2016 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 16, 2017 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, 2016 (the "2016 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.

2016 DEVELOPMENTS AND GOING CONCERN ASSUMPTION

On July 31, 2012, the Corporation's principal subsidiary, Dundee Energy Limited Partnership ("DELP") established a credit facility for up to $70 million with a Canadian Schedule I Chartered Bank. The terms of the credit arrangement were detailed in a credit agreement of the same date. The credit facility was structured as a demand loan, whereby the lender to DELP retained full right, at its sole discretion, to demand repayment of all amounts borrowed under the credit arrangement, whether in whole or in part, at any time. Borrowings under the facility were subject to certain financial covenants, including maintenance of minimum levels of working capital as defined in the credit agreement, and the maintenance of certain net debt to cash flow ratios. At December 31, 2016, DELP was in compliance with all such financial covenants.

On February 18, 2016, the terms of DELP's credit facility were amended to reduce the amounts available pursuant to the credit facility from $70 million to $60 million, with a further requirement to reduce the facility to $55 million before December 31, 2016. The February 2016 amendment to the credit facility required that DELP maintain a hedging strategy in respect of the sale of commodities, and it required collaboration of the Corporation for the prepayment from any net proceeds received by the Corporation in the event of the sale of certain assets and/or the settlement of the arbitration process in respect of the Castor Project (see *"Significant Projects – Castor UGS Limited Partnership and the Castor Project"* below).

DELP continues to generate positive cash flows from its assets in southern Ontario, and it continues to remain in compliance with the financial covenant requirements of the credit agreement. However, the low commodity price environment has, in the view of DELP's lender, eroded the value of DELP's assets in southern Ontario, and it has therefore also eroded the lender's underlying secured interest in such assets. The lender subsequently requested that DELP further reduce its borrowings under the credit facility by early 2017. DELP was not able to meet these requirements and in January 2017, it requested and it obtained a waiver from its lender in respect of these requirements, maintaining its borrowing availability at $58 million, conditional on DELP agreeing to the terms of a forbearance agreement (the "Forbearance Agreement"). On January 31, 2017, DELP entered into the Forbearance Agreement with its lender, pursuant to which, and provided that certain conditions are met, DELP's lender has agreed to forbear from exercising its enforcement rights and remedies under the terms of the credit facility until the earlier of May 15, 2017; the occurrence of an event of default under the terms of the credit facility; the occurrence of a default or breach of representation under the Forbearance Agreement; or on a demand by the lender. The credit facility has been amended to a maximum limit of $58 million and bankers' acceptances, letters of credit and new hedging arrangements are no longer available under the credit facility.

In connection with these events, and with the approval of its board of directors, the Corporation has initiated a strategic review process for DELP, the purpose of which is to identify, examine and consider a range of strategic alternatives available to the Corporation with respect to enhancing the value of its investment in DELP. Strategic alternatives may include, but are not limited to, a debt restructuring, a sale of all or a material portion of the assets of DELP, either in one transaction or a series of transactions, the outright sale of DELP, a business combination or other transaction involving DELP and a third party, and/or alternative financing initiatives.

The Forbearance Agreement provides a definitive timeline within which the Corporation will be required to complete this process. The Corporation has engaged independent financial advisors to advise the Corporation in connection with this comprehensive review and analysis.

The Corporation's 2016 Consolidated Financial Statements have been prepared using accounting principles applicable to a going concern, which assumes that the Corporation will continue its operations in the foreseeable future, and that it will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Without access to alternative financing arrangements, the Corporation will be challenged to deploy the capital that it requires to maintain its existing reserves and production volumes, fund repair and maintenance costs, meet its current financial obligations, including the servicing of its debt, and otherwise develop its ongoing business strategy. There can be no assurance that the Corporation will be successful in its strategic review process. Furthermore, and notwithstanding the Forbearance Agreement, there can be no assurance that DELP's lender will not exercise its right to demand under the terms of the credit facility. 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.

The 2016 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 the 2016 Consolidated Financial Statements. These differences could be material.

SIGNIFICANT PROJECTS

The Southern Ontario Assets of Dundee Energy Limited Partnership

DELP, a wholly owned limited partnership structure of the Corporation, holds an approximate 93% working interest in 35,000 gross acres of onshore oil and gas properties and an approximate 98% working interest in 268,000 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 a 100% interest in six onshore oil processing facilities, an onshore rotary drilling rig, an offshore fleet of drilling and completion barges, three natural gas manufacturing facilities and two gas compressor booster stations.

The majority of DELP'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. DELP then gathers this raw natural gas through a pipeline grid on the bottom of Lake Erie to one of its onshore gas manufacturing facilities. The manufacturing facilities then transform the raw natural gas into dry natural gas to meet utility specifications. The Corporation has transportation agreements in place with utility pipeline companies, and delivers the majority of its natural gas to the Dawn Hub, which is conveniently located near the greater Toronto area, at which point the gas is sold to third parties.

Sweet, light oil is produced 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 facilities and several single well locations. Once processed, the oil was originally sold to a third party that transported the oil to Sarnia, Ontario for refining. However, during the third quarter of 2015, DELP finalized a comprehensive agreement with a third party purchaser in Pennsylvania, U.S.A. for the majority of its processed oil. This agreement has provided DELP with a more consistent basis for pricing its crude oil production.

Castor UGS Limited Partnership and the Castor Project

The Corporation is the original developer of an infrastructure undertaking in Spain that converted an abandoned offshore 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 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. 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. On December 18, 2015, a further €4.56 million was authorized and subsequently received, 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. During the year ended December 31, 2016, Escal received a further €212 million under these arrangements, permitting Escal to further reduce debt outstanding in Escal, as further detailed below. The balance of remuneration is currently set to be received over a 15-year period, and is subject to interest at 1.2%. Companies within the Spanish gas system are formally negotiating a discounted settlement of these future payments with certain commercial banks.

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 was in accordance with the rules of the International Chamber of Commerce ("ICC") in Paris, and was heard by an arbitral tribunal consisting of three arbitrators. Evidentiary hearings were completed in late July 2016, and the Corporation anticipates that the arbitral tribunal will reach its decision in the first quarter of 2017.

The Corporation accounts for its investment in Escal using the equity method. At December 31, 2016 and 2015, Escal's net equity available to shareholders was negative, reflecting operating losses and the settlement of unfavourable hedging transactions. Accordingly, the Corporation has reduced the carrying value of its investment in Escal to $nil at December 31, 2016 (2015 – $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.

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, 2016, 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 currently holds a 45% equity interest in Windiga Energy Inc. ("Windiga"), a Canadian-based independent power producer that is focused on developing, owning and operating renewable energy facilities on the African continent. Windiga's inaugural project is a 20-megawatt photovoltaic plant to be located in Zina, in the Mouhoun province of Burkina Faso. Windiga is currently in the process of completing an equity raise for the purpose of financing this project.

The Corporation originally acquired its interest in Windiga for $2.15 million. In November 2016, the Corporation declined to participate in Windiga's equity raise for its project in Zina, and it concurrently agreed to sell back its 45% equity interest in Windiga directly to the company for cancellation, in exchange for consideration of $1.4 million, which is due to the Corporation conditional on, and immediately following completion of the equity raise expected during the first half of 2017. Included in the 2016 Consolidated Financial Statements is a loss of $0.73 million relating to the Corporation's investment in Windiga, being the difference between the Corporation's original cost of purchase, and its expected proceeds on the sale of its interest.

PERFORMANCE MEASURES AND BASIS OF PRESENTATION

The Corporation's 2016 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.

CONSOLIDATED RESULTS OF OPERATIONS

Year ended December 31, 2016 compared with the year ended December 31, 2015

SELECTED CONSOLIDATED FINANCIAL INFORMATION

For the years ended December 31,			2016			2015			2014
	Net (Loss) Earnings	Attributable to Owners of the Parent	Non-Controlling Interest	Net (Loss) Earnings	Attributable to Owners of the Parent	Non-Controlling Interest	Net (Loss) Earnings	Attributable to Owners of the Parent	Non-Controlling Interest
Southern Ontario Assets	$ (23,095)	$ (23,095)	$ -	$ (9,311)	$ (9,311)	$ -	$ 4,759	$ 4,759	$ -
Castor Project	(2,269)	(1,676)	(593)	(1,546)	(1,141)	(405)	(1,504)	(1,137)	(367)
Loss from investment in preferred shares of Eurogas International	(1,286)	(1,286)	-	(1,286)	(1,286)	-	(1,286)	(1,286)	-
Corporate activities*	6,936	6,936	-	3,457	3,457	-	(988)	(988)	-
Net (loss) earnings for the year	**$ (19,714)**	**$ (19,121)**	**$ (593)**	**$ (8,686)**	**$ (8,281)**	**$ (405)**	**$ 981**	**$ 1,348**	**$ (367)**

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

Consolidated Net Loss

During 2016, the Corporation incurred a net loss attributable to owners of the parent of $19.1 million, representing a loss of $0.10 per share. This compares with a net loss attributable to owners of the parent of $8.3 million, or a net loss of $0.04 per share incurred during the prior year. Included in the net loss attributable to owners of the parent during 2016 is an impairment loss of $11.9 million against certain natural oil and gas properties, a loss of $1.5 million realized on the disposal of an offshore jack-up drilling platform, and a marked-to-market loss of $0.73 million related to the Corporation's 45% interest in Windiga. The net loss incurred during 2015 included an impairment of $0.9 million against certain oil properties.

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 2016, sales of oil and natural gas, net of royalty interests, were $20.3 million, a decrease of $4.8 million from net sales of $25.1 million earned during the prior year.

		Natural Gas		Oil and Liquids		Total
Net Sales						
Year ended December 31, 2016	$	12,196	$	8,114	$	20,310
Year ended December 31, 2015		14,635		10,451		25,086
Net decrease in net sales	**$**	**(2,439)**	**$**	**(2,337)**	**$**	**(4,776)**
Effect of changes in production volumes	$	(790)	$	(1,391)	$	(2,181)
Effect of changes in commodity prices		(1,649)		(946)		(2,595)
	$	(2,439)	$	(2,337)	$	(4,776)

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

Approximately $2.2 million of the decrease results directly from lower realized prices for the underlying commodities. The remaining $2.6 million decrease in net revenues reflects lower production volumes as a consequence of scheduled overhaul work completed on two compressors related to the offshore gas manufacturing facilities, as well as reduced workover activities in the oilfield during the year as a result of financial restrictions relating to the Corporation's borrowing capacity.

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 2016 and 2015, and provide a comparison of relative changes in benchmark price indicators for such commodities during the respective periods.

For the years ended December 31,		2016					2015		
		Sales		Realized Unit Price			Sales		Realized Unit Price	
Natural gas	$	14,349	$	3.56	Mcf	$	17,233	$	4.05	Mcf
Oil		9,521		53.69	bbl		12,324		60.26	bbl
Liquids		21		21.90	bbl		24		20.98	bbl
		23,891					29,581			
Less: Royalties at 15% (2015 – 15%)		(3,581)					(4,495)			
Net sales	**$**	**20,310**				**$**	**25,086**			

For the years ended December 31,			2016			2015
	US$	CAD$	Realized Prices ($)	US$	CAD$	Realized Prices ($)
Natural Gas (per Mcf)						
Dawn Hub	2.56	3.39	3.56	2.95	3.75	4.05
NYMEX Henry Hub	2.52	3.34		2.63	3.35	
Oil (per bbl)						
Edmonton Par	n/a	52.35	53.69	n/a	57.20	60.26
West Texas Intermediate	43.28	57.41		48.66	61.89	

During 2016, the Corporation realized an average price on sales of natural gas of $3.56/Mcf, representing a 5% premium over the average benchmark price at the Dawn Hub of $3.39/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 during 2016 declined 12% from the average price of $4.05/Mcf realized by the Corporation in the prior year.

Volatility in the trading price for crude oil remained high during 2016, driven by uncertainty over future global economic growth and supply/demand fundamentals. Consistent with this volatility, during 2016, the Corporation realized an average price of $53.69/bbl on sales of crude oil, an 11% decrease from the average price of $60.26/bbl realized during 2015. The decrease is consistent with the 11% decrease in the US dollar-denominated West Texas Intermediate price for this commodity, but is in excess of the 8% decrease in the Edmonton Par average price for crude oil.

Production Volumes

During 2016, production volumes decreased to an average of 2,322 boe/d, compared with an average of 2,506 boe/d produced in 2015.

Average daily volume during the years ended December 31,	2016	2015
Natural gas (Mcf/d)	11,001	11,660
Oil (bbls/d)	485	560
Liquids (bbls/d)	3	3
Total (boe/d)	2,322	2,506

Average daily natural gas production volumes decreased to 11,001 Mcf/d during 2016, compared with production volumes of 11,660 Mcf/d achieved in the prior year, which represents an approximate decline of 6%. This reduction is consistent with historical decline rates for these long life reserves.

Oil production volumes decreased to an average of 485 bbls/d during 2016, compared with an average of 560 bbls/d produced in the prior year. The decrease reflects a decline of approximately 13% and falls in the lower range of the expected decline rates for these reserves. The successful and ongoing downhole maintenance program implemented in 2014 is the contributing factor to these improved decline rates.

Production Expenditures

Production expenditures include costs associated with producing raw oil and natural gas from the reservoir through a gathering system to a central manufacturing facility. The manufacturing process includes separating oil, natural gas, water and other impurities to meet buyer specifications. Also included in production expenditures is an allocation of general and administrative costs, including labour, which is directly attributable to these activities. During 2016, the Corporation incurred production expenditures of $12.4 million or $14.58/boe, a decrease of $3.4 million from production expenditures of $15.8 million or $17.22/boe incurred in the prior year.

For the years ended December 31,					2016				2015
		Natural Gas	Oil and Liquids		Total	Natural Gas	Oil and Liquids		Total
Production expenditures	$	8,130	$ 4,255	$	12,385	$ 9,557	$ 6,196	$	15,753
Production expenditures		(per Mcf)	(per bbl)		(per boe)	(per Mcf)	(per bbl)		(per boe)
per unit	$	2.02	$ 23.86	$	14.58	$ 2.25	$ 30.13	$	17.22

Due to the decline in commodity prices, the Corporation has contained production expenditures through the implementation of efficiency and other cost-effective measures, and has deferred major maintenance projects on a priority basis until commodity prices rebound.

Field Level Cash Flows and Field Netbacks

For the years ended December 31,				2016				2015
		Natural Gas	Oil and Liquids	Total		Natural Gas	Oil and Liquids	Total
Total sales	$	14,349	$ 9,542	$ 23,891	$	17,233	$ 12,348	$ 29,581
Royalties		(2,153)	(1,428)	(3,581)		(2,598)	(1,897)	(4,495)
Production expenditures		(8,130)	(4,255)	(12,385)		(9,557)	(6,196)	(15,753)
		4,066	3,859	7,925		5,078	4,255	9,333
Realized gain on derivative financial instruments		289	-	289		-	341	341
Field level cash flows	**$**	**4,355**	**$ 3,859**	**$ 8,214**	**$**	**5,078**	**$ 4,596**	**$ 9,674**

For the years ended December 31,				2016				2015
		Natural Gas	Oil and Liquids	Total		Natural Gas	Oil and Liquids	Total
		$/Mcf	$/bbl	$/boe		$/Mcf	$/bbl	$/boe
Total sales	$	3.56	$ 53.52	$ 28.13	$	4.05	$ 60.04	$ 32.33
Royalties		(0.53)	(8.01)	(4.22)		(0.61)	(9.22)	(4.91)
Production expenditures		(2.02)	(23.86)	(14.58)		(2.25)	(30.13)	(17.22)
		1.01	21.65	9.33		1.19	20.69	10.20
Realized gain on derivative financial instruments		0.07	-	0.34		-	1.66	0.37
Field netbacks	**$**	**1.08**	**$ 21.65**	**$ 9.67**	**$**	**1.19**	**$ 22.35**	**$ 10.57**

During 2016, the Corporation earned field level cash flows, before the effect of any derivative financial instruments, of $7.9 million or $9.33/boe, compared with field level cash flows, before derivative financial instruments, of $9.3 million or $10.20/boe earned during the prior year.

Field level cash flows from natural gas operations, before the effect of derivative financial instruments, decreased to $4.1 million or $1.01/Mcf, compared with field level cash flows of $5.1 million or $1.19/Mcf in the prior year. Field level cash flows from oil and liquids, before the effect of derivative financial instruments, decreased to $3.9 million, compared with field level cash flows of $4.3 million in the prior year. Decreases in field level cash flows reflect the effect of decreases in realized prices for the sale of the underlying commodities. On a per unit basis, field netbacks from oil production were $21.65/bbl in 2016, an increase from field netbacks from oil production of $20.69/bbl in 2015. The increase in field netbacks reflects the results of lower production expenditures.

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 fund its operations, manage its outstanding debt, and to provide for its discretionary capital expenditures. The Corporation receives the majority of its revenues in US dollars and the pricing for commodities, including oil and natural gas, are closely referenced to the US dollar. The Corporation may mitigate its exposure to changes in commodity prices resulting from foreign exchange variability by entering into some of its 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 2016, 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.

The following table illustrates both realized and unrealized gains and losses resulting from the Corporation's investment in derivative financial instruments during 2016 and 2015.

For the years ended December 31,			2016			2015
	Realized Gain	Unrealized Loss	Total	Realized Gain	Unrealized Loss	Total
Oil swaps	$ -	$ -	$ -	$ 341	$ (341)	$ -
Gas swaps	289	(2,254)	(1,965)	-	(21)	(21)
	$ 289	**$ (2,254)**	**$ (1,965)**	**$ 341**	**$ (362)**	**$ (21)**

At December 31, 2016, the Corporation had remaining a single derivative financial instrument for 5,000 million British thermal units ("mmbtu") per day at US$2.70/mbtu for the period commencing January 1, 2017 and ending on January 1, 2018. Given the recent improvement in the outlook for natural gas, the Corporation's derivative financial instruments at December 31, 2016 had a negative value of $2.3 million.

Contract Fixed Price Swap	Volume	Pricing Point	Strike Price ($/unit)	Remaining Term	Fair Value December 31, 2016
Natural Gas	5,000 mmbtu/day	NYMEX	US$2.70	Jan 01/17 to Jan 01/18	$ (2,275)

Further investment in derivative financial instruments will not be permitted under the terms of DELP's existing Forbearance Agreement.

Capital Expenditures

In response to declining commodity prices for both crude oil and natural gas, and as a consequence of restrictions placed on the Corporation's ability to borrow pursuant to its existing lending arrangements, the Corporation extensively limited its 2016 capital work plan. During 2016, the Corporation incurred capital expenditures of $0.7 million (2015 – $0.8 million), including costs of $0.6 million (2015 – $0.8 million) to maintain its existing and essential land portfolio, and a further $0.1 million for the completion of prior year projects.

In February 2016, the Corporation sold an offshore jack-up drilling platform for proceeds of $88,000. The Corporation identified the jack-up drilling platform as redundant to its current offshore activities. The remaining offshore fleet will be able to perform any future or contemplated drilling operations. The 2016 Consolidated Financial Statements include a loss of $1.5 million related to the disposal.

During 2015, the Corporation disposed of certain land and buildings. The assets had a cost base of $0.2 million and were sold for proceeds of $0.4 million, including the assumption of a vendor-take-back mortgage arrangement of $0.4 million, which was fully repaid in 2016. In addition, during 2015, the Corporation disposed of certain dock lands at Port Stanley in southern Ontario. These lands had a cost base of $0.1 million and were sold for cash consideration of $0.2 million. The sale was part of a planned strategy to utilize alternative dock facilities to provide improved operating efficiencies and quicker access to certain central Lake Erie producing fields.

2017 Capital Work Program

The Corporation intends to forego any material capital work in 2017 until the Corporation is able to secure alternative financing arrangements. The Corporation will attend to and only address those well specific situations where circumstances may adversely affect ongoing production. In 2017, the Corporation expects to incur capital costs of approximately $0.7 million to maintain the Corporation's oil and natural gas land portfolio. In addition, the Corporation has budgeted $2.1 million towards completion of certain reclamation work (see *"Decommissioning Liabilities"*).

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 located primarily 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, 2016 were determined using the guidelines and definitions set out under National Instrument 51-101. At December 31, 2016, the proved and probable reserves increased by 12% to 22,360 million boe ("Mboe") from 20,047 Mboe at December 31, 2015. The 4.3% drop in proved reserves from oil and natural gas production was more than offset by positive revisions related to improved well performance at several of the Corporation's oil and gas producing properties and the assignment of proved undeveloped reserves to several recompletion and development drilling prospects. The following table outlines the change in the Corporation's reserves since December 31, 2015.

	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, 2016	93,791	1,580	8	17,219	$	117,519	6.82
Net acquisitions	-	-	-	-			
Revisions	6,729	773	4	1,899			
Production	(4,161)	(174)	(1)	(869)			
Closing balance, December 31, 2016	**96,359**	**2,179**	**11**	**18,249**	**$**	**142,568**	**7.81**
Probable Reserves							
Opening balance, January 1, 2016	12,883	678	3	2,828	$	24,064	8.51
Net acquisitions	-	-	-	-			
Revisions	6,663	172	-	1,283			
Closing balance, December 31, 2016	**19,546**	**850**	**3**	**4,111**	**$**	**31,113**	**7.57**
Total proved and probable	115,905	3,029	14	22,360		173,681	7.77
Percentage increase in proved and probable reserves	9%	34%	27%	12%			

At December 31, 2015, the Corporation estimated the reserve life index for its proved natural gas and oil reserves at 23.0 years and 14.0 years, respectively. As at December 31, 2016, the reserve life index for natural gas increased to 23.5 years, while the reserve life index for oil increased to 13.4 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, 2016, as outlined above.

Reserve Prices	Natural Gas Ontario Dawn Reference Point CAD$ / mmbtu*	Oil WTI at Cushing Oklahoma US$ / bbl
2017	4.70	55.00
2018	4.75	58.15
2019	4.80	62.40
2020	4.80	69.00
2021	4.70	75.75
Average five year forecast	4.75	64.06

* The Corporation's gas quality is 1.042 mmbtu for one Mcf.

Impairment of Natural Gas and Oil Properties

On June 30, 2016, the Corporation recognized an impairment loss of $5.0 million on certain of its natural gas properties, reducing their carried value to its estimated recoverable amount, and on December 31, 2016, the Corporation recognized a further impairment loss of $6.9 million against certain exploration and evaluation properties.

The Corporation's undeveloped properties include properties that have been designed as exploration and evaluation properties. These properties do not have any identified commercially viable resources or reserves, and the Corporation would require substantial amounts of financial resources to further exploit these properties. At December 31, 2016, and in light of restricted financial resources available to the Corporation during the forbearance period, the Corporation determined that it was appropriate to impair these assets by $6.9 million, reducing their carried value to $nil.

The Corporation's impairment of certain of its natural gas properties at June 30, 2016 resulted from a continued decline in the outlook for long-term natural gas prices at the time of the impairment. The recoverable amount of these natural gas and oil properties was determined based on their value-in-use, determined by the application of a discounted cash flow model, using reserves volumes and forecasted natural gas and 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 natural gas properties and were discounted using a discount rate of 8%. The Corporation anticipates that, had it completed its analysis using a discount rate of 10%, at December 31, 2016, the Corporation's gas properties would have been further impaired by $0.1 million, and its oil properties would have been impaired by $0.3 million. Had the discount rate increased to 15%, the Corporation's gas properties would have been further impaired by $19.7 million, and its oil properties would have been further impaired by $1.9 million.

Decommissioning Liabilities

DELP is subject to the provisions of the *Oil, Gas and Salt Resources Act* (Ontario) which requires, among other things, the plugging and/or decommissioning of inactive wells within 12 months of becoming inactive so that they do not become a hazard to the environment and/or public safety. An inspector of the Ministry of Natural Resources and Forestry ("MNRF") may also require the plugging and/or decommissioning of a well if, in the opinion of the MNRF, it poses a hazard to the public or to the environment. DELP has always maintained an up-to-date emergency response program that is designed and monitored by highly qualified individuals that ensure adherence to environmental and safety policies and standards. As well, DELP maintains property and liability insurance coverage which provides a reasonable amount of protection from risk of loss. However, not all risks are foreseeable or insurable and there can be no guarantee that DELP will be able to recover any financial losses suffered as a result of environmental factors directly from its insurance arrangements.

In August 2015, the Ministry issued an order to DELP and to its general partner, outlining its requirements for the abandonment of approximately 73 wells over a period beginning in 2015. Due to the low price environment in commodity markets, and its effect on DELP's borrowing capabilities, DELP was not able to comply with the immediate requirements of the order from the MNRF and consequently, it entered into discussions with the MNRF in order to obtain a deferral of these obligations. In January 2017, DELP obtained the approval of the MNRF for the deferral of its plugging and abandonment program, subject to DELP complying with the revised timeline for the abandonment of inactive wells.

In connection with the revised plugging and decommissioning requirements, Dundee Corporation has provided a letter of support for up to $2.5 million to complete DELP's abandonment obligations under the revised terms approved by the MNRF, if DELP does not have the financial resources to comply with the requirements.

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, including activities that are required as part of the order referred to above. At December 31, 2016, the Corporation's estimate of these future costs on an undiscounted basis is approximately $98.6 million. The Corporation expects to incur these forecasted obligations over the life of the underlying assets, which is currently in excess of 40 years. During 2016, the Corporation incurred $0.6 million in reclamation costs related to the carrying value of its decommissioning liabilities and it anticipates that it will incur another $4.0 million in reclamation costs over the next 12 months.

In accordance with accounting requirements, the Corporation records the estimated decommissioning liability in the Corporation's consolidated financial statements on a discounted basis using discount rates that are specific to the underlying obligations. At December 31, 2016, the discounted amount of the Corporation's decommissioning liabilities was $55.5 million. The discount used in calculating the Corporation's decommissioning liabilities is accreted over time. During 2016, the Corporation incurred accretion expense of $0.9 million (2015 – $1.0 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, 2016 and 2015, 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, 2016 (2015 – $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.

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 2016, the Corporation provided for an impairment loss relating to its investment in Eurogas International of $1.3 million (2015 – $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, located offshore Tunisia. 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 2016 were $5.3 million, an increase of about $0.2 million over general and administrative expenses of $5.1 million incurred in the prior year. Expenses directly related to the arbitration process associated with the Corporation's investment in Escal and the Castor Project were $2.1 million during 2016 (2015 – $1.3 million). Additionally, DELP has incurred non-operating legal and other costs associated primarily with the negotiations of its credit facility of upwards of $0.6 million (2015 – $0.1 million). Cost saving initiatives implemented during 2015 and 2016, together with the sale of redundant equipment, essentially offset many of these increased costs.

Interest Expense

The Corporation incurred interest expense of $4.4 million in 2016, consistent with interest expense of $4.4 million incurred in the prior year. Included in interest expense is $0.9 million (2015 – $1.0 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 amount of $6.8 million in 2016 (2015 – $3.0 million), generating an effective income tax rate of 25.8% (2015 – 25.8%), and differs marginally from the federal and provincial statutory rate of 26.5% as a result of certain non-deductible expenses. As at December 31, 2016, the Corporation's net deferred income tax assets had increased to $18.0 million from $11.1 million at December 31, 2015, predominantly from the recognition of the benefit of loss carryforwards, as well as temporary differences arising between the tax and accounting bases of its oil and gas properties and its decommissioning liabilities.

SELECTED QUARTERLY FINANCIAL INFORMATION

	2016				2015			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Revenues	$ 5,933	$ 5,449	$ 4,698	$ 4,230	$ 4,974	$ 6,400	$ 6,886	$ 6,826
Net loss attributable to owners of the parent	**(6,766)**	**(2,111)**	**(7,303)**	**(2,941)**	**(3,633)**	**(1,902)**	**(1,540)**	**(1,206)**
Basic and fully diluted loss per share	$ (0.04)	$ (0.01)	$ (0.04)	$ (0.02)	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.01)
Capital expenditures before disposals	$ 36	$ 38	$ 189	$ 434	$ 249	$ 56	$ 195	$ 261

- During the fourth quarter of 2016, the Corporation recorded an impairment loss of $6.9 million related to certain exploration and evaluation properties.
- During the third quarter of 2016, the Corporation recognized a marked-to-market loss of $0.7 million related to the Corporation's 45% interest in Windiga Energy Inc.
- During the second quarter of 2016, the Corporation recorded an impairment loss of $5.0 million on certain natural gas properties in response to a continued decline in long-term natural gas prices.
- During the first quarter of 2016, the Corporation recorded a loss on the disposal of redundant offshore oil and gas assets of $1.5 million.
- 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.
- Changes in the fair value of the Corporation's derivative financial instruments are included in the Corporation's net earnings or loss. 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 or loss on a quarterly basis:

	2016				2015			
	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	$ (1,360)	$ 269	$ (1,580)	$ 706	$ (21)	$ -	$ -	$ -

QUARTERLY CONSOLIDATED RESULTS OF OPERATIONS

Three months ended December 31, 2016 compared with the three months ended December 31, 2015

During the quarter ended December 31, 2016, the Corporation incurred a net loss attributable to the owners of the parent of $6.8 million, including an impairment loss of $6.9 million related to certain exploration and evaluation properties and a loss of $1.4 million associated with the Corporation's derivative financial instruments. This compares with a loss attributable to the owners of the parent of $3.6 million in the fourth quarter of the prior year during which the Corporation recognized an impairment loss of $0.9 million related to certain oil properties.

For the three months ended December 31,				2016				2015
		Net (Loss) Earnings	Attributable to Owners of the Parent	Non-Controlling Interest	Net (Loss) Earnings	Attributable to Owners of the Parent	Non-Controlling Interest
Southern Ontario Assets	$	(8,969)	$ (8,969)	$ -	$ (4,358)	$ (4,358)	$ -
Castor Project		(185)	(136)	(49)	(584)	(431)	(153)
Loss from investment in preferred shares of Eurogas International		(324)	(324)	-	(324)	(324)	-
Corporate activities*		2,663	2,663	-	1,480	1,480	-
Net loss for the period	**$**	**(6,815)**	**$ (6,766)**	**$ (49)**	**$ (3,786)**	**$ (3,633)**	**$ (153)**

* 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 2016, sales of oil and natural gas, net of royalty interests were $5.9 million, an increase of $0.9 million over sales of $5.0 million earned in the same period of the prior year. Improved commodity prices account for an increase in revenues of $1.2 million, offset by decreases in production volumes, which accounted for an approximate $0.3 million of revenues.

		Natural Gas	Oil and Liquids	Total
Net Sales				
Three months ended December 31, 2016	$	3,679	$ 2,254	$ 5,933
Three months ended December 31, 2015		2,893	2,081	4,974
Net increase in net sales	**$**	**786**	**$ 173**	**$ 959**
Effect of changes in production volumes	$	(93)	$ (220)	$ (313)
Effect of changes in commodity prices		879	393	1,272
	$	786	$ 173	$ 959

During the fourth quarter of 2016, the Corporation realized an average price on sales of natural gas of $4.32/Mcf, a substantial increase of over 32%, compared with the average price on sales of natural gas of $3.28/Mcf realized in the fourth quarter of 2015. The increase in the average realized price for natural gas was partially offset by a reduced premium in amounts over the average US-denominated price of natural gas at the Dawn Hub, which increased by over 39%.

For the three months ended December 31,				2016				2015	
		Sales	Realized Unit Price			Sales	Realized Unit Price		
Natural gas	$	4,342	$ 4.32	Mcf	$	3,403	$ 3.28	Mcf	
Oil		2,652	62.65	bbl		2,457	51.88	bbl	
Liquids		9	30.18	bbl		4	13.86	bbl	
		7,003				5,864			
Less: Royalties at 15% (2015 – 15%)		(1,070)				(890)			
Net sales	**$**	**5,933**			**$**	**4,974**			

The Corporation realized $62.65/bbl on sales of oil during the fourth quarter of 2016, compared with $51.88/bbl realized during the fourth quarter of the prior year. The 21% increase is consistent with increases seen in comparable industry benchmarks, including a 17% increase in the US-denominated West Texas Intermediate price for this commodity, and the Edmonton par price which correspondingly increased by 16%.

Comparable benchmark prices for oil and natural gas are illustrated in the following table.

For the three months ended December 31,			2016			2015
	US$	CAD$	Realized Prices ($)	US$	CAD$	Realized Prices ($)
Natural Gas (per Mcf)						
Dawn Hub	3.16	4.21	4.32	2.27	3.01	3.28
NYMEX Henry Hub	3.04	4.05		2.12	2.81	
Oil (per bbl)						
Edmonton Par	n/a	60.73	62.65	n/a	52.47	51.88
West Texas Intermediate	49.14	65.43		41.94	55.65	

During the fourth quarter of 2016, production volumes decreased to an average of 2,284 boe/d, compared with an average of 2,400 boe/d produced in the fourth quarter of 2015.

Average daily volume during the three months ended December 31,	2016	2015
Natural gas (Mcf/d)	10,925	11,289
Oil (bbls/d)	460	515
Liquids (bbls/d)	3	3
Total (boe/d)	2,284	2,400

Average daily natural gas production volumes decreased to 10,925 Mcf/d during the fourth quarter of 2016, compared with an average of 11,289 Mcf/d during the same period in the prior year. This marks a decline of approximately 3%, which is lower than annual decline rates and is due to annually scheduled fourth quarter maintenance on major pipelines.

Oil production volumes decreased to an average of 460 bbl/d during the fourth quarter of 2016, compared with an average of 515 bbl/d during the same period in the prior year. The decline of approximately 11% represents a similar decline observed in the fourth quarter of the prior year and reflects the continued improvements in the overall decline for oil reserves due to the Corporation's downhole maintenance program.

During the fourth quarter of 2016, the Corporation incurred production expenditures of $2.4 million or $11.65/boe, a decrease of $1.0 million or 28% from production expenditures of $3.4 million or $15.43/boe incurred in the same period of the prior year. Consistent with the Corporation's year-to-date results, decreases in production expenditures reflect the implementation of efficiency and other cost-effective measures, as well as the deferral of major maintenance projects on priority basis pending a rebound in commodity prices.

For the three months ended December 31,			2016			2015
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Production expenditures	$ 1,589	$ 859	$ 2,448	$ 2,272	$ 1,135	$ 3,407
Production expenditures	(per Mcf)	(per bbl)	(per boe)	(per Mcf)	(per bbl)	(per boe)
per unit	$ 1.58	$ 20.14	$ 11.65	$ 2.19	$ 23.81	$ 15.43

Improved prices for commodities, before the effect of any of the Corporation's derivative financial instruments, increased field level cash flows to $3.5 million in the fourth quarter of 2015, essentially 2.2 times field level cash flows of $1.6 million generated in the fourth quarter of the prior year. Combined with efficiencies in production expenditures, field netbacks in the fourth quarter of 2016 increased to $16.58/boe before the effect of a realized loss on derivative financial instruments, compared with $7.10/boe in the fourth quarter of the prior year.

For the three months ended December 31,			2016			2015
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Total sales	$ 4,342	$ 2,661	$ 7,003	$ 3,403	$ 2,461	$ 5,864
Royalties	(663)	(407)	(1,070)	(510)	(380)	(890)
Production expenditures	(1,589)	(859)	(2,448)	(2,272)	(1,135)	(3,407)
	2,090	1,395	3,485	621	946	1,567
Realized loss on derivative financial instruments	(184)	-	(184)	-	-	-
Field level cash flows	**$ 1,906**	**$ 1,395**	**$ 3,301**	**$ 621**	**$ 946**	**$ 1,567**

For the three months ended December 31,			2016			2015
	Natural Gas $/Mcf	Oil and Liquids $/bbl	Total $/boe	Natural Gas $/Mcf	Oil and Liquids $/bbl	Total $/boe
Total sales	$ 4.32	$ 62.41	$ 33.32	$ 3.28	$ 51.62	$ 26.56
Royalties	(0.66)	(9.54)	(5.09)	(0.49)	(7.98)	(4.03)
Production expenditures	(1.58)	(20.14)	(11.65)	(2.19)	(23.81)	(15.43)
	2.08	32.73	16.58	0.60	19.83	7.10
Realized loss on derivative financial instruments	(0.18)	-	(0.88)	-	-	-
Field netbacks	**$ 1.90**	**$ 32.73**	**$ 15.70**	**$ 0.60**	**$ 19.83**	**$ 7.10**

During the fourth quarter of 2016, the Corporation recognized a $1.4 million loss (2015 – $21,000) from its derivative financial instruments, of which $0.2 million was realized, reducing field netbacks by $0.88/boe.

For the three months ended December 31,			2016			2015
	Realized Loss	Unrealized Loss	Total	Realized Gain	Unrealized Loss	Total
Oil swaps	$ -	$ -	$ -	$ -	$ -	$ -
Gas swaps	(184)	(1,176)	(1,360)	-	(21)	(21)
	$ (184)	**$ (1,176)**	**$ (1,360)**	**$ -**	**$ (21)**	**$ (21)**

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 is 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 bear interest at the bank's prime lending rate plus 3.5%. In addition, DELP is subject to a standby fee of 0.55% on unused amounts under the credit facility. At December 31, 2016, DELP had drawn $57.4 million against the credit facility. The credit facility is subject to certain covenants, including maintenance of minimum levels of working capital. At December 31, 2016, DELP was in compliance with all such covenants.

DELP continues to generate positive cash flows from its assets in southern Ontario, and it continues to remain in compliance with the financial covenant requirements of the credit agreement. However, low commodity prices have, in the view of DELP's lender, eroded the value of DELP's assets in southern Ontario, and therefore eroded the lender's underlying secured interest in such assets.

As a consequence, on January 31, 2017, DELP and the Corporation entered into a Forbearance Agreement with the lender to DELP pursuant to which, and provided that certain conditions are met, DELP's lender has agreed to forbear from exercising its enforcement rights and remedies under the terms of the credit facility until the earlier of May 31, 2017; the occurrence of an event of default under the terms of the credit facility; or the occurrence of a default or breach of representation under the Forbearance Agreement (see *"2016 Developments and Going Concern Assumption*"). Under the terms of the Forbearance Agreement, the Corporation will continue to have access of up to $58 million of borrowing capacity during the forbearance period.

The Corporation has assigned a limited recourse guarantee of its units in DELP as security pursuant to the credit facility. In addition, the Corporation has agreed that it will apply amounts that it may receive pursuant to the arbitration related to the Castor Project in order to further reduce amounts borrowed under its credit facility.

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, 2016, the Corporation had cash of $1.5 million on deposit with a Canadian Schedule I Chartered Bank and its subsidiary had drawn $57.4 million against its current credit facility, the availability of which was reduced to $58 million pursuant to a Forbearance Agreement with the subsidiary's lender.

The Corporation's access to cash and to additional borrowing availability under the terms of its credit facility are sufficient to meet the Corporation's immediate obligations, but will not be sufficient for the Corporation to sustain its current operations. Therefore, in January 2017, the Corporation initiated a strategic review process for DELP, the purpose of which is to identify, examine and consider a range of strategic alternatives available with respect to enhancing the value of its investment in DELP. Strategic alternatives may include a debt restructuring, a sale of all or a material portion of the assets of DELP, either in one transaction or a series of transactions, the outright sale of DELP, a business combination or other transaction involving DELP and a third party, and/or alternative financing initiatives. There can be no assurance that the Corporation will be successful in this endeavour.

Outstanding Share Data and Dilutive Securities

At December 31, 2016 and February 16, 2017, the Corporation had 188,268,994 common shares outstanding. In addition, at December 31, 2016, the Corporation had granted 2,380,000 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 established 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, 2016.

	Expected Payments Schedule				
	2017	2018 to 2019	2020 to 2021	Thereafter	TOTAL
Bank loan	$ 57,400	$ -	$ -	$ -	$ 57,400
Decommissioning liabilities	2,996	3,172	8,939	72,319	87,426
Office, vehicle and equipment leases	308	380	7	-	695
	$ 60,704	$ 3,552	$ 8,946	$ 72,319	$ 145,521

RELATED PARTY TRANSACTIONS

Other than as described in Note 18 to the 2016 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 2016 Annual Information Form dated February 16, 2017, 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 2016 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, 2016.

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, 2016, 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 2016 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: expectations regarding the Corporation's ability to raise capital; volatility of commodity prices; 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 the need for additional funding to execute on further exploration and development work, the mitigation of environmental risks, 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 granting of operating permits and licenses, 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 2017 and beyond. These assumptions include: the ability of the Corporation to obtain financing on acceptable terms; 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; 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 2017 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 16, 2017

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 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) Lucie Presot
Vice President and
Interim Chief Financial Officer

Toronto, Canada
February 16, 2017

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, 2016 and 2015 and the consolidated statements of operations and comprehensive loss, 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 (IFRS), 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 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, 2016 and 2015 and its financial performance and its cash flow for the years then ended in accordance with IFRS.

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 16, 2017

DUNDEE ENERGY LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(expressed in thousands of Canadian dollars)

	Note	As at December 31, 2016	As at December 31, 2015
ASSETS			
Current			
Cash		$ 1,505	$ 86
Accounts receivable	5	2,729	1,761
Prepaids and security deposits		649	845
Loan receivable	6	-	6
Inventory		335	376
Investments	7	1,425	2,150
Taxes recoverable		-	72
		6,643	5,296
Non-current			
Loan receivable	6	-	347
Oil and gas properties	8	131,387	156,435
Equity accounted investment in Escal	15	-	-
Deferred income taxes	17	18,010	11,121
		$ 156,040	**$ 173,199**
LIABILITIES			
Current			
Bank loan	9	$ 57,400	$ 58,802
Accounts payable and accrued liabilities	18	9,042	4,452
Derivative financial liabilities	11	2,275	21
Decommissioning liabilities	10	3,965	3,013
		72,682	66,288
Non-current			
Decommissioning liabilities	10	51,555	55,395
		124,237	121,683
SHAREHOLDERS' EQUITY			
Equity Attributable to Owners of the Parent			
Share capital	12	112,682	112,682
Contributed surplus	12	7,611	7,610
Deficit		(84,399)	(65,278)
Accumulated other comprehensive loss		(3,392)	(3,392)
		32,502	51,622
Non-controlling interest		(699)	(106)
		31,803	51,516
		$ 156,040	**$ 173,199**

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

Going Concern Assumption (Note 2)

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 AND COMPREHENSIVE LOSS

For the years ended December 31, 2016 and 2015
(expressed in thousands of Canadian dollars, except per share amounts)

	Note		2016		2015
REVENUES					
Oil and gas sales		$	23,891	$	29,581
Royalties			(3,581)		(4,495)
Net sales			20,310		25,086
Production expenditures	14		(12,385)		(15,753)
Depreciation and depletion	8		(9,035)		(11,781)
General and administrative expenses	14		(5,322)		(5,112)
Loss on fair value changes of derivative financial instruments	11		(1,965)		(21)
(Loss) gain on fair value changes in investments	7		(725)		10
Impairment of oil and gas properties	8		(11,934)		(900)
Impairment of financial instruments	7		(1,286)		(1,286)
Interest and other items in earnings	8		241		2,338
Interest expense	9, 10		(4,399)		(4,432)
Foreign exchange (loss) gain			(63)		152
NET LOSS BEFORE INCOME TAXES			(26,563)		(11,699)
Income tax recovery (expense)	17				
Current			(40)		-
Deferred			6,889		3,013
			6,849		3,013
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		**$**	**(19,714)**	**$**	**(8,686)**
NET LOSS ATTRIBUTABLE TO:					
Owners of the parent		$	(19,121)	$	(8,281)
Non-controlling interest			(593)		(405)
		$	**(19,714)**	**$**	**(8,686)**
BASIC AND DILUTED NET LOSS PER SHARE	16	$	(0.10)	$	(0.04)

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, 2016 and 2015
(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, 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
For the year ended December 31, 2016								
Net loss	-	-	-	-	(19,121)	-	(593)	(19,714)
Stock based compensation (Note 13)	-	1	-	-	-	-	-	1
Balance, December 31, 2016	**$ 112,682**	**$ 6,847**	**$ 810**	**$ (46)**	**$ (84,399)**	**$ (3,392)**	**$ (699)**	**$ 31,803**

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, 2016 and 2015
(expressed in thousands of Canadian dollars)

	Note	2016	2015
OPERATING ACTIVITIES			
Net loss for the year		$ (19,714)	$ (8,686)
Adjustments for:			
Depreciation and depletion	8	9,035	11,781
Loss on fair value changes of derivative financial instruments	11	2,254	362
Loss (gain) on fair value changes in financial instruments	7	725	(10)
Impairment of oil and gas properties	8	11,934	900
Impairment of financial instruments	7	1,286	1,286
Deferred income taxes		(6,889)	(3,013)
Stock based compensation	13	1	38
Reclamation expenditures	10	(570)	(310)
Other		1,239	64
		(699)	2,412
Changes in:			
Accounts receivable		(968)	1,378
Accounts payable and accrued liabilities		4,539	(2,606)
Current income taxes		72	-
Prepaids and security deposits		196	623
Inventory		41	78
CASH PROVIDED FROM OPERATING ACTIVITIES		3,181	1,885
FINANCING ACTIVITIES			
Repayment of bank loan arrangements	9	(1,402)	(2,815)
Issuance of shares in subsidiaries to non-controlling interest		-	541
CASH USED IN FINANCING ACTIVITIES		(1,402)	(2,274)
INVESTING ACTIVITIES			
Proceeds from the sale of investment		-	205
Receipts pursuant to loan receivable	6	326	15
Investment in oil and gas properties	8	(686)	(574)
CASH USED IN INVESTING ACTIVITIES		(360)	(354)
INCREASE (DECREASE) IN CASH		1,419	(743)
CASH, BEGINNING OF YEAR		86	829
CASH, END OF YEAR		**$ 1,505**	**$ 86**
Interest paid		$ 3,523	$ 3,393
Income tax refund		$ 32	$ -

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, 2016 and 2015
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, 2016, 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, 2016 ("2016 Consolidated Financial Statements"), with comparative information as at and for the year ended December 31, 2015, 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 16, 2017.

On January 31, 2017, DELP, the Corporation's primary operating subsidiary, entered into a forbearance agreement (the "Forbearance Agreement") with its lender, in respect of $57,400,000 of loans made by the lenders under a credit agreement dated July 2, 2012, as amended (Note 9). Under the terms of the Forbearance Agreement, provided that certain ongoing conditions are met, the lender to DELP has agreed to forbear from exercising its enforcement rights and remedies arising from DELP's failure to reduce the amounts borrowed pursuant to such credit facility, to amounts that correspond to, or fall below the borrowing base available to DELP, as determined by its lender with reference to the Corporation's reserves and the current and projected market prices for oil and natural gas, as determined by the Corporation's lender, until the earlier of May 15, 2017; the occurrence of an event of default under the terms of the credit facility; or the occurrence of a default or breach of representation by DELP under the Forbearance Agreement. The lender at all times retains its right to demand repayment in full, including during the forbearance period. The Forbearance Agreement provides a definitive timeline within which the Corporation will be required to complete its intended process to identify strategic alternatives which may include debt restructuring, a sale of all or a material portion of the assets of DELP, the outright sale of DELP, or a business combination or other transaction involving DELP and a third party.

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. The low commodity price environment has constrained the Corporation's access to capital under its existing credit facility and otherwise. Without access to financing, the Corporation will be challenged to deploy the capital that it requires to maintain its existing reserves and production volumes, fund repair and maintenance costs, meet its current financial obligations, including the servicing of its debt and its ability to meet decommissioning obligations, and otherwise develop its ongoing business strategy. As at December 31, 2016, the Corporation had negative working capital of $66,039,000 (2015 – $60,992,000) and during the year then ended, it incurred a net loss of $19,714,000 (2015 – $8,686,000). Notwithstanding the Forbearance Agreement, 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 expenditures in southern Ontario, including accrued costs for decommissioning liabilities. Capitalized costs include the acquisition of 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 more likely than not 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.

Changes in Accounting Policies Implemented During the Year Ended December 31, 2016

IAS 1, "Presentation of Financial Statements" ("IAS 1")
On January 1, 2016, the Corporation implemented certain amendments to IAS 1, which clarify 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 which provide additional flexibility in the structure and disclosures of the financial statements to enhance understandability. The implementation of amendments to IAS 1 had no impact to the Corporation's 2016 Consolidated Financial Statements.

IFRS 10, "Consolidated Financial Statements" ("IFRS 10") and
IAS 28, "Investments in Associates and Joint Ventures (2011)" ("IAS 28")
The Corporation implemented certain amendments to IFRS 10 and IAS 28 on January 1, 2016. These amendments relate to the sale or contribution of assets between an investor and its associate or joint venture and require the recognition of a full gain or loss 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 implementation of amendments to IFRS 10 and IAS 28 had no impact to the Corporation's 2016 Consolidated Financial Statements.

IFRS 11, "Joint Arrangements" ("IFRS 11")
Amendments to IFRS 11 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 and requires that such transactions be accounted for using the principles related to business combinations accounting as outlined in IFRS 3, "*Business Combinations*". The Corporation implemented the amendments to IFRS 11 effective January 1, 2016. The implementation of amendments to IFRS 11 had no impact to the Corporation's 2016 Consolidated Financial Statements.

IAS 16, "Property, Plant and Equipment" ("IAS 16") and IAS 38, "Intangible Assets" ("IAS 38")
On January 1, 2016, the Corporation implemented amendments to IAS 16 and IAS 38, which eliminated the use of a revenue-based depreciation method for items of property, plant and equipment and eliminated the use of a revenue-based amortization model for intangible assets except in certain specific circumstances. The implementation of amendments to IAS 16 and IAS 38 had no impact to the Corporation's 2016 Consolidated Financial Statements.

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

IFRS 9, "Financial Instruments" ("IFRS 9")
In July 2014, the IASB issued final amendments to IFRS 9, replacing IAS 39, "*Financial Instruments: Recognition and Measurement*" ("IAS 39"). IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets, and new requirements related to hedge accounting. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple category and measurement models in IAS 39. The categorization approach in IFRS 9 focuses on how an entity manages its financial instruments in the context of its business model, as well as the contractual cash flow characteristics of the financial assets. New hedge accounting requirements incorporated into IFRS 9 increase the scope of items that may qualify as a hedged item and changes the requirements of hedge effectiveness testing that must be met in order to apply hedge accounting. The requirements of IFRS 9 are effective for annual periods beginning on or after January 1, 2018 and are available for earlier adoption. The Corporation has not yet begun its assessment of the implementation of amendments to IFRS 9, and such assessment is scheduled for completion in the fourth quarter of 2017. Currently, the Corporation does not expect that the implementation of IFRS 9 will have a material effect on 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 yet begun its assessment of the implementation of amendments to IFRS 16, and such assessment is scheduled for completion in 2018.

IAS 7, "Statement of Cash Flows" ("IAS 7")
In January 2016, the IASB issued amendments to IAS 7 pursuant to which entities will be required to provide enhanced information about changes in their financial liabilities, including changes from cash flows and non-cash changes. The IAS 7 amendments are effective for annual periods beginning on or after January 1, 2017. The Corporation is in the process of implementing administrative changes to its reporting systems, with the intent of capturing the information required pursuant to the amendments proposed by IAS 7.

IAS 12, "Income Taxes" ("IAS 12")
In January 2016, the IASB issued amendments to IAS 12, which clarify guidance on the recognition of deferred tax assets related to unrealized losses resulting from debt instruments that are measured at their fair value. The IAS 12 amendments are effective for annual periods beginning on or after January 1, 2017. The Corporation does not currently measure any of its debt instruments at fair value. Therefore, the implementation of IFRS 12 is not expected to have a material impact to the Corporation's consolidated financial statements. The Corporation anticipates that its assessment of the effects of the amendments to IAS 12 will be completed in the first quarter of 2017.

IFRS 15, "Revenues from Contracts with Customers" ("IFRS 15")
In April 2016, the IASB issued amendments to IFRS 15, clarifying the application of certain of its underlying principles, including the identification of a performance obligation, and the determination of whether a company is a principal or is acting as an agent in the provision of a good or service. The amendments will become effective concurrent with the effective date of IFRS 15 on January 1, 2018. The Corporation has not yet initiated its analysis of the potential effect of the amendments to IFRS 15 to its consolidated financial statements.

IFRS 2, "Share-based Payment" ("IFRS 2")

In June 2016, the IASB issued amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions, including the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and accounting for modifications to the terms and conditions of a share-based payment that changes the classification of the share-based payment transaction from cash-settled to equity-settled. The IFRS 2 amendments are effective for annual periods beginning on or after January 1, 2018. The Corporation has not yet initiated its assessment of the implications of the amendments to IFRS 2 on 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.

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,		2016		2015
Customers for oil and natural gas production	$	2,596	$	1,650
Third-party drilling receivable		119		108
Working interest partners		14		3
	$	**2,729**	**$**	**1,761**

6. LOAN RECEIVABLE

The Corporation had issued a vendor-take-back mortgage in connection with the disposal of certain land and buildings in southern Ontario during 2015, which was secured by the underlying property. During 2016, the Corporation received $326,000 in payment of outstanding amounts, and the loan receivable was subsequently extinguished.

7. INVESTMENTS

As at December 31,		2016		2015
Investment in private enterprises	$	1,425	$	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		10,811		9,525
Less: Impairment		(10,811)		(9,525)
		-		-
	$	**1,425**	**$**	**2,150**

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. During 2016, the Corporation recognized an unrealized loss of $725,000 related to the Corporation's assessment of the fair value of its investment in Windiga. The loss has been included in the 2016 Consolidated Financial Statements as *"(Loss) gain on fair value changes in investments*".

At each of December 31, 2016 and December 31, 2015, 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, 2016, 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, 2016, the Corporation recognized an impairment loss of $1,286,000 (2015 – $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, 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
Year ended December 31, 2016							
Carrying value December 31, 2015	85,977	19,181	20,696	4,576	1,224	24,781	156,435
Net additions	-	-	(1,444)	-	(31)	590	(885)
Remeasure decommissioning liability (Note 10)	(3,194)	-	-	-	-	-	(3,194)
Depreciation and depletion	(6,686)	(957)	(1,343)	(31)	(18)	-	(9,035)
Impairment	(5,000)	-	-	-	-	(6,934)	(11,934)
Net carrying value, December 31, 2016	71,097	18,224	17,909	4,545	1,175	18,437	131,387
At December 31, 2016							
Cost	157,371	27,751	26,122	4,715	2,427	25,371	243,757
Accumulated depreciation, depletion and impairment	(86,274)	(9,527)	(8,213)	(170)	(1,252)	(6,934)	(112,370)
Net carrying value, December 31, 2016	**$ 71,097**	**$ 18,224**	**$ 17,909**	**$ 4,545**	**$ 1,175**	**$ 18,437**	**$ 131,387**

Impairment of Oil and Natural Gas Properties

Impairment of Exploration and Evaluation Properties at December 31, 2016

The Corporation’s undeveloped properties include properties that have been designated as exploration and evaluation properties. These properties do not have any identified commercially viable resources or reserves, and the Corporation would require substantial amounts of financial resources to further exploit these properties. At December 31, 2016, and in light of restricted financial resources available to the Corporation during the forbearance period (Notes 2 and 9), the Corporation determined that it was appropriate to impair these assets by $6,934,000, reducing their carried value to $nil.

Impairment of Natural Gas Properties at June 30, 2016

On June 30, 2016, and in response to the continued decline in the outlook for long-term natural gas prices, the Corporation recognized an impairment loss of $5,000,000 on certain natural gas properties in southern Ontario, reducing their carried value to their recoverable amount on June 30, 2016 of $49,753,000. The recoverable amount of these natural gas properties was measured based on their value-in-use, determined by the application of a discounted cash flow model, using reserves volumes and forecasted natural gas 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 natural gas properties and discounted using a discount rate of 8%.

At June 30, 2016, selected key price forecasts used to determine the recoverable amount of the Corporation's natural gas properties were as follows:

Reserve Prices	Natural Gas Union Parkway CAD$ / Mcf
2016	3.65
2017	3.90
2018	4.05
2019	4.20
2020	4.40
Average five year forecast	4.04

Impairment of Oil Properties at December 31, 2015

On December 31, 2015, the Corporation recognized an impairment loss of $900,000 against certain oil properties, reducing their carried value to their estimated recoverable amount of $7,136,000 at the date of the impairment. The recoverable amount was 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, and discounted using a discounted rate of 8%. At December 31, 2015, selected key price forecasts used to determine the recoverable amount of the gas properties impaired were as follows:

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

Effect of Discount Rate on Determination of Impairment

The Corporation's assessment of impairment relating to its oil and gas properties is determined by an assessment of anticipated cash flows relating to specific properties, discounted using a discount rate of 8%.

The Corporation anticipates that, had it completed its analysis using a discount rate of 10%, the Corporation's gas properties would have been further impaired by $77,000, and its oil properties would have been further impaired by $328,000.

Had the Corporation completed its analysis using a discount rate of 15%, the Corporation's gas properties would have been further impaired by $19,650,000, and its oil properties would have been further impaired by $1,948,000.

Loss on Disposal of Machinery and Equipment

In February 2016, the Corporation sold an offshore jack-up platform for proceeds of $88,000. Included in the 2016 Consolidated Financial Statements as "*Interest and other items in earnings*", is a realized loss of $1,494,000 related to the disposal.

9. BANK LOAN

DELP has established a credit facility with a Canadian Schedule I Chartered Bank secured by the assets of DELP, and the Corporation has also assigned a limited recourse guarantee of its units in DELP as further security against the credit facility. On February 18, 2016, amounts available pursuant to the credit facility were reduced from $70,000,000 at December 31, 2015 to $60,000,000 at December 31, 2016. Amounts available under this credit facility were further reduced to $58,000,000 on January 31, 2017.

The credit facility is structured as a revolving demand loan, and is 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, 2016, draws on the credit facility bore interest at the bank's prime lending rate plus 3.5%. DELP is subject to a standby fee of 0.55% on undrawn amounts under the credit facility.

The credit facility is subject to certain covenants, including maintenance of minimum levels of working capital At December 31, 2016, the Corporation was in compliance with all such covenants.

As at December 31,		2016		2015
Prime rate loans	$	57,400	$	200
Bankers' acceptances		-		59,000
Less: Unamortized discount		-		(398)
	$	**57,400**	**$**	**58,802**

At December 31, 2016, DELP had drawn $57,400,000 (2015 – $59,200,000) pursuant to the credit facility. During the year ended December 31, 2016, the Corporation incurred interest expense relating to the credit facility, including bank charges, arrangement fees and standby fees, of $3,523,000 (2015 – $3,393,000).

On January 31, 2017, DELP entered into a Forbearance Agreement with its lender, pursuant to which the lender has agreed, provided that certain ongoing conditions are met, to forbear from exercising its enforcement rights and remedies arising from DELP's failure to reduce the amounts borrowed pursuant to the credit facility, to amounts that correspond to, or fall below the borrowing base available to DELP, until the earlier of May 15, 2017; the occurrence of an event of default under the terms of the credit facility; or the occurrence of a default or breach of representation by DELP under the Forbearance Agreement. The lender at all times retains its right to demand repayment in full, including during the forbearance period.

The Forbearance Agreement provides a definitive timeline within which the Corporation will be required to complete its intended process to identify strategic alternatives which may include debt restructuring, a sale of all or a material portion of the assets of DELP, the outright sale of DELP, or a business combination or other transaction involving DELP and a third party.

In addition, and under the terms of the Forbearance Agreement, the Corporation has agreed to reduce amounts borrowed under the credit facility from any net proceeds received by the Corporation pursuant to 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 46 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,		2016		2015
Undiscounted future obligations, beginning of year	$	94,873	$	99,757
Effect of changes in estimates		4,253		(4,574)
Liabilities settled (reclamation expenditures)		(570)		(310)
Undiscounted future obligations, end of year	**$**	**98,556**	**$**	**94,873**

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,		2016		2015
Discount rates applied to future obligations		*0.76% - 2.24%*		*0.48% - 2.04%*
Inflation rate		*2.00%*		*2.00%*
Discounted future obligations, beginning of year	$	58,408	$	56,261
Effect of changes in estimates and remeasurement of discount rates		(3,194)		1,418
Liabilities settled (reclamation expenditures)		(570)		(310)
Accretion (interest expense)		876		1,039
Discounted future obligations, end of year	**$**	**55,520**	**$**	**58,408**
Current	$	3,965	$	3,013
Non-current		51,555		55,395
	$	**55,520**	**$**	**58,408**

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. In addition, on November 9, 2016, Dundee Corporation provided the Corporation with a support letter for up to $2,500,000 towards its decommissioning liabilities, should the Corporation require additional funding in order to complete its reclamation obligations.

11. DERIVATIVE FINANCIAL INSTRUMENTS

During the year ended December 31, 2016, the Corporation entered into certain commodity swap derivative contracts to manage its exposure to volatility in the prices received for the sale of the underlying commodities. These derivative instruments were not designated as hedging instruments and accordingly, were classified as financial instruments at fair value through profit or loss. Therefore, changes in the fair value of these derivative financial instruments are recorded in the consolidated statement of operations and comprehensive loss.

The Corporation has determined that the fair value of outstanding commodity swap derivative contracts at December 31, 2016 resulted in a liability balance of $2,275,000 (2015 – $21,000).

Contract Fixed Price Swap	Volume	Pricing Point	Strike Price ($/unit)	Currency	Remaining Term	Fair Value as at December 31, 2016
Natural gas	5,000 mmbtu/d	NYMEX	$2.70	USD	Jan 1/17 to Jan 1/18	$ (2,275)

During the year ended December 31, 2016, the Corporation recognized a loss of $1,965,000 (2015 – $21,000) from changes in the fair value of commodity swap derivative contracts, including realized gains of $289,000 (2015 – $341,000), offset by unrealized losses of $2,254,000 (2015 – $362,000).

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, 2016, 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, 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)
Transactions during the year ended December 31, 2016					
Stock based compensation	-	-	1	-	-
Outstanding, December 31, 2016	**188,268,994**	**$ 112,682**	**$ 6,847**	**$ 810**	**$ (46)**

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 was able to 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 under these normal course issuer bid arrangements.

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 years ended December 31, 2016 and 2015. A summary of the status of the stock option component of the Corporation’s SIP as at and for the years ended December 31, 2016 and 2015, is as follows:

For the years ended December 31,			2016			2015
	Stock Options		Weighted Average Exercise Price	Stock Options		Weighted Average Exercise Price
Options outstanding, beginning of year	2,480,000	$	0.50	5,705,000	$	0.66
Forfeited	(100,000)		0.50	(3,225,000)		0.79
Options outstanding, end of year	**2,380,000**	**$**	**0.50**	**2,480,000**	**$**	**0.50**
Exercisable options	2,380,000	$	0.50	2,413,333	$	0.50

Option Price	Options Outstanding	Options Exercisable	Contractual Life Remaining (Years)
At $0.26	200,000	200,000	2.23
At $0.50	1,780,000	1,780,000	1.70
At $0.60	400,000	400,000	0.34

During the year ended December 31, 2016, the Corporation recognized stock based compensation expense of $1,000 (2015 – $38,000) 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. At December 31, 2016, there were 1,203,507 (2015 – 1,203,507) deferred share units outstanding.

For the years ended December 31,	2016	2015
Number of deferred share units outstanding, beginning of year	1,203,507	1,457,426
Redemption	-	(253,919)
Number of deferred share units outstanding, end of year	**1,203,507**	**1,203,507**

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.

The Corporation did not recognize any stock based compensation expense related to its deferred share unit plan during the years ended December 31, 2016 and December 31, 2015.

14. GENERAL AND ADMINISTRATIVE EXPENSES AND PRODUCTION EXPENDITURES BY NATURE

General and Administrative Expenses

For the years ended December 31,		2016		2015
Salary and salary-related	$	2,605	$	2,131
Stock based compensation		1		38
Corporate and professional fees		3,834		3,121
General office		680		1,261
Exploration and development costs		98		709
Allocation of general and administrative costs		(1,896)		(2,148)
	$	**5,322**	**$**	**5,112**

Production Expenditures

For the years ended December 31,		2016		2015
Labour	$	4,397	$	5,387
Materials, equipment and supplies used		3,813		5,295
Transportation		574		1,138
Utilities		2,321		2,219
Rental and lease payments		262		474
Other		1,018		1,240
	$	**12,385**	**$**	**15,753**

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. While these audits concluded that the Castor Project was technically fit to store and deliver gas, in mid September 2013, micro-seismic activity in the area surrounding the Castor Project resulted in the Spanish authorities suspending further activities, pending an independent assessment of the source of the seismic activity.

The Spanish authorities have not yet revoked their mandated suspension and consequently, 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. During the year ended December 31, 2016, Escal received €212 million under these arrangements, permitting Escal to further reduce debt. The determination and timing of any additional amounts under these arrangements, 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 commenced binding arbitration proceedings against ACS as to the sharing of cash flows from the Castor Project. As required pursuant to the terms of the memorandum of understanding between the shareholders of Escal, the arbitration was in accordance with the rules of the International Chamber of Commerce ("ICC") in Paris, and was heard by an arbitral tribunal consisting of three arbitrators. Evidentiary hearings were completed in late July 2016, and the Corporation anticipates that the arbitral tribunal will reach its decision during the first quarter of 2017.

The Royal Decree-Law as described above stipulates 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. Notwithstanding, and 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, during the year ended December 31, 2015, 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, realized in 2015, 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, 2016, 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, 2016, the carrying value of the Corporation's indirect equity interest in Escal was $nil (2015 – $nil).

The following table summarizes financial information about Escal's assets and liabilities as at and for the years ended December 31, 2016 and 2015. 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,		2016		2015
Assets	$	119,909	$	472,699
Liabilities		(249,100)		(579,584)
Net liabilities	**$**	**(129,191)**	**$**	**(106,885)**

16. NET LOSS PER SHARE

For the years ended December 31,		2016		2015
Net loss for the year attributable to owners of the parent	$	(19,121)	$	(8,281)
Weighted average number of common shares outstanding		188,268,994		188,235,257
Basic and diluted net loss per common share	**$**	**(0.10)**	**$**	**(0.04)**

17. INCOME TAXES

During the year ended December 31, 2016, the Corporation recognized an income tax recovery amount of $6,849,000 (2015 – $3,013,000).

The income tax recovery amount on the Corporation's loss before income taxes differs from the income tax recovery amount that would arise using the combined Canadian federal and provincial statutory tax rate of 26% (2015 – 26%) as a result of the following items:

For the years ended December 31,		2016		2015
Loss before tax at statutory rate of 26% (2015 – 26%)	$	7,040	$	3,100
Effect on taxes of:				
Non-deductible expenses		(164)		(118)
Other differences		(27)		31
Income tax recovery	**$**	**6,849**	**$**	**3,013**

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 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, 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
(Charged) credited to statement of operations		3,043		2,596		679		(10)		(16)		597		6,889
Balance, December 31, 2016	**$**	**4,006**	**$**	**8,945**	**$**	**4,311**	**$**	**131**	**$**	**14**	**$**	**603**	**$**	**18,010**

Deferred Tax Liabilities		Other		TOTAL
Balance, December 31, 2014	$	(90)	$	(90)
(Charged) credited to statement of operations		90		90
Balance, December 31, 2015		-		-
(Charged) credited to statement of operations		-		-
Balance, December 31, 2016	**$**	**-**	**$**	**-**

The Corporation has operating loss carry forwards of $15,118,000 (2015 – $3,633,000) at December 31, 2016 which will start to expire in 2035.

18. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in these 2016 Consolidated Financial Statements, related party transactions and balances as at and for the year ended December 31, 2016 and 2015 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, 2016, the Corporation incurred costs of $543,000 (2015 – $1,074,000) in respect of these arrangements.

Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities at December 31, 2016 are amounts owing to the Corporation's parent, Dundee Corporation, and to Dundee Corporation's subsidiaries of $2,830,000 (2015 – $1,810,000).

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, 2016, the Corporation had cash deposits with DSL of $nil (2015 – $6,000) to facilitate trades pursuant to its normal course issuer bid (Note 12).

Key Management Compensation

Compensation and other fees paid to the directors, the President and Chief Executive Officer and to certain other senior executives of the Corporation are shown in the following table:

For the years ended December 31,		2016		2015
Directors' fees and executive compensation	$	725	$	340
Stock based compensation		1		25
Benefits		47		14
	$	**773**	**$**	**379**

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,		2016
Less than 1 year	$	308
Between 1 and 5 years		387
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, 2016. 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, 2016		
	Carrying Value as at December 31, 2016	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	$ 1,425	$ -	$ 1,425	$ -
Financial Liabilities				
Derivative financial instruments	(2,275)	-	(2,275)	-

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. 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 (2015 – three) core customers, who individually accounted for 36% (2015 – 34%), 30% (2015 – 27%), and 28% (2015 – 30%) of total revenue. Of the Corporation's individual accounts receivable due from customers, approximately 35% (2015 – 39%) 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.

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, 2016 would have resulted in a change to net earnings of approximately $655,000 (2015 – $605,000), 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, 2016 and 2015, 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, 2016 would have resulted in a change to net earnings during the year ended December 31, 2016 of $183,000 (2015 – $102,000) before associated taxes. There were no outstanding crude oil commodity swap derivative contracts at December 31, 2016.

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, 2016, would have resulted in a change to net earnings during that period of approximately $293,000 (2015 – $301,000).

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, 2016.

	Carrying Amount	Contractual Term to Maturity
Bank loan	$ 57,400	Demand facility
Accounts payable and accrued liabilities	9,042	Typically due within 20 to 90 days
Derivative financial liabilities	2,275	Expected settlement in 2017
Current portion of decommissioning liabilities	3,965	Expected settlement in 2017
	$ 72,682	

Draws against the Corporation's bank loan arrangements are due on demand. At December 31, 2016, the Corporation was in compliance with all required financial covenants pursuant to its bank loan arrangements (Note 9).

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's current financial assets, combined with its current operational cash flows, will not be sufficient to sustain its ability to meet its ongoing financial liabilities as they become due, including liabilities related to its bank loan arrangements. The Corporation's ability to meet these obligations is therefore partially dependent on the outcome of its strategic initiatives process (Notes 2 and 9) and its ability to identify and implement viable financing or restructuring alternatives. There can be no assurance that the Corporation will be successful in these initiatives.

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 (Note 2).

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, 2016 and December 31, 2015

	Southern Ontario		Spain		Corporate		TOTAL	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
ASSETS								
Current								
Cash	$ 1,419	$ 30	$ 44	$ 3	$ 42	$ 53	$ 1,505	$ 86
Accounts receivable	2,729	1,761	-	-	-	-	2,729	1,761
Prepaids and security deposits	690	845	(41)	-	-	-	649	845
Loan receivable	-	6	-	-	-	-	-	6
Inventory	335	376	-	-	-	-	335	376
Investments	-	-	-	-	1,425	2,150	1,425	2,150
Taxes recoverable	-	-	-	-	-	72	-	72
	5,173	3,018	3	3	1,467	2,275	6,643	5,296
Non-current								
Loan receivable	-	347	-	-	-	-	-	347
Oil and gas properties	131,355	156,399	-	-	32	36	131,387	156,435
Equity accounted investment in Escal	-	-	-	-	-	-	-	-
Deferred income taxes	-	-	-	-	18,010	11,121	18,010	11,121
	$ 136,528	$ 159,764	$ 3	$ 3	$ 19,509	$ 13,432	$ 156,040	$ 173,199
LIABILITIES								
Current								
Bank loan	$ 57,400	$ 58,802	$ -	$ -	$ -	$ -	$ 57,400	$ 58,802
Accounts payable and accrued liabilities	4,305	1,795	1,319	537	3,418	2,120	9,042	4,452
Derivative financial liabilities	2,275	21	-	-	-	-	2,275	21
Decommissioning liabilities	3,965	3,013	-	-	-	-	3,965	3,013
	67,945	63,631	1,319	537	3,418	2,120	72,682	66,288
Non-current								
Decommissioning liabilities	51,555	55,395	-	-	-	-	51,555	55,395
	$ 119,500	$ 119,026	$ 1,319	$ 537	$ 3,418	$ 2,120	$ 124,237	$ 121,683
SEGMENTED NET ASSETS	**$ 17,028**	**$ 40,738**	**$ (1,316)**	**$ (534)**	**$ 16,091**	**$ 11,312**	**$ 31,803**	**$ 51,516**

Segmented Net Assets as at December 31, 2016 and December 31, 2015

	Southern Ontario		Spain		Corporate		TOTAL	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
REVENUES								
Oil and gas sales	$ 23,891	$ 29,581	$ -	$ -	$ -	$ -	$ 23,891	$ 29,581
Royalties	(3,581)	(4,495)	-	-	-	-	(3,581)	(4,495)
Net sales	20,310	25,086	-	-	-	-	20,310	25,086
Production expenditures	(12,385)	(15,753)	-	-	-	-	(12,385)	(15,753)
Depreciation and depletion	(9,031)	(11,776)	-	-	(4)	(5)	(9,035)	(11,781)
General and administrative expenses	(2,534)	(2,749)	(2,318)	(1,511)	(470)	(852)	(5,322)	(5,112)
Loss on fair value changes of derivative financial instruments	(1,965)	(21)	-	-	-	-	(1,965)	(21)
(Loss) gain on fair value changes in investments	-	-	-	-	(725)	10	(725)	10
Impairment of oil and gas properties	(11,934)	(900)	-	-	-	-	(11,934)	(900)
Impairment of financial instruments	-	-	-	-	(1,286)	(1,286)	(1,286)	(1,286)
Interest and other items in earnings	(1,045)	1,047	-	-	1,286	1,291	241	2,338
Interest expense	(4,399)	(4,431)	-	(1)	-	-	(4,399)	(4,432)
Foreign exchange (loss) gain	(112)	186	49	(34)	-	-	(63)	152
NET LOSS BEFORE INCOME TAXES	(23,095)	(9,311)	(2,269)	(1,546)	(1,199)	(842)	(26,563)	(11,699)
Income tax recovery (expense)								
Current	-	-	-	-	(40)	-	(40)	-
Deferred	-	-	-	-	6,889	3,013	6,889	3,013
	-	-	-	-	6,849	3,013	6,849	3,013
NET (LOSS) EARNINGS FOR THE YEAR	**$ (23,095)**	**$ (9,311)**	**$ (2,269)**	**$ (1,546)**	**$ 5,650**	**$ 2,171**	**$ (19,714)**	**$ (8,686)**
NET (LOSS) EARNINGS ATTRIBUTABLE TO:								
Owners of the parent	$ (23,095)	$ (9,311)	$ (1,676)	$ (1,141)	$ 5,650	$ 2,171	$ (19,121)	$ (8,281)
Non-controlling interest	-	-	(593)	(405)	-	-	(593)	(405)
	$ (23,095)	**$ (9,311)**	**$ (2,269)**	**$ (1,546)**	**$ 5,650**	**$ 2,171**	**$ (19,714)**	**$ (8,686)**

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Stock Symbol
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