DUNDEE
ENERGY LIMITED

REPORT TO SHAREHOLDERS – MAY 2016
Underground Gas Storage Facility ("Castor Project")

Early in the second quarter of 2015, Castor UGS Limited Partnership ("CLP"), the Corporation's 74% owned subsidiary, commenced binding arbitration proceedings to resolve a contractual dispute with ACS Servicios Commiunicacions y Energy S.L. ("ACS"). ACS and CLP are 67% and 33% shareholders, respectively, of Escal UGS S.L. ("Escal"), a company incorporated under Spanish jurisdiction that owned and developed a Spanish infrastructure project that converted an abandoned oilfield to a natural gas storage facility ("Castor Project").

On October 4, 2014, subsequent to micro-seismic activity during the initial injection of natural gas into the gas storage reservoir in 2012 and the consequent suspension of activity related to the project, the Castor exploitation concession was terminated by a Royal Decree-Law, and the ownership of the Castor Project formally reverted to the Spanish public domain.

The terms of the relinquishment included the recovery of Escal's net investment in the Castor Project, financial remuneration for the period from the provisional commissioning date of the Castor Project through to October 4, 2014, and the reimbursement of operating and maintenance costs during this period.

In November 2014, Escal received €1.35 billion for its net value of its investments and 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. On November 17, 2015 the Spanish Ministry of Industry, Energy and Tourism issued a resolution establishing the additional remuneration at €253.3 million, and the reimbursement of operating and maintenance costs at an additional €42.3 million. Escal anticipates that approximately 75% of these amounts will be received in late 2016, with the balance to be received, subject to interest at 1.2%, over a 15-year period. On December 18, 2015, a further €4.56 million was authorized and subsequently received, as compensation for operating and maintenance costs. The Corporation anticipates that all amounts received by Escal will be applied to reduce debt outstanding in Escal.

Also in November 2014, ACS arranged a €300 million bank financing for Escal with €60 million being 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 lodged a legal action challenging the approval of the new financing. In addition, the Corporation believes that the repayment of the shareholder loans solely to ACS contravenes the ownership rights of CLP in the shareholder loans of Escal, as established in the 2007 Memorandum of Understanding with ACS. The arbitration process is underway, with the evidentiary hearings expected to take place in July 2016.

Southern Ontario Assets

In 2015, the Corporation increased its proved oil and natural gas reserves base by 4.9% and its average production volumes by 6.7% on a combined boe basis. This was accomplished in spite of a drop in the average wellhead price for oil and natural gas to 15-year lows. As of year-end 2015, proved oil and natural gas reserves increased to 1.58 million barrels and 93.8 bcf, respectively. The average daily production rate for oil dropped 2.1% to 560 bpd which was well below the historical annual decline rate of over 10%, and the average daily production rate for natural gas increased 10.1% to 11.6 million cubic feet per day primarily as the result of the purchase of additional working interests in the Corporation's offshore properties.

Industry analysts forecast oil and natural gas prices to remain soft for 2016 until the over-supply of both commodities is reduced, from increased demand or as a result of the significant decline in drilling activity in North America and internationally. The Corporation reacted to the low price environment in 2015 with significant cuts in its capital spending and other costs and this will continue into 2016. Optimization initiatives in field operations resulted in a decrease in the unit operating costs by 7.4% to $17.22 per boe. Field netbacks in 2015 were $22.35/bbl for oil and liquids and $1.19/Mcf for natural gas, both numbers very positive given the low commodity prices during the year. These netbacks reflect the high quality of the Corporation's reserves base in southern Ontario.

To mitigate its exposure to price volatility the Corporation entered into fixed price commodity contracts totaling 4.0 mmbtu per day as of year-end 2015 for calendar year 2016, and will continue to add to this position if commodity prices increase during 2016.

The priority for the Corporation will be to maintain a strong balance sheet, and free cash flow will be directed towards debt reduction and a target of $55 million by the end of 2016. The Corporation is very positive about its operation in southern Ontario as the asset base consists of long-life producing wells with relatively low production decline rates by industry standards. Field optimization programs initiated in 2015 will continue into 2016 to maximize production and reduce costs. Where appropriate, the Corporation will leverage its assets, including the Discovery drilling rig, its substantial land position and its experienced field staff to add low-cost production and reserves.

We would like to thank the Corporation's shareholders and board of directors for their continuing support.

Harold Sonny Gordon	Bruce Sherley
Chairman	President & CEO