JAMES BAY RESOURCES LIMITED

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

JAMES BAY RESOURCES LIMITED

CONDENSED INTERIMCONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2018 AND 2017

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NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

JAMES BAY RESOURCES LIMITED

Condensed InterimConsolidated Statements of Financial Position

Expressed in Canadian dollars

As at

	March 31, 2018 $	December 31, 2017 $
ASSETS		
Current assets		
Cash and cash equivalents	59,446	68,300
Prepaid expenses	69,033	62,933
Amounts receivable	32,590	38,069
Total current assets	161,069	169,302
Equipment (Note 7)	64,202	67,305
Total assets	225,271	236,607
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Notes9and 16)	2,670,772	1,757,057
Convertible debenture (Note 9)	1,580,856	1,211,378
Derivative liabilities (Note 9)	116,918	190,960
Total current liabilities	4,368,546	3,159,395
Share capital(Note 10)	17,142,711	17,142,711
Share-based payments reserve (Note 11)	305,170	305,170
Warrant reserve (Note 12)	40,071	40,071
Deficit	(21,631,227)	(20,410,740)
Total common shareholders' (deficit) equity	(4,143,275)	(2,922,788)
Total liabilities and shareholders' (deficit) equity	225,271	236,607

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
COMMITMENTS AND CONTINGENCIES (Notes 8, 9 and 17)
SUBSEQUENT EVENT (Note 18)

APPROVED ON BEHALF OF THE BOARD:

Signed "STEPHEN SHEFSKY" , Director
Signed "MARK BRENNAN" , Director

See accompanying notes to the interim consolidated financial statements.

JAMES BAY RESOURCES LIMITED
Condensed InterimConsolidated Statements of Loss (Income) and Comprehensive Loss (Income)
Expressed in Canadian dollars

For the three months ended

	March 31, 2018	March 31, 2017
	$	$
Expenses		
Management salaries and benefits (Note 16)	15,134	15,507
Professional fees(Note 16)	12,126	11,277
Office and general(Note 16)	8,136	15,335
Transfer agent and listing fees	261	3,074
Interest expense (income)	2,771	5,847
Amortization	436	553
(Loss) before the undernoted	(38,864)	(51,593)
Foreign exchange (loss) gain	162,083	(25,817)
(Gain) loss on change in fair value of derivative liabilities(Note 9)	(63,769)	191,612
(Impairment) reversal of impairment on equity investment(Note 13)	(989,910)	(558,190)
Loss from equity investment (Note 13)	(290,027)	(166,781)
Net (loss) income and comprehensive (loss) income for the period	(1,220,487)	(610,769)
(Loss) income per share		
Basic	(0.03)	(0.01)
Diluted		
Weighted average number of shares outstanding		
Basic	41,474,070	41,474,070
Diluted		

See accompanying notes to the interim consolidated financial statements.

JAMES BAY RESOURCES LIMITED
Condensed Interim Consolidated Statements of Cash Flows
Expressed in Canadian dollars

	March 31, 2018	March 31, 2017
	$	$
Cash used in operating activities:		
Net (loss) income for the period	(1,220,487)	(610,769)
Add (deduct) items not affecting cash:		
Amortization	436	553
(Gain) on change in fair value of derivative liabilities (Note 9)		(191,612)
Expense recovery from equity investment (Note 13)		
Loss from equity investment (Note 13)	290,027	166,781
Impairment (reversal of impairment) on equity investment (Note 13)	989,910	558,190
Net change in non-cash working capital	979,527	(184,465)
Net cash provided by (used in) operating activities	1,039,414	(261,322)
Cash provided by (used in) investing activities:		
Repayment from equity investment (Note 13)		
Advances to equity investment (Note 13)	(1,279,937)	(724,975)
Net cash(used in) provided by investing activities	(1,279,937)	(724,975)
Cash provided by financing activities:		
Re-lending (repayment) of convertible debentures (Note 9)	231,666	-
Net cash provided by (used in) financing activities	231,666	
Net cash flow during the period	(8,854)	(986,297)
Cash and cash equivalents, beginning of period	68,300	2,867,360
Cash and cash equivalents, end of period	59,446	1,881,063

See accompanying notes to the interim consolidated financial statements.

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

	Common shares $	Share-based payments reserve $	Warrants reserve $	Warrants to be issued $	Deficit $	Total shareholders' equity $
Balance, December 31, 2017	17,142,711	305,170	40,071	-	(20,410,740)	(2,922,788)
Loss for the period	-	-	-	-	(1,220,487)	(1,220,487)
Balance, March 31, 2018	17,142,711	305,170	40,071	-	(21,631,277)	(4,143,275)

	Common shares $	Share-based payments reserve $	Warrants reserve $	Warrants to be issued $	Deficit $	Total shareholders' equity $
Balance, December 31, 2016	17,142,711	532,700	1,771,582	1,125,600	(19,255,408)	1,317,185
Warrants expired			(560,307)	-	560,307	-
Income for the period	-	-	-	-	(610,769)	(610,769)
Balance, March 31,2017	17,142,711	532,700	1,211,275	1,125,600	(19,305,870)	706,416

See accompanying notes to the interim consolidated financial statements.

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 interests 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 properties, 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, social licensing requirements, currency exchange fluctuations and restrictions, and political uncertainty.

As at March 31, 2018, the Company had a working capital deficiency of $4,207,476(December 31, 2017- $2,990,093), and had an accumulated deficit of $21,631,227 (December 31, 2017 - $20,410,740) 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 interim 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 interim 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 interimconsolidated financial statements of the Company for the period ended March 31, 2018were approved and authorized for issue by the Board of Directors on May 25, 2018.

2. BASIS OF PREPARATION

These condensed interim consolidated financial statements of the Company and its subsidiaries were prepared in accordance with IFRS as issued by the International Accounting Standard Board ("IASB") and in accordance with International Accounting Standards ("IAS") 34, Interim financial reporting. These condensed interim consolidated financial statements do not include all of the information required for the full annual consolidated financial statements and should be read in conjunction with the most recent audited annual consolidated financial statements of the Company as at and for the year ended December 31, 2017. In addition, these condensed interim 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.

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

IFRS 16 – Leases ("IFRS 16") was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted if IFRS 15 has also been applied.
IFRS 10 – Consolidated Financial Statements ("IFRS 10") and IAS 28 – Investments in Associates and Joint Ventures ("IAS 28") were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

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

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

Changes in Accounting Policies
The Company has adopted the following amendments, effective January 1, 2018. The changes were made in accordance with the applicable transitional provisions.

Expressed in Canadian dollars

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

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 period beginning on January 1, 2018. There was no material impact on the interim consolidated financial statements as a result of the adoption of this amendment.

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. There was no material impact on the interim consolidated financial statements as a result of the adoption of this amendment.

4. PRINCIPLES OF CONSOLIDATION

Theinterimconsolidated financial statements comprise the financial statements of the Company and its subsidiaries.

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

*In November 2017, Ondobit Limited was dissolved.

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 interim 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.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these interim 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 interim consolidatedfinancial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the interimconsolidated 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.

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 17.

(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.

(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 recognized in profit or loss such that the cumulative expense

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Share-based payments

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 period. Taxable profit differs from profit as reported in the interim consolidated statement of comprehensive loss because of items of income or expense that are taxable or deductible in other periods 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.

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.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(d) 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.

(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.

(f) Impairment of non-financial assets (continued)

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

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 periods. 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:

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 interim 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 though 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.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

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. 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 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 derecognized 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.

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 reorganization 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 amortized 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, recognized 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.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized 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 realized or has been transferred to the Company. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized 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.

All financial liabilities are recognized 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 March 31, 2018 and 2017, 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.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g)Financial instruments (continued)

Derecognition
A financial liability is derecognized 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.

(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.

During the period ended March 31, 2018, diluted loss per share is the same as basic loss per share as the effects of options, warrants and the conversion features 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 March 31, 2018 and2017.

(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.

Expressed in Canadian dollars

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 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.

7. EQUIPMENT

Cost	**Office equipment $**	**Furniture and fixtures $**	**Computer equipment $**	**Vehicles $**	**Total $**
Balance December 31, 2016	13,028	129,974	43,459	22,946	209,407
Additions	8,338	-	-		8,338
Balance December 31, 2017	21,366	129,974	43,459	22,946	217,745
Additions		725	-	-	
Balance March 31, 2018	21,366	130,699	43,459	22,946	218,470

Accumulated amortization	**Office equipment $**	**Furniture and fixtures $**	**Computer equipment $**	**Vehicles $**	**Total $**
Balance December 31, 2016	7,460	78,160	41,073	6,459	133,152
Amortization	1,549	10,363	1,596	3,780	17,288
Balance December 31, 2017	9,009	88,523	42,669	10,239	150,440
Amortization	629	2,279	173	745	3,826
Balance March 31, 2018	9,638	90,802	42,842	10,984	154,267

Carrying value	**Office equipment $**	**Furniture and fixtures $**	**Computer equipment $**	**Vehicles $**	**Total $**
Balance December 31, 2017	12,357	41,451	790	12,707	**67,305**
Balance March 31, 2018	11,728	39,897	617	11,962	**64,203**

As at March 31, 2018, the net book value of the Company's equipment by geographic location is as follows: Canada $3,541 (December 31, 2017 - $3,738) and Nigeria $60,662 (December 31, 2017 - $63,565).

8. PETROLEUM PROPERTY INTERESTS

OML 25 PROJECT

In June 2014, Crestar Integrated Natural Resources Limited ("CINRL") (see Note 13) 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 an 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. CINRL commenced injunction proceedings in January 2015 in the Nigerian Federal High Court to bar the Shell JV from effecting a transfer to NNPC or anyone else, which injunctions were granted on a preliminary basis. The Shell JV subsequently sought to discharge the injunctions, but the Federal High Court dismissed the Shell JV's application on March 6, 2015. Further court proceedings were instituted by the Shell JV, but ultimately those have been unsuccessful. The Federal High Court of Nigeria also has ruled in favor of CINRL and granted an injunction in favour of CINRL which effectively has frozen any potential plans by the NNPC to acquire the 45% participating interest in OML 25 being divested by the Shell JV. As of the date hereof this injunction in favour of CIRNL continues to remain in place.

CINRL had also commenced legal proceedings in the High Court of Justice in England, against the Nigerian subsidiary of Seplat Petroleum Development Company PLC ("Seplat") on January 27, 2017. CINRL's claim alleged bad faith conduct by Seplat's subsidiary, Newton Energy Limited ("Newton"), relating to the proposed acquisition of OML 25. The dispute in the English High Court was on US$20.5 million held in escrow following a protracted dispute over the acquisition of OML 25 from the Shell JV, which CINRL alleged should have been released to CINRL had Newton not sent its bad faith election that it intended to finance the OML 25 purchase on August 16, 2016.

On April 2, 2018, the Company announced that the settlement offer in the litigation between CINRL and Newton has been accepted. Under the terms of the settlement offer, on April 16, 2018, the Company received US$10.5 million plus interest of US$227,820from the escrowed funds. The interest was for the period from January 3, 2018 to the date of acceptance of the settlement offer on March 21, 2018. The Company has also been paid by Seplat the amount of US$1.2 million for its cost of the action against Seplat and Newton.

Expressed in Canadian dollars

9. CONVERTIBLE DEBENTURES

In 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.

Date of Issuance		**$**
April 30, 2015		1,599,925
May 29, 2015		1,324,970
June 12, 2015		75,000
Balance, December 31, 2015		2,999,895
Repayment, November 2016		(2,000,000)
Balance December 31, 2016		999,895
Re-lent:		
November 14, 2017	100,000	
November 24, 2017	208,350	
December4, 2017	16,650	
December 19, 2017	100,000	425,000
Balance, December 31, 2017		1,424,895
Re-lent:		
January 25, 2018	166,666	
February 28, 2018	25,000	
March 29, 2018	40,000	231,666
Balance, March 31, 2018		**1,656,561**

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 debenture holders within 60 days from the receipt of the Final Award. In the event the Company pays 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 debenture 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 debenture holders will have rights to accelerate the maturity date to 15 days following the date the convertible debenture 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. 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.

Expressed in Canadian dollars

9. CONVERTIBLE DEBENTURES (continued)

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 interimconsolidated 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 period ended March 31, 2018 of $89,855 (December 31, 2017 – $352,224) was charged to CINRL.

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 loss (income) and comprehensive (loss) income. 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 $Nil (December 31, 2017 - $Nil) in the interim consolidated statement of (loss) income and comprehensive (loss) income during the period ended March 31, 2018.

During the year ended December 31, 2017, the convertible debenture holders re-lent $425,000 to the Company to finance working capital. Of the $425,000 re-lent amount, $200,000 was from the CEO of the Company. The re-lent amount carries the same terms as the original convertible debentures. During the three month period ended March 31, 2018, the convertible debenture holders re-lent an additional $231,666. Of the $231,666 re-lent amount, $65,000 was from the CEO of the Company.

Balance of liability component and derivative liabilities of the convertible debentures as at March 31, 2018:

	Liabilities $	Derivative liabilities $
Balance, December 31, 2016	725,991	450,136
Re-lent	288,460	136,539
Accretion on convertible debentures	352,224	-
Cash interest	(155,297)	-
Derivative gain	-	(395,715)
Balance, December 31, 2017	**1,211,378**	**190,960**
Re-lent	231,666	
Accretion on convertible debentures	191,245	
Cash interest	(53,433)	
Derivative gain		(74,072)
Balance, March 31, 2018	**1,580,856**	**116,918**

Expressed in Canadian dollars

9. 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	
As at	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Expected dividend	0%	0%	0%	0%	0%	0%
Expected volatility	182%	72%	182%	72%	182%	72%
Risk-free interest rate	1.66%	0.74%	1.66%	0.74%	1.66%	0.74%
Expected average life (years)	0.33	1.33	0.33	1.33	0.33	1.33
Fair value	$70,101	$240,070	$58,053	$198,812	$3,286	$11,254

Issuance dates of convertible debentures	November 24, 2017	
As at	March 31, 2018	November 24, 2017
Expected dividend	0%	0%
Expected volatility	171%	185%
Risk-free interest rate	1.66%	1.42%
Expected average life (years)	0.33	0.50
Fair value	$59,520	$136,539

Included in accounts payable and accrued liabilities as of March 31, 2018 was $53,433(December 31, 2017 - $131,393) interest payable on convertible debentures.

10. SHARE CAPITAL

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

	#	$
Balance, December 31, 2016,and 2017 and March 31, 2018	41,474,070	17,142,711

11. 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;
- 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.

Expressed in Canadian dollars

11. SHARE-BASED PAYMENTS RESERVE

The following reconciles the share options outstanding:

	March 31, 2018		December 31, 2017	
	Number of options #	Weighted average exercise price $	Number of options #	Weighted average exercise price $
Balance, beginning of period/year	5,150,000	0.29	6,135,000	0.29
Expired	-	-	(985,000)	0.48
Balance, end of period/year	5,150,000	0.29	5,150,000	0.29

The Company has the following share options outstanding at March 31, 2018:

Estimated Grant Date Fair Value $	Outstanding Options #	Options Exercisable #	Exercise Price $	Expiry Date
299,470	4,900,000	4,900,000	0.25	May 4, 2020
5,700	250,000	250,000	0.30	September 15, 2020
305,170	5,150,000	5,150,000		

The weighted average remaining contractual life of the stock options exercisable at March 31, 2018 was 2.36years (December 31, 2017 – 3.07 years)

12. WARRANT RESERVE

	#	$
Balance, December 31, 2015	8,730,844	2,214,569
Warrants expired	(1,500,000)	(442,987)
Balance, December 31, 2016	7,230,844	1,771,582
Warrants expired	(7,079,531)	(1,731,511)
Balance, December 31, 2017 and March 31, 2018	151,313	40,071

The Company has the following warrants outstanding as at March 31, 2018:

Estimated Grant Date Fair Value (net of issue costs) $	Outstanding Warrants #	Warrants Exercisable #	Exercise Price $	Expiry Date
23,126	50,000	50,000	1.25	October 30, 2019
16,945	101,313	101,313	1.25	December 19, 2019
40,071	151,313	151,313		

13. INVESTMENT IN CRESTAR INTERGRATED NATURAL RESOURCE ("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 Company shall first recover any amounts paid or payable by the Company to third parties including financing interest associated with the purchase of any oil and gas project (including OML 25);
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 CHEPCL 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 Newton, a subsidiary of Seplat to provide CINRL with a loan for the full acquisition cost of the asset. The agreement further provided that Newton would provide all technical services required under the operation of OML 25, and such agreement was subject only to the formal closing of the acquisition. As consideration, Newton 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 during2015 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 OML 25 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.

During the three months ended March 31, 2018, the Company recorded a loss on equity investment in CINRL of $290,027 (March 31, 2017 - $166,781). As at March 31, 2018, the Company's recorded impairment on equity investment in connection with CINRL totaled $989,910 (March 31, 2017-$558,190).

14. 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.

15. FINANCIAL INSTRUMENTS

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 March 31, 2018 and 2017. The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the CSE.

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

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

Liquidity risk
The Company's approach to managing liquidity risk is to ensure that it will have liquidity to meet liabilities when due. At March 31, 2018, the Company had cash and cash equivalents of $59,446 (December 31, 2017 - $68,300) to settle current liabilities of $4,368,546 (December 31, 2017 - $3,159,395).The Company has a working capital deficiency of $4,207,476 (December 31, 2017 - $2,990,093). The Company's current financial liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk
(a) Interest rate risk
The Company has cash balances and interest-bearing debt due to convertible debenture holders as described in Note 9. 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.

15. FINANCIAL INSTRUMENTS (continued)

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

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

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

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

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

16. RELATED PARTY DISCLOSURES

These interim consolidated financial statements include balances and transactions with directors and officers of the Company and/or corporations related to them. During the period ended March 31, 2018 and 2017, the Company entered into the following transactions involving related parties:

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

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

Expressed in Canadian dollars

16. RELATED PARTY DISCLOSURES (continued)

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 three months ended March 31, 2018 and 2017were as follows:

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

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

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

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

See also Notes 9, 13 and 17.

17. COMMITMENTS AND CONTINGENCIES

The Company is party to certain management contracts, which contain clauses requiring additional payments of up to $1,800,000 be made upon the occurrence of certain events such as a change of control and additional payments of up to $872,000 be made upon termination of contracts. As a triggering event has not taken place, the contingent payments have not been reflected in these interimconsolidated financial statements. As of March 31, 2018, under these management contracts, management has committed to $990,000of 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 **$**
2018	68,000
2019	6,000
Total	74,000

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.

17. COMMITMENTS AND CONTINGENCIES (continued)

The Company is party to legal proceedings in the ordinary course of its operations related to legally binding agreements with a third party. The Company believes these claims to be without merit. Management does not expect the outcome of these proceedings to have a materially adverse effect on the results of the Company's financial position or results of operations and therefore no amounts have been reflected in these financial statements. Should any losses result from the resolution of these disputes, that amount will be charged to operations in the year that it is determined.

In June 2017, the Company lent CINRL£200,000 GBP as a form of security for legal costs. In August 2017, the Company's President and CEO provided a letter of guarantee in the amount of USD $575,000 also as a form of security for legal costs. Both of these security forms are protected by the litigation until such time when the court orders are released. As a result of the settlement reached April 16, 2018 in this action, these amounts previously held as security for legal costs were scheduled to be release subsequent to period end. See Note 19 – Subsequent Events.

18. SUBSEQUENT EVENTS

Settlement Offer

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

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

Litigation Payout

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

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

Convertible Debenture Conversion

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

In April 2018, three debenture holders elected to convert their holdings into common shares of the Company. Three other debenture holders, including the Company President and CEO have elected the payout option. The remaining two debenture holders have until May 29, 2018 to exercise the conversion right. The Company plans to issue the shares from the exercise of the conversion right effective May 29, 2018.