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Analyst Report

By **Éric Lemieux**, MSc, P.Geo
Mining & Exploration Analytics
eric.lemieux@peartreesecurities.com

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Junex Inc. (JNX-V)

14-day production test produces landmark 161 barrels of oil per day on Galt No. 4 HZ

Event: Junex reported an initial production rate of ~161 barrels of oil per day at its Galt No. 4 horizontal well.

Impact: Positive. Proof of concept confirmed, moving ahead towards commercial production. Productive capacity of the Galt oil accumulation in the Forillon reservoir confirmed by the January 2015 production test.

Analysis

- **On January 27, 2015, Junex reported a steady production rate of 161 barrels of oil per day during the final six days of its 14-day production test in its Galt No. 4 horizontal well and produced a total volume of 2,017 barrels of light (42% API) sweet crude oil.** We understand that production rate of ~161 bopd during 14 days was limited by the configuration of the surface oilfield pumping equipment at the well. Recall Junex started drilling its Junex Galt No. 4 HZ well at its Galt oil property in a sparsely populated area approximately 20km west from the town of Gaspé in eastern Québec in early October 2014. Junex holds a 70% interest in the Galt property amounting to 16,645 acres (Junex's partner, Mr. Bernard Lemaire, holds the remaining 30% interest) and 100% interest in the adjacent Galt 2 acreage amounting to 36,233 acres. Junex (Foragaz) used its 3,000m-capacity Foragaz No. 4 drilling rig to spud Galt No. 4 HZ and completed drilling on November 20, 2014 to total measured depth of 2,400m, of which 1,503m was drilled within the Forillon oil reservoir which is estimated to contain petroleum resources that stand at 36 million barrels of contingent recoverable oil (Netherland, Sewell & Associates, Inc., 2013). Recall Junex holds exploration rights to over 5.2 million acres of land located in the Appalachian Basin in Québec within the heart of the Utica Shale gas discovery located in the St. Lawrence Lowlands, the Gaspé Peninsula as well as on Anticosti Island.

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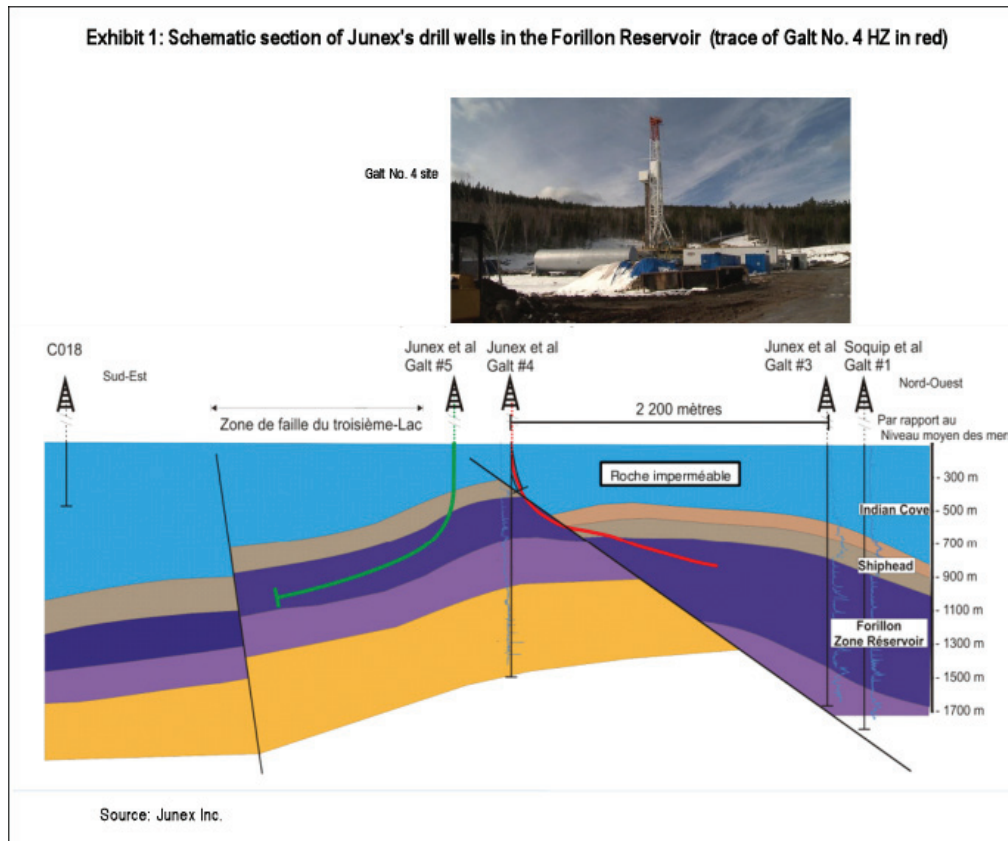
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- **The substantial interval of oil-charged, naturally-fractured reservoir rock on Galt has been shown to contain economic oil production capacity without fracking.** Numerous significant oil shows associated with fracture porosity recorded during drilling and results from downhole well logging indicate that the oil reservoir is intensely fractured and that the Galt No. 4 Horizontal well intersected the near-vertical natural fractures at an optimum angle of ~90 degrees. We believe the production rate of 161 barrels of oil per day is significant and translates into a commercial oil production rate even at today's low oil price. The completion of the next phase of well shut-in with measurement of the pressure build-up and possible future production testing should provide additional data-points as to the reservoir characteristics of the Forillon reservoir. The pressure build-up of the Forillon reservoir should be measured over the next three months and clarity will be given as to the optimal production rate of the well and the estimated ultimate recovery (EUR) of the petroleum source.
- **We highlight that Galt No. 4 is the first successful horizontal oil exploration well completed by the oil and gas industry anywhere in Québec, making it one of the most advanced oil projects in the province.** We expect more news flow as the next phase of Junex's program is the drilling of the Galt No. 5 Horizontal well (plate-form located west of Galt No. 4 and trace of hole towards SE) in summer 2015 (see Exhibit 1) followed by completion of a 3D seismic program, then the drilling of the Galt No. 6 and Galt No. 7 Horizontal wells. We also highlight that the company continues to build expertise – the development and confirmation of the oil discovery was accomplished entirely by Junex's personnel – providing valuable expertise in the installation and operation of drilling and oilfield pumping equipment and providing positive input to the local economy.
- **Recall also that on December 15, 2014 the BAPE (Bureau des audiences publique sur l'environnement) determined there is remarkably little evidence to support the oil and gas industry's position that hydraulic fracturing of the Utica Shale gas potential of over 30 TCF could be advantageous for the Province of Québec.** The BAPE essentially concluded that the benefits of shale gas development in the Lowlands of the Province of Québec may not be worth the risks. The Québec Government had indicated that it is essentially abandoning the shale gas exploration industry. Note the hydraulic fracturing process entails injecting water, sand and certain chemicals underground at extremely high pressure to break up shale rock formations and free natural gas. This process is used in several jurisdictions of the world to the benefits of local and regional communities as well as several levels of government. Note that Québec imposed a ban on fracking in 2011 pending the results of environmental studies, including the BAPE assessment and on-going SEA (strategic environmental assessments) and that on May 30, 2014 Québec's Ministers of Natural Resources and Wildlife and the Environment announced Québec's Hydrocarbon Action Plan. The plan laid out a cautious road map to deal with oil and gas development for the 2014 and 2015 period. A key feature of the plan was the strategic review of Québec's oil and gas sector to assess current science. **The BAPE 540+ page report on shale gas has certain shortcomings as the cost-benefit analysis appears to predict thousands of drill pads but does not factor in any net job creation, hence only liabilities are accounted for.** The BAPE report also found that fracking could have numerous "major impacts" on nearby communities, from polluting the air to increasing traffic and noise as well as creating foul odors and affecting general health. However we do not comprehend the emphasis on the release of acrid odours from the gas production sites as Utica shale gas is not sour. Notably, Galt No.4 tested a conventional oil target with no reservoir stimulation and hence we believe and hope that social acceptability should not be as much as an issue.



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- **We anticipate local communities' acceptance as Junex has strived to maintain good relationships with all stakeholders.** Obviously oil prices need to be sufficiently high to warrant the necessary investments, however it remains that Québec's refineries are supplied by trans-Atlantic tankers that already ply the Saint-Lawrence and importing oil from the Gaspé Peninsula should be seen as positive. We also understand that 2 trucks per day carry diesel fuel into the Gaspé Peninsula and initially these same trucks could return (~500 barrels) to the Valero Jean Gaulin refinery in Lévis.



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