JUNEX inc.

MANAGEMENT DISCUSSION AND ANALYSIS FOR QUARTER ENDED MARCH 31, 2011

This management discussion and analysis ("MD&A") is a comparison of Junex's financial position and results for the Quarter ended March 31, 2011, 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, 2011 and the audited financial statements and notes thereto for the year ended December 31, 2010. These interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, and are presented in Canadian dollars, which is the Company's functional and presentation currency. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") which are expected to be in effect as at January 1, 2011 and adopted by the Company in its annual financial statements. Previously, the Company's financial statements were prepared in accordance with Canadian generally accepted accounting principles ("GAAP") in effect before the changeover. For the preparation of its first interim financial statements in accordance with IFRS, the Company modified some accounting policies that were elected for the preparation of its financial statements in accordance with GAAP. Disclosures that are considered important for the understanding of the Company's interim financial statements, that would normally be included in its annual financial statements prepared in accordance with IFRS, are provided in Section 1.2.

Nature of Business

The Company was incorporated under Part 1A of the Companies Act (Québec) and it is governed by the Business Corporations Act (Québec) since February 14, 2011. 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, 2011, was completed on June 27, 2011.

1.2. Exploration program

During the first quarter, exploration operations consisted essentially of the evaluation of the Junex Villeroy No. 1 well results, which is located in the Lotbinière region. In parallel, evaluation work has been completed on several other projects in the St. Lawrence Lowlands and on the Gaspe Peninsula. In addition, field work, consisting of the maintenance and follow-up on drilling sites operated by Junex, was also done.

Lyster Permit Block

The Junex Villeroy No. 1 well was drilled and suspended at a depth of 1,708 meters in December 2010. Many intervals saturated in natural gas were encountered during the drilling of the well, of which 5 intervals were cored between the depths of 840 and 1,264 meters. A total of 16.4 meters of core was recovered. The core results and other drilling data collected during the fall of 2010 indicate that the gas potential of this area could be significant. These data corroborate the natural gas potential as estimated by Netherland, Sewell and Associates Inc. in 2010.

The Junex Villeroy No. 1 well is the first to be drilled on the 100% Junex-held Lyster Block that covers a surface area of 108,000 acres. The exploration operations targeted 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. 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.

St. Lawrence Lowlands Region

In the Bécancour area, Junex's exploration team continued its evaluation of the Junex Bécancour No. 9 well results, in which good gas shows were encountered in the Ordovician dolomites. Our team is currently studying different options to modify the actual well in order to better access the gas column.

In the Montérégie region, Junex's exploration team followed-up on results from different analyses conducted by its partner, Canadian Forest Oil Limited, in the context of the drilling of the CFOL Saint-Denis No. 1 exploration well. These analyses are still ongoing.

Appalachian Region

Junex's Appalachian region permits cover an area of 720,175 hectares (1.78 million acres). Prior to Junex's involvement, this large sedimentary basin was never the focus of oil and gas exploration. Based on the presence of an Ordovician source rock covering the entire basin, Junex is the first company to invest in the evaluation of this region's gas potential.

Since 2009, Junex drilled 3 stratigraphic wells located in different sub-basins on the permit block, with total depths ranging between from 500 to 700 meters. Shale and gas samples were analysed, allowing us to conclude that these sub-basins could be favourable for exploration of natural gas accumulations. The results of geochemical analyses from the sampling of more than 300 outcrops of Ordovician and Devonian shales are corroborating our current conclusions.

Also, two seismic lines have been acquired since 2009. These transects should improve the visualisation of the deep geometry of the shale and siltstone formations of this area in the Appalachians. The evaluation of all this new data will better define the natural gas potential of this new exploration area.

Galt Project

The Galt project covers an area of 21,640 hectares and is located approximately 15 km west of Gaspé. Based on certain recommendations issued by experts from the independent engineering firm, Netherland, Sewell & Associates, Inc. ('NSAI'), geoscientific data were analysed to better define the oil potential of the Devonian limestones in the Forillon Formation. Targets were defined to evaluate the formation's resource play potential as well as the potential associated with hydrothermal dolomites in the Forillon Formation. A request was made for a drilling permit for the Galt #4 well during the first quarter of 2011 and Junex is still awaiting this permit.

The entirety of the data of the exploration model was appraised by NSAI where they established their best estimate of the Original Oil-in-Place (OOIP) at 183 million barrels on one portion of the Galt permit. According to NSAI's forecasts, their 'best estimate' of the effective recovery rate would approach 15%, resulting in their best estimate of Junex's net share of the recoverable oil resource volume at 13.75 million of barrels of oil. The geophysical and drilling data currently on hand will allow us to evaluate the area covered by this project, amounting to approximately 25% of the area of the Galt permit.

Deferred exploration costs

Deferred exploration costs of Junex amounted to $31,056,907 as of March 31, 2011, compared to $30,271,776 on December 31, 2010, which represents an increase of $785,131. 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 pro-rata share of exploration expenses for some projects.

1.3 Selected Financial Information for the quarter ended March 31, 2011 and 2010

(Thousands of dollars, except per share amounts)	**2011**	**2010**
REVENUES FROM ORDINARY OPERATIONS	**$**	**$**
Sales by segment		
Oil and natural gas	-	-
Natural brine	11	8
Drilling services	-	-
Total sales	11	8
Gross profit	(41)	(41)
Net profit (loss) for the year	1,361	(369)
Basic and diluted net profit (loss) per share	0.021	(0.006)
BALANCE SHEET		
Working capital	18,781	22,718
Total assets	55,430	54,626
Long-term debt	1,269	976
Total liabilities	2,062	2,888
Shareholders' equity	53,368	51,738
CASH FLOWS		
Cash flow from operating activities	(254)	(311)

1.4 Results of Operations

Revenues from ordinary operations and Profit Margin

The Company's sales for the first quarter of 2011 totalled $10,961, which represents a slight increase compared to revenues of $8,016 in the first quarter of 2010. These sales have been entirely generated by the Brine division. In 2011, the Company initiated a new partnership for brine distribution and it anticipates that the brine sales should gradually increase in the upcoming quarters as the new distributor becomes successful in selling our product in the various territories it serves. With the Company being always in the exploration phase, its oil and gas sales depend directly upon success from its exploration drilling program.

Net Result and Cash Flows

The Company posted a net profit of $1,301,575 in the first quarter of 2011, a significant improvement compared to the net loss of $366,450 posted in the corresponding quarter of 2010. This Quarter's net profit is due to the fact that the company realized a non-recurrent gain of $1,883,936 on disposition of available-for-sale financial assets.

In terms of Administrative expenses, these have been reduced by $47,451 or 13.02% in the first quarter of 2011, mainly due to a decrease in stock-based compensation expenses, which declined from $142,355 in 2010 to $63,989 in 2011. 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.

The Company's operating activities used cash flows of $254,464 during the first quarter of 2011. For the same period in 2010, the operating activities used cash flows of $310,808.

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.

Financial Data for the Last Eight Quarters

	March 31 2011 $	December 30 2010 $	September 30 2010 $	June 30 2010 $	March 31 2010 $	December 31 2009 $	September 30 2009 $	June 30 2009 $
Total sales	10,961	11,299	96,298	129,730	8,016	134,678	79,082	192,107
Net income (loss)	1,301,575	(1,442,449)	(259,686)	(315,900)	(347,288)	(298,989)	(239,335)	(262,765)
Basic net income (loss) per share	0.021	(0.024)	(0.004)	(0.005)	(0.006)	(0.005)	(0.004)	(0.004)

1.6 Liquidity and Capital Resources

As of March 31, 2011, the Company's working capital amounted to $18,780,704, which represents an increase of $1,745,239 compared to the working capital of $17,035,465 at the end of 2010. This improvement in working capital is mainly attributable to the non-recurrent gain on available-for-sale financial assets realized in the first quarter of 2011.

The Company had financial resources of $16,545,347 as at March 31, 2011, 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 $12,703 in 2011. These transactions consisted of the rental of a warehouse, and were concluded with a company having significant influence. Moreover, fees totalling $50,000 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 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.

First-time Adoption of IFRS

The interim financial statements for the three-month period ended March 31, 2011 were prepared in accordance with IAS 34 *Interim Financial Reporting*. The date of transition to IFRS is January 1, 2010.The IFRS accounting policies presented in Note 3, which the Company intends to elect for the preparation of its annual financial statements, have been applied in preparing the financial statements for the period ended March 31, 2011, the comparative information and the opening statement of financial position at the date of transition. The Company has apply IFRS 1, First-time Adoption of International Financial Reporting Standards , in preparing these IFRS interim financial statements. The effects of the transition to IFRS on equity, comprehensive income and cash flows that were previously prepared in accordance with Canadian GAAP are presented in this section.

First-time adoption - applicable exceptions and exemptions

Upon transition, IFRS 1 dictates certain mandatory exceptions and certain optional exemptions from full retrospective application. The exceptions and exemptions adopted by the Company are set out below:

Mandatory exceptions

- Financial assets and liabilities that have been derecognized prior to January1, 2010, under Canadian GAAP, the case being, have not been recognized under IFRS. The Company has elected to early apply the change to IFRS 1 on this matter with regard to the applicable date of this exception, i.e. January 2010;

– The estimates established by the Company in accordance with IFRS, and for comparative periods, at the date of transition to IFRS are consistent with estimates made for the same dates in accordance with Canadian GAAP, after adjustements to reflect any difference in accounting policies, if applicable.

Optional exemptions

- The Company has elected not to retrospectively apply IFRS 3, Business Combinations to business combinations that occurred before the date of transition;

– – The Company has elected not to retrospectively apply IFRS 2, Share-based payment , to stock options granted prior to November 7, 2002 and to stock options granted after that date that were acquired prior to the transition date.

Reconciliation of equity

Equity at the date of transition and at December 31, 2010 can be reconciled to the amounts reported under Canadian GAAP as follows:

	2011-03-31	2010-12-31	2010-03-31
	$	$	$
Equity under previous GAAP	54,430,196	53,958,090	51,754,265
Increase in equity previously reported, as a result			
of differences between Canadian GAAP and IFRS:			
Amortization of property and equipment	(161,650)	(161,472)	(160,940)
Deferred income taxes	(40,037)	(37,167)	6,021
Stock-based compensation	310,484	299,637	138,553
Equity under IFRS	54,538,993	54,059,088	51,737,899

Reconciliation of comprehensive income

Comprehensive income for the reporting periods ended March 31 and December 31, 2010 can be reconciled to the amounts reported under Canadian GAAP as follows:

	2010-03-31	2010-12-31
	$	$
Comprehensive income under Canadian GAAP	(603,098)	(3,282,422)
Decrease in comprehensive income previously reported		
as a result of differences between Canadian GAAP and IFRS:		
Deferred income taxes	2,870	46,058
Amortization of property, plant and equipment	178	710
Stock-based compensation	(22,210)	(19,357)
Comprehensive income under IFRS	(622,260)	(3,255,011)

Notes relating to reconciliation

Shares issued by flow-through investments

Under pre-change accounting standards, the entire proceeds received on the issuance of flow-through shares were credited to share capital. When the renouncement of the tax deductions related to the resource expenditure for income tax purposes, temporary taxable differences were created and a deferred income tax was recorded, and the related charge was treated as share issue costs.

Under IFRS, issuance of flow-through shares is accounted for similarly to the issuance of a compound financial instrument. The liability component represents the obligation to revert the tax benefit to the investors. Proceeds from the issuance of shares by flow-through private investments are allocated between shares issued and a liability using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and any residual proceeds are allocated to the liability. As there is no exemption under IFRS 1 for first-time adopters regarding flow-through shares, the treatment under IFRS needs to be applied retrospectively. These differences in accounting policies had no impact on the Company's financial statements.

Share-based compensation

Under Canadian GAAP, the Company chose not to estimate the forfeiture rate that gave rise to the differences. Under IFRS 2, the Company is required to calculate the forfeiture rate.

Under Canadian GAAP, the Company recognized on a straight-line basis the cost of stock-based compensation with a progressive right vesting calendar. IFRS 2 requires that such grants must be considered as separate grants and that the compensation expense be recognized separately for each part of the grant. Compensation cost related to each part of the grant is recognized according to the straight-line method over the vesting period of rights for each part.

At the date of transition, the granting of stock options was recalculated using the new method, resulting in an increase of contributed surplus and exploration and evaluation assets of $514,620 and $310,484, respectively, and an increase of deficit of $204,136.

Table of cash flows

Under Canadian GAAP, income taxes paid and received were presented through the notes to financial statements. Under IFRS, income taxes are allocated to investing and financing activities where they can be identified with transactions within those categories. There are no other material adjustments to the table of cash flows on this matter, with the exception that income taxes are now presented in operating activities. The components of cash and cash equivalents under Canadian GAAP are similar to those presented under IFRS.

Impairment losses at the date of transition

The Company applied IAS 36, Impairment of assets , in determining whether any impairment losses arose at the date of transition to IFRS. No impairment losses (or reversals) were identified. The estimates used for this analysis were consistent with the estimates used under Canadian GAAP at the same date, adjusted for accounting policy differences, if applicable.

Other annual disclosures required under IFRS

Income taxes

The reported tax expense of the Company according to in the statement of comprehensive income differs from the combined federal and provincial income tax rate in Canada. This difference results from the following :

	December 31, 2010	
	$	%
Income taxes according to statutory rates	(780,196)	29.90%
Difference between statutory rates and substantively enacted rates used	78,280	-3.00%
Stock-based compensation and other non-deductible stock-based compensation	160,115	-6.10%
Portion of capital gain 50% taxable	(10,583)	0.40%
Expiration of deferred fiscal losses	217,250	-8.30%
Entertainment expenses and non-deductible life insurance premium	13,171	-0.72%
Other	77,937	-3.00%
	(244,026)	9.18%

Future income tax assets and liabilities result from differences between the tax basis and carrying amount of the following items:

	December 2010
	$
Future income tax liabilities resulting from the following items:	
Current	
Exploration and evaluation assets tax credits	677,358
Long-term	
Exploration and evaluation assets	2,176,695
Tangible assets and exploration equipment	542,602
Investments	54,731
	3,451,386
Future income tax assets resulting from the following items:	
Tax losses	2,265,337

Capital stock-related costs	196,445
Other	7,393
	2,469,175
Net deferred income tax liabilities recorded	(982,211)

As at December 31, 2010, tax losses available are as follows:

	Federal	Provincial
	$	$
Losses which may be carried forward until:		
2014	1,007,710	1,315,886
2026	1,068,456	820,779
2027	1,864,974	1,859,474
2028	386,983	
2029	2,020,903	2,015,145
2030	2,231,249	2,209,692
	8,580,275	8,220,976

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.

1.14 Other Information

Common Shares

As at March 31, 2011, there were 61,242,071 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
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. 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, even if the SEE's mandate is still not defined, 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 operations

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 provides 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.