2015 Management's Discussion and Analysis and Financial Statements

DUNDEE

ENERGY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dundee Energy Limited ("Dundee Energy" or the "Corporation") is a Canadian-based company focused on creating long-term value through the development and acquisition of high-impact energy projects. The Corporation's common shares trade on the Toronto Stock Exchange ("TSX") under the symbol "DEN". Dundee Energy holds interests, both directly and indirectly, in a large accumulation of producing oil and natural gas assets in southern Ontario and is the original developer of an offshore underground natural gas storage facility in Spain. The Corporation also holds an investment in preferred shares of Eurogas International Inc. ("Eurogas International"), an oil and gas exploration company targeting oil and natural gas reserves.

This Management's Discussion and Analysis ("MD&A") has been prepared with an effective date of February 18, 2016 and provides an update on matters discussed in, and should be read in conjunction with the Corporation's audited consolidated financial statements as at and for the year ended December 31, 2015 (the "2015 Consolidated Financial Statements"), which have been prepared using International Financial Reporting Standards ("IFRS"). All amounts are in Canadian dollars unless otherwise specified. Tabular dollar amounts, unless otherwise specified, are in thousands of dollars, except for per unit or per share amounts.

PERFORMANCE MEASURES AND BASIS OF PRESENTATION

The Corporation's 2015 Consolidated Financial Statements have been prepared in accordance with IFRS and use the Canadian dollar as its presentation currency. However, the Corporation believes that important measures of its economic performance include certain measures that are not defined under IFRS and as such, may not be comparable to similar measures used by other companies. Throughout this MD&A, there are references to the following performance measures which management believes are valuable in assessing the economic performance of the Corporation. While these measures are not defined by IFRS, they are common benchmarks in the energy industry, and are used by the Corporation in assessing its operating results, including net earnings and cash flow.

- "Barrel of Oil Equivalent" or "boe" is calculated at a barrel of oil conversion ratio of six thousand cubic feet ("Mcf") of natural gas to one barrel ("bbl") of oil (6 Mcf to 1 bbl), based on an energy equivalency conversion method which is primarily applicable at the burner tip and does not always represent a value equivalency at the wellhead.

- "Field Level Cash Flows" is calculated as revenues from oil and natural gas sales, less royalties and production expenditures, adjusted for the effect of the Corporation's derivative financial instruments. Field level cash flows contribute to the funding of the Corporation's working capital and to capital expenditure requirements. Field level cash flows also provide for repayment of amounts owing pursuant to the Corporation's credit facilities (see *"Liquidity and Capital Resources"*).

- "Field Netbacks" refer to field level cash flows expressed on a measurement unit or barrel of oil equivalent basis.

- "Proved Reserves" are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

- "Probable Reserves" are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

- "Reserve Life Index" is determined by dividing proved reserves by expected annual production. For greater certainty, the reserve life index includes only proved reserves and does not include probable or possible reserves.

- "Per Day Amount" or "/d" is used throughout this MD&A to reflect production volumes on an average per day basis.

SIGNIFICANT PROJECTS

The Southern Ontario Assets

Dundee Energy Limited Partnership ("DELP"), a wholly owned limited partner of the Corporation, holds an approximate 95% working interest in 45,000 gross acres of onshore oil and gas properties and an approximate 100% working interest in 294,000 gross acres of offshore gas properties, all located in and around Lake Erie in Ontario, Canada. The Corporation's assets in southern Ontario also include an approximate 100% interest in an onshore drilling rig, an offshore fleet of drilling and completion barges and five gas processing or compressor plants that are located onshore and process offshore raw gas.

The majority of the Corporation's raw natural gas production flows from offshore wells located under Lake Erie. These wells produce from Silurian aged sandstone and carbonates at a maximum depth of 550 metres. The main producing horizons are the Grimsby, Whirlpool and Guelph formations. This raw natural gas is transported to shore through gathering pipelines on the bottom of Lake Erie to one of the Corporation's three onshore manufacturing facilities, which transform the raw natural gas into dry natural gas. The Corporation has entered into transportation agreements with utility pipeline companies and the majority of its natural gas is transferred to the Dawn Hub, which is conveniently located near the greater Toronto area, at which point it is sold to third parties.

Sweet, light oil production comes from onshore Ordovician and Silurian aged carbonate reservoirs located at geological depths of up to 850 metres. Raw oil and condensate is extracted and processed at six oil batteries and several single well locations. Once processed, oil was originally sold to a third party, which transported the oil to Sarnia, Ontario for refining. However, during the third quarter of 2015, DELP finalized an agreement with a third party purchaser in Pennsylvania, U.S. for the majority of its processed oil, providing DELP with a more consistent basis for pricing.

Castor UGS Limited Partnership and the Castor Project

The Corporation is the original developer of a Spanish infrastructure undertaking that converted an abandoned oilfield to a natural gas storage facility (the "Castor Project"). The Castor Project, and the related exploitation concession, were owned and developed by Escal UGS S.L. ("Escal"), a company incorporated under Spanish jurisdiction. ACS Servicios Communicacions y Energia S.L. ("ACS"), a construction group in Spain, is a 67% shareholder of Escal, while Castor UGS Limited Partnership ("CLP"), the Corporation's 74% owned subsidiary, holds the remaining 33% interest in Escal.

In September 2013, the Spanish authorities mandated suspension of activities at the Castor Project, following micro-seismic activity detected in the surrounding area. Escal subsequently considered options available in respect of the Castor Project and in July 2014, Escal determined that it was appropriate to exercise its right under the underground gas storage concession to relinquish the concession to the Spanish authorities. On October 3, 2014, the Spanish government approved Royal Decree-Law 13/2014, which became effective on October 4, 2014, the date of its publication in the Spanish Official State Gazette. The Royal Decree-Law formally accepted the relinquishment of the Castor Project, it acknowledged the termination of the concession, and it reverted ownership of the associated facilities back to the public domain.

In November 2014, and under the terms of the relinquishment, Escal received €1.35 billion, being the net value of its investment in the Castor Project, after deducting €110 million previously received by Escal during the pre-commissioning stage of development. These proceeds were applied towards the partial repayment of the €1.41 billion of outstanding bonds issued by Watercraft Capital S.A., Escal's financing vehicle.

The Royal Decree-Law mandates that the Castor Project remain mothballed until the Spanish government is satisfied with technical studies and reports on any future commissioning of such facilities. Enagás Transporte, S.A.U., an affiliate of the technical manager of the Spanish gas system, has been tasked with completing these studies and it is entrusted with the ongoing care and maintenance of the facilities. Notwithstanding the assumption of ongoing care and maintenance by Enagás Transporte, S.A.U., Escal and its shareholders remain responsible for any possible flaws or defects in the facilities associated with the Castor Project that become apparent during the 10 years following the issuance of the Royal Decree-Law.

The Royal Decree-Law also provided Escal with certain other remuneration rights, including financial remuneration for the period from the provisional commissioning date of the Castor Project on July 5, 2012 through to October 4, 2014, as well as the reimbursement of operating and maintenance costs incurred during this period. On November 17, 2015, the Spanish Ministry of Industry, Energy, and Tourism issued a resolution establishing the additional remuneration at €253.3 million, and the reimbursement of operating and maintenance costs at an additional €42.3 million. Escal currently anticipates that approximately 75% of these amounts will be received in late 2016, with the balance to be received, subject to interest at 1.2%, over a 15-year period. On December 18, 2015, a further €4.35 million was authorized, as compensation for operating and maintenance costs between October 4, 2014 through to November 30, 2014, being the date of the hand-over of the facilities to Enagás Transporte, S.A.U. The Corporation anticipates that all amounts to be received by Escal pursuant to such arrangements will be applied to reduce debt outstanding in Escal, as further described below.

In November 2014 and following relinquishment of the Castor Project, ACS arranged a €300 million bank financing for Escal. At that time, €60 million of the bank facility was applied to repay the balance of all amounts owing pursuant to the outstanding bond arrangements. The remaining €240 million available pursuant to the bank line were used by Escal to repay Escal's shareholder loans solely to ACS. CLP is of the view that the new financing arranged by ACS was not in the best interest of Escal and consequently, CLP has lodged a legal action challenging the approval of the new financing.

Furthermore, in the opinion of CLP, the use of the €240 million in payment of subordinated loans solely to ACS contravenes the terms of the 2007 memorandum of understanding in respect of CLP's ownership rights in the equity and shareholder loans of Escal. Therefore, early in the second quarter of 2015, CLP commenced binding arbitration proceedings to resolve this contractual dispute with ACS. As required pursuant to the terms of the memorandum of understanding referred to above, the arbitration will be in accordance with the rules of the International Chamber of Commerce ("ICC") in Paris, and will be heard by an arbitral tribunal consisting of three arbitrators. CLP has initiated the assembly of the necessary documents in support of its claim for eventual transmission to the court. Evidentiary hearings are expected to commence in mid-2016.

Series A Preference Share Investment in Eurogas International Inc.

The Corporation holds a $32,150,000 preferred share investment in Eurogas International, an independent oil and gas company engaged in the exploration and evaluation of landholdings offshore Tunisia, targeting large scale oil and gas reserves. The Series A Preference Shares rank in priority to the common shares of Eurogas International as to the payment of dividends and the distribution of assets on dissolution, liquidation or winding up of Eurogas International and entitle the Corporation to a fixed preferential cumulative dividend at a rate of 4% per annum. The Corporation may reinvest any dividends received into common shares of Eurogas International, subject to obtaining the necessary regulatory approvals. The Series A Preference Shares may be redeemed at the option of the Corporation or may be retracted by Eurogas International at any time at a price equal to their face value of $1.00 per Series A Preference Share. The Series A Preference Shares are non-voting except in the event Eurogas International fails to pay the cumulative 4% dividend for eight quarters. Thereafter, but only so long as any dividends on the Series A Preference Shares remain in arrears, the Corporation shall be entitled, voting exclusively and separately as a series, to elect a majority of the members of the Board of Directors of Eurogas International. Notwithstanding the Corporation not receiving any dividends on its investment at December 31, 2015, the Corporation had not exercised its entitlement to elect the majority of the members of the Board of Directors of Eurogas International.

Because of the Corporation's entitlement to demand redemption of its preferred share investment in Eurogas International at any time and at its full discretion, the Corporation classified its preferred share investment in Eurogas International as a loan receivable and the associated dividends as interest income. The Corporation has completed an assessment of the fair value of its preferred share interest in Eurogas International, which included forecasted cash flow expectations in respect of its investment. The assessment concluded that the Corporation's investment in the preferred shares of Eurogas International and the accrued dividends thereon are impaired and accordingly, the Corporation has fully provided against the carrying value of these assets.

Investment in Windiga Energy Inc.

The Corporation has invested $2,150,000 to acquire a 45% equity interest in Windiga Energy Inc. ("Windiga"), a Canadian-based independent power producer focused on developing, owning and operating renewable energy facilities on the African continent. In addition to its 45% equity interest, senior officers of the Corporation's parent currently represent 20% of the board of directors of Windiga. The Corporation has completed an assessment of whether it is able to exert significant influence over the operating and financial policies of Windiga. In completing its assessment, the Corporation considered various factors, including the anticipated dilution in its ownership that will be required in order for Windiga to access the necessary capital to advance its current initiatives. Accordingly, the Corporation has classified its investment in Windiga as a financial asset at fair value through profit or loss. As Windiga is a private enterprise in the initial stages of development, its fair value cannot be reliably measured and therefore, the Corporation's investment in Windiga is carried at cost.

Windiga's inaugural project is a 20-megawatt photovoltaic plant to be located in Zina, in the Mouhoun province of Burkina Faso. In December 2015, Windiga announced that the government of Burkina Faso had approved an amended investment and implementation agreement. Windiga has secured project financing in the form of equity with institutional investors and is working with development financial institutions on securing the debt for the construction and commissioning of the project. The power purchase agreement associated with this project has been amended and is now awaiting approval from the National Electricity Company of Burkina Faso. The plant is expected to produce approximately 38 gigawatt hours of clean energy per annum, and will be connected to Burkina Faso's main power grid.

In order to expand its portfolio of future projects, Windiga is actively pursuing various other renewable energy projects on the African continent.

CONSOLIDATED RESULTS OF OPERATIONS

Year ended December 31, 2015 compared with the year ended December 31, 2014

SELECTED CONSOLIDATED FINANCIAL INFORMATION

For the years ended December 31,			2015			2014			2013
	Net (Loss) Earnings	Attributable to Owners of the Parent	Non-Controlling Interest	Net Earnings (Loss)	Attributable to Owners of the Parent	Non-Controlling Interest	Net (Loss) Earnings	Attributable to Owners of the Parent	Non-Controlling Interest
Southern Ontario Assets	$ (9,311)	$ (9,311)	$ -	$ 4,759	$ 4,759	$ -	$ (4,774)	$ (4,774)	$ -
Castor Project	(1,546)	(1,141)	(405)	(1,504)	(1,137)	(367)	(226)	(169)	(57)
Loss from investment in preferred shares of Eurogas International	(1,286)	(1,286)	-	(1,286)	(1,286)	-	(1,286)	(1,286)	-
Corporate activities*	3,457	3,457	-	(988)	(988)	-	45	45	-
Net (loss) earnings for the year	$ (8,686)	$ (8,281)	$ (405)	$ 981	$ 1,348	$ (367)	$ (6,241)	$ (6,184)	$ (57)

* Corporate activities include income tax recovery (expense) amounts associated with the underlying operations of the Corporation's subsidiaries.

Consolidated Net Earnings

During 2015, the Corporation incurred a net loss attributable to owners of the parent of $8.3 million, representing a loss of $0.04 per share. The net loss in the current year includes an impairment of $0.9 million against certain oil-based properties, reflecting a decrease in the value of estimated reserves relating to that property. This compares with net earnings attributable to owners of the parent of $1.3 million, or $0.01 per share, generated in the prior year. Operating performance during 2015 was adversely affected by the results of the Corporation's assets in southern Ontario, which, despite seeing an increase in production volumes on a year-over-year basis, generated substantially lower revenues, reflective of lower realized prices for the sale of oil and natural gas.

Southern Ontario Assets

Operating Performance

The Corporation's operating performance is dependent on both production volumes of oil, natural gas and natural gas liquids, as well as the prices received for these commodities. During the year ended December 31, 2015, sales of oil and natural gas, net of royalty interests, were $25.1 million, a decrease of $14.2 million from net sales of $39.3 million earned during the prior year.

		Natural Gas		Oil and Liquids		Total
Net Sales						
Year ended December 31, 2015	$	14,635	$	10,451	$	25,086
Year ended December 31, 2014		21,555		17,725		39,280
Net decrease in net sales	$	(6,920)	$	(7,274)	$	(14,194)
Effect of changes in production volumes	$	2,168	$	(569)	$	1,599
Effect of changes in commodity prices		(9,088)		(6,705)		(15,793)
	$	(6,920)	$	(7,274)	$	(14,194)

* In accordance with industry practice, production volumes, reserve volumes and oil and gas sales are reported on a working interest or "net" basis.

Substantially lower commodity prices realized during 2015 decreased net sales by $15.8 million compared to 2014, although the decrease was partially offset by increased production volumes, which resulted in an increase of $1.6 million in net sales on a year-over-year basis. The increase in production volumes reflects an acquisition by the Corporation in August 2014 of the remaining 15% working interest in certain offshore gas properties in southern Ontario that it did not already own.

Effect of Commodity Prices on Revenues from Oil and Gas Sales

Prices for oil and natural gas vary from period to period due to several factors including supply, demand, weather, general economic conditions and changes in foreign exchange rates. The following tables illustrate the price per unit realized by the Corporation during 2015 and 2014, and provide a comparison of relative changes in benchmark price indicators for such commodities during these periods.

For the years ended December 31,			2015			2014
		Sales	Realized Prices ($ / unit)		Sales	Realized Prices ($ / unit)
Natural gas	$	17,233	4.05	$	25,298	6.54
Oil		12,324	60.26		20,759	99.38
Liquids		24	20.98		173	47.72
		29,581			46,230	
Less: Royalties at 15% (2014 – 15%)		(4,495)			(6,950)	
Net sales	$	25,086		$	39,280	

For the years ended December 31,			2015			2014
	US$	CAD$	Realized Prices ($)	US$	CAD$	Realized Prices ($)
Natural Gas						
Dawn Hub	2.95	3.75	4.05	6.21	6.84	6.54
NYMEX Henry Hub	2.63	3.35		4.36	4.80	
Oil						
Edmonton Par	n/a	57.20	60.26	n/a	93.98	99.38
West Texas Intermediate	48.66	61.89		93.17	102.52	

During 2015, the Corporation realized an average price on sales of natural gas of $4.05/Mcf, representing an 8% premium over the average benchmark price at the Dawn Hub of $3.75/Mcf. The Corporation continues to benefit from its proximity to the Dawn Hub, as it is a provider of natural gas supply to the greater Toronto market area. Despite this premium however, the average realized price on sales of natural gas in the current year declined 38% from the average price of $6.54/Mcf realized by the Corporation in the prior year. The realized price for natural gas in the prior year reflected an increase in the price of natural gas in the January to April period of that year, caused by unanticipated severe winter weather conditions that drove up demand.

Volatility in the trading price for crude oil remains high, driven by uncertainty over future global economic growth and supply/demand fundamentals. Consistent with this volatility, during 2015, the Corporation realized an average price of $60.26/bbl on sales of crude oil, a 39% decrease from the average price of $99.38/bbl realized during 2014. On a comparative basis, the Edmonton Par average price for crude oil during 2015 fell 39% below the average price for crude oil in the prior year, while the US dollar-denominated West Texas Intermediate price for this commodity fell 48%.

Production Volumes

During 2015, production volumes increased marginally to an average of 2,506 boe/d, compared with an average of 2,348 boe/d produced in 2014.

Average daily volume during the years ended December 31,	2015	2014
Natural gas (Mcf/d)	11,660	10,594
Oil (bbls/d)	560	572
Liquids (bbls/d)	3	10
Total (boe/d)	2,506	2,348

Average daily natural gas production volumes increased to 11,660 Mcf/d during 2015, compared with production volumes of 10,594 Mcf/d achieved in the prior year, representing an increase of approximately 10%. The increase was due primarily to the purchase of additional working interest in certain offshore gas properties completed in August 2014. In addition, during the prior year, natural gas production volumes were negatively impacted by a temporary suspension of production in parts of central Lake Erie, Ontario, while production pipelines underwent significant repairs following damage caused by ice scouring in February 2014. These repairs resulted in lost production volumes of approximately 1,300 Mcf/d for the January to April 2014 timeframe.

Oil production volumes decreased to an average of 560 bbl/d during 2015, compared with an average of 572 bbl/d produced in the prior year. The decrease reflects the natural decline of approximately 9% in the underlying assets, partially offset by positive results of workover initiatives undertaken during 2015, to bring the overall decline to 2%.

Production Expenditures

Production expenditures include processing costs associated with bringing raw oil and natural gas from the reservoir to the surface sales point, and include separating the oil, gas and water, treating the oil and gas to remove impurities and disposing of produced water. Also included in production expenditures is an allocation of general and administrative costs, including labour, which is directly attributable to these activities.

During 2015, the Corporation incurred production expenditures of $15.8 million or $17.22/boe, a marginal decrease of $0.1 million from production expenditures of $15.9 million or $18.59/boe incurred in the prior year. The higher production unit cost incurred during 2014 reflected the unexpected costs associated with the repair of pipeline infrastructure in Lake Erie, Ontario, damaged by ice scouring in February 2014. Further, during 2015, the Corporation was able to reduce production expenditures in its oil and liquids field by employing more efficient workover techniques, while maintaining production volumes, resulting in an improved cost per unit of $30.13/bbl compared with $31.56/bbl in the prior year.

For the years ended December 31,			2015			2014
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Production expenditures	$ 9,557	$ 6,196	$ 15,753	$ 9,223	$ 6,706	$ 15,929
Production expenditures	(per Mcf)	(per bbl)	(per boe)	(per Mcf)	(per bbl)	(per boe)
per unit	$ 2.25	$ 30.13	$ 17.22	$ 2.39	$ 31.56	$ 18.59

Field Level Cash Flows and Field Netbacks

During 2015, the Corporation earned field level cash flows, before the effect of any derivative financial instruments, of $9.3 million or $10.20/boe, compared with field level cash flows, before derivative financial instruments of $23.4 million or $27.24/boe earned during the prior year.

Field level cash flows from natural gas operations decreased to $5.0 million or $1.19/Mcf, compared with field level cash flows of $12.3 million or $3.18/Mcf in the prior year. Field level cash flows from oil and liquids, before the effect of derivative financial instruments, decreased to $4.3 million or $20.69/bbl during 2015, compared with field level cash flows of $11.0 million or $51.85/bbl in the prior year. Consistent with the Corporation's operating performance generally, decreases in field level cash flows and a corresponding decrease in field netbacks resulted from decreases in realized prices for its underlying commodities.

For the years ended December 31,			2015			2014
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Total sales	$ 17,233	$ 12,348	$ 29,581	$ 25,298	$ 20,932	$ 46,230
Royalties	(2,598)	(1,897)	(4,495)	(3,743)	(3,207)	(6,950)
Production expenditures	(9,557)	(6,196)	(15,753)	(9,223)	(6,706)	(15,929)
	5,078	4,255	9,333	12,332	11,019	23,351
Gain (loss) on derivative financial instruments	-	341	341	-	(45)	(45)
Field level cash flows	$ 5,078	$ 4,596	$ 9,674	$ 12,332	$ 10,974	$ 23,306

For the years ended December 31,			2015			2014
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
	$/Mcf	$/bbl	$/boe	$/Mcf	$/bbl	$/boe
Total sales	$ 4.05	$ 60.04	$ 32.33	$ 6.54	$ 98.50	$ 53.94
Royalties	(0.61)	(9.22)	(4.91)	(0.97)	(15.09)	(8.11)
Production expenditures	(2.25)	(30.13)	(17.22)	(2.39)	(31.56)	(18.59)
	1.19	20.69	10.20	3.18	51.85	27.24
Gain (loss) on derivative financial instruments	-	1.66	0.37	-	(0.21)	(0.05)
Field netbacks	$ 1.19	$ 22.35	$ 10.57	$ 3.18	$ 51.64	$ 27.19

Derivative Financial Instruments – Price Risk Management

In order to mitigate its exposure to price volatility, the Corporation may from time to time, enter into fixed price commodity contracts. These derivative financial instruments assist the Corporation in securing a stable amount of cash flow to protect a desired level of capital spending and for debt management. The Corporation's revenues are primarily received in US dollars and pricing for commodities, including oil and natural gas, are closely referenced to the US dollar. The Corporation partially mitigates its exposure to changes in commodity prices resulting from foreign exchange variability by entering into commodity derivative financial instruments on a Canadian dollar basis.

The following table summarizes the realized and unrealized gains or losses from the Corporation's derivative financial instruments during 2015, compared with the prior year. For accounting purposes, the Corporation has not designated its derivative financial instruments as hedges. Accordingly, the gains or losses from these contracts are not reflected in the Corporation's reported amounts of oil and natural gas sales, but rather they are separately reported as gains or losses from derivative financial instruments in the Corporation's net earnings or loss.

For the years ended December 31,			2015			2014
	Realized Gain	Unrealized Loss	Total	Realized Loss	Unrealized Gain	Total
Oil swaps	$ 341	$ (341)	$ -	$ (45)	$ 433	$ 388
Gas swaps	-	(21)	(21)	-	-	-
	$ 341	$ (362)	$ (21)	$ (45)	$ 433	$ 388

The Corporation entered into a natural gas derivative financial instrument on December 31, 2015 for 2,000 million British thermal units ("mmbtu") per day at $3.41/mmbtu for the period of January 1, 2016 to December 31, 2016, which had a negative value of $21,000 at December 31, 2015. Subsequent to December 31, 2015, the Corporation entered into additional derivative financial instruments for a further 1,000 mmbtu per day at $3.48/mmbtu and 1,000 mmbtu per day at $3.64/mmbtu, covering the period from February 1, 2016 to December 31, 2016.

Contract Fixed Price Swap	Volume	Pricing Point	Strike Price (CAD$/unit)	Remaining Term
Natural Gas	2000 mmbtu/day	NYMEX	$3.41	Jan 01/16 to Dec 31/16
Natural Gas	1000 mmbtu/day	NYMEX	$3.48	Feb 01/16 to Dec 31/16
Natural Gas	1000 mmbtu/day	NYMEX	$3.64	Feb 01/16 to Dec 31/16

Capital Expenditures

For the years ended December 31,	2015	2014
Offshore		
Pipeline	$ -	$ 903
Facilities	11	75
Total offshore	11	978
Onshore		
Drilling and completion	8	1,377
Workovers	-	90
Facilities	105	323
Land and buildings	7	222
Total onshore	120	2,012
Exploration and Evaluation		
Undeveloped properties	584	2,562
Onshore seismic	178	752
Total exploration and evaluation	762	3,314
Spare parts, office equipment, computer hardware and software	(132)	145
	761	6,449
Disposition of property, plant and equipment	(883)	(128)
	$ (122)	$ 6,321

In response to declining commodity prices for both crude oil and natural gas, the Corporation reduced its planned 2015 capital expenditure program significantly. Accordingly, the Corporation's work plan for 2015 was $0.9 million and consisted of costs to maintain the existing and essential land portfolio, as well as certain costs to complete projects that had been started in late 2014. Costs related to these initiatives focused on cost reduction and efficiency. During 2015, the Corporation incurred $0.6 million related to its land portfolio, $0.2 million related to the completion of prior year projects, and $0.1 million on an automation system monitoring program in selected Ontario gas booster sites and to commence a project undertaken through the "*saveONenergy*" program in the province of Ontario. This "*saveONenergy*" program provides a portion of the funding to refit oil well pumping equipment, resulting in reduced operating costs in the future at certain southern Ontario locations.

During 2015, the Corporation disposed of certain land and buildings associated with its assets in southern Ontario. The assets had a cost base of $191,000 and were sold for proceeds of $368,000, including cash of $13,000 and the assumption of a vendor-take-back mortgage arrangement of $355,000. Amounts receivable pursuant to the vendor-take-back mortgage arrangement generated interest for the Corporation at a rate of 5.5%, and are secured against the underlying assets sold. In addition, during 2015, the Corporation disposed of certain dock lands at Port Stanley in southern Ontario. These lands had a cost base of $111,000 and were sold for cash consideration of $175,000. The sale was part of a planned strategy to utilize alternative dock facilities to provide improved operating efficiencies and quicker access to certain Lake Erie producing fields.

2016 Work Program

In response to the considerable decline in the price for oil and natural gas, the Corporation intends to spend approximately $0.8 million on the 2016 work program to maintain the Corporation's oil and natural gas land portfolio.

Reserves

The Corporation retained Deloitte LLP ("Deloitte"), an independent qualified reserves evaluator to prepare a report on the Corporation's working interest in its oil and natural gas reserves in southern Ontario. The Corporation has a Corporate Governance and Reserves Committee that oversees the selection, qualifications and reporting procedures of the independent engineering consultants. Reserves at December 31, 2015 were determined using the guidelines and definitions set out under National Instrument 51-101. At December 31, 2015, the proved and probable reserves in southern Ontario decreased by 2% to 20,047 million boe ("Mboe") from 20,516 Mboe at December 31, 2014. Oil and gas production accounted for a drop in the Corporation's total proved plus probable reserves of 4.4%, but this was offset partially by an increase in proved reserve additions that were attributed to improved production performance at several of the Corporation's offshore natural gas wells and onshore oil wells. The following table outlines the change in the Corporation's reserves since December 31, 2014.

	Natural Gas *(MMcf)*	Oil *(Mbbl)*	Natural Gas Liquids *(Mbbl)*	Total *(Mboe)*	NPV @ 10% Before Tax *(M$)*	NPV per boe
Proved Reserves						
Opening balance, January 1, 2015	88,905	1,535	65	16,417	$ 174,605	$ 10.64
Net acquisitions		-		-		
Revisions	9,086	244	(56)	1,702		
Production	(4,200)	(199)	(1)	(900)		
Closing balance, December 31, 2015	93,791	1,580	8	17,219	$ 117,519	$ 6.82
Probable Reserves						
Opening balance, January 1, 2015	19,989	720	48	4,099	$ 38,004	$ 9.27
Net acquisitions				-		
Revisions	(7,106)	(42)	(45)	(1,271)		
Closing balance, December 31, 2015	12,883	678	3	2,828	$ 24,064	$ 8.51
Total proved and probable	106,674	2,258	11	20,047	$ 141,583	$ 7.06
Percentage decrease in reserves	(2%)	0%	(90%)	(2%)		

At December 31, 2014, the Corporation estimated the reserve life index for natural gas and oil at 25.7 years and 11.8 years, respectively. As at December 31, 2015, the reserve life index for natural gas increased to 25.9 years, while the reserve life index for oil increased to 14.0 years.

The following table outlines Deloitte's forecasted future prices for each of oil and natural gas. These forecasts form the basis for Deloitte's evaluation of the Corporation's reserves at December 31, 2015, as outlined above.

	Natural Gas	Oil
Reserve Prices	Union Parkway CAD$ / Mcf	Edmonton Par (delivered to Sarnia, ON) CAD$ / bbl
2016	3.55	56.35
2017	4.00	62.75
2018	4.25	71.55
2019	4.60	82.95
2020	4.95	94.70
Average five year forecast	4.27	73.66

Impairment of Oil Properties
During the year ended December 31, 2015, and in response to a sharp decline in oil prices, the Corporation recognized an impairment loss of $0.9 million on certain oil properties in southern Ontario, reducing their carried value to their recoverable amount of $7.1 million. The recoverable amount of these oil properties was measured based on their value-in-use, determined by the application of a discounted cash flow model, using reserves volumes and forecasted oil prices as provided by independent, third party oil and gas reserves evaluators. In computing the recoverable amount, expected future cash flows were adjusted for risks specific to the oil properties and discounted using a discount rate of 8% and based on the average forecasted prices for oil and natural gas that formed the basis for the Corporation's report on its reserves pursuant to National Instrument 51-101.

The Corporation also completed an assessment of potential impairment assuming an increased discount rate of 10%, with all other assessment criteria kept constant. The increase in the discount rate would have increased the Corporation's impairment loss by a further $7.2 million.

Decommissioning Liabilities
The Corporation has recorded a decommissioning liability, representing its best estimate of the costs that it will incur to settle future site restoration, abandonment and reclamation obligations. At December 31, 2015, the Corporation's estimate of these future costs on an undiscounted basis was approximately $94.9 million. These obligations are forecasted to be incurred over a 47-year period. During 2015, the Corporation incurred $0.3 million in reclamation costs related to the carrying value of its decommissioning liabilities and it anticipates that it will incur another $3.0 million in reclamation costs over the next 12 months.

In accordance with accounting requirements, the estimated decommissioning liability is recorded in the Corporation's consolidated financial statements on a discounted basis using discount rates that are specific to the underlying obligations. At December 31, 2015, the discounted amount of the Corporation's decommissioning liabilities was $58.4 million. The discount used in calculating the Corporation's decommissioning liabilities is accreted over time. During 2015, the Corporation incurred accretion expense of $1.0 million (2014 – $1.1 million) related to the carrying value of its decommissioning liabilities.

Accounting for Escal on an Equity Basis
The Corporation accounts for its investment in Escal using the equity method. At December 31, 2015 and 2014, Escal's net equity available to shareholders was negative, reflecting operating losses and the settlement of unfavourable hedging transactions previously incurred. Accordingly, the Corporation has reduced the carrying value of its investment in Escal to $nil at December 31, 2015 (2014 – $nil). The Corporation has not reduced its carrying value in Escal to below $nil as the Corporation does not have any legal or constructive obligations in respect of its investment in Escal, nor is it currently obligated to make any payments on behalf of Escal.

During the year ended December 31, 2014, and following the relinquishment by Escal of the Castor Project in October 2014, the Corporation determined that there were significant uncertainties in its ability to collect certain amounts owing from Escal to the Corporation, and accordingly, the Corporation recognized an impairment of $1.0 million in respect of these amounts receivable, reducing the amounts to $nil. The impairment in amounts receivable from Escal had been included as *"Impairment of financial instruments"* in the Corporation's consolidated statement of operations for the year ended December 31, 2014.

During the year ended December 31, 2014, and following the relinquishment of the Castor Project, the Corporation reassessed the likelihood of the recoverability of its net deferred income tax asset of $0.3 million in respect of its investment in Escal and determined that derecognition of the net deferred tax asset was appropriate. Accordingly, the Corporation recognized an income tax amount of $0.4 million through other comprehensive income, net of an income tax recovery amount of $0.1 million in net earnings.

Investment in Series A Preference Shares of Eurogas International Inc.

Because of the Corporation's entitlement to demand redemption of the Series A Preference Shares at any time from Eurogas International, the Corporation has classified its investment in the Series A Preference Shares as a loan receivable and the associated dividends as interest income. The Corporation has completed an assessment of the fair value of the Series A Preference Shares. In its assessment, the Corporation considered factors such as the delinquency of dividend payments and the financial resources available to Eurogas International to meet current commitments and pursue growth opportunities. The Corporation concluded that there was significant impairment in the par value of the Series A Preference Shares and the related accrued dividends thereon and accordingly, the Corporation has fully provided against the carrying values of these assets. During 2015, the Corporation provided for an impairment loss relating to its investment in Eurogas International of $1.3 million (2014 – $1.3 million).

Eurogas International has entered into a farm in arrangement with DNO Tunisia AS ("DNO") that essentially provides DNO with an 87.5% participating interest in the Sfax exploration permit. Eurogas International retains a 5.625% interest. Under the terms of the farm in arrangement, DNO assumed the obligation for 100% of all future costs associated with the permit, as well as the assumption of all related drilling obligations. In August 2015, DNO received regulatory approval from the Tunisian authorities for a two-year extension of the first renewal period related to the permit, extending the first renewal period and the associated exploration well drilling obligation to December 8, 2017.

Other Items in Consolidated Net Earnings

General and Administrative Expenses

General and administrative expenses incurred during 2015 were $5.1 million, a decrease of $1.4 million over general and administrative expenses of $6.5 million incurred in the prior year. The decrease in general and administrative expenses included savings associated with the transfer of the Corporation's geological engineering office from Calgary, Alberta to London, Ontario, in December 2014 and the closing and transfer of the administrative support office from Port Colborne, Ontario to London, Ontario in June 2014. Partially offsetting the effect of these cost savings initiatives are legal and arbitration costs of $1.3 million incurred during 2015, all of which are in respect of the Castor Project.

Interest Expense

The Corporation incurred interest expense of $4.4 million in 2015, compared with interest expense of $4.6 million incurred in the prior year. Included in interest expense is $1.0 million (2014 – $1.1 million) of accretion expense associated with the Corporation's decommissioning liabilities, with the balance of interest expense incurred predominantly on borrowings pursuant to the Corporation's credit facility.

Income Tax Expense

The Corporation recognized an income tax recovery of $3.0 million in 2015 (2014 – $0.7 million income tax expense), generating an effective income tax rate of 26% (2014 – 43%). As at December 31, 2015, the Corporation's net deferred income tax assets were $11.1 million (2014 – $8.1 million).

SELECTED QUARTERLY FINANCIAL INFORMATION

	2015				2014			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Revenues	$ 4,974	$ 6,400	$ 6,886	$ 6,826	$ 8,564	$ 8,574	$ 9,398	$ 12,744
Net (loss) earnings attributable to owners of the parent	**(3,633)**	**(1,902)**	**(1,540)**	**(1,206)**	**(1,431)**	**(297)**	**(112)**	**3,188**
Basic and fully diluted (loss) earnings per share	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ -	$ -	$ 0.02
Capital expenditures	$ (333)	$ (54)	$ 4	$ 261	$ 771	$ 2,513	$ 1,578	$ 1,459

- During the fourth quarter of 2015, the Corporation recorded an impairment loss of $0.9 million on certain oil properties in response to a sharp decline in oil prices.
- During the fourth quarter of 2014, the Corporation recorded an impairment loss of $1.0 million on financial instruments related to certain amounts owing from Escal.
- During the third quarter of 2014, the Corporation completed the acquisition of an additional 15% working interest in certain natural gas properties.
- Changes in the fair value of the Corporation's derivative financial instruments are included in the Corporation's net earnings. These fair value changes may cause significant volatility in the Corporation's earnings. The following table illustrates the impact of changes in the fair value of the Corporation's derivative financial instruments to its net earnings (loss) on a quarterly basis:

	2015				2014			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Changes in the fair value of derivative financial instruments	$ (21)	$ -	$ -	$ -	$ 504	$ 376	$ (213)	$ (279)

QUARTERLY CONSOLIDATED RESULTS OF OPERATIONS

Three months ended December 31, 2015 compared with the three months ended December 31, 2014

During the quarter ended December 31, 2015, the Corporation's net loss attributable to the owners of the parent was $3.6 million, compared with a net loss attributable to the owners of the parent of $1.4 million in the fourth quarter of the prior year. The net loss during the fourth quarter of 2015 included a $0.9 million impairment loss on certain oil properties as mentioned previously. In the fourth quarter of 2014, the Corporation recognized a $1.2 million loss ($0.9 million loss after non-controlling interest) which was associated with the Corporation's investment in Escal, including an impairment of $1.1 million in amounts receivable from Escal. Otherwise and consistent with annual results, fourth quarter results in 2015 were adversely affected by lower realized prices on sales of oil and natural gas.

For the three months ended December 31,			2015			2014
	Net Earnings (Loss)	Attributable to Owners of the Parent	Non-Controlling Interest	Net Earnings (Loss)	Attributable to Owners of the Parent	Non-Controlling Interest
Southern Ontario Assets	$ (4,358)	$ (4,358)	$ -	$ (568)	$ (568)	$ -
Castor Project	(584)	(431)	(153)	(1,226)	(929)	(297)
Loss from investment in preferred shares of Eurogas International	(324)	(324)	-	(324)	(324)	-
Corporate activities*	1,480	1,480	-	390	390	-
Net loss for the period	$ (3,786)	$ (3,633)	$ (153)	$ (1,728)	$ (1,431)	$ (297)

* Corporate activities include income tax recovery (expense) amounts associated with the underlying operations of the Corporation's subsidiaries.

Southern Ontario Assets

During the fourth quarter of 2015, sales of oil and natural gas, net of royalty interests were $5.0 million, a decrease of $3.6 million from the $8.6 million earned in the same period of the prior year. The decrease in net sales resulted both from substantially lower realized commodity prices, as well as reduced production volumes.

		Natural Gas		Oil and Liquids		Total
Net Sales						
Three months ended December 31, 2015	$	2,893	$	2,081	$	4,974
Three months ended December 31, 2014		4,946		3,618		8,564
Net decrease in net sales	$	(2,053)	$	(1,537)	$	(3,590)
Effect of changes in production volumes	$	(651)	$	(386)	$	(1,037)
Effect of changes in commodity prices		(1,402)		(1,151)		(2,553)
	$	(2,053)	$	(1,537)	$	(3,590)

During the fourth quarter of 2015, the Corporation realized an average sales price of $3.28/Mcf for natural gas, representing a 9% premium over the average benchmark price at the Dawn Hub of $3.01/Mcf. Despite the premium however, the average realized price on sales of natural gas in the fourth quarter of the current year declined 33% from the average price of $4.86/Mcf realized by the Corporation in the same period of the prior year. The average realized sales price for crude oil was $51.88/bbl in the fourth quarter of 2015, a 35% decrease from the average price of $80.27/bbl realized in the same period of the prior year. On a comparative basis, the Edmonton Par average price for crude oil during the fourth quarter of 2015 fell 30% below the average price for crude oil in the same period of the prior year, while the US dollar-denominated West Texas Intermediate price for this commodity fell 43%. The effect of decreases in realized prices reduced net sales by $2.6 million.

For the three months ended December 31,			2015			2014
		Sales	Realized Prices ($ / unit)		Sales	Realized Prices ($ / unit)
Natural gas	$	3,403	3.28	$	5,816	4.86
Oil		2,457	51.88		4,261	80.27
Liquids		4	13.86		11	38.44
		5,864			10,088	
Less: Royalties at 15% (2014 – 15%)		(890)			(1,524)	
Net sales	$	4,974		$	8,564	

For the three months ended December 31,			2015			2014
	US$	CAD$	Realized Prices ($)	US$	CAD$	Realized Prices ($)
Natural Gas						
Dawn Hub	2.27	3.01	3.28	4.04	4.56	4.86
NYMEX Henry Hub	2.12	2.81		3.78	4.27	
Oil						
Edmonton Par	n/a	52.47	51.88	n/a	75.22	80.27
West Texas Intermediate	41.94	55.65		73.21	82.75	

Production volumes decreased during the fourth quarter of 2015, to an average of 2,400 boe/d, compared with an average of 2,747 boe/d produced in the same period of 2014. Production of natural gas declined from 12,999/Mcf to 11,289/Mcf due to scheduled maintenance at two of the Corporation’s compressor stations, resulting in lost production of 900 Mcf/d during the scheduled downtime. The balance of the production decline for both oil and natural gas reflects the natural decline in the underlying assets.

Average daily volume during the three months ended December 31,	2015	2014
Natural gas (Mcf/d)	11,289	12,999
Oil (bbls/d)	515	577
Liquids (bbls/d)	3	3
Total (boe/d)	2,400	2,747

The Corporation incurred production expenditures of $3.4 million or $15.43/boe during the fourth quarter of 2015, compared with $5.0 million or $19.63/boe during the same quarter of the prior year. In response to the current volatility in commodity prices, some workover initiatives were deferred in the fourth quarter of the current year, resulting in lower production expenditures.

For the three months ended December 31,						2015						2014
		Natural Gas		Oil and Liquids		Total		Natural Gas		Oil and Liquids		Total
Production expenditures	$	2,272	$	1,135	$	3,407	$	3,011	$	1,949	$	4,960
Production expenditures		(per Mcf)		(per bbl)		(per boe)		(per Mcf)		(per bbl)		(per boe)
per unit	$	2.19	$	23.81	$	15.43	$	2.52	$	36.52	$	19.63

Field level cash flows in the fourth quarter of 2015 were $1.6 million, a 56% decrease from field level cash flows of $3.6 million generated in the fourth quarter of the prior year, before adjustments in the prior year related to derivative financial instruments. The substantial decrease resulted primarily from lower revenue levels stemming from lower prices for the underlying commodities. As a result, field netbacks in the fourth quarter of 2015 decreased to $7.10/boe, compared with $14.26/boe in the fourth quarter of the prior year.

For the three months ended December 31,						2015						2014
		Natural Gas		Oil and Liquids		Total		Natural Gas		Oil and Liquids		Total
Total sales	$	3,403	$	2,461	$	5,864	$	5,816	$	4,272	$	10,088
Royalties		(510)		(380)		(890)		(870)		(654)		(1,524)
Production expenditures		(2,272)		(1,135)		(3,407)		(3,011)		(1,949)		(4,960)
		621		946		1,567		1,935		1,669		3,604
Gain on derivative financial instruments		-		-		-		-		292		292
Field level cash flows	$	621	$	946	$	1,567	$	1,935	$	1,961	$	3,896

For the three months ended December 31,						2015						2014
		Natural Gas		Oil and Liquids		Total		Natural Gas		Oil and Liquids		Total
		$/Mcf		$/bbl		$/boe		$/Mcf		$/bbl		$/boe
Total sales	$	3.28	$	51.62	$	26.56	$	4.86	$	80.04	$	39.92
Royalties		(0.49)		(7.98)		(4.03)		(0.73)		(12.25)		(6.03)
Production expenditures		(2.19)		(23.81)		(15.43)		(2.52)		(36.52)		(19.63)
		0.60		19.83		7.10		1.61		31.27		14.26
Gain on derivative financial instruments		-		-		-		-		5.47		1.16
Field netbacks	$	0.60	$	19.83	$	7.10	$	1.61	$	36.74	$	15.42

Other Items in Consolidated Quarterly Earnings

General and administrative expenses incurred during the quarter ended December 31, 2015 were $1.9 million, compared with $1.3 million incurred in the same period of the prior year. General and administrative expenses increased in the fourth quarter of 2015 as result of increased legal costs associated with the arbitration process related to the Castor Project.

LIQUIDITY AND CAPITAL RESOURCES

Southern Ontario Assets

The Corporation's southern Ontario operations are conducted through DELP, the Corporation's wholly-owned subsidiary. DELP had established a credit facility with a Canadian chartered bank that was structured as a revolving demand loan, with a tiered interest rate schedule that varies based on DELP's net debt to cash flow ratio, as defined in the credit facility. Based on DELP's current ratios, draws on the credit facility bore interest, at DELP's option, at either the bank's prime lending rate plus 3.5% or, at the bank's then prevailing bankers' acceptance rate plus 4.5%. DELP was subject to a standby fee of 0.55% on unused amounts under the credit facility. At December 31, 2015, DELP had drawn $59.2 million against the credit facility.

The Corporation assigned a limited recourse guarantee of its units in DELP as security pursuant to the credit facility. The credit facility was subject to certain covenants, including maintenance of minimum levels of working capital. At December 31, 2015, the Corporation was in compliance with all such covenants.

On February 18, 2016, and in response to concerns over the volatility in the price of oil and natural gas, the lenders to the Corporation proposed certain amended terms to the Corporation's credit facility to reduce the amounts available pursuant to the credit facility from $70.0 million to $60.0 million effective immediately, and with a requirement to further reduce the facility to $55.0 million before December 31, 2016. The amendment also requires that the Corporation maintain a hedging strategy in respect of the sale of commodities as outlined in the amendment, and it requires prepayment of the principal amount in the event of the sale of assets and/or the settlement of the arbitration process in respect of the Castor Project.

Spain

Pursuant to the terms of a shareholders' agreement amongst the shareholders of Escal, ACS was responsible for providing equity and arranging project financing for the Castor Project, including providing all guarantees that may have been required, from the day it became a majority shareholder in Escal, through development and construction and inclusion of the underground storage facility into the Spanish gas system. Other than the pledging of its shares in Escal as security under lending arrangements previously provided to Escal, the Corporation and its subsidiaries were not required to provide any additional equity or debt funds.

Notwithstanding any form by which ACS may have previously funded Escal, the Corporation retains full entitlement to its existing proportionate interest in Escal and in any distribution made by Escal. However, in accordance with the terms of the Royal Decree-Law issued by the Spanish authorities in October 2014, Escal and its shareholders became jointly and severally liable for any possible flaws or defects in the facilities associated with the Castor Project that become apparent during the 10 years following the issuance of the Royal Decree-Law.

Cash Resources Availability

At December 31, 2015, the Corporation had cash of $0.1 million on deposit with a Canadian Schedule I Chartered Bank and it had drawn $59.2 million against its current credit facility. The Corporation believes that its cash and the current borrowing availability under the credit facility is sufficient to meets its obligations in the foreseeable future.

Outstanding Share Data and Dilutive Securities

During 2015, the Corporation issued 64,810 common shares in settlement of deferred share units issued to certain former directors of the Corporation. As a result, at December 31, 2015 and February 18, 2016, the Corporation had 188,268,994 common shares outstanding. In addition, at December 31, 2015, the Corporation had granted 2,480,000 stock options to purchase common shares of the Corporation to directors and key management at a weighted average exercise price of $0.50 per share, and it had issued 1,203,507 deferred share units.

OFF BALANCE SHEET ARRANGEMENTS

In the normal course of business, the Corporation and its subsidiaries have entered into arrangements with several third-party goods and services providers. In certain instances, the Corporation, directly and through its subsidiaries, has provided indemnities and/or guarantees to these third parties for the payment of goods or services provided, or otherwise. Generally, there are no pre-determined amounts or limits included in these arrangements, and the occurrence of an event that would trigger the Corporation's obligations pursuant to these arrangements is difficult to predict. Therefore, the Corporation's potential future liability cannot be reasonably estimated.

COMMITMENTS AND CONTINGENCIES

In accordance with the terms of the Royal Decree-Law issued by the Spanish authorities in October 2014 in respect of the Castor Project, Escal and its shareholders remain responsible for any possible flaws or defects in the facilities associated with the Castor Project that become apparent during the 10 years following the issuance of the Royal Decree-Law.

The Corporation has certain lease arrangements that were entered into in the normal course of operations. All leases are treated as operating leases and accordingly, lease payments are included in net operations as incurred. No asset or liability value has been assigned to these leases on the consolidated statement of financial position at December 31, 2015.

		Expected Payments Schedule			
	2016	2017 to 2018	2019 to 2020	Thereafter	TOTAL
Bank loan	$ 59,200	$ -	$ -	$ -	$ 59,200
Decommissioning liabilities	3,013	4,254	3,121	84,485	94,873
Office, vehicle and equipment leases	443	550	137	-	1,130
	$ 62,656	$ 4,804	$ 3,258	$ 84,485	$ 155,203

RELATED PARTY TRANSACTIONS

Other than as described in Note 18 to the 2015 Consolidated Financial Statements, there are no other material related party transactions.

BUSINESS RISKS

There are a number of inherent risks associated with the Corporation's activities. These risks are described in the Corporation's 2015 Annual Information Form dated February 18, 2016, under *"Risk Factors"*, which may be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website *www.sedar.com*. These business risks should be considered by interested parties when evaluating the Corporation's performance and outlook.

ACCOUNTING POLICIES, CRITICAL JUDGMENTS AND ESTIMATES

The preparation of the Corporation's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and other items in net earnings or loss, and the related disclosure of contingent assets and liabilities, if any. Critical judgments and estimates represent estimates made by management that are, by their very nature, uncertain. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying values of assets and liabilities and the reported amounts of revenues and other items in net earnings or loss that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Summaries of the significant accounting policies applied and significant judgments, estimates and assumptions made by management in the preparation of its financial statements are provided in Notes 3 and 4 to the 2015 Consolidated Financial Statements.

CONTROLS AND PROCEDURES

In accordance with the Canadian Securities Administrators' National Instrument 52-109, the Corporation has filed certificates signed by its Chief Executive Officer and the Chief Financial Officer certifying that, among other things, the design of disclosure controls and procedures and the design of internal control over financial reporting are adequate as at December 31, 2015.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Corporation in the reports it files or submits under securities legislation is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and reported to management, including the Corporation's Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow required disclosures to be made in a timely fashion. Based on their evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as at December 31, 2015, the Corporation's disclosure controls and procedures were effective.

The Chief Executive Officer and the Chief Financial Officer of the Corporation have also evaluated whether there were changes to the Corporation's internal control over financial reporting during 2015 that have materially affected, or are reasonably likely to materially affect the Corporation's internal control over financial reporting. There were no changes identified during their evaluation.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements that reflect management's expectations regarding the Corporation's future growth, results of operations, performance, business prospects and opportunities. Forward-looking statements include future-oriented financial information, within the meaning of the "safe harbour" provisions of the *U.S. Private Securities Litigation Reform Act of 1995* and the securities legislation of certain of the provinces of Canada, including the *Securities Act* (Ontario).

Certain information set forth in this MD&A, including management's assessment of the Corporation's future plans and operations, contains forward-looking statements. Forward-looking statements are statements that are predictive in nature, depend upon or refer to future events or conditions and may include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or similar expressions. In particular, forward-looking statements contained in this document include, but are not limited to, statements with respect to: volatility of commodity prices, expectations regarding the Corporation's ability to raise capital; effectiveness of hedging strategies; exploration, development and production; quantity of oil and natural gas reserve and recovery estimates; pending legal actions; treatment under government regulatory regimes and tax laws; financial and business prospects and financial outlook; performance characteristics of the Corporation's oil and natural gas properties; the Corporation's capital expenditure programs; supply and demand for oil and natural gas; drilling plans and strategy; availability of rigs, equipment and other goods and services; continually adding to reserves through acquisitions, exploration and development; anticipated work programs and land tenure; the granting of formal permits, licenses or authorities to prospect; the timing of acquisitions; and the realization of the anticipated benefits of the Corporation's acquisitions and dispositions. In addition, statements relating to "reserves" or "resources" are, by their nature, forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Corporation's control, including risks related to the exploration, development and production of oil and gas, uncertainty of reserve estimates, project development risks, reliance on operators, management and key personnel, the cyclical nature of the oil and gas business, dependence on a small number of customers, the need for additional funding to execute on further exploration and development work, the granting of operating permits and licenses, the mitigation of environmental risks and other risk factors discussed or referred to in the section entitled *"Risk Factors"* in the Corporation's Annual Information Form and other documents filed from time to time with the securities administrators, all of which may be accessed at *www.sedar.com*. These statements are only predictions, not guarantees, and actual events or results may differ materially. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements.

Forward-looking statements and other information contained herein concerning the oil and gas industry and the Corporation's general expectations concerning this industry are based on estimates prepared by management using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which the Corporation believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market share and performance characteristics. While the Corporation is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors.

In addition, a number of assumptions were made by the Corporation in connection with certain forward-looking information and forward-looking statements for 2016 and beyond. These assumptions include: the impact of increasing competition; the general stability of the economic and political environment in which the Corporation operates; the timely receipt of any required regulatory approvals; the ability of the Corporation to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects in which the Corporation has an interest to operate such projects in a safe, efficient and effective manner; the ability of the Corporation to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development and/or exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of the Corporation to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Corporation operates; the ability of the Corporation to successfully market its oil and natural gas products; estimates on global industrial production in key geographic markets; global oil and natural gas demand and supply; that the Corporation will not have any labour, equipment or other disruptions at any of its operations of any significance in 2016 other than any planned maintenance or similar shutdowns and that any third parties on which the Corporation is relying will not experience any unplanned disruptions; that the reports it relies on for certain of its estimates are accurate; and that the above mentioned risks and the risk factors described in the Corporation's Annual Information Form do not materialize.

The Corporation's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what resulting benefits the Corporation will derive. The forward-looking statements, including future-oriented financial information, contained herein are presented solely for the purpose of conveying management's reasonable belief of the direction of the Corporation and may not be appropriate for other purposes. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

INFORMATION CONCERNING DUNDEE ENERGY LIMITED

Additional information relating to Dundee Energy Limited, including a copy of the Corporation's Annual Information Form, may be accessed through the SEDAR website at *www.sedar.com* and the Corporation's website at *www.dundee-energy.com*.

Toronto, Ontario
February 18, 2016

Management's Report on Internal Control over Financial Reporting

The consolidated financial statements of Dundee Energy Limited ("the Corporation"), the accompanying notes thereto and other financial information contained in the Corporation's management's discussion and analysis and annual information form have been prepared by, and are the responsibility of the management of the Corporation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and, where appropriate, include management's best estimates and judgments. Management has reviewed the financial information presented throughout the documents accompanying these consolidated financial statements and has ensured it is consistent with the consolidated financial statements.

Management maintains a system of internal control designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and that financial information is timely and reliable. However, any system of internal control over financial reporting, no matter how well designed and implemented, has inherent limitations and may not prevent or detect all misstatements.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board of Directors carries out this responsibility principally through its Audit Committee. The Audit Committee, which is comprised entirely of independent directors, reviews the interim and annual consolidated financial statements and management's discussion and analysis of the Corporation and recommends them for approval by the Board of Directors. Other key responsibilities of the Audit Committee include the monitoring of the Corporation's system of internal control over financial reporting, including disclosure controls, and reviewing the qualifications, fees, independence and performance of the external auditor. The Audit Committee reports its findings to the Board of Directors before the consolidated financial statements and the accompanying management's discussion and analysis are approved by the Board of Directors.

PricewaterhouseCoopers LLP, an independent firm of Chartered Professional Accountants, was appointed by the shareholders of the Corporation at the last annual meeting to examine the consolidated financial statements and provide an independent professional opinion as to their compliance with International Financial Reporting Standards. The auditor has full and unrestricted access to the Audit Committee to discuss the audit and other related matters.

(signed) Bruce Sherley
President and
Chief Executive Officer

(signed) David Bhumgara
Chief Financial Officer

Toronto, Canada
February 18, 2016

Independent Auditor's Report

To the Shareholders of **Dundee Energy Limited**

We have audited the accompanying consolidated financial statements of Dundee Energy Limited, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014 and the consolidated statements of operations, comprehensive (loss) income, changes in shareholders' equity, and the cash flow for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Dundee Energy Limited as at December 31, 2015 and 2014 and its financial performance and its cash flow for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the company's ability to continue as a going concern.

(signed) PricewaterhouseCoopers LLP
Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada
February 18, 2016

DUNDEE ENERGY LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(expressed in thousands of Canadian dollars)

	Note	As at December 31, 2015	As at December 31, 2014
ASSETS			
Current			
Cash		$ 86	$ 829
Accounts receivable	5	1,761	3,162
Prepaids and security deposits		845	1,468
Loan receivable	6	6	-
Inventory		376	454
Investments	7	2,150	2,345
Derivative financial assets	11	-	341
Taxes recoverable		72	72
		5,296	8,671
Non-current			
Loan receivable	6	347	-
Oil and gas properties	8	156,435	167,820
Equity accounted investment in Escal	15	-	-
Deferred income taxes	17	11,121	8,108
		$ 173,199	$ 184,599
LIABILITIES			
Current			
Bank loan	9	$ 58,802	$ 61,617
Accounts payable and accrued liabilities	18	4,452	7,081
Derivative financial liabilities	11	21	-
Decommissioning liabilities	10	3,013	1,358
		66,288	70,056
Non-current			
Decommissioning liabilities	10	55,395	54,903
		121,683	124,959
SHAREHOLDERS' EQUITY			
Equity Attributable to Owners of the Parent			
Share capital	12	112,682	112,626
Contributed surplus	12	7,610	7,691
Deficit		(65,278)	(56,997)
Accumulated other comprehensive loss		(3,392)	(3,392)
		51,622	59,928
Non-controlling interest		(106)	(288)
		51,516	59,640
		$ 173,199	$ 184,599

The accompanying notes are an integral part of these consolidated financial statements.

Commitments (Note 19)

On behalf of the Board,

(signed) Harold P. (Sonny) Gordon
Director

(signed) Garth MacRae
Director

DUNDEE ENERGY LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 2015 and 2014
(expressed in thousands of Canadian dollars, except per share amounts)

	Note		2015		2014
REVENUES					
Oil and gas sales		$	29,581	$	46,230
Royalties			(4,495)		(6,950)
Net sales			25,086		39,280
Production expenditures	14		(15,753)		(15,929)
Depreciation and depletion	8		(11,781)		(10,901)
General and administrative expenses	14		(5,112)		(6,504)
(Loss) gain on fair value changes of derivative financial instruments	11		(21)		388
Gain (loss) on fair value changes in investments	7		10		(70)
Impairment of oil and gas properties	8		(900)		-
Impairment of financial instruments	5, 7		(1,286)		(2,320)
Interest and other income	6		2,338		2,168
Interest expense	9, 10		(4,432)		(4,553)
Foreign exchange gain			152		148
(LOSS) EARNINGS BEFORE INCOME TAXES			(11,699)		1,707
Income tax recovery (expense)	17				
Deferred			3,013		(726)
			3,013		(726)
NET (LOSS) EARNINGS FOR THE YEAR		$	(8,686)	$	981
NET (LOSS) EARNINGS ATTRIBUTABLE TO:					
Owners of the parent		$	(8,281)	$	1,348
Non-controlling interest			(405)		(367)
		$	(8,686)	$	981
BASIC AND DILUTED					
NET (LOSS) EARNINGS PER SHARE	16	$	(0.04)	$	0.01

The accompanying notes are an integral part of these consolidated financial statements.

DUNDEE ENERGY LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

For the years ended December 31, 2015 and 2014
(expressed in thousands of Canadian dollars)

	Note		2015		2014
NET (LOSS) EARNINGS FOR THE YEAR		$	(8,686)	$	981
Other comprehensive loss					
Items that may be reclassified to net (loss) earnings					
Taxes associated with equity accounted investment	17		-		(421)
Other comprehensive loss for the year			-		(421)
COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		$	(8,686)	$	560
COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO:					
Owners of the parent		$	(8,281)	$	1,038
Non-controlling interest			(405)		(478)
		$	(8,686)	$	560

The accompanying notes are an integral part of these consolidated financial statements.

DUNDEE ENERGY LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2015 and 2014
(expressed in thousands of Canadian dollars)

	Attributable to Owners of the Parent							
		Contributed Surplus				Accumulated Other Comprehensive Loss		
	Share Capital	Option Reserve	Deferred Share Unit Reserve	Ownership Interest in Subsidiaries	Deficit		Non-controlling Interest	TOTAL
Balance, December 31, 2013	$ 112,626	$ 6,620	$ 855	$ -	$ (58,345)	$ (3,082)	$ 190	$ 58,864
For the year ended December 31, 2014								
Net earnings	-	-	-	-	1,348	-	(367)	981
Other comprehensive loss	-	-	-	-	-	(310)	(111)	(421)
Stock based compensation (Note 13)	-	188	28	-	-	-	-	216
Balance, December 31, 2014	112,626	6,808	883	-	(56,997)	(3,392)	(288)	59,640
For the year ended December 31, 2015								
Net loss	-	-	-	-	(8,281)	-	(405)	(8,686)
Stock based compensation (Note 13)	-	38	-	-	-	-	-	38
Share incentive arrangement (Note 13)	56	-	(73)	-	-	-	-	(17)
Changes of ownership interest in subsidiaries (Note 15)	-	-	-	(46)	-	-	587	541
Balance, December 31, 2015	$ 112,682	$ 6,846	$ 810	$ (46)	$ (65,278)	$ (3,392)	$ (106)	$ 51,516

The accompanying notes are an integral part of these consolidated financial statements.

DUNDEE ENERGY LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOW

For the years ended December 31, 2015 and 2014
(expressed in thousands of Canadian dollars)

	Note	2015	2014
OPERATING ACTIVITIES			
Net (loss) earnings for the year		$ (8,686)	$ 981
Adjustments for:			
Depreciation and depletion	8	11,781	10,901
Loss (gain) on fair value changes of derivative financial instruments	11	362	(433)
(Gain) loss on fair value changes in financial instruments	7	(10)	70
Impairment of oil and gas properties	8	900	-
Impairment of financial instruments	7	1,286	2,320
Deferred income taxes		(3,013)	726
Stock based compensation	13	38	216
Reclamation expenditures	10	(310)	(1,210)
Other		64	(96)
		2,412	13,475
Changes in:			
Accounts receivable		1,378	569
Accounts payable and accrued liabilities		(2,606)	2,889
Prepaids and security deposits		623	(251)
Inventory		78	(121)
CASH PROVIDED FROM OPERATING ACTIVITIES		1,885	16,561
FINANCING ACTIVITIES			
Repayment of bank loan arrangements	9	(2,815)	(4,092)
Issuance of shares in subsidiaries to non-controlling interest		541	-
CASH USED IN FINANCING ACTIVITIES		(2,274)	(4,092)
INVESTING ACTIVITIES			
Proceeds from the sale of (acquisition of) investment	7	205	(1,075)
Receipts pursuant to loan receivable	6	15	-
Acquisition of working interest in oil and gas properties	8	-	(3,314)
Investment in oil and gas properties	8	(574)	(7,362)
CASH USED IN INVESTING ACTIVITIES		(354)	(11,751)
(DECREASE) INCREASE IN CASH		(743)	718
CASH, BEGINNING OF YEAR		829	111
CASH, END OF YEAR		$ 86	$ 829
Interest paid		$ 3,393	$ 3,408
Income taxes paid		$ -	$ -

The accompanying notes are an integral part of these consolidated financial statements.

DUNDEE ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2015 and 2014
Tabular dollar amounts in thousands of Canadian dollars, except per share amounts

1. NATURE OF OPERATIONS

Dundee Energy Limited ("Dundee Energy" or the "Corporation") is an oil and natural gas company with a mandate to create long-term value through the exploration, development, production and marketing of oil and natural gas and through other high impact energy projects. Dundee Energy is incorporated under the Canada Business Corporations Act. The Corporation's head office is located at Suite 2100, 1 Adelaide Street East, Toronto, Ontario, Canada, M5C 2V9. The Corporation's common shares trade on the Toronto Stock Exchange ("TSX") under the symbol "DEN". At December 31, 2015, Dundee Corporation was the principal shareholder of the Corporation.

Dundee Energy's operating interests include its 100% ownership of Dundee Energy Limited Partnership ("DELP"), a limited partnership involved in the exploration, development and production of oil and gas properties in southern Ontario, Canada, and a 74% interest in Castor UGS Limited Partnership ("CLP"), its principal asset being a 33% interest in Escal UGS S.L. ("Escal"), the original developer of the Castor underground gas storage project located in Spain. The Corporation also holds preferred shares of Eurogas International Inc. ("Eurogas International" or "EII"), an oil and gas exploration company that holds a working interest in the Sfax permit, located offshore Tunisia.

2. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION

These consolidated financial statements of the Corporation as at and for the year ended December 31, 2015 ("2015 Consolidated Financial Statements"), with comparative information as at and for the year ended December 31, 2014, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and with interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook – Accounting. These consolidated financial statements were authorized for issuance by the Board of Directors on February 18, 2016.

These consolidated financial statements have been prepared using accounting principles applicable to a going concern. The going concern basis assumes that the Corporation will continue its operations for the foreseeable future, and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at December 31, 2015, the Corporation had negative working capital of $60,992,000 (2014 - $61,385,000) and during the year then ended, it incurred a net loss of $8,686,000. The Corporation's borrowing facility is structured as a demand facility (Note 9) and the Corporation expects that the lenders will undertake a review of the basis for the lending arrangement, which will include an assessment of future performance of the Corporation, with a focus on forecasted prices for oil and natural gas in an uncertain environment. There can be no assurance that the Corporation's lender will not exercise its right to demand under the terms of the credit facility, whether in whole or in part. This material uncertainty casts significant doubt upon the Corporation's ability to continue as a going concern and the ultimate appropriateness of using accounting principles applicable to a going concern.

These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Corporation be unable to continue as a going concern. If the Corporation is not able to continue as a going concern, the Corporation may be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these consolidated financial statements. These differences could be material.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Corporation in the preparation of its consolidated financial statements are set out below.

Basis of Measurement

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments, including derivative financial instruments, which are measured at fair value as determined at each reporting date.

Principles of Consolidation

These consolidated financial statements include the accounts of the Corporation and its subsidiaries. All intercompany transactions have been eliminated in these consolidated financial statements. Subsidiaries are those entities that Dundee Energy controls by having the power to govern the financial and operating policies of the entity. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether Dundee Energy controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by Dundee Energy and are subsequently deconsolidated from the consolidated financial statements on the date that control ceases.

Non-controlling Interest

Non-controlling interest represents equity interests in subsidiaries owned by outside parties. The share of net assets, net earnings and other comprehensive income or loss of subsidiaries attributable to non-controlling interest is presented as a component of equity. Changes in the Corporation's interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Equity Accounted Investments

Equity accounted investments are investments over which the Corporation has significant influence, but not control. The financial results of the Corporation's equity accounted investments are included in the Corporation's consolidated financial statements using the equity method whereby the Corporation recognizes its proportionate share of income or loss and other comprehensive income or loss of the equity accounted investment in its own operations or comprehensive income or loss, as applicable. Dilution gains and losses arising from changes in the Corporation's interest in equity accounted investments are recognized in net operations. If the Corporation's investment is reduced to zero, additional losses are not provided for, and a liability is not recognized, unless the Corporation has incurred legal or constructive obligations, or made payments on behalf of the equity accounted investment.

The Corporation assesses at least annually whether there is objective evidence that its interests in equity accounted investments are impaired. If impaired, the carrying value of the Corporation's share of the underlying assets of equity accounted investments is written down to its estimated recoverable amount, with any difference charged to the consolidated statement of operations.

Foreign Currency

Functional and Presentation Currency

These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

Functional Currency of Subsidiaries and Equity Accounted Investments
The financial statements of consolidated subsidiaries and equity accounted investments that have a functional currency that is different from that of the Corporation are translated into Canadian dollars using average rates for the period for items included in the consolidated statement of operations and the consolidated statement of comprehensive income or loss and the rates in effect at the date of the consolidated statement of financial position for assets and liabilities. All resulting changes are recognized in comprehensive income or loss as cumulative translation adjustments.

If the Corporation's interest in foreign operations of a subsidiary is diluted, but the foreign operations remain a subsidiary, a pro rata portion of cumulative translation adjustments related to those foreign operations are reallocated between controlling and non-controlling interest. When the Corporation disposes of its entire interest in foreign operations, or when it loses control or significant influence, the cumulative translation adjustment included in accumulated comprehensive income or loss related to the foreign operations is recognized in the consolidated statement of operations on a pro rata basis.

Transactions
Foreign currency transactions are translated into the Corporation's functional currency using exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in currencies other than the Corporation's functional currency at each period-end date, are recognized in the consolidated statement of operations.

Inventory
The Corporation's oil production is stored in oil batteries until such time as it is delivered for sale. Any remaining oil production in oil batteries at the end of a reporting period is recognized as inventory in the consolidated financial statements and is valued at the lower of cost and net realizable value. Cost of inventory includes production costs, including direct overhead costs, and depreciation and depletion. Net realizable value is determined with reference to the relevant average sales price realized for oil production during the previous 12 month period, less variable selling expenses. The Corporation's natural gas production is immediately interconnected to the gas distribution network and therefore, the Corporation does not hold inventory of natural gas.

Financial Instruments
The Corporation's financial instruments include cash, accounts receivable, loan receivable, investments, amounts due pursuant to bank loan arrangements, accounts payable and accrued liabilities and derivative financial instruments.

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or are assigned and the Corporation has transferred substantially all risks and rewards of ownership in respect of the asset. Financial liabilities are derecognized when the related obligation is discharged or cancelled, or when such obligation expires.

Classification of financial instruments in the Corporation's consolidated financial statements depends on the purpose for which the financial instruments were acquired or incurred. Management determines the classification of financial instruments at initial recognition.

Financial Assets and Liabilities at Fair Value through Profit or Loss
A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Derivatives, if any, are also included in this category, unless they are designated as hedges. The Corporation's derivative financial instruments, which have not been designated as hedges for accounting purposes, have been classified in this category. Transaction costs related to these financial instruments are expensed in the consolidated statement of operations.

Derivative Financial Instruments

The Corporation manages its exposure to changes in commodity prices and associated earnings volatility by periodically entering into derivative contracts in accordance with its risk management policy. These derivative contracts are carried at fair value and are generally reported as assets in circumstances when they have a positive fair value and as liabilities when they have a negative fair value. Both realized and unrealized gains and losses from changes in fair value of these derivative contracts are recorded in the consolidated statement of operations.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Corporation's financial assets that are classified as loans and receivables include cash, accounts receivable, loan receivable and the Corporation's preferred share investment in Eurogas International (which has been included with other investments in the consolidated statement of financial position). Financial assets classified as loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the carrying value of the financial asset to its fair value. Subsequently, financial assets classified as loans and receivables are measured at amortized cost using the effective interest method, less a provision for impairment as may be required.

Financial Liabilities at Amortized Cost

The Corporation's financial instruments classified as financial liabilities at amortized cost include amounts due pursuant to bank loan arrangements and accounts payable and accrued liabilities. Financial instruments designated as financial liabilities at amortized cost are initially recognized at the amount required to be paid, less, when material, a discount to reduce the carrying value of the liability to its fair value. Subsequently, these financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

Impairment of Financial Assets at Amortized Cost

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset, other than a financial asset that is carried in the Corporation's consolidated financial statements at fair value, is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event impacted the estimated future cash flows of the financial asset in an amount that can be reliably estimated. Objective evidence may include significant financial difficulty of the obligor or delinquencies in interest and principal payments. If such evidence exists, the Corporation recognizes an impairment loss equal to the difference between the carrying value of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate for the financial asset. An impairment of a financial asset carried at amortized cost is reversed in subsequent periods if the amount of the loss decreased and the decrease can be related objectively to an event occurring after the impairment was recognized.

Oil and Gas Properties

A portion of the Corporation's exploration, evaluation, development and production activities is conducted pursuant to working interest arrangements with third parties. Accordingly, these consolidated financial statements reflect only the Corporation's share of capital expenditures associated with these activities.

Oil and Gas Development Costs

The Corporation capitalizes all costs associated with its development and production expenditures in southern Ontario, including accrued costs for decommissioning liabilities. Capitalized costs include the acquisition of leases and oil and gas rights, geological and geophysical expenditures, equipment costs and that portion of general and administrative expenses directly attributable to these activities. Expenditures that improve the productive capacity or extend the life of a property are capitalized. Maintenance and repairs are generally expensed as incurred.

Capitalized costs associated with properties with proved reserves, adjusted for estimated future costs to be incurred in developing such proved reserves, are depleted over estimated proved reserves using the unit of production method. For purposes of these calculations, production and reserves of natural gas are converted to barrels on an energy equivalent basis at a ratio of 6,000 cubic feet ("6 Mcf") of natural gas to one barrel ("1 bbl") of oil. Depletion rates are updated annually unless there is a material change in circumstances, in which case they are updated more frequently. Acquisition costs of probable reserves are not depleted or depreciated while under active evaluation for commercial reserves. Costs are transferred to depletable costs as proved reserves are recognized.

Assets used in the development and production of oil and gas properties are depreciated over the estimated economic life of the asset.

Asset Category	Depreciation Method	Depreciation Rate
Pipeline infrastructure	Unit of production	n/a
Machinery and equipment	Straight line	3% to 12%
Land and buildings	Straight line	2% to 5%
Office equipment, computer hardware and software	Declining balance	10% to 35%

Undeveloped Properties

Included in oil and gas properties are undeveloped properties on which the Corporation is conducting exploration and evaluation activities. The Corporation capitalizes all costs associated with undeveloped properties, except for costs incurred before the Corporation has obtained the legal right to explore an area, in which case costs are expensed as incurred. Expenditures on undeveloped properties include costs for an area or project for which technical feasibility and commercial viability have not yet been determined and may include lease acquisitions, geological and geophysical expenditures, carrying costs of non-productive properties, equipment costs, that portion of general and administrative expenses directly attributable to these activities and costs associated with decommissioning liabilities. Technical feasibility and commercial viability of a project is considered to be determined when proved or probable reserves are determined to exist, at which time the costs are reclassified as development costs, with assigned reserves.

Impairment of Oil and Gas Properties

The Corporation evaluates the carrying value of oil and gas properties when events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount of an asset is the greater of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows ("cash generating units" or "CGUs"). If their carrying value is assessed not to be recoverable, an impairment loss is recognized. The Corporation evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

Decommissioning Liabilities

A decommissioning liability is recognized when the Corporation has a legal or constructive obligation to plug a well, dismantle and remove property, plant and equipment, or complete site restoration work, and when a reliable estimate of the liability can be made. The Corporation has estimated its decommissioning liabilities in consultation with third parties, and such estimates are based on current costs and technology. When a decommissioning liability is recognized, a corresponding amount, equivalent to the amount of the obligation, is recognized as part of the cost of related oil and gas properties.

Decommissioning liabilities are measured at the present value of the expected expenditures required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The effect of any changes to decommissioning liabilities, including changes to the underlying estimates and changes in market interest rates used to discount the obligation, is added to or deducted from the cost of the related assets. Accretion, representing the increase in decommissioning liabilities due to the passage of time, is recognized as interest expense.

Revenue Recognition

Revenue associated with the Corporation's production and sale of crude oil, natural gas and natural gas liquids is recognized when title is transferred to the customer and delivery has taken place. A portion of the Corporation's production and sales activities is conducted pursuant to working interest arrangements with third parties. Accordingly, these consolidated financial statements reflect only the proportionate interest of the Corporation in such activities.

Revenue from oil and gas sales is presented before royalty payments to third parties, including the government and other mineral interest owners. Royalties on production are recorded using rates in effect under the terms of contracts with such third parties at the time of production.

Stock Based Compensation

The Corporation issues stock based compensation awards to directors, employees and consultants. These arrangements include stock options and other stock based awards such as deferred share units. The Corporation expects that these stock based awards will be settled in equity of the Corporation.

The Corporation uses a fair value method to account for stock based compensation. The fair value of stock based compensation, as at the date of grant, is measured using an option-pricing model and is recognized over the applicable vesting period as compensation expense, based on the number of stock based awards expected to vest, with a corresponding increase in contributed surplus. When stock options or other stock based compensation arrangements are exercised, the proceeds received, together with any amount in contributed surplus, are included in share capital. The expected number of stock based awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

Income Taxes

The Corporation follows the balance sheet liability method to provide for income taxes on all transactions recorded in its consolidated financial statements. The balance sheet liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred income tax assets and liabilities are determined for each temporary difference and for unused tax losses and unused tax credits, as applicable, at rates expected to be in effect when the asset is realized or the liability is settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of operations and the consolidated statement of comprehensive income or loss, as appropriate, in the period that includes the substantive enactment date. Deferred tax assets are recognized only to the extent that it is probable that the assets can be recovered.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regard to previous years.

Per Share Information

The basic earnings or loss per common share is computed by dividing the net earnings or loss attributable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted per common share amounts, if applicable, are calculated to reflect the dilutive effect of exercising outstanding share based awards by applying the treasury stock method.

Accounting Standards, Interpretations and Amendments to Existing Standards not yet Effective

IAS 1, "Presentation of Financial Statements" ("IAS 1")

In December 2014, the IASB issued amendments to IAS 1, clarifying guidance on the concepts of materiality and aggregation of items in the financial statements, the use and presentation of subtotals in the statement of operations and the statement of comprehensive income or loss, and providing additional flexibility in the structure and disclosures of the financial statements to enhance understandability. The amendments to IAS 1 become mandatory for annual periods beginning on or after January 1, 2016. The Corporation does not expect that these amendments will have a significant impact to the Corporation's consolidated financial statements.

IFRS 10, "Consolidated Financial Statements" ("IFRS 10") and
IAS 28, "Investments in Associates and Joint Ventures (2011)" ("IAS 28")

In September 2014, the IASB announced certain amendments to IFRS 10 and IAS 28 that resolved certain inconsistencies in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments provide that a full gain or loss is recognized when a transaction involves a business, whereas a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The amendments will be effective from annual periods commencing on or after January 1, 2016. The Corporation does not expect that these amendments will have a significant impact to the Corporation's consolidated financial statements.

IFRS 9, "Financial Instruments" ("IFRS 9")

IFRS 9, published in July 2014, replaces IAS 39, *"Financial Instruments: Recognition and Measurement"*. IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets and hedge accounting. It establishes two primary measurement categories for financial assets: (i) amortized cost, and (ii) fair value; establishes criteria for classification of financial assets within the measurement category based on business model and cash flow characteristics; and eliminates existing held for trading, held to maturity, available for sale, loans and receivable and other financial liabilities categories. IFRS 9 also introduces a new model for the impairment of financial assets and requires an economic relationship between the hedged item and hedging instrument. This standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Corporation is in the process of evaluating the impact that IFRS 9 may have on the Corporation's consolidated financial statements.

IFRS 11, "Joint Arrangements" ("IFRS 11")

In May 2014, the IASB issued amendments to IFRS 11 to address the accounting for acquisitions of interests in joint operations. The amendments address how a joint operator should account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. IFRS 11, as amended, now requires that such transactions be accounted for using the principles related to business combinations accounting as outlined in IFRS 3, "*Business Combinations*". The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The Corporation does not expect that these amendments will have a significant impact to the Corporation's consolidated financial statements.

IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15")

In May 2014, the IASB issued IFRS 15, which supersedes IAS 18, "*Revenue*", IAS 11 "*Construction Contracts*" and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Corporation is in the process of evaluating the impact that IFRS 15 may have on the Corporation's consolidated financial statements.

IAS 16, "Property, Plant and Equipment" ("IAS 16") and IAS 38, "Intangible Assets" ("IAS 38")

In May 2014, the IASB issued amendments to IAS 16 and IAS 38 to clarify acceptable methods of depreciation and amortization. The amended IAS 16 eliminates the use of a revenue-based depreciation method for items of property, plant and equipment. Similarly, amendments to IAS 38 eliminate the use of a revenue-based amortization model for intangible assets except in certain specific circumstances. The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2016. The Corporation does not expect that these amendments will have a significant impact to the Corporation's consolidated financial statements.

IFRS 16, "Leases" ("IFRS 16")

In January 2016, the IASB issued IFRS 16, replacing IAS 17, *"Leases"*. IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its balance sheet, providing the reader with greater transparency of an entity's lease obligations. Leases to explore for or use oil or natural gas are specifically excluded from the scope of IFRS 16. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Corporation has not initiated an analysis of the impact of adopting IFRS 16 to its consolidated financial statements.

4. CRITICAL JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these consolidated financial statements in accordance with IFRS requires the Corporation to make judgments in applying its accounting policies and estimates and assumptions about the future. These judgments, estimates and assumptions affect the reported amounts of assets, liabilities, revenues and other items in net operating earnings or loss, and the related disclosure of contingent assets and liabilities included in the Corporation's consolidated financial statements. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amounts of revenues and other items in net operating earnings or loss that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The following discusses the most significant judgments, estimates and assumptions that the Corporation has made in the preparation of its consolidated financial statements.

Oil and Natural Gas Reserves

The Corporation's proved and probable reserves of oil, natural gas and natural gas liquids are estimated by management and are evaluated and reported on by independent petroleum engineering consultants in accordance with Canadian Securities Administrators' National Instrument 51-101. The process of estimating proved and probable reserves requires significant judgment in evaluating and assessing available geological, geophysical, engineering and economic data, projected rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are, by their very nature, subject to interpretation and uncertainty. The evaluation of reserves is an ongoing process impacted by current production, continuing development activities and changing economic conditions. The aggregate of capitalized costs, net of certain costs related to unproved properties, and estimated future development costs are depleted using the unit of production method based on estimated proved reserves. Changes in estimates of proved and probable reserves may materially impact the determination of recoverability of the carrying value of the Corporation's oil and gas properties, the recorded amount of depletion and depreciation, the determination of the Corporation's obligations pursuant to decommissioning liabilities and the assessment of impairment provisions.

Recoverability of the Carrying Value of Exploration and Evaluation Costs on Undeveloped Properties

The Corporation is required to review the carrying value of its undeveloped properties for potential impairment. Impairment is indicated if the carrying value of the Corporation's undeveloped properties is not recoverable. If impairment is indicated, the amount by which the carrying value of undeveloped properties exceeds their estimated recoverable amount is charged to the consolidated statement of operations.

Evaluating for recoverability during the exploration and evaluation phase requires judgment in determining whether it is likely that future economic benefit from future exploitation, sale or otherwise, is likely. Evaluations may be more complex where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. Management must make certain estimates and assumptions about future events or circumstances including, but not limited to, the interpretation of geological, geophysical and seismic data, the Corporation's financial ability to continue exploration and evaluation activities, contractual issues with working interest partners and the impact of current and expected future oil and natural gas prices to potential reserves.

Decommissioning Liabilities

The Corporation is required to provide for decommissioning liabilities. The Corporation must estimate these costs in accordance with existing laws, contracts and other policies. The estimate of future costs involves a number of estimates relating to timing, type of costs and associated contract negotiations, and review of potential methods and other technical advancements. Furthermore, due to uncertainties concerning environmental remediation, the ultimate cost of the Corporation's decommissioning liabilities could differ from amounts provided.

The estimate of the Corporation's obligations are subject to change due to amendments to applicable laws and regulations and as new information concerning the Corporation's operations becomes available. The Corporation is not able to determine the impact on its financial position, if any, of environmental laws and regulations that may be enacted in the future.

Business Combinations and Asset Acquisitions

Management uses judgment in applying the acquisition method of accounting for business combinations and in determining fair values in asset acquisitions, and specifically, in identifying and valuing intangible assets and liabilities acquired in acquisitions, if any. The value placed on the acquired assets and liabilities, including identifiable intangible assets, will have an effect on the amount of goodwill that the Corporation may record on an acquisition.

Income Tax

The determination of the Corporation's income and other tax liabilities requires the interpretation of complex laws and regulations, often involving multiple jurisdictions. Judgment is required in determining whether deferred tax assets should be recognized on the consolidated statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, requires management to assess the likelihood that the Corporation will generate taxable income in future periods in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each applicable jurisdiction.

To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Corporation to realize a deferred tax asset could be materially impacted.

Fair Value of Financial Instruments

Certain financial instruments are recorded in the Corporation's statements of financial position at values that are representative of, or approximate fair value. The fair value of a financial instrument that is traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations. For all other financial instruments carried at fair value, the fair value is determined using valuation techniques. By their nature, these valuation techniques require the use of assumptions. Changes in the underlying assumptions of a valuation model could materially impact the determination of the fair value of a financial instrument. Imprecision in determining fair value using these valuation techniques may affect the amount of net operating earnings or loss recorded for a particular investment in a particular period.

The Corporation believes that its estimates of fair value are reasonable and appropriate. The Corporation reviews assumptions relating to financial instruments on an ongoing basis to ensure that the basis for determination of fair value is appropriate.

5. ACCOUNTS RECEIVABLE

As at December 31,		2015		2014
Customers for oil and natural gas production	$	1,650	$	2,755
Third-party drilling receivable		108		331
Working interest partners		3		76
	$	1,761	$	3,162

During the year ended December 31, 2014, and following the relinquishment by Escal of the Castor Project (Note 15) in October 2014, the Corporation determined that there were significant uncertainties in its ability to collect certain amounts owing from Escal to the Corporation, and accordingly, the Corporation recognized an impairment of $1,034,000 in respect of these amounts receivable, reducing the amounts to $nil. The impairment was included in *"Impairment of financial instruments"* on the Corporation's consolidated statement of operations for the year ended December 31, 2014.

6. LOAN RECEIVABLE

During the year ended December 31, 2015, the Corporation disposed of certain land and buildings in southern Ontario, and certain related machinery and equipment. Proceeds from the sale of the assets were $368,000, of which $13,000 were applied towards transaction costs associated with the sale, including land transfer taxes.

The balance of the proceeds, aggregating $355,000, will be paid to the Corporation pursuant to a vendor-take-back mortgage arrangement bearing interest at 5.5%, and with an initial term to maturity of three years, expiring May 4, 2018. Amounts receivable by the Corporation pursuant to the vendor-take-back mortgage arrangement, which have been included in the consolidated statement of financial position as "*Loan receivable*", are secured by the underlying property. During the year ended December 31, 2015, the Corporation accrued interest income of $13,000 in respect of these arrangements and it has received payments of $15,000 against amounts outstanding.

The Corporation recognized a gain of $177,000 in respect of the sale. The gain has been included in the 2015 Consolidated Financial Statements as "*Interest and other income*".

7. INVESTMENTS

As at December 31,		2015		2014
Investment in publicly listed equity securities	$	-	$	195
Investment in private enterprises		2,150		2,150
Preferred shares of Eurogas International		32,150		32,150
Less: Impairment		(32,150)		(32,150)
		-		-
Accrued dividends on preferred share investment in Eurogas International		9,525		8,239
Less: Impairment		(9,525)		(8,239)
		-		-
	$	2,150	$	2,345

The Corporation previously held investments in publicly listed securities that it had designated as financial assets at fair value through profit or loss and as such, changes in the fair value of these financial assets were recorded in net earnings or loss. During 2015, the Corporation disposed of its interest in these publicly listed securities for aggregate proceeds of $205,000, realizing a gain of $10,000. During the year ended December 31, 2014, the Corporation had recognized an unrealized loss of $70,000 in respect of these investments.

The Corporation has invested $2,150,000 to acquire a 45% equity interest in Windiga Energy Inc. ("Windiga"), a Canadian-based independent power producer focused on developing, owning and operating renewable energy facilities on the African continent. In addition to its 45% equity interest, the controlling shareholder of the Corporation's parent represents 20% of the Board of Directors of Windiga. The Corporation has completed an assessment of whether it is able to exert significant influence over the operating and financial policies of Windiga. In completing its assessment, the Corporation considered various factors, including the anticipated dilution in its ownership that may be required in order for Windiga to access the necessary capital to advance its current initiatives. Accordingly, the Corporation has classified its investment in Windiga as a financial asset at fair value through profit or loss. As Windiga is a private enterprise in the initial stages of development, its fair value cannot be reliably measured and therefore, the Corporation's investment in Windiga is carried at cost.

At each of December 31, 2015 and December 31, 2014, the Corporation held 32,150,000 Series A Preference Shares of Eurogas International ("Series A Preference Shares") with an aggregate par value of $32,150,000. The Series A Preference Shares rank in priority to the common shares of Eurogas International as to the payment of dividends and the distribution of assets on dissolution, liquidation or winding up of Eurogas International and entitle the Corporation to a fixed preferential cumulative dividend at the rate of 4% per annum. The Corporation may reinvest any dividends received into common shares of Eurogas International, subject to obtaining the necessary regulatory approvals.

The Series A Preference Shares may be redeemed at the option of the Corporation or may be retracted by Eurogas International at any time at a price equal to their face value of $1.00 per Series A Preference Share.

The Series A Preference Shares are non-voting except in the event Eurogas International fails to pay the cumulative 4% dividend for eight quarters. Thereafter, but only so long as any dividends on the Series A Preference Shares remain in arrears, the Corporation shall be entitled, voting exclusively and separately as a series, to elect a majority of the members of the Board of Directors of Eurogas International. Notwithstanding the Corporation not receiving any dividends on its investment at December 31, 2015, the Corporation had not exercised its entitlement to elect the majority of the members of the Board of Directors of Eurogas International.

Because of the Corporation's entitlement to demand redemption of the Series A Preference Shares at any time from Eurogas International, the Corporation has classified its investment in Series A Preference Shares as a loan receivable and the associated dividends as interest income. The Corporation has completed an assessment of the fair value of the Series A Preference Shares and has determined that the par value of the Series A Preference Shares and the related accrued income thereon are impaired and accordingly, the Corporation has fully provided against the carrying value of these assets. During the year ended December 31, 2015, the Corporation recognized an impairment loss of $1,286,000 (2014 – $1,286,000) relating to dividends receivable on the Series A Preference Shares.

8. OIL AND GAS PROPERTIES

	Property, Plant and Equipment					*Exploration and Evaluation*	
	Oil and Gas Development Costs	Pipeline Infrastructure	Machinery and Equipment	Land and Buildings	Other	Undeveloped Properties	TOTAL
At December 31, 2013							
Cost	$ 140,767	$ 27,253	$ 27,236	$ 4,721	$ 3,041	$ 20,697	$ 223,715
Accumulated depreciation, depletion and impairment	(56,343)	(6,117)	(4,615)	(90)	(1,090)	-	(68,255)
Net carrying value, December 31, 2013	84,424	21,136	22,621	4,631	1,951	20,697	155,460
Year ended December 31, 2014							
Carrying value December 31, 2013	84,424	21,136	22,621	4,631	1,951	20,697	155,460
Acquisitions	7,246	498	362	70	-	8	8,184
Net additions	2,370	-	270	222	145	3,314	6,321
Remeasure decommissioning liability (Note 10)	8,756	-	-	-	-	-	8,756
Depreciation and depletion	(8,328)	(1,159)	(1,267)	(28)	(119)	-	(10,901)
Net carrying value, December 31, 2014	94,468	20,475	21,986	4,895	1,977	24,019	167,820
At December 31, 2014							
Cost	159,139	27,751	27,809	5,013	3,186	24,019	246,917
Accumulated depreciation, depletion and impairment	(64,671)	(7,276)	(5,823)	(118)	(1,209)	-	(79,097)
Net carrying value, December 31, 2014	94,468	20,475	21,986	4,895	1,977	24,019	167,820
Year ended December 31, 2015							
Carrying value December 31, 2014	94,468	20,475	21,986	4,895	1,977	24,019	167,820
Net additions	8	-	116	(286)	(722)	762	(122)
Remeasure decommissioning liability (Note 10)	1,418	-	-	-	-	-	1,418
Depreciation and depletion	(9,017)	(1,294)	(1,406)	(33)	(31)	-	(11,781)
Impairment	(900)	-	-	-	-	-	(900)
Net carrying value, December 31, 2015	85,977	19,181	20,696	4,576	1,224	24,781	156,435
At December 31, 2015							
Cost	160,565	27,751	27,925	4,715	2,458	24,781	248,195
Accumulated depreciation, depletion and impairment	(74,588)	(8,570)	(7,229)	(139)	(1,234)	-	(91,760)
Net carrying value, December 31, 2015	$ 85,977	$ 19,181	$ 20,696	$ 4,576	$ 1,224	$ 24,781	$ 156,435

Acquisition of Working Interest in Oil and Gas Properties During the Year Ended December 31, 2014

On August 6, 2014, the Corporation completed a transaction pursuant to which it acquired an additional 15% working interest in certain offshore gas properties in southern Ontario. The transaction increased the Corporation's working interest in these properties to approximately 100% at December 31, 2014.

A summary of the allocation of the aggregate consideration transferred to the fair value of the net assets acquired in the above transaction is summarized below.

Net assets acquired	
Oil and gas development costs	$ 7,246
Pipeline infrastructure	498
Machinery and equipment	362
Land and buildings	70
Undeveloped properties	8
	8,184
Decommissioning liability	(4,870)
	$ 3,314
Aggregate consideration transferred:	
Cash	$ 3,314

Impairment of Oil Properties

During the year ended December 31, 2015, and in response to a sharp decline in oil prices, the Corporation recognized an impairment loss of $900,000 (2014 – $nil) against certain oil properties in southern Ontario, reducing their carried value to their recoverable amount of $7,136,000.

The recoverable amount of these oil properties was measured based on their value-in-use, determined by the application of a discounted cash flow model, using reserves volumes and forecasted oil prices as provided by independent, third party oil and gas reserves evaluators. In computing the recoverable amount, expected future cash flows were adjusted for risks specific to the oil properties and discounted using a discount rate of 8%.

As at December 31, 2015, selected key price forecasts used to determine the recoverable amount of the Corporation's oil properties were as follows:

Reserve Prices	Oil Edmonton Par (delivered to Sarnia, ON) CAD$ / bbl
2016	56.35
2017	62.75
2018	71.55
2019	82.95
2020	94.70
Average five year forecast	73.66

Given significant volatility in market pricing of commodities, the Corporation anticipates that a further impairment in its oil properties may be required if the price of oil is subjected to a further sustained decrease in excess of 5%.

9. BANK LOAN

DELP had established a credit facility for $70,000,000 (2014 – $70,000,000) with a Canadian Schedule I Chartered Bank. The credit facility provided DELP with a revolving demand loan, subject to a tiered interest rate structure based on DELP's net debt to cash flow ratio, as defined in the credit facility. Based on ratios at December 31, 2015, draws on the credit facility bore interest, at DELP's option, at either the bank's prime lending rate plus 3.5% for loans or letters of credit, or, for bankers' acceptances, at the bank's then prevailing bankers' acceptance rate plus 4.5%. DELP was subject to a standby fee of 0.55% on unused amounts under the credit facility.

The credit facility was secured against all of the oil and natural gas properties owned by DELP. In addition, the Corporation had assigned a limited recourse guarantee of its units in DELP as further security pursuant to the credit facility. The credit facility was subject to certain covenants, including maintenance of minimum levels of working capital. At December 31, 2015, the Corporation was in compliance with all such covenants.

As at December 31,		2015		2014
Prime rate loans	$	200	$	-
Bankers' acceptances		59,000		62,000
Less: Unamortized discount		(398)		(383)
	$	58,802	$	61,617

At December 31, 2015, DELP had drawn $59,200,000 (2014 – $62,000,000) pursuant to the credit facility. During the year ended December 31, 2015, the Corporation incurred interest expense relating to the credit facility, including bank charges, arrangement fees and standby fees, of $3,393,000 (2014 – $3,408,000).

On February 18, 2016, the terms of the Corporation's credit facility were amended to reduce the amounts available pursuant to the credit facility from $70,000,000 to $60,000,000, with a requirement to further reduce the facility to $55,000,000 before December 31, 2016. The amendment also requires that the Corporation maintain a hedging strategy in respect of the sale of commodities, and it requires prepayment from proceeds in the event of the sale of assets and/or the settlement of the arbitration process in respect of the Castor Project (Note 15).

10. DECOMMISSIONING LIABILITIES

The carrying amount of the Corporation's decommissioning liabilities is comprised of the expected future abandonment and site restoration costs associated with its oil and gas properties and is anticipated to be incurred over 47 years. Abandonment and site restoration costs are based on the Corporation's net ownership in the underlying wells and facilities, the estimated cost to abandon these wells and facilities and the estimated timing of the costs to be incurred in future periods.

As at and for the years ended December 31,		2015		2014
Undiscounted future obligations, beginning of year	$	99,757	$	91,753
Effect of acquisitions		-		9,978
Effect of changes in estimates		(4,574)		(764)
Liabilities settled (reclamation expenditures)		(310)		(1,210)
Undiscounted future obligations, end of year	$	94,873	$	99,757

Changes in the Corporation's estimate of its decommissioning liabilities on an undiscounted basis reflect the impact of inflation to the timing of abandonment and site restoration costs.

The following reconciles the Corporation's decommissioning liabilities on a discounted basis:

As at and for the years ended December 31,		2015		2014
Discount rates applied to future obligations		*0.48% - 2.04%*		*1.00% - 2.22%*
Inflation rate		*2.00%*		*2.00%*
Discounted future obligations, beginning of year	$	56,261	$	42,700
Effect of acquisitions (Note 8)		-		4,870
Effect of changes in estimates and remeasurement of discount rates		1,418		8,756
Liabilities settled (reclamation expenditures)		(310)		(1,210)
Accretion (interest expense)		1,039		1,145
Discounted future obligations, end of year	$	58,408	$	56,261
Current	$	3,013	$	1,358
Non-current		55,395		54,903
	$	58,408	$	56,261

As required by statute, the Corporation has provided a security deposit to the Ontario Ministry of Natural Resources in the amount of $270,000 in respect of future abandonment costs.

11. DERIVATIVE FINANCIAL INSTRUMENTS

During the year ended December 31, 2015, the Corporation had entered into a commodity swap derivative contract to manage its exposure to volatility in the prices received for the sale of the underlying commodities. This derivative instrument was not designated as a hedging instrument and accordingly, was classified as a financial instrument at fair value through profit or loss. Therefore, changes in the fair value of this derivative financial instrument are recorded in the consolidated statement of operations.

The Corporation has determined that the fair value of the commodity swap derivative contract at December 31, 2015 resulted in a liability balance of $21,000 (2014 – asset balance of $341,000). During the year ended December 31, 2015, the Corporation recognized a loss of $21,000 (2014 – gain of $388,000) from changes in the fair value of the commodity swap derivative contracts.

12. SHARE CAPITAL

Authorized

The authorized capital of the Corporation consists of an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares without nominal or par value, issuable in series. At December 31, 2015, there were no preferred shares of the Corporation issued and outstanding.

Issued and Outstanding Common Shares

			Contributed Surplus		
	Number of Common Shares Outstanding	Share Capital	Option Reserve	DSUP Reserve	Ownership Interest in Subsidiaries
Outstanding, December 31, 2013	188,204,184	$ 112,626	$ 6,620	$ 855	$ -
Transactions during the year ended December 31, 2014					
Stock based compensation	-	-	188	28	-
Outstanding, December 31, 2014	188,204,184	112,626	6,808	883	-
Transactions during the year ended December 31, 2015					
Stock based compensation	-	-	38	-	-
Share incentive arrangement	64,810	56	-	(73)	-
Issuance of shares in subsidiaries to non-controlling interest (Note 15)	-	-	-	-	(46)
Outstanding, December 31, 2015	188,268,994	$ 112,682	$ 6,846	$ 810	$ (46)

During the year ended December 31, 2015, the Corporation issued 64,810 common shares from treasury in settlement of certain share incentive arrangements (Note 13).

Normal Course Issuer Bid

On June 1, 2015, the Corporation announced that it had received regulatory approval for the renewal of its normal course issuer bid from June 3, 2015 to June 2, 2016. Subject to certain conditions, the Corporation may purchase up to a maximum of 4,705,104 common shares for cancellation pursuant to these arrangements, representing approximately 2.5% of its common shares outstanding immediately prior to approval of the normal course issuer bid. The Corporation did not purchase any common shares for cancellation under its normal course issuer bid arrangements during the years ended December 31, 2015 and 2014.

13. STOCK BASED COMPENSATION

Stock Option Plan

The shareholders of the Corporation have approved a share incentive plan (the "SIP") pursuant to which the Corporation may issue up to 15,611,845 common shares of the Corporation to employees, directors and officers. Included in the SIP is a stock option plan component. The exercise price of each option issued pursuant to the terms of the SIP shall be established at the grant date by the directors of the Corporation and in all cases shall not be less than the closing price of the common shares of the Corporation on the trading day immediately preceding the grant date. Options are generally issued with a five-year term from the date of grant and are subject to vesting conditions whereby one third of the options granted vest immediately, with the remaining two thirds vesting over a two-year period.

There were no stock option awards granted during the year ended December 31, 2015. During the year ended December 31, 2014, the Corporation granted 200,000 stock options at an exercise price of $0.26 per option. The fair value of the options granted was $0.15 per option and was estimated at the grant date using an option pricing model with the following assumptions:

	2014
Risk free interest rate	1.71%
Expected dividend yield	0.00%
Expected volatility	73.00%
Expected life of the options	3 to 5 years

A summary of the status of the stock option component of the Corporation's SIP as at and for the years ended December 31, 2015 and 2014, is as follows:

For the years ended December 31,			2015			2014
	Stock Options		Weighted Average Exercise Price	Stock Options		Weighted Average Exercise Price
Options outstanding, beginning of year	5,705,000	$	0.66	5,605,000	$	0.68
Granted	-		-	200,000		0.26
Forfeited	(3,225,000)		0.79	(100,000)		0.81
Options outstanding, end of year	2,480,000	$	0.50	5,705,000	$	0.66
Exercisable options	2,413,333	$	0.50	4,874,991	$	0.70

Option Price	Options Outstanding	Options Exercisable	Contractual Life Remaining (Years)
At $0.26	200,000	133,333	3.24
At $0.50	1,880,000	1,880,000	2.70
At $0.60	400,000	400,000	1.34

During the year ended December 31, 2015, the Corporation recognized stock based compensation expense of $38,000 (2014 – $188,000) in respect of outstanding stock options.

Deferred Share Unit Plan

The Corporation has established a deferred share unit plan ("DSUP") pursuant to which directors, officers, employees and consultants of the Corporation or any affiliate of the Corporation may be granted deferred share units. The Compensation Committee of the Board of Directors administers the DSUP, which is intended to provide participants with a long-term incentive tied to the long-term performance of the Corporation's common shares. Discretionary awards will be based on certain criteria, including services performed or to be performed.

The total number of deferred share units cannot exceed 4,000,000. During the year ended December 31, 2015, the Corporation paid cash of $17,000 and it issued 64,810 common shares to settle 253,919 deferred share units that had been issued to former directors of the Corporation. During the year ended December 31, 2014, the Corporation issued 131,609 deferred share units with a fair value on the date of issuance of $28,000 in settlement of outstanding directors' fees payable. At December 31, 2015, there were 1,203,507 (2014 – 1,457,426) deferred share units outstanding.

The Corporation's deferred share units have no vesting period and may only be redeemed by the recipient upon retirement from the Corporation. The terms of the deferred share units provide for the issuance of shares to the recipient in settlement of these awards, subject to the necessary regulatory approvals.

For the years ended December 31,	2015	2014
Number of deferred share units outstanding, beginning of year	1,457,426	1,325,817
Granted	-	131,609
Redeemed	(253,919)	-
Number of deferred share units outstanding, end of year	1,203,507	1,457,426

The Corporation did not recognize any stock based compensation expense related to its deferred share unit plan during the year ended December 31, 2015. During the year ended December 31, 2014, stock based compensation expense related to the Corporation's deferred share unit plan was $28,000.

14. GENERAL AND ADMINISTRATIVE EXPENSES AND PRODUCTION EXPENDITURES BY NATURE

General and Administrative Expenses

For the years ended December 31,		2015		2014
Salary and salary-related	$	2,131	$	3,834
Stock based compensation		38		216
Corporate and professional fees		3,121		2,266
General office		1,261		1,660
Exploration and development costs		709		1,256
Allocation of general and administrative costs		(2,148)		(2,728)
	$	5,112	$	6,504

Production Expenditures

For the years ended December 31,		2015		2014
Labour	$	5,387	$	4,359
Materials, equipment and supplies used		5,295		6,594
Transportation		1,138		1,442
Utilities		2,219		2,164
Rental and lease payments		474		518
Other		1,240		852
	$	15,753	$	15,929

15. EQUITY ACCOUNTED INVESTMENT IN ESCAL

The Corporation's 74% owned subsidiary, CLP, owns a 33% interest in Escal, the developer and former owner of the Castor underground gas storage project located in Spain (the "Castor Project"). The remaining interest in Escal is held by ACS Servicios Comunicaciones y Energia, S.L. ("ACS").

In July 2013, Escal initiated the technical and economic audits of the Castor Project, which were required for the inclusion of the project to the Spanish gas system. These audits concluded that the Castor Project was technically fit to store and deliver gas, that it had an appropriate process design and configuration, and that it had sufficient safety engineering for operation. However, in mid September 2013, micro-seismic activity was detected in the area surrounding the Castor Project, following which the Spanish authorities implemented a suspension of further activities, pending an independent assessment of the source of the seismic activity. Independent assessments were subsequently completed, putting forth that the seismicity observed appeared to be related to a secondary fault present in the area. However, and notwithstanding the results of the technical and economic audits, as well as the results of the independent assessments as to the source of seismic activity, the Spanish authorities did not revoke their mandated suspension.

Escal subsequently considered various options available in respect of the Castor Project, and in July 2014, Escal determined that it was appropriate to exercise its right under the underground gas storage concession to relinquish the concession to the Spanish authorities.

On October 3, 2014, the Spanish government approved Royal Decree-Law 13/2014, which formally accepted the relinquishment of the Castor Project. The Royal Decree-Law came into force on October 4, 2014, the date of its publication in the Spanish Official State Gazette, acknowledging the termination of the concession, and reverting ownership of the associated facilities back to the public domain. As provided in the terms for relinquishment, Escal was entitled to receive compensation equal to the net value of its investment in the Castor Project, which the Royal Decree-Law determined to be €1.46 billion. Accordingly, in November 2014, Escal received €1.35 billion, being the net value of its investment, after deducting amounts of €110 million previously received by Escal during the pre-commissioning stage of development. These proceeds were applied towards the partial repayment of the €1.41 billion of outstanding bonds issued by Watercraft Capital S.A., Escal's financing vehicle.

In addition to the net value of its investment as outlined above, the Royal Decree-Law also provides Escal with certain other remuneration rights, including financial remuneration for the period from the provisional commissioning date of the Castor Project on July 5, 2012 through to October 4, 2014, as well as the reimbursement of operating and maintenance costs incurred during this period. The determination and timing of these additional amounts, if any, have not yet been finalized.

In November 2014, ACS arranged a €300 million refinancing of Escal, of which €60 million was applied to repay the balance of amounts owing pursuant to the outstanding bond arrangements. CLP is of the view that the refinancing arranged by ACS was not in the best interests of Escal and consequently, CLP lodged a legal action challenging the approval of the refinancing. Additionally, CLP determined that the use of proceeds from the refinancing may have compromised CLP’s interests as a shareholder. Accordingly, CLP has commenced binding arbitration proceedings against ACS as to the sharing of cash flows from the Castor Project.

The Royal Decree-Law further confirms that the Castor Project is to remain mothballed until the Spanish government is satisfied with technical studies and reports on the commissioning of such facilities. Enagás Transporte, S.A.U., the technical manager of the Spanish gas system, has been tasked with completing these studies and it will be entrusted with ongoing care and maintenance of the facilities.

In accordance with the terms of the Royal Decree-Law, Escal and its shareholders remain responsible for any possible flaws or defects in the facilities associated with the Castor Project that become apparent during the 10 years following the issuance of the Royal Decree-Law.

Partnership Capital Raise

In order to fund the costs associated with the arbitration process, CLP raised funds through a voluntary cash call to its limited partners. CLP raised partners’ capital of $2,237,000 from the cash call, including $1,695,000 raised directly from the Corporation. As not all limited partners participated in the voluntary cash call, the Corporation’s interest in CLP increased marginally, resulting in a reduction in the Corporation’s contributed surplus balance of $46,000.

Accounting for the Corporation’s Investment in Escal

The Corporation accounts for CLP’s 33% interest in Escal using the equity method. Recognition of CLP’s proportionate share of losses incurred by Escal draws CLP’s carrying value in Escal to below zero. At December 31, 2015, CLP had not recorded a liability related to losses incurred by Escal, as it does not have the legal or constructive obligation in respect thereof. Consequently, at December 31, 2015, the carrying value of the Corporation’s indirect equity interest in Escal was $nil (2014 – $nil).

The following table summarizes financial information about Escal’s assets and liabilities as at and for the years ended December 31, 2015 and 2014. As the Corporation only has significant influence, it is unable to obtain reliable information at year-end on a timely basis. The Corporation has included in its consolidated financial statements, equity accounted information based on the most recent audited annual financial statements and the subsequent unaudited interim financial statements prepared by Escal, issued within three months of the year-end of the Corporation. Adjustments are made to reflect material transactions and events in the intervening period. For purposes of the following disclosure, the assets and liabilities of Escal have been translated using prevailing foreign exchange rates at the dates of the consolidated statements of financial position.

As at and for the years ended December 31,		2015		2014
Assets	$	472,679	$	2,471,702
Liabilities		(579,584)		(2,513,505)
Net liabilities	$	(106,905)	$	(41,803)

16. NET (LOSS) EARNINGS PER SHARE

For the years ended December 31,		2015		2014
Net (loss) earnings for the year attributable to owners of the parent	$	(8,281)	$	1,348
Weighted average number of common shares outstanding		188,235,257		188,204,184
Basic net (loss) earnings per common share	$	(0.04)	$	0.01
Effect of dilutive securities to the weighted average number of common shares outstanding		n/a		1,379,667
Diluted net (loss) earnings per common share	$	(0.04)	$	0.01

17. INCOME TAXES

During the year ended December 31, 2015, the Corporation recognized an income tax recovery amount of $3,013,000 (2014 – income tax expense of $726,000).

The income tax recovery (expense) amounts on the Corporation's loss (earnings) before income taxes differs from the income tax recovery (expense) amount that would arise using the combined Canadian federal and provincial statutory tax rate of 26% (2014 – 26%) as a result of the following items:

For the years ended December 31,		2015		2014
Loss (earnings) before tax at statutory rate of 26% (2014 – 26%)	$	3,100	$	(452)
Effect on taxes of:				
Non-deductible expenses		(118)		(227)
Other differences		31		(47)
Income tax recovery (expense)	$	3,013	$	(726)

Deferred tax assets arise from available income tax loss carry forwards and future income tax deductions. A deferred tax asset is recognized when management believes it is more likely than not that the benefit will be recognized, which management considers will occur over the remaining life of the oil and natural gas properties.

The movement in the deferred income tax assets and liabilities during the year, and the net components of the Corporation's net deferred income tax assets are as follows:

Deferred Tax Assets	Loss Carry Forwards	Oil and Gas Properties	Decomm-issioning Liability	Cumulative Eligible Capital	Share Issue Costs	Other	TOTAL
Balance, December 31, 2013	$ -	$ 6,408	$ 2,189	$ 163	$ 63	$ 536	$ 9,359
(Charged) credited to statement of operations	-	(1,157)	536	(12)	(17)	(90)	(740)
(Charged) credited to statement of comprehensive income	-	-	-	-	-	(421)	(421)
Balance, December 31, 2014	-	5,251	2,725	151	46	25	8,198
(Charged) credited to statement of operations	963	1,098	907	(10)	(16)	(19)	2,923
Balance, December 31, 2015	$ 963	$ 6,349	$ 3,632	$ 141	$ 30	$ 6	$ 11,121

Deferred Tax Liabilities	Equity Accounted Investment	Other	TOTAL
Balance, December 31, 2013	$ (89)	$ (15)	$ (104)
(Charged) credited to statement of operations	89	(75)	14
Balance, December 31, 2014	-	(90)	(90)
(Charged) credited to statement of operations	-	90	90
Balance, December 31, 2015	$ -	$ -	$ -

The Corporation has operating loss carry forwards of $3,633,000 (2014 – $nil) at December 31, 2015 which expire in 2035.

18. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in these 2015 Consolidated Financial Statements, related party transactions and balances as at and for the year ended December 31, 2015 and 2014 are as described below.

Services Arrangement with Dundee Resources Limited

Dundee Resources Limited, a wholly owned subsidiary of Dundee Corporation, provides the Corporation with administrative support services as well as geophysical, geological and engineering consultation with regard to the Corporation's activities. During the year ended December 31, 2015, the Corporation incurred costs of $1,074,000 (2014 – $1,117,000) in respect of these arrangements.

Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities at December 31, 2015 are amounts owing to the Corporation's parent, Dundee Corporation, and to Dundee Corporation's subsidiaries of $1,810,000 (2014 – $3,213,000).

Financial Services

Officers, directors and employees of the Corporation and other related parties may make use of the facilities of Dundee Securities Limited ("DSL"), a full-service investment dealer, and a subsidiary of Dundee Corporation. In addition, certain of the Corporation's incentive compensation arrangements and the purchase of its common shares for cancellation pursuant to its normal course issuer bid may be administered by DSL. Transactions with DSL are conducted on normal market terms and are recorded at their exchange value. At December 31, 2015, the Corporation had cash deposits with DSL of $6,000 (2014 – $6,000) to facilitate trades pursuant to its normal course issuer bid (Note 12).

Key Management Compensation

Compensation and other fees paid to directors of the Corporation and to the President and Chief Executive Officer of the Corporation during the years ended December 31, 2015 and 2014 are shown as follows:

For the years ended December 31,	2015	2014
Directors' fees and executive consulting	$ 340	$ 518
Stock based compensation	25	116
Benefits	14	26
	$ 379	$ 660

19. COMMITMENTS

The Corporation and its subsidiaries have lease agreements for premises and equipment pursuant to which future minimum annual lease payments, exclusive of operating costs and realty taxes, are as follows:

As at December 31,		2015
Less than 1 year	$	443
Between 1 and 5 years		686
Thereafter		-

20. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The following table provides information about financial assets and financial liabilities measured at fair value in the Corporation's consolidated statement of financial position as at December 31, 2015. These financial assets and financial liabilities have been categorized by level, according to the significance of the inputs used in determining fair value measurements.

			Fair Value as at December 31, 2015					
		Carrying Value as at December 31, 2015		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)
Recurring Measurements								
Financial Assets								
Investment in private enterprises	$	2,150	$	-	$	2,150	$	-
Financial Liabilities								
Derivative financial instruments		(21)		-		(21)		-

Risk Management

The Corporation is exposed to financial risks due to the nature of its business and the financial assets and liabilities that it holds. The Corporation's overall risk management strategy seeks to minimize potential adverse effects on the Corporation's financial performance.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Corporation's accounts receivable are with customers for its oil and natural gas production, with its working interest partners in oil and natural gas development and production activities and with third parties. In addition, the Corporation has a loan receivable pursuant to a vendor-take-back mortgage. These amounts expose the Corporation to risk for non-payment. The Corporation's maximum exposure to credit risk relating to these items approximates the carrying amount of these assets on the Corporation's consolidated statement of financial position.

The Corporation currently markets its production to customers with investment grade credit ratings. Otherwise, the Corporation may seek parental guarantees and/or letters of credit prior to transacting with such customers.

The majority of the Corporation's revenue is from three (2014 – three) core customers, who individually accounted for 34% (2014 – 46%), 30% (2014 – 24%), and 27% (2014 – 29%) of total revenue. Of the Corporation's individual accounts receivable due from customers, approximately 39% (2014 – 41%) was due from one marketer.

Amounts receivable from working interest partners and from other third parties represent receivables from other participants in the oil and natural gas sector, and collection of the outstanding balances may be dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. The Corporation attempts to mitigate the credit risk on receivables from working interest partners by obtaining pre-approval of significant capital expenditures. Where the Corporation is the operator of properties, it has the ability to withhold production from working interest partners in the event of non-payment.

The loan receivable in connection with the vendor-take-back mortgage arrangement is secured by the underlying property.

Market Risk

Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, the Corporation segregates market risk into three categories: currency risk, fair value risk and interest rate risk.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Corporation is exposed to the risk of changes in the Canadian to U.S. dollar exchange rate on sales of oil and natural gas. A 3% change in the foreign exchange translation rate of Canadian to U.S. dollars during the year ended December 31, 2015 would have resulted in a change to net earnings of approximately $605,000 (2014 – $832,000), before associated income taxes.

The functional and presentation currency of the Corporation's equity accounted investment in Escal is the Euro. As the Corporation's investment in Escal had been reduced to zero at December 31, 2015 and 2014, the Corporation is no longer exposed to currency risk in respect of this investment.

Fair Value Risk

Fair value risk is the potential for loss from an adverse movement in market prices of financial instruments, excluding movements relating to changes in interest rates and foreign exchange currency rates. Fair value risk includes commodity price risk, which is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices are influenced by global levels of supply and demand and when realized, may be further impacted by changes in the Canadian and U.S. dollar exchange rate. Significant commodity price fluctuations may materially impact the Corporation's borrowing base under its bank loan, or its ability to raise additional capital, if required.

In order to mitigate its exposure to adverse changes in commodity prices, the Corporation has entered into commodity swap derivative contracts (Note 11). These derivative instruments are recognized in the consolidated financial statements at fair value. The fair value of these derivative financial instruments is primarily driven by prices of the underlying commodities. Accordingly, the Corporation is exposed to fair value risk in respect of these contracts that is partially correlated to changes in commodity prices. A 10 cent per million British thermal units ("mmbtu") change in the price of natural gas at December 31, 2015 would have resulted in a change to net earnings during the year ended December 31, 2015 of $102,000 before associated taxes. There were no outstanding crude oil commodity swap derivative contracts at December 31, 2015. During the year ended December 31, 2014, the Corporation had entered into a crude oil commodity swap derivative contract. A $1.00 change in the price of crude oil on a per barrel basis at December 31, 2014 would have resulted in a change to net earnings during the year then ended of $11,000 before associated taxes. There were no outstanding natural gas commodity swap derivative contracts at December 31, 2014.

Interest Rate Risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation's primary exposure to interest rate risk is through amounts borrowed under its bank loan arrangements. In general, a 50 basis point change in market interest rates during the year ended December 31, 2015, would have resulted in a change to net earnings during that period of approximately $301,000 (2014 – $321,000).

Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities as they become due. The following table summarizes the maturity profile of the Corporation's financial liabilities as at December 31, 2015.

	Carrying Amount	Contractual Term to Maturity
Bank loan	$ 58,802	Demand facility
Accounts payable and accrued liabilities	4,453	Typically due within 20 to 90 days
Derivative financial liabilities	21	Expected settlement in 2016
Current portion of decommissioning liabilities	3,013	Expected settlement in 2016
	$ 66,289	

Draws against the Corporation's bank loan arrangements are due on demand. At December 31, 2015, the Corporation was in compliance with all required financial covenants pursuant to its bank loan arrangements.

Significant volatility in the underlying prices of commodities, including more recent volatility in the price of crude oil, may impact the aggregate amounts that the lender may make available to the Corporation. The Corporation mitigates the risk associated with the possible curtailment of lending capacity by actively managing its budgeted cash flow forecast, in consultation with its lender. Otherwise, the Corporation mitigates liquidity risk by monitoring operational cash flows, planning its project expenditures and securing financing facilities in advance of undertaking significant commitments. The Corporation currently anticipates that its borrowing availability and its future operational cash flow will be adequate to meet its financial liabilities.

21. CAPITAL MANAGEMENT

The Corporation defines the capital that it manages as its working capital. The Corporation's objectives when managing capital are to manage its business in an effective manner with the goal of increasing the value of its assets. The Corporation regularly monitors its available capital and as necessary, adjusts to changing economic circumstances and the risk characteristics of the underlying assets. In order to maintain or adjust capital requirements, the Corporation may consider the issuance of new shares, the entry into joint venture arrangements or farmout agreements, or engage in debt financing.

22. GEOGRAPHIC SEGMENTED INFORMATION

Segmented information provided in the following tables is based on geographic segments, consistent with how the Corporation manages its business and how it reviews business performance. Items that are not directly attributable to specific geographic locations have been allocated to the corporate segment.

Segmented Statements of Operations for the Years Ended December 31, 2015 and December 31, 2014

	Southern Ontario		Spain		Corporate		TOTAL	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
REVENUES								
Oil and gas sales	$ 29,581	$ 46,230	$ -	$ -	$ -	$ -	$ 29,581	$ 46,230
Royalties	(4,495)	(6,950)	-	-	-	-	(4,495)	(6,950)
Net sales	25,086	39,280	-	-	-	-	25,086	39,280
Production expenditures	(15,753)	(15,929)	-	-	-	-	(15,753)	(15,929)
Depreciation and depletion	(11,776)	(10,896)	-	-	(5)	(5)	(11,781)	(10,901)
General and administrative expenses	(2,749)	(4,599)	(1,511)	(426)	(852)	(1,479)	(5,112)	(6,504)
(Loss) gain on fair value changes of derivative financial instruments	(21)	388	-	-		-	(21)	388
Gain (loss) on fair value changes in investments	-	-	-	-	10	(70)	10	(70)
Impairment of oil and gas properties	(900)	-	-	-		-	(900)	-
Impairment of financial instruments	-	-	-	(1,034)	(1,286)	(1,286)	(1,286)	(2,320)
Interest and other income	1,047	876	-	-	1,291	1,292	2,338	2,168
Interest expense	(4,431)	(4,553)	(1)	-	-	-	(4,432)	(4,553)
Foreign exchange gain (loss)	186	192	(34)	(44)	-	-	152	148
(LOSS) EARNINGS BEFORE INCOME TAXES	(9,311)	4,759	(1,546)	(1,504)	(842)	(1,548)	(11,699)	1,707
Income tax recovery (expense)								
Current	-	-	-	-	-	-	-	-
Deferred	-	-	-	-	3,013	(726)	3,013	(726)
	-	-	-	-	3,013	(726)	3,013	(726)
NET (LOSS) EARNINGS FOR THE YEAR	$ (9,311)	$ 4,759	$ (1,546)	$ (1,504)	$ 2,171	$ (2,274)	$ (8,686)	$ 981
NET (LOSS) EARNINGS ATTRIBUTABLE TO:								
Owners of the parent	$ (9,311)	$ 4,759	$ (1,141)	$ (1,137)	$ 2,171	$ (2,274)	$ (8,281)	$ 1,348
Non-controlling interest	-	-	(405)	(367)	-	-	(405)	(367)
	$ (9,311)	$ 4,759	$ (1,546)	$ (1,504)	$ 2,171	$ (2,274)	$ (8,686)	$ 981

Segmented Net Assets as at December 31, 2015 and December 31, 2014

	Southern Ontario		Spain		Corporate		TOTAL	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
ASSETS								
Current								
Cash	$ 30	$ 776	$ 3	$ -	$ 53	$ 53	$ 86	$ 829
Accounts receivable	1,761	3,162	-	-	-	-	1,761	3,162
Prepaids and security deposits	845	1,468	-	-		-	845	1,468
Loan receivable	6	-	-	-	-	-	6	-
Inventory	376	454	-	-	-	-	376	454
Investments	-	-	-	-	2,150	2,345	2,150	2,345
Derivative financial assets	-	341	-	-	-	-	-	341
Taxes recoverable	-	-	-	-	72	72	72	72
	3,018	6,201	3	-	2,275	2,470	5,296	8,671
Non-current								
Loan receivable	347	-	-	-	-	-	347	-
Oil and gas properties	156,399	167,779	-	-	36	41	156,435	167,820
Equity accounted investment in Escal	-	-	-	-	-	-	-	-
Deferred income taxes	-	-	-	-	11,121	8,108	11,121	8,108
	$ 159,764	$ 173,980	$ 3	$ -	$ 13,432	$ 10,619	$ 173,199	$ 184,599
LIABILITIES								
Current								
Bank loan	$ 58,802	$ 61,617	$ -	$ -	$ -	$ -	$ 58,802	$ 61,617
Accounts payable and accrued liabilities	1,795	3,316	537	122	2,120	3,643	4,452	7,081
Derivative financial liabilities	21	-	-	-	-	-	21	-
Decommissioning liabilities	3,013	1,358	-	-	-	-	3,013	1,358
	63,631	66,291	537	122	2,120	3,643	66,288	70,056
Non-current								
Decommissioning liabilities	55,395	54,903	-	-	-	-	55,395	54,903
	$ 119,026	$ 121,194	$ 537	$ 122	$ 2,120	$ 3,643	$ 121,683	$ 124,959
SEGMENTED NET ASSETS	$ 40,738	$ 52,786	$ (534)	$ (122)	$ 11,312	$ 6,976	$ 51,516	$ 59,640

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