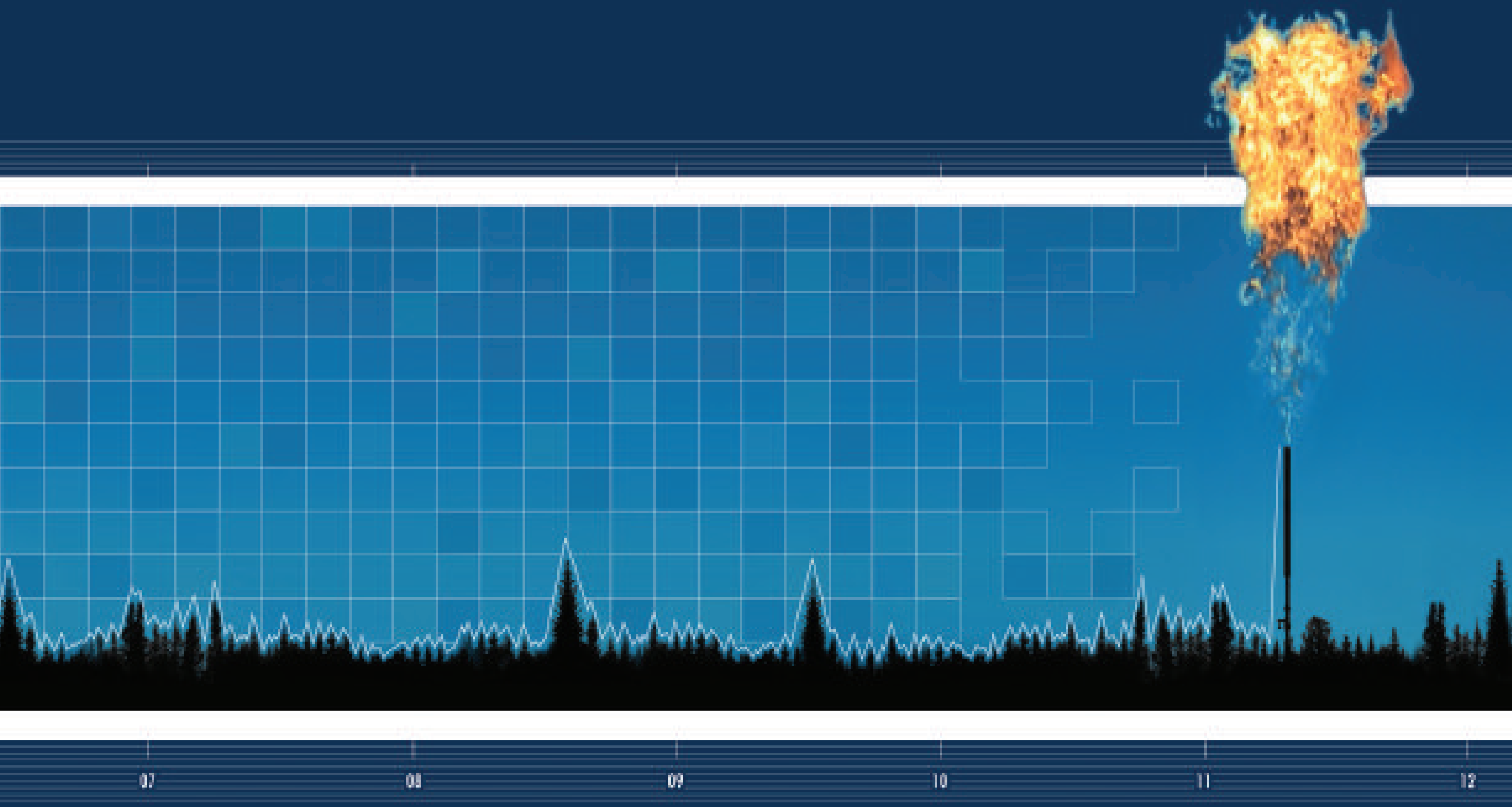


# MANAGEMENT DISCUSSION AND ANALYSIS

FOR QUARTER ENDED MARCH 31, 2010

JUNEX inc.

**THIS MANAGEMENT DISCUSSION AND ANALYSIS ("MD&A") IS A COMPARISON OF JUNEX'S FINANCIAL POSITION AND RESULTS FOR THE QUARTER ENDED MARCH 31, 2010, WITH THOSE OF THE PREVIOUS YEAR. IT SHOULD BE READ IN CONJUNCTION WITH THE UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2010 AND THE AUDITED FINANCIAL STATEMENTS AND NOTES THERETO FOR THE YEAR ENDED DECEMBER 31, 2009. THE COMPANY'S FINANCIAL STATEMENTS HAVE BEEN PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) IN CANADA. ALL FIGURES IN THIS MD&A ARE IN CANADIAN DOLLARS.**

# 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. Finally, the Company occasionally provides geophysical and geological consultation services to some of its partners active in oil and gas exploration.

Including some permits for which Junex only holds royalties on future production, the Company holds exploration rights on more than 6 million acres of land in the Appalachian geological basin in Quebec. Many recent major discoveries in the United States and Eastern Canada have stimulated exploration in Quebec, whose sedimentary basins are located in a favourable geological setting for oil and gas discovery. Junex's strategy is to reduce the financial risk associated with oil and gas exploration by entering into joint ventures. While continuing its exploration efforts, Junex's goal is to achieve positive cash flow from its natural brine and drilling services activities.

The Company's main activity is the exploration and development of the Utica and Lorraine shales in the St. Lawrence Lowlands Basin.

## 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 three-month period ended March 31, 2010, was completed on May 27, 2010.

# 1.2 Exploration program

First quarter exploration operations consisted exclusively of the evaluation of data acquired on different projects during the autumn of 2009. No field work was undertaken during the winter of 2010. Field work resumed during the spring of 2010.

### Nicolet Permit

The Nicolet permit is located in the heart of the Saint-Lawrence Lowlands Shale basin. In the Saint-Grégoire area situated on the Nicolet permit, Junex drilled two exploration wells and completed a 14 line-kilometer seismic survey. These 2009 efforts enabled us to evaluate the gas potential of the medium to deep-depth Shales (600 to 2,000 meters).

Drilling operations on the Junex St-Grégoire No. 3 exploration well were completed in April 2009. Operations on the Junex St-Grégoire No. 2 well were completed in November 2009. During the summer, a new geophysical survey added 14 km of seismic data to the project. In further developing its exploration model at Nicolet, Junex's geoscientific data now counts 105 line-kilometers of seismic data and 10 exploration wells.

The exploration model's data was evaluated by the independent firm of Netherland, Sewell & Associates, Inc ("NSAI") at the beginning of 2010. This Texas-based firm, experienced in the evaluation of unconventional Shale gas projects, provided their "Best Estimate" (P50) of the Undiscovered Prospective Resources of Original Gas in Place ("OGIP") at 8.67 trillion cubic feet (Tcf) for the Utica Shales located on the Nicolet permit. According to NSAI's forecasts, the "Best Estimate" of the effective recovery factor would be approximately 10%.

During the winter, Junex began to detail a seismic acquisition program of about 150 line-kilometers of 2D seismic data in order to optimally position future horizontal wells on the property. This survey should also improve the seismic coverage elsewhere on the permit.

### Lyster Block

In the Lotbinière region, the interpretation of seismic data was completed and many exploration targets were identified that include both the Shale sequences and Ordovician carbonates. Within this area, the rock units are structurally overthrusted, which encourages the development of natural fracture networks, thus enhancing the area's gas potential. Geochemical analyses of the Shales in the overthrust area showed a higher concentration in total organic carbonic ("TOC") relative to the other Saint Lawrence Lowlands Shales. Recognizing the importance of the relationship between high TOCs and high Shale gas contents, it appears that this region has a high gas potential. The Lyster permits are located in the structural and geological extension of the St. Flavien gas deposit, and are also located near the Talisman Saint-Édouard No.1H horizontal well. Two new drilling targets were identified on the Lyster block and surface agreements were concluded for the drilling locations in the Villeroy, Val-Alain and Saint-Louis-de-Blandford regions, all of which are municipalities which are covered by our Lyster block. Drilling operations should start during the second quarter of 2010.

### Shale Gas Project - Global Evaluation

The data acquired by Junex in its different Shale gas exploration projects were analysed with the objective of having an independent third party perform a comprehensive global evaluation of the Utica Shale gas resource potential of certain of Junex's permits. The available data for the Nicolet, Bécancour, Québec, Lyster, North Shore, North Richelieu and South Richelieu permit block were integrated into the Shale Gas exploration model. The combined total area of these permits accounts for approximately 59% of the Utica Shale permits held by Junex in the Saint Lawrence Lowlands. Some permits were not evaluated because other analyses and additional data are required to calculate their prospective OGIPs and prospective recoverable resources. The evaluation was performed by NSAI.

The data was evaluated by NSAI in early 2010 and the firm established its "Best Estimate" of the Undiscovered Prospective OGIP for the Utica Shales at 48.34 Tcf on 59% of Junex's Saint-Lawrence Lowlands permits. This OGIP figure includes the OGIP of 8.67 Tcf for the Nicolet evaluation that NSAI had previously completed. NSAI further placed its"Best Estimate" for the recovery factor at approximately 10%, yielding Junex's net share of Recoverable Unrisked Propsective Gas Resources at 3.69 Tcf for 59% of its Utica Shale permits.

### Gaspé Peninsula

Junex continued the analysis of new data, including geological, geophysical and geochemical data that were collected in 2009. The Galt, Baie des Chaleurs and Bande Taconique projects are being evaluated with in the objective of determining new exploration targets for the future.

As for the Haldimand project, the operator installed a casing in the Haldimand No.2 well. During the winter of 2009-2010, production tests began at the Haldimand No.1 and No.2 wells. The results of these tests may be announced by the project's operator at the beginning of summer 2010.

### Appalachian Region

Drilling operations at the Junex Wotton No.1 stratigraphic test well were halted for the winter. Drilling should resume in April 2010. During this hiatus, Junex pursued the evaluation of certain data covering its four blocks of permits. Integration and analysis of geospatial data (geological maps, geophysical maps, structural data and geochemical analysis results) were carried-out in collaboration with different laboratories. These studies will enable us to better interpret the well results and improve the geophysical data evaluation.

At the end of the first quarter, Junex had completed the acquisition of four blocks of permits totalling more than 720,175 hectares (1.78 million acres). The four sub-basins, two of Ordovician age and two of Devonian age, had never explored for natural gas and many basic research efforts have been and will be conducted by Junex in order to determine the gas potential of this region. The results of the geochemical analyses from the sampling of more than 300 outcrops of Ordovician and Devonian Shales indicate that the Shales in this region would be favourable to the exploration of Shale gas deposits.

**Deferred exploration costs**

Deferred exploration costs of Junex amounted to $25,531,755 as of March 31, 2010, compared to $24,668,226 on December 31, 2009, which represents an increase of $863,529. 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 quota-share of exploration expenses for some projects.

# 1.3 Selected Financial Information

## FOR THE QUARTER ENDED MARCH 31, 2010 AND 2009

| (Thousands of dollars, except per share amounts) | 2010 | 2009 |
|---|---|---|
| **OPERATIONS** | **$** | **$** |
| Sales by segment | | |
| Oil and natural gas | - | - |
| Natural brine | 8 | 9 |
| Drilling services | - | - |
| **Total sales** | **8** | **9** |
| Gross profit | (41) | (41) |
| Net loss for the year | (347) | (348) |
| Basic and diluted net loss per share | (0.006) | (0.006) |
| **BALANCE SHEET** | | |
| Working capital | 22,718 | 27,818 |
| Total assets | 56,078 | 55,102 |
| Long-term debt | 1,401 | 1,437 |
| Total liabilities | 2,120 | 2,787 |
| Shareholders' equity | 53,958 | 52,315 |
| **CASH FLOWS** | | |
| Cash flow from operating activities | (311) | 228 |
| Deferred exploration expenditures | (1,452) | (2,425) |

# 1.4 Results of Operations

**Sales and Profit Margin**

The Company's sales for the first quarter of 2010 totalled $8,016, which represents a slight decrease compared to revenues of $8,847 in the first quarter of 2009. These sales have been entirely generated by the brine division. Gross margin of brine division is in deficit of $22,628 in 2010 compared to a gross margin loss of $25,966 in the corresponding quarter of 2009.

**Net Loss and Cash Flows**

The Company posted a net loss of $347,288 in the first quarter of 2010, compared to net loss of $348,497 in the corresponding quarter of 2009.

Administrative expenses have been reduced by 13.02% or $51,805 in the first quarter of 2010, mainly due to a decrease in stock-based compensation expenses, which declined from $96,200 in 2009 to $38,758 in 2010. This amount is posted in administrative expenses but has no impact on cash flows, as it does not involve any cash disbursement by the Company. On the other hand, the Company saw its investment income decrease of $76,269 primarily due to the significant decline in interest rates in 2009 and lower liquidities throughout the year.

The Company's operating activities used cash flows of $310,808 during the first quarter of 2010. For the same period in 2009, the operating activities provided cash flows of $227,736. The 2009 results reflect a $598,414 increase in *working capital variations* as a result of the collection of goods and services taxes received from the Governments.

# 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. Quarterly income as at June 30, 2008, was attributable in large part to a $958,366 gain from the sale of assets held for sale. Finally, the unusual $901,017 loss in the last quarter of 2008 was mainly caused by the write-off of $943,957 in deferred exploration expenditures.

**Financial Data for the Last Eight Quarters**

| | March 31 2010 $ | Dec. 31 2009 $ | Sept. 30 2009 $ | June 30 2009 $ | March 31 2009 $ | Dec. 31 2008 $ | Sept. 30 2008 $ | June 30 2008 $ |
|---|---|---|---|---|---|---|---|---|
| Total sales | 8,016 | 134,678 | 79,082 | 192,107 | 8,847 | 76,710 | 193,438 | 207,368 |
| Net income (loss) | (347,288) | (298,989) | (239,335) | (262,765) | (348,497) | 901,017 | (176,263) | 768,009 |
| Basic net income (loss) per share | (0.006) | (0.005) | (0.004) | (0.004) | (0.006) | (0.016) | (0.003) | 0.014 |

# 1.6 Liquidity and Capital Resources

As of March 31, 2010, the Company's working capital amounted to $22,717,517, a $1,051,589 decline compared to the working capital of $23,769,106 at the end of 2009.

The Company had financial resources of $19,958,398 as at March 31, 2010, which is sufficient to undertake its near-term development program and meet the commitments mentioned in Note 20 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 20 to the annual financial statements. .

# 1.9 Related Party Transactions

Related party transactions amounted $11,948 in the first quarter of 2010. 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 Canadian generally accepted accounting principles 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 Financial and Other Instruments

The analysis of financial instruments used by the Company can be found in Note 23 to the annual financial statements.

# 1.14 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.

# 1.15 Other Information

**Common Shares**
As at March 31, 2010, there were 61,207,071 common shares outstanding.

**Warrants**
As at March 31, 2010, all warrants have expired or have been exercised by the holder.

**Outstanding Stock Options**

| Volume | Exercise Price | Expiry date |
|---|---|---|
| 10,000 | $ 1,00 | 06-16-2010 |
| 30,000 | $ 0,90 | 04-08-2012 |
| 80,000 | $ 2,00 | 10-23-2012 |
| 85,000 | $ 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 |
| 1,670,000 | $ 0,88 | 03-20-2019 |
| **3,246,666** | | |

**Management Certification of Internal Control Over Financial Reporting**

The Company has evaluated the effectiveness of its disclosure controls and procedures (as described in Multilateral Instrument 52-109 of the Canadian Securities Administrators), under the supervision of the president and chief executive officer and the vice president and chief financial officer, as at March 31, 2010.

Management has concluded that, as of March 31, 2010, the Company's disclosure controls and procedures were effective and provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others, particularly during the period during which the annual financial statements were being prepared.

Management is responsible for establishing and has designed internal controls over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for the purpose of their publication in accordance with Canadian GAAP. There were no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**International financial reporting standards (IFRS)**

In April 2008, the CICA published an exposure draft which required the transition towards IFRS as a guideline, hence replacing the Canadian GAAP actually used by Canadian entities having public accountability. The CICA confirmed that the Canadian GAAP will totally be stringed together with the IFRS published by the International Accounting Standards Board. The Company will have to release its 2011 interim and annual statements according to the IFRS and give comparative information in conformity to the IFRS for the previous fiscal year.

The IFRS use a conceptual framework that is similar to the Canadian GAAP, but there are major differences regarding the reporting, the evaluation and the presentation of the information that has to be released. In order to be prepared for this transition, the Company and its senior management team has developed an implementation plan.

The conversion project consists of four phases:

- "Preliminary diagnosis, planning and definition of the scope" Phase – This phase involves a detailed review and initial scoping of accounting differences between Canadian GAAP and IFRS, a preliminary evaluation of IFRS 1 exemptions for first-time IFRS adopters, and a high-level assessment of potential consequences on financial reporting, business processes, internal controls and information systems.

- "Detailed evaluation" Phase – This phase involves prioritizing accounting treatment issues and preparing a conversion plan, quantifying the impact of converting to IFRS, reviewing and approving accounting policy choices, performing a detailed impact assessment and designing changes to systems and business processes.

- "Definition of the solution" Phase – This phase involves embedding changes to systems, business processes and internal controls, determining the opening IFRS transition balance sheet, maintaining parallel accounting under Canadian GAAP and IFRS, and preparing detailed reconciliations of Canadian GAAP to IFRS financial statements.

- "Implementation" Phase – This phase involves conversion assessment, evaluating improvements for sustainable operational IFRS model, and testing the internal controls environment.

At this time, the incidence on the Company's financial situation and future results cannot be reasonably determined since it is fairly hard to predict what will be the IFRS in force as of the end of our first period of presentation according to the IFRS. The Company still closely follows the evolution of major differences between the end of Canadian GAAP and IFRS.

The Company's IFRS conversion project is progressing according to schedule.

# 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.

**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.