involves a high degree of financial risk over a significant period of time of which even a combination of careful evaluation, experience and knowledge of management may not eliminate. While discovery of ore-bearing structures may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current exploration, development and production programs of the Company will result in profitable commercial mining operations. The profitability of the Company's operations will be, in part, directly related to the cost and success of its exploration and development programs which may be affected by a number of factors. Substantial expenditures would be required to establish reserves sufficient to commercially mine mineral deposits on the Company's properties and to complete construction and install mining and processing facilities in those properties that are actually mined and developed.

Additional Capital

Subsequent to 2010, the Company conduct due diligence and identifying potential acquisition targets of onshore/offshore Nigerian oil and gas project. If the result is 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 a development stage 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.

RISKS AND UNCERTAINTIES (continued)

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 affect on the financial position of the Company.

Environmental Protection

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

RISKS AND UNCERTAINTIES (continued)

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".

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 have 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.

Capital Investment

The ability of the Company to continue exploration and development of its property interests will be dependent upon its ability to raise significant additional financing hereafter. There is no assurance that adequate financing will be available to the Company or that the terms of such financing will be favorable. Should the Company not be able to obtain such financing, its properties may be lost entirely.

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.

Additional Information

Additional information relating to the Company can also be found on SEDAR at www.sedar.com.