



DUNDEE ENERGY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014

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 (the "Southern Ontario Assets") and in the development of an offshore underground natural gas storage facility in Spain (the "Castor Project"). 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 July 16, 2014 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, 2013 (the "2013 Consolidated Financial Statements") and the unaudited condensed interim consolidated financial statements as at and for the three and six months ended June 30, 2014 (the "June 2014 Interim Consolidated Financial Statements"), which have been prepared using International Financial Reporting Standards ("IFRS"). All amounts are in Canadian dollars unless otherwise specified. Tabular dollar amounts, unless otherwise specified, are in thousands of dollars, except for per unit or per share amounts.

PERFORMANCE MEASURES AND BASIS OF PRESENTATION

The Corporation's June 2014 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 will be 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 risk management contracts. 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

Six months ended June 30, 2014 compared with the six months ended June 30, 2013

Consolidated Net Earnings

During the six months ended June 30, 2014, the Corporation generated net earnings attributable to owners of the parent of \$3.0 million or \$0.02 per share. This compares with a net loss attributable to owners of the parent of \$1.5 million or a loss of \$0.01 per share incurred during the six months ended June 30, 2013. Earnings in the current quarter reflect improved commodity prices, including higher realized prices from sales of natural gas following severe winter weather conditions across most of North America.

For the six months ended June 30,	2014			2013		
	Net Earnings (Loss)	Attributable to Owners of the Parent	Non-Controlling Interest	Net Earnings (Loss)	Attributable to Owners of the Parent	Non-Controlling Interest
Southern Ontario Assets	\$ 5,209	\$ 5,209	\$ -	\$ (619)	\$ (619)	\$ -
Castor Project	(159)	(119)	(40)	(82)	(62)	(20)
Loss from investment in preferred shares of Eurogas International	(638)	(638)	-	(638)	(638)	-
Corporate activities	(1,376)	(1,376)	-	(210)	(210)	-
Net earnings (loss) for the period	\$ 3,036	\$ 3,076	\$ (40)	\$ (1,549)	\$ (1,529)	\$ (20)

Southern Ontario Assets

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

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 first half of 2014, sales of oil and natural gas, net of royalty interests, generated revenues of \$22.1 million, an increase of \$6.5 million over revenues earned during the same period of the prior year. As illustrated in the following table, the effect of improvements in commodity prices increased revenues by \$7.5 million, although these results were marginally offset by reduced production volumes, which decreased revenues by \$1.0 million.

	Natural Gas	Oil and Liquids	Total
Net Sales			
Six months ended June 30, 2014	\$ 12,280	\$ 9,862	\$ 22,142
Six months ended June 30, 2013	6,155	9,449	15,604
Net increase in net sales	\$ 6,125	\$ 413	\$ 6,538
Effect of changes in production volumes	\$ (99)	\$ (831)	\$ (930)
Effect of changes in commodity prices	6,224	1,244	7,468
	\$ 6,125	\$ 413	\$ 6,538

Production Volumes

During the first half of 2014, production volumes decreased to an average of 2,072 boe/d, compared with an average of 2,155 boe/d produced in the same period of 2013.

Average daily volume during the six months ended June 30,	2014	2013
Natural gas (Mcf/d)	8,787	8,931
Oil (bbls/d)	593	642
Liquids (bbls/d)	14	24
Total (boe/d)	2,072	2,155

Average daily natural gas production dropped by approximately 2% on a period-over-period basis. The decrease is partially a result of the natural decline rate of the Corporation's assets. However, natural gas production was also adversely affected by damage to an offshore gas pipeline following ice scouring on Lake Erie during the month of February 2014. The pipeline was subsequently repaired and production was restored in April. Production declines were partially offset by increased volumes from the acquisition of an additional 20% working interest in the Southern Ontario Assets, which the Corporation completed during the second half of 2013.

Oil and liquids daily production declined by 9% during the first half of 2014, compared with the same period of the prior year. The decrease reflects natural declines in the underlying assets.

Net Sales of Oil and Gas

For the six months ended June 30,		2014		2013	
		Sales	Realized Prices (\$ / unit)	Sales	Realized Prices (\$ / unit)
Natural gas	\$	14,380	9.04	\$ 7,239	4.48
Oil		11,522	107.35	10,942	94.22
Liquids		126	48.69	213	48.58
		26,028		18,394	
Less: Royalties at 15% (2013 – 15%)		(3,886)		(2,790)	
Net sales	\$	22,142		\$ 15,604	

Revenues from oil and gas sales were \$26.0 million during the first half of 2014. This compares with revenues of \$18.4 million earned in the same period of the prior year. The Corporation's revenues are subject to royalty payments to provincial governments, freehold landowners and overriding royalty owners. During the six months ended June 30, 2014, the Corporation recorded royalty obligations of \$3.9 million (six months ended June 30, 2013 – \$2.8 million) against its oil and gas sales, representing an average royalty rate of approximately 15% (six months ended June 30, 2013 – 15%) of revenues.

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 table illustrates several benchmark prices for these commodities, compared with the Corporation's realized prices, prior to the effect of its risk management contracts.

For the six months ended June 30,		2014			2013		
	US\$	CAD\$	Realized Prices (\$)	US\$	CAD\$	Realized Prices (\$)	
Natural Gas							
Dawn Hub	8.37	9.16	9.04	4.08	4.13	4.48	
NYMEX Henry Hub	4.85	5.31		3.75	3.80		
Oil							
Edmonton Par	n/a	101.19	107.35	n/a	90.84	94.22	
West Texas Intermediate	101.05	110.66		94.18	95.43		

The Corporation realized an average price on sales of natural gas of \$9.04/Mcf during the first half of 2014, more than two times the average price of \$4.48/Mcf realized in the same period of the prior year. The increase is reflective of severe weather conditions experienced in Ontario from January to April 2014 and the high volatility in natural gas commodity prices at the Dawn Hub, a leading provider of natural gas supply to the greater Toronto market area.

During the six months ended June 30, 2014, the Corporation realized an average price of \$107.35/bbl on sales of crude oil, an increase of 14% over an average price of \$94.22/bbl realized during the same period of the prior year. The increase is consistent with period-over-period increases of 11% in the Edmonton Par average price for crude oil, and a 7% increase in the US dollar-denominated average West Texas Intermediate price.

Risk Management Contracts – Price Risk Management

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

The following table summarizes the realized and unrealized gains or losses from the Corporation's risk management contracts in the first half of 2014, compared with the same period of the prior year. For accounting purposes, the Corporation has not designated its risk management contracts 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 risk management contracts in the Corporation's net earnings or loss.

For the six months ended June 30,	2014			2013		
	Realized Loss	Unrealized Loss	Total	Realized (Loss) Gain	Unrealized (Loss) Gain	Total
Oil swaps	\$ (211)	\$ (281)	\$ (492)	\$ 380	\$ (413)	\$ (33)
Gas swaps	-	-	-	(381)	262	(119)
	\$ (211)	\$ (281)	\$ (492)	\$ (1)	\$ (151)	\$ (152)

The Corporation's risk management contracts at June 30, 2014 had a negative value of \$373,000 and consisted of the following arrangement:

Contract	Volume	Pricing Point	Strike Price (CAD\$/unit)	Remaining Term	Fair Value June 30, 2014
Fixed Price Swap	300 bbl/d	NYMEX	\$105.00	Jul 01/14 to Dec 31/14	\$ (373)

The fair values of risk management contracts outstanding at the end of a reporting period are determined using market conditions and third-party forecasts prevailing as at the reporting date. Changes in the fair values of risk management contracts are recognized as unrealized risk management contract gains or losses. Unrealized risk management contract gains or losses may or may not be realized in subsequent periods and are dependent on changes in commodity prices and foreign exchange rates.

Production Expenditures

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

For the six months ended June 30,	2014			2013		
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Production expenditures	\$ 3,543	\$ 2,983	\$ 6,526	\$ 3,334	\$ 3,061	\$ 6,395
Production expenditures per unit	(per Mcf)	(per bbl)	(per boe)	(per Mcf)	(per bbl)	(per boe)
	\$ 2.23	\$ 27.14	\$ 17.40	\$ 2.06	\$ 25.40	\$ 16.40

During the first half of 2014, the Corporation incurred production expenditures of \$6.5 million, compared with production expenditures of \$6.4 million incurred in the same period of the prior year. Production costs on a per unit basis increased to \$17.40/boe in the first half of 2014, compared with \$16.40/boe incurred during the same period of the prior year, reflecting lower production volumes.

Field Level Cash Flows and Field Netbacks

For the six months ended June 30,				2014			2013		
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Total sales	\$ 14,380	\$ 11,648	\$ 26,028	\$ 7,239	\$ 11,155	\$ 18,394			
Royalties	(2,100)	(1,786)	(3,886)	(1,084)	(1,706)	(2,790)			
Production expenditures	(3,543)	(2,983)	(6,526)	(3,334)	(3,061)	(6,395)			
	8,737	6,879	15,616	2,821	6,388	9,209			
Realized risk management (loss) gain	-	(211)	(211)	(381)	380	(1)			
Field level cash flows	\$ 8,737	\$ 6,668	\$ 15,405	\$ 2,440	\$ 6,768	\$ 9,208			

For the six months ended June 30,				2014			2013		
	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	\$ 9.04	\$ 105.98	\$ 69.41	\$ 4.48	\$ 92.56	\$ 47.17			
Royalties	(1.32)	(16.25)	(10.36)	(0.67)	(14.15)	(7.15)			
Production expenditures	(2.23)	(27.14)	(17.40)	(2.06)	(25.40)	(16.40)			
	5.49	62.59	41.65	1.75	53.01	23.62			
Realized risk management (loss) gain	-	(1.92)	(0.56)	(0.24)	3.15	-			
Field netbacks	\$ 5.49	\$ 60.67	\$ 41.09	\$ 1.51	\$ 56.16	\$ 23.62			

During the six months ended June 30, 2014, the Corporation earned field level cash flows, before realized amounts related to risk management contracts, of \$15.6 million or \$41.65/boe, compared with field level cash flows, before risk management contracts, of \$9.2 million or \$23.62/boe earned during the same period of the prior year.

Field level cash flows from natural gas production and sales were \$8.7 million or \$5.49/Mcf during the first half of 2014, an increase of \$5.9 million over field level cash flows of \$2.8 million or \$1.75/Mcf earned during the same period of the prior year. As previously indicated, the increase in field level cash flows from natural gas reflects higher commodity prices realized by the Corporation as a result of severe winter weather conditions in the early part of 2014.

Field level cash flows from production and sales of oil and liquids, before the effect of risk management contracts, increased to \$6.9 million, compared to \$6.4 million during the same period of the prior year, reflecting higher commodity prices partially offset by lower production volumes. Risk management contracts reduced field level cash flows in the first half of 2014 by \$0.2 million. In comparison, the Corporation's risk management strategies in the same period of the prior year added \$0.4 million to field level cash flows. Field netbacks from oil production and sales were \$60.67/bbl during the first half of 2014, compared with \$56.16/bbl earned in the first half of the prior year.

Capital Expenditures

For the six months ended June 30,	2014	2013
<i>Offshore</i>		
Pipeline	\$ -	\$ 202
Facilities	9	-
Total offshore	9	202
<i>Onshore</i>		
Drilling and completion	674	1,622
Workovers	89	-
Facilities	257	355
Land and building	25	42
Total onshore	1,045	2,019
<i>Exploration and Evaluation</i>		
Undeveloped properties	1,113	1,499
Onshore seismic	674	1,386
Total exploration and evaluation	1,787	2,885
Office equipment, computer hardware and software	196	264
	\$ 3,037	\$ 5,370

During the six months ended June 30, 2014, the Corporation expended \$3.0 million on capital expenditures. This compares with capital expenditures of \$5.4 million incurred during the same period of the prior year.

The Corporation incurred \$0.7 million in drilling costs with the commencement of its drilling program in the second quarter of 2014. To date, the Corporation has drilled one vertical well and one re-entry horizontal sidetrack well. While initial results are encouraging, further testing and analyses are required to determine flow rates and evaluation of the economic viability of each project. The remaining 2014 work programs will be modified as determined by the results of this test period.

The Corporation incurred \$0.1 million in final costs associated with two workovers commenced in late 2013, \$0.3 million on efficiency and equipment upgrades to facilities and a further \$0.7 million on completing 2-D and 3-D seismic work started in late 2013. The remaining \$1.1 million of exploration and evaluation costs were incurred on costs associated with undeveloped land, including annual lease rentals.

2014 Work Program

The Corporation anticipates spending \$4.2 million on the remainder of its 2014 work program. Approximately \$3.3 million will be directed towards the exploration and optimization of its oil fields in southern Ontario; a further \$0.7 million will be directed towards the Corporation's offshore natural gas assets; and approximately \$0.2 million will be incurred to acquire or maintain mineral rights for both producing and undeveloped properties.

The remaining 2014 onshore capital work program includes a drilling and completion program of two new vertical wells and one existing horizontal well re-entry estimated to cost \$2.4 million. Based on reprocessing of previously obtained seismic information, the Corporation is assessing further re-entry and vertical drill locations. In addition, the Corporation has budgeted approximately \$0.9 million for the acquisition, processing and evaluation of both 2-D and 3-D seismic as well as other activities to work up additional locations.

The Corporation will limit its 2014 offshore capital work program to approximately \$0.7 million needed to complete four workovers in a shallow gas horizon to partially offset some of the natural decline of the Corporation's natural gas assets. Contingent upon continued higher natural gas prices and the relative success of the four workovers, these opportunities may lead to a subsequent horizontal well drilling program.

Decommissioning Liabilities

The Corporation has recorded a decommissioning liability, representing its best estimate of the costs that it will incur to settle future site restoration, abandonment and reclamation obligations. At June 30, 2014, the Corporation's estimate of these future costs on an undiscounted basis was approximately \$91.4 million. These obligations are forecasted to be incurred over a 50-year period. The Corporation incurred \$0.7 million in reclamation costs during the first half of 2014 and it anticipates that it will incur another \$1.3 million in reclamation costs over the next twelve months.

In accordance with accounting requirements, the estimated decommissioning liability is recorded in the Corporation's consolidated financial statements on a discounted basis using discount rates that are specific to the underlying obligations. At June 30, 2014, the discounted amount of the Corporation's decommissioning liabilities was \$45.5 million. The discount used in calculating the Corporation's decommissioning liabilities is accreted over time. During the six months ended June 30, 2014, the Corporation incurred accretion expense of \$0.6 million (six months ended June 30, 2013 – \$0.5 million).

Impairment of Natural Gas Assets

During the year ended December 31, 2012, the Corporation impaired the carrying value of certain of its natural gas properties by \$15.5 million, reflecting substantial decreases in the forecasted price of natural gas at the time of the impairment. Severe weather conditions during the first half of 2014 resulted in considerably higher forecasted prices for natural gas, with significant volatility during the critical winter months. Given the recent uncertainty in forecasting both short and long-term prices for natural gas, the Corporation has determined that it is appropriate to defer the recognition of an impairment reversal until the forecasted prices for natural gas have restabilized.

Castor UGS Limited Partnership and the Castor Project

The Corporation has an indirect interest in the Castor Project, a Spanish infrastructure undertaking that has converted an abandoned oil field to a natural gas storage facility. ACS Servicios Comunicacions y Energy S.L. ("ACS"), a construction group in Spain, is a 67% shareholder of Escal UGS S.L. ("Escal"), the owner of the Castor Project. Castor UGS Limited Partnership, the Corporation's 74% subsidiary, holds the remaining 33% interest in Escal, providing the Corporation with an indirect 24% interest in the Castor Project.

Technical and economic audits of the Castor Project, which were required for the inclusion of the project to the Spanish gas system, were initiated in July 2013 and completed and delivered to the Spanish authorities in January 2014. These audits concluded that the Castor Project is technically fit to store and deliver gas, that it has an appropriate process design and configuration, and that it has sufficient safety engineering for operation. Injection of cushion gas to the reservoir was initiated in June 2013. However, in mid September 2013, micro-seismic activity was detected in the area surrounding the Castor Project, following which the Spanish authorities implemented a suspension until an independent assessment of the source of the seismic activity was completed. Independent assessments were subsequently completed, putting forth that the seismicity observed appears to be related to a secondary fault present in the area. These findings were made available for review by the Spanish authorities.

Escal continues to ensure the proper care and maintenance of the facilities, having funded operating and maintenance costs. However, and notwithstanding the results of the technical and economic audits, as well as the results of the independent assessments as to the source of seismic activity, the Spanish authorities have not revoked their mandated suspension. Therefore Escal considered various options available in respect of the Castor Project, including the possibility of exercising their right under the underground gas storage concession to relinquish the concession to the Spanish authorities (the "Relinquishment Option"). Under the terms of the Spanish regulations, exercise of the Relinquishment Option would result in the ownership of the facilities associated with the Castor Project reverting to the Spanish authorities in exchange for a compensatory amount to Escal, as stipulated in such regulations. The exercise of the Relinquishment Option is subject to the prior approval of the European Investment Bank (the "EIB") as the issuer of a standby letter of credit provided as a form of subordinated credit enhancement instrument in relation to the €1.4 billion secured limited recourse amortizing bonds (the "Euro Bonds") issued in respect of the Castor Project. On June 25, 2014, Escal advised the EIB of their interest in exercising the Relinquishment Option, in order to obtain the EIB's consent to the exercise of the Relinquishment Option, if exercised.

Conditional on obtaining the necessary approvals for the exercise of the Relinquishment Option, Escal may formally advise the Spanish authorities of its relinquishment of the underground storage concession, at which time the appropriate compensatory amount and terms of payment will be determined, compliant with the underlying regulations. The disbursement of any compensation amount that may be received upon exercise of the Relinquishment Option must first satisfy the financial terms of the Euro Bond, as outlined in the offering document supporting their issuance.

Share of Loss from Equity Accounted Investment in Escal UGS S.L.

The Corporation accounts for its investment in Escal using the equity method. Escal had previously established a hedging strategy to mitigate its exposure to interest rate risk associated with project financing for the Castor Project. During the third quarter of 2013, Escal paid cash to cancel all outstanding hedging arrangements. Recognition of the Corporation's share of amounts related to these hedging strategies draws the Corporation's carrying value in Escal to zero. At June 30, 2014, the Corporation had not recognized a liability of \$35.2 million (December 31, 2013 – \$34.1 million) related to losses incurred by Escal, as it does not have the legal or constructive obligation in respect thereof.

In order to comply with minimum equity to debt ratio requirements, ACS has contributed an issuance premium on shares issued by Escal totalling €40.9 million. The Corporation has not recognized the benefit of its 33% interest in the share premium as the realization and measurement of the benefit is subject to a significant number of risks and uncertainties, as discussed previously.

Investment in Series A Preference Shares of Eurogas International

The terms of the Corporation's investment in the Series A Preference Shares of Eurogas International are detailed in Note 6 to the 2013 Consolidated Financial Statements.

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 half of 2014, the Corporation provided for an impairment loss relating to its investment in Eurogas International of \$0.6 million (six months ended June 30, 2013 – \$0.6 million).

In January 2014, Eurogas International completed a farmout arrangement with DNO Tunisia AS with respect to its working interest in the Sfax Permit and the associated Ras El Besh development concession (the "DNO Agreement"). The DNO Agreement provides DNO Tunisia AS with an 87.5% participating interest in the Sfax Permit in exchange for a US\$6 million cash payment to the original joint venture partners, of which Eurogas International's share was US\$2.7 million, and the carrying of 100% of all future costs associated with the Sfax Permit, including all drilling obligations.

Other Items in Consolidated Net Earnings

General and Administrative Expenses

General and administrative expenses incurred during the first half of 2014 were \$3.8 million, an increase of \$0.9 million over general and administrative expenses of \$2.9 million incurred in the same period of the prior year. During the first half of 2014, the Corporation consolidated certain of their offices located in southern Ontario so as to streamline operations and reduce future costs. This resulted in the recognition of relocation costs amounting to \$0.5 million.

Interest Expense

The Corporation incurred interest expense of \$2.4 million in the first half of 2014, compared to interest expense of \$2.1 million incurred during the same period of the prior year. Included in interest expense is \$0.6 million (six months ended June 30, 2013 – \$0.5 million) of accretion expense associated with the Corporation’s decommissioning liabilities, with the balance of interest expense incurred in respect of borrowings pursuant to the Corporation’s credit facility.

SELECTED QUARTERLY FINANCIAL INFORMATION

	2014		2013				2012	
	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Revenues	\$ 9,398	\$ 12,744	\$ 8,264	\$ 9,340	\$ 8,245	\$ 7,359	\$ 7,507	\$ 7,359
Net earnings (loss) attributable to owners of the parent	(112)	3,188	(3,183)	(1,472)	(457)	(1,072)	(13,431)	(2,470)
Basic and fully diluted earnings (loss) per share	\$ (0.00)	\$ 0.02	\$ (0.01)	\$ (0.01)	\$ -	\$ (0.01)	\$ (0.08)	\$ (0.02)
Capital expenditures	\$ 1,578	\$ 1,459	\$ 3,300	\$ 3,419	\$ 3,447	\$ 1,923	\$ 3,009	\$ 3,894

- During the fourth quarter of 2013, the Corporation recognized an impairment on an oil property of \$3.5 million, reflecting decreased production from certain oil wells.
- During the third quarter of 2013, the Corporation completed the acquisition of additional working interests in certain natural gas properties, resulting in increased revenues.
- In the fourth quarter of 2012, the Corporation recognized an impairment on certain natural gas properties of \$15.5 million, reflecting a reduction in forecasted natural gas prices.
- Changes in the fair value of the Corporation’s risk management contracts are included in the Corporation’s net earnings. The key drivers affecting fair value changes may cause significant volatility in the Corporation’s earnings, some of which are beyond the control of the Corporation. The following table illustrates the impact of changes in the fair value of the Corporation’s risk management contracts to its net earnings (loss) on a quarterly basis:

	2014		2013				2012	
	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Changes in the fair value of risk management contracts	\$ (213)	\$ (279)	\$ 80	\$ (509)	\$ 214	\$ (366)	\$ 114	\$ (354)

QUARTERLY CONSOLIDATED RESULTS OF OPERATIONS

Three months ended June 30, 2014 compared with the three months ended June 30, 2013

During the quarter ended June 30, 2014, the Corporation’s net loss attributable to the owners of the parent was \$0.1 million, compared with a net loss attributable to the owners of the parent of \$0.5 million in the second quarter of the prior year.

For the three months ended June 30,	2014			2013		
	Net Earnings (Loss)	Attributable to Owners of the Parent	Non-Controlling Interest	Net Earnings (Loss)	Attributable to Owners of the Parent	Non-Controlling Interest
Southern Ontario Assets	\$ 417	\$ 417	\$ -	\$ 304	\$ 304	\$ -
Castor Project	(142)	(106)	(36)	(28)	(22)	(6)
Loss from investment in preferred shares of Eurogas International	(321)	(321)	-	(321)	(321)	-
Corporate activities	(102)	(102)	-	(418)	(418)	-
Net loss for the period	\$ (148)	\$ (112)	\$ (36)	\$ (463)	\$ (457)	\$ (6)

Southern Ontario Assets

During the second quarter of 2014, sales of oil and natural gas, net of royalty interests were \$9.4 million, an increase of \$1.2 million from the \$8.2 million earned in the same period of the prior year. As illustrated in the table below, improved commodity prices increased revenues by \$1.3 million, partially offset by reduced production volumes, which decreased revenues by \$0.2 million.

	Natural Gas	Oil and Liquids	Total
Net Sales			
Three months ended June 30, 2014	\$ 4,011	\$ 5,387	\$ 9,398
Three months ended June 30, 2013	3,233	5,012	8,245
Net increase in net sales	\$ 778	\$ 375	\$ 1,153
Effect of changes in production volumes	\$ 116	\$ (283)	\$ (167)
Effect of changes in commodity prices	662	658	1,320
	\$ 778	\$ 375	\$ 1,153
Average daily volume during the three months ended June 30,		2014	2013
Natural gas (Mcf/d)		9,085	8,770
Oil (bbls/d)		637	664
Liquids (bbls/d)		15	28
Total (boe/d)		2,166	2,154

Production volumes increased marginally during the second quarter of 2014, to an average of 2,166 boe/d, compared with an average of 2,154 boe/d produced in the same period of 2013. As previously indicated, in July of the prior year, the Corporation completed the acquisition of an additional 20% working interest in the Southern Ontario Assets. During the second quarter of 2014, increased production volumes from the acquisition were offset by natural declines in the underlying assets. Production volumes were also affected by damaged offshore gas pipelines, which were only restored late in April 2014. Decreases in oil and liquid production volumes are consistent with year-to-date production volume levels, and reflect the historical decline rate for the Corporation's assets.

For the three months ended June 30,	2014		2013	
	Sales	Realized Prices (\$ / unit)	Sales	Realized Prices (\$ / unit)
Natural gas	\$ 4,686	5.67	\$ 3,808	4.77
Oil	6,307	108.86	5,799	96.03
Liquids	58	41.03	115	45.52
	11,051		9,722	
Less: Royalties at 15% (2013 – 15%)	(1,653)		(1,477)	
Net sales	\$ 9,398		\$ 8,245	

During the second quarter of 2014, the Corporation realized an average sales price of \$5.67/Mcf for natural gas, an increase over a realized price of \$4.77/Mcf in the second quarter of the prior year. Improved realized prices resulted in a \$0.9 million increase in quarter-over-quarter gross revenues.

The realized price for the sale of crude oil was \$108.86/bbl during the second quarter of 2014, compared with \$96.03/bbl realized during the second quarter of the prior year. This increase added a further \$0.5 million to gross revenues on a quarter-over-quarter basis.

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

For the three months ended June 30,	2014			2013		
	US\$	CAD\$	Realized Prices (\$)	US\$	CAD\$	Realized Prices (\$)
Natural Gas						
Dawn Hub	4.82	5.28	5.67	4.39	4.47	4.77
NYMEX Henry Hub	4.60	5.04		4.01	4.08	
Oil						
Edmonton Par	n/a	104.14	108.86	n/a	93.04	96.03
West Texas Intermediate	103.35	113.26		94.05	95.83	

The Corporation incurred production expenditures of \$3.6 million during the three months ended June 30, 2014, a marginal increase compared with \$3.5 million of production expenditures incurred during the same period of the prior year. Consistent with year-to-date results, production expenditures on a boe basis have increased marginally to \$18.50/boe in the second quarter of 2014, compared with \$18.10/boe in the second quarter of the prior year.

For the three months ended June 30,	2014			2013		
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Production expenditures	\$ 2,069	\$ 1,577	\$ 3,646	\$ 1,922	\$ 1,625	\$ 3,547
Production expenditures per unit	(per Mcf)	(per bbl)	(per boe)	(per Mcf)	(per bbl)	(per boe)
	\$ 2.50	\$ 26.58	\$ 18.50	\$ 2.41	\$ 25.82	\$ 18.10

Field level cash flows in the second quarter of 2014, before realized risk management contract gains or losses, were \$5.8 million, a 22% increase over field level cash flows of \$4.7 million generated in the second quarter of the prior year. Higher realized prices from sales of both oil and natural gas increased field netbacks in the second quarter of 2014 to \$29.17/boe, compared with \$23.98/boe earned in the second quarter of the prior year.

For the three months ended June 30,	2014			2013		
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Total sales	\$ 4,686	\$ 6,365	\$ 11,051	\$ 3,808	\$ 5,914	\$ 9,722
Royalties	(675)	(978)	(1,653)	(575)	(902)	(1,477)
Production expenditures	(2,069)	(1,577)	(3,646)	(1,922)	(1,625)	(3,547)
	1,942	3,810	5,752	1,311	3,387	4,698
Realized risk management (loss) gain	-	(119)	(119)	(381)	137	(244)
Field level cash flows	\$ 1,942	\$ 3,691	\$ 5,633	\$ 930	\$ 3,524	\$ 4,454

For the three months ended June 30,	2014			2013		
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
	\$/Mcf	\$/bbl	\$/boe	\$/Mcf	\$/bbl	\$/boe
Total sales	\$ 5.67	\$ 107.25	\$ 56.06	\$ 4.77	\$ 94.01	\$ 49.62
Royalties	(0.82)	(16.48)	(8.39)	(0.72)	(14.34)	(7.54)
Production expenditures	(2.50)	(26.58)	(18.50)	(2.41)	(25.82)	(18.10)
	2.35	64.19	29.17	1.64	53.85	23.98
Realized risk management (loss) gain	-	(2.01)	(0.60)	(0.48)	2.18	(1.25)
Field netbacks	\$ 2.35	\$ 62.18	\$ 28.57	\$ 1.16	\$ 56.03	\$ 22.73

Realized losses resulting from the Corporation's risk management contracts reduced field netbacks in the second quarter of 2014 by \$0.60/boe. In the comparable period of 2013, these contracts reduced field netbacks by \$1.25/boe.

Other Items in Consolidated Quarterly Earnings

General and administrative expenses incurred in the three months ended June 30, 2014 were \$1.9 million, compared with \$1.3 million incurred in the same period of the prior year. Consistent with year-to-date results, the increase reflects the Corporation's decision to consolidate certain of their offices located in southern Ontario so as to streamline operations and reduce future costs. This resulted in the recognition of relocation costs amounting to \$0.5 million in the second quarter of the current year.

LIQUIDITY AND CAPITAL RESOURCES

Cash Resources Availability

At June 30, 2014, the Corporation had cash of \$0.2 million on deposit with a Canadian Schedule I Chartered Bank. In addition, the Corporation had access to a further \$10.7 million pursuant to a \$70.0 million revolving demand credit facility.

Southern Ontario Assets

The Corporation's southern Ontario operations are conducted through Dundee Energy Limited Partnership ("DELP"), the Corporation's wholly-owned subsidiary. DELP has 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 DELP's option, at either the bank's prime lending rate plus 3.5% or, at the bank's then prevailing bankers' acceptance rate plus 4.5%. At June 30, 2014, DELP had drawn \$59.3 million against the credit facility. The Corporation has assigned a limited recourse guarantee of its units in DELP as security pursuant to the credit facility. The credit facility is subject to certain covenants, including maintenance of minimum levels of working capital. At June 30, 2014, the Corporation was in compliance with all such covenants.

Cash flows generated from ongoing operating activities, combined with amounts available pursuant to its credit facility, provide the Corporation with sufficient cash flow to support its working capital requirements for the foreseeable future.

Spain

Escal's controlling shareholder, ACS, is responsible for providing equity and arranging project financing for the Castor Project, including providing all guarantees that may be 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. Should the Castor Project become operational, the Corporation will be responsible for its proportionate share of any new capital investments, unless otherwise funded through working capital generated directly by Escal.

Other than the pledging of its shares in Escal as security under current lending arrangements established by Escal, the Corporation and its subsidiaries will not be required to provide any additional equity or debt funds or provide any warranties that may be required by Escal to complete the Castor Project for inclusion to the Spanish gas system. Notwithstanding any form by which ACS has, or may in the future, fund Escal, the Corporation retains full entitlement to its existing proportionate interest in Escal and in any distribution made by Escal.

Outstanding Share Data and Dilutive Securities

At June 30, 2014 and July 16, 2014, the Corporation had 188,204,184 common shares outstanding. In addition, at June 30, 2014, it had granted 5,805,000 stock options to purchase common shares of the Corporation to directors and key management at a weighted average exercise price of \$0.66 per share, and it had issued 1,390,199 deferred share units.

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 18 to the 2013 Consolidated Financial Statements and under “*Off Balance Sheet Arrangements*” and “*Commitments and Contingencies*” in the Corporation’s MD&A as at and for the year ended December 31, 2013.

RELATED PARTY TRANSACTIONS

Other than as described in Note 16 to the June 2014 Interim Consolidated Financial Statements, there are no significant changes in the nature and scope of related party transactions to those described in Note 17 to the 2013 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 2013 Annual Information Form dated March 17, 2014, under “*Risk Factors*”, which may be accessed through the System for Electronic Document Analysis and Retrieval (“SEDAR”) website www.sedar.com. At June 30, 2014, 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 its outlook.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING 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, and the related disclosure of contingent assets and liabilities, if any. Critical accounting 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 amount of revenues and other items in net earnings 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 in the preparation 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 2013 Consolidated Financial Statements.

Other than as disclosed in Note 2 to the June 2014 Interim Consolidated Financial Statements, there have been no changes in the accounting policies applied in the preparation of the Corporation’s June 2014 Interim Consolidated Financial Statements from those detailed in Note 3 to the Corporation’s 2013 Consolidated Financial Statements. The changes in accounting policies adopted during the six months ended June 30, 2014 did not have a material impact to the June 2014 Interim 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 June 30, 2014.

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 June 30, 2014, 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 six months ended June 30, 2014 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: financial and business prospects and financial outlook; performance characteristics of the Corporation's oil and natural gas properties; oil and natural gas production levels and reserve estimates; the quantity of oil and natural gas reserves and recovery rates; the Corporation's capital expenditure programs; supply and demand for oil and natural gas and commodity prices; drilling plans and strategy; availability of rigs, equipment and other goods and services; expectations regarding the Corporation's ability to raise capital and continually add to reserves through acquisitions, exploration and development; treatment under government regulatory regimes and tax laws; anticipated work programs and land tenure; the granting of formal permits, licenses or authorities to prospect; the timing of acquisitions; and the realization of the anticipated benefits of the Corporation's acquisitions and dispositions. In addition, statements relating to "reserves" or "resources" are, by their nature, forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

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

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

In addition, a number of assumptions were made by the Corporation in connection with certain forward-looking information and forward-looking statements for 2014 and beyond. These assumptions include: the impact of increasing competition; the general stability of the economic and political environment in which the Corporation operates; the timely receipt of any required regulatory approvals; the ability of the Corporation to obtain qualified staff, equipment and services in a timely and cost efficient

manner; drilling results; the ability of the operator of the projects in which the Corporation has an interest to operate such projects in a safe, efficient and effective manner; the ability of the Corporation to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development and/or exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of the Corporation to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Corporation operates; the ability of the Corporation to successfully market its oil and natural gas products; estimates on global industrial production in key geographic markets; global oil and natural gas demand and supply; that the Corporation will not have any labour, equipment or other disruptions at any of its operations of any significance in 2014 other than any planned maintenance or similar shutdowns and that any third parties on which the Corporation is relying will not experience any unplanned disruptions; that the reports it relies on for certain of its estimates are accurate; and that the above mentioned risks and the risk factors described in the Corporation's Annual Information Form do not materialize.

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

INFORMATION CONCERNING DUNDEE ENERGY LIMITED

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

Toronto, Ontario
July 16, 2014