JUNEX

Creating wealth by developing our resources

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE QUARTER ENDED MARCH 31, 2012

This management discussion and analysis ("MD&A") is a comparison of Junex's financial position and results for the quarter ended March 31, 2012, with those of the previous year. It should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2011. 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 March 31, 2012 and the Quarterly Report for the three month ended March 31, 2011 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. As of March 31, 2012 Junex had working capital of more than 18.7 million dollars. In parallel to its exploration efforts in Quebec and expansion of its exploration activities elsewhere, Junex's goal is to achieve positive cash flows from its natural brine and drilling services operations.

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 schedule of work 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

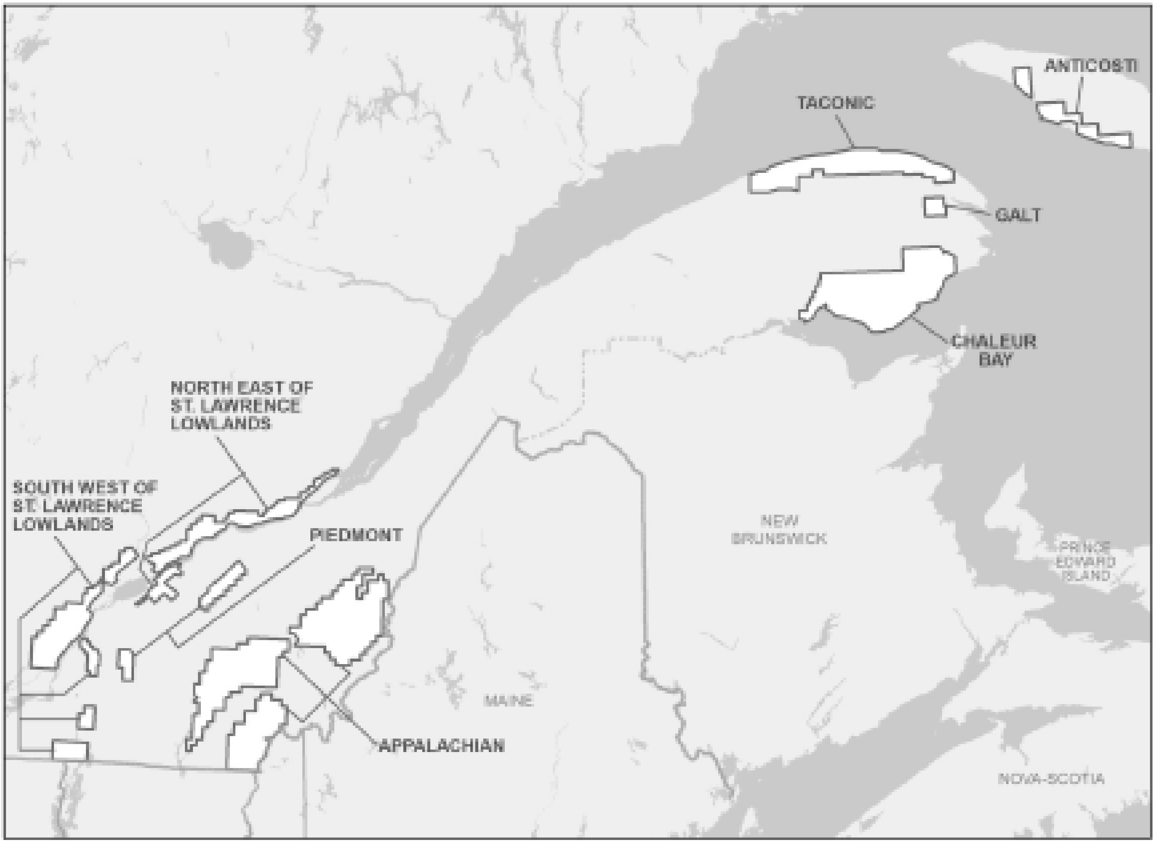
This report for the period ended March 31, 2012, was completed on May 28, 2012.

1.2 Exploration program

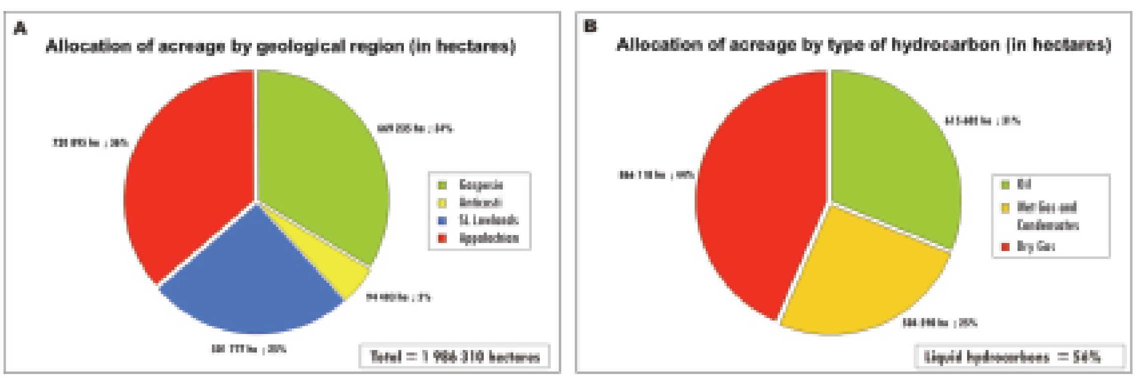
Mining domain of Junex

Junex holds nearly 20,000 square kilometers of petroleum and natural gas rights in Quebec and it is the largest licensee of oil and gas exploration licenses in Quebec. Junex's properties are located in sedimentary basins in the St. Lawrence Lowlands, the Gaspé Peninsula, Anticosti Island and the Appalachian area. By being present in different regions, Junex has diversified its portfolio of exploration objectives and thus reduced the risks 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).

Junex's properties location in Québec



Junex's properties allocation in Québec



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

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

1.3 Exploration

During the first quarter, exploration was focused primarily on planning operations on the Gaspé Peninsula and on Anticosti Island. In parallel, evaluation efforts were completed on various projects of the St-Lawrence Lowlands and the Gaspé Peninsula. No exploration operations were performed in the field during the first quarter of 2012. Field operations were limited to the maintenance and monitoring of the wellsites operated by Junex.

Galt

Located 15 kilometers west of the town of Gaspé, the Galt project covers an area of 21,640 hectares. On the basis of certain recommendations made by experts from Netherland, Sewell & Associates, Inc. ("NSAI"), a firm of worldwide petroleum consultants, Junex's team continued to analyze the various geological and geophysical data available at Galt. These investigations aim to define new drilling targets to test the oil potential of the Devonian limestones of the Forillon Formation. Targets have been defined both to assess the resource play potential of the formation and the potential associated with hydrothermal dolomitization. During the first quarter of 2012, the team finalized details related to the Galt # 4 exploration well. Junex plans to start drilling this well by the end of the second quarter of 2012.

The dataset was evaluated by NSAI, who then provided an update of their Best Estimate of the total Oil-Initially-In-Place ("OIIP") resources at 260.2 million barrels for the Forillon Formation on a portion Junex's Galt Field property. According to NSAI, their "Best Estimate" of the recovery factor would be around 15%, upgrading their Best Estimate of Junex's net share of recoverable oil resources to 20 million barrels of oil. Currently, well and geophysical data allow evaluation of approximately 25% of the territory covered by the project. NSAI's update is based on new data from detailed geochemical analyses of geochemistry as well as new samples collected in the Forillon Formation at Galt.

Anticosti

Located in the Gulf of St. Lawrence in Quebec, Anticosti Island extends over a length of 220 km and covers an area of 8000 sq. km. This territory has been the focus of at least three exploration campaigns since the 60s. Several reservoir zones in dolomitized carbonates (HTD) have been identified both on seismic and in wells drilled to date. However, these reservoirs contained no significant petroleum accumulations on the north side of the island. Exploration of the Deep Macasty Fairway could demonstrate the existence of a significant hydrocarbon accumulation within a closed system.

The South Anticosti block of permits covers an area of 944 square kilometers and is owned 100% by Junex. Since 2009, Junex's team focused on evaluating the petroleum potential of Anticosti Island. On this island there is a sedimentary sequence ranging in thickness between 1200 and 4000 meters.

Recent studies have targeted the Geological formation of the Macasty Shales (the "Macasty"). The Middle Ordovician-aged Macasty are recognized as being the source rock for hydrocarbons in the basin. The majority of properties held by Junex on Anticosti Island are located south of the Jupiter Fault in the Deep Fairway, where Junex's mapping indicates that the average thickness of Macasty on its properties is at least 80 meters, approximately twice that of the thickness of 30 to 40 meters of Macasty encountered in wells on the upthrown side of the Jupiter Fault. Lab results received during 2011 show that the low-permeability Macasty Shale on Junex's exploration permits could contain a major petroleum potential. It is also important to consider that the mineralogy of the Macasty Shale is in many ways comparable to that of the Utica Shale in Ohio or the Eagle Ford in Texas.

Macasty shale properties in Fairway depths of Anticosti

Properties	
Depth	1 500 to 2 500 meters
Stratigraphy	Orovician Shale - Utica equivalent
Thickness	60 to 120 meters
Mineralogy	50% Qz-Fd / 35% Ca-Dol / 15% Argiles
Petroleum source	Type II Kerogen
Organic content (TOC)	1,0 to 4,0%
Thermal maturity	Oil Window to Condensate Zone
Porosity	4,0 à 8,6%
Reservoir pressure	Overpressurized
Petroleum potential (PIIP)	33,6 million barrels per section (mi^2)

Exploration in this region of Anticosti Island dates back to the 70s for drilling operations and in the late 90s for seismic surveys. To further study the properties and potential of the shale, as well as to identify major structural elements, the company completed an airborne geophysical survey in 2011. During the first quarter of 2012, on the basis of existing and new information, Junex's team was involved in the planning and implementation of a significant geophysical seismic survey on its Anticosti Island acreage. In addition to the usual applications for permits and authorizations, some logistical challenges called for additional planning efforts.

In its report, NSAI established its Best Estimate of the undiscovered shale OIIP volume for the Macasty Shale on Junex's acreage at 12.2 billion barrels. The resource estimates in the report must be treated as scoping level estimates and used with caution. This study was conducted for the sole purpose for Junex to determine the petroleum potential and the advisability of investing new capital in exploration activities of its Anticosti permits. Oil exploration on the Anticosti project is still preliminary in nature and many additional operations are required prior to the determination of any commercial value of the potential resources. The company has also started planning a number of exploration projects that could be made performed over the coming years.

Other Properties

In the St. Lawrence Lowlands ("Lowlands") region, along the Gaspé Peninsula and in the Appalachians, the exploration team Junex continues to evaluate various sectors. The objective is to delineate areas of exploration for the oil in Ordovician carbonates or Cambrian sandstones. Throughout the quarter, several studies have been conducted to assess the potential of selected targets on the properties of the North Shore, the Richelieu, the Appalachians, the Taconic and the Bay of Chaleurs.

In recent years, the company had focused its activities in 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-third of the permits held by Junex in the Lowlands. For all of Junex's Lowlands permits assessed by NSAI, their Best Estimate of Prospective OGIP volume in the Utica Shale is 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 also continue its contribution to the Research Chair on the Geological Sequestration of CO2. This project is part of the process of exploration led by Junex to develop the potential of underground storage in Quebec.

Elsewhere in the Lowlands, Junex's team continued maintenance work on its various wellsites. Junex's exploration team has continued its records management of these wellsites. These records are managed in collaboration with the operations team and some files have created new approaches for certain government authorities such as the CPTAQ, MRNF and MDDEP. Interventions in the filed, if necessary, were made as dictated by government approvals and availability of equipment.

Deferred exploration costs

Deferred exploration costs of Junex amounted to $30,480,832 as of March 31, 2012, compared to $29,745,406 as of December 31, 2011, which represents an increase of $735,426. 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 for the first quarter of 2012 and for the year 2011 are detailed as follows:

Breakdown of exploration and evaluation assets at March 31, 2012

	Explorations fees	**Exploration rights (properties)**	**Total**
Baie des chaleurs	2,688,064	478,636	3,166,700
Bande Taconique et Anticosti	624,268	320,984	945,252
Galt	2,974,141	1,164,780	4,138,920
Rive Nord	5,099,496	492,420	5,591,916
Bécancour-Nicolet	10,061,893	220,542	10,282,435
Appalaches et Lyster	5,181,691	329,962	5,511,653
Texas	-	167,209	167,209
Nord du Québec	7,882	52,432	60,314
Richelieu	373,100	243,334	616,434
	27,010,534	**3,470,298**	**30,480,832**

Breakdown of exploration and evaluation assets at December 31, 2011			
	Explorations fees	**Exploration rights (properties)**	**Total**
Baie des chaleurs	2,672,191	449,814	3,122,005
Bande Taconique et Anticosti	579,884	296,167	876,051
Galt	2,879,709	1,164,780	4,044,488
Rive Nord	5,046,951	462,629	5,509,580
Bécancour-Nicolet	9,930,394	220,542	10,150,936
Appalaches et Lyster	5,158,916	288,696	5,447,613
Richelieu	371,682	223,051	594,733
	26,639,728	**3,105,678**	**29,745,406**

1.3 Selected Financial Information

for the Quarters Ended March 31, 2012 and 2011

(Thousands of dollars, except per share amounts)	2012	2011
OPERATIONS	**$**	**$**
Sales by segment		
Oil and natural gas	14	-
Natural brine	1	11
Drilling services	555	-
Others	4	-
Total sales	**574**	**11**
Gross profit	(158)	(40)
Net loss for the year	(340)	1,302
Basic and diluted net loss per share	(0.006)	0.021
CASH FLOWS		
Cash flows from (used in) operating activities	(437)	(254)
BALANCE SHEET	**31-03-2012**	**31-12-2011**
Working capital	18,662	19,838
Total assets	53,109	53,876
Long-term debt	830	974
Total liabilities	1,314	1,703
Shareholders' equity	51,796	52,173

1.4 Results of Operations

Sales and Profit Margin

The Company's sales for the first quarter of 2012 totalled $573,805 which represents an important increase compared to sales of $10,961 recorded in the first quarter of 2011. This increase is attributable to drilling services sales which rose from $0 in 2011 to $554,502 in 2012. 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 performed, in the first quarter of the year 2012, a third party contract and it expects to continue to provide drillings services to third parties in the second quarter 2012. The low level of drillings activities on company's projects made its drilling equipments available for external contracts, than improving the sales from drilling division.

Junex produces natural brine sold at the wellhead to distributors who in turn sell to the final users. Sales of natural brine reached $976 in 2012, a declined of $9,985 compared to the sales of $10,961 recorded in first quarter of 2011. As for Oil and gas sales, they generated revenues of $14,518 in the first quarter of 2012 compared to no revenues in the corresponding quarter of 2011. These sales resulted from the testing of exploration wells, and do not yet yield profits for the Company. Growth in the Company's oil and gas sales is directly dependent on the success of its exploration projects.

Gross margin for the quarter ended on March 31 is negative by 27,5% despite the raise in sales. This gross margin will improves as the sales volumes will be sufficient to support all fixed costs related to production.

Net Loss and Cash Flows

The Company posted a net loss of $339,957 in the first quarter of 2012 compared to a profit of $1,301,575 registered in 2011. This variation can be explained by the profit of $1,870,536 materialized in the first quarter of 2011 on disposal of assets available for sale.

Administrative expenses increased by 21.9% or $70,374 in the first quarter of 2012. This is attributable to non-recurrent professional fees which have rose to $157,772 in 2012 compared to $82,214 in 2011, which represents an increase of $75,558.

The Company's operating activities used cash flows of $436,980 in the first quarter of 2012, compared to the $254,464 used in 2011. Finally, the financing activities required liquidities of $65,430 in order to fund the buy back of 91,500 shares of the company.

Detail of administrative costs
General and Administrative Expenses as at March 31, 2012 and 2011

	2012	2011
Salarie and benefits	131,297	156,113
Professional fees	157,772	82,214
Insurances	37,405	31,717
Office and Equipment location	4,721	8,098
Marketing and shareholders information	9,601	4,189
Taxes and permits	9,954	6,035
Travel and business development	23,672	19,221
Office fees	12,413	8,467
Amortization of property, plant and equipment	4,077	4,484
	390,912	**320,538**

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 $1,442,449 loss in the last quarter of 2010 was mainly caused by the write-off of $1,415,534 in deferred exploration expenditures and a future income tax creditor expense of $244,026. The extraordinary profit of $1,301,575 is attributable to a non-recurrent gain on disposal of available-for-sale financial assets.

	March 31 2012	Dec. 31 2011	Sept. 30 2011	June 30 2011	March 31 2011	Dec. 31 2010	Sept. 30 2010	June 30 2010
Total sales	573,805	483,541	47,568	96,473	10,961	11,299	96,298	129,730
Net income (loss)	(339,957)	(185,357)	(292,868)	377,742	1 301,575	(1,351,100)	(284,944)	(335,418)
Basic net income (loss) per share	(0.006)	(0.002)	(0.005)	(0.006)	(0.021)	(0.022)	(0.005)	(0.005)

1.6 Liquidity and Capital Resources

As of March 31, 2012, the Company's working capital amounted to $18,661,846 a decrease of $1,175,862 compared to the working capital of $19,837,708, at the end of 2011.

The Company had financial resources of $17,492,408 as at March 31, 2012, which is sufficient to undertake its near-term development program and meet the commitments mentioned in Note 16 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 financial commitments specified in Note 16 to the annual financial statements.

1.9 Related Party Transactions

Related party transactions amounted $13,188 in the first quarter of 2012. 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 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 financial statements in accordance with 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.

Norm 51-102

The deferred exploration expenses for the quarter ended March 31, 2012

Norm 51-102	The deferred exploration expenses for the quarter ended March 31, 2012					
	Geology	**Geophysic**	**Wells**	**Evaluation**	**Professionals and General fees**	**Total**
Baie des chaleurs	18,532	1,198			15,127	34,857
Bande Taconique et Anticosti	28,364				21,746	50,110
Galt	13,562	1,447	46,480	14,393	32,750	108,632
Rive Nord	12,262		19,914	1,403	25,745	59,323
Bécancour-Nicolet	15,189		50,743	8,052	56,723	130,707
Appalaches et Lyster	2,551	235	11,768		11,159	25,713
Texas						-
Nord du Québec	5,037				3,862	8,899
Richelieu	276		630		695	1,601
	95,772	**2,880**	**129,535**	**23,848**	**167,806**	**419,840**

1.14 Financial and Other Instruments

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

1.15 Other Information

Common Shares

As at March 31, 2012, there were 60,324,071 common shares outstanding.

Warrants

As at March 31, 2012, all warrants have expired or have been exercised by the holder.

Outstanding Stock Options

Volume	Exercise price	Expiry date
30,000	$0.90	04-08-2012
80,000	$2.00	10-23-2012
70,000	$1.00	10-23-2012
60,000	$2.00	12-16-2012
30,000	$2.00	03-20-2013
25,000	$1.00	03-20-2013
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
1,650,000	$0.88	03-20-2019
3,196,666		

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 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 evaluations

The process of estimating oil, gas and natural brine reserves 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 affect 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 now 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 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.