



**James Bay**  
Resources Limited

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JAMES BAY RESOURCES LIMITED

2016 ANNUAL REPORT



May 15, 2017

Dear Fellow Shareholders:

On behalf of the Board of Directors, I am pleased to report to you on our progress in 2016 and 2017 to date, and provide our outlook for the balance of 2017.

## **COMPANY HIGHLIGHTS**

In May 2014, Crestar Integrated Natural Resources Limited ("Crestar") a non-controlled subsidiary of James Bay was selected as the winning bidder to acquire Shell JV's 45% participating interest in Oil Mining Lease No. 25 ("OML 25"). As has been previously disclosed in our press releases, James Bay is involved in a number of disputes in respect of this acquisition, all being handled through Crestar. The disputes began when the Nigerian National Petroleum Corporation ("NNPC") wrongfully attempted to exercise an expired pre-emption right in respect of OML 25. In January, 2015, after NNPC wrongfully attempted to block the sale of the interest in OML 25 and to acquire the interest for itself, Crestar commenced injunction proceedings in the Nigerian Federal High Court to bar The Shell Petroleum Development Company of Nigeria Limited, Total E&P Nigeria Limited, and Nigerian AGIP Oil Company Limited (collectively the "Shell JV") from effecting a transfer of OML 25 to NNPC or anyone else, which injunctions were granted on a preliminary basis. The Shell JV has sought to discharge the injunctions, but the Nigerian Federal High Court has to date dismissed these applications. The majority of the purchase price for the purchase of OML 25 that had been held in escrow under the terms for the acquisition of the 45% interest was released back to our partner in July, 2015, as disclosed by James Bay in its press release at that time.

James Bay and Crestar continued to vigorously pursue the acquisition of the interest in OML 25 on all fronts (both legal and political) in order to secure value to the shareholders for the interest in OML 25, and to reflect the efforts of management in securing a winning bid for a material oil and gas asset.

On July 1, 2015, a deed of settlement was signed by Crestar and Newton, a subsidiary of Seplat Petroleum. The Deed of Settlement and related documents were put in place to govern the relationship of the parties, including with respect to funds placed in escrow by Newton to secure various actions of the parties while negotiations for the acquisition of OML 25 with the Shell JV continued. Ultimately after a series of extensions had been granted by Crestar during the summer of 2016, on August 19, 2016 Crestar determined not to extend further. Newton took improper steps that effectively froze the escrowed funds that were about to be released imminently to Crestar, and Crestar and Newton became embroiled in a dispute about those actions and release of the escrowed funds. When a viable resolution of those issues could not be attained, Crestar launched an action for the release of those escrowed funds with the High Court of Justice in London, England in January, 2017, and that litigation process continues.

James Bay has also been involved in litigation with Mak Mera and Wale Sola for the return of advances and expenses in relation to a success fee based on achieving certain results (which did not occur), along with claims for libel against James Bay. James Bay has been pushing to move the matter forward with documentary production and examinations for discovery now completed.

James Bay issued convertible debentures (the “**Debentures**”) on May 29, 2015 in the amount of \$3 million. On November 30, 2016, James Bay pre paid \$2 million of the Debentures.

The Company's Ogedeh Project continues to be reviewed by the Department of Petroleum Resources (DPR) (as is the case with several other marginal fields, awarded in 2004) to determine whether the Company and the Company's partner, Bicta Management Systems Limited (Bicta), have done sufficient work to secure an extension to the life of its license.

Given all of our efforts to secure an interest in a significant oil project in Nigeria, we are confident that James Bay’s efforts will be successful in providing a base for future growth.

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

Signed,

*“Stephen Shefsky”*

President and CEO



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**DECEMBER 31, 2016 AND 2015**

## INTRODUCTION

The Management's Discussion and Analysis ("MD&A") of James Bay Resources Limited (the "Company" or "James Bay") should be read in conjunction with the Company's consolidated audited financial statements for the years ended December 31, 2016 and 2015. Those financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and all amounts shown in this MD&A and in the financial statements are expressed in Canadian dollars, unless otherwise noted. This MD&A was reviewed and approved by the Company's Audit Committee and Board of Directors on April 4, 2017.

## FORWARD-LOOKING INFORMATION

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

## COMPANY OVERVIEW

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

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

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

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

## CORPORATE STRUCTURE

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

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

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

In November 2013, the Company entered into a Financial and Technical Services Agreement with CINRL whereby the Company was appointed the Financial and Technical Partner with respect to acquiring oil and gas projects in Nigeria. This agreement provided that the Company shall arrange to provide the funding to CINRL and shall meet all required financial obligations. The Company was responsible for providing technical assistance, appointing personnel and carrying out the evaluation, development and production from the projects.

Effective June 17, 2014, the financial and technical services agreement was amended to reflect a change of party from CINRL to CHEPCL. All terms in the November 2013 agreement between JBENL and CINRL remain in effect with CHEPCL. JBENL’s 45% ownership interest in CINRL remains unchanged.

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

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

## COMPANY HIGHLIGHTS

- In June 2016, the Company received a repayment from its investment in CINRL in the amount of US\$7,500,000 (\$9,687,750).
- In November 2016, the Company repaid \$2,000,000 out of \$2,999,895 unsecured convertible debentures prior to their original maturity in 2018. The convertible debentures bear interest of 15% per annum, payable semi-annually and mature three years following the date of issuance in 2015.
- As noted in a press release on January 30, 2017, CINRL commenced legal proceedings in the High Court of Justice in England, against Newton Energy Limited (“Newton”), the Nigerian subsidiary of Seplat Petroleum Development Company PLC (“Seplat”) (Nigeria: SEPL) on January 27, 2017. CINRL’s claim alleges bad faith conduct by Newton relating to the proposed acquisition of OML 25 in the Niger Delta region. The dispute in the English High Court centers on US\$20.5 million held in escrow, which CINRL alleges should have been released to CINRL had Newton not sent its bad faith election that it intended to finance the OML 25 purchase.

## PETROLEUM PROPERTY INTERESTS

### OML 25 PROJECT

In June 2014, CINRL was selected as the winning bidder for a 45% participating interest in active Oil Mining Lease 25 (“OML 25”) in the Niger Delta region, offered by joint venture partners: The Shell Petroleum Development Company of Nigeria Limited, Total E&P Nigeria Limited, and Nigerian AGIP Oil Company Limited (collectively the “Shell JV”). CINRL obtained terms for a loan from a prospective future investor, for the full purchase price of OML 25.

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

The Federal High Court of Nigeria also ruled in favor of Crestar and granted an injunction in favour of Crestar which froze plans by the NNPC to acquire the 45% participating interest in OML 25 being divested by joint venture partners: The Shell Petroleum Development Company of Nigeria Limited, Total E&P Nigeria Limited, and Nigerian AGIP Oil Company Limited. As of the date hereof this injunction continues to remain in place.

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

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

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

CINRL commenced legal proceedings in the High Court of Justice in England, against, the Nigerian subsidiary of Seplat on January 27, 2017 (see above).



## OML 90 PROJECT

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

The Company paid US\$50,000 for transfer of due diligence data and administrative fees and US\$50,000 for an exclusivity period. As consideration for the transfer of the interest, the Company is required to pay an aggregate of US\$2,500,000 as follows:

- US\$100,000 due 90 days from the date of execution of JOA or within 24 hours of the execution of the JOA and Deed of Assignment (“DOA”), whichever is earlier (paid in 2012).
- US\$200,000 due upon approval from Department of Petroleum Resources (“DPR”) of the assignment of direct interest in OML 90 project to the Company (paid in 2013).
- US\$300,000 to be released upon the grant of government permit for drilling activity and arrival of a drill rig at the OML 90 project. A preliminary government permit was received in March 2014. As of December 31, 2015, a drill rig has not yet been installed at OML 90. Of the original US\$300,000, US\$100,000 (\$104,050) was paid as an advance. The remaining US\$200,000 has not yet been paid or accrued. The amount advanced in 2013 was written-off along with the exploration and evaluation asset balance at December 31, 2015.
- US\$1,000,000 upon completion of a final independent report of P1 reserves of at least 7,000,000 proven recoverable barrels of oil, or if such reserve levels are not attained, the Company shall pay US\$0.10 per barrel of oil produced, to a maximum of US\$1,000,000. As this condition has not been met, this amount has not accrued.
- US\$900,000 upon the completion of 60 days of commercial production. As this condition has not been met, this amount has not accrued.

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

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

In March 2015, the DPR began a review of all marginal field licenses to determine whether the current owners have done sufficient work to maintain their licenses. The nature and extent of work required are not clearly defined and there has been no further update from the DPR regarding the status of the title to the OML 90 Project. During the year ended December 31, 2015, the Company decided to write off the exploration and evaluation asset in the amount of \$4,486,965 as a result of this uncertainty.

Below are details of expenditures spent on OML 90:

Description	Year ended	Year ended	Year ended	Total
	December 31, 2015	December 31, 2014	December 31, 2013	
	\$	\$	\$	\$
Acquisition costs	-	-	207,080	207,080
Management and consulting fees	168,319	163,082	410,544	741,945
Environmental	-	92,161	-	92,161
Travel, meals and accommodation	-	4,210	17,205	21,415
Professional fees	20,158	16,467	8,790	45,415
Legal fees	12,122	28,216	5,067	45,405
Share-based payments <sup>(i)</sup>	-	2,704,089	23,852	2,727,941
Amortization	12,297	7,507	21,760	41,564
General and administrative expense	187,145	111,375	265,519	564,039
Balance	400,041	3,127,107	959,817	4,486,965

#### Note

##### <sup>(i)</sup> Share-based payments

Included in share-based payments is an aggregate \$2,662,987 non-cash payment to D&H Solution AS. The remaining balance of \$64,954 represents the accretion of share-based compensation for stock options issued in 2012 to the President and CEO of the James Bay subsidiary companies.

## RESULTS OF OPERATIONS

### Revenue

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

### Expenses

For the year ended December 31, 2016, the Company recorded total expenses of \$443,687 (2015 - \$1,838,853).

The decrease is mainly due to lower management salaries and benefits and office and general expenses by approximately \$735,000 which primarily reflects the Company's minimal operating activities in the year. The majority of the management's time and focus and the Company's resources were invested in pushing forward OML 25 during the year. In addition, the Company did not incur any due diligence (2015 - \$101,951) nor granted any share-based payments (2015 - \$166,313) in 2016.

Fourth quarter total expense was \$171,822, reflecting a decrease of \$161,798 from the same period in 2015.

### Net loss and comprehensive loss

For the year ended December 31, 2016, the Company recorded net income of \$3,561,695 (2015 – loss \$6,258,508) with basic income per share of \$0.09 and diluted income per share of \$0.08 (2015 – basic and diluted loss \$0.15)). The Company received a repayment of US\$7,500,000 (\$9,687,750) in June 2016, as mentioned above, and consequently, reversed all the impairment recognized in prior years of \$3,540,469 (2015 – impairment \$1,279,589) and recorded an expense recovery of \$2,109,675 (2015 - \$nil). Additionally, the Company recognized \$260,111 as a gain on early repayment of \$2,000,000 of convertible debentures in November 2016. This increase income is partially offset by the loss from equity investment of \$2,287,311 (2015 – income from equity investment of \$1,392,004).

Fourth quarter net loss and comprehensive loss was \$2,911,004 (2015 - \$5,061,366), reflecting a decrease of \$2,150,362 from the same period in 2015.

## CASH FLOWS

### Operating Activities

For the year ended December 31, 2016, the Company had a net cash outflow of \$132,065 (2015 – \$1,214,768) from operating activities. The decrease of cash outflow of \$1,082,703 from prior year is primarily due to the reduction in the overall operating expenses in the Company as mentioned above. Fourth quarter cash used in operating activities was \$370,998, reflecting an increase of \$498,282 from the same period in 2015.

### Investing Activities

For the year ended December 31, 2016, the Company had a net cash inflow of \$3,678,286 (2015 – outflow \$264,784) from investing activities. The cash inflow is mainly due to repayment received from CINRL \$9,687,750 (2015 - \$4,459,000) which was partially offset by the advances made to CINRL of \$5,992,380 (2015 - \$4,323,743). Fourth quarter cash used in investing activities was \$1,078,132, an increase of \$2,197,368 from the same period in 2015.

### Financing Activities

For the year ended December 31, 2016, the Company had a net cash outflow of \$2,000,000 (2015 - inflow \$2,667,776). The outflow from financing activities was solely to repay a portion of the company's convertible debentures in November 2016. Fourth quarter cash used in financing activities was \$2,000,000, an increase of \$2,019,608 from the same period in 2015.

## SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION

Selected data from James Bay's financial statement for the year ending December 31, 2016 and for the two preceding financial years are as follows:

	2016 \$	2015 \$	2014 \$
Interest expense (income)	(5,306)	446,452	24,078
Expenses	443,687	1,838,853	6,276,400
Net (income) loss and comprehensive (income) loss attributable to:			
• Non-controlling interest	-	-	2,208,438
• Common Shareholders	(3,561,695)	6,258,508	5,448,968 <sup>(i)</sup>
Basic (income) loss per share attributable to the common shareholders of James Bay	(0.09)	0.15	0.24
Diluted (income) loss per share attributable to the common shareholders of James Bay	(0.08)	0.15	0.24
Petroleum property interest	-	-	4,086,924 <sup>(ii)</sup>
Total assets	3,084,287	1,588,053	4,568,423
Total liabilities	1,767,102	3,832,563	883,125
Shareholder's equity (deficit)	1,317,185	(2,244,510)	3,685,298

### Notes

#### (i) Net loss and comprehensive loss

In 2014, the Company incurred in excess of \$5.1 million in evaluation costs as compared to approximately \$637,000 in 2013. The evaluation costs mainly relate to expenditures incurred in the successful bidding of the OML 25 Project. The material expenses consisted of consulting fees that account for approximately \$1,342,000, professional fees of approximately \$343,700 and commitment fees of approximately \$2,398,700. Included in commitment fee is a balance of \$2,341,500 (December 31, 2013 - \$nil) in non-cash share based payments.

Prior to June 2014, the Company accounted for CINRL using the consolidation method. Effective July 3, 2014, the Company lost control of CINRL. The change in accounting policy from consolidation to the equity method resulted in \$29,132,581 of gain on deconsolidation of Crestar. This is offset by \$27,991,600 of break fees incurred in CINRL and \$2,569,913 impairment on equity investment in James Bay. The net impacts are the increase in the consolidated net loss and comprehensive loss is approximately \$1,428,932.

#### (ii) Petroleum property interest

The Company incurred approximately \$4,086,800 in petroleum property interest costs in fiscal 2014 and 2013, of which approximately \$2,704,000 relates to non-cash, share-based payment.

## SUMMARY OF QUARTERLY RESULTS

	Quarter-ended			
	December 31, 2016 \$	September 30, 2016 \$	June 30, 2016 \$	March 31, 2016 \$
Working capital	2,417,057	5,784,409	9,051,840	127,097
Operating expenses (income)	171,822	(144,108)	(5,394)	421,367
Interest expense (recovery)	(2,788)	(3,491)	(137,248)	138,221
Net loss (income) and comprehensive loss (income)	2,911,004	1,575,093	(8,892,676)	844,884
Net loss (income) and comprehensive loss (income) per share attributable to the common shareholders of the Company	0.07	0.04	(0.21)	0.02
Diluted net loss (income) and comprehensive loss (income) per share attributable to the common shareholders of the Company	0.07	0.04	(0.21)	0.02

	Quarter-ended			
	December 31, 2015 \$	September 30, 2015 \$	June 30, 2015 \$	March 31, 2015 \$
Working capital (deficiency)	942,395	2,332,520	(235,850)	(1,872,895)
Petroleum property interest	-	4,323,304	4,268,021	4,182,685
Operating expenses – restated	333,620	247,492	792,417	465,324
Interest expense – restated	176,270	169,540	88,294	12,348
Net loss (income) and comprehensive loss (income) - restated	5,061,366	(1,898,741)	2,020,518	1,075,365
Net loss (income) and comprehensive loss (income) per share attributable to the common shareholders of the Company - restated	0.12	(0.05)	0.05	0.03

Notes: Net loss per share on a diluted basis is the same as basic net loss per share, as all outstanding stock options and warrants are anti-dilutive in fiscal 2015.

## LIQUIDITY AND OUTLOOK

As at December 31, 2016, the Company had no source of operating cash inflows and reported a net income and comprehensive income of \$3,561,695 for the twelve-month period and a deficit of \$19,255,408. As the net income is mainly due to repayment of the costs in CINRL, the Company's continuance as a going concern is dependent upon its ability to obtain equity capital and financing for its working capital and for the exploration, development and operation of its properties.

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

## CAPITAL RESOURCES

### Common shares

At December 31, 2016 and April 28, 2017, the Company had 41,474,070 common shares issued and outstanding.

### Stock options

At December 31, 2016 and April 28, 2017, a total of 6,135,000 stock options were issued and outstanding with expiry dates ranging from June 1, 2017 to September 15, 2020. The weighted average exercise price for all stock options is \$0.29. All stock options entitle the holder to purchase common shares of the Company.

### Warrants

At December 31, 2016, the Company had 7,230,844 issued and outstanding warrants with expiry dates ranging from January 31, 2017 to December 19, 2019. The weighted average exercise price for all warrants issued and outstanding as at December 31, 2016 was \$1.24.

On January 31, 2017, 1,930,424 warrants with exercise price of \$1.25 and 60,397 warrants with exercise price of \$1.00 expired unexercised. At April 28, 2017, a total of 5,240,023 warrants were issued and outstanding with expiry dates ranging from June 10, 2017 to December 19, 2019. The weighted average exercise price for all warrants is \$1.24. All warrants entitle the holder to purchase common shares of the Company.

## FINANCIAL INSTRUMENTS

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

### *Credit risk*

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

### *Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have liquidity to meet liabilities when due. At December 31, 2016, the Company had cash and cash equivalents of \$2,867,360 (2015 - \$1,321,139) to settle current liabilities of \$590,975 (2015 - \$566,493). The Company has working capital of \$2,417,057 (2015 - \$942,395). The Company's current financial liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms. The convertible debentures with a face value of \$999,895 are due in 2018.

### **Market risk**

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

The Company has cash balances and interest-bearing debt due to convertible debenture holders as described in Note 10. The Company's current policy is to invest excess cash in investment-grade short-term guaranteed investment certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company's convertible debentures bear interest at a fixed interest rate.

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

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

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

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

### **Sensitivity analysis**

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

As at December 31, 2016, the Company has net monetary assets denominated in US dollars of approximately USD\$1,750,000 (2015 - US\$579,000). A 10% change in the value of the Canadian dollar relative to the US dollar would result in a corresponding change in net income of approximately USD\$175,000 (2015 - \$57,900) based on the balance of these amounts held in US dollars at December 31, 2016.

### **Fair value**

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

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

Fair value measurements are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). As at December 31, 2016 and 2015, the Company designated its derivative liabilities from convertible debentures as fair value through profit and loss which is measured at fair value and classified as Level 2.

## RECENT ACCOUNTING PRONOUNCEMENTS AND CHANGES IN ACCOUNTING POLICIES

### *Recent accounting pronouncements*

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2017 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 2 - Share-based Payment ("IFRS 2") was amended in June 2016, clarifying the accounting for certain types of share-based payment transactions. The amendments provide requirements on accounting for the effects of vesting and non-vesting conditions of cash-settled share-based payments, withholding tax obligations for share-based payments with a net settlement feature, and when a modification to the terms of a share-based payment changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for the year beginning on January 1, 2018. The Company does not expect this amendment to have a significant impact on its consolidated financial statements.

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

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

IAS 7 – Statement of Cash Flows ("IAS 7") was amended in January 2016 to clarify that disclosures shall be provided that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017.

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



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

#### *Changes in Accounting Policies*

The Company has adopted the following amendments effective January 1, 2016. The changes were made in accordance with the applicable transitional provisions.

IFRS 11 – Joint Arrangements (“IFRS 11”) was amended in May 2014 adding new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. There was no material impact on the consolidated financial statements as a result of the adoption of this amendment.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. There was no material impact on the consolidated financial statements as a result of the adoption of this amendment.

### **RELATED PARTY DISCLOSURES**

The consolidated financial statements include balances and transactions with directors and officers of the Company and/or corporations related to them. During the years ended December 31, 2016 and 2015 the Company entered into the following transactions involving related parties:

The Company rents office space from a corporation with a common director. During the year ended December 31, 2016, approximately \$53,875 (2015 - \$38,527) was charged by this corporation. The amount is included in office and general expense on the consolidated statements of income (loss) and comprehensive income (loss).

The Company incurred legal fees of approximately \$287,000 (2015 - \$128,354) with a law firm of which a partner, is a director of the Company of which, approximately \$269,000 has been charged to CINRL. This amount is included in professional fees on the consolidation statement of income (loss) and comprehensive income (loss). As of December 31, 2016, included in accounts payable and accrued liabilities is \$180,060 (2015 - \$94,379) owing to this law firm.

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

The remuneration of directors and other members of key management personnel for the years ended December 31, 2016 and 2015 were as follows:

	December 31, 2016	December 31, 2015
	\$	\$
Management salaries, benefits and bonuses	1,564,960	488,067
Director's fees	80,000	80,000
Share-based payments	-	70,895

During the year ended December 31, 2016, the Company paid \$1,492,960 (2015 - \$817,920) to two executive officers, of which, \$1,456,960 (2015 - \$401,853) has been charged as management fees to CINRL.

Included in accounts payable and accrued liabilities as at December 31, 2016 is approximately \$942 (2015 - \$2,326) of management travel expenses reimbursement and \$20,000 (2015 - \$20,000) of director fees.

During the year ended December 31, 2016, the Company received shareholder loan in the amount \$40,000, the loan was unsecured, non-interest bearing, with no fixed terms of repayment. The shareholder loan was repaid in full during the year ended December 31, 2016.

During the year ended December 31, 2016, the Company advanced \$5,992,380 to CINRL (2015 - \$4,323,743). As at December 31, 2016, the Company's outstanding advances to CINRL total approximately \$1,041,000 (2015 - \$4,300,000). The advances were fully allowed for as at December 31, 2016 and 2015.

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

See also Notes 9, 10, 14 and 18 of the consolidated financial statements for the year-ended December 31, 2016.

## COMMITMENTS AND CONTINGENCIES

The Company is party to certain management contracts, which contain clauses requiring additional payments of up to \$1,800,000 be made upon the occurrence of certain events such as a change of control and additional payments of up to \$874,000 be made upon termination of contracts. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements. As of December 31, 2016, under these management contracts, management has committed to \$1,023,000 of salaries and benefits due within one year.

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

	Canada
	\$
2017	62,000
2018	68,000
2019	6,000
Total	136,000

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

The Company is party to legal proceedings in the ordinary course of its operations related to legally binding agreements with a third party. As at December 31, 2016, one such proceeding was ongoing. The Company believes this claim to be without merit. Management does not expect the outcome of this proceeding to have a materially adverse effect on the results of the Company's financial position or results of operations and therefore this amount has not been reflected in these financial statements. Should any losses result from the resolution of this dispute, that amount will be charged to operations in the year that it is determined.

## **OFF BALANCE SHEET ARRANGEMENTS**

The Company has no off balance sheet arrangements.

## **RISKS AND UNCERTAINTIES**

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

### **Additional Capital**

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

### **No History of Profitability**

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

### **Government Regulations**

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

## **Market Fluctuation and Commercial Quantities**

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

## **Mining Risks and Insurance**

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

## **Competition**

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

## **Environmental Protection**

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

## **Aboriginal Claims**

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

## **Conflicts of Interest**

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

## **Additional Information**

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

**BOARD OF DIRECTORS**

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

**OFFICE LOCATION**

**Corporate Head Office**

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

**Nigeria Office**

2 Obudu Close, Osborne Foreshore Estate  
Ikoyi Lagos, Lagos, Nigeria

**SUBSIDIARY COMPANIES**

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

**LEGAL COUNSEL**

**WeirFoulds LLP**

Toronto, Ontario, Canada

**Sefton Fross**

Lagos, Nigeria

**Amsterdam & Partners LLP**

London, England

**AUDITOR**

**UHY McGovern Hurley LLP**

Toronto, Ontario, Canada

**KPMG Nigeria**

Lagos, Nigeria

**REGISTRAR & TRANSFER AGENT**

**TMX Equity Transfer Services Inc.**

Toronto, Ontario, Canada

**BANKER**

**CIBC**

Toronto, Ontario, Canada

**First Bank**

Lagos, Nigeria

**STOCK EXCHANGE**

**Canadian Stock Exchange**

Ticker symbol “**JBR**”



**JAMES BAY RESOURCES LIMITED**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**JAMES BAY RESOURCES LIMITED**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of James Bay Resources Ltd.

We have audited the accompanying consolidated financial statements of James Bay Resources Ltd. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of income (loss) and comprehensive income (loss), consolidated statements of cash flows and consolidated statements of changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of James Bay Resources Ltd. and its subsidiaries as at December 31, 2016 and 2015, and their financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

UHY McGovern Hurley LLP



Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada  
April 4, 2017

# JAMES BAY RESOURCES LIMITED

## Consolidated Statements of Financial Position

Expressed in Canadian dollars

As at December 31,

	2016	2015
	\$	\$
		Restated (Note 21)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,867,360	1,321,139
Prepaid expenses	113,227	136,307
Amounts receivable	27,445	51,442
<b>Total current assets</b>	<b>3,008,032</b>	<b>1,508,888</b>
Equipment (Note 7)	76,255	79,165
<b>Total assets</b>	<b>3,084,287</b>	<b>1,588,053</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Notes 10 and 17)	590,975	566,493
<b>Long-Term liabilities</b>		
Convertible debenture (Note 10)	725,991	1,834,014
Derivative liabilities (Note 10)	450,136	1,432,056
<b>Total liabilities</b>	<b>1,767,102</b>	<b>3,832,563</b>
<b>SHAREHOLDERS' EQUITY (DEFICIT)</b>		
Common shares (Note 11)	17,142,711	17,142,711
Share-based payments reserve (Note 12)	532,700	532,700
Warrant reserve (Note 13)	1,771,582	2,214,569
Warrants to be issued (Notes 11 and 13)	1,125,600	1,125,600
Deficit	(19,255,408)	(23,260,090)
<b>Total common shareholders' equity (deficit)</b>	<b>1,317,185</b>	<b>(2,244,510)</b>
<b>Total liabilities and shareholders' equity (deficit)</b>	<b>3,084,287</b>	<b>1,588,053</b>

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

COMMITMENTS AND CONTINGENCIES (Notes 8, 10 and 18)

SUBSEQUENT EVENTS (Note 22)

### APPROVED ON BEHALF OF THE BOARD:

Signed "STEPHEN SHEFSKY", Director

Signed "MARK BRENNAN", Director

*See accompanying notes to the consolidated financial statements.*

# JAMES BAY RESOURCES LIMITED

## Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

Expressed in Canadian dollars

For the years ended December 31,

	2016 \$	2015 \$ Restated (Note 21)
<b>Expenses</b>		
Management salaries and benefits (Note 17)	62,508	606,494
Professional fees (Note 17)	119,796	168,563
Office and general (Note 17)	75,748	267,218
Exploration costs - James Bay Lowlands	-	6,142
Share-based payments (Note 12)	-	166,313
Transfer agent and listing fees	17,429	21,437
Due diligence	-	101,951
Business development	168,881	49,321
Interest (income) expense (Notes 9 and 10)	(5,306)	446,452
Amortization	4,631	4,962
<b>Loss before the undernoted</b>	<b>(443,687)</b>	<b>(1,838,853)</b>
Foreign exchange gain	235,432	90,274
Gain (loss) on change in fair value of derivative liabilities (Note 10)	147,006	(135,379)
Reversal of impairment (impairment) on equity investment (Note 14)	3,540,469	(1,279,589)
(Loss) income from equity investment (Note 14)	(2,287,311)	1,392,004
Expense recovery from equity investment (Note 14)	2,109,675	-
Gain on early repayment of convertible debentures (Note 10)	260,111	-
Write-down of petroleum property interests (Note 8)	-	(4,486,965)
<b>Net income (loss) and comprehensive income (loss) for the year</b>	<b>3,561,695</b>	<b>(6,258,508)</b>
<b>Income (loss) per share attributable common shareholders</b>		
Basic	0.09	(0.15)
Diluted	0.08	-
<b>Weighted average number of shares outstanding</b>		
Basic	41,474,070	41,138,454
Diluted	42,589,551	-

*See accompanying notes to the consolidated financial statements.*

# JAMES BAY RESOURCES LIMITED

## Consolidated Statements of Cash Flows

Expressed in Canadian dollars

For the years ended December 31,

	2016	2015
	\$	\$
<b>Cash used in operating activities:</b>		
Net income (loss) for the year	3,561,695	(6,258,508)
Add (deduct) items not affecting cash:		
Amortization	4,631	4,962
Share-based payments	-	166,313
(Gain) loss on change in fair value of derivative liability (Note 10)	(147,006)	135,379
Accrued interest	-	448,502
Loss (income) from equity investment (Note 14)	2,287,311	(1,392,004)
Expense recovery from equity investment (Note 14)	(2,109,675)	-
(Reversal of impairment) impairment on equity investment (Note 14)	(3,540,469)	1,279,589
Gain on early repayment of convertible debentures (Note 10)	(260,111)	-
Write down of petroleum property interests (Note 8)	-	4,486,965
Net change in non-cash working capital	71,559	(85,966)
Net cash (used in) operating activities	(132,065)	(1,214,768)
<b>Cash provided by investing activities:</b>		
Interest in petroleum property interests	-	(400,041)
Advances to equity investment (Note 14)	(5,992,380)	(4,323,743)
Repayments from equity investment (Note 14)	9,687,750	4,459,000
Acquisition of equipment	(17,084)	-
Net cash provided by (used in) investing activities	3,678,286	(264,784)
<b>Cash provided by financing activities:</b>		
Proceeds from convertible debentures (Note 10)	-	1,649,970
Repayment of convertible debentures (Note 10)	(2,000,000)	-
Advances from shareholder (Note 9)	40,000	1,017,806
Repayments to shareholder (Note 9)	(40,000)	-
Net cash (used in) provided by financing activities	(2,000,000)	2,667,776
Net cash flow during the year	1,546,221	1,188,224
Cash and cash equivalents, beginning of year	1,321,139	132,915
Cash and cash equivalents, end of year	2,867,360	1,321,139

### Supplemental information (Note 20)

*See accompanying notes to the consolidated financial statements.*

**JAMES BAY RESOURCES LIMITED**  
**Consolidated Statements of Changes in Equity**  
Expressed in Canadian dollars

	Common shares \$	Share-based payments reserve \$	Warrant reserve \$	Warrants to be issued \$	Deficit \$	Total equity \$
Balance, December 31, 2015	17,142,711	532,700	2,214,569	1,125,600	(23,260,090)	(2,244,510)
Warrants expired	-	-	(442,987)	-	442,987	-
Income for the year	-	-	-	-	3,561,695	3,561,695
Balance, December 31, 2016	17,142,711	532,700	1,771,582	1,125,600	(19,255,408)	1,317,185
	Common shares \$	Share-based payments reserve \$	Warrant reserve \$	Common shares and warrants to be issued \$	Deficit \$	Total equity \$
Balance, December 31, 2014	14,801,211	302,000	2,214,569	3,467,100	(17,099,582)	3,685,298
Shares issued to M2 Advisors	2,341,500	-	-	(2,341,500)	-	-
Stock options expired	-	(98,000)	-	-	98,000	-
Share-based payments	-	328,700	-	-	-	328,700
Loss for the year	-	-	-	-	(6,258,508)	(6,258,508)
Balance, December 31, 2015	17,142,711	532,700	2,214,569	1,125,600	(23,260,090)	(2,244,510)

# **JAMES BAY RESOURCES LIMITED**

## **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2016 and 2015  
Expressed in Canadian dollars

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### **1. NATURE OF OPERATIONS AND GOING CONCERN**

James Bay Resources Limited (the "Company" or "James Bay") was incorporated on November 5, 2007. The Company's shares are listed on the Canadian Securities Exchange ("CSE") under the symbol "JBR". The Company is currently involved in the exploration and evaluation of oil and gas projects in Nigeria. The Company has not yet discovered any deposits, nor has it earned any revenues.

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

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

As at December 31, 2016, the Company had a working capital of \$2,417,057 (December 31, 2015 - working capital deficiency \$942,395), had incurred losses since inception, and had an accumulated deficit of \$19,255,408 (December 31, 2015 - \$23,260,090) which has been funded primarily by the issuance of equity. The ability of the Company to continue as a going concern is dependent upon its ability to raise sufficient funds to meet its obligations as they become due. While the Company has been successful in securing financing in the past, there is no assurance that it will be able to do so in the future. Because of continuing operating losses, the Company's continuance as a going concern is dependent on its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operation.

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

The head office, principal address and records office of the Company is located at 79 Wellington Street West, TD Tower South, Suite 2100, P.O. Box 139, Toronto Dominion Centre, Toronto, Ontario, Canada, M5K 1H1. These consolidated financial statements of the Company for year ended December 31, 2016 were approved and authorized for issue by the Board of Directors on April 4, 2017.

### **2. BASIS OF PREPARATION**

These consolidated financial statements of the Company and its subsidiaries were prepared in accordance with IFRS on a going concern basis, under the historical cost basis except for those financial instruments carried at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information. The policies set out below were consistently applied to all the periods presented unless otherwise noted below.

**JAMES BAY RESOURCES LIMITED**  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2016 and 2015  
Expressed in Canadian dollars

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

*Recent accounting pronouncements*

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2017 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 2 - Share-based Payment ("IFRS 2") was amended in June 2016, clarifying the accounting for certain types of share-based payment transactions. The amendments provide requirements on accounting for the effects of vesting and non-vesting conditions of cash-settled share-based payments, withholding tax obligations for share-based payments with a net settlement feature, and when a modification to the terms of a share-based payment changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for the year beginning on January 1, 2018. The Company does not expect this amendment to have a significant impact on its consolidated financial statements.

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

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

IAS 7 – Statement of Cash Flows ("IAS 7") was amended in January 2016 to clarify that disclosures shall be provided that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017.

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

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

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

*Changes in Accounting Policies*

The Company has adopted the following amendments effective January 1, 2016. The changes were made in accordance with the applicable transitional provisions.

IFRS 11 – Joint Arrangements (“IFRS 11”) was amended in May 2014 adding new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. There was no material impact on the consolidated financial statements as a result of the adoption of this amendment.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. There was no material impact on the consolidated financial statements as a result of the adoption of this amendment.

**4. PRINCIPLES OF CONSOLIDATION**

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

James Bay Energy Nigeria LLC, USA	100%
James Bay Energy Nigeria Limited, Nigeria (“JBENL”)	100%
D&H Energy Nigeria Limited, Nigeria	100%
Ondobit Limited, Nigeria	100%

*Subsidiaries*

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



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

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

*(a) Capitalization of exploration and evaluation assets*

Management has determined that exploration and evaluation costs incurred may have future economic benefits. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, proximity of other operating facilities and discoveries, operating management expertise and existing permits. See Note 8 for details of exploration and evaluation assets.

*(b) Impairment of exploration and evaluation assets*

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

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

*(c) Income, value added, withholding and other taxes*

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

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

*(d) Share-based payments and warrants*

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

*(e) Valuation of investment in associate*

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

*(f) Contingencies*

Refer to Note 18.

*(g) Fair value of conversion feature of convertible debenture*

The Company measures the convertible debenture embedded derivative by reference to the fair value of the financial instrument using the Black-Scholes pricing model, taking into consideration management's best estimate of the expected volatility, expected life of the derivative and exercise price on the date of issue and at each reporting date.

**6. SIGNIFICANT ACCOUNTING POLICIES**

*(a) Presentation and functional currencies*

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

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

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**6. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(b) Share-based payments*

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

The fair value is determined at the grant date of the equity-settled share-based payments and is recognized on a graded-vesting basis over the period during which the employee becomes unconditionally entitled to the equity instruments, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve. Upon exercise of the stock options, the consideration paid, together with the amount previously recognized in share based payments reserve, is recorded as an increase in common shares. Unexercised stock options and warrants are transferred to deficit.

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

*(c) Income Tax*

*Current tax*

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

*Deferred tax*

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

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

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**6. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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

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

*Exploration and evaluation assets*

Once a license to explore an area has been secured, expenditures on exploration and evaluation activities, net of government assistance received, are capitalized to exploration and evaluation assets. Deferred exploration expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

The Company's property interests are in the exploration and evaluation stage and accordingly, the Company follows the practice of capitalizing all costs relating to the acquisition of, exploration for and evaluation of properties and crediting all revenues received against the cost of the related claims. Such costs include, but are not exclusive to, acquisition, geological, geophysical studies, exploratory drilling and sampling.

At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned properties are charged to operations at the time of any abandonment or when it has been determined that there is evidence of a permanent impairment. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition. The Company recognizes in profit or loss costs recovered on exploration and evaluation assets when amounts received or receivable are in excess of the carrying amount. Upon transfer of "Exploration and evaluation assets" into "Development Assets", all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalised within "Development Assets". After production starts, all assets included in "Development Assets" are transferred to "Producing Properties".

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

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**6. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(e) Equipment*

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

Office equipment	-	20%	declining balance basis
Furniture and fixtures	-	20%	declining balance basis
Computer equipment	-	55%	declining balance basis
Vehicles	-	30%	declining balance basis

*(f) Impairment of non-financial assets*

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

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation/amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss in the period of reversal.

*(g) Financial instruments*

*Financial assets*

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

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

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

The Company's financial assets include cash and cash equivalents and amounts receivable.

*Subsequent measurement*

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

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**6. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(g) Financial instruments (continued)*

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

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

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

**Loans and receivables**

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

**Derecognition**

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

- The rights to receive cash flows from the asset have expired; and
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - (a) the Company has transferred substantially all the risks and rewards of the asset; or
  - (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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**6. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(g) Financial instruments (continued)*

*Impairment of financial assets*

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. For financial assets carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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

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

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

*Financial liabilities*

*Initial recognition and measurement*

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

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**6. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(g) Financial instruments (continued)*

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

The Company's financial liabilities include accounts payable and accrued liabilities, convertible debentures and derivative liabilities.

**Subsequent measurement**

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

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

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in profit or loss. As at December 31, 2016 and 2015, the Company's convertible debentures' conversion feature are classified as derivative liabilities at FVTPL.

**Other financial liabilities**

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

**Derecognition**

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

*Fair value of financial instruments*

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

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



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**6. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(h) Income (Loss) per share*

Basic income (loss) per share is calculated by dividing the income (loss) available to common shareholders by the weighted average number of common shares outstanding in the period. Diluted income (loss) per share is calculated by assuming that the proceeds to be received on the exercise of dilutive convertible debentures, share options and warrants are used to repurchase common shares at the average market price during the period. For the year ended December 31, 2016, certain potentially dilutive securities, including the stock options and warrants, were excluded from the calculation of diluted earnings per share due to the exercise prices being greater than the average market price of the Company's shares for the period. The adjusted weighted average of shares was 59,120,511 which includes the effect of dilution due to convertible debentures of 17,646,441. For the years ended December 31, 2015, diluted loss per share was the same as basic loss per share as the effects of including all outstanding options and warrants and convertible debentures would be anti-dilutive.

*(i) Decommissioning Liabilities*

A legal or constructive obligation to incur decommissioning liabilities may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either a unit-of-production or the straight-line method as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses. The Company had no material decommissioning liabilities as at December 31, 2016 and 2015.

*(j) Investment in associate*

Investment in associate is accounted for using the equity method based on the Company's ability to exercise significant influence over the operating and financial policies of the investee. Investments of this nature are recorded at original cost and adjusted periodically to recognize the Company's proportionate share of the associate's net income or losses after the date of investment, additional contributions made and dividends received. Investments are written down when there has been a significant or prolonged decline in fair value.

*(k) Compound financial instruments*

The components of compound financial instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. The conversion feature of the convertible debentures issued in 2015 does not meet the criteria for equity classification and accordingly, is accounted for as an embedded derivative liability. The embedded derivative liability is calculated first using the Black-Scholes option pricing model, and the residual value is assigned to the debt component. Subsequent to initial recognition, the embedded derivative component is re-measured at fair value at each reporting period with the changes in fair value recognized in operations.

Subsequent to initial recognition, the liability component is accounted for at amortized cost using the effective interest rate method until the instrument is converted or the instrument matures. The liability component accretes up to the principal balance at maturity. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

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**7. EQUIPMENT**

<b>Cost</b>	<b>Office equipment \$</b>	<b>Furniture and fixtures \$</b>	<b>Computer equipment \$</b>	<b>Vehicles \$</b>	<b>Total \$</b>
Balance December 31, 2014 and 2015	13,028	129,974	43,459	5,862	192,323
Additions	-	-	-	17,084	17,084
Balance December 31, 2016	13,028	129,974	43,459	22,946	209,407
<b>Accumulated amortization</b>	<b>Office equipment \$</b>	<b>Furniture and fixtures \$</b>	<b>Computer equipment \$</b>	<b>Vehicles \$</b>	<b>Total \$</b>
Balance December 31, 2014	4,328	49,012	31,678	2,811	87,829
Additions	1,740	16,194	6,480	915	25,329
Balance December 31, 2015	6,068	65,206	38,158	3,726	113,158
Additions	1,392	12,954	2,915	2,733	19,994
Balance December 31, 2016	7,460	78,160	41,073	6,459	133,152
<b>Carrying value</b>	<b>Office equipment \$</b>	<b>Furniture and fixtures \$</b>	<b>Computer equipment \$</b>	<b>Vehicles \$</b>	<b>Total \$</b>
Balance December 31, 2015	6,960	64,768	5,301	2,136	79,165
Balance December 31, 2016	5,568	51,814	2,386	16,487	76,255

As at December 31, 2016, the net book value of the Company's equipment by geographic location is as follows: Canada - \$4,264 (December 31, 2015 - \$5,589) and Nigeria \$71,991 (December 31, 2015 - \$73,576).

# JAMES BAY RESOURCES LIMITED

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### 8. PETROLEUM PROPERTY INTERESTS

#### OML 25 PROJECT

In June 2014, Crestar Integrated Natural Resources Limited (CINRL) was selected as the winning bidder for a 45% participating interest in active Oil Mining Lease No. 25 (“OML 25”) in the Niger Delta region, offered by joint venture partners: The Shell Petroleum Development Company of Nigeria Limited, Total E&P Nigeria Limited, and Nigerian AGIP Oil Company Limited (collectively the “Shell JV”). CINRL obtained terms for a loan from a prospective future investor, for the full purchase price of OML 25.

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

The Federal High Court of Nigeria also ruled in favor of Crestar and granted an injunction in favour of Crestar which froze plans by the NNPC to acquire the 45% participating interest in OML 25 being divested by joint venture partners The Shell Petroleum Development Company of Nigeria Limited, Total E&P Nigeria Limited, and Nigerian AGIP Oil Company Limited. As of the date hereof this injunction continues to remain in place (Note 22).

#### OML 90 PROJECT

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

The Company paid US\$50,000 for transfer of due diligence data and administrative fees and US\$50,000 for an exclusivity period. As consideration for the transfer of the interest, the Company is required to pay an aggregate of US\$2,500,000 as follows:

- US\$100,000 due 90 days from the date of execution of JOA or within 24 hours of the execution of the JOA and Deed of Assignment (“DOA”), whichever is earlier (paid in 2012).
- US\$200,000 due upon approval from Department of Petroleum Resources (“DPR”) of the assignment of direct interest in OML 90 project to the Company (paid in 2013).
- US\$300,000 to be released upon the grant of government permit for drilling activity and arrival of a drill rig at the OML 90 project. A preliminary government permit was received in March 2014. As of December 31, 2016, a drill rig has not yet been installed at OML 90. Of the original US\$300,000, US\$100,000 (\$104,050) was paid as an advance. The remaining \$253,320 (US\$200,000) has not yet been paid or accrued. The amount advanced in 2013 was written-off along with the exploration and evaluation asset balance at December 31, 2015.
- US\$1,000,000 upon completion of a final independent report of P1 reserves of at least 7,000,000 proven recoverable barrels of oil, or if such reserve levels are not attained, the Company shall pay US\$0.10 per barrel of oil produced, to a maximum of US\$1,000,000. As this condition has not been met, this amount has not accrued.
- US\$900,000 upon the completion of 60 days of commercial production. As this condition has not been met, this amount has not accrued.

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**8. PETROLEUM PROPERTY INTERESTS (continued)**

**OML 90 PROJECT (continued)**

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

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

In March 2015, the DPR stated that they were reviewing all marginal field licenses to determine whether the current owners have done sufficient work to maintain their licenses. The nature and extent of work required are not clearly defined and there has been no further update from the DPR regarding the status of the title to the OML 90 Project.

During the year ended December 31, 2015, the Company decided to write off the exploration and evaluation asset in the amount of \$4,486,965 as a result of this uncertainty.

Balance at December 31, 2014	\$ 4,086,924
Capitalized cost	400,041
Write-down	<u>(4,486,965)</u>
Balance at December 31, 2015 and 2016	<u>\$ -</u>

**9. DUE TO SHAREHOLDER**

The amounts due to shareholder were unsecured, bore interest at 6% per annum, and were due on demand. The amounts were due to the President and Chief Executive Officer of the Company, who is also a shareholder and director of the Company.

During the year ended December 31, 2016, the Company received additional advances of \$40,000 (2015 - \$1,017,806), incurred interest of \$nil (2015 - \$14,650) and repaid \$40,000 (2015 - \$nil). In April 2015, the total outstanding balance at that time of \$1,349,925, which included \$16,014 of interest, was converted to convertible debentures (Note 10).

As at December 31, 2016, the balance owing was \$nil (2015 - \$nil).

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**8. PETROLEUM PROPERTY INTERESTS (continued)**

**OML 90 PROJECT (continued)**

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

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**10. CONVERTIBLE DEBENTURES**

During the year ended December 31, 2015, the Company issued \$2,999,895 in aggregate principal amount of convertible debentures. The convertible debentures bear interest of 15% per annum, payable semi-annually and mature three years following the date of issuance. The convertible debentures are convertible at a conversion price of \$0.17 per common share.

<b>Date of issuance</b>	<b>\$</b>
April 30, 2015	1,599,925
May 29, 2015	1,324,970
June 12, 2015	75,000
<b>Total</b>	<b>2,999,895</b>

The Company concurrently sold and assigned, pursuant to separate agreements with each subscriber, a pro rata entitlement (based on all the subscribers) for up to an aggregate of 30% of the net proceeds of litigation related to the OML 25 project (Note 8), if any (whether as a result of final judgment by a court of competent jurisdiction or settlement for which no appeal or further proceeding may be taken (the "Final Award")), after deduction of all related costs and taxes incurred by the Company in the litigation discussed in Note 8 (the "Net Final Amount"), payable to the Holders within 60 days from the receipt of the Final Award. In the event the Company prepays the Debentures in full prior to that date which is one year from the date of issue and prior to the date of the Final Award, then the amount payable to the Holders under the agreement will be adjusted to reflect an aggregate entitlement of 15%. Should the Company's litigation be settled or be the subject of a final decision and if the Company is in receipt of settlement funds, the convertible debentures holders will have rights to accelerate the maturity date to 15 days following the date the convertible debentures holders provide written notice to the Company.

The President and CEO of the Company purchased an aggregate of \$1,349,925 of convertible debentures by way of the conversion into convertible debentures of an aggregate of \$1,349,925 of advances (Note 9). A director of the Company purchased an aggregate of \$175,000 of convertible debentures.

In accordance with IFRS, the conversion feature of the convertible debentures meets the definition of a derivative liability because the Company, at its option, may trigger certain events that will result in adjustment to the conversion price.

Consequently, on issuance, the convertible debentures were split between the financial liability and the conversion feature (which is classified as a derivative financial liability under IFRS). The financial liability portion was determined by subtracting issuance costs and the fair value of the conversion feature from the principal of the debentures. The fair value of the equity conversion feature is calculated using the Black-Scholes pricing model and re-measured each reporting period with changes between periods recognized in the consolidated statements of income (loss) and comprehensive income (loss). Expected volatility used is based on the Company's share price volatility over the relevant period to expiry.

The liability portion is measured at amortized cost and accreted such that carrying amount of the convertible debentures will equal the face value of the convertible debenture at maturity. The interest and accretion on the convertible debentures for the year ended December 31, 2016 of \$744,821 was charged to CINRL. The interest and accretion on the convertible debentures for the year ended December 31, 2015 of \$433,853 is included in interest expense in the consolidated statement of income (loss).

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**10. CONVERTIBLE DEBENTURES (continued)**

The following table summarizes the accounting for debentures:

	Proceeds \$	Liabilities \$	Derivative financial liabilities \$
Convertible debenture upon issuance	2,999,895	1,695,899	1,303,996
Transaction costs	(16,835)	(9,517)	(7,318)
<b>Net balance upon issuance</b>	<b>2,983,060</b>	<b>1,686,382</b>	<b>1,296,678</b>

On November 30, 2016, the Company repaid a total principal amount of \$2,000,000 out of the \$2,999,895 convertible debentures. In accordance with IFRS, at the date of the repayment, the consideration paid and the transaction costs are allocated between the financial liability and conversion feature (which is classified as derivative financial liability) consistent with the method used in original allocation to separate the proceeds between the two components. The resulting gain or loss is recognized in the statements of income (loss) and comprehensive income (loss). Of the total amount repaid \$1,257,672 was repaid to the President and CEO and a director of the Company.

For total consideration and transaction costs paid of \$2,003,195, the Company recognized a gain of \$260,111 in the consolidated statement of income (loss) and comprehensive income (loss) during the year ended December 31, 2016.

Balance of liability component of the convertible debentures as at December 31, 2016:

	Liabilities \$	Derivative liabilities \$
<b>Balance, December 31, 2014</b>	-	-
Issuance of convertible debentures	1,686,382	1,296,678
Accretion on convertible debentures	433,853	-
Cash interest	(286,221)	-
Derivative loss	-	135,378
<b>Balance, December 31, 2015</b>	<b>1,834,014</b>	<b>1,432,056</b>
Accretion on convertible debentures	744,821	-
Cash interest	(424,453)	-
Repayment of convertible debentures	(1,428,391)	(834,914)
Derivative gain	-	(147,006)
<b>Balance, December 31, 2016</b>	<b>725,991</b>	<b>450,136</b>

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**10. CONVERTIBLE DEBENTURES (continued)**

The following inputs were used in the Black-Scholes pricing model:

Issuance dates of convertible debentures	April 30, 2015		May 29, 2015		June 12, 2015	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
As at						
Expected dividend	0%	0%	0%	0%	0%	0%
Expected volatility	72%	103%	72%	103%	72%	103%
Risk-free interest rate	0.74%	0.48%	0.74%	0.48%	0.74%	0.48%
Expected average life (years)	1.33	2.33	1.33	2.33	1.33	2.33
Fair value	\$240,070	\$763,754	\$198,812	\$632,499	\$11,254	\$35,803

Included in accounts payable and accrued liabilities as of December 31, 2016 was \$131,393 (2015 - \$286,222) interest payable on convertible debentures of which \$118,165 was paid subsequent to December 31, 2016.

**11. SHARE CAPITAL**

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

	#	\$
Balance, December 31, 2014	37,974,070	14,801,211
Shares issued to M2 Advisors <sup>(i)</sup>	3,500,000	2,341,500
Balance, December 31, 2015 and 2016	41,474,070	17,142,711

- (i) On February 4, 2015, the Company issued to a consultant, M2 Advisors, 3,500,000 common shares in the capital of the Company. The shares were issued in accordance with the terms of a service agreement between the Company and the consultant completed during the year ended December 31, 2014 and were reflected as common shares to be issued as at December 31, 2014. The shares were subject to a statutory hold period of four months from the date of issuance. The fair value of the shares issued was estimated at \$2,341,500 based on the value of the shares issued in the October 30, 2014 private placement.

In addition, the Company is obligated to issue an additional 3,400,000 warrants under the terms of the service agreement (Note 13).

**12. SHARE-BASED PAYMENTS RESERVE**

The Company has an incentive stock option plan (the "Plan") whereby the Company can grant to directors, officers, employees and consultants options to purchase shares of the Company. The Plan provides for the issuance of stock options to acquire up to 20% of the Company's issued and outstanding capital at the time of granting of options for a maximum term of five years. The Plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding share capital increases. In no case (calculated at the time of grant) shall the Plan result in:

- the number of options granted in a 12-month period to any one consultant exceeding 2% of the issued shares of the Company;
- the aggregate number of options granted in a 12-month period to any one individual exceeding 5% of the outstanding shares of the Company;
- the number of options granted in any 12-month period to employees or consultants undertaking investor relations activities exceeding in aggregate 2% of the issued shares of the Company;



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**12. SHARE-BASED PAYMENTS RESERVE (continued)**

- the aggregate number of common shares reserved for issuance to any one individual upon the exercise of options granted under the Plan or any previously established and outstanding stock option plans or grants exceeding 5% of the issued shares of the Company in any 12-month period.

The following reconciles the share options outstanding:

	December 31, 2016		December 31, 2015	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Balance, beginning of year	6,135,000	0.29	800,000	0.66
Expired	-	-	(200,000)	0.75
Granted	-	-	5,535,000	0.25
Balance, end of year	<u>6,135,000</u>	<u>0.29</u>	<u>6,135,000</u>	<u>0.29</u>

The Company has the following share options outstanding at December 31, 2016:

Estimated Grant Date Fair Value \$	Outstanding Options #	Options Exercisable #	Exercise Price \$	Expiry Date
204,000	600,000	600,000	0.63	June 1, 2017
323,000	5,285,000	5,285,000	0.25	May 4, 2020
5,700	250,000	250,000	0.30	September 15, 2020
<u>532,700</u>	<u>6,135,000</u>	<u>6,135,000</u>		

On May 4, 2015, the Company granted 5,285,000 stock options to directors, officers, consultants and employees of the Company. The fair value of the options was estimated using the Black-Scholes option-pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk free interest rate of 1.08%; expected life of 5 years. An amount of \$323,000 was recorded relating to these stock options for the year ended December 31, 2015 and of this amount, \$133,845 was charged to CINRL.

On September 15, 2015, the Company granted 250,000 stock options to a consultant. The fair value of the options was estimated using the Black-Scholes option-pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk free interest rate of 0.84%; expected life of 5 years. An amount of \$5,700 was recorded relating to these stock options for the year ended December 31, 2015.

The weighted average remaining contractual life of the stock options exercisable at December 31, 2016 was 3.07 years (2015 – 4.07 years)

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**13. WARRANT RESERVE**

	#	\$
Balance, December 31, 2014 and 2015	8,730,844	2,214,569
Warrants expired	(1,500,000)	(442,987)
Balance, December 31, 2016	7,230,844	1,771,582

In connection with the terms of service agreement with M2 Advisors (Note 11(b)(i)), the Company is obligated to issue an additional 3,400,000 finders' warrants which entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on July 28, 2017. The grant date fair value of the finder warrants of \$1,125,600 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.14% and an expected life of 3 years. As of December 31, 2016, 3,400,000 finders' warrants have yet to be issued and the balance has been reflected as warrants to be issued as at December 31, 2014, and 2015 and 2016.

The following reconciles the warrants outstanding:

	December 31, 2016		December 31, 2015	
	Number	Exercise price \$	Number	Exercise price \$
	of warrants #		of warrants #	
Balance, beginning of year	8,730,844	1.24	8,730,844	1.24
Warrants expired	(1,500,000)	(1.25)	-	-
Balance, end of year	7,230,844	1.24	8,730,844	1.24

The Company has the following warrants outstanding as at December 31, 2016:

Estimated Fair Value (net of issue costs) \$	Outstanding Warrants #	Warrants Exercisable #	Exercise Price \$	Expiry Date
538,468	1,930,424	1,930,424	1.25	January 31, 2017
21,839	60,397	60,397	1.00	January 31, 2017
140,083	470,000	470,000	1.25	June 10, 2017
10,197	28,200	28,200	1.00	June 10, 2017
771,262	3,810,670	3,810,670	1.25	July 28, 2017
82,653	228,640	228,640	1.00	July 28, 2017
155,728	520,000	520,000	1.25	October 30, 2017
11,281	31,200	31,200	1.00	October 30, 2017
23,126	50,000	50,000	1.25	October 30, 2019
16,945	101,313	101,313	1.25	December 19, 2019
1,771,582	7,230,844	7,230,844		

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**14. INVESTMENT IN CRESTAR INTEGRATED NATURAL RESOURCES LIMITED (“CINRL”)**

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

In November 2013, the Company entered into a Financial and Technical Services Agreement with CINRL whereby the Company was appointed the Financial and Technical Partner with respect to acquiring oil and gas projects in Nigeria. This agreement provided that the Company shall arrange to provide the funding to CINRL and shall meet all required financial obligations. The Company was responsible for providing technical assistance, appointing personnel and carrying out the evaluation, development and production from the projects. JBENL’s President and Chief Executive Officer is also the President and Chief Executive Officer of CINRL, and member of the Board of Directors of James Bay and a shareholder of CHEPCL.

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

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

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

Concurrent with the signing of the Agreement for Assignment of OML 25 on July 3, 2014, an agreement came into force with a prospective future investor of CINRL to provide CINRL with a loan for the full acquisition cost of the asset. The agreement further provided that the future investor would provide all technical services required under the operation of OML 25, such agreement was subject only to the formal closing of the acquisition. As consideration, the prospective investor was expected to assume 55.56% effective interest in OML 25 and net revenue proceeds from the asset were expected to be adjusted accordingly.

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

In connection with this renewed process, Seplat agreed to fund a portion of consortium costs previously incurred by CINRL in an amount equal to US\$11 million. The sum of US\$29 million was placed into a new escrow account by Seplat pending agreement of final terms of the acquisition transaction. See Note 22.

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

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**14. INVESTMENT IN CRESTAR INTEGRATED NATURAL RESOURCES LIMITED (“CINRL”) (continued)**

During the year ended December 31, 2016, the Company recorded a loss on equity investment in CINRL of \$2,287,311 (2015 – income from equity investment of \$1,392,004). Due to the repayment from CINRL in 2016, the Company reversed the impairment recognized in prior years of \$3,540,469 and recorded an expense recovery of \$2,109,675 for the year ended December 31, 2016.

During the year ended December 31, 2016, the Company advanced \$5,992,380 to CINRL (2015 - \$4,323,743). As at December 31, 2016, the Company’s outstanding advances to CINRL total approximately \$1,041,000 (2015 - \$4,300,000). The advances were fully allowed for as at December 31, 2016 and 2015.

**15. CAPITAL MANAGEMENT**

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

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

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company’s approach to capital management during the years ended December 31, 2016 and 2015. The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the CSE which requires adequate working capital of \$50,000. As of December 31, 2016 and 2015, the Company is in compliance with the policies of the CSE.

**16. FINANCIAL INSTRUMENTS**

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

*Credit risk*

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

*Liquidity risk*

The Company’s approach to managing liquidity risk is to ensure that it will have liquidity to meet liabilities when due. At December 31, 2016, the Company had cash and cash equivalents of \$2,867,360 (2015 - \$1,321,139) to settle current liabilities of \$590,975 (2015 - \$566,493). The Company has working capital of \$2,417,057 (2015 - \$942,395). The Company’s current financial liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms. The convertible debentures with a face value of \$999,895 are due in 2018 (Note 10).

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**16. FINANCIAL INSTRUMENTS (continued)**

*Market risk*

(a) Interest rate risk

The Company has cash balances and interest-bearing debt due to convertible debenture holders as described in Note 10. The Company's current policy is to invest excess cash in investment-grade short-term guaranteed investment certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company's convertible debentures bear interest at a fixed interest rate.

(b) Price risk

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

(c) Foreign currency risk

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

*Sensitivity analysis*

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

As at December 31, 2016, the Company has net monetary assets denominated in US dollars of approximately USD\$1,750,000 (2015 - US\$579,000). A 10% change in the value of the Canadian dollar relative to the US dollar would result in a corresponding change in net income of approximately USD\$175,000 (2015 - \$57,900) based on the balance of these amounts held in US dollars at December 31, 2016.

*Fair value*

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

*Fair value hierarchy and liquidity risk disclosure*

Fair value measurements are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). As at December 31, 2016 and 2015, the Company designated its derivative liabilities from convertible debentures as fair value through profit and loss which is measured at fair value and classified as Level 2.

**JAMES BAY RESOURCES LIMITED**  
**Notes to the Consolidated Financial Statements**  
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**17. RELATED PARTY DISCLOSURES**

These consolidated financial statements include balances and transactions with directors and officers of the Company and/or corporations related to them. During the years ended December 31, 2016 and 2015 the Company entered into the following transactions involving related parties:

The Company rents office space from a corporation with a common director. During the year ended December 31, 2016, approximately \$53,875 (2015 - \$38,527) was charged by this corporation. The amount is included in office and general expense on the consolidated statements of income (loss) and comprehensive income (loss).

The Company incurred legal fees of approximately \$287,000 (2015 - \$128,354) with a law firm of which a partner, is a director of the Company, of which, approximately \$269,000 has been charged to CINRL. This amount is included in professional fees on the consolidation statement of income (loss) and comprehensive income (loss). As of December 31, 2016, included in accounts payable and accrued liabilities is \$180,060 (2015 - \$94,379) owing to this law firm.

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

The remuneration of directors and other members of key management personnel for the years ended December 31, 2016 and 2015 were as follows:

	December 31, 2016	December 31, 2015
	\$	\$
Management salaries, benefits and bonuses	1,564,960	488,067
Director's fees	80,000	80,000
Share-based payments	-	70,895

During the year ended December 31, 2016, the Company paid \$1,492,960 (2015 - \$817,920) to two executive officers, of which, \$1,456,960 (2015 - \$401,853) has been charged as management fees to CINRL.

Included in accounts payable and accrued liabilities as at December 31, 2016 is approximately \$942 (2015 - \$2,326) of management travel expenses reimbursement and \$20,000 (2015 - \$20,000) of director fees.

During the year ended December 31, 2016, the Company received shareholder loan in the amount \$40,000, the loan was unsecured, non-interest bearing, with no fixed terms of repayment. The shareholder loan was repaid in full during the year ended December 31, 2016.

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

See also Notes 9, 10, 14 and 18.

**JAMES BAY RESOURCES LIMITED**  
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**18. COMMITMENTS AND CONTINGENCIES**

The Company is party to certain management contracts, which contain clauses requiring additional payments of up to \$1,800,000 be made upon the occurrence of certain events such as a change of control and additional payments of up to \$874,000 be made upon termination of contracts. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements. As of December 31, 2016, under these management contracts, management has committed to \$1,023,000 of salaries and benefits due within one year.

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

	<b>Canada</b>
	<b>\$</b>
2017	62,000
2018	68,000
2019	<u>6,000</u>
Total	<u>136,000</u>

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

The Company is party to legal proceedings in the ordinary course of its operations related to legally binding agreements with a third party. As at December 31, 2016, one such proceeding was ongoing. The Company believes this claim to be without merit. Management does not expect the outcome of this proceeding to have a materially adverse effect on the results of the Company's financial position or results of operations and therefore this amount has not been reflected in these financial statements. Should any losses result from the resolution of this dispute, that amount will be charged to operations in the year that it is determined.

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**19. INCOME TAXES**

**a) Provision for Income Taxes**

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2015 - 26.5%) were as follows:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Income (loss) before income taxes	3,561,695	(6,258,508)
Expected income tax (recovery) based on statutory rate	944,000	(1,658,000)
Adjustment to expected income tax benefit:		
Expenses not deductible for tax purposes	407,000	5,000
Change in foreign exchange rates	4,593,000	731,000
Difference in tax rates	(1,579,000)	(72,000)
Benefit of tax assets not recognized	(4,365,000)	(994,000)
Deferred income tax (recovery)	-	-
Deferred income tax recognized in equity	-	-
Total taxation	-	-

**b) Deferred Income Tax**

Recognized deferred tax assets (liabilities) were as follows:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Convertible debentures	(73,000)	(309,000)
Non-capital loss carry-forwards - Canada	73,000	309,000
Total	-	-

Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Non-capital loss carry-forwards - Canada	5,216,000	4,862,000
Non-capital loss carry-forwards - Nigeria	7,551,000	12,293,000
Resource property costs - Canada	3,452,000	3,452,000
Resource property costs - Nigeria	-	-
Investment in CINRL - Canada	1,041,000	6,219,000
Investment in CINRL - Nigeria	-	2,747,000
Equipment - Nigeria	16,000	15,000
Total	17,276,000	29,588,000



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**19. INCOME TAXES (continued)**

**c) Tax Loss Carry-Forwards**

As at December 31, 2016, the Company had approximately \$3,452,000 (2015 – \$3,452,000) of Canadian exploration and development expenditures and \$7,551,000 (2015 – \$12,293,000) of Nigerian exploration and operating expenditures. These losses may be utilized to reduce taxable income of futures years under certain circumstances.

As at December 31, 2016, the Company had approximately \$5,490,000 (2015 - \$5,432,000) of non-capital losses in Canada, which can be used to reduce taxable income in future years. The losses expire as follows:

<u>Year of expiry</u>	<u>Amount</u>
2027	7,000
2028	107,000
2029	102,000
2030	812,000
2031	751,000
2032	900,000
2033	140,000
2034	1,087,000
2035	1,526,000
2036	58,000
	<u>5,490,000</u>

**20. SUPPLEMENTAL INFORMATION – STATEMENTS OF CASH FLOWS**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Shareholder loan repaid through the issuance of convertible debentures	-	1,349,925

**JAMES BAY RESOURCES LIMITED**  
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**21. RESTATEMENT**

Subsequent to the issuance of the Company's consolidated financial statements for the year ended December 31, 2015, it was determined that the conversion feature of the convertible debentures issued in 2015 for a total proceeds of \$2,999,895 should have been accounted for as an embedded derivative. This is due to the fact that the Company, at its option, may trigger certain events that will result in adjustment to the conversion price of the convertible debentures.

The effects of the restatement on the consolidated statement of financial position as at December 31, 2015 and the consolidated statement of loss and comprehensive loss for the year ended December 31, 2015 are summarized below. The adjustments between amounts previously reported and amounts restated had no material effect on the consolidated statement of cash flow.

	Previously reported \$	Adjustments \$	Restated \$
<b>Consolidated Statement of Financial Position</b>			
Current assets	1,508,888	-	1,508,888
Non-current assets	<u>79,165</u>	<u>-</u>	<u>79,165</u>
<b>Total assets</b>	<u><u>1,588,053</u></u>	<u><u>-</u></u>	<u><u>1,588,053</u></u>
Current liabilities	566,493	-	566,493
Non-current liabilities			
Convertible debentures	2,703,790	(869,776)	1,834,014
Derivative liabilities	<u>-</u>	<u>1,432,056</u>	<u>1,432,056</u>
	<u>2,703,790</u>	<u>562,280</u>	<u>3,266,070</u>
<b>Total liabilities</b>	<u><u>3,270,283</u></u>	<u><u>562,280</u></u>	<u><u>3,832,563</u></u>
Equity			
Share capital	17,142,711	-	17,142,711
Share-based payments reserve	532,700	-	532,700
Warrants	2,214,569	-	2,214,569
Warrants to be issued	1,125,600	-	1,125,600
Convertible debentures	246,452	(246,452)	-
Deficit	<u>(22,944,262)</u>	<u>(315,828)</u>	<u>(23,260,090)</u>
<b>Total common shareholders' deficit</b>	<u><u>(1,682,230)</u></u>	<u><u>(562,280)</u></u>	<u><u>(2,244,510)</u></u>
<b>Total liabilities and shareholders' deficit</b>	<u><u>1,588,053</u></u>	<u><u>-</u></u>	<u><u>1,588,053</u></u>

**JAMES BAY RESOURCES LIMITED**  
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**21. RESTATEMENT (continued)**

	Previously reported \$	Adjustments \$	Restated \$
<b>Consolidated Statements of Loss and Comprehensive Loss</b>			
<b>Expenses</b>			
Other expenses	1,392,401	-	1,392,401
Interest expense	354,003	92,449	446,452
<b>Loss before the undernoted</b>	<u>(1,746,404)</u>	<u>(92,449)</u>	<u>(1,838,853)</u>
Foreign exchange gain	90,274	-	90,274
Loss on change in fair value of derivative liability	-	(135,379)	(135,379)
Impairment on equity investment	(1,279,589)	-	(1,279,589)
Income from equity investment	1,392,004	-	1,392,004
Write down of petroleum property interests	<u>(4,486,965)</u>	<u>-</u>	<u>(4,486,965)</u>
<b>Loss before tax</b>	<u>(6,030,680)</u>	<u>(227,828)</u>	<u>(6,258,508)</u>
Deferred income tax recovery	88,000	(88,000)	-
<b>Net loss and comprehensive loss</b>	<u><u>(5,942,680)</u></u>	<u><u>(315,828)</u></u>	<u><u>(6,258,508)</u></u>
<b>Basic and diluted net loss per share</b>	<u><u>(0.14)</u></u>	<u><u>(0.01)</u></u>	<u><u>(0.15)</u></u>

**22. SUBSEQUENT EVENTS**

CINRL commenced legal proceedings in the High Court of Justice in England, against Newton Energy Limited (“Newton”), the Nigerian subsidiary of Seplat Petroleum Development Company PLC (“Seplat”) (Nigeria: SEPL) on January 27, 2017. CINRL’s claim alleges bad faith conduct by Newton relating to the proposed acquisition of OML 25 in the Niger Delta region. The dispute in the English High Court centers on US\$20.5 million held in escrow, which CINRL alleges should have been released to CINRL (Note 14).

Subsequent to December 31, 2016, 1,990,821 warrants expired unexercised on January 31, 2017.

## CORPORATE INFORMATION

### Directors

Stephen Shefsky\*  
President, CEO, Secretary  
Toronto, On., Canada

Mark Brennan\*\*\*  
Toronto, On., Canada

Wayne Egan\*\*  
Toronto, On., Canada

Jon Pereira\*  
Toronto, On, Canada

Jean Gauthier\* \*\*  
Ottawa, On., Canada

Adeniyi Olaniyan \*\*\*  
Calgary, Ab., Canada

### Officers

Stephen Shefsky  
*President, CEO, Secretary*

Eric Szustak CPA CA  
*Chief Financial Officer*

**\*Member Audit Committee**

**\*\*Member Compensation Committee**

**\*\*\*Reserves Committee**

### Offices

James Bay Resources Limited  
79 Wellington St W., Suite 2100  
TD South Tower  
Toronto, Ontario, M5K 1H1  
Telephone: (416) 366-4200  
Website: [www.jamesbayresources.com](http://www.jamesbayresources.com)

### Transfer Agent

TSX Trust  
200 University Ave., Suite 300  
Toronto, Ontario, M5H 4H1  
Tel (416) 361-0930  
Website: [www.tsxtrust.com](http://www.tsxtrust.com)

### Auditors

UHY McGovern Hurley LLP  
Toronto, Ontario  
Website: [www.uhymh.com](http://www.uhymh.com)

### Canadian Legal Counsel

WeirFoulds LLP  
Toronto, Ontario  
Website: [www.weirfoulds.com](http://www.weirfoulds.com)

### Shares Traded

Canadian Securities Exchange  
Symbol : JBR

### Annual Meeting

June 20, 2017 at 10:00 A.M.  
WeirFoulds LLP  
Suite 4100, 66 Wellington St W.  
Toronto, Ontario. M5K 1B7

*Information provided as of  
Record date May 15, 2017*