JUNEX

Management discussion and analysis

for the quarter ended June 30, 2013

This management discussion and analysis ("MD&A") is a comparison of Junex's financial position and results for the quarter ended June 30, 2013, with those of the previous year. It should be read in conjunction with the consolidated financial statements and notes for the quarter ended June 30,2013 thereto for the year ended December 31, 2012. These interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, and are presented in Canadian dollars. The interim consolidated financial statements as at June 30, 2013 and the Quarterly Report for the three month ended June 30, 2013 have not been audited by the Company's external auditors.

Nature of Business

The Company was incorporated under Part 1A of the Companies Act (Québec). Its main activity is oil and gas exploration in the province of Québec. The Company is also engaged in complementary activities such as selling natural brine and providing oil and gas well drilling services.

Junex is a junior oil and gas exploration company that holds exploration rights on approximately 5.2 million acres of land located in the Appalachian basin in the Province of Quebec. The company is in the heart of the Utica Shale gas discovery located in the St. Lawrence Lowlands and holds a significant land-package on the Anticosti Island where an independent report has provided their Best Estimate of the undiscovered shale oil initially-in-place ("OIIP") volume for the Macasty Shale on all five of Junex's permits on Anticosti Island at 12.2 billion barrels.

Forward-Looking Statements

Certain statements in this report should be considered as forward-looking statements. Such statements are subject to risks, uncertainty and other factors that could cause the Company's actual results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements typically contain words such as "anticipate", "believe", "plan", "estimate", "expect", "may", "will", "project", "should" or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements pertaining to the following:

› Realization and results of future exploration;
› Size of hydrocarbon discoveries and/or production;
› Anticipated revenues and cash flows;
› Capital expenditures contemplated by the Company or its partners;
› Cost and scheduling of operations planned by the Company or its partners;
› The Company's ability to enter into new joint venture agreements;
› Estimation of reserves in place and/or recoverable;
› The Company's financing capability.

The statements made herein may constitute forward-looking statements. These statements relate to future events or Junex's future financial performance and entail risks, uncertainties and other factors, both known and unknown, that may appreciably affect its results, financial performance or achievements when considered in light of the content or implications of statements made by Junex. Actual events or results could be significantly different. Accordingly, investors should not place undue reliance on forward-looking statements. Junex does not intend and undertakes no obligation to update these forward-looking statements.

1.1 Date

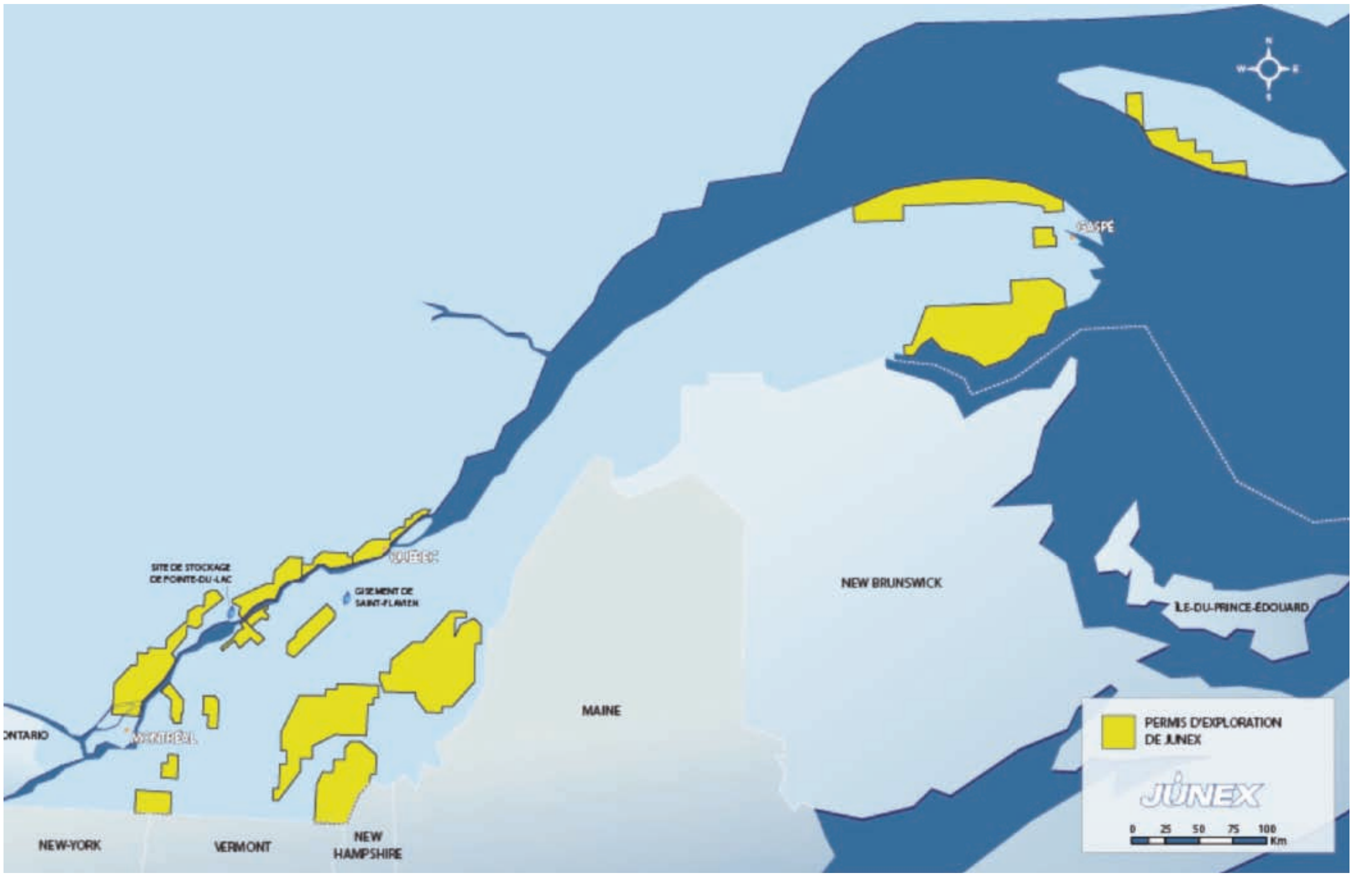
This report for the period ended June 30, 2013, was completed on August 22, 2013.

1.2 Exploration Program

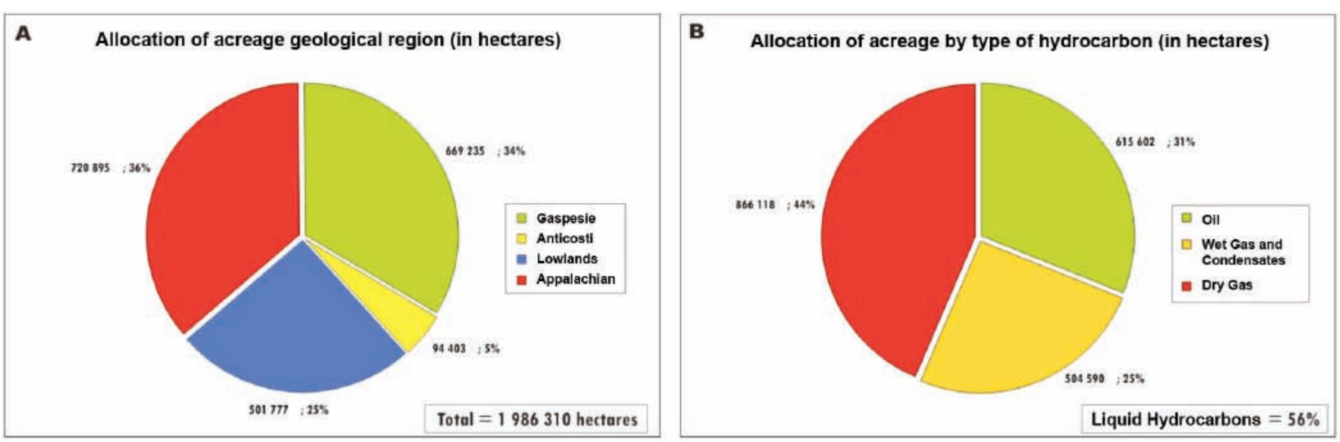
Junex's Acreage

Holding nearly 20,000 square kilometers of petroleum and natural gas rights in Quebec, Junex is the largest holder of oil and gas exploration licenses in Quebec. Junex's properties are located in sedimentary basins in the St. Lawrence Lowlands, on the Gaspé Peninsula, on Anticosti Island and in the Appalachian region. With its presence in these different regions, Junex has diversified its portfolio of exploration objectives and thus reduced the risks typically associated with a single exploration focus. The company's portfolio of projects is well-balanced with just over half of these properties having a potential for petroleum liquids (oil or condensate).

Location of Junex's properties in Quebec



Distribution of the portfolio of Junex's properties in Quebec



Since 2006, Junex has entered into various partnership agreements to explore the shale gas potential in certain areas in the St. Lawrence Lowlands. Three agreements are in place, including two with Lone Pine Resources and another with Canadian Quantum Energy, both of who are based in Calgary, Alberta.

Junex also owns overriding royalties on production ranging from 0.5% to 5% in an additional 12,000 square kilometer-sized area in three sedimentary basins in Quebec, including the Gaspé Peninsula and the Lower St. Lawrence.

Elsewhere in North America, Junex is in the process of earning a 25 % working interest in an oil exploration project covering more than 2,200 acres located in the Permian sedimentary basin of west Texas.

Exploration Operations

During the second quarter, exploration operations consisted of further study of drilling results on the Gaspé Peninsula and data from the seismic survey on Anticosti Island. The purpose of these analyses is to prepare future drilling campaign. In parallel, evaluation efforts were completed on various projects in the St. Lawrence Lowlands and on the Gaspé Peninsula. In the Lowlands, field operations consisted of the maintenance and monitoring of Junex's well sites. No exploration opeations were undertaken during the second quarter of 2013.

Galt

Located 15 kilometers west of the town of Gaspé, the Galt project covers an area of 214 square kilometers. For nearly two years, on the basis of certain recommendations made by experts from Netherland, Sewell & Associates, Inc. ("NSAI"), a firm of worldwide petroleum consultants, Junex's team advanced its analysis of a variety of geological and geophysical data at Galt. Drilling targets were defined to both assess the resource play potential of the formation and the potential associated with hydrothermal dolomitization of the Forillon Formation.

The oil potential of the Galt property was re-evaluated by NSAI, with an effective date as of December 31, 2012. They provided an update of their Best Estimate of the total Oil-Initially-In-Place ("OIIP") resources at 330 million barrels for the Forillon and Indian Point formations on Junex's Galt Field property. This 330 million barrel figure includes Discovered Contingent OIIP volumes of 36 million barrels and Undiscovered Prospective OIIP volumes of 294 million barrels in the combined Forillon and Indian Point formations. This latest evaluation considers new information from the Junex Galt No. 4 well and a re-examination of other pertinent data.

Over the last six months, our exploration team continued its interpretation of the wells results drilled on the Galt project, including the Galt No4 well drilled in late 2012. A comprehensive study of the various options for the drilling of future horizontal wells was performed in-house. To complement this, Junex commissioned iReservoir, a consulting firm based in Denver, Colorado, to review the data collected by Junex from the wells drilled on the Galt project then to provide a technical opinion as to the optimal design and orientation of future horizontal wells a study.

Junex holds a 68.82% working interest in the 16,645 acre-sized Galt Field property. Furthermore, Junex controls a 100% working interest a block of permits of 36,816 acre-sized surrounding Galt property; this block was not evaluated by this study.

In the second quarter of 2013, Junex's investment in the Galt project amounted to $201,717.

Anticosti

Located in the Gulf of St. Lawrence in Quebec, Anticosti Island extends over a length of 220 km and covers an area of 8,000 km2. Several reservoir zones in dolomitized carbonates (HTD) have been identified both on seismic and in wells drilled to date. The South Anticosti block of permits covers an area of 944 square kilometers (233, 275 acres) and is held 100% by Junex. Since 2009, Junex's team focused on evaluating the petroleum potential of Anticosti Island. Exploration of the Deep Fairway in the south island could demonstrate the existence of a significant hydrocarbon accumulation within a closed petroleum system.

The thickness of the sedimentary sequence on Anticosti Island ranges from 1,200 to 4,000 meters. Recent studies have been focused on the Macasty Shales (the "Macasty"). The Middle Ordovician-aged Macasty is recognized as being the source rock for hydrocarbons present in the basin. Most of Junex's properties are located south of the Jupiter Fault in the Deep Fairway. Laboratory results received in recent years show that the low permeability Macasty Shale on Junex's acreage could contain significant petroleum potential, comparable to the Utica shale in Ohio and the Eagle Ford in Texas.

NSAI prepared an evaluation of the oil potential of the Macasty Shale on Junex's permits situated principally in the Deep Fairway. In its report, NSAI placed their Best Estimate of the undiscovered shale oil initially-in-place ("OIIP") volume for the Macasty Shale on Junex's permits on Anticosti Island at 12.2 billion barrels.

In mid-September, Junex announced it had completed acquisition of 224 line-kilometres of new 2D seismic data on its block of exploration permits on south Anticosti Island. This seismic survey, the largest ever realized by Junex's exploration team, is part of a multi-phase exploration program targeting deep conventional sedimentary sequences and the shallower Macasty Shale. The seismic field acquisition was a success and evaluation of the field data indicates that the data quality was very good. Over the last six months, Junex's exploration team completed the interpretation of the new seismic data which has led to the identification of several drillable prospects.

Junex's investment in the Anticosti project amounted to $128,734 for the first quarter of 2013.

Other Properties

In the St. Lawrence Lowlands ("Lowlands") region, along the Gaspé Peninsula and in the Appalachians, Junex's exploration team continues its evaluation efforts. The objective is to delineate hydrocarbon-prospective exploration areas in Ordovician-aged carbonates or Cambrian-aged sandstones. For this reason, the company prepared an update of the geoscience information for its projects on its North Shore, Richelieu area, Appalachians area, Taconic Front and the ay of Chaleurs properties. Several technical studies are currently underway to further define the potential of the company's acreage.

In recent years, the company had focused its activities on the Lowlands with the main objective to develop the Utica Shale gas discovery. Through its drilling operations, research and analysis, the company has succeeded in establishing an estimate of the natural gas potential of its permits in southern Quebec. Over a period of two years, Junex had mandated NSAI to undertake a total of three independent evaluations covering various blocks of permits held by Junex and covering prospective areas of Utica shale. These three evaluations, when combined, evaluated two-thirds of the permits held by Junex in the Lowlands. For all of Junex's Lowlands permits assessed by NSAI, their Best Estimate of Prospective original gas-in-place ("OGIP") volume in the Utica Shale was established at approximately 45 trillion cubic feet ("TCF"). Junex's net portion of NSAI's Best Estimate of Prospective OGIP volume in the Utica Shale on its permits is approximately 34.3 TCF.

Junex continues to contribute to the Research Chair on the Geological Sequestration of CO2. This project is part of the process of exploration conducted by Junex to develop the potential of underground storage in Quebec.

In the last quarter, Junex's exploration and operation team continued maintenance operations on its various well sites however no new exploration operations were undertaken. This situation will continue until the end of the Moratorium on Shale gas exploration and production. Junex's investment in its various projects reached $148,914 for the second quarter of 2013.

Permian Basin, Texas

Evaluation work progressed in our project situated in the Permian Basin in Schleicher County in West Texas. The recent Thornburg 27 # 6 well was designed to target lower risk, well-characterized oil reservoirs in the region. In the last months, various tests were carried out and the results will be used in the project's future development. Junex expects the operator of the project, Telesis Operating Co., to propose a new exploration program in the coming weeks.

No investment was made by Junex in the Schleicher County project during the second quarter of 2013.

In parallel, Junex continues its efforts to identify business opportunities in different geological basins in the United States or Canada.

Exploration and evaluation assets

Exploration and evaluation assets of Junex amounted to $37,011,517 as of June 30, 2013, compared to $36,037,818 as of December 31, 2012, which represents an increase of $973,699. These exploration expenses represent the net investments of the Company on its different projects in oil and gas exploration. Thus, they are deducted from the write-off which can occur during the year due to the abandonment of wells and/or projects, also net of tax credits that the Company receives from Québec, and from partners' contributions that are paying a share of exploration expenses for some projects.

Details of exploration and evaluation assets as at June 30, 2013 and as at December 31, 2012 are detailed as follows:

Breakdown of exploration and evaluation assets as at June 30, 2013

	Exploration fees	Exploration rights (properties)	Total
Chaleurs Bay	2,710,837	518,604	3,229,441
Taconic Belt & Anticosti	3,921,115	355,240	4,276,355
Galt	6,134,892	1,173,457	7,308,349
North Shore	5,168,684	529,835	5,698,519
Becancour-Nicolet	10,249,148	224,698	10,473,846
Appalachians & Lyster	4,487,499	424,070	4,911,569
Texas	178,734	199,056	377,790
Northern Quebec	16,564	52,432	68,996
Richelieu	399,286	267,366	666,652
	33,266,759	3,744,758	37,011,517

Breakdown of exploration and evaluation assets as at December 31, 2012

	Exploration fees	Exploration rights (properties)	Total
Chaleurs Bay	2,690,076	478,636	3,168,712
Taconic Belt & Anticosti	3,765,513	330,424	4,095,937
Galt	5,796,156	1,172,783	6,968,939
North Shore	5,102,495	500,043	5,602,538
Bécancour-Nicolet	10,094,976	224,363	10,319,339
Appalachians & Lyster	4,446,389	367,464	4,813,852
Texas	177,699	199,056	376,755
Northern Quebec	16,302	52,432	68,734
Richelieu	375,928	247,083	623,011
	32,465,534	3,572,284	36,037,818

1.3 Selected Financial Information

FOR THE QUARTERS ENDED JUNE 30, 2013 AND 2012

(Thousands of dollars, except per share amounts)	Three-month period ended June 30 2013	2012	Six-month period ended June 30 2013	2012
OPERATIONS	**$**	**$**	**$**	**$**
Sales by segment				
Oil and natural gas	21	14	55	28
Natural brine	27	77	36	78
Drilling services	508	289	645	843
Others	-	-	-	4
Total sales	556	380	736	953
Gross margin	(31)	67	(135)	(91)
Net earnings (net loss)	(331)	(266)	(670)	(605)
Basic and diluted net earnings (net loss) per share	(0.005)	(0.004)	(0.010)	(0.010)
BALANCE SHEET	**06-30-2013**	**06-30-2012**	**06-30-2013**	**06-30-2012**
Working capital	14,177	22,312	14,177	22,312
Total assets	55,306	58,080	55,306	58,080
Deferred income taxes	296	787	296	787
Total liabilities	1,073	1,852	1,073	1,852
Shareholders' equity	54,233	56,228	54,233	56,228
CASH FLOWS				
Cash flows from (used in) operating activities	(326)	(16)	(833)	(453)

1.4 Results of Operations

Sales and Profit Margin

The Company's sales for the second quarter of 2013 totalled $555,964 which represents an increase compared to sales of $379,534 recorded for the second quarter of 2012. This increase in sales is directly related to the increase of sales of our drilling division which amounted to $288,795 in the second quarter of 2012 compared to $507,968 in 2013. It should be noted that Junex uses its drilling division primarily for its own exploration requirements and those of its partners. This allows the Company to better control exploration-related costs on its oil and gas properties. However, only revenues from third parties are included in the sales figures. The company expects further third-party contracts to be performed during the last two quarters of 2013.

Sales of natural brine decreased by $50,312 in 2013 compared to the corresponding quarter of 2012, decreasing from $76,947 to $26,635. Junex produces natural brine that is sold at the wellhead to distributors who in turn sell the product to final consumers. Sales dropped significantly due to the loss of an important contract to our main client. Moreover, the months of May and June have been very rainy. As for oil and gas sales, these generated $21,361 in the second quarter of 2013, compared to sales of $13,792 in the second quarter of 2012. This improvement is related to new oil and gas activities in Texas and expected to continue throughout the year 2013.

The gross margin for the second quarter of 2013 is negative by a factor of 5.6%, compared to a positive gross margin of 17.5 % in the second quarter of 2012. The decline in the margin is mainly explained by the lower margin of the drilling division which decreased from 3.9% to -2.2%. This gross margin will improve during the course of the year as the sales volumes will be sufficient to support all fixed production costs. The gross margin for the brine division has also decreased from 21.8% to -59.3% due to the decline in sales in the second quarter of 2013.

Net Loss and Cash Flows

The Company posted a net loss of $331,059 for the second quarter of 2013, compared to a net loss of $265,514 registered for the same quarter of 2012. The Company's operating activities used cash flows of $326,207 in the second quarter of 2013, compared to $16,414 used in the same quarter of 2012. In addition, financing activities required liquidities of $164,937 due to the buy-back of 295,000 shares of the company for a total amount of $164,937. During the second quarter of 2012, 282,000 shares were bought back for an amount of $207,499.

Administrative expenses increased by $14,105 or 3.3% in the second quarter of 2013. The variation in administrative expenses is detailed below.

Detail of administrative expenses for the quarters ended June 30, 2013 and 2012.

	3 months		6 months	
(en milliers de dollars, sauf les données par action)	**06-30-2013**	**06-30-2012**	**06-30-2013**	**06-30-2012**
Administrative expenses	**$**	**$**	**$**	**$**
Salarie and benefits	144,546	101,169	317,660	232,466
Professional fees	179,092	216,914	303,458	374,686
Insurances	30,829	35,432	60,591	72,837
Office and equipment location	11,606	7,569	23,631	12,290
Marketing and promotion	10,225	5,052	18,729	14,653
Taxes and permits	7,939	3,618	17,332	13,572
Travel and business development	19,993	35,905	45,453	59,577
Office fees	30,713	15,860	42,348	28,272
Amortization of property, plant and equipment	4,758	4,077	9,106	8,155
	439,701	425,596	838,308	816,508

1.5 Summary of Quarterly Results

The Company's quarterly results may fluctuate substantially from one quarter to the next due to non-recurring events. The quarterly net loss generally ranges from $200,000 to $400,000. The unusual $750,749 loss in the last quarter of 2012 was mainly caused by the write-off of $784,591 on exploration and evaluation assets.

Financial Data for the Last Eight Quarters

	June 30 2013 $	March 31 2013 $	Dec. 31 2012 $	Sept.30 2012 $	June 30 2012 $	March 31 2012 $	Dec. 31 2011 $	Sept. 30 2011 $
Total sales	555,964	180,218	659,421	48,294	379,534	573,805	483,541	47,568
Net income (loss)	(331,059)	(338,753)	(750,749)	(182,241)	(265,514)	(339,957)	(185,357)	(292,868)
Basic net income (loss) per share	(0.005)	(0.005)	(0.012)	(0.003)	(0.004)	(0.006)	(0.002)	(0.005)

1.6 Liquidity and Capital Resources

As of June 30, 2013, the Company's working capital amounted to $14,176,570, representing a decrease of $1,997,259 compared to the working capital of $16,173,829 as at December 31, 2012. The decrease in working capital was primarily due to exploration expenditures during the quarter combined with the cash flows used from operating activities.

The Company had financial resources of $10,780,748 as at June 30, 2013, which is sufficient to undertake its near-term development program and meet the commitments mentioned in Note 15 to its annual financial statements. The Company is not exposed to any liquidity risk arising from financial instruments.

1.7 Sources of Financing

The Company did not complete any financing in the course of the last quarter.

1.8 Off-Balance-Sheet Arrangements

The Company has no significant off-balance-sheet arrangement other than the consolidated financial commitments specified in Note 15 to the annual consolidated financial statements.

1.9 Related Party Transactions

Related party transactions amounted $8,849 in the second quarter of 2013. These transactions consisted of the rental of a warehouse and were concluded with a company having significant influence. Moreover, fees totalling $12,500 were paid to one officer and director of the Company who is also a principal shareholder. Related-party transactions with a company controlled by a shareholder having significant influence were entered into in the normal course of business and were measured at the exchange amount, being the amount established and accepted by the parties. The commercial goal of the transaction is the rental of warehouses that allow optimized drilling service activities.

1.10 Anticipated Transactions

No transactions that would have a significant impact on the Company's financial position, operating results or cash flows are anticipated.

1.11 Critical Accounting Estimates

Preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles or IFRS requires management to make estimates and assumptions that affect amounts in the financial statements and notes thereto. These estimates are based on the management's best knowledge of current events and actions that the Company may take in the future. Actual results could differ from such estimates. The Company did not make any accounting estimates that could have a material impact on the Company's financial position.

1.12 Changes in Accounting Policies

Changes in accounting policies are described in the notes to the financial statements, available on SEDAR (www.sedar.com). The only accounting changes were those that arose from the adoption of new accounting policies.

1.13 Supplemental Information Required by Emerging Issuers Without Significant Operating Income

The Company's primary business is oil and gas exploration. A summary of work carried out by the Company is presented in Section 1.2 of this MD&A.

National Instrument 51-102

Deferred exploration expenses for the six-month period ended June 30, 2013

	Geology	Geophysics	Wells	Evaluation	Professional and General fees	Total
Chaleurs Bay	17,682		254		10,199	28,135
Taconic Belt & Anticosti	108,363	6,962		19,094	76,440	210,859
Galt	82,927	5,873	117,020	86,803	166,406	459,029
North Shore	37,071		20,107		32,516	89,694
Becancour-Nicolet	66,277		67,053		75,210	208,540
Appalachians & Lyster	22,184	2,549	11,550		19,742	56,025
Texas			1,035		-	1,035
Northern Quebec	226				128	354
Richelieu	2,355		28,088		5,430	35,873
	337,085	15,384	245,107	105,897	386,071	1,089,544

Règlement 51-102

Deferred exploration expenses for the six-month period ended June 30, 2012

	Geology	Geophysic	Wells	Evaluation	Professionals and General fees	Total
Baie des chaleurs	25,088	1,198	882		15,933	43,101
Bande Taconique et Anticosti	47,189	74,872			31,905	153,966
Galt	28,678	3,431	715,674	14,393	107,161	869,337
Rive Nord	31,878		23,559	1,403	28,267	85,107
Bécancour-Nicolet	52,660		69,255	8,099	62,798	192,812
Appalaches et Lyster	5,008	3,528	14,363		12,063	34,962
Texas	82,997				8,999	91,996
Nord du Québec	21,328				5,628	26,956
Richelieu	551		17,283		2,530	20,364
	295,377	83,029	841,016	23,895	275,284	1,518,601

1.14 Financial and Other Instruments

The analysis of financial instruments used by the Company can be found in Note 19 and 20 to the annual consolidated financial statements.

1.15 Other Information

Common Shares
As at June 30, 2013, there were 66,213,928 common shares outstanding.

Warrants
The following warrants were issued as at June 30, 2013:
3,571,428 warrants exercisable at a price of $0.875 per share until June 28, 2015

Volume	Exercise Price	Expiry date
30,000	0.80 $	09-30-2014
80,000	0.90 $	10-18-2014
90,000	1.28 $	05-04-2016
21,666	1.18 $	08-31-2016
90,000	0.97 $	08-31-2017
200,000	0.75 $	01-24-2018
600,000	1.68 $	04-07-2018
140,000	2.84 $	09-05-2018
1,623,000	0.88 $	03-20-2019
1,212,000	0.71 $	11-15-2022
4,086,666	**1.02 $**	

Risks and Uncertainties

The future success of the Company will depend upon its ability to find or acquire additional oil and gas reserves that are economically recoverable. Except to the extent that the Company conducts successful exploration or development activities or acquires properties containing proven reserves, or both, the reserves of the Company will generally decline as reserves are produced. There is no guarantee that any of the development projects and production activities implemented in the future will result in significant additional reserves or that the Company will succeed in drilling productive wells at low exploration costs. If prevailing oil and gas prices were to increase significantly, the Company's exploration costs to add reserves could be expected to increase. The drilling of oil and gas wells involves a high degree of risk, especially the risk of a dry hole or of a well that is not sufficiently productive to provide economic return of the capital expended to drill the well.

BAPE Report and Strategic Environmental Evaluation

During 2010, the Quebec government has entrusted the Bureau d'audiences publiques sur l'environnement ("BAPE") with the mandate to conduct a Commission of Inquiry and public hearings on the sustainable development of the Utica Shales in Quebec. The BAPE's report, made public by Québec's Minister of Environment and Sustainable Development on March 8, 2011 (the complete report is available at the following address: http://www.bape.gouv.qc.ca/sections/mandats/Gaz_de_schiste/Index.htm) most notably recommends the Québec government to conduct a Strategic Environmental Evaluation ("SEE") which is estimated to last 24 to 30 months according to the Minister of Environment. During this evaluation, BAPE recommends that hydraulic fracturing of wells shall only be authorized within the context of the SEE where it will allow improvement in the level of scientific knowledge. The exact mandate which will be entrusted to the committee in charge of producing the SEE was still not revealed as of the date of the report. The committee's members were still not confirmed either.

In the long term, the Québec government's decision to undertake an SEE on the Utica Shales development could have a significant impact on the company's business in the extent where it is hard to foresee the result of this evaluation and what the government's decisions will be further to this. In the short term, it is very likely that the company's exploration activities, as those of every active company in Québec, should slow down by the SEE who will have the leisure to accept or not the fracturing activities presented to it.

Risks associated with oil and gas operation

Oil and natural gas operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosions, blowouts, formation damage and oil spills, any of which could result in substantial damage to oil and gas wells, producing facilities and other property of the Company and to the environment, or in personal injury. In accordance with industry practice, the Company is not fully insured against all of these risks, nor are all such risks insurable. Although the Company has maintained liability insurance in amounts which it considers adequate, the nature of these risks is such that liabilities could exceed policy limits, in which case significant costs could be incurred which could have a materially adverse effect upon the financial condition of the Company. Government regulations relating to environmental matters could also increase the cost of carrying on business or require the Company to change its activities or to cease operating in certain areas.

Uncertainty of crude oil, natural gas reserve and resource evaluations

The process of estimating oil, gas and natural brine reserves and/or resources is complex, requiring significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir. As a result, such estimates are inherently imprecise. Actual data concerning future production, oil, gas and natural brine prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil, gas and natural brine reserves may vary substantially from those estimated in the respective reserve reports. Any significant variances in these assumptions could materially affect the estimated quantities and the present value of reserves as set forth in this annual information form. In addition, such reserves may be subject to downward or upward revisions based upon production history, results of future exploration and development, prevailing oil, gas and natural brine prices and other factors, many of which are beyond the control of the Company. Actual production, revenues, taxes, development expenditures and operating expenses with respect to reserves will likely vary from the estimate used, and such variances may be material.

Government regulation

The petroleum and natural gas industry is subject to controls and regulations established by the various levels of government with respect to prices, royalties, land tenure, production quotas, exports and imports of petroleum and gas and environmental protection. It is impossible to predict with any certainty what impact these controls and regulations will have on the business of the Company or if any amendments will be made to such controls and regulations.

The oil, natural gas and natural brine industries are is actually subject to environmental regulations pursuant to a variety of provincial and federal legislation. This legislation provides restrictions and prohibitions on the emissions or releases of various substances produced or used in association with certain extraction activities within the oil and gas industries and which affect the costs and location of wells and installations and the extent to which exploration and development activities are authorized. In addition, the legislation requires that land, wells and facility sites that are abandoned temporarily or definitely be reclaimed to the satisfaction of provincial authorities. A breach of such legislation may result in the imposition of fines and penalties, the suspension or revocation of necessary licenses and authorizations to operate a business and the enforcement of civil liabilities for pollution damages. In Quebec, since September 12, 1972, environmental issues are governed mainly by the Environment Quality Act (Quebec). That law impose obligations with respect to the environment, disclosure and monitoring. In addition, the law provide procedures, in certain circumstances, to assess environment impact and broader public consultation procedures with respect to environmental assessment and the application of the law.

Permits, licenses and approvals

In Quebec, anyone exploring for oil, natural gas or natural brine must have an exploration permit delivered in accordance with the Mining Act (Quebec). The permit is issued, with respect to a given territory, to anyone who complies with the conditions and pays the annual fees prescribed by the regulation. The term of a permit is five years. A permit may be renewed for an additional period of one year, up to five times, in respect of all or a portion of the territory contemplated by the permit, provided that certain conditions set forth in the Mining Act (Quebec) are met.

The holder of an oil and natural gas exploration permit must perform, on an annual basis, certain work, the nature and the minimum cost of which are specified by regulation, including geological and geophysical studies or drilling on the territory contemplated by his permit. The minimum cost to be incurred varies according to the age of the permit. Accordingly, during the first year of a permit, the fees are equal to $0.50 per hectare or $3,000, whichever is greater, and for the fifth year of the permit, they are equal to $2.50 per hectare or $15,000, whichever is greater.

Pursuant to an Act Amending the Mining Act and an Act Respecting the Lands in the Public Domain, adopted on June 12, 1998, which is still not in effect as of the date hereof, the Quebec legislator has provided for the introduction of a single permit authorizing the exploration for oil, natural gas, natural brine and underground reservoirs. In addition, the legislator has provided that within the areas of a marine environment, as defined by departmental order, exploration permits are to be granted by way of open tenders and that, with respect to such areas, the Natural Resources Minister may prescribe such conditions and obligations as may be different from those provided for in the Mining Act (Quebec) with respect to mining rights, oil, natural gas, natural brine or an underground reservoir. The Act Amending the Mining Act and an Act Respecting the Lands in the Public Domain also provides for the extension of the exploration permit when serious indicators of the presence of oil, natural gas, natural brine or an underground reservoir with commercial possibilities are identified.

Title to property

While the Company has taken reasonable actions to ensure that it has good and valid title over its properties, there is no certainty that the titles of any of its properties will not be disputed or challenged. Third parties may have valid claims with respect to underlying portions of the Company's interests.

Future financing requirements

The Company will need additional financing in the future in order to continue its business and, in particular, in order to complete its exploration and development program. There can be no assurance that such financing will be available or, if available, will be on reasonable terms. If financing is obtained by issuing treasury shares, control of the Company may change and shareholders may suffer additional dilution. To the extent financing is not available, lease expiry dates, work commitments, rental payments and option payments may not be satisfied and this could in turn result in the inability of the Company to pursue, in whole or in part, its exploration and development program, the loss of ownership rights or earning opportunities for the Company.

Dependence on key personnel

The success of the Company will be largely dependent upon the quality of its management and personnel. Loss of the services of such persons, or the inability to attract personnel of equal ability, could materially adversely affect the Company's business operations and prospects. The Company has not, as yet, purchased "key man" insurance on any of its directors, officers or key employees, and has no current plans to do so.

Market conditions

The Company operates in a competitive environment, where the commodity price is affected by a number of factors beyond the control of the Company. Oil and natural gas prices have fluctuated wildly in the past. Oil prices are subject to international supply and demand, and political developments, particularly in the Middle East, can have a major influence on world oil supplies and prices. Any decline in oil or natural gas prices could have a material adverse effect on the Company's operations, financial condition and the level of expenditures for the acquisition of additional oil and gas reserve. In addition, the marketability of the Company's production will depend upon the availability and capacity of gathering systems and pipelines, the effect of federal and provincial regulation and general economic conditions. All of these factors are beyond the Company's control.

In Canada, oil producers negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. The price depends in part on oil quality, prices of competing fuels, distance to market, the value of refined products and the supply/demand balance.

The price of natural gas sold in interprovincial, intraprovincial and international trade is determined by negotiation between buyers and sellers. The price received by a natural gas producer depends in part on the prices of other competing fuels, the type of natural gas produced, the access to upstream transportation facilities, the duration of the contract, the weather conditions and the supply/demand balance.

Natural brine (water with a high saline content) is a transparent odourless liquid product consisting of a high concentration of dissolved salts. The chemical properties of natural brine are such that it is an effective de icing product and dust suppressant. The price received by a producer and distributor of natural brine varies according to the prices of other competing products, such as sodium chloride and magnesium chloride. Prices are negotiated directly with the consumers of these types of product and, more often than not, public tender bids are open to various suppliers. Total volumes used with respect to this product are also directly related to weather conditions.

Litigation
The Company may be held liable for pollution or for other risks for which it cannot be insured or for risks it may choose not to insure given the high premium costs or for other reasons. Payments in this respect may result in the loss of assets of the Company.

Land claims
None of the properties over which the Company has an interest is currently subject to land claims by native peoples. However, there can be no assurance that no such land claim will be made in the future.

Availability of drilling equipment and access
Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities, if any.

Management of growth
The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The Company's ability to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The Company's inability to deal with this growth could have a material adverse impact on its business, operations and prospects.

Volatility of share prices
Share prices are subject to changes because of numerous factors beyond the Company's control, including reports of new information, changes in the Company's financial situation, the sale of the Company's shares in the market, failure to achieve financial results in line with the expectations of analysts, announcements by the Company or the oil price. There is no guarantee that the market price of the shares will be protected from any such fluctuations in the future.

Supplemental Information

Complete consolidated financial statements of the Company are available on SEDAR at www.sedar.com. Additional information regarding the Company's activities are also available on its website at www.junex.ca.