JUNEX

# MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE QUARTER ENDED
**JUNE 30, 2016**

**This management discussion and analysis ("MD&A") is a comparison of Junex's financial position and results for the quarter ended June 30, 2016, with those of the previous year. It should be read in conjunction with the consolidated financial statements and notes for the quarter ended June 30,2016 thereto for the year ended December 31, 2015. These interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, and are presented in Canadian dollars. The interim consolidated financial statements as at June 30, 2016 and the Quarterly Report for the three month ended June 30, 2016 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 also owns a division providing oil and gas well drilling services principally for its own needs.

Junex is a junior oil and gas exploration company that holds exploration permits on approximately 3.8 million acres of land located in the Appalachian basin in the Province of Quebec. The Company's main project is currently Galt, on the Gaspé Peninsula, where Junex is engaged in an horizontal drilling campaign with the purpose of commercially producing this Oil Field. The Galt Oil Project covers an area of 16,645 acres located 20 kilometres west of Gaspé. Galt is the most advanced oil project in Quebec in terms of geological knowledge and engineering, of delineation of the structure, wells drilled and resource potential. 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") at 12.2 billion barrels for the Macasty Shale.

# Forward-Looking Statements

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

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

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

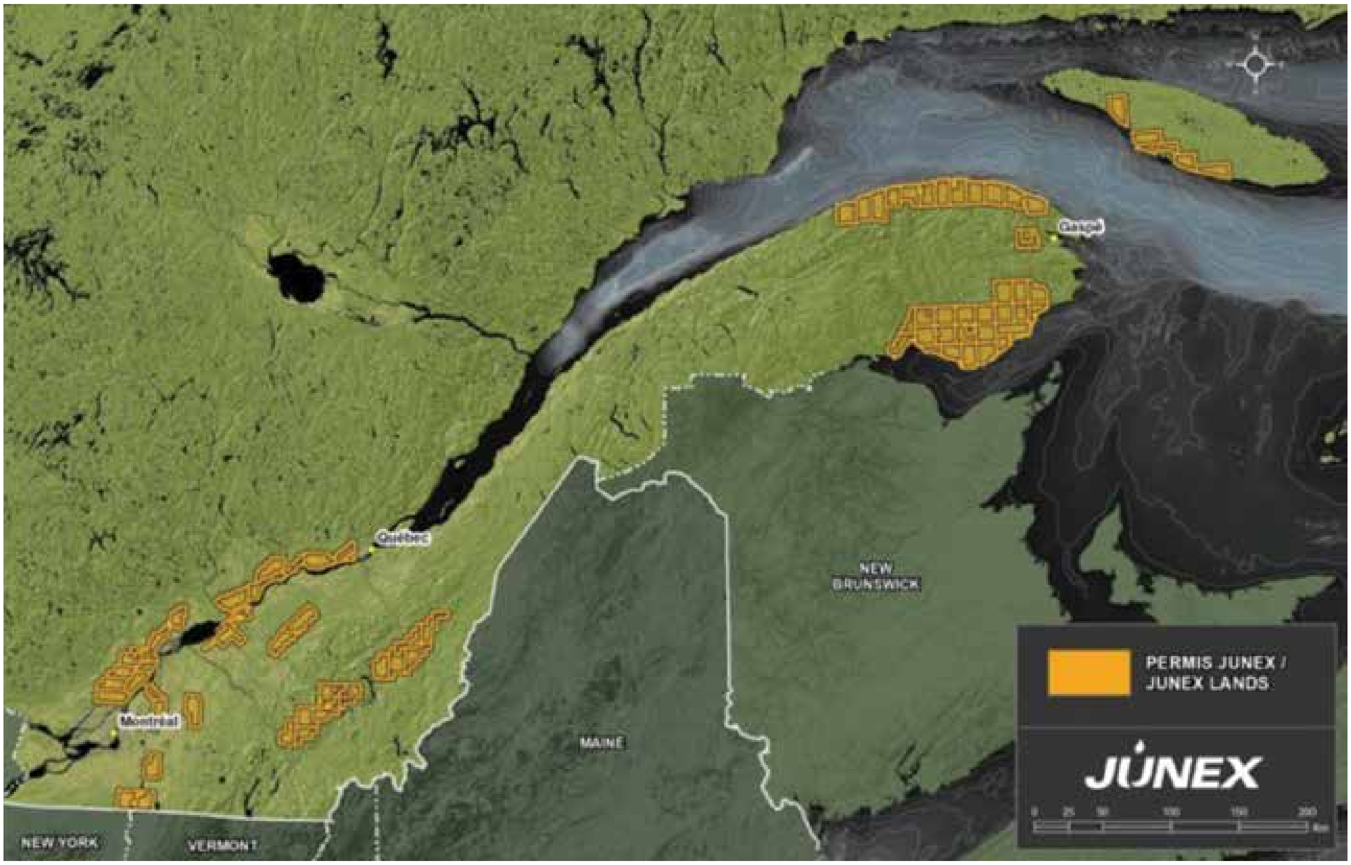
# 1.1 Date

This report for the period ended June 30, 2016, was completed on August 28, 2016.

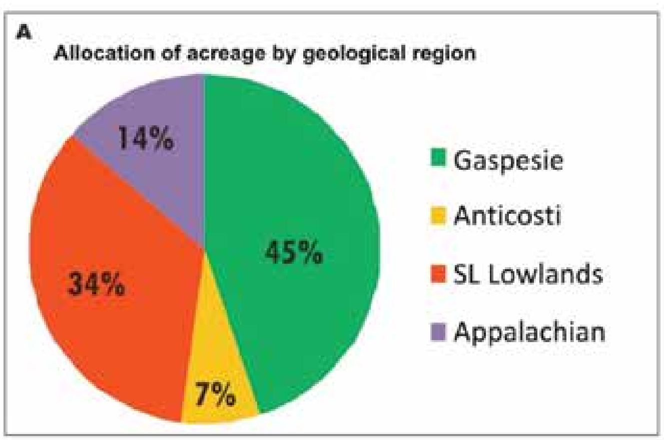
# 1.2 Exploration Program

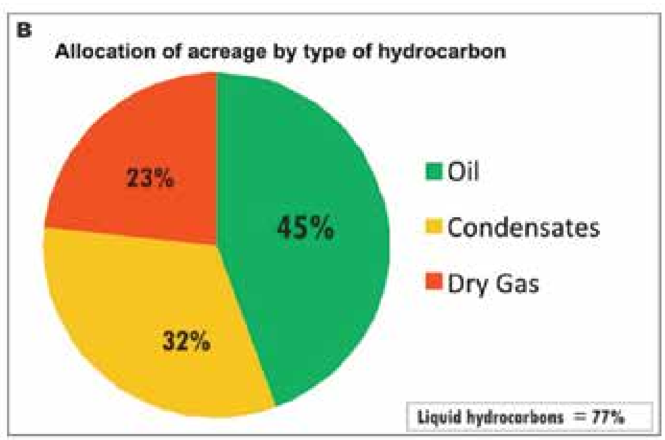
Junex is one of the largest holder of oil and gas exploration licenses in Quebec and its properties are located in sedimentary basins in the St. Lawrence Lowlands, on the Gaspé Peninsula, on Anticosti Island and in the Appalachian region. With its presence in these different regions, Junex has diversified its portfolio of exploration objectives and thus reduced the risks typically associated with a single exploration focus. The company's portfolio of projects is well balanced with 77% of these properties having a potential for petroleum liquids (oil or condensate).

## Junex Exploration Properties in Quebec



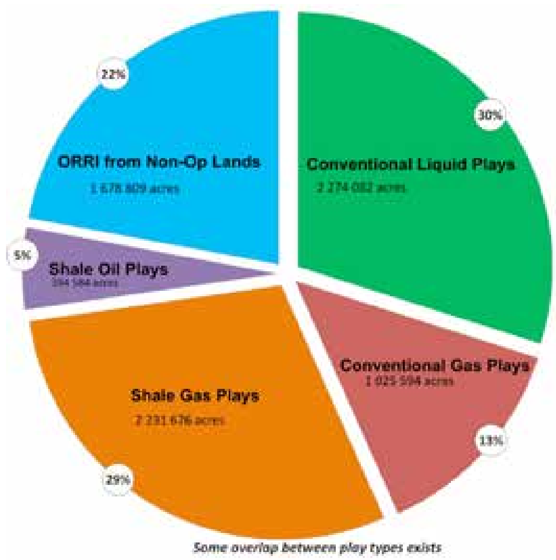

## Junex Exploration Portofolio in Québec



Since 2006, Junex has entered into various partnership agreements to explore the shale gas potential in certain areas in the St. Lawrence Lowlands. Three agreements are currently in place, including two with Lone Pine Resources Inc. and another with Canadian Quantum Energy Corporation, both of who are based in Calgary, Alberta. Junex also owns overriding royalties on production ranging from 0.5% to 5% in an additional 6,800 square kilometer-sized area (1.7 million acres) in two sedimentary basins in Quebec:  the Gaspé Peninsula and the St. Lawrence Lowlands.

## Junex Portofolio Presented by Type of Project




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

Over the years, Junex's exploration operations have demonstrated the oil and gas potential of its properties. In addition to the significant natural gas potential of the Utica Shale Basin in the St. Lawrence Lowlands, the company also counts on excellent oil projects where the potential was assessed by an independent firm.

These include the Galt Oil Projects with Oil-Initially-in-Place ("OIIP") resources of 557 million barrels, and Anticosti Island where the company owns 100% in approximately 234,000 acres under exploration permit.

# Galt Project

The Galt Oil Project covers an area of 16,645 acres located 20 kilometres west of Gaspé. Galt is the most advanced oil project in Quebec in terms of geological knowledge and engineering, of delineation of the structure, wells drilled and resource potential. Based on publicly disseminated information, our project contains the largest Discovered and Undiscovered Oil Resource potential so far established on the Gaspé Peninsula by independent evaluators and currently it is the only project in Québec containing Proved and Probable oil reserves.

At the end of autumn 2014, Junex drilled the first horizontal well on this project, the Galt No. 4 Horizontal well, which was drilled from the Galt No. 4 Vertical wellbore to a total measured depth of 2,400 meters, of which 1,503 meters was drilled within the oil reservoir. This well demonstrated the validity of the geological concept for the Galt project.

In total, Junex recovered a total volume of 7,200 barrels of light oil from its production testing and its cleanup/swabbing operations in its Galt No. 4 Horizontal well. Constant production rates varying between 161 to 316 barrels of light oil per day were recorded during the production tests. Positive results from the Galt No. 4 Horizontal well encouraged Junex to update its reserve and resource evaluation of the Galt Field.

Netherland, Sewell & Associates, Inc., ("NSAI"), a firm of worldwide petroleum consultants based in Texas, provided in 2015 an update of their Best Estimate of the total Oil-Initially-In-Place ("OIIP") resources at 557 million barrels for the Forillon and Indian Point formations on Junex's Galt Field property on the Gaspe Peninsula.

This 557 million barrel figure includes Discovered OIIP volumes of 81 million barrels and Undiscovered OIIP volumes of 476 million barrels in the combined Forillon and Indian Point formations, of which Junex's net share of the total OIIP resources is 390 million barrels that includes Discovered OIIP volumes of 57 million barrels and Undiscovered OIIP volumes of 333 million barrels. This represents a 227 million barrel increase (69%) with respect to NSAI's previous Best Estimate of the total OIIP resources as outlined in a press release made by Junex on March 27, 2013.

The Discovered OIIP volumes have more than doubled to 80.8 million barrels and Junex's share of the potentially recoverable Contingent Resources portion of these has increased by approximately 1500% to 5.7 million barrels. These are a direct result of an increase in size of the area where Discovered sub-commercial Contingent Resources have been established as well as increased certainty as to the oil recovery factor and other oil characteristics.

| **Oil Initially-In-Place (OIIP) Volumes** | | **Gross (100 %) OIIP** (Millions of Barrels) | | | **Junex's Portion (70%) OIIP** (Millions of Barrels) | |
|---|---|---|---|---|---|---|
| | **Low Estimate** | **Best Estimate** | **High Estimate** | **Low Estimate** | **Best Estimate** | **High Estimate** |
| Discovered OIIP [1] | 59.8 | 80.8 | 99.1 | 41.9 | 56.6 | 69.4 |
| Undiscovered OIIP [2] | 350.8 | 476.2 | 591.8 | 245.6 | 333.4 | 414.3 |
| Total OIIP* | 410.6 | 557.0 | 690.9 | 287.4 | 389.9 | 483.6 |

1 There is uncertainty that it will be commercially viable to produce any portion of the discovered resources.

2 There is no certainty that any portion of the undiscovered resources will be discovered, and, if discovered, there is no certainty that it will be commercially viable to produce any portion of this category of resources.

* Total may not balance because of rounding.

NSAI's updated Best Estimate of the total Recoverable Oil Resource Volume on the Galt Field property includes 23,000 barrels of Proved plus Probable Reserves, 8.1 million barrels of Recoverable Unrisked Contingent Oil Resources and 71.4 million barrels of Recoverable Unrisked Prospective Oil Resources, of which Junex's net share of the total Potentially Recoverable Oil Resource Volume includes 16,000 barrels of Proved plus Probable Reserves, 5.7 million barrels of Recoverable Unrisked Contingent Oil Resources and 50 million barrels of Recoverable Unrisked Prospective Oil Resources.

| Recoverable Oil Volumes | Gross (100 %) (Millions of Barrels) | | | Junex's Portion (70%) (Millions of Barrels) | | |
|---|---|---|---|---|---|---|
| **Reserves** | **Proved** | **Proved + Probable** | **Proved + Probable + Possible** | **Proved** | **Proved + Probable** | **Proved + Probable + Possible** |
| Volume | 0.020 | 0.023 | 0.023 | 0.014 | 0.016 | 0.016 |
| **Resources** | **Low Estimate** | **Best Estimate** | **High Estimate** | **Low Estimate** | **Best Estimate** | **High Estimate** |
| Contingent Resources [3] | 3.0 | 8.1 | 14.9 | 2.1 | 5.7 | 10.4 |
| Unrecoverable | 56.5 | 72.3 | 83.5 | 39.6 | 50.6 | 58.4 |
| Prospective Resources [2] | 17.5 | 71.4 | 147.9 | 12.3 | 50.0 | 103.6 |
| Unrecoverable | 333.3 | 404.8 | 443.8 | 233.3 | 283.3 | 310.7 |
| Recovery Factor - Contingent Resources | 5% | 10% | 15% | 5% | 10% | 15% |
| Recovery Factor - Prospective Resources | 5% | 15% | 25% | 5% | 15% | 25% |

2 There is no certainty that any portion of the undiscovered resources will be discovered, and, if discovered, there is no certainty that it will be commercially viable to produce any portion of this category of resources.

3 There is uncertainty that it will be commercially viable to produce any portion of the sub-commercial discovered resources.

Junex holds a 70% interest in the Galt Oil Property and a 100% interest in the acreage (36,816 acres) adjacent to it. The adjacent 100% Junex acreage has not yet been independently evaluated for its resource potential.

## Operations in the Second Quarter of 2016

During the first two quarters of 2016, Junex continued its efforts to complete the exploration phase that could lead to commercial production. As a minimum, this exploration phase includes the following steps:

- The drilling of the Galt No. 5 Horizontal well;
- The acquisition of a 3D seismic data survey, and;
- The drilling of the Galt 6 & 7 Horizontal wells, whose locations will be selected based on prior results, is planned for 2016 to 2017.

Long-term oil production testing of Galt No. 4 Horizontal well is still underway and the cumulative oil recovered from production testing since the well finished drilling in stands at approximately 9,650 barrels, which firmly places Junex's Galt No. 4 Horizontal well as having the largest oil recovery ever seen in Quebec's history.

This latest phase of production testing commenced in early June after receipt of approvals from the Quebec Government that allow for up to another 180 days of testing for a total of 240 days of testing in this well.

The principal goal of Junex's extended production testing of its Galt No. 4 Horizontal well is to collect additional reservoir data to determine the optimal commercial rate at which to produce this well and future wells on the Galt Oil Property. The testing program includes producing the well at varying production rates during the 180-day testing period as well as over different portions of the horizontal wellbore in the Forillon oil reservoir. Subject to results from these ongoing production testing operations, other operations may be performed.

The well has produced approximately 1,620 barrels of light crude oil during this latest phase of production testing. The cumulative oil produced from testing operations since the well was drilled in late 2014 is approximately 9,650 barrels over a total of 90 days of production testing, including certain days when production was lower while the pump was being adjusted.

The oil produced from the Galt no. 4 Horizontal well is of excellent quality. With the goal of providing the highest financial returns to Junex when marketing its oil to refiners, the oil is currently further sampled and analyzed with the goal of ascertaining the best yield of refined products, including lubricants, petrochemical feedstock, fuel additives, fuels and other products.

## Junex Galt No. 5 Horizontal Well

The first stage of field operations in the Galt No. 5 well was performed during the Quarter. These operations are designed to further evaluate the horizontal leg where abundant natural fractures and oil shows were recorded in the lower portion of the Forillon Limestone and the upper portion of the Indian Point Formation.

At present, the well is shut-in for pressure build-up measurements over the next months. If the results from this indicate that the horizontal leg drilled in the lower portion of the Forillon Limestone and the upper portion of the Indian Point Formation in the Galt No. 5 well can be commercially produced, then extended production testing operations of up to 8 months in duration are planned. If the results indicate the contrary, other options include, but are not limited to, drilling a second horizontal leg into the upper portion of the Forillon Limestone reservoir from the vertical portion of the well.

## 3D Seismic Program and Future Wells

During the Quarter Junex's team, in collaboration with a renowned third-party expert, finalized analysis and interpretation of the 37 km$^2$ 3D seismic survey completed in Fall 2015.

The data are of very good quality and provide invaluable information as to the nature of the Galt Structure and the optimal siting of future horizontal wells to be drilled on the structure.

A number of drilling locations have been identified and the drilling permits requests, notably the Galt #6 Hz well, is currently at final stage of preparation.

# Anticosti Project

The South Anticosti block of permits covers an area of 944 square kilometers and is 100% held by Junex.

Junex's acreage on Anticosti is principally situated to the south of and on the deeper side of the major Jupiter Fault Zone ("Jupiter Fault") where the prospective sedimentary layers are located deeper than those located north of the fault. Based on the results obtained from the Utica Shale in the St. Lawrence Lowlands and those observed in the majority of the basins in the U.S., Junex is of the opinion that the Macasty Shale located in the Deep Fairway should have a more significant reservoir pressure (or reservoir energy) than the shallow Macasty located outside of the Fairway, which could translate by a potentially increased production in the Deep Fairway.

Based on available data, the company's mapping indicates that the Macasty's average thickness is approximately two times that encountered in the wells previously drilled by other operators outside the Deep Fairway. Junex's interpretation of pertinent geochemical lab data indicates that the organic-rich Macasty on its Deep Fairway acreage places it well within the Oil Window of thermal maturity, which compares much more favourably with published findings for the oil-rich Utica/Point Pleasant Shale in Ohio and the prolific Eagle Ford Shale in Texas than currently does the less thermally mature Macasty Shale outside of the Deep Fairway.

In addition to the Macasty Shale, the deeper sedimentary sequences contain an excellent oil and gas potential. Several seismically-defined drilling targets have been identified within the Trenton Black River Formations, which is a prolific producer in the Appalachian basin in the United States.

## Future Field Operations

During the first quarter of 2014, the company had signed a Letter of Intent ("LOI") with Ressources Québec that could have led to an exploration program in two stages for a total maximum of $90 million funded entirely by RQ and a third partner from the industry to be identified. In return for their investment, Ressources Québec and the industry partner would have earned an 80% interest in a limited partnership company that would have controlled 100% of Junex's permits.

In the course of discussions with other potential industry partners in the following months, Junex decided to maintain 100% of its interests on its Anticosti block permit and wait for the results of the exploration campaign led by the other companies involved on the island instead of pursuing the LOI any further and thus let the LOI on 1 November 2014. If the operations performed by our competitors the neighboring acreage would be successfully completed, then this exploration campaign should largely "de-risk" Junex's land package without necessitating any investment of capital or dilution of interest on our part.

Publicly-available maps showing the locations of the stratigraphic coreholes drilled by neighboring acreage holders to date and their planned wells indicate that these have been and/or will be situated near Junex's permits. As a result of the upcoming drilling operations, the value of our permits could fluctuate. If the neighboring acreage holders' schedule is respected, their three horizontal wells initially expected for 2016 should be drilled and fracture stimulated in 2017.

Junex has no intention of investing in the Anticosti project until results from our neighboring acreage holders, Hydrocarbures Anticosti Limited Partnership are known.

# Other Properties

Junex holds a significant acreage position in the St. Lawrence Lowlands and is directly involved in the natural gas discovery in the Utica Shales.

Since 2011, the socio-political climate in Quebec has resulted in a de facto moratorium on exploration in the St. Lawrence Lowlands and the Quebec Government had launched a Strategic Environmental Study to evaluate the different impacts of a possible natural gas production in the St. Lawrence Lowlands. The results of this study were filed in early 2014 and a public consultation of the *Bureau d'Audience Publique sur l'Environnement* (BAPE) was launched. In 2014, Junex participated to the Public Consultation by filing a Memoir highlighting the importance of performing a pilot project with the purpose of addressing the main issues involved in Shale Gas exploration and production in Quebec's particular context.

The BAPE findings were published at the end of 2014. In light of the findings and recommendations presented in this report, the Quebec government decided to wait for the publication of all ongoing ESA reports prior to any development of shale gas. The filing of these reports and the publication of a new energy policy and a new Hydrocarbon Act are scheduled for early 2016. Junex has no intention of investing in the Utica Shale project until that time.

## Silurian Basin, Gaspe Peninsula
## Baie des Chaleurs Project

The positive results obtained on the Galt Project since 2012 prompted Junex to pursue various exploration projects on its other exploration permits on the Gaspé Peninsula. In 2014, surface geological field work was carried out on the southern Gaspé Peninsula to improve knowledge of the regional source rocks in order to better assess the Silurian-aged petroleum system.

The same Source rock that generated the hydrocarbons present at Galt is present on our Baie des Chaleurs acreage. In addition, the two sedimentary basins are geologically contiguous, ensuring that all geological data and knowledge obtained on our Galt Project can be applied to the Chaleurs Bay project. This will improve the geological understanding of the Chaleurs Bay project and, by extension, increase the probability of hydrocarbon discoveries thereon. It is also of note that, in terms of a local market, the start of operations of a cement plant at Port-Daniel nearby is scheduled for 2017. This plant is a major development for our project which is located far from major consumer markets. The presence of a very large energy consumer right next door to our permits ensures that the economic viability of hydrocarbons that could be discovered and produced on the Chaleurs Bay project would be greatly improved. For these reasons, as well as the planned development of our Galt Field and the presence of a large energy consumer nearby, the company considers that the value of the Baie des Chaleurs project could significantly increase in future years.

During the first two quarters of 2016, the company reviewed all available geological data on this project in order to prepare an exploration program targetting either natural gas and/or storage reservoirs to sequester CO2.

## Permian Basin, Texas
## Schleicher County Project

In 2012, Junex concluded an agreement with Telesis Operating Co., an oil exploration and production company, which is headquartered in Fort Worth, Texas. The agreement concerns a block of licenses covering over 2200 acres located on the edge of the Permian Basin in western Texas's Schleicher County. In 2014, Telesis sold its interest in the project to Boaz Energy of Midland, Texas. Junex expects a new exploration program will be proposed by Boaz Energy to decide whether it will participate in the future investments required on the project. For now, some tests and standard maintenance operations continue.

**Exploration and Evaluation Assets**

Exploration and evaluation assets of Junex amounted to $40,008,679 as of June 30, 2016, compared to $39,107,412 as of December 31, 2015, which represents an increase of $901,267. These exploration expenses represent the net investments of the Company on its different projects in oil and gas exploration. Thus, they are deducted from the write-off which can occur during the year due to the abandonment of wells and/or projects, also net of tax credits that the Company receives from Québec, and from partners' contributions that are paying a share of exploration expenses for some projects.

Details of exploration and evaluation assets as at June 30, 2016 and as at December 31, 2015 are detailed as follows:

## Breakdown of exploration and evaluation assets as at June 30, 2016

| | Exploration fees | Exploration rights (properties) | Total |
|---|---|---|---|
| Chaleurs Bay | 2,865,431 | 639,655 | 3,505,086 |
| Belt & Anticosti | 4,232,388 | 450,339 | 4,681,727 |
| Galt | 16,154,967 | 1,197,559 | 17,352,526 |
| North Shore | 5,142,503 | 592,738 | 5,735,241 |
| Becancour-Nicolet | 6,958,914 | 171,356 | 7,130,270 |
| Appalachians & Lyster | 236,476 | 256,761 | 493,237 |
| Texas | 273,929 | 199,056 | 472,985 |
| Northern Quebec | 16,572 | 52,432 | 69,004 |
| Richelieu | 237,783 | 330,820 | 568,603 |
| | 36,117,963 | 3,890,716 | 40,008,679 |

### Breakdown of exploration and evaluation assets as at December 31, 2015

| | Exploration fees | Exploration rights (properties) | Total |
|---|---|---|---|
| Chaleurs Bay | 2,843,151 | 598,913 | 3,442,064 |
| Taconic Belt & Anticosti | 4,215,901 | 433,511 | 4,649,412 |
| Galt | 15,482,308 | 1,196,872 | 16,679,180 |
| North Shore | 5,127,135 | 566,238 | 5,693,373 |
| Becancour-Nicolet | 6,912,786 | 171,014 | 7,083,800 |
| Appalachians & Lyster | 224,379 | 252,289 | 476,668 |
| Texas | 273,929 | 199,056 | 472,985 |
| Northern Quebec | 16,572 | 52,432 | 69,004 |
| Richelieu | 221,507 | 319,419 | 540,926 |
| | 35,317,668 | 3,789,744 | 39,107,412 |

# 1.3 Selected Financial Information

**for the Quarters Ended June 30, 2016 and 2015**

(Thousands of dollars, except per share amounts)

| | Three-month period ended June 30 | | Six-month period ended June 30 | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **$** | **$** | **$** | **$** |
| **OPERATIONS** | | | | |
| Sales by segment | | | | |
| Oil and natural gas | **19** | 35 | **39** | |
| Drilling services | **36** | 13 | **36** | 98 |
| **Total sales** | **55** | 48 | **75** | 168 |
| | | | | |
| Gross margin | **(87)** | (52) | **(257)** | (53) |
| Net earnings (net  loss) | **(529)** | (422) | **(1 178)** | (785) |
| Basic and diluted net earnings (net loss) per share | **(0.007)** | (0.006) | **(0.015)** | (0.012) |
| | | | | |
| **BALANCE SHEET** | **06-30-2016** | 06-30-2015 | **06-30-2016** | 06-30-2015 |
| Working capital | **12,150** | 6,610 | **12,150** | 6,610 |
| Total assets | **57,170** | 43,660 | **57,170** | 43,660 |
| Total liabilities | **3,355** | 740 | **3,355** | 740 |
| Shareholders' equity | **53,815** | 42,920 | **53,815** | 42,920 |
| | | | | |
| **CASH FLOWS** | | | | |
| Cash flows from (used in) operating activities | **(424)** | (410) | **(939)** | (340) |

# 1.4 Annual Results of Operations

**Sales and Profit Margin**

The Company's sales for the second quarter of 2016 totalled $55,467 that represents an increase compared to sales of $47,611 recorded for the second quarter of 2015. The Company's sales for the second Quarter of 2016 are composed of $19,229 from oil sales and $36,238 from drilling service sales. Since the Galt project remains at the exploration stage, the revenues of $57,372 from the sale of oil pumped during production testing of the Galt No 4 Horizontal well during the first Quarter were applied in consideration of exploration and evaluation assets (see Note 12 of the Financial Statement).

As for oil and gas sales, these generated $19,229 in the second Quarter of 2016, compared to sales of $34,950 in the second Quarter of 2015. The Oil sales decreased due to a discontinuous production of the wells located in Texas. These wells are still currently in production testing.

As for the drilling division, it recorded sales of $36,238 in the second Quarter of 2016, compared to sales of $12,661 in the same Quarter of 2015. 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. Revenues in future years will depend mainly on the company's ability to find partners for drilling wells on its own projects or to earn drilling contracts from third parties' projects located mainly in Eastern Canada.

The gross margin for the second quarter of 2016 is negative by a factor of 156%, compared to a negative gross margin of 109 % in the second quarter of 2015. The decrease in the margin is mainly explained by the gross margin of the oil and gas division also decreased with a negative margin of 0.2% compared to a positive margin of 36% in the same quarter of 2015.

**Net Loss and Cash Flows**

The Company posted a net loss of $529,360 for the second quarter of 2016, compared to a net loss of $422,238 registered in the second quarter of 2015. The difference is mainly explained by interest on debentures of $101,090 in the second quarter of 2016.

The Company's operating activities used cash flows of $423,512 in the second quarter of 2016, compared to $410,254 used cash flows in the same quarter of 2015.

Administrative expenses decreased by $22,773 or 5,8% in the second quarter of 2016. The main item that contributed to this decrease was Share-based compensation which rose from $ 61,815 in 2015 to $ 32,406 in the corresponding quarter of 2016.

A comparison of administrative costs is presented below.

**Detail of administrative expenses for the quarters ended June 30, 2016 and 2015**

| | 3 months | | 6 months | |
|---|---|---|---|---|
| | **06-30-2016** | 06-30-2015 | **06-30-2016** | 06-30-2015 |
| **Adminstrative expenses** | | | | |
| Salarie and benefits | **143,840** | 135,170 | **278,393** | 263,099 |
| Share-based compensation | **32,406** | 61,815 | **64,812** | 123,630 |
| Professional fees | **97,766** | 82,037 | **244,660** | 175,941 |
| Insurances | **30,390** | 27,927 | **61,522** | 51,930 |
| Office and equipment location | **11,957** | 11,236 | **23,315** | 22,440 |
| Marketing and promotion | **8,092** | 9,774 | **14,134** | 19,031 |
| Taxes and permits | **11,732** | 13,123 | **25,438** | 23,837 |
| Travel and business development | **23,340** | 37,233 | **39,548** | 69,146 |
| Office fees | **6,127** | 10,024 | **15,731** | 21,368 |
| Amortization of property, plant and equipment | **5,894** | 5,978 | **11,411** | 11,851 |
| | **371,544** | 394,317 | **778,964** | 782,273 |

# 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 $400,000 to $600,000. The unusual $401,090 net earnings in the last Quarter of 2015 was mainly caused by the deferred taxes expense of $743,044 related to the flow-through investments. For the quarter ended December 31, 2014, the unusual $8,926,448 loss was mainly caused by the write-off of $8,734,666 on exploration and evaluation assets.

## Financial Data for the Last Eight Quarters

| | June 30 2016 $ | March 31 2016 $ | Dec. 31 2015 $ | Sept. 30 2015 $ | June 30 2015 $ | March 31 2015 $ | Dec. 31 2014 $ | Sept. 30 2014 $ |
|---|---|---|---|---|---|---|---|---|
| Total sales | 55,467 | 19,729 | 474,153 | 132,505 | 47,611 | 120,355 | 484,198 | 56,042 |
| Net income (loss) | (529,360) | (648,400) | 401,090 | (340,721) | (422,238) | (363,079) | (8,926,448) | (483,429) |
| Basic net income (loss) per share | (0.007) | (0.008) | 0.005 | (0.004) | (0.006) | (0.005) | (0.135) | (0.007) |

# 1.6 Liquidity and Capital Resources

As of June 30, 2016, the Company's working capital amounted to $12,149,629 that represents an decrease of $2,424,220 compared to working capital of $14,573,849 as at December 31, 2015. The decrease in working capital was primarily due to exploration expenditures during the quarter.

The Company had financial resources of $10,378,204 as at June 30, 2016, 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 during the last quarter.

# 1.8 Off-Balance-Sheet Arrangements

The Company has no significant off-balance-sheet arrangement other than the consolidated financial commitments specified in Note 16 to the annual consolidated financial statements.

## 1.9 Related Party Transactions

Related party transactions amounted $10,324 in second quarter of 2016. These transactions consisted of the rental of a warehouse and were concluded with a company having significant influence. Related-party transactions with a company controlled by a shareholder having significant influence were entered into in the normal course of business and were measured at the exchange amount, being the amount established and accepted by the parties. The commercial goal of the transaction is the rental of warehouses that allow optimized drilling service activities.

## 1.10 Anticipated Transactions

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

## 1.11 Critical Accounting Estimates

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

## 1.12 Changes in Accounting Policies

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

# 1.13 Supplemental Information Required by Emerging Issuers Without Significant Operating Income

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

### National Instrument 51-102

### The deferred exploration expenses for for the six-month period ended June 30, 2016

| | Geology | Geophysics | Wells | Evaluation | Professional and General fees | Total |
|---|---|---|---|---|---|---|
| Chaleurs Bay | 21,933 | | 602 | | 5,217 | 27,752 |
| Taconic Belt & Anticosti | 15,664 | | | | 3,626 | 19,290 |
| Galt | 60,671 | 145,632 | 650,490 | 27,516 | 213,622 | 1,097,931 |
| North Shore | 5,083 | | 10,461 | | 3,598 | 19,142 |
| Becancour-Nicolet | 633 | | 45,737 | | 4,928 | 51,298 |
| Appalachians & Lyster | 995 | 286 | 10,831 | | 296 | 12,408 |
| Richelieu | 334 | | 15,946 | | 77 | 16,357 |
| | 105,313 | 145,918 | 734,067 | 27,516 | 231,364 | **1,244,178** |

### National Instrument 51-102

### The deferred exploration expenses for the six-month period ended June 30, 2015

| | Geology | Geophysics | Wells | Evaluation | Professional and General fees | Total |
|---|---|---|---|---|---|---|
| Chaleurs Bay | 16,998 | | 596 | | 3,582 | 21,176 |
| Taconic Belt & Anticosti | 25,693 | | | | 5,231 | 30,924 |
| Galt | 104,922 | 42,798 | 986,857 | 206,008 | 286,756 | 1,627,341 |
| North Shore | 16,285 | | 22,553 | | 7,907 | 46,745 |
| Becancour-Nicolet | 2,276 | | 44,534 | | 4,713 | 51,523 |
| Appalachians & Lyster | 5,197 | 1,367 | 10,692 | | 1,336 | 18,592 |
| Texas | | | 22,107 | | | 22,107 |
| Richelieu | 1,597 | | 17,246 | | 325 | 19,168 |
| | 172,968 | 44,165 | 1,104,585 | 206,008 | 309,850 | **1,837,576** |

# 1.14 Other Information

**Common Shares**
As at June 30, 2016, there were 79,382,266 common shares outstanding.

**Warrants**
The following warrants were issued as at June 30, 2016:

5,555,556 warrants exercisable at a price of $1.25 per share until July 21, 2017 and at a price of $1.40 per share until July 21, 2018.

2,427,006 warrants exercisable at a price of $1.25 per share until July 2, 2017 and at a price of $1.40 per share until July 2, 2018.

**Options Issued to Brokers**
A total of 139,780 options, exercisable at a price of $0.90 per share until July 2, 2017, were issued. Each option entitles the holder to subscribe to one ordinary share at a price of $0.90 per share and one half warrant. Each warrant is exercisable at a price of $1.25 per share until July 2, 2017 and at a price of $1.40 per share until July 2, 2018.

## Options Issued to Brokers

| Volume | Exercise Price | Expiry date |
|---:|---:|---|
| 21,666 | $1.18 | 08-31-2016 |
| 50,000 | $0.97 | 08-31-2017 |
| 200,000 | $0.75 | 01-24-2018 |
| 600,000 | $1.68 | 04-07-2018 |
| 100,000 | $2.84 | 09-05-2018 |
| 1,280,000 | $0.88 | 03-20-2019 |
| 1,209,000 | $0.71 | 11-15-2022 |
| 1,725,000 | $0.59 | 08-21-2024 |
| **5,185,666** | **$0.88** | |

# 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.

### Strategic Environmental Evaluation and Quebec Energy Policy

On May 30, 2014, the Minister of Energy and Natural Resources and the Minister of Sustainable Development, Environment and changes have announced the adoption of the "Government Action Plan on hydrocarbons" ("Action Plan").

This Action Plan proposes a knowledge acquisition process that includes the preparation of a Strategic Environmental Assessment ("SEA") of the Anticosti exploration project as well as a SEA on the entire hydrocarbon industry. In parallel with these SEAs, the Government is developing a new 2016-2025 energy policy and a new hydrocarbon Law planned to regulate the oil & gas exploration and production activities.

The results of this Action Plan will help to better understand the regulatory environment in which the company will evolve over the coming years.

In parallel to the Action Plan and the SEAs, the Quebec Government unveiled its 2016-2030 Energy Policy on April 7th 2016. This Energy Policy stated that if the Government commits itself to the development of the hydrocarbon option, several factors must be considered:

› the safe transport of hydrocarbons;
› responsible hydrocarbon exploitation in Québec;
› social acceptability in the host communities;
› the enforcement of the most stringent technical and environmental standards

The Energy Policy also indicates that the Quebec government will soon table a Bill for new hydrocarbon legislation governing hydrocarbon exploration and production in Québec.

### Uncertainty of Crude Oil, Natural Gas Reserve and Resource Evaluations

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

### 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 that 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.

**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 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, 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. The production results as well as the financial considerations of the company are related to prices paid for oil and natural gas produced from reserves in which the company holds direct participation. Oil and natural gas prices have fluctuated wildly in the past. Oil prices are subject to international supply and demand, and political developments, particularly in the Middle East, can have a major influence on world oil supplies and prices. Any decline in oil or natural gas prices could have a material adverse effect on the Company's operations, financial condition and the level of expenditures for the acquisition of additional oil and gas reserve. In addition, the marketability of the Company's production will depend upon the availability and capacity of gathering systems and pipelines, the effect of federal and provincial regulation and general economic conditions. All of these factors are beyond the Company's control.

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

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

Natural brine (water with a high saline content) is a transparent odourless liquid product consisting of a high concentration of dissolved salts. The chemical properties of natural brine are such that it is an effective de icing product and dust suppressant. The price received by a producer and distributor of natural brine varies according to the prices of other competing products, such as sodium chloride and magnesium chloride. 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**
Some of the properties in which the Company holds an interest are currently subject to land claims by native peoples. However, no assurance can be provided as to the validity of those claims for with agreements that might or might not arise.

**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 employees. The Company's inability to deal with this growth could have a material adverse impact on its business, operations and prospects.

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

# Supplemental Information

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

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