



**DUNDEE**  
**ENERGY LIMITED**

2017 FIRST QUARTER REPORT

## 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 May 1, 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") and the unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2017 (the "March 2017 Interim Consolidated Financial Statements"), which have been prepared using International Financial Reporting Standards ("IFRS"). All amounts in this MD&A 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.**

### 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 March 31, 2017, 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 had 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 was amended to a maximum limit of \$58 million.

In connection with these events, and with the approval of its board of directors, the Corporation initiated a strategic review process for DELP, the purpose of which was 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 provided a definitive timeline within which the Corporation will be required to complete this process. The Corporation engaged independent financial advisors to advise the Corporation in connection with this comprehensive review and analysis. Under the terms of the Forbearance Agreement, DELP had committed to enter into a binding agreement under these arrangements, which binding agreement was to be satisfactory to its lender, by April 7, 2017. The lender has not yet provided its consent to any of the proposals made by the Corporation, and these proposals remain under consideration by DELP and DELP's lender. The lender has not provided a waiver of the April 7, 2017 deadline. In any case, the lender at all times retains its right to demand repayment in full, including during the forbearance period. The Corporation and DELP continue to assess their options in this regard.

The Corporation's March 2017 Interim 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 or that the lender will consent to any proposals made by the Corporation in that regard. 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 March 2017 Interim 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 March 2017 Interim Consolidated Financial Statements. These differences could be material.

#### **PERFORMANCE MEASURES AND BASIS OF PRESENTATION**

The Corporation's March 2017 Interim 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

### Three months ended March 31, 2017 compared with the three months ended March 31, 2016

#### Consolidated Net Loss

During the three months ended March 31, 2017, the Corporation incurred a net loss attributable to owners of the parent of \$33,000. This compares with a net loss attributable to owners of the parent of \$2.9 million, or a net loss of \$0.02 per share incurred in the same period of the prior year. Included in the net loss attributable to owners of the parent during the first three months of the prior year was a loss of \$1.5 million realized on the disposal of an offshore jack-up drilling platform.

For the three months ended March 31,	2017			2016		
	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	\$ 151	\$ 151	\$ -	\$ (3,301)	\$ (3,301)	\$ -
Castor Project	(40)	(30)	(10)	(697)	(515)	(182)
Loss from investment in preferred shares of Eurogas International	(317)	(317)	-	(320)	(320)	-
Corporate activities*	163	163	-	1,195	1,195	-
<b>Net loss for the period</b>	<b>\$ (43)</b>	<b>\$ (33)</b>	<b>\$ (10)</b>	<b>\$ (3,123)</b>	<b>\$ (2,941)</b>	<b>\$ (182)</b>

\* Corporate activities include income tax recovery amounts associated with the underlying operations of the Corporation’s subsidiaries.

#### Southern Ontario Assets

##### Operating Performance

The Corporation’s operating performance is dependent on both production volumes of oil, natural gas and natural gas liquids, as well as the prices received for these commodities. During the three months ended March 31, 2017, sales of oil and natural gas, net of royalty interests, were \$5.9 million, an increase of \$1.7 million when compared with net sales of \$4.2 million earned during the same period of the prior year. Higher realized prices for underlying commodities increased aggregate net sales by \$2.1 million, partially offset by lower production volumes, the effect of which was to reduce net sales by \$0.4 million.

	Natural Gas	Oil and Liquids	Total
Net Sales			
Three months ended March 31, 2017	\$ 3,764	\$ 2,182	\$ 5,946
Three months ended March 31, 2016	2,642	1,588	4,230
<b>Net increase in net sales</b>	<b>\$ 1,122</b>	<b>\$ 594</b>	<b>\$ 1,716</b>
Effect of changes in production volumes	\$ (181)	\$ (189)	\$ (370)
Effect of changes in commodity prices	1,303	783	2,086
	\$ 1,122	\$ 594	\$ 1,716

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

#### *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 the three months ended March 31, 2017 and 2016, and provide a comparison of relative changes in benchmark price indicators for such commodities during the respective periods.

For the three months ended March 31,		2017		2016	
	Sales	Realized Unit Price		Sales	Realized Unit Price
Natural gas	\$ 4,408	\$ 4.78 Mcf	\$	3,110	\$ 3.14 Mcf
Oil	2,569	65.47 bbl		1,861	42.12 bbl
Liquids	-	- bbl		4	11.53 bbl
	6,977			4,975	
Less: Royalties at 15% (2016 – 15%)	(1,031)			(745)	
<b>Net sales</b>	<b>\$ 5,946</b>		<b>\$</b>	<b>4,230</b>	

For the three months ended March 31,		2017		2016		
	US\$	CAD\$	Realized Prices (\$)	US\$	CAD\$	Realized Prices (\$)
<b>Natural Gas (per Mcf)</b>						
Dawn Hub	3.21	4.25	4.78	2.09	2.88	3.14
NYMEX Henry Hub	3.02	3.99		2.00	2.76	
<b>Oil (per bbl)</b>						
Canadian Light Sweet	n/a	64.74	65.47	n/a	41.22	42.12
West Texas Intermediate	51.62	68.32		33.43	46.18	

During the three months ended March 31, 2017, the Corporation realized an average price on sales of natural gas of \$4.78/Mcf, approximately 52% higher than the realized average sales price of \$3.14/Mcf earned in the same period of the prior year. In addition to the effect of favourable commodity markets, 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.

During the first three months of 2017, the Corporation realized an average price of \$65.47/bbl on sales of crude oil, a 55% increase from the average price of \$42.12/bbl realized during the same period of the prior year. The increase is consistent with a 54% increase in the US dollar-denominated West Texas Intermediate price for this commodity and a 57% increase in the Canadian dollar-denominated price of Canadian light sweet crude oil.

#### *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 has, from time to time, mitigated 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 the three months ended March 31, 2017, compared with the same period of the prior year. For accounting purposes, the Corporation has not designated its derivative financial instruments as hedges. Accordingly, the gains or losses from these contracts are not reflected in the Corporation's reported amounts of oil and natural gas sales, but rather they are separately reported as gains or losses from derivative financial instruments in the Corporation's net earnings or loss.

For the three months ended March 31,	2017			2016		
	Realized Loss	Unrealized Gain	Total	Realized Gain	Unrealized Gain	Total
Gas swaps	\$ (366)	\$ 1,165	\$ 799	\$ 199	\$ 507	\$ 706

At March 31, 2017, the Corporation had a single derivative financial instrument for 5,000 million British thermal units ("mmbtu") per day at US\$2.70/mmbtu for the period from April 1, 2017 to January 1, 2018. Given the recent improvement in the outlook for natural gas prices, the Corporation's derivative financial instruments at March 31, 2017 had a negative value of \$1.1 million.

Contract	Volume	Pricing Point	Strike Price (\$/unit)	Remaining Term	Fair Value March 31, 2017
Natural Gas	5,000 mmbtu/day	NYMEX	US\$2.70	Apr 01/17 to Jan 01/18	\$ (1,110)

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

#### *Production Volumes*

During the three months ended March 31, 2017, production volumes decreased to an average of 2,142 boe/d, compared with an average of 2,302 boe/d produced in the same period of 2016. Approximately 80% of the Corporation's production volumes are from natural gas, while the remaining 20% of production volumes are from oil and liquids.

Average daily volume during the three months ended March 31,	2017	2016
Natural gas (Mcf/d)	10,238	10,872
Oil (bbls/d)	436	486
Liquids (bbls/d)	-	4
Total (boe/d)	2,142	2,302

Reductions in production volume reflect the expected natural depletion of the Corporation's resources. Due primarily to financial constraints, the Corporation has limited its capital works and development initiatives, which has temporarily curtailed the potential for further exploitation of its producing properties.

#### *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 that is directly attributable to these activities.

During the first quarter of 2017, the Corporation incurred production expenditures of \$2.5 million or \$12.97/boe, a decrease of \$0.2 million from production expenditures of \$2.7 million or \$12.93/boe incurred in the same period of the prior year.

For the three months ended March 31,				2017			2016		
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Production expenditures	\$ 1,485	\$ 1,015	\$ 2,500	\$ 1,668	\$ 1,039	\$ 2,707			
Production expenditures per unit	(per Mcf) \$ 1.61	(per bbl) \$ 25.86	(per boe) \$ 12.97	(per Mcf) \$ 1.69	(per bbl) \$ 23.34	(per boe) \$ 12.93			

#### Field Level Cash Flows and Field Netbacks

For the three months ended March 31,				2017			2016		
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Total sales	\$ 4,408	\$ 2,569	\$ 6,977	\$ 3,110	\$ 1,865	\$ 4,975			
Royalties	(644)	(387)	(1,031)	(468)	(277)	(745)			
Production expenditures	(1,485)	(1,015)	(2,500)	(1,668)	(1,039)	(2,707)			
	2,279	1,167	3,446	974	549	1,523			
Realized (loss) gain on derivative financial instruments	(366)	-	(366)	199	-	199			
<b>Field level cash flows</b>	<b>\$ 1,913</b>	<b>\$ 1,167</b>	<b>\$ 3,080</b>	<b>\$ 1,173</b>	<b>\$ 549</b>	<b>\$ 1,722</b>			

For the three months ended March 31,				2017			2016		
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
	\$/Mcf	\$/bbl	\$/boe	\$/Mcf	\$/bbl	\$/boe	\$/Mcf	\$/bbl	\$/boe
Total sales	\$ 4.78	\$ 65.47	\$ 36.19	\$ 3.14	\$ 41.89	\$ 23.76			
Royalties	(0.70)	(9.88)	(5.35)	(0.47)	(6.21)	(3.56)			
Production expenditures	(1.61)	(25.86)	(12.97)	(1.69)	(23.34)	(12.93)			
	2.47	29.73	17.87	0.98	12.34	7.27			
Realized (loss) gain on derivative financial instruments	(0.40)	-	(1.90)	0.20	-	0.95			
<b>Field netbacks</b>	<b>\$ 2.07</b>	<b>\$ 29.73</b>	<b>\$ 15.97</b>	<b>\$ 1.18</b>	<b>\$ 12.34</b>	<b>\$ 8.22</b>			

Improved prices for commodities, before the effect of any of the Corporation's derivative financial instruments, increased field level cash flows to \$3.4 million or \$17.87/boe, essentially 2.2 times field level cash flows of \$1.5 million or \$7.27/boe generated in the first quarter of the prior year.

Field level cash flows from natural gas operations, before the effect of derivative financial instruments, increased to \$2.3 million or \$2.47/Mcf, compared with field level cash flows of \$1.0 million or \$0.98/Mcf in the same period of the prior year.

Field level cash flows from oil and liquids, before the effect of derivative financial instruments, increased to \$1.1 million during the first quarter of 2017, compared with field level cash flows of \$0.5 million in the same period of the prior year. On a per unit basis, field netbacks from oil production were \$29.73/bbl during the first quarter of 2017, an increase from field netbacks from oil production of \$12.34/bbl during the same quarter of the prior year.

During the first quarter of 2017, the Corporation recognized a \$0.8 million net gain from its derivative financial instruments, including an unrealized gain of \$1.2 million, offset by a realized loss of \$0.4 million. The realized loss reduced field netbacks from natural gas by \$0.40/Mcf.

#### Capital Expenditures

In response to low commodity prices for both crude oil and natural gas, and as a result of the impact these lower prices have had on the Corporation's ability to borrow pursuant to its existing lending arrangements, the Corporation continues to limit its 2017 capital work plan. During the first quarter of 2017, the Corporation incurred capital expenditures of \$0.4 million, all of which related to maintaining its existing and essential land portfolio.

In the first quarter of the prior year, the Corporation sold an offshore jack-up drilling platform for proceeds of \$88,000, after identifying the jack-up drilling rig as redundant to operations. The Corporation's financial results for the first quarter of the prior year include a loss of \$1.5 million related to this disposal.

### **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. DELP maintains 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 of Natural Resources and Forestry (“MNRF”) 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 to defer its plugging and abandonment program, subject to DELP complying with a revised timeline for the abandonment of inactive wells, including the abandonment of nine onshore and 44 offshore wells in 2017. In connection with the revised plugging and decommissioning requirements, Dundee Corporation, the Corporation’s parent, 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. At March 31, 2017, the Corporation had completed the abandonment of three onshore wells pursuant to these requirements at a cost of approximately \$0.2 million. The abandonment process is partially dependent on weather conditions.

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 March 31, 2017, the Corporation’s estimate of these future costs on an undiscounted basis is approximately \$98.1 million. The Corporation expects to incur these forecasted obligations over the life of the underlying assets, which is currently in excess of 40 years.

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 March 31, 2017, the discounted amount of the Corporation’s decommissioning liabilities was \$56.7 million. The discount used in calculating the Corporation’s decommissioning liabilities is accreted over time. During the first quarter of 2017, the Corporation incurred accretion expense of \$0.3 million (three months ended March 31, 2016 – \$0.2 million) related to the carrying value of its decommissioning liabilities.

### **Castor UGS Limited Partnership and the Castor Project**

The Corporation is the original developer of a Spanish infrastructure undertaking that converted an abandoned oilfield to a natural gas storage facility (the “Castor Project”). The Castor Project, and the related exploitation concession, were owned and developed by Escal UGS S.L. (“Escal”), a company incorporated under Spanish jurisdiction. ACS Servicios Comunicaciones 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 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.

CLP had previously initiated binding arbitration proceedings against ACS as to the sharing of cash flows from the Castor Project. On March 27, 2017, the Corporation announced that the arbitral tribunal of the International Chamber of Commerce had rendered



its decision related to the Castor Project, denying the claim made by CLP. The decision was rendered by a majority of the three-person tribunal, with the third member issuing a dissenting opinion. The Corporation and counsel are currently assessing what steps, if any, may be taken based on the decision rendered.

The Corporation accounts for its investment in Escal using the equity method. At March 31, 2017 and December 31, 2016, 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 March 31, 2017 (December 31, 2016 – \$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.

A more detailed description of the Corporation's investment in Escal is provided in the MD&A accompanying the 2016 Consolidated Financial Statements under "*Significant Projects – Castor UGS Limited Partnership and the Castor Project*".

#### *Issuance of Limited Partnership Units in Castor UGS Limited Partnership*

During the three months ended March 31, 2017, and in order to fund legal and other related costs of the Castor Project arbitration process, CLP raised funds through a voluntary cash call to its limited partners. CLP raised partners' capital of \$1.3 million from the cash call, including \$1.0 million raised directly from the Corporation.

#### **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 the first three months of 2017, the Corporation provided for an impairment loss relating to its investment in Eurogas International of \$0.3 million (three months ended March 31, 2016 – \$0.3 million).

In 2014, Eurogas International entered into a farm in arrangement with DNO Tunisia AS ("DNO") that essentially provides DNO with an 87.5% participating interest in the Sfax exploration permit. Eurogas International retains a 5.625% interest. Under the terms of the farm in arrangement, DNO assumed the obligation for 100% of all future costs associated with the permit, as well as the assumption of all related drilling obligations. In August 2015, DNO received regulatory approval from the Tunisian authorities for a two-year extension of the first renewal period related to the permit, extending the first renewal period and the associated exploration well drilling obligation to December 8, 2017.

#### **Other Items in Consolidated Net Earnings**

##### *General and Administrative Expenses*

General and administrative expenses incurred during the first three months of 2017 were \$0.9 million, a substantial decrease from general and administrative expenses of \$1.5 million incurred during the first quarter of the prior year. General and administrative expenses in the first quarter of 2017 include approximately \$125,000 of costs associated with DELP's lending arrangements. In the comparative period of the prior year, the Corporation incurred costs of \$0.7 million related to the arbitration process associated with the Castor Project. Otherwise, reductions in general and administrative expenses are a reflection of the Corporation's ongoing cost efficiency initiatives.

### Interest Expense

The Corporation incurred interest expense of \$1.3 million in the first three months of 2017, compared with interest expense of \$1.0 million incurred in the same period of the prior year. Included in interest expense is \$0.3 million (three months ended March 31, 2016 – \$0.2 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. Interest expense has increased as a result of higher borrowing costs.

### Income Tax Expense

The Corporation recognized an income tax recovery of \$12,000 in the first three months of 2017 (three months ended March 31, 2016 – \$1.1 million), generating an effective income tax rate of 22% (three months ended March 31, 2016 – 25%). The income tax recovery rate differs from the federal and provincial statutory rate of 26.5% as a result of certain non-deductible expenses.

## SELECTED QUARTERLY FINANCIAL INFORMATION

	2017	2016				2015		
	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun
Revenues	\$ 5,946	\$ 5,933	\$ 5,449	\$ 4,698	\$ 4,230	\$ 4,974	\$ 6,400	\$ 6,886
<b>Net loss attributable to owners of the parent</b>	<b>(33)</b>	<b>(6,766)</b>	<b>(2,111)</b>	<b>(7,303)</b>	<b>(2,941)</b>	<b>(3,633)</b>	<b>(1,902)</b>	<b>(1,540)</b>
Basic and fully diluted loss per share	\$ (0.00)	\$ (0.04)	\$ (0.01)	\$ (0.04)	\$ (0.02)	\$ (0.02)	\$ (0.01)	\$ (0.01)
Capital expenditures before disposals	\$ (408)	\$ 36	\$ 38	\$ 189	\$ 434	\$ 249	\$ 56	\$ 195

- 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., which is included in the Corporation's statement of financial position as "Investments". Additional information regarding the Corporation's investment in Windiga Energy Inc. is included in Note 7 to the 2016 Consolidated Financial Statements.
- 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 operating results. The following table illustrates the impact of changes in the fair value of the Corporation's derivative financial instruments to its net operating results on a quarterly basis:

	2017	2016				2015		
	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun
Changes in the fair value of derivative financial instruments	\$ 799	\$ (1,360)	\$ 269	\$ (1,580)	\$ 706	\$ (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 March 31, 2017, DELP had drawn \$55.1 million against the credit facility. The credit facility is subject to certain covenants, including maintenance of minimum levels of working capital. At March 31, 2017, 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 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 under the Forbearance Agreement (see "*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 Forbearance Agreement provided a definitive timeline within which the Corporation will be required to complete a strategic review process for DELP, the purpose of which was 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. Under the terms of the Forbearance Agreement, DELP had committed to enter into a binding agreement under these arrangements, which binding agreement was to be satisfactory to its lender, by April 7, 2017. The lender has not yet provided its consent to any of the proposals made by the Corporation, and these proposals remain under consideration by DELP and DELP's lender. The lender has not provided a waiver of the April 7, 2017 deadline. In any case, the lender at all times retains its right to demand repayment in full, including during the forbearance period. The Corporation and DELP continue to assess their options in this regard.

The Corporation has assigned a limited recourse guarantee of its units in DELP as security pursuant to the 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 March 31, 2017, the Corporation had cash of \$0.3 million on deposit with a Canadian Schedule I Chartered Bank and its subsidiary had drawn \$55.1 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. There can be no assurance that the Corporation will be able to meet the requirements of its lenders, or that the Corporation will have access to alternative capital, either on terms acceptable to the Corporation or at all.

### **Outstanding Share Data and Dilutive Securities**

Subsequent to March 31, 2017, the Corporation cancelled 185,158 common shares under the terms of a sunset provision related to a 2004 transaction. At May 1, 2017, the Corporation had 188,083,836 common shares outstanding. In addition, at March 31, 2017, the Corporation had granted 2,280,000 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. The terms of the Corporation's stock options and deferred share units are described in Note 13 to the 2016 Consolidated Financial Statements.

### **OFF BALANCE SHEET ARRANGEMENTS, COMMITMENTS AND CONTINGENCIES**

Other than as may be disclosed elsewhere in this MD&A, there have been no significant changes in the nature of off balance sheet arrangements, commitments and contingencies from those described in Note 19 to the 2016 Consolidated Financial Statements and as described under "*Off Balance Sheet Arrangements*" and "*Commitments and Contingencies*" in the Corporation's MD&A as at and for the year ended December 31, 2016.

### **RELATED PARTY TRANSACTIONS**

Other than as described in Note 16 to the March 2017 Interim Consolidated Financial Statements, there are no significant changes in the nature and scope of related party transactions to those described in Note 18 to the 2016 Consolidated Financial Statements and the accompanying MD&A.

### **BUSINESS RISKS**

There are a number of inherent risks associated with the Corporation's activities. These risks are described in the Corporation's 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 at [www.sedar.com](http://www.sedar.com). At March 31, 2017, the Corporation had not identified any material changes to the risk factors affecting its business, and its approach to managing those risks, from those discussed in the document referred to above. 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.

There have been no significant changes to the Corporation's significant accounting policies or to the judgments, estimates and assumptions made by the Corporation in the preparation of the March 2017 Interim Consolidated Financial Statements from those significant accounting policies and judgments, estimates and assumptions made by the Corporation in the preparation of its 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 March 31, 2017.

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 March 31, 2017, 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 the three months ended March 31, 2017 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 "resources" or "reserves" 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](http://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](http://www.sedar.com) and the Corporation's website at [www.dundee-energy.com](http://www.dundee-energy.com).

Toronto, Ontario  
May 1, 2017

**DUNDEE ENERGY LIMITED**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF**  
**FINANCIAL POSITION**  
**(unaudited)**

*(expressed in thousands of Canadian dollars)*

	Note	As at	
		March 31, 2017	December 31, 2016
<b>ASSETS</b>			
<b>Current</b>			
Cash		\$ 253	\$ 1,505
Accounts receivable	4	2,279	2,729
Prepays and security deposits		1,233	649
Inventory		341	335
Investments	5	1,425	1,425
		5,531	6,643
<b>Non-current</b>			
Oil and gas properties	6	130,708	131,387
Equity accounted investment in Escal	13	-	-
Deferred income taxes		18,022	18,010
		<b>\$ 154,261</b>	<b>\$ 156,040</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Bank loan	7	\$ 55,100	\$ 57,400
Accounts payable and accrued liabilities	16	9,236	9,042
Derivative financial liabilities	9	1,110	2,275
Decommissioning liabilities	8	3,946	3,965
		69,392	72,682
<b>Non-current</b>			
Decommissioning liabilities	8	52,785	51,555
		122,177	124,237
<b>SHAREHOLDERS' EQUITY</b>			
<b>Equity Attributable to Owners of the Parent</b>			
Share capital	10	112,682	112,682
Contributed surplus	10	7,599	7,611
Deficit		(84,432)	(84,399)
Accumulated other comprehensive loss		(3,392)	(3,392)
		32,457	32,502
<b>Non-controlling interest</b>			
		(373)	(699)
		32,084	31,803
		<b>\$ 154,261</b>	<b>\$ 156,040</b>

*The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.*

**Commitments (Note 17)**

**DUNDEE ENERGY LIMITED**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF**  
**OPERATIONS AND COMPREHENSIVE LOSS**  
**(unaudited)**

*(expressed in thousands of Canadian dollars, except per share amounts)*

	Note	For the three months ended	
		March 31, 2017	March 31, 2016
<b>REVENUES</b>			
Oil and gas sales		\$ 6,977	\$ 4,975
Royalties		(1,031)	(745)
Net sales		5,946	4,230
Production expenditures	12	(2,500)	(2,707)
Depreciation and depletion	6	(2,075)	(2,271)
General and administrative expenses	12	(926)	(1,538)
Gain on fair value changes of derivative financial instruments	9	799	706
Impairment of financial instruments	5	(317)	(320)
Interest and other items in earnings		359	(1,140)
Interest expense	7, 8	(1,296)	(1,041)
Foreign exchange loss		(45)	(101)
<b>NET LOSS BEFORE INCOME TAXES</b>		(55)	(4,182)
Income tax recovery	15		
Deferred		12	1,059
		12	1,059
<b>NET LOSS AND</b>			
<b>    COMPREHENSIVE LOSS FOR THE PERIOD</b>		\$ (43)	\$ (3,123)
<b>NET LOSS ATTRIBUTABLE TO:</b>			
Owners of the parent		\$ (33)	\$ (2,941)
Non-controlling interest		(10)	(182)
		\$ (43)	\$ (3,123)
<b>BASIC AND DILUTED NET LOSS PER SHARE</b>			
	14	\$ -	\$ (0.02)

*The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.*



**DUNDEE ENERGY LIMITED**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF**  
**CHANGES IN SHAREHOLDERS' EQUITY**  
**(unaudited)**

*(expressed in thousands of Canadian dollars)*

	Attributable to Owners of the Parent									TOTAL
	Contributed Surplus					Deficit	Accumulated Other Comprehensive Loss	Non-controlling Interest		
	Share Capital	Option Reserve	Deferred Share Unit Reserve	Ownership Interest in Subsidiaries						
Balance, December 31, 2015	\$ 112,682	\$ 6,846	\$ 810	\$ (46)	\$ (65,278)	\$ (3,392)	\$ (106)	\$	51,516	
<b>For the three months ended March 31, 2016</b>										
Net loss	-	-	-	-	(2,941)	-	(182)		(3,123)	
Stock based compensation	-	1	-	-	-	-	-		1	
Balance, March 31, 2016	112,682	6,847	810	(46)	(68,219)	(3,392)	(288)		48,394	
<b>From April 1, 2016 to December 31, 2016</b>										
Net loss	-	-	-	-	(16,180)	-	(411)		(16,591)	
Balance, December 31, 2016	112,682	6,847	810	(46)	(84,399)	(3,392)	(699)		31,803	
<b>For the three months ended March 31, 2017</b>										
Net loss	-	-	-	-	(33)	-	(10)		(43)	
Changes of ownership interest in subsidiaries (Note 13)	-	-	-	(12)	-	-	336		324	
<b>Balance, March 31, 2017</b>	<b>\$ 112,682</b>	<b>\$ 6,847</b>	<b>\$ 810</b>	<b>\$ (58)</b>	<b>\$ (84,432)</b>	<b>\$ (3,392)</b>	<b>\$ (373)</b>	<b>\$</b>	<b>32,084</b>	

*The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.*

**DUNDEE ENERGY LIMITED**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW**  
**(unaudited)**

*(expressed in thousands of Canadian dollars)*

	Note	For the three months ended	
		March 31, 2017	March 31, 2016
<b>OPERATING ACTIVITIES</b>			
Net loss for the period		\$ (43)	\$ (3,123)
Adjustments for:			
Depreciation and depletion	6	2,075	2,271
Gain on fair value changes of derivative financial instruments	9	(1,165)	(507)
Impairment of financial instruments	5	317	320
Deferred income taxes		(12)	(1,059)
Stock based compensation	11	-	1
Reclamation expenditures	8	(156)	(79)
Other		(54)	1,408
		962	(768)
Changes in:			
Accounts receivable		450	200
Accounts payable and accrued liabilities		277	1,667
Prepays and security deposits		(584)	(619)
Inventory		(6)	(5)
<b>CASH PROVIDED FROM OPERATING ACTIVITIES</b>		<b>1,099</b>	<b>475</b>
<b>FINANCING ACTIVITIES</b>			
Repayment of bank loan arrangements	7	(2,300)	(40)
Issuance of shares in subsidiaries to non-controlling interest		324	-
<b>CASH USED IN FINANCING ACTIVITIES</b>		<b>(1,976)</b>	<b>(40)</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds from the sale of properties		-	7
Investment in oil and gas properties	6	(375)	(314)
<b>CASH USED IN INVESTING ACTIVITIES</b>		<b>(375)</b>	<b>(307)</b>
<b>(DECREASE) INCREASE IN CASH</b>		<b>(1,252)</b>	<b>128</b>
<b>CASH, BEGINNING OF PERIOD</b>		<b>1,505</b>	<b>86</b>
<b>CASH, END OF PERIOD</b>		<b>\$ 253</b>	<b>\$ 214</b>
Interest paid		\$ 954	\$ 802

*The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.*

**DUNDEE ENERGY LIMITED**  
**NOTES TO THE CONDENSED INTERIM**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

For the three months ended March 31, 2017 and 2016 Tabular dollar amounts in thousands of Canadian dollars, except per share amounts
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**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 March 31, 2017, 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 unaudited condensed interim consolidated financial statements of the Corporation as at and for the three months ended March 31, 2017 (“March 2017 Interim Consolidated Financial Statements”) 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, as applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, “*Interim Financial Reporting*”. The March 2017 Interim Consolidated Financial Statements should be read in conjunction with the Corporation’s audited consolidated financial statements as at and for the year ended December 31, 2016 (“2016 Audited Consolidated Financial Statements”) which were prepared in accordance with IFRS. The March 2017 Interim Consolidated Financial Statements were authorized for issuance by the Board of Directors on May 1, 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 loans made by the lenders under a credit agreement dated July 2, 2012, as amended (Note 7). Under the terms of the Forbearance Agreement, provided that certain ongoing conditions are met, the lender to DELP 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 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. Under the terms of the Forbearance Agreement, DELP had committed to enter into a binding agreement under these arrangements, which binding agreement was to be satisfactory to its lender, by April 7, 2017. The lender has not yet provided its consent to any of the proposals made by the Corporation, and these proposals remain under consideration by DELP and DELP's lender. The lender has not provided a waiver of the April 7, 2017 deadline. In any case, the lender at all times retains its right to demand repayment in full, including during the forbearance period. The Corporation and DELP continue to assess their options in this regard.

These unaudited condensed interim 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 March 31, 2017, the Corporation had negative working capital of \$63,861,000 (December 31, 2016 – \$66,039,000) and during the three months then ended, it incurred a net loss of \$43,000 (three months ended March 31, 2016 – \$3,123,000). 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 unaudited condensed interim 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 unaudited condensed interim consolidated financial statements. These differences could be material.

#### **Changes in Accounting Policies Implemented During the Three Months Ended March 31, 2017**

The March 2017 Interim Consolidated Financial Statements follow the same accounting principles and methods of application as those disclosed in Note 3 to the 2016 Audited Consolidated Financial Statements, except as described below.

##### *IAS 7, "Statement of Cash Flows" ("IAS 7")*

On January 1, 2017, the Corporation implemented certain amendments to IAS 7, which require that entities provide enhanced information about changes in their financial liabilities, including changes from cash flows and non-cash changes. The implementation of amendments to IAS 7 had no impact to the Corporation's March 2017 Interim Consolidated Financial Statements.

##### *IAS 12, "Income Taxes" ("IAS 12")*

On January 1, 2017, the Corporation implemented certain 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 Corporation does not currently measure any of its debt instruments at fair value. Therefore, the implementation of IAS 12 had no impact to the Corporation's March 2017 Interim Consolidated Financial Statements.

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

IFRS accounting standards, interpretations and amendments to existing IFRS accounting standards that were not yet effective as at December 31, 2016, are described in Note 3 to the 2016 Audited Consolidated Financial Statements. There were no other changes to existing IFRS accounting standards and interpretations since December 31, 2016 that are expected to have a material effect on the Corporation's consolidated financial statements.

### 3. CRITICAL JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the March 2017 Interim 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 amount 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. There have been no significant changes in judgments, estimates and assumptions made by the Corporation in the preparation of the March 2017 Interim Consolidated Financial Statements from those judgments, estimates and assumptions disclosed in Note 4 to the 2016 Audited Consolidated Financial Statements.

### 4. ACCOUNTS RECEIVABLE

As at	March 31, 2017	December 31, 2016
Customers for oil and natural gas production	\$ 2,114	\$ 2,596
Third-party drilling receivable	119	119
Working interest partners	18	14
Other	28	-
	<b>\$ 2,279</b>	<b>\$ 2,729</b>

### 5. INVESTMENTS

As at	March 31, 2017	December 31, 2016
Investment in private enterprises	\$ 1,425	\$ 1,425
Preferred shares of Eurogas International	32,150	32,150
Less: Impairment	(32,150)	(32,150)
	-	-
Accrued dividends on preferred share investment in Eurogas International	11,128	10,811
Less: Impairment	(11,128)	(10,811)
	-	-
	<b>\$ 1,425</b>	<b>\$ 1,425</b>

At March 31, 2017 and December 31, 2016, 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 terms of the Corporation's investment in the Series A Preference Shares are detailed in Note 7 to the 2016 Audited Consolidated Financial Statements. Notwithstanding the Corporation not receiving any dividends on its investment at March 31, 2017, the Corporation had not exercised its entitlement to elect the majority of the members of the Board of Directors of Eurogas International. During the three months ended March 31, 2017, the Corporation recognized an impairment loss of \$317,000 (three months ended March 31, 2016 – \$320,000) relating to dividends receivable on the Series A Preference Shares.

## 6. OIL AND GAS PROPERTIES

	Property, Plant and Equipment					Exploration and Evaluation		TOTAL
	Oil and Gas Development Costs	Pipeline Infrastructure	Machinery and Equipment	Land and Buildings	Other	Undeveloped Properties		
<b>At December 31, 2015</b>								
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	
<b>For the three months ended March 31, 2016</b>								
Carrying value December 31, 2015	85,977	19,181	20,696	4,576	1,224	24,781	156,435	
Net additions	-	-	(1,537)	-	(4)	393	(1,148)	
Remeasure decommissioning liability (Note 8)	2,056	-	-	-	-	-	2,056	
Depreciation and depletion	(1,686)	(234)	(338)	(7)	(6)	-	(2,271)	
Net carrying value, March 31, 2016	86,347	18,947	18,821	4,569	1,214	25,174	155,072	
<b>At March 31, 2016</b>								
Cost	162,621	27,751	26,029	4,715	2,454	25,174	248,744	
Accumulated depreciation, depletion and impairment	(76,274)	(8,804)	(7,208)	(146)	(1,240)	-	(93,672)	
Net carrying value, March 31, 2016	86,347	18,947	18,821	4,569	1,214	25,174	155,072	
<b>Transactions from April 1, 2016 to December 31, 2016</b>								
Carrying value March 31, 2016	86,347	18,947	18,821	4,569	1,214	25,174	155,072	
Net additions	-	-	93	-	(27)	197	263	
Remeasure decommissioning liability (Note 8)	(5,250)	-	-	-	-	-	(5,250)	
Depreciation and depletion	(5,000)	(723)	(1,005)	(24)	(12)	-	(6,764)	
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	
<b>At December 31, 2016</b>								
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	
<b>For the three months ended March 31, 2017</b>								
Carrying value December 31, 2016	71,097	18,224	17,909	4,545	1,175	18,437	131,387	
Net additions	-	-	(34)	-	-	405	371	
Remeasure decommissioning liability (Note 8)	1,025	-	-	-	-	-	1,025	
Depreciation and depletion	(1,472)	(234)	(338)	(7)	(24)	-	(2,075)	
Net carrying value, March 31, 2017	70,650	17,990	17,537	4,538	1,151	18,842	130,708	
<b>At March 31, 2017</b>								
Cost	158,396	27,751	26,077	4,715	2,427	25,776	245,142	
Accumulated depreciation, depletion and impairment	(87,746)	(9,761)	(8,540)	(177)	(1,276)	(6,934)	(114,434)	
Net carrying value, March 31, 2017	\$ 70,650	\$ 17,990	\$ 17,537	\$ 4,538	\$ 1,151	\$ 18,842	\$ 130,708	

## 7. 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. At March 31, 2017, amounts available pursuant to the credit facility were \$58,000,000 (December 31, 2016 – \$60,000,000).

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 March 31, 2017, 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 March 31, 2017, the Corporation was in compliance with all such covenants.

At March 31, 2017, DELP had drawn \$55,100,000 (December 31, 2016 – \$57,400,000) pursuant to the credit facility. During the three months ended March 31, 2017, the Corporation incurred interest expense relating to the credit facility, including bank charges, arrangement fees and standby fees, of \$954,000 (three months ended March 31, 2016 – \$802,000).

On January 31, 2017, DELP entered into a Forbearance Agreement with its lender, pursuant to which the lender had 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. Under the terms of the Forbearance Agreement, DELP had committed to enter into a binding agreement under these arrangements, which binding agreement was to be satisfactory to its lender, by April 7, 2017. The lender has not yet provided its consent to any of the proposals made by the Corporation, and these proposals remain under consideration by DELP and DELP’s lender. The lender has not provided a waiver of the April 7, 2017 deadline. The Corporation and DELP continue to assess their options in this regard.

## 8. 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. 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 three months ended March 31, 2017	As at and for the year ended December 31, 2016
Undiscounted future obligations, beginning of period	\$ 98,556	\$ 94,873
Effect of changes in estimates	(324)	4,253
Liabilities settled (reclamation expenditures)	(156)	(570)
<b>Undiscounted future obligations, end of period</b>	<b>\$ 98,076</b>	<b>\$ 98,556</b>

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 three months ended March 31, 2017	As at and for the year ended December 31, 2016
<i>Discount rates applied to future obligations</i>	<i>0.73% - 2.14%</i>	<i>0.76% - 2.24%</i>
<i>Inflation rate</i>	<i>2.00%</i>	<i>2.00%</i>
Discounted future obligations, beginning of period	\$ 55,520	\$ 58,408
Effect of changes in estimates and remeasurement of discount rates	1,025	(3,194)
Liabilities settled (reclamation expenditures)	(156)	(570)
Accretion (interest expense)	342	876
<b>Discounted future obligations, end of period</b>	<b>\$ 56,731</b>	<b>\$ 55,520</b>
Current	\$ 3,946	\$ 3,965
Non-current	52,785	51,555
	<b>\$ 56,731</b>	<b>\$ 55,520</b>

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.

## 9. DERIVATIVE FINANCIAL INSTRUMENTS

During the three months ended March 31, 2017, 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 the commodity swap derivative contracts at March 31, 2017 resulted in a liability balance of \$1,110,000 (December 31, 2016 – \$2,275,000). During the three months ended March 31, 2017, the Corporation recognized a gain of \$799,000 (three months ended March 31, 2016 – \$706,000) from changes in the fair value of the commodity swap derivative contracts.

Contract		Pricing	Strike Price		Remaining	Fair Value as at
Fixed Price Swap	Volume	Point	(\$/unit)	Currency	Term	March 31, 2017
Natural gas	5,000 mmbtu/d	NYMEX	\$2.70	USD	Apr 1/17 to Jan 1/18	\$ (1,110)



## 10. SHARE CAPITAL

### Issued and Outstanding Common Shares

	Number of Common Shares Outstanding	Contributed Surplus			
		Share Capital	Option Reserve	DSUP Reserve	Ownership Interest in Subsidiaries
Outstanding, December 31, 2015	188,268,994	\$ 112,682	\$ 6,846	\$ 810	\$ (46)
<b>For the three months ended March 31, 2016</b>					
Stock based compensation	-	-	1	-	-
Outstanding, March 31, 2016 and December 31, 2016	188,268,994	112,682	6,847	810	(46)
<b>For the three months ended March 31, 2017</b>					
Issuance of shares in subsidiaries to non-controlling interest (Note 13)	-	-	-	-	(12)
<b>Outstanding, March 31, 2017</b>	<b>188,268,994</b>	<b>\$ 112,682</b>	<b>\$ 6,847</b>	<b>\$ 810</b>	<b>\$ (58)</b>

Subsequent to March 31, 2017, the Corporation cancelled 185,158 common shares under the terms of a sunset provision related to a 2004 transaction.

## 11. STOCK BASED COMPENSATION

A detailed description of the Corporation's share incentive plan ("SIP") is provided in Note 13 to the Corporation's 2016 Audited Consolidated Financial Statements.

### Stock Option Plan

There were no stock option awards granted during the three months ended March 31, 2017. A summary of the status of the stock option component of the Corporation's SIP as at and for the three months ended March 31, 2017 and the year ended December 31, 2016, is as follows:

For the period ended	March 31, 2017		December 31, 2016	
	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price
Options outstanding, beginning of period	2,380,000	\$ 0.50	2,480,000	\$ 0.50
Forfeited	(100,000)	0.50	(100,000)	0.50
<b>Options outstanding, end of period</b>	<b>2,280,000</b>	<b>\$ 0.50</b>	<b>2,380,000</b>	<b>\$ 0.50</b>
Exercisable options	2,280,000	\$ 0.50	2,380,000	\$ 0.50

  

Option Price	Options Outstanding	Options Exercisable	Contractual Life Remaining (Years)
At \$0.26	200,000	200,000	1.99
At \$0.50	1,680,000	1,680,000	1.45
At \$0.60	400,000	400,000	0.09

During the three months ended March 31, 2016, the Corporation recognized stock based compensation expense of \$1,000 in respect of outstanding stock options. The Corporation did not recognize any stock based compensation expense related to its stock option plan during the three months ended March 31, 2017.

### Deferred Share Unit Plan

The Corporation did not recognize any stock based compensation expense related to its deferred share unit plan during the three months ended March 31, 2017 and March 31, 2016. At March 31, 2017, there were 1,203,507 (December 31, 2016 – 1,203,507) deferred share units outstanding.

## 12. GENERAL AND ADMINISTRATIVE EXPENSES AND PRODUCTION EXPENDITURES BY NATURE

### General and Administrative Expenses

	For the three months ended	
	March 31, 2017	March 31, 2016
Salary and salary-related	\$ 585	\$ 683
Stock based compensation	-	1
Corporate and professional fees	467	1,024
General office	232	222
Exploration and development costs	28	27
Allocation of general and administrative costs	(386)	(419)
	<b>\$ 926</b>	<b>\$ 1,538</b>

### Production Expenditures

	For the three months ended	
	March 31, 2017	March 31, 2016
Labour	\$ 804	\$ 1,000
Materials, equipment and supplies used	480	529
Transportation	151	144
Utilities	608	583
Rental and lease payments	90	45
Other	367	406
	<b>\$ 2,500</b>	<b>\$ 2,707</b>

## 13. 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"). A detailed description of the nature and status of the Corporation's investment in Escal is provided in Note 15 to the 2016 Audited Consolidated Financial Statements.

CLP had previously initiated binding arbitration proceedings against ACS as to the sharing of cash flows from the Castor Project. On March 27, 2017, the Corporation announced that the arbitral tribunal of the International Chamber of Commerce had rendered its decision related to the Castor Project, denying the claim made by CLP. The decision was rendered by a majority of the three-person tribunal, with the third member issuing a dissenting opinion. The Corporation and counsel are currently assessing what steps, if any, may be taken based on the decision rendered.

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 March 31, 2017, 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 March 31, 2017, the carrying value of the Corporation's indirect equity interest in Escal was \$nil (December 31, 2016 – \$nil).

#### *Issuance of Limited Partnership Units in Castor UGS Limited Partnership*

During the three months ended March 31, 2017, and in order to fund legal and other related costs of the Castor Project arbitration process, CLP raised funds through a voluntary cash call to its limited partners. CLP raised partners' capital of \$1,284,000 from the cash call, including \$960,000 raised directly from the Corporation. As not all limited partners participated in the voluntary cash call, the Corporation's interest in CLP increased marginally, resulting in a reduction in the Corporation's contributed surplus balance of \$12,000.

#### 14. NET LOSS PER SHARE

	For the three months ended	
	March 31, 2017	March 31, 2016
Net loss for the period attributable to owners of the parent	\$ (33)	\$ (2,941)
Weighted average number of common shares outstanding	188,268,994	188,268,994
<b>Basic and diluted net loss per common share</b>	<b>\$ -</b>	<b>\$ (0.02)</b>

#### 15. INCOME TAXES

During the three months ended March 31, 2017, the Corporation recognized an income tax recovery amount of \$12,000 (three months ended March 31, 2016 – \$1,059,000).

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% (three months ended March 31, 2016 – 26%) as a result of the following items:

	For the three months ended	
	March 31, 2017	March 31, 2016
Loss before tax at statutory rate of 26% (2016 – 26%)	\$ 15	\$ 1,108
Effect on taxes of:		
Non-deductible expenses	(3)	(49)
<b>Income tax recovery</b>	<b>\$ 12</b>	<b>\$ 1,059</b>

#### 16. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in these March 2017 Interim Consolidated Financial Statements, related party transactions and balances as at and for the three months ended March 31, 2017 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 three months ended March 31, 2017, the Corporation incurred costs of \$162,000 (three months ended March 31, 2016 – \$108,000) in respect of these arrangements.

##### **Accounts Payable and Accrued Liabilities**

Included in accounts payable and accrued liabilities at March 31, 2017 are amounts owing to the Corporation's parent, Dundee Corporation, and to Dundee Corporation's subsidiaries of \$3,046,000 (December 31, 2016 – \$2,830,000).

##### **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 three months ended	
	March 31, 2017	March 31, 2016
Directors' fees and executive compensation	\$ 144	\$ 188
Stock based compensation	-	1
Benefits	6	11
	<b>\$ 150</b>	<b>\$ 200</b>

## 17. COMMITMENTS

There have been no substantive changes to the description and nature of the Corporation's commitments from those described in Note 19 to the Corporation's 2016 Audited Consolidated Financial Statements.

## 18. 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 March 31, 2017. These financial assets and financial liabilities have been categorized by level, according to the significance of the inputs used in determining fair value measurements.

	Carrying Value as at March 31, 2017	Fair Value as at March 31, 2017		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Recurring Measurements</b>				
<b>Financial Assets</b>				
Investment in private enterprises	\$ 1,425	\$ -	\$ 1,425	\$ -
<b>Financial Liabilities</b>				
Derivative financial instruments	(1,110)	-	(1,110)	-

A detailed description of the Corporation's financial assets and financial liabilities and its associated risk management in respect thereof are provided in Note 20 to the 2016 Audited Consolidated Financial Statements. There have been no significant changes in the business and economic circumstances and the related financial risks that affect the fair value of the Corporation's financial assets and financial liabilities since December 31, 2016.

## 19. 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 farm out agreements, or engage in debt financing.

## 20. 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 Three Months Ended March 31, 2017 and March 31, 2016**

	Southern Ontario		Spain		Corporate		TOTAL	
	31-Mar-17	31-Mar-16	31-Mar-17	31-Mar-16	31-Mar-17	31-Mar-16	31-Mar-17	31-Mar-16
<b>REVENUES</b>								
Oil and gas sales	\$ 6,977	\$ 4,975	\$ -	\$ -	\$ -	\$ -	\$ 6,977	\$ 4,975
Royalties	(1,031)	(745)	-	-	-	-	(1,031)	(745)
Net sales	5,946	4,230	-	-	-	-	5,946	4,230
Production expenditures	(2,500)	(2,707)	-	-	-	-	(2,500)	(2,707)
Depreciation and depletion	(2,053)	(2,270)	-	-	(22)	(1)	(2,075)	(2,271)
General and administrative expenses	(750)	(646)	(32)	(709)	(144)	(183)	(926)	(1,538)
Gain on fair value changes of derivative financial instruments	799	706	-	-	-	-	799	706
Impairment of financial instruments	-	-	-	-	(317)	(320)	(317)	(320)
Interest and other items in earnings	42	(1,460)	-	-	317	320	359	(1,140)
Interest expense	(1,296)	(1,041)	-	-	-	-	(1,296)	(1,041)
Foreign exchange (loss) gain	(37)	(113)	(8)	12	-	-	(45)	(101)
<b>NET (LOSS) EARNINGS BEFORE INCOME TAXES</b>	151	(3,301)	(40)	(697)	(166)	(184)	(55)	(4,182)
Income tax recovery								
Deferred	-	-	-	-	12	1,059	12	1,059
	-	-	-	-	12	1,059	12	1,059
<b>NET (LOSS) EARNINGS FOR THE PERIOD</b>	<b>\$ 151</b>	<b>\$ (3,301)</b>	<b>\$ (40)</b>	<b>\$ (697)</b>	<b>\$ (154)</b>	<b>\$ 875</b>	<b>\$ (43)</b>	<b>\$ (3,123)</b>
<b>NET (LOSS) EARNINGS ATTRIBUTABLE TO:</b>								
Owners of the parent	\$ 151	(3,301)	(30)	(515)	(154)	875	(33)	(2,941)
Non-controlling interest	-	-	(10)	(182)	-	-	(10)	(182)
	<b>\$ 151</b>	<b>\$ (3,301)</b>	<b>\$ (40)</b>	<b>\$ (697)</b>	<b>\$ (154)</b>	<b>\$ 875</b>	<b>\$ (43)</b>	<b>\$ (3,123)</b>

**Segmented Net Assets as at March 31, 2017 and December 31, 2016**

	Southern Ontario		Spain		Corporate		TOTAL	
	31-Mar-17	31-Dec-16	31-Mar-17	31-Dec-16	31-Mar-17	31-Dec-16	31-Mar-17	31-Dec-16
<b>ASSETS</b>								
<b>Current</b>								
Cash	\$ 214	\$ 1,419	\$ 2	\$ 44	\$ 37	\$ 42	\$ 253	\$ 1,505
Accounts receivable	2,279	2,729	-	-	-	-	2,279	2,729
Prepays and security deposits	1,222	690	-	(41)	11	-	1,233	649
Inventory	341	335	-	-	-	-	341	335
Investments	-	-	-	-	1,425	1,425	1,425	1,425
	4,056	5,173	2	3	1,473	1,467	5,531	6,643
<b>Non-current</b>								
Oil and gas properties	130,698	131,355	-	-	10	32	130,708	131,387
Equity accounted investment in Escal	-	-	-	-	-	-	-	-
Deferred income taxes	-	-	-	-	18,022	18,010	18,022	18,010
	\$ 134,754	\$ 136,528	\$ 2	\$ 3	\$ 19,505	\$ 19,509	\$ 154,261	\$ 156,040
<b>LIABILITIES</b>								
<b>Current</b>								
Bank loan	\$ 55,100	\$ 57,400	\$ -	\$ -	\$ -	\$ -	\$ 55,100	\$ 57,400
Accounts payable and accrued liabilities	4,449	4,305	1,022	1,319	3,765	3,418	9,236	9,042
Derivative financial liabilities	1,110	2,275	-	-	-	-	1,110	2,275
Decommissioning liabilities	3,946	3,965	-	-	-	-	3,946	3,965
	64,605	67,945	1,022	1,319	3,765	3,418	69,392	72,682
<b>Non-current</b>								
Decommissioning liabilities	52,785	51,555	-	-	-	-	52,785	51,555
	\$ 117,390	\$ 119,500	\$ 1,022	\$ 1,319	\$ 3,765	\$ 3,418	\$ 122,177	\$ 124,237
<b>SEGMENTED NET ASSETS</b>	<b>\$ 17,364</b>	<b>\$ 17,028</b>	<b>\$ (1,020)</b>	<b>\$ (1,316)</b>	<b>\$ 15,740</b>	<b>\$ 16,091</b>	<b>\$ 32,084</b>	<b>\$ 31,803</b>

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**Stock Exchange**

Toronto Stock Exchange

**Stock Symbol**

DEN