



DUNDEE
ENERGY LIMITED

2015 SECOND 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 (the "Southern Ontario Assets") and is the original developer 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 31, 2015 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, 2014 (the "2014 Consolidated Financial Statements") and the unaudited condensed interim consolidated financial statements as at and for the three and six months ended June 30, 2015 (the "June 2015 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.

PERFORMANCE MEASURES AND BASIS OF PRESENTATION

The Corporation's June 2015 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, if any. 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, 2015 compared with the six months ended June 30, 2014

Consolidated Net Earnings or Loss

During the six months ended June 30, 2015, the Corporation incurred a net loss attributable to owners of the parent of \$2.7 million, representing a loss of \$0.01 per share. This compares with net earnings attributable to owners of the parent of \$3.1 million, or net earnings of \$0.02 per share, generated in the same period of the prior year. While average production volumes increased on a period-over-period basis, the Corporation realized substantially lower prices for its sales of commodities in the first half of 2015, compared with realized prices generated in the first half of the prior year, as further described below.

| For the six months ended June 30, | 2015 | | | 2014 | | |
|---|---------------------|--------------------------------------|--------------------------|---------------------|--------------------------------------|--------------------------|
| | Net (Loss) Earnings | Attributable to Owners of the Parent | Non-Controlling Interest | Net Earnings (Loss) | Attributable to Owners of the Parent | Non-Controlling Interest |
| Southern Ontario Assets | \$ (2,879) | \$ (2,879) | \$ - | \$ 5,209 | \$ 5,209 | \$ - |
| Castor Project | (532) | (392) | (140) | (159) | (119) | (40) |
| Loss from investment in preferred shares of Eurogas International | (638) | (638) | - | (638) | (638) | - |
| Corporate activities* | 1,163 | 1,163 | - | (1,376) | (1,376) | - |
| Net (loss) earnings for the period | \$ (2,886) | \$ (2,746) | \$ (140) | \$ 3,036 | \$ 3,076 | \$ (40) |

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

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.

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 2015, sales of oil and natural gas, net of royalty interests, generated revenues of \$13.7 million, a decrease of \$8.4 million from revenues of \$22.1 million earned during the same period of the prior year.

| | Natural Gas | Oil and Liquids | Total |
|---|-------------|-----------------|------------|
| Net Sales | | | |
| Six months ended June 30, 2015 | \$ 7,933 | \$ 5,779 | \$ 13,712 |
| Six months ended June 30, 2014 | 12,280 | 9,862 | 22,142 |
| Net decrease in net sales | \$ (4,347) | \$ (4,083) | \$ (8,430) |
| Effect of changes in production volumes | \$ 4,264 | \$ (212) | \$ 4,052 |
| Effect of changes in commodity prices | (8,611) | (3,871) | (12,482) |
| | \$ (4,347) | \$ (4,083) | \$ (8,430) |

As illustrated in the table above, substantially lower commodity prices during the first half of 2015 decreased revenues by \$12.5 million compared to the first half of 2014, although this decrease was partially offset by improved production volumes, which resulted in an increase of \$4.1 million in revenue.

Net Sales of Oil and Gas

| For the six months ended June 30, | | 2015 | | 2014 | |
|-------------------------------------|----|---------|--------------------------------|-----------|--------------------------------|
| | | Sales | Realized Prices (\$ / unit) | Sales | Realized Prices (\$ / unit) |
| Natural gas | \$ | 9,349 | 4.36 | \$ 14,380 | 9.04 |
| Oil | | 6,815 | 63.66 | 11,522 | 107.35 |
| Liquids | | 11 | 22.79 | 126 | 48.69 |
| | | 16,175 | | 26,028 | |
| Less: Royalties at 15% (2014 – 15%) | | (2,463) | | (3,886) | |
| Net sales | \$ | 13,712 | | \$ 22,142 | |

Revenues from oil and gas sales were \$16.2 million during the first half of 2015. This compares with revenues of \$26.0 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 first half of 2015, the Corporation recorded royalty obligations of \$2.5 million (six months ended June 30, 2014 – \$3.9 million) against its oil and gas sales, representing an average royalty rate of approximately 15% (six months ended June 30, 2014 – 15%) of oil and gas 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 prices realized by the Corporation.

| For the six months ended June 30, | | 2015 | | 2014 | | |
|-----------------------------------|-------|-------|-------------------------|--------|--------|-------------------------|
| | US\$ | CAD\$ | Realized Prices (\$) | US\$ | CAD\$ | Realized Prices (\$) |
| Natural Gas | | | | | | |
| Dawn Hub | 3.27 | 4.04 | 4.36 | 8.37 | 9.16 | 9.04 |
| NYMEX Henry Hub | 2.82 | 3.49 | | 4.85 | 5.31 | |
| Oil | | | | | | |
| Edmonton Par | n/a | 60.86 | 63.66 | n/a | 101.19 | 107.35 |
| West Texas Intermediate | 53.25 | 65.75 | | 101.05 | 110.66 | |

During the first half of 2015, the Corporation realized an average price on sales of natural gas of \$4.36/Mcf, representing an 8% premium over the average benchmark price at the Dawn Hub. The Corporation continues to benefit from its proximity to the Dawn Hub, as it is a leading provider of natural gas supply to the greater Toronto market area. Despite this premium however, the average realized price on sales of natural gas in the current period declined 52% from the average price of \$9.04/Mcf realized by the Corporation in the first half of the prior year. The realized price for natural gas in the first half of the prior year reflected an increase in demand for natural gas in the January to April period, caused by unanticipated severe winter weather conditions.

Volatility in the trading price for crude oil remains highly elevated, driven by uncertainty over future global economic growth and supply/demand fundamentals. Consistent with this volatility, during the first half of 2015, the Corporation realized an average price of \$63.66/bbl on sales of crude oil, a 41% decrease from the average price of \$107.35/bbl realized during the same period of the prior year. On a comparative basis, the Edmonton Par average price for crude oil during the first half of 2015 fell 40% below the average price for crude oil in the same period of 2014, while the US dollar-denominated West Texas Intermediate price for this commodity fell 47% on a period-over-period basis.

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 price risk management strategies assist the Corporation to secure a stable amount of cash flow to protect a desired level of capital spending and for debt management. The following table summarizes the realized and unrealized gains or losses from the Corporation's derivative financial instruments during the first half of 2015, 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 six months ended June 30, | 2015 | | | 2014 | | |
|-----------------------------------|------------------|--------------------|-------|------------------|--------------------|----------|
| | Realized Gain | Unrealized Loss | Total | Realized Loss | Unrealized Loss | Total |
| Oil swaps | \$ 341 | \$ (341) | \$ - | \$ (211) | \$ (281) | \$ (492) |

The Corporation did not have any derivative financial instruments outstanding at June 30, 2015.

Production Volumes

During the first half of 2015, production volumes increased to an average of 2,567 boe/d, compared with an average of 2,072 boe/d produced in the same period of the prior year.

| Average daily volume during the six months ended June 30, | 2015 | 2014 |
|---|--------|-------|
| Natural gas (Mcf/d) | 11,838 | 8,787 |
| Oil (bbls/d) | 591 | 593 |
| Liquids (bbls/d) | 3 | 14 |
| Total (boe/d) | 2,567 | 2,072 |

Average daily natural gas production increased by approximately 35% over production volumes achieved in the same period of the prior year. The increase was due primarily to the purchase of additional working interest in the offshore gas properties, which the Corporation completed in the second half of 2014, and which added approximately 1,700 Mcf/d to average production volumes. In addition, during the first half of the prior year, natural gas production volumes were negatively impacted by a temporary suspension of production in parts of central Lake Erie, Ontario, while production pipelines underwent significant repairs following damage caused by ice scouring in February 2014. These repairs resulted in lost production volumes of approximately 1,300 Mcf/d.

Oil production volumes decreased marginally to an average of 591 bbl/d during the first half of 2015, compared with an average of 593 bbl/d produced in the same period of the prior year. The decrease reflects the natural decline of the underlying assets, partially offset by positive results of workover initiatives undertaken during the first half of 2015.

Production Expenditures

Production expenditures include processing costs associated with bringing raw oil and natural gas from the reservoir to the surface sales point, and include separating the oil 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. During the first half of 2015, the Corporation incurred production expenditures of \$8.0 million, an increase of \$1.5 million from production expenditures of \$6.5 million incurred in the same period of the prior year. Production costs incurred during the first half of 2015 include costs associated with the acquisition of an increased working interest in certain natural gas properties completed during the second half of the prior year. Production expenditures on a per unit basis decreased to \$17.14/boe in the first half of 2015, from \$17.40/boe incurred during the same period of the prior year.

| For the six months ended June 30, | | | 2015 | 2014 | | |
|-----------------------------------|----------------------|-----------------------|-----------------------|----------------------|-----------------------|-----------------------|
| | Natural Gas | Oil and Liquids | Total | Natural Gas | Oil and Liquids | Total |
| Production expenditures | \$ 4,350 | \$ 3,616 | \$ 7,966 | \$ 3,543 | \$ 2,983 | \$ 6,526 |
| Production expenditures per unit | (per Mcf) \$ 2.03 | (per bbl) \$ 33.63 | (per boe) \$ 17.14 | (per Mcf) \$ 2.23 | (per bbl) \$ 27.14 | (per boe) \$ 17.40 |

Field Level Cash Flows and Field Netbacks

| For the six months ended June 30, | | | 2015 | 2014 | | |
|---|-------------|-----------------|-----------|-------------|-----------------|-----------|
| | Natural Gas | Oil and Liquids | Total | Natural Gas | Oil and Liquids | Total |
| Total sales | \$ 9,349 | \$ 6,826 | \$ 16,175 | \$ 14,380 | \$ 11,648 | \$ 26,028 |
| Royalties | (1,416) | (1,047) | (2,463) | (2,100) | (1,786) | (3,886) |
| Production expenditures | (4,350) | (3,616) | (7,966) | (3,543) | (2,983) | (6,526) |
| | 3,583 | 2,163 | 5,746 | 8,737 | 6,879 | 15,616 |
| Gain (loss) on derivative financial instruments | - | 341 | 341 | - | (211) | (211) |
| Field level cash flows | \$ 3,583 | \$ 2,504 | \$ 6,087 | \$ 8,737 | \$ 6,668 | \$ 15,405 |

| For the six months ended June 30, | | | 2015 | 2014 | | |
|---|-------------|-----------------|----------|-------------|-----------------|----------|
| | Natural Gas | Oil and Liquids | Total | Natural Gas | Oil and Liquids | Total |
| | \$/Mcf | \$/bbl | \$/boe | \$/Mcf | \$/bbl | \$/boe |
| Total sales | \$ 4.36 | \$ 63.47 | \$ 34.81 | \$ 9.04 | \$ 105.98 | \$ 69.41 |
| Royalties | (0.66) | (9.74) | (5.30) | (1.32) | (16.25) | (10.36) |
| Production expenditures | (2.03) | (33.63) | (17.14) | (2.23) | (27.14) | (17.40) |
| | 1.67 | 20.10 | 12.37 | 5.49 | 62.59 | 41.65 |
| Gain (loss) on derivative financial instruments | - | 3.17 | 0.73 | - | (1.92) | (0.56) |
| Field netbacks | \$ 1.67 | \$ 23.27 | \$ 13.10 | \$ 5.49 | \$ 60.67 | \$ 41.09 |

During the six months ended June 30, 2015, the Corporation earned field level cash flows, before the effect of any price risk management arrangements, of \$5.7 million or \$12.37/boe, compared with field level cash flows, before price management arrangements of \$15.6 million or \$41.65/boe earned during the same period of the prior year.

Field level cash flows from natural gas operations decreased to \$3.6 million or \$1.67/Mcf, compared with field level cash flows of \$8.7 million or \$5.49/Mcf in the same period of the prior year, reflecting substantially lower realized sales prices on a period-over-period basis. As previously discussed, the effect of lower realized sales prices on a period-over-period basis was partially offset by increased production volumes.

Field level cash flows from oil and liquids, before the effect of price risk management strategies, decreased to \$2.2 million or \$20.10/bbl in the first half of 2015, compared with field level cash flows of \$6.9 million or \$62.59/bbl in the same period of the prior year. The decrease in field level cash flows reflects decreases in the price for the underlying commodity.

The Corporation's price risk management arrangements increased field netbacks from oil and liquids by \$3.17/bbl during the first half of 2015, compared with a decrease of \$1.92/bbl incurred during the same period of the prior year.

Capital Expenditures

| For the six months ended June 30, | 2015 | 2014 |
|--|--------|----------|
| <i>Offshore</i> | | |
| Facilities | \$ - | \$ 9 |
| Total offshore | - | 9 |
| <i>Onshore</i> | | |
| Drilling and completion | 7 | 674 |
| Workovers | - | 89 |
| Facilities | 5 | 257 |
| Land and buildings | 7 | 25 |
| Total onshore | 19 | 1,045 |
| <i>Exploration and Evaluation</i> | | |
| Undeveloped properties | 376 | 1,113 |
| Onshore seismic | - | 674 |
| Total exploration and evaluation | 376 | 1,787 |
| Office equipment, computer hardware and software | 61 | 196 |
| | 456 | 3,037 |
| Disposition of property, plant and equipment | (191) | - |
| | \$ 265 | \$ 3,037 |

In response to volatility in commodity prices, and more pronouncedly in respect of market prices for crude oil, the Corporation determined that it was appropriate to significantly reduce its planned 2015 capital expenditure program. Accordingly, the Corporation's work plan for 2015 was budgeted at \$0.9 million and was anticipated to consist primarily of costs associated with maintaining the existing and essential land portfolio, as well as certain costs to complete projects that had been started in late 2014. To date, the Corporation has incurred approximately \$0.5 million of these budgeted capital expenditures, including \$0.4 million related to the Corporation's land portfolio.

In addition, during the first half of 2015, the Corporation disposed of certain land and buildings associated with its assets in southern Ontario. The assets had a cost of \$191,000 and were sold for proceeds of \$368,000, including cash of \$13,000 and the assumption of a vendor-take-back mortgage arrangement of \$355,000. Amounts receivable pursuant to the vendor-take-back mortgage arrangements generated interest for the Corporation at a rate of 5.5%, and are secured against the underlying assets sold.

Any residual cash flows that result from reduced capital spending or from the disposition of non-core assets will be applied towards the repayment of outstanding debt.

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, 2015, the Corporation's estimate of these future costs on an undiscounted basis was approximately \$98.2 million.

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, 2015, the discounted amount of the Corporation's decommissioning liabilities was \$55.3 million. The discount used in calculating the Corporation's decommissioning liabilities is accreted over time. During the first half of 2015, the Corporation incurred accretion expense of \$0.5 million (six months ended June 30, 2014 – \$0.6 million) related to the carrying value of its decommissioning liabilities.

During the six months ended June 30, 2015, the Corporation incurred \$0.1 million in reclamation costs related to these obligations, and it anticipates that it will incur another \$2.0 million in reclamation costs over the next 12 months.

Castor UGS Limited Partnership and the Castor Project

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

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

Also in November 2014, ACS arranged a €300 million bank financing for Escal, of which €60 million was applied to repay the balance of amounts owing pursuant to the outstanding bond arrangements. CLP is of the view that the new financing arranged by ACS was not in the best interest of Escal and consequently, CLP has lodged a legal action challenging the approval of the new financing. The balance of the funds were used to repay Escal’s shareholder loans solely to ACS, which in the opinion of CLP contravenes the terms of the 2007 memorandum of understanding in respect of CLP’s ownership rights in the equity and shareholder loans of Escal.

Early in the second quarter of 2015, CLP commenced binding arbitration proceedings to resolve this contractual dispute with ACS. As required pursuant to the terms of the memorandum of understanding referred to above, the arbitration will be in accordance with the rules of the International Chamber of Commerce (“ICC”) in Paris, and will be heard by an arbitral tribunal consisting of three arbitrators. Each of CLP and ACS has selected one arbitrator, and they have agreed upon the appointment of a third arbitrator, who when approved by the ICC will act as chairman of the arbitral tribunal. CLP has initiated the assembly of the necessary documents in support of its claim for eventual transmission to the court. Evidentiary hearings are expected to commence in mid-2016.

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

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

The Corporation accounts for its investment in Escal using the equity method. At June 30, 2015 and December 31, 2014, Escal's net equity available to shareholders was negative, reflecting operating losses and the settlement of unfavourable hedging transactions previously incurred. Accordingly, the Corporation has reduced the carrying value of its investment in Escal to \$nil at June 30, 2015 (December 31, 2014 – \$nil). The Corporation has not reduced its carrying value in Escal to below \$nil as the Corporation does not have any legal or constructive obligations in respect of its investment in Escal, nor is it currently obligated to make any payments on behalf of Escal.

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 half of 2015, the Corporation provided for an impairment loss relating to its investment in Eurogas International of \$0.6 million (six months ended June 30, 2014 – \$0.6 million).

During the first half of 2015, Eurogas International's farm in partner in the Sfax exploration permit, DNO Tunisia AS ("DNO") completed the drilling of the Jawhara-3 well. The Douleb and Bireno fractured carbonate formations proved to be water bearing and therefore, DNO plugged and abandoned the well in January 2015. In view of these results, DNO is reassessing its work plan for the remainder of 2015. The farm in arrangement with DNO provides DNO with an 87.5% participating interest in the Sfax exploration permit, subject to certain conditions, including the assumption by DNO of 100% of all future costs associated with the Sfax exploration permit, and the assumption of drilling obligations pursuant to the terms of the underlying permit.

Other Items in Consolidated Net Earnings

General and Administrative Expenses

General and administrative expenses incurred during the six months ended June 30, 2015 were \$2.2 million, a decrease of \$1.6 million when compared with general and administrative expenses of \$3.8 million incurred in the same period of the prior year. The decrease in general and administrative expenses included savings associated with the transfer of the Corporation's geological engineering office from Calgary, Alberta to London, Ontario, and the transfer of administrative support staff to London, Ontario. These cost saving initiatives were completed in June 2014.

Also included in general and administrative expenses during the first half of 2015 were \$0.4 million of legal expenses related to the arbitration initiated by CLP.

Interest Expense

The Corporation incurred interest expense of \$2.3 million in the first half of 2015, compared with \$2.4 million incurred in the same period of the prior year. Included in interest expense was \$0.5 million (six months ended June 30, 2014 – \$0.6 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.

SELECTED QUARTERLY FINANCIAL INFORMATION

| | 2015 | | 2014 | | | | 2013 | |
|---|----------------|----------------|----------------|--------------|--------------|--------------|----------------|----------------|
| | 30-Jun | 31-Mar | 31-Dec | 30-Sep | 30-Jun | 31-Mar | 31-Dec | 30-Sep |
| Revenues | \$ 6,886 | \$ 6,826 | \$ 8,564 | \$ 8,574 | \$ 9,398 | \$ 12,744 | \$ 8,264 | \$ 9,340 |
| Net (loss) earnings attributable to owners of the parent | (1,540) | (1,206) | (1,431) | (297) | (112) | 3,188 | (3,183) | (1,472) |
| Basic and fully diluted (loss) earnings per share | \$ (0.01) | \$ (0.01) | \$ (0.01) | \$ - | \$ - | \$ 0.02 | \$ (0.01) | \$ (0.01) |
| Capital expenditures | \$ 195 | \$ 261 | \$ 771 | \$ 2,513 | \$ 1,578 | \$ 1,459 | \$ 3,300 | \$ 3,419 |

- During the fourth quarter of 2014, the Corporation recorded an impairment on financial instruments related to certain amounts owing from Escal of \$1.0 million.
- During each of the third quarter of 2014 and the third quarter of 2013, the Corporation completed acquisitions of additional working interests of 15% and 20% respectively, in certain natural gas properties.
- During the fourth quarter of 2013, the Corporation recognized an impairment of \$3.5 million against certain oil properties, reflecting decreased production from certain oil wells.
- Changes in the fair value of the Corporation's derivative financial instruments are included in the Corporation's net earnings. These fair value changes may cause significant volatility in the Corporation's earnings. The following table illustrates the impact of changes in the fair value of the Corporation's derivative financial instruments to its net earnings (loss) on a quarterly basis:

| | 2015 | | 2014 | | | | 2013 | |
|---|--------|--------|--------|--------|----------|----------|--------|----------|
| | 30-Jun | 31-Mar | 31-Dec | 30-Sep | 30-Jun | 31-Mar | 31-Dec | 30-Sep |
| Changes in the fair value of derivative financial instruments | \$ - | \$ - | \$ 504 | \$ 376 | \$ (213) | \$ (279) | \$ 80 | \$ (509) |

QUARTERLY CONSOLIDATED RESULTS OF OPERATIONS

Three months ended June 30, 2015 compared with the three months ended June 30, 2014

During the quarter ended June 30, 2015, the Corporation's net loss attributable to the owners of the parent was \$1.5 million, compared with a net loss attributable to the owners of the parent of \$0.1 million in the second quarter of the prior year.

| For the three months ended June 30, | 2015 | | | 2014 | | |
|---|---------------------|--------------------------------------|--------------------------|---------------------|--------------------------------------|--------------------------|
| | Net Earnings (Loss) | Attributable to Owners of the Parent | Non-Controlling Interest | Net Earnings (Loss) | Attributable to Owners of the Parent | Non-Controlling Interest |
| Southern Ontario Assets | \$ (1,610) | \$ (1,610) | \$ - | \$ 417 | \$ 417 | \$ - |
| Castor Project | (330) | (243) | (87) | (142) | (106) | (36) |
| Loss from investment in preferred shares of Eurogas International | (321) | (321) | - | (321) | (321) | - |
| Corporate activities* | 634 | 634 | - | (102) | (102) | - |
| Net loss for the period | \$ (1,627) | \$ (1,540) | \$ (87) | \$ (148) | \$ (112) | \$ (36) |

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

Southern Ontario Assets

During the second quarter of 2015, sales of oil and natural gas, net of royalty interests were \$6.9 million, a decrease of \$2.5 million from the \$9.4 million earned in the same period of the prior year. As illustrated in the following table, lower commodity prices decreased revenues by \$3.8 million, partially offset by increased production volumes, which increased revenues by \$1.3 million.

| | Natural Gas | Oil and Liquids | Total |
|---|-------------|-----------------|------------|
| Net Sales | | | |
| Three months ended June 30, 2015 | \$ 3,500 | \$ 3,386 | \$ 6,886 |
| Three months ended June 30, 2014 | 4,011 | 5,387 | 9,398 |
| Net decrease in net sales | \$ (511) | \$ (2,001) | \$ (2,512) |
| Effect of changes in production volumes | \$ 1,311 | \$ 18 | \$ 1,329 |
| Effect of changes in commodity prices | (1,822) | (2,019) | (3,841) |
| | \$ (511) | \$ (2,001) | \$ (2,512) |

During the second quarter of 2015, the Corporation realized an average sales price of \$3.76/Mcf for natural gas, a decrease from a realized price of \$5.67/Mcf in the second quarter of the prior year. The realized price for the sale of crude oil also fell to \$67.46/bbl during the second quarter of 2015, compared with \$108.86/bbl realized during the second quarter of the prior year.

| For the three months ended June 30, | 2015 | | 2014 | |
|-------------------------------------|----------|-----------------------------|----------|-----------------------------|
| | Sales | Realized Prices (\$ / unit) | Sales | Realized Prices (\$ / unit) |
| Natural gas | \$ 4,128 | 3.76 | \$ 4,686 | 5.67 |
| Oil | 3,997 | 67.46 | 6,307 | 108.86 |
| Liquids | 7 | 23.59 | 58 | 41.03 |
| | 8,132 | | 11,051 | |
| Less: Royalties at 15% (2014 – 15%) | (1,246) | | (1,653) | |
| Net sales | \$ 6,886 | | \$ 9,398 | |

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

| For the three months ended June 30, | 2015 | | | 2014 | | |
|-------------------------------------|-------|-------|----------------------|--------|--------|----------------------|
| | US\$ | CAD\$ | Realized Prices (\$) | US\$ | CAD\$ | Realized Prices (\$) |
| Natural Gas | | | | | | |
| Dawn Hub | 2.88 | 3.58 | 3.76 | 4.82 | 5.28 | 5.67 |
| NYMEX Henry Hub | 2.75 | 3.41 | | 4.60 | 5.04 | |
| Oil | | | | | | |
| Edmonton Par | n/a | 68.62 | 67.46 | n/a | 104.14 | 108.86 |
| West Texas Intermediate | 57.85 | 71.87 | | 103.35 | 113.26 | |

Production volumes increased during the second quarter of 2015, to an average of 2,663 boe/d, compared with an average of 2,166 boe/d produced in the same period of 2014. As previously indicated, the increase includes the effect of the purchase of additional working interest in certain gas properties, which the Corporation completed in the second half of 2014, and which added approximately 1,700 Mcf/d to average production. Consistent with year-to-date results, production volumes in the second quarter of the prior year were negatively impacted by a temporary suspension of production in parts of central Lake Erie, Ontario, while production pipelines underwent significant repairs following damaged caused by ice scouring.

| Average daily volume during the three months ended June 30, | 2015 | 2014 |
|---|--------|-------|
| Natural gas (Mcf/d) | 12,053 | 9,085 |
| Oil (bbls/d) | 651 | 637 |
| Liquids (bbls/d) | 3 | 15 |
| Total (boe/d) | 2,663 | 2,166 |

Oil production increased in the second quarter of 2015, compared with production volumes in the second quarter of the prior year. Late in 2014, the Corporation introduced a change in well maintenance methods versus historical protocols. These methods were fully introduced in 2015.

The Corporation incurred production expenditures of \$4.5 million during the three months ended June 30, 2015, compared with \$3.6 million of production expenditures incurred during the same period of the prior year. However, production expenditures on a boe basis remained consistent on a quarter-over-quarter basis at \$18.50/boe.

| For the three months ended June 30, | | | | 2015 | | | 2014 | | |
|-------------------------------------|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|------|--|--|
| | Natural Gas | Oil and Liquids | Total | Natural Gas | Oil and Liquids | Total | | | |
| Production expenditures | \$ 2,593 | \$ 1,891 | \$ 4,484 | \$ 2,069 | \$ 1,577 | \$ 3,646 | | | |
| Production expenditures per unit | (per Mcf) \$ 2.36 | (per bbl) \$ 31.76 | (per boe) \$ 18.50 | (per Mcf) \$ 2.50 | (per bbl) \$ 26.58 | (per boe) \$ 18.50 | | | |

Field level cash flows in the second quarter of 2015 were \$2.4 million, a 58% decrease from field level cash flows of \$5.8 million generated in the second quarter of the prior year, prior to adjustments in the prior year related to risk management contracts. The substantial decrease resulted primarily from lower revenue levels stemming from lower prices for the underlying commodities. As a result, field netbacks in the second quarter of 2015 decreased to \$9.90/boe, compared with \$29.17/boe in the second quarter of the prior year.

| For the three months ended June 30, | | | | 2015 | | | 2014 | | |
|--|-------------|-----------------|----------|-------------|-----------------|-----------|------|--|--|
| | Natural Gas | Oil and Liquids | Total | Natural Gas | Oil and Liquids | Total | | | |
| Total sales | \$ 4,128 | \$ 4,004 | \$ 8,132 | \$ 4,686 | \$ 6,365 | \$ 11,051 | | | |
| Royalties | (628) | (618) | (1,246) | (675) | (978) | (1,653) | | | |
| Production expenditures | (2,593) | (1,891) | (4,484) | (2,069) | (1,577) | (3,646) | | | |
| | 907 | 1,495 | 2,402 | 1,942 | 3,810 | 5,752 | | | |
| Loss on derivative financial instruments | - | - | - | - | (119) | (119) | | | |
| Field level cash flows | \$ 907 | \$ 1,495 | \$ 2,402 | \$ 1,942 | \$ 3,691 | \$ 5,633 | | | |

| For the three months ended June 30, | | | | 2015 | | | 2014 | | |
|--|-------------|-----------------|----------|-------------|-----------------|----------|------|--|--|
| | Natural Gas | Oil and Liquids | Total | Natural Gas | Oil and Liquids | Total | | | |
| | \$/Mcf | \$/bbl | \$/boe | \$/Mcf | \$/bbl | \$/boe | | | |
| Total sales | \$ 3.76 | \$ 67.23 | \$ 33.55 | \$ 5.67 | \$ 107.25 | \$ 56.06 | | | |
| Royalties | (0.57) | (10.39) | (5.15) | (0.82) | (16.48) | (8.39) | | | |
| Production expenditures | (2.36) | (31.76) | (18.50) | (2.50) | (26.58) | (18.50) | | | |
| | 0.83 | 25.08 | 9.90 | 2.35 | 64.19 | 29.17 | | | |
| Loss on derivative financial instruments | - | - | - | - | (2.01) | (0.60) | | | |
| Field netbacks | \$ 0.83 | \$ 25.08 | \$ 9.90 | \$ 2.35 | \$ 62.18 | \$ 28.57 | | | |

Other Items in Consolidated Quarterly Earnings

General and administrative expenses incurred in the three months ended June 30, 2015 were \$1.1 million, compared with \$1.9 million incurred in the same period of the prior year. Consistent with year-to-date results, the decrease reflects the Corporation's decision to consolidate certain of their offices located in southern Ontario in order to streamline operations and reduce future costs. These costs reduction initiatives were partially offset by increased legal costs associated with the arbitration process initiated by CLP.

LIQUIDITY AND CAPITAL RESOURCES

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%. DELP is subject to a standby fee of 0.55% on unused amounts under the credit facility. At June 30, 2015, DELP had drawn \$59.7 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, 2015, 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, currently provide the Corporation with sufficient cash flow to support its working capital requirements for the foreseeable future.

Given recent volatility in the prices of oil and natural gas, and more specifically, the substantial decrease in the price of crude oil in the latter part of 2014 and early 2015, the Corporation's lenders have requested that the Corporation make significant reductions in the amounts borrowed pursuant to its credit facility, such that amounts borrowed are reduced to approximately \$55 million by the middle of 2016. The Corporation has made adjustments to its work plan for 2015 and it has undertaken certain cost saving measures in its operations such that it expects to be in compliance with the lender's requests by the second quarter of 2016. However, given the demand nature of the Corporation's debt facility, there can be no assurance that the lenders to the Corporation will not request further reductions in available borrowings pursuant to the Corporation's credit facility to correspond to further decreases in market prices of commodities, or otherwise.

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 current lending arrangements established by 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.

Outstanding Share Data and Dilutive Securities

At June 30, 2015 and July 31, 2015, the Corporation had 188,204,184 common shares outstanding. In addition, at June 30, 2015, it had granted 5,030,000 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 1,316,569 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 2014 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, 2014.

RELATED PARTY TRANSACTIONS

Other than as described in Note 17 to the June 2015 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 2014 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 2014 Annual Information Form dated February 20, 2015, under "Risk Factors", which may be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com. At June 30, 2015, 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 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 2014 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 June 2015 Interim Consolidated Financial Statements from those significant accounting policies and judgments, estimates and assumptions made by the Corporation in the preparation of its 2014 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, 2015.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Corporation in the reports it files or submits under securities legislation is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and reported to management, including the Corporation's Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow required disclosures to be made in a timely fashion. Based on their evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as at June 30, 2015, the Corporation's disclosure controls and procedures were effective.

The Chief Executive Officer and the Chief Financial Officer of the Corporation have also evaluated whether there were changes to the Corporation's internal control over financial reporting during the six months ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect the Corporation's internal control over financial reporting. There were no changes identified during their evaluation.

FORWARD-LOOKING STATEMENTS

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

Certain information set forth in this MD&A, including management's assessment of the Corporation's future plans and operations, contains forward-looking statements. Forward-looking statements are statements that are predictive in nature, depend upon or refer to future events or conditions and may include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or similar expressions. In particular, forward-looking statements contained in this document include, but are not limited to, statements with respect to: 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 2015 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 2015 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 31, 2015

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

(expressed in thousands of Canadian dollars)

| | Note | As at | |
|--|------|---------------|-------------------|
| | | June 30, 2015 | December 31, 2014 |
| ASSETS | | | |
| Current | | | |
| Cash | | \$ 170 | \$ 829 |
| Accounts receivable | 4 | 2,792 | 3,162 |
| Prepays and security deposits | | 1,034 | 1,468 |
| Loan receivable | 5 | 9 | - |
| Inventory | | 412 | 454 |
| Investments | 6 | 2,150 | 2,345 |
| Derivative financial assets | 10 | - | 341 |
| Taxes recoverable | | 53 | 72 |
| | | 6,620 | 8,671 |
| Non-current | | | |
| Loan receivable | 5 | 347 | - |
| Oil and gas properties | 7 | 160,701 | 167,820 |
| Equity accounted investment in Escal | 14 | - | - |
| Deferred income taxes | | 9,111 | 8,108 |
| | | \$ 176,779 | \$ 184,599 |
| LIABILITIES | | | |
| Current | | | |
| Bank loan | 8 | \$ 59,336 | \$ 61,617 |
| Accounts payable and accrued liabilities | 17 | 5,352 | 7,081 |
| Decommissioning liabilities | 9 | 2,034 | 1,358 |
| | | 66,722 | 70,056 |
| Non-current | | | |
| Decommissioning liabilities | 9 | 53,282 | 54,903 |
| | | 120,004 | 124,959 |
| SHAREHOLDERS' EQUITY | | | |
| Equity Attributable to Owners of the Parent | | | |
| Share capital | 11 | 112,626 | 112,626 |
| Contributed surplus | 11 | 7,712 | 7,691 |
| Deficit | | (59,743) | (56,997) |
| Accumulated other comprehensive loss | | (3,392) | (3,392) |
| | | 57,203 | 59,928 |
| Non-controlling interest | | | |
| | | (428) | (288) |
| | | 56,775 | 59,640 |
| | | \$ 176,779 | \$ 184,599 |

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

Commitments (Note 18)

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

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

| | Note | For the three months ended | | For the six months ended | |
|--|------|----------------------------|-----------------|--------------------------|-----------------|
| | | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| REVENUES | | | | | |
| Oil and gas sales | | \$ 8,132 | \$ 11,051 | \$ 16,175 | \$ 26,028 |
| Royalties | | (1,246) | (1,653) | (2,463) | (3,886) |
| Net sales | | 6,886 | 9,398 | 13,712 | 22,142 |
| Production expenditures | 13 | (4,484) | (3,646) | (7,966) | (6,526) |
| Depreciation and depletion | 7 | (3,172) | (2,511) | (6,065) | (4,982) |
| General and administrative expenses | 13 | (1,102) | (1,927) | (2,233) | (3,778) |
| Loss on fair value changes of derivative financial instruments | 10 | - | (213) | - | (492) |
| Gain (loss) on fair value changes in investments | 6 | (3) | 5 | 10 | (23) |
| Impairment of financial instruments | 6 | (321) | (321) | (638) | (638) |
| Interest and other income | 5 | 1,214 | 372 | 1,561 | 780 |
| Interest expense | 8, 9 | (1,110) | (1,173) | (2,262) | (2,420) |
| Foreign exchange gain (loss) | | (105) | (102) | 11 | 60 |
| (LOSS) EARNINGS BEFORE INCOME TAXES | | (2,197) | (118) | (3,870) | 4,123 |
| Income tax recovery (expense) | 16 | | | | |
| Current | | (7) | - | (19) | - |
| Deferred | | 577 | (30) | 1,003 | (1,087) |
| | | 570 | (30) | 984 | (1,087) |
| NET (LOSS) EARNINGS AND | | | | | |
| COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD | | \$ (1,627) | \$ (148) | \$ (2,886) | \$ 3,036 |
| NET (LOSS) EARNINGS ATTRIBUTABLE TO: | | | | | |
| Owners of the parent | | \$ (1,540) | \$ (112) | \$ (2,746) | \$ 3,076 |
| Non-controlling interest | | (87) | (36) | (140) | (40) |
| | | \$ (1,627) | \$ (148) | \$ (2,886) | \$ 3,036 |
| BASIC AND DILUTED | | | | | |
| NET (LOSS) EARNINGS PER SHARE | 15 | \$ (0.01) | \$ - | \$ (0.01) | \$ 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 | | | | | | | Non-controlling Interest | TOTAL |
|---|--------------------------------------|--|---|-------------|--------------------------------------|----------|----|--------------------------|-------|
| | Share Capital | Contributed Surplus for Option Reserve | Contributed Surplus for Deferred Share Unit Reserve | Deficit | Accumulated Other Comprehensive Loss | | | | |
| Balance, December 31, 2013 | \$ 112,626 | \$ 6,620 | \$ 855 | \$ (58,345) | \$ (3,082) | \$ 190 | \$ | \$ 58,864 | |
| For the six months ended June 30, 2014 | | | | | | | | | |
| Net earnings | - | - | - | 3,076 | - | (40) | | 3,036 | |
| Stock based compensation (Note 12) | - | 124 | 22 | - | - | - | | 146 | |
| Balance, June 30, 2014 | 112,626 | 6,744 | 877 | (55,269) | (3,082) | 150 | | 62,046 | |
| From July 1, 2014 to December 31, 2014 | | | | | | | | | |
| Net loss | - | - | - | (1,728) | - | (327) | | (2,055) | |
| Other comprehensive loss | - | - | - | - | (310) | (111) | | (421) | |
| Stock based compensation | - | 64 | 6 | - | - | - | | 70 | |
| Balance, December 31, 2014 | 112,626 | 6,808 | 883 | (56,997) | (3,392) | (288) | | 59,640 | |
| For the six months ended June 30, 2015 | | | | | | | | | |
| Net loss | - | - | - | (2,746) | - | (140) | | (2,886) | |
| Stock based compensation (Note 12) | - | 34 | - | - | - | - | | 34 | |
| Share incentive arrangement (Note 12) | - | - | (13) | - | - | - | | (13) | |
| Balance, June 30, 2015 | \$ 112,626 | \$ 6,842 | \$ 870 | \$ (59,743) | \$ (3,392) | \$ (428) | \$ | \$ 56,775 | |

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 six months ended | |
|--|------|--------------------------|----------------|
| | | June 30, 2015 | June 30, 2014 |
| OPERATING ACTIVITIES | | | |
| Net (loss) earnings for the period | | \$ (2,886) | \$ 3,036 |
| Adjustments for: | | | |
| Depreciation and depletion | 7 | 6,065 | 4,982 |
| Loss on fair value changes of derivative financial instruments | 10 | 341 | 281 |
| (Gain) loss on fair value changes in financial instruments | 6 | (10) | 23 |
| Impairment of financial instruments | 6 | 638 | 638 |
| Deferred income taxes | | (1,003) | 1,087 |
| Stock based compensation | 12 | 34 | 146 |
| Reclamation expenditures | 9 | (140) | (663) |
| Other | | (317) | (71) |
| | | 2,722 | 9,459 |
| Changes in: | | | |
| Accounts receivable | | 347 | 240 |
| Accounts payable and accrued liabilities | | (1,628) | 1,782 |
| Current income taxes | | 19 | - |
| Prepays and security deposits | | 434 | 406 |
| Inventory | | 42 | (144) |
| CASH PROVIDED FROM OPERATING ACTIVITIES | | 1,936 | 11,743 |
| FINANCING ACTIVITIES | | | |
| Repayment of bank loan arrangements | 8 | (2,281) | (6,777) |
| CASH USED IN FINANCING ACTIVITIES | | (2,281) | (6,777) |
| INVESTING ACTIVITIES | | | |
| Proceeds from the sale of (acquisition of) investment | 6 | 205 | (1,075) |
| Receipt pursuant to loan receivable | 5 | 2 | - |
| Investment in oil and gas properties | 7 | (521) | (3,770) |
| CASH USED IN INVESTING ACTIVITIES | | (314) | (4,845) |
| (DECREASE) INCREASE IN CASH | | (659) | 121 |
| CASH, BEGINNING OF PERIOD | | 829 | 111 |
| CASH, END OF PERIOD | | \$ 170 | \$ 232 |
| Interest paid | | \$ 1,748 | \$ 1,855 |
| Income taxes paid | | \$ - | \$ - |

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 and six months ended June 30, 2015 and June 30, 2014 Tabular dollar amounts in thousands of Canadian dollars, except per share amounts |
|---|

1. NATURE OF OPERATIONS

Dundee Energy Limited (“Dundee Energy” or the “Corporation”) is an oil and natural gas company with a mandate to create long-term value through the exploration, development, production and marketing of oil and natural gas and through other high impact energy projects. Dundee Energy is incorporated under the Canada Business Corporations Act. The Corporation’s head office is located at Suite 2100, 1 Adelaide Street East, Toronto, Ontario, Canada, M5C 2V9. The Corporation’s common shares trade on the Toronto Stock Exchange (“TSX”) under the symbol “DEN”. At June 30, 2015, Dundee Corporation was the principal shareholder of the Corporation.

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

2. BASIS OF PREPARATION

These unaudited condensed interim consolidated financial statements of the Corporation as at and for the three and six months ended June 30, 2015 (“June 2015 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 June 2015 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, 2014 (“2014 Audited Consolidated Financial Statements”) which were prepared in accordance with IFRS as applicable for annual financial statements. The June 2015 Interim Consolidated Financial Statements were authorized for issuance by the Board of Directors on July 31, 2015.

The June 2015 Interim Consolidated Financial Statements follow the same accounting principles and methods of application as those disclosed in Note 3 to the 2014 Audited Consolidated Financial Statements. IFRS accounting standards, interpretations and amendments to existing IFRS accounting standards that were not yet effective as at December 31, 2014, are described in Note 3 to the 2014 Audited Consolidated Financial Statements. There have been no other changes to existing IFRS accounting standards and interpretations since December 31, 2014 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 June 2015 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 June 2015 Interim Consolidated Financial Statements from those judgments, estimates and assumptions disclosed in Note 4 to the 2014 Audited Consolidated Financial Statements.

4. ACCOUNTS RECEIVABLE

| As at | June 30, 2015 | December 31, 2014 |
|--|-----------------|-------------------|
| Customers for oil and natural gas production | \$ 2,577 | \$ 2,755 |
| Third-party drilling receivable | 183 | 331 |
| Working interest partners | 32 | 76 |
| | <u>\$ 2,792</u> | <u>\$ 3,162</u> |

5. LOAN RECEIVABLE

During the six months ended June 30, 2015, the Corporation disposed of certain land and buildings in southern Ontario, and certain related machinery and equipment. Proceeds from the sale of the assets were \$368,000, of which \$13,000 were applied towards transaction costs associated with the sale, including land transfer taxes.

The balance of the proceeds, aggregating \$355,000, will be paid to the Corporation pursuant to a vendor-take-back mortgage arrangement bearing interest at 5.5%, and with an initial term to maturity of three years, expiring May 4, 2018. Amounts receivable by the Corporation pursuant to the vendor-take-back mortgage arrangement, which have been included in the June 2015 Interim Consolidated Financial Statements as "*Loan receivable*", are secured by the underlying property. During the six months ended June 30, 2015, the Corporation accrued interest income of \$3,000 in respect of these arrangements and it has received payments of \$2,000 against amounts outstanding.

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

6. INVESTMENTS

| As at | June 30, 2015 | December 31, 2014 |
|--|-----------------|-------------------|
| Investment in publicly listed equity securities | \$ - | \$ 195 |
| Investment in private enterprises | 2,150 | 2,150 |
| Preferred shares of Eurogas International | 32,150 | 32,150 |
| Less: Impairment | <u>(32,150)</u> | <u>(32,150)</u> |
| | - | - |
| Accrued dividends on preferred share investment in Eurogas International | 8,877 | 8,239 |
| Less: Impairment | <u>(8,877)</u> | <u>(8,239)</u> |
| | - | - |
| | <u>\$ 2,150</u> | <u>\$ 2,345</u> |

The Corporation previously held investments in publicly listed securities that it had designated as financial assets at fair value through profit or loss and as such, changes in the fair value of these financial assets were recorded in net earnings or loss. During the second quarter of 2015, the Corporation disposed of its interest in these publicly listed securities for aggregate proceeds of \$205,000. During the six months ended June 30, 2015, the Corporation recognized a gain of \$10,000 from changes in the fair value of previously held publicly listed securities, net of a loss of \$3,000 incurred during the second quarter of 2015. In the six months ended June 30, 2014, the Corporation recognized a loss of \$23,000 in respect of these investments, net of a gain of \$5,000 in the second quarter of the prior year.

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

At June 30, 2015 and December 31, 2014, the Corporation held 32,150,000 Series A Preference Shares of Eurogas International (“Series A Preference Shares”) with an aggregate par value of \$32,150,000. The terms of the Corporation’s investment in the Series A Preference Shares are detailed in Note 6 to the 2014 Audited Consolidated Financial Statements. Notwithstanding the Corporation not receiving any dividends on its investment at June 30, 2015, 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 and six months ended June 30, 2015, the Corporation recognized an impairment loss of \$321,000 and \$638,000 respectively (three and six months ended June 30, 2014 – \$321,000 and \$638,000 respectively) relating to dividends receivable on the Series A Preference Shares.

7. OIL AND GAS PROPERTIES

| | <i>Property, Plant and Equipment</i> | | | | | <i>Exploration and Evaluation</i> | | TOTAL |
|--|--------------------------------------|-------------------------|-------------------------|--------------------|----------|-----------------------------------|------------|-------|
| | Oil and Gas Development Costs | Pipeline Infrastructure | Machinery and Equipment | Land and Buildings | Other | Undeveloped Properties | | |
| At December 31, 2013 | | | | | | | | |
| Cost | \$ 140,767 | \$ 27,253 | \$ 27,236 | \$ 4,721 | \$ 3,041 | \$ 20,697 | \$ 223,715 | |
| Accumulated depreciation, depletion and impairment | (56,343) | (6,117) | (4,615) | (90) | (1,090) | - | (68,255) | |
| Net carrying value, December 31, 2013 | 84,424 | 21,136 | 22,621 | 4,631 | 1,951 | 20,697 | 155,460 | |
| Six months ended June 30, 2014 | | | | | | | | |
| Carrying value December 31, 2013 | 84,424 | 21,136 | 22,621 | 4,631 | 1,951 | 20,697 | 155,460 | |
| Net additions | 763 | - | 266 | 25 | 196 | 1,787 | 3,037 | |
| Remeasure decommissioning liability (Note 9) | 2,891 | - | - | - | - | - | 2,891 | |
| Depreciation and depletion | (3,807) | (523) | (566) | (12) | (74) | - | (4,982) | |
| Net carrying value, June 30, 2014 | 84,271 | 20,613 | 22,321 | 4,644 | 2,073 | 22,484 | 156,406 | |
| At June 30, 2014 | | | | | | | | |
| Cost | 144,421 | 27,253 | 27,502 | 4,746 | 3,237 | 22,484 | 229,643 | |
| Accumulated depreciation, depletion and impairment | (60,150) | (6,640) | (5,181) | (102) | (1,164) | - | (73,237) | |
| Net carrying value, June 30, 2014 | 84,271 | 20,613 | 22,321 | 4,644 | 2,073 | 22,484 | 156,406 | |
| Transactions from July 1, 2014 to December 31, 2014 | | | | | | | | |
| Carrying value June 30, 2014 | 84,271 | 20,613 | 22,321 | 4,644 | 2,073 | 22,484 | 156,406 | |
| Acquisitions | 7,246 | 498 | 362 | 70 | - | 8 | 8,184 | |
| Net additions | 1,607 | - | 4 | 197 | (51) | 1,527 | 3,284 | |
| Remeasure decommissioning liability (Note 9) | 5,865 | - | - | - | - | - | 5,865 | |
| Depreciation and depletion | (4,521) | (636) | (701) | (16) | (45) | - | (5,919) | |
| Net carrying value, December 31, 2014 | 94,468 | 20,475 | 21,986 | 4,895 | 1,977 | 24,019 | 167,820 | |
| At December 31, 2014 | | | | | | | | |
| Cost | 159,139 | 27,751 | 27,809 | 5,013 | 3,186 | 24,019 | 246,917 | |
| Accumulated depreciation, depletion and impairment | (64,671) | (7,276) | (5,823) | (118) | (1,209) | - | (79,097) | |
| Net carrying value, December 31, 2014 | 94,468 | 20,475 | 21,986 | 4,895 | 1,977 | 24,019 | 167,820 | |
| Six months ended June 30, 2015 | | | | | | | | |
| Carrying value December 31, 2014 | 94,468 | 20,475 | 21,986 | 4,895 | 1,977 | 24,019 | 167,820 | |
| Net additions (disposals) | 7 | - | 5 | (176) | 53 | 376 | 265 | |
| Remeasure decommissioning liability (Note 9) | (1,319) | - | - | - | - | - | (1,319) | |
| Depreciation and depletion | (4,666) | (664) | (702) | (16) | (17) | - | (6,065) | |
| Net carrying value, June 30, 2015 | 88,490 | 19,811 | 21,289 | 4,703 | 2,013 | 24,395 | 160,701 | |
| At June 30, 2015 | | | | | | | | |
| Cost | 157,827 | 27,751 | 27,814 | 4,826 | 3,231 | 24,395 | 245,844 | |
| Accumulated depreciation, depletion and impairment | (69,337) | (7,940) | (6,525) | (123) | (1,218) | - | (85,143) | |
| Net carrying value, June 30, 2015 | \$ 88,490 | \$ 19,811 | \$ 21,289 | \$ 4,703 | \$ 2,013 | \$ 24,395 | \$ 160,701 | |

8. BANK LOAN

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

The credit facility is secured against all of the oil and natural gas properties owned by DELP. In addition, the Corporation has assigned a limited recourse guarantee of its units in DELP as further 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, 2015, the Corporation was in compliance with all such covenants.

| As at | June 30, 2015 | December 31, 2014 |
|----------------------------|---------------|-------------------|
| Prime rate loans | \$ 700 | \$ - |
| Bankers' acceptances | 59,000 | 62,000 |
| Less: Unamortized discount | (364) | (383) |
| | \$ 59,336 | \$ 61,617 |

At June 30, 2015, DELP had drawn \$59,700,000 (December 31, 2014 – \$62,000,000) pursuant to the credit facility. Available credit under the credit facility at June 30, 2015 was \$10,300,000 (December 31, 2014 – \$8,000,000). During the three and six months ended June 30, 2015, the Corporation incurred interest expense relating to the credit facility, including bank charges, arrangement fees and standby fees, of \$872,000 and \$1,748,000 respectively (three and six months ended June 30, 2014 – \$896,000 and \$1,855,000 respectively).

9. 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 | June 30, 2015 | December 31, 2014 |
|--|---------------|-------------------|
| Undiscounted future obligations, beginning of period | \$ 99,757 | \$ 91,753 |
| Effect of acquisitions | - | 9,978 |
| Effect of changes in estimates | (1,371) | (764) |
| Liabilities settled (reclamation expenditures) | (140) | (1,210) |
| Undiscounted future obligations, end of period | \$ 98,246 | \$ 99,757 |

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

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

| As at | June 30, 2015 | December 31, 2014 |
|--|----------------------|----------------------|
| <i>Discount rates applied to future obligations</i> | <i>0.59% - 2.29%</i> | <i>1.00% - 2.22%</i> |
| <i>Inflation rate</i> | <i>2.00%</i> | <i>2.00%</i> |
| Discounted future obligations, beginning of period | \$ 56,261 | \$ 42,700 |
| Effect of acquisitions | - | 4,870 |
| Effect of changes in estimates and remeasurement of discount rates | (1,319) | 8,756 |
| Liabilities settled (reclamation expenditures) | (140) | (1,210) |
| Accretion (interest expense) | 514 | 1,145 |
| Discounted future obligations, end of period | \$ 55,316 | \$ 56,261 |
| Current | \$ 2,034 | \$ 1,358 |
| Non-current | 53,282 | 54,903 |
| | \$ 55,316 | \$ 56,261 |

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

10. DERIVATIVE FINANCIAL INSTRUMENTS

At December 31, 2014, the Corporation had entered into 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, they were classified as financial instruments at fair value through profit or loss. At December 31, 2014, the Corporation had determined that the fair value of commodity swap derivative contracts resulted in an asset balance of \$341,000. During the six months ended June 30, 2015, the Corporation received cash of \$341,000 in final settlement of these derivative contracts. There were no outstanding commodity swap derivative contracts at June 30, 2015.

During the three and six months ended June 30, 2014, the Corporation recognized a loss of \$213,000 and \$492,000 respectively from changes in the fair value of commodity swap derivative contracts.

11. SHARE CAPITAL

Issued and Outstanding Common Shares

| | Number of Common Shares Outstanding | Share Capital | Contributed Surplus | |
|---|-------------------------------------|---------------|---------------------|--------------|
| | | | Option Reserve | DSUP Reserve |
| Outstanding, December 31, 2013 | 188,204,184 | \$ 112,626 | \$ 6,620 | \$ 855 |
| Transactions during the six months ended June 30, 2014 | | | | |
| Stock based compensation | - | - | 124 | 22 |
| Outstanding, June 30, 2014 | 188,204,184 | 112,626 | 6,744 | 877 |
| Transactions from July 1, 2014 to December 31, 2014 | | | | |
| Stock based compensation | - | - | 64 | 6 |
| Outstanding, December 31, 2014 | 188,204,184 | 112,626 | 6,808 | 883 |
| Transactions during the six months ended June 30, 2015 | | | | |
| Stock based compensation | - | - | 34 | - |
| Share incentive arrangement | - | - | - | (13) |
| Outstanding, June 30, 2015 | 188,204,184 | \$ 112,626 | \$ 6,842 | \$ 870 |

12. STOCK BASED COMPENSATION

A detailed description of the Corporation's share incentive plan ("SIP") is provided in Note 12 to the Corporation's 2014 Audited Consolidated Financial Statements.

Stock Option Plan

There were no stock option awards granted during the six months ended June 30, 2015. A summary of the status of the stock option component of the Corporation's SIP as at and for the six months ended June 30, 2015 and for the year ended December 31, 2014, is as follows:

| For the period ended | June 30, 2015 | | December 31, 2014 | |
|--|---------------|---------------------------------|-------------------|---------------------------------|
| | Stock Options | Weighted Average Exercise Price | Stock Options | Weighted Average Exercise Price |
| Options outstanding, beginning of period | 5,705,000 | \$ 0.66 | 5,605,000 | \$ 0.68 |
| Granted | - | - | 200,000 | 0.26 |
| Forfeited | (675,000) | 0.71 | (100,000) | 0.81 |
| Options outstanding, end of period | 5,030,000 | \$ 0.66 | 5,705,000 | \$ 0.66 |
| Exercisable options | 4,336,659 | \$ 0.68 | 4,874,991 | \$ 0.70 |

| Option Price | Options Outstanding | Options Exercisable | Contractual Life Remaining (Years) |
|--------------|---------------------|---------------------|------------------------------------|
| At \$0.26 | 200,000 | 133,333 | 3.74 |
| At \$0.50 | 1,880,000 | 1,253,326 | 3.21 |
| At \$0.60 | 400,000 | 400,000 | 1.84 |
| At \$0.81 | 2,550,000 | 2,550,000 | 0.33 |

During the three and six months ended June 30, 2015, the Corporation recognized stock based compensation expense of \$15,000 and \$34,000 respectively (three and six months ended June 30, 2014 – \$59,000 and \$124,000 respectively) in respect of outstanding stock options.

Deferred Share Unit Plan

During the six months ended June 30, 2015, the Corporation paid cash of \$13,000 to settle 140,857 deferred share units that had been issued to a former director of the Corporation. At June 30, 2015, there were 1,316,569 (December 31, 2014 – 1,457,426) deferred share units outstanding.

The Corporation did not recognize any stock based compensation expense related to its deferred share unit plan during the six months ended June 30, 2015. During the three and six months ended June 30, 2014, stock based compensation expense related to the Corporation's deferred share unit plan was \$2,000 and \$22,000 respectively.

13. GENERAL AND ADMINISTRATIVE EXPENSES AND PRODUCTION EXPENDITURES BY NATURE

General and Administrative Expenses

| | For the three months ended | | For the six months ended | |
|--|----------------------------|---------------|--------------------------|---------------|
| | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| Salary and salary-related | \$ 573 | \$ 1,354 | \$ 1,124 | \$ 2,192 |
| Stock based compensation | 15 | 61 | 34 | 146 |
| Corporate and professional fees | 731 | 478 | 1,289 | 1,027 |
| General office | 365 | 404 | 769 | 843 |
| Exploration and development costs | 39 | 361 | 65 | 684 |
| Allocation of general and administrative costs | (621) | (731) | (1,048) | (1,114) |
| | \$ 1,102 | \$ 1,927 | \$ 2,233 | \$ 3,778 |

Production Expenditures

| | For the three months ended | | For the six months ended | |
|--|----------------------------|---------------|--------------------------|---------------|
| | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| Labour | \$ 1,529 | \$ 1,134 | \$ 2,561 | \$ 1,883 |
| Materials, equipment and supplies used | 1,792 | 1,203 | 2,625 | 1,929 |
| Transportation | 332 | 370 | 747 | 707 |
| Utilities | 549 | 541 | 1,112 | 1,069 |
| Rental and lease payments | 85 | 123 | 257 | 288 |
| Other | 197 | 275 | 664 | 650 |
| | \$ 4,484 | \$ 3,646 | \$ 7,966 | \$ 6,526 |

14. 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 14 to the 2014 Audited Consolidated Financial Statements.

The Corporation accounts for its investment in Escal using the equity method. Recognition of the Corporation's proportionate share of losses incurred by Escal draws the Corporation's carrying value in Escal to below zero. At June 30, 2015, the Corporation 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 June 30, 2015, the carrying value of the Corporation's equity interest in Escal was \$nil (December 31, 2014 – \$nil).

15. NET (LOSS) EARNINGS PER SHARE

| | For the three months ended | | For the six months ended | |
|---|----------------------------|---------------|--------------------------|---------------|
| | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| Net (loss) earnings for the period attributable to owners of the parent | \$ (1,540) | \$ (112) | \$ (2,746) | \$ 3,076 |
| Weighted average number of common shares outstanding | 188,204,184 | 188,204,184 | 188,204,184 | 188,204,184 |
| Basic net (loss) earnings per common share | \$ (0.01) | \$ - | \$ (0.01) | \$ 0.02 |
| Effect of dilutive securities to the weighted average number of common shares outstanding | n/a | n/a | n/a | 1,359,820 |
| Diluted net (loss) earnings per common share | \$ (0.01) | \$ - | \$ (0.01) | \$ 0.02 |

16. INCOME TAXES

During the six months ended June 30, 2015, the Corporation recognized an income tax recovery amount of \$984,000 (six months ended June 30, 2014 – income tax expense of \$1,087,000).

The income tax recovery (expense) amounts on the Corporation's loss (earnings) before income taxes differs from the income tax recovery (expense) amount that would arise using the combined Canadian federal and provincial statutory tax rate of 26% (six months ended June 30, 2014 – 26%) as a result of the following items:

| | For the six months ended | |
|---|--------------------------|---------------|
| | June 30, 2015 | June 30, 2014 |
| Loss (earnings) before tax at statutory rate of 26% (June 30, 2014 – 26%) | \$ 1,026 | \$ (1,093) |
| Effect on taxes of: | | |
| Non-deductible expenses | (45) | (53) |
| Other differences | 3 | 59 |
| Income tax recovery (expense) | \$ 984 | \$ (1,087) |

17. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in these June 2015 Interim Consolidated Financial Statements, related party transactions and balances as at and for the six months ended June 30, 2015 are as described below.

Services Arrangement with Dundee Resources Limited

Dundee Resources Limited, a wholly owned subsidiary of Dundee Corporation, provides the Corporation with administrative support services as well as geophysical, geological and engineering consultation with regard to the Corporation's activities. During the three and six months ended June 30, 2015, the Corporation incurred costs of \$250,000 and \$515,000 respectively (three and six months ended June 30, 2014 – \$225,000 and \$554,000 respectively) in respect of these arrangements.

Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities at June 30, 2015 are amounts owing to the Corporation's parent, Dundee Corporation, and to Dundee Corporation's subsidiaries of \$2,802,000 (December 31, 2014 – \$3,213,000).

Financial Services

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

Key Management Compensation

Compensation and other fees paid to directors of the Corporation and to the President and Chief Executive Officer of the Corporation during the three and six months ended June 30, 2015 and 2014 are as follows:

| | For the three months ended | | For the six months ended | |
|--|----------------------------|---------------|--------------------------|---------------|
| | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| Directors' fees and executive consulting | \$ 69 | \$ 135 | \$ 213 | \$ 262 |
| Stock based compensation | 13 | 36 | 25 | 79 |
| Benefits | 4 | 14 | 8 | 21 |
| | \$ 86 | \$ 185 | \$ 246 | \$ 362 |

18. COMMITMENTS

There have been no substantive changes to the description and nature of the Corporation's commitments from those described in Note 18 to the Corporation's 2014 Audited Consolidated Financial Statements.

19. 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 June 30, 2015. The 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 June 30, 2015 | Fair Value as at June 30, 2015 | | |
|-----------------------------------|--|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Recurring Measurements | | | | |
| Financial Assets | | | | |
| Investment in private enterprises | \$ 2,150 | \$ - | \$ 2,150 | \$ - |

A detailed description of the Corporation's financial assets and financial liabilities and its associated risk management in respect thereof are provided in Note 19 to the 2014 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, 2014.

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 Six Months Ended June 30, 2015 and June 30, 2014

| | Southern Ontario | | Spain | | Corporate | | TOTAL | |
|--|------------------|-----------|-----------|-----------|-----------|------------|------------|-----------|
| | 30-Jun-15 | 30-Jun-14 | 30-Jun-15 | 30-Jun-14 | 30-Jun-15 | 30-Jun-14 | 30-Jun-15 | 30-Jun-14 |
| REVENUES | | | | | | | | |
| Oil and gas sales | \$ 16,175 | \$ 26,028 | \$ - | \$ - | \$ - | \$ - | \$ 16,175 | \$ 26,028 |
| Royalties | (2,463) | (3,886) | - | - | - | - | (2,463) | (3,886) |
| Net sales | 13,712 | 22,142 | - | - | - | - | 13,712 | 22,142 |
| Production expenditures | (7,966) | (6,526) | - | - | - | - | (7,966) | (6,526) |
| Depreciation and depletion | (6,062) | (4,978) | - | - | (3) | (4) | (6,065) | (4,982) |
| General and administrative expenses | (1,237) | (2,718) | (528) | (156) | (468) | (904) | (2,233) | (3,778) |
| Loss on fair value changes of derivative financial instruments | - | (492) | - | - | - | - | - | (492) |
| Gain (loss) on fair value changes in investments | - | - | - | - | 10 | (23) | 10 | (23) |
| Impairment of financial instruments | - | - | - | - | (638) | (638) | (638) | (638) |
| Interest and other income | 921 | 138 | - | - | 640 | 642 | 1,561 | 780 |
| Interest expense | (2,262) | (2,420) | - | - | - | - | (2,262) | (2,420) |
| Foreign exchange gain (loss) | 15 | 63 | (4) | (3) | - | - | 11 | 60 |
| (LOSS) EARNINGS BEFORE INCOME TAXES | (2,879) | 5,209 | (532) | (159) | (459) | (927) | (3,870) | 4,123 |
| Income tax recovery (expense) | | | | | | | | |
| Current | - | - | - | - | (19) | - | (19) | - |
| Deferred | - | - | - | - | 1,003 | (1,087) | 1,003 | (1,087) |
| | - | - | - | - | 984 | (1,087) | 984 | (1,087) |
| NET (LOSS) EARNINGS FOR THE PERIOD | \$ (2,879) | \$ 5,209 | \$ (532) | \$ (159) | \$ 525 | \$ (2,014) | \$ (2,886) | \$ 3,036 |
| NET (LOSS) EARNINGS ATTRIBUTABLE TO: | | | | | | | | |
| Owners of the parent | \$ (2,879) | \$ 5,209 | \$ (392) | \$ (119) | \$ 525 | \$ (2,014) | \$ (2,746) | \$ 3,076 |
| Non-controlling interest | - | - | (140) | (40) | - | - | (140) | (40) |
| | \$ (2,879) | \$ 5,209 | \$ (532) | \$ (159) | \$ 525 | \$ (2,014) | \$ (2,886) | \$ 3,036 |

Segmented Statements of Operations for the Three Months Ended June 30, 2015 and June 30, 2014

| | Southern Ontario | | Spain | | Corporate | | TOTAL | |
|--|------------------|-----------|-----------|-----------|-----------|-----------|------------|-----------|
| | 30-Jun-15 | 30-Jun-14 | 30-Jun-15 | 30-Jun-14 | 30-Jun-15 | 30-Jun-14 | 30-Jun-15 | 30-Jun-14 |
| REVENUES | | | | | | | | |
| Oil and gas sales | \$ 8,132 | \$ 11,051 | \$ - | \$ - | \$ - | \$ - | \$ 8,132 | \$ 11,051 |
| Royalties | (1,246) | (1,653) | - | - | - | - | (1,246) | (1,653) |
| Net sales | 6,886 | 9,398 | - | - | - | - | 6,886 | 9,398 |
| Production expenditures | (4,484) | (3,646) | - | - | - | - | (4,484) | (3,646) |
| Depreciation and depletion | (3,170) | (2,508) | - | - | (2) | (3) | (3,172) | (2,511) |
| General and administrative expenses | (530) | (1,433) | (318) | (96) | (254) | (398) | (1,102) | (1,927) |
| Loss on fair value changes of derivative financial instruments | - | (213) | - | - | - | - | - | (213) |
| (Loss) gain on fair value changes in investments | - | - | - | - | (3) | 5 | (3) | 5 |
| Impairment of financial instruments | - | - | - | - | (321) | (321) | (321) | (321) |
| Interest and other income | 891 | 48 | - | - | 323 | 324 | 1,214 | 372 |
| Interest expense | (1,110) | (1,173) | - | - | - | - | (1,110) | (1,173) |
| Foreign exchange loss | (93) | (56) | (12) | (46) | - | - | (105) | (102) |
| (LOSS) EARNINGS BEFORE INCOME TAXES | (1,610) | 417 | (330) | (142) | (257) | (393) | (2,197) | (118) |
| Income tax recovery (expense) | | | | | | | | |
| Current | - | - | - | - | (7) | - | (7) | - |
| Deferred | - | - | - | - | 577 | (30) | 577 | (30) |
| | - | - | - | - | 570 | (30) | 570 | (30) |
| NET (LOSS) EARNINGS FOR THE PERIOD | \$ (1,610) | \$ 417 | \$ (330) | \$ (142) | \$ 313 | \$ (423) | \$ (1,627) | \$ (148) |
| NET (LOSS) EARNINGS ATTRIBUTABLE TO: | | | | | | | | |
| Owners of the parent | \$ (1,610) | \$ 417 | \$ (243) | \$ (106) | \$ 313 | \$ (423) | \$ (1,540) | \$ (112) |
| Non-controlling interest | - | - | (87) | (36) | - | - | (87) | (36) |
| | \$ (1,610) | \$ 417 | \$ (330) | \$ (142) | \$ 313 | \$ (423) | \$ (1,627) | \$ (148) |

Segmented Net Assets as at June 30, 2015 and December 31, 2014

| | Southern Ontario | | Spain | | Corporate | | TOTAL | |
|--|------------------|------------|-----------|-----------|-----------|-----------|------------|------------|
| | 30-Jun-15 | 31-Dec-14 | 30-Jun-15 | 31-Dec-14 | 30-Jun-15 | 31-Dec-14 | 30-Jun-15 | 31-Dec-14 |
| ASSETS | | | | | | | | |
| Current | | | | | | | | |
| Cash | \$ 130 | \$ 776 | \$ - | \$ - | \$ 40 | \$ 53 | \$ 170 | \$ 829 |
| Accounts receivable | 2,792 | 3,162 | - | - | - | - | 2,792 | 3,162 |
| Prepays and security deposits | 1,026 | 1,468 | - | - | 8 | - | 1,034 | 1,468 |
| Loan receivable | 9 | - | - | - | - | - | 9 | - |
| Inventory | 412 | 454 | - | - | - | - | 412 | 454 |
| Investments | - | - | - | - | 2,150 | 2,345 | 2,150 | 2,345 |
| Derivative financial assets | - | 341 | - | - | - | - | - | 341 |
| Taxes recoverable | - | - | - | - | 53 | 72 | 53 | 72 |
| | 4,369 | 6,201 | - | - | 2,251 | 2,470 | 6,620 | 8,671 |
| Non-current | | | | | | | | |
| Loan receivable | 347 | - | - | - | - | - | 347 | - |
| Oil and gas properties | 160,663 | 167,779 | - | - | 38 | 41 | 160,701 | 167,820 |
| Equity accounted investment in Escal | - | - | - | - | - | - | - | - |
| Deferred income taxes | - | - | - | - | 9,111 | 8,108 | 9,111 | 8,108 |
| | \$ 165,379 | \$ 173,980 | \$ - | \$ - | \$ 11,400 | \$ 10,619 | \$ 176,779 | \$ 184,599 |
| LIABILITIES | | | | | | | | |
| Current | | | | | | | | |
| Bank loan | \$ 59,336 | \$ 61,617 | \$ - | \$ - | \$ - | \$ - | \$ 59,336 | \$ 61,617 |
| Accounts payable and accrued liabilities | 2,030 | 3,316 | 128 | 122 | 3,194 | 3,643 | 5,352 | 7,081 |
| Decommissioning liabilities | 2,034 | 1,358 | - | - | - | - | 2,034 | 1,358 |
| | 63,400 | 66,291 | 128 | 122 | 3,194 | 3,643 | 66,722 | 70,056 |
| Non-current | | | | | | | | |
| Decommissioning liabilities | 53,282 | 54,903 | - | - | - | - | 53,282 | 54,903 |
| | \$ 116,682 | \$ 121,194 | \$ 128 | \$ 122 | \$ 3,194 | \$ 3,643 | \$ 120,004 | \$ 124,959 |
| SEGMENTED NET ASSETS | \$ 48,697 | \$ 52,786 | \$ (128) | \$ (122) | \$ 8,206 | \$ 6,976 | \$ 56,775 | \$ 59,640 |

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Stock Exchange
Toronto Stock Exchange

Stock Symbol
DEN