



DUNDEE
ENERGY LIMITED

2012 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 holds interests, both directly and indirectly, in the largest accumulation of producing oil and natural gas assets in southern Ontario and in the development of an offshore underground natural gas storage facility in Spain. The Corporation also holds an investment in preferred shares of Eurogas International Inc. ("Eurogas International"), an oil and gas exploration company that holds a 45% participating interest in the one million acre Sfax permit located offshore Tunisia. The Corporation's common shares currently trade on the Toronto Stock Exchange ("TSX") under the symbol "DEN".

This Management's Discussion and Analysis ("MD&A") has been prepared with an effective date of July 31, 2012 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, 2011 (the "2011 Audited Consolidated Financial Statements") and the unaudited condensed interim consolidated financial statements as at and for the three and six months ended June 30, 2012 (the "June 2012 Interim Consolidated Financial Statements"), prepared using International Financial Reporting Standards ("IFRS"). All amounts are in Canadian dollars unless otherwise specified. Tabular dollar amounts, unless otherwise specified, are in thousands of dollars, except for per unit or per share amounts.

PERFORMANCE MEASURES AND BASIS OF PRESENTATION

The Corporation's June 2012 Interim Consolidated Financial Statements are prepared in accordance with IFRS, as applicable to condensed interim consolidated financial statements, and use the Canadian dollar as its presentation currency. However, the Corporation believes that important measures of its economic performance include certain measures that are not defined under IFRS and as such, may not be comparable to similar measures used by other companies. Throughout this MD&A, there will be references to the following performance measures which management believes are valuable in assessing the economic performance of the Corporation. While these measures are not defined by IFRS, they are common benchmarks in the oil and natural gas industry, and are used by the Corporation in assessing its operating results, including net earnings and cash flow.

- "Barrel of Oil Equivalent" or "boe" is calculated at a barrel of oil conversion ratio of six thousand cubic feet ("Mcf") of natural gas to one barrel ("bbl") of oil (6 Mcf to 1 bbl), based on an energy equivalency conversion method which is primarily applicable at the burner tip and does not always represent a value equivalency at the wellhead.
- "Field Level Cash Flows" is calculated as revenues from oil and natural gas sales, less royalties and production expenditures, adjusted for the effect of the Corporation's risk management contracts. Field level cash flows contribute to the funding of the Corporation's working capital, as well as to capital expenditure requirements for these activities. 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.

SIGNIFICANT PROJECTS

The Southern Ontario Assets

Dundee Energy Limited Partnership (“DELP”), a limited partnership that is wholly-owned by the Corporation, holds a 95% working interest in 84,000 acres of onshore oil properties and a 65% working interest in 904,000 acres of offshore gas properties located in and around Lake Erie in southern Ontario. In addition to the oil and gas rights associated with these properties, DELP owns six onshore oil facilities, and holds a 65% ownership interest in an offshore fleet of drilling and completion barges and six gas plants and compressor stations that process offshore dry gas at onshore locations.

On August 4, 2011, the Corporation expanded its operations in southern Ontario through the acquisition of 100% of the outstanding common shares of Torque Energy Inc. (“Torque”), a Canadian based oil and natural gas company that was engaged in the exploration, development and acquisition of oil and natural gas properties. Torque held working interests in 47 wells, including 43 wells in southern Ontario that are located in relative proximity to the Corporation’s oil and natural gas interests held through DELP. Torque also had interests in four wells located in Alberta. On December 1, 2011, the Corporation completed the integration of the assets and business processes acquired from Torque with its existing operations in southern Ontario, providing the Corporation with efficiencies of scale.

In connection with its acquisition of Torque, the Corporation became party to an agreement with Union Gas, which provides the Corporation with the right to develop new natural gas storage capacity in the Trenton Reservoir located within the Dover East field, where the Corporation holds a 50% non-operating working interest. In exchange, the Corporation will receive cash payments that are tiered to the developmental work undertaken by Union Gas for natural gas storage. Notwithstanding the transaction with Union Gas, the Corporation retains the right to further explore, drill and produce petroleum substances from all new and certain existing wells within the Dover East field, subject to maintaining the integrity of the designated storage reservoir.

Castor UGS Limited Partnership and the Castor Project

The Corporation is involved in the conversion of the abandoned Amposta oil field, located off the eastern Mediterranean coast of Spain, to a natural gas storage facility (the “Castor Project”). The Castor Project will utilize the abandoned Cretaceous aged carbonate Amposta reservoir for gas storage and will provide Spain with a dedicated source of easily deliverable natural gas and help to moderate periods of seasonal and daily peak demand. It will also provide Spain with strategic gas storage, ensuring supply continuity in the event of disruption to its national gas system.

The Corporation’s Castor Project is managed by ACS Servicios Comunicacions y Energia S.L. (“ACS”), a large construction group in Spain and a 67% shareholder of Escal UGS S.L. (“Escal”), the owner of the Castor Project. Castor UGS Limited Partnership (“CLP”), the Corporation’s 74% owned subsidiary, holds the remaining 33% interest in Escal, providing the Corporation with an effective 25% interest.

Series A Preference Share Investment in Eurogas International Inc.

The Corporation holds a \$32,150,000 preferred share investment in Eurogas International, an independent oil and gas company engaged in the exploration and evaluation of its extensive landholdings offshore Tunisia, targeting large scale oil and gas reserves. Eurogas International holds a 45% participating interest, and is the non-operating partner in the Sfax permit covering 908,425 acres located in the Gulf of Gabes, in the Mediterranean waters immediately offshore and southeast of the city of Sfax.

In 2011, Eurogas International declared a condition of Force Majeure with respect to the Sfax permit and the related Ras El Besh concession, as it believes that the political uncertainty and civil unrest in Tunisia adversely affects its ability to continue exploration and evaluation activities in that region. Eurogas International has indicated that it believes that the declaration of Force Majeure will allow Eurogas International and its partner to suspend their activities while the conditions resulting in the Force Majeure continue.

CONSOLIDATED RESULTS OF OPERATIONS

Six months ended June 30, 2012 compared with the six months ended June 30, 2011

Consolidated Net Loss

During the six months ended June 30, 2012, the Corporation incurred a net loss attributable to the owners of the parent of \$0.7 million. This compares with a net loss attributable to the owners of the parent of \$1.1 million incurred in the six months ended June 30, 2011. During the first half of 2012, results were impacted by a significant mark-to-market gain of \$2.8 million in respect of the Corporation's risk management contracts (see "*Risk Management Contracts – Price Risk Management*"). In the first half of the prior year, the Corporation incurred a gain from these risk management contracts of \$0.5 million. A summary of the Corporation's net earnings (loss) from its various projects is summarized below:

| For the six months ended June 30, | 2012 | | | 2011 | | |
|---|---------------------|--------------------------------------|--------------------------|---------------------|--------------------------------------|--------------------------|
| | 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 | \$ 356 | \$ 356 | \$ - | \$ 576 | \$ 576 | \$ - |
| Castor Project | (145) | (107) | (38) | (82) | (62) | (20) |
| Loss from investment in preferred shares of Eurogas International | (640) | (640) | - | (638) | (638) | - |
| Corporate activities | (331) | (331) | - | (979) | (979) | - |
| Net loss for the period | \$ (760) | \$ (722) | \$ (38) | \$ (1,123) | \$ (1,103) | \$ (20) |

Southern Ontario Assets

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

Operating Performance

The Corporation's operating performance is dependent on both production volumes of oil, natural gas and natural gas liquids, as well as the prices received for these commodities. In the first half of 2012, sales of oil and gas, net of royalty interests, were \$15.6 million, a decrease of \$2.0 million from \$17.6 million earned in the same period of the prior year. As illustrated in the table below, despite an increase in oil production volumes, net sales were adversely affected by decreases in commodity prices, including a significant decrease in the price for natural gas.

| | Natural Gas | Oil and Liquids | Total |
|---|-------------|-----------------|------------|
| Net Sales | | | |
| Six months ended June 30, 2012 | \$ 4,578 | \$ 11,039 | \$ 15,617 |
| Six months ended June 30, 2011 | 7,501 | 10,101 | 17,602 |
| Net increase (decrease) in net sales | \$ (2,923) | \$ 938 | \$ (1,985) |
| Effect of changes in production volumes | \$ (145) | \$ 1,568 | \$ 1,423 |
| Effect of changes in commodity prices | (2,778) | (630) | (3,408) |
| | \$ (2,923) | \$ 938 | \$ (1,985) |

Production Volumes

Natural gas production currently represents 68% (six months ended June 30, 2011 – 72%) of the Corporation's overall production volume on a boe basis, with oil production representing the remaining 32% (six months ended June 30, 2011 – 28%). The change in production mix reflects the effect of the acquisition of Torque.

| Average daily volume during the six months ended June 30, | 2012 | 2011 |
|---|--------|--------|
| Natural gas (Mcf/d) | 10,129 | 10,386 |
| Oil (bbls/d) | 751 | 654 |
| Liquids (bbls/d) | 30 | 26 |
| Total (boe/d) | 2,469 | 2,411 |

The historical decline rate of approximately 15% in the Corporation's oil reserves was offset by drilling and workover programs undertaken in the third and fourth quarters of 2011, including a new oil well drilled in December 2011 that came on production at 40 bbls/d. The Corporation also benefitted from the acquisition of Torque, which was completed in the third quarter of 2011, adding approximately 85 bbls/d to oil production volumes.

The decline in the average daily production volumes for natural gas during the first half of 2012 was consistent with the natural decline in gas reserves of 5% to 8% annually, and was partially offset by the drilling of two offshore wells in the fourth quarter of 2011 that, on a combined basis, flowed at approximately 450 Mcf/d. The acquisition of Torque added another 300 Mcf/d to gas production.

Net Sales of Oil and Gas

| For the six months ended June 30, | 2012 | | 2011 | |
|-------------------------------------|-----------|-----------------------------|-----------|-----------------------------|
| | Sales | Realized Prices (\$ / unit) | Sales | Realized Prices (\$ / unit) |
| Natural gas | \$ 5,383 | 2.92 | \$ 8,831 | 4.70 |
| Oil | 12,630 | 92.37 | 11,690 | 98.79 |
| Liquids | 326 | 60.02 | 253 | 53.42 |
| | 18,339 | | 20,774 | |
| Less: Royalties at 15% (2011 - 15%) | (2,722) | | (3,172) | |
| Net sales | \$ 15,617 | | \$ 17,602 | |

The Corporation pays a royalty on gross sales of approximately 15% (six months ended June 30, 2011 – approximately 15%) to provincial governments, freehold landowners and overriding royalty owners.

Effect of Commodity Prices on Revenues from Oil and Gas Sales

Prices for oil and natural gas may vary significantly from quarter to quarter due to several factors including supply, demand, weather, general economic conditions and changes in foreign exchange rates. The table below illustrates several benchmark prices for these commodities, compared with the Corporation's realized prices prior to the effect of its risk management contracts.

| | 2012 | | | 2011 | | |
|-----------------------------------|-------|-------|----------------------|-------|-------|----------------------|
| | US\$ | CAD\$ | Realized Prices (\$) | US\$ | CAD\$ | Realized Prices (\$) |
| For the six months ended June 30, | | | | | | |
| Natural Gas | | | | | | |
| Dawn Hub | 2.69 | 2.70 | 2.92 | 4.65 | 4.55 | 4.70 |
| NYMEX Henry Hub | 2.36 | 2.37 | | 4.28 | 4.18 | |
| Oil | | | | | | |
| Edmonton Par | n/a | 88.58 | 92.37 | n/a | 96.11 | 98.79 |
| West Texas Intermediate | 98.19 | 98.70 | | 98.08 | 95.79 | |

Realized Price on Natural Gas

Natural gas prices as reported by NYMEX fell below US\$2.00/Mcf in April 2012, as relatively warmer winter weather diminished demand, at the same time as new discoveries and technological changes resulted in a surplus of supply. More recently, the price of natural gas has rebounded marginally to approximately US\$2.74/Mcf at June 30, 2012, reflecting, in part, increased consumption of electrical energy powered by natural gas in response to unusually high summer temperatures. In reaction to these market conditions, the Corporation realized an average price on sales of natural gas of \$2.92/Mcf during the six months ended June 30, 2012, a decrease of 38% from the average price of \$4.70/Mcf realized in the same period of the prior year. The decline in the market price of natural gas is partially mitigated by the Corporation's proximity to the Dawn Hub, a leading provider of natural gas supply to the greater Toronto market area, which provides the Corporation with a positive basis differential from average industry benchmarks.

Realized Price on Oil

During the first half of 2012, concern over slowing global growth and uncertainties in the ability of the European Union to contend with its financial challenges have placed downward pressure on the price for crude oil. In addition, Saudi Arabia's overproduction in the first half of 2012, meant to make up for lost Iranian supply in the wake of expected sanctions, sparked a sharp drop in global prices. These economic factors are reflected in the substantial volatility of the West Texas Intermediate ("WTI") Crude Oil price, which reached a high of US\$109.39/bbl and a low of US\$77.72/bbl during the first half of 2012.

Changes in the Corporation's realized oil price per barrel are more closely correlated to the Edmonton Par, reflecting the markets in which the Corporation operates. Similar to the volatility in the WTI oil price, the Edmonton Par price reached a high of \$107.07/bbl and a low of \$71.14/bbl during the first half of 2012. During this period, the Corporation realized an average price on sales of oil of \$92.37/bbl (six months ended June 30, 2011 – \$98.79/bbl), representing a 4% premium (six months ended June 30, 2011 – 3%) to the Edmonton Par average price during the same period.

Risk Management Contracts – Price Risk Management

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

The following table summarizes the realized and unrealized gains or losses from the Corporation's risk management contracts during the six months ended June 30, 2012 and June 30, 2011. For accounting purposes, the Corporation has not designated its risk management contracts as hedges. Accordingly, the gains or losses from these contracts are not reflected in the Corporation's reported amounts of oil and natural gas sales.

| For the six months ended June 30, | 2012 | | | 2011 | | |
|-----------------------------------|-------------------------|---------------------------|----------|-------------------------|--------------------|--------|
| | Realized (loss) gain | Unrealized (loss) gain | Total | Realized (loss) gain | Unrealized gain | Total |
| Oil swaps | \$ (139) | \$ 1,511 | \$ 1,372 | \$ (359) | \$ 455 | \$ 96 |
| Gas swaps | 2,008 | (613) | 1,395 | 81 | 371 | 452 |
| | \$ 1,869 | \$ 898 | \$ 2,767 | \$ (278) | \$ 826 | \$ 548 |

The following is a summary of commodity contracts entered into by the Corporation as of June 30, 2012. The positive value of the Corporation's natural gas and oil based risk management contracts at June 30, 2012 resulted from third-party forecasted decreases in underlying commodity prices during the periods covered, compared with the fixed price pursuant to the terms of the contract itself.

| Contract | Volume | Pricing Point | Strike Price (Cdn\$/unit) | Remaining Term | Fair Value June 30, 2012 |
|------------------|--------------|------------------|------------------------------|------------------------|-----------------------------|
| Fixed Price Swap | | | | | |
| Crude oil | 500 bbl/d | NYMEX | \$101.20 | Jul 01/12 to Dec 31/12 | \$ 1,462 |
| Natural gas | 7,000 mbtu/d | NYMEX | \$3.84 | Jul 01/12 to Dec 31/12 | 1,052 |
| | | | | | \$ 2,514 |

In accordance with IFRS, the Corporation is required to estimate the fair values of outstanding contracts at each reporting date and to include changes in the fair values as a component of the Corporation's net earnings (loss). The fair values of risk management contracts outstanding at the end of a reporting period are determined using market conditions and third-party forecasts prevailing as at the reporting date. Any changes in the fair values of risk management contracts from amounts determined at the end of the previous reporting period are recognized as an unrealized risk management gain or loss. An unrealized risk management gain or loss may or may not be realized in subsequent periods depending upon subsequent fluctuations in commodity prices or foreign exchange rates affecting the risk management contracts.

Production Expenditures

Production expenditures include costs associated with bringing oil and natural gas from the reservoir to the surface sales point, and include separating the oil and gas, treating the oil and gas to remove impurities and disposing of produced water. 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 2012, the Corporation incurred production expenditures of \$6.2 million or \$13.75/boe. This compares to \$6.0 million or \$13.64/boe in the same period of the prior year.

| For the six months ended June 30, | 2012 | | | 2011 | | |
|-------------------------------------|----------------------|-----------------------|-----------------------|----------------------|-----------------------|-----------------------|
| | Natural Gas | Oil and Liquids | Total | Natural Gas | Oil and Liquids | Total |
| Production expenditures | \$ 3,080 | \$ 3,100 | \$ 6,180 | \$ 3,486 | \$ 2,466 | \$ 5,952 |
| Production expenditures per unit | (per Mcf) \$ 1.67 | (per bbl) \$ 21.81 | (per boe) \$ 13.75 | (per Mcf) \$ 1.85 | (per bbl) \$ 20.02 | (per boe) \$ 13.64 |

With the decline in the price of natural gas, the Corporation has focused its resources on oil and liquids production. As a result, production expenditures associated with natural gas have decreased to \$1.67/Mcf compared with \$1.85/Mcf in the same period of the prior year, while oil-based production expenditures have increased to \$21.81/bbl in the first half of 2012 compared with \$20.02/bbl in the same period of the prior year.

Field Level Cash Flows and Field Netbacks

| For the six months ended June 30, | 2012 | | | 2011 | | |
|--------------------------------------|-------------|-----------------|-----------|-------------|-----------------|-----------|
| | Natural Gas | Oil and Liquids | Total | Natural Gas | Oil and Liquids | Total |
| Total sales | \$ 5,383 | \$ 12,956 | \$ 18,339 | \$ 8,831 | \$ 11,943 | \$ 20,774 |
| Realized risk management gain (loss) | 2,008 | (139) | 1,869 | 81 | (359) | (278) |
| Royalties | (805) | (1,917) | (2,722) | (1,330) | (1,842) | (3,172) |
| Production expenditures | (3,080) | (3,100) | (6,180) | (3,486) | (2,466) | (5,952) |
| Field level cash flows | \$ 3,506 | \$ 7,800 | \$ 11,306 | \$ 4,096 | \$ 7,276 | \$ 11,372 |

| For the six months ended June 30, | 2012 | | | 2011 | | |
|--------------------------------------|-----------------------|---------------------------|-----------------|-----------------------|---------------------------|-----------------|
| | Natural Gas \$/Mcf | Oil and Liquids \$/bbl | Total \$/boe | Natural Gas \$/Mcf | Oil and Liquids \$/bbl | Total \$/boe |
| Total sales | \$ 2.92 | \$ 91.13 | \$ 40.81 | \$ 4.70 | \$ 97.04 | \$ 47.61 |
| Realized risk management gain (loss) | 1.09 | (0.98) | 4.16 | 0.04 | (2.92) | (0.64) |
| Royalties | (0.44) | (13.49) | (6.06) | (0.71) | (14.97) | (7.27) |
| Production expenditures | (1.67) | (21.81) | (13.75) | (1.85) | (20.02) | (13.64) |
| Field netbacks | \$ 1.90 | \$ 54.85 | \$ 25.16 | \$ 2.18 | \$ 59.13 | \$ 26.06 |

During the six months ended June 30, 2012, the Corporation earned field level cash flows of \$11.3 million or \$25.16/boe compared with \$11.4 million or \$26.06/boe earned in the same period of the prior year.

Field netbacks from natural gas were \$3.5 million or \$1.90/Mcf in the six months ended June 30, 2012, a decline of \$0.28/Mcf or 14% over the \$4.1 million or \$2.18/Mcf earned in the same period of 2011. Through its price risk management strategies, the Corporation increased its field netbacks from natural gas by \$1.09/Mcf, effectively realizing an average sales price of \$4.01/Mcf in the first half of 2012, although still below an average sales price of \$4.74/Mcf realized in the same period of the prior year. The decrease in field netbacks is partially offset by reduced production expenditures, consistent with the Corporation's strategy to refocus its resources in response to declining natural gas prices as discussed above (see "*Production Expenditures*").

Field netbacks from oil and liquids were \$7.8 million or \$54.85/bbl in the six months ended June 30, 2012 compared with \$7.3 million or \$59.13/bbl in the six months ended June 30, 2011. Field netbacks have declined as a result of decreasing oil prices (see "*Effect of Commodity Prices on Revenues from Oil and Gas Sales – Realized Price on Oil*"). The Corporation's oil-based price risk management strategies during the first half of 2012 resulted in a decline in field netbacks of \$0.98/bbl (six months ended June 30, 2011 – \$2.92/bbl).

Field level cash flows should not be considered more meaningful than, or an alternative to, net earnings (loss) as determined in accordance with IFRS.

Capital Expenditures

During the three and six months ended June 30, 2012, the Corporation incurred capital expenditures of \$4.5 million and \$5.9 million respectively (three and six months ended June 30, 2011 – \$1.3 million and \$2.2 million respectively) on its assets in southern Ontario.

| For the six months ended June 30, | 2012 | 2011 |
|--|----------|----------|
| <i>Offshore</i> | | |
| Drilling and completion | \$ - | \$ 343 |
| Pipeline | 58 | 113 |
| Workovers | - | 156 |
| Facilities | 25 | 105 |
| Offshore fleet | 335 | 249 |
| Total Offshore | 418 | 966 |
| <i>Onshore</i> | | |
| Drilling and completion | 241 | - |
| Pipeline | 137 | - |
| Workovers | 686 | 472 |
| Facilities | 1,541 | 32 |
| Seismic | 1,985 | 53 |
| Total Onshore | 4,590 | 557 |
| Undeveloped properties | 877 | 572 |
| Office equipment, computer hardware and software | 14 | 144 |
| | \$ 5,899 | \$ 2,239 |

In response to declining natural gas prices, the Corporation reduced its offshore capital expenditure activities by over 50% to \$0.4 million during the first half of 2012. Offshore activities were substantially limited to ensuring the integrity of the Corporation's offshore fleet in order to complete necessary repairs and maintenance and to facilitate seismic undertakings. In addition, the offshore fleet was necessary in the completion of the Corporation's reclamation activities (see "*Decommissioning Liabilities*").

Onshore, the Corporation expended \$2.0 million on advancing its three dimensional seismic program which will be critical to the Corporation in identifying its drill candidates in subsequent years. In addition to these initiatives, the Corporation expended \$0.2 million on drilling and completion activities and it expended \$0.7 million on workovers, including the stimulation of four vertical wells and one horizontal well. The preliminary results from two of the four vertical wells show that their production increased by approximately 10 bbls/d. The result of the horizontal workover is pending as it has just returned to production.

In addition to its planned capital work program, the Corporation has purchased an onshore drilling rig at a cost of approximately \$3.1 million. The Corporation had made \$1.5 million in installments on the drilling rig to the end of June 2012. The rig will augment the offshore drilling and completion barge operation in Lake Erie as the equipment and personnel will be interchangeable. The acquisition will significantly enhance drilling efficiencies and provide the Corporation with complete control over the timing and safety aspects of its operations. It will also provide the Corporation with a monetization opportunity, as the rig may be leased to third parties.

2012 Work Program

The Corporation's remaining 2012 work program is budgeted at \$7.1 million. During the remainder of the year, the Corporation's capital programs will continue to focus on its onshore oil projects and will include a number of workover initiatives to optimize oil production from existing fields. Furthermore, the Corporation continues to assess potential drill opportunities in an ongoing effort to replenish reserves. The Corporation plans to acquire 60 kilometres of two dimensional seismic to identify near-shore structures for future drilling to add reserves and production.

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, 2012, the Corporation's estimate of these future costs on an undiscounted basis is approximately \$83.0 million, and is forecasted to be incurred over a 49-year period. The Corporation spent \$0.8 million in reclamation activities in the first half of 2012 and the Corporation anticipates that it will incur approximately a further \$1.7 million in reclamation costs over the next twelve months.

In accordance with accounting requirements, the estimated decommissioning liability is recorded in the Corporation's consolidated financial statements on a discounted basis using discount rates that are specific to the underlying obligations. At June 30, 2012, the discounted amount of the Corporation's decommissioning liabilities was \$46.0 million. The discount used in calculating the Corporation's decommissioning liabilities is accreted over time. During the three and six months ended June 30, 2012, the Corporation incurred accretion expense of \$0.3 million and \$0.5 million respectively (three and six months ended June 30, 2011 – \$0.2 million and \$0.5 million respectively). These amounts have been included in the Corporation's June 2012 Interim Consolidated Financial Statements as "*interest expense*".

Castor Underground Gas Storage Project

The construction of the Castor Project is substantially complete, and is now subject to testing and subsequent commissioning into the Spanish gas system.

During the second quarter of 2012, the Government of Spain announced certain regulatory modifications to the remuneration regime applicable to underground gas storage facilities. Under the previous regime, eligible capital invested was to be repaid over a 10 year period beginning immediately after the commencement of operations. Regulatory modifications increase the repayment period to 20 years. Furthermore, these regulatory modifications significantly curtail the provisional remuneration available to gas storage projects during the construction period.

Escal has determined that these regulatory modifications have an unfavourable impact to the Castor Project economics and the related project financing. Consequently, Escal has entered into discussions with the Government of Spain with a view to finding solutions that would re-establish the economic value of the project. Such discussions are ongoing, with the full knowledge and involvement of the lenders to the project. Accordingly, further borrowings pursuant to the project financing arrangements have been deferred until a satisfactory agreement has been reached between all parties.

In the interim, Escal has continued with the commissioning process. On July 6, 2012, Escal was granted the provisional commissioning certificate necessary to commence the injection of cushion gas into the Castor facilities. This key milestone signifies that the facility is ready for service, subject to the injection of cushion gas and certain subsequent performance testing. However, in light of the regulatory modifications discussed above, Escal has chosen to defer the acquisition of cushion gas until such time as an acceptable solution has been agreed upon with the Spanish government and the lenders to the Castor Project. Meanwhile, Escal is ensuring that the systems and components of the Castor facilities are carefully maintained.

CLP has entered into certain agreements with ACS and with Enagas. These agreements provide that within 15 days of the formal inclusion into the Spanish gas system of the Castor Project, ACS will sell and Enagas will buy 50% of ACS' interest in Escal based on a pre-established pricing formula at which point CLP, ACS and Enagas will each own 33% of the equity of Escal. In addition, and for a period of 180 days after the formal inclusion into the Spanish gas system of the Castor Project, CLP may sell part or all of its shares in Escal to ACS and/or Enagas on essentially the same terms and conditions, including the pre-established pricing formula, as are offered to Enagas.

Share of (Loss) Earnings from Equity Accounted Investment in Escal

The Corporation accounts for its investment in Escal using the equity method. As the Corporation's investment in Escal was nominal, the Corporation did not recognize any equity earnings in respect of its investment in Escal during the first half of 2012. In the first half of the prior year, the Corporation recognized a \$2,000 gain, representing its share of earnings generated by Escal.

Escal has established a hedging strategy to mitigate its exposure to interest rate risk associated with the project financing for the Castor Project. At June 30, 2012, the fair value of Escal's obligations in respect of these hedging strategies was approximately €7.8 million (December 31, 2011 – €7.8 million). Recording its share of Escal's obligations in respect of these hedging contracts would draw the Corporation's investment in Escal to below zero. The Corporation has not recognized its share of these losses, estimated at \$27.0 million, as it does not have the legal or constructive obligation in respect thereof.

From 2010 to June of 2012, Escal issued shares from treasury with a par value of €14,000. In order to maintain its 33% interest, CLP subscribed for one third of the newly issued par value shares at an aggregate cost of \$6,000 (€5,000). During this time, and in order to meet the equity ratios as required by the project financing, ACS also contributed a share premium of €40.9 million and issued €64.2 million in subordinated loans. CLP has not recognized the benefit of its 33% interest in the share premium and in the subordinated loans as the realization and measurement is subject to a number of risks and uncertainties, including but not limited to, execution risk associated with the construction of the project, the availability and terms of future financing arrangements and the 50-year life span of the project.

Investment in Series A Preference Shares of Eurogas International

The terms of the Corporation's investment in the Series A Preference Shares of Eurogas International are detailed in Note 7 to the 2011 Audited Consolidated Financial Statements.

Because of the Corporation's entitlement to demand redemption of the Series A Preference Shares at any time from Eurogas International, the Corporation has classified its investment in the Series A Preference Shares as a loan receivable and the associated dividends as interest income. The Corporation has completed an assessment of the fair value of the Series A Preference Shares. In its assessment, the Corporation considered factors such as the delinquency of dividend payments, the financial resources available to Eurogas International to meet current commitments and pursue growth opportunities, and the declaration of Force Majeure. 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 six months ended June 30, 2012, the Corporation provided for an impairment loss relating to its investment in Eurogas International of \$0.6 million (six months ended June 30, 2011 – \$0.6 million). Notwithstanding the Corporation not receiving any dividends from its investment at June 30, 2012, the Corporation has not exercised its entitlement to elect a majority of the members of the Board of Directors of Eurogas International.

In June 2011, Eurogas International received approval from the Tunisian government for a one-year extension of the expiry date in respect of the Sfax permit to December 8, 2012. As a condition to the extension, Eurogas International and its joint venture partners are committed to drilling one exploration well prior to the maturity date, with depth to a specified geological zone. In the event such work commitment is not completed, a compensation payment of up to US\$12 million will be payable to the Tunisian government by the joint venture partners, less certain amounts previously incurred by the joint venture partners associated with such obligation.

Other Items in Consolidated Net Earnings

General and Administrative Expenses

General and administrative expenses incurred during the six months ended June 30, 2012 were \$3.6 million, a decrease of \$0.2 million from general and administrative expenses of \$3.8 million incurred during the six months ended June 30, 2011. Included in the same period of the prior year was a one time expenditure of \$0.2 million relating to the Corporation's listing upgrade from the TSX Venture Exchange to the TSX. Otherwise, there were no significant changes in the nature of general and administrative expense incurred by the Corporation on a period-over-period basis.

Interest Expense

The Corporation incurred interest expense of \$2.2 million during the first half of 2012, compared with \$2.4 million incurred in the first half of 2011. Included in interest expense is \$0.5 million (six months ended June 30, 2011 – \$0.5 million) of accretion expense associated with the Corporation's decommissioning liability. Interest expense on the Corporation's bank loan was \$1.7 million in the six months ended June 30, 2012, a decline of \$0.2 million from interest expense of \$1.9 million incurred in the same period of the prior year.

SELECTED QUARTERLY FINANCIAL INFORMATION

| | Prepared in accordance with IFRS | | | | | | | |
|---|----------------------------------|--------------|------------|----------------|------------|----------------|----------------|-------------|
| | 2012 | | 2011 | | | | 2010 | |
| | 30-Jun | 31-Mar | 31-Dec | 30-Sep | 30-Jun | 31-Mar | 31-Dec | 30-Sep |
| Revenues | \$ 7,543 | \$ 8,074 | \$ 9,459 | \$ 8,757 | \$ 9,530 | \$ 8,072 | \$ 8,301 | \$ 8,179 |
| Net (loss) earnings attributable to owners of the parent | (302) | (420) | 985 | (1,128) | 937 | (2,040) | (7,729) | (91) |
| Basic and fully diluted (loss) earnings per share | \$ - | \$ - | \$ 0.01 | \$ (0.01) | \$ 0.01 | \$ (0.01) | \$ (0.05) | \$ - |
| Capital expenditures | \$ 4,532 | \$ 1,367 | \$ 4,763 | \$ 4,109 | \$ 1,319 | \$ 920 | \$ 1,720 | \$ 2,042 |

- In the fourth quarter of 2010, the Corporation provided \$6.3 million against the carrying value of its preferred share investment in Eurogas International and associated accrued dividends.
- In the third quarter of 2011, the Corporation completed the acquisition of Torque. Included in the third quarter of 2011 are \$0.4 million of associated transaction costs.
- Changes in the fair value of the Corporation's risk management contracts are included in the Corporation's net earnings. These fair value changes may cause significant volatility in the Corporation's earnings, some of which is beyond the control of the Corporation. The following table illustrates the impact of changes in the fair value of the Corporation's risk management contracts to its net earnings (loss):

| | Prepared in accordance with IFRS | | | | | | | |
|--|----------------------------------|----------|----------|----------|----------|------------|----------|--------|
| | 2012 | | 2011 | | | | 2010 | |
| | 30-Jun | 31-Mar | 31-Dec | 30-Sep | 30-Jun | 31-Mar | 31-Dec | 30-Sep |
| Changes in the fair value of risk management contracts | \$ 1,507 | \$ 1,260 | \$ 1,038 | \$ 1,486 | \$ 1,939 | \$ (1,391) | \$ (455) | \$ - |

QUARTERLY CONSOLIDATED RESULTS OF OPERATIONS

Three months ended June 30, 2012 compared with the three months ended June 30, 2011

During the three months ended June 30, 2012, the Corporation's net loss attributable to the owners of the parent was \$0.3 million compared with net earnings attributable to the owners of the parent of \$0.9 million in the second quarter of the prior year.

| For the three months ended June 30, | 2012 | | | 2011 | | |
|---|-------------------------|--------------------------------------|--------------------------|---------------------|--------------------------------------|--------------------------|
| | 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 | \$ 294 | \$ 294 | \$ - | \$ 2,332 | \$ 2,332 |
| Castor Project | (117) | (86) | (31) | (40) | (31) | (9) |
| Loss from investment in preferred shares of Eurogas International | (320) | (320) | - | (321) | (321) | - |
| Corporate activities | (190) | (190) | - | (1,043) | (1,043) | - |
| Net (loss) earnings for the period | \$ (333) | \$ (302) | \$ (31) | \$ 928 | \$ 937 | \$ (9) |

Southern Ontario Assets

As illustrated in the table below, and despite an increase in oil production volumes, net sales were adversely affected by decreases in commodity prices, including a significant decrease in the price for natural gas.

| | Natural Gas | Oil and Liquids | Total |
|---|-------------|-----------------|------------|
| Net Sales | | | |
| Three months ended June 30, 2012 | \$ 2,136 | \$ 5,407 | \$ 7,543 |
| Three months ended June 30, 2011 | 3,845 | 5,685 | 9,530 |
| Net decrease in net sales | \$ (1,709) | \$ (278) | \$ (1,987) |
| Effect of changes in production volumes | \$ (170) | \$ 728 | \$ 558 |
| Effect of changes in commodity prices | (1,539) | (1,006) | (2,545) |
| | \$ (1,709) | \$ (278) | \$ (1,987) |

As reflected in year-to-date results, the drilling of two offshore wells in the fourth quarter of 2011, together with the oil production acquired through the acquisition of Torque, increased average daily oil production volumes to 769 bbls/d during the second quarter of 2012 compared with 674 bbls/d produced in the same quarter of the prior year. During the same period, natural gas production volumes decreased to 10,135 Mcf/d in the second quarter of 2012 compared to 10,602 Mcf/d in the second quarter of the prior year. The decrease is consistent with the Corporation's expectations, as, in light of declining natural gas prices, it has diverted resources from activities that would otherwise offset the natural decline in reserves.

| Average daily volume during the three months ended June 30, | 2012 | 2011 |
|---|--------|--------|
| Natural gas (Mcf/d) | 10,135 | 10,602 |
| Oil (bbls/d) | 769 | 674 |
| Liquids (bbls/d) | 30 | 36 |
| Total (boe/d) | 2,488 | 2,477 |

Revenues from oil and gas sales were \$8.9 million in the second quarter of 2012 compared with revenues of \$11.2 million earned in the same quarter of the prior year. Declining oil and gas prices represented \$2.5 million of the decrease, partially offset by increased oil production volumes.

| For the three months ended June 30, | 2012 | | 2011 | |
|-------------------------------------|----------|-----------------------------|----------|-----------------------------|
| | Sales | Realized Prices (\$ / unit) | Sales | Realized Prices (\$ / unit) |
| Natural gas | \$ 2,508 | 2.72 | \$ 4,541 | 4.71 |
| Oil | 6,232 | 89.01 | 6,479 | 105.63 |
| Liquids | 153 | 56.64 | 185 | 56.47 |
| | 8,893 | | 11,205 | |
| Less: Royalties at 15% (2011 - 15%) | (1,350) | | (1,675) | |
| Net sales | \$ 7,543 | | \$ 9,530 | |

Natural gas sales in the second quarter of 2012 represented 68% of the overall production volume on a boe basis. However, with significantly lower gas prices realized by the Corporation, revenues from natural gas sales represented only 28% of total revenue. Oil sales in the current quarter represented 32% of overall production volume on a boe basis and 72% of total revenue.

The Corporation realized an average sales price of \$2.72/Mcf in the second quarter of 2012, compared with \$4.71/Mcf realized in the second quarter of the prior year, contributing to a loss in revenues of \$1.5 million. Realized sales prices for natural gas reflect a premium of 8% (three months ended June 30, 2011 – 4%) over the average prices for natural gas as reported by the Dawn Hub. During the second quarter of 2012, the Corporation realized an average sales price of \$89.01/bbl on sales of oil compared to \$105.63/bbl in the same period of the prior year, contributing to an additional \$1.0 million loss in revenues.

| For the three months ended June 30, | 2012 | | | 2011 | | |
|-------------------------------------|-------|-------|----------------------|--------|--------|----------------------|
| | US\$ | CAD\$ | Realized Prices (\$) | US\$ | CAD\$ | Realized Prices (\$) |
| Natural Gas | | | | | | |
| Dawn Hub | 2.50 | 2.52 | 2.72 | 4.70 | 4.53 | 4.71 |
| NYMEX Henry Hub | 2.27 | 2.29 | | 4.35 | 4.19 | |
| Oil | | | | | | |
| Edmonton Par | n/a | 84.45 | 89.01 | n/a | 103.58 | 105.63 |
| West Texas Intermediate | 93.40 | 94.10 | | 102.02 | 98.25 | |

The Corporation incurred production expenditures of \$3.1 million during the three months ended June 30, 2012 consistent with \$3.1 million incurred during the same period of the prior year.

| For the three months ended June 30, | 2012 | | | 2011 | | |
|-------------------------------------|----------------------|-----------------------|-----------------------|----------------------|-----------------------|-----------------------|
| | Natural Gas | Oil and Liquids | Total | Natural Gas | Oil and Liquids | Total |
| Production expenditures | \$ 1,636 | \$ 1,499 | \$ 3,135 | \$ 1,716 | \$ 1,338 | \$ 3,054 |
| Production expenditures per unit | (per Mcf) \$ 1.77 | (per bbl) \$ 20.62 | (per boe) \$ 13.85 | (per Mcf) \$ 1.78 | (per bbl) \$ 20.71 | (per boe) \$ 13.55 |

Field level cash flows in the second quarter of 2012 were \$5.4 million, a decrease of 14% from the same period of the prior year. Field level cash flows include a gain of \$1.0 million (three months ended June 30, 2011 – a loss of \$0.2 million) realized on risk management contracts.

| For the three months ended June 30, | 2012 | | | 2011 | | |
|--------------------------------------|-------------|-----------------|----------|-------------|-----------------|-----------|
| | Natural Gas | Oil and Liquids | Total | Natural Gas | Oil and Liquids | Total |
| Total sales | \$ 2,508 | \$ 6,385 | \$ 8,893 | \$ 4,541 | \$ 6,664 | \$ 11,205 |
| Realized risk management gain (loss) | 1,029 | (2) | 1,027 | 81 | (267) | (186) |
| Royalties | (372) | (978) | (1,350) | (696) | (979) | (1,675) |
| Production expenditures | (1,636) | (1,499) | (3,135) | (1,716) | (1,338) | (3,054) |
| Field level cash flows | \$ 1,529 | \$ 3,906 | \$ 5,435 | \$ 2,210 | \$ 4,080 | \$ 6,290 |

Field netbacks in the second quarter of 2012 were \$24.00/boe, a decrease of \$3.90/boe compared with field netbacks of \$27.90/boe generated in the second quarter of the prior year. The decline reflects the decrease in natural gas and oil prices during 2012. The Corporation's gain on risk management contracts during the second quarter of 2012 added \$4.54/boe to field netbacks.

| For the three months ended June 30, | 2012 | | | 2011 | | |
|--------------------------------------|-----------------------|---------------------------|-----------------|-----------------------|---------------------------|-----------------|
| | Natural Gas \$/Mcf | Oil and Liquids \$/bbl | Total \$/boe | Natural Gas \$/Mcf | Oil and Liquids \$/bbl | Total \$/boe |
| Total sales | \$ 2.72 | \$ 87.80 | \$ 39.27 | \$ 4.71 | \$ 103.14 | \$ 49.71 |
| Realized risk management gain (loss) | 1.12 | (0.03) | 4.54 | 0.08 | (4.13) | (0.83) |
| Royalties | (0.40) | (13.46) | (5.96) | (0.72) | (15.15) | (7.43) |
| Production expenditures | (1.77) | (20.62) | (13.85) | (1.78) | (20.71) | (13.55) |
| Field netbacks | \$ 1.67 | \$ 53.69 | \$ 24.00 | \$ 2.29 | \$ 63.15 | \$ 27.90 |

Other Items in Consolidated Quarterly Earnings

General and administrative expenses incurred in the three months ended June 30, 2012 were \$1.6 million compared with \$1.9 million incurred in the same period of the prior year. Consistent with year-to-date results, the decrease in general and administrative expenses reflect the one time TSX listing fees incurred in the second quarter of the prior year.

During the quarter ended June 30, 2012, the Corporation incurred interest expense of \$1.1 million, primarily on its bank facilities compared with \$1.3 million of interest expense incurred in the same period of the prior year.

LIQUIDITY AND CAPITAL RESOURCES

Cash Resources Availability

At June 30, 2012, the Corporation held cash of \$0.8 million on deposit with Canadian chartered banks. In addition, the Corporation had access to a further \$16.6 million pursuant to its \$80.0 million revolving demand credit facility as at June 30, 2012. Subsequent to June 30, 2012, DELP's credit facility was amended to reduce amounts available pursuant to the credit facility from \$80 million to \$70 million. There were no other material changes to the terms of the credit facility as a result of the amendment.

Southern Ontario Assets

DELP's credit facility was established with a syndicate of Canadian chartered banks. The credit facility is a direct obligation of DELP and is structured as a revolving demand loan with a tiered interest rate structure 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% or, at the bank's then prevailing bankers' acceptance rate plus 4%. At June 30, 2012, the Corporation had drawn \$63.4 million against the credit facility, including a letter of credit for \$3.3 million, issued in favour of the Ministry of Natural Resources in connection with future abandonment and site restoration obligations.

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, 2012, the Corporation was in compliance with all such covenants.

The Corporation anticipates that cash flows generated from ongoing operating activities, as well as amounts available pursuant to its credit facility, will provide sufficient cash flow to support the ongoing working capital requirements related to its activities in southern Ontario into the foreseeable future.

Spain

ACS is responsible for providing equity and project financing for the Castor Project, including providing all guarantees that may be required, from the day it became a majority shareholder in Escal, through development and construction and inclusion of the underground storage facility into the Spanish gas system. After the system is operational, the Corporation will be responsible for its proportionate share of any new capital investments, unless otherwise funded through working capital generated directly by Escal.

Project financing was completed in July 2010, providing Escal with a 10-year, €1.3 billion credit facility through a syndicate of 19 banks. At June 30, 2012, approximately €1.0 billion had been borrowed pursuant to these arrangements. To provide security for the financing, CLP and ACS have each pledged their respective shares in Escal to the banking syndicate. Other than the pledging of its shares, CLP will not be required to provide any additional equity or debt funds or provide any warranties required by the project finance lenders. Notwithstanding any form by which ACS has, or may in the future, fund Escal during the construction phase, CLP's interest in Escal will at all times remain at 33%, and CLP will retain the right to 33% of all distributable cash flows.

As a result of regulatory modifications to the remuneration regime applicable to underground gas storage facilities announced by the Spanish authorities in the second quarter of 2012 (see "*Castor Underground Gas Storage Project*"), further borrowings pursuant to the project financing arrangement have been deferred until a satisfactory agreement has been reached between the Spanish authorities, Escal, the shareholders of Escal and the lenders to the Castor Project.

Outstanding Share Data and Dilutive Securities

At June 30, 2012 and July 31, 2012, the Corporation had 164,651,647 common shares outstanding. In the first quarter of 2012, the Corporation purchased 23,500 common shares for cancellation pursuant to its normal course issuer bid at an average cost of \$0.61 per common share.

On March 30, 2012, the Corporation received regulatory approval to continue its normal course issuer bid from April 3, 2012 to April 2, 2013. Subject to certain conditions, the Corporation may purchase up to a maximum of 8,232,582 common shares pursuant to these arrangements, representing approximately 5% of its common shares outstanding prior to approval of the normal course issuer bid.

At June 30, 2012, the Corporation had granted 3,815,000 stock options to directors and key management at a weighted average exercise price of \$0.77 per share. In addition, it had awarded 745,463 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 20 to the 2011 Audited Consolidated Financial Statements and under "*Off-Balance Sheet Arrangements*" and "*Commitments and Contingencies*" in the Corporation's MD&A as at and for the year ended December 31, 2011.

RELATED PARTY TRANSACTIONS

Other than as described in Note 17 to the June 2012 Interim Consolidated Financial Statements, there have been no significant changes in the nature and scope of related party transactions to those described in Note 19 to the 2011 Audited Consolidated Financial Statements and the accompanying MD&A.

BUSINESS RISKS

On March 30, 2012, the Spanish government issued a royal decree, changing the terms of provisional remuneration available prior to final commissioning certification for initiatives similar to the Castor Project. The royal decree also imposed additional commissioning requirements that need to be met prior to acceptance of an underground gas storage project into the Spanish gas system. In addition, on April 27, 2012, a Spanish ministerial order was issued, increasing the term of the remuneration period for invested cost related to underground gas storage from 10 years to 20 years. The Corporation has determined that these regulatory

modifications have an unfavourable impact to the Castor Project economics and the related project financing. Consequently, Escal has entered into discussions with the Government of Spain with a view to finding solutions that would re-establish the economic value of the project. Such discussions are ongoing, with the full knowledge and involvement of the lenders to the project.

There are a number of other inherent risks associated with the Corporation's activities and with its current stage of exploration and development. The risks faced by the Corporation are described in the Company's 2011 Annual Information Form dated February 15, 2012, under "Risk Factors", which may be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website www.sedar.com. The Corporation has 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the Corporation's consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosure of contingent assets and liabilities. Critical accounting estimates represent estimates made by management that are, by their very nature, uncertain. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying values of assets and liabilities and the reported amount of revenues and expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

There have been no changes in the accounting policies applied in the preparation of the Corporation's June 2012 Interim Consolidated Financial Statements from those detailed in Note 3 to the Corporation's 2011 Audited Consolidated Financial Statements. A summary of the more significant judgments and estimates made by management in the preparation of its financial information is provided in Note 4 to the 2011 Audited Consolidated Financial Statements. There have been no significant changes in these judgments and estimates during the six months ended June 30, 2012.

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, 2012.

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 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 Chief Financial Officer concluded that as of June 30, 2012, the Corporation's disclosure controls and procedures were effective.

The Chief Executive Officer and 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, 2012 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 harbor" 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, licences 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, and other risk factors discussed or referred to in the section entitled "*Risk Factors*" in our 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 2012 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 2012 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, 2012

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

(expressed in thousands of Canadian dollars)

| | Note | As at | |
|--|------|---------------|-------------------|
| | | June 30, 2012 | December 31, 2011 |
| ASSETS | | | |
| Current | | | |
| Cash | | \$ 751 | \$ 2,556 |
| Accounts receivable | | 3,469 | 4,561 |
| Prepays | | 670 | 1,532 |
| Inventory | | 331 | 621 |
| Investments | 5 | 551 | 579 |
| Derivative financial assets | 10 | 2,514 | 1,616 |
| Loan receivable | 6 | 543 | 555 |
| Taxes recoverable | | 5 | 30 |
| | | 8,834 | 12,050 |
| Non-current | | | |
| Oil and gas properties | 7 | 171,800 | 171,384 |
| Equity accounted investment in Escal | 14 | - | - |
| Deferred income taxes | 16 | 3,508 | 3,182 |
| | | \$ 184,142 | \$ 186,616 |
| LIABILITIES | | | |
| Current | | | |
| Bank loan | 8 | \$ 59,644 | \$ 59,191 |
| Accounts payable and accrued liabilities | 17 | 5,878 | 10,000 |
| Decommissioning liabilities | 9 | 1,683 | 1,985 |
| | | 67,205 | 71,176 |
| Non-current | | | |
| Decommissioning liabilities | 9 | 44,278 | 42,303 |
| | | 111,483 | 113,479 |
| SHAREHOLDERS' EQUITY | | | |
| Equity Attributable to Owners of the Parent | | | |
| Share capital | 11 | 104,838 | 104,854 |
| Contributed surplus | 11 | 6,897 | 6,631 |
| Deficit | | (36,260) | (35,538) |
| Accumulated other comprehensive loss | | (3,082) | (3,114) |
| | | 72,393 | 72,833 |
| Non-controlling interest | | | |
| | | 266 | 304 |
| | | 72,659 | 73,137 |
| | | \$ 184,142 | \$ 186,616 |

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
(unaudited)

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

| | Note | For the three months ended | | For the six months ended | |
|--|------------|----------------------------|---------------|--------------------------|-------------------|
| | | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| REVENUES | | | | | |
| Oil and gas sales | | \$ 8,893 | \$ 11,205 | \$ 18,339 | \$ 20,774 |
| Royalties | | (1,350) | (1,675) | (2,722) | (3,172) |
| Net sales | | 7,543 | 9,530 | 15,617 | 17,602 |
| Production expenditures | 13 | (3,135) | (3,054) | (6,180) | (5,952) |
| Depreciation and depletion | 7 | (3,672) | (3,789) | (7,428) | (7,248) |
| General and administrative | 12, 13, 17 | (1,594) | (1,927) | (3,586) | (3,845) |
| Gain on fair value changes of risk management contracts | 10 | 1,507 | 1,939 | 2,767 | 548 |
| Loss on fair value changes in financial instruments | 5 | (19) | (89) | (28) | (50) |
| Impairment loss on financial instruments | 5 | (320) | (321) | (640) | (638) |
| Interest income | | 361 | 396 | 727 | 742 |
| Interest expense | 8, 9 | (1,080) | (1,294) | (2,153) | (2,378) |
| Foreign exchange (loss) gain | | (32) | 27 | (60) | (29) |
| (LOSS) EARNINGS BEFORE SHARE OF EARNINGS (LOSS) FROM EQUITY ACCOUNTED INVESTMENT AND INCOME TAXES | | (441) | 1,418 | (964) | (1,248) |
| Share of earnings (loss) from equity accounted investment | 14 | - | (3) | - | 2 |
| (LOSS) EARNINGS BEFORE INCOME TAXES | | (441) | 1,415 | (964) | (1,246) |
| Income tax recovery (expense) | | | | | |
| Current | | (90) | - | (90) | - |
| Deferred | 16 | 198 | (487) | 294 | 123 |
| | | 108 | (487) | 204 | 123 |
| NET (LOSS) EARNINGS FOR THE PERIOD | | \$ (333) | \$ 928 | \$ (760) | \$ (1,123) |
| NET (LOSS) EARNINGS ATTRIBUTABLE TO: | | | | | |
| Owners of the parent | | \$ (302) | \$ 937 | \$ (722) | \$ (1,103) |
| Non-controlling interest | | (31) | (9) | (38) | (20) |
| | | \$ (333) | \$ 928 | \$ (760) | \$ (1,123) |
| BASIC AND DILUTED | | | | | |
| NET (LOSS) EARNINGS PER SHARE | 15 | \$ - | \$ 0.01 | \$ - | \$ (0.01) |

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

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

(expressed in thousands of Canadian dollars)

| | Note | For the three months ended | | For the six months ended | |
|--|------|----------------------------|---------------|--------------------------|---------------|
| | | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| NET (LOSS) EARNINGS FOR THE PERIOD | | \$ (333) | \$ 928 | \$ (760) | \$ (1,123) |
| Other comprehensive loss | | | | | |
| Share of other comprehensive loss from equity accounted investment | 14 | - | (1,595) | - | (2,755) |
| Less: Associated taxes | | 32 | 199 | 32 | 344 |
| Other comprehensive income (loss) for the period | | 32 | (1,396) | 32 | (2,411) |
| COMPREHENSIVE LOSS FOR THE PERIOD | | \$ (301) | \$ (468) | \$ (728) | \$ (3,534) |
| COMPREHENSIVE LOSS ATTRIBUTABLE TO: | | | | | |
| Owners of the parent | | (270) | (92) | (690) | (2,880) |
| Non-controlling interest | | (31) | (376) | (38) | (654) |
| | | \$ (301) | \$ (468) | \$ (728) | \$ (3,534) |

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, 2010 | \$ 97,746 | \$ 5,345 | \$ 401 | \$ (34,286) | \$ (188) | \$ 1,415 | \$ 70,433 | | |
| For the six months ended June 30, 2011 | | | | | | | | | |
| Acquisition of common shares for cancellation pursuant to normal course issuer bid (Note 11) | (22) | - | - | (6) | - | - | (28) | | |
| Net loss | - | - | - | (1,103) | - | (20) | (1,123) | | |
| Stock based compensation (Note 12) | - | 394 | 89 | - | - | - | 483 | | |
| Other comprehensive loss | - | - | - | - | (1,777) | (634) | (2,411) | | |
| Balance, June 30, 2011 | 97,724 | 5,739 | 490 | (35,395) | (1,965) | 761 | 67,354 | | |
| From July 1, 2011 to December 31, 2011 | | | | | | | | | |
| Shares issued on private placement financing (Note 11) | 6,012 | - | - | - | - | - | 6,012 | | |
| Shares issued on acquisition (Note 4) | 1,118 | - | - | - | - | - | 1,118 | | |
| Net loss | - | - | - | (143) | - | (47) | (190) | | |
| Stock based compensation (Note 12) | - | 312 | 90 | - | - | - | 402 | | |
| Other comprehensive loss | - | - | - | - | (1,149) | (410) | (1,559) | | |
| Balance, December 31, 2011 | 104,854 | 6,051 | 580 | (35,538) | (3,114) | 304 | 73,137 | | |
| For the six months ended June 30, 2012 | | | | | | | | | |
| Acquisition of common shares for cancellation pursuant to normal course issuer bid (Note 11) | (16) | - | - | - | - | - | (16) | | |
| Net loss | - | - | - | (722) | - | (38) | (760) | | |
| Stock based compensation (Note 12) | - | 194 | 72 | - | - | - | 266 | | |
| Other comprehensive income | - | - | - | - | 32 | - | 32 | | |
| Balance, June 30, 2012 | \$ 104,838 | \$ 6,245 | \$ 652 | \$ (36,260) | \$ (3,082) | \$ 266 | \$ 72,659 | | |

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, 2012 | June 30, 2011 |
| OPERATING ACTIVITIES | | | |
| Net loss for the period | | \$ (760) | \$ (1,123) |
| Adjustments for: | | | |
| Share of earnings from equity accounted investment | 14 | - | (2) |
| Depreciation and depletion | 7 | 7,428 | 7,248 |
| Loss on fair value changes in financial instruments | 5 | 28 | 50 |
| Impairment loss on financial instruments | 5 | 640 | 638 |
| Gain on fair value changes of risk management contracts | 10 | (898) | (826) |
| Deferred income taxes | 16 | (294) | (123) |
| Stock based compensation | 12 | 266 | 483 |
| Reclamation expenditures | 9 | (755) | (616) |
| Other | | (145) | (154) |
| | | 5,510 | 5,575 |
| Changes in: | | | |
| Accounts receivable | | 1,079 | (161) |
| Accounts payable and accrued liabilities | | (3,490) | 2,661 |
| Taxes recoverable | | 25 | - |
| Prepays | | 862 | 20 |
| Inventory | | 290 | (282) |
| CASH PROVIDED FROM OPERATING ACTIVITIES | | 4,276 | 7,813 |
| FINANCING ACTIVITIES | | | |
| Advanced from (repayment of) bank loan arrangements | 8 | 453 | (2,504) |
| Acquisition of common shares for cancellation | 11 | (16) | (28) |
| CASH PROVIDED FROM (USED IN) FINANCING ACTIVITIES | | 437 | (2,532) |
| INVESTING ACTIVITIES | | | |
| Investment in oil and gas properties | 7 | (6,518) | (2,391) |
| CASH USED IN INVESTING ACTIVITIES | | (6,518) | (2,391) |
| (DECREASE) INCREASE IN CASH | | (1,805) | 2,890 |
| CASH, BEGINNING OF PERIOD | | 2,556 | 1,524 |
| CASH, END OF PERIOD | | \$ 751 | \$ 4,414 |
| Interest paid | | \$ 1,670 | \$ 1,864 |
| Income taxes paid | | \$ 65 | \$ - |

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, 2012 and June 30, 2011 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 Dundee Place, Suite 2100, 1 Adelaide Street East, Toronto, Ontario, Canada, M5C 2V9, and its registered office is located at Suite 250, 435 – 4th Avenue SW, Calgary, Alberta, Canada, T2P 3A8. The Corporation’s common shares trade on the Toronto Stock Exchange (“TSX”) under the symbol “DEN”.

Dundee Energy’s operating interests include its 100% ownership interest in 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 owner 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 45% working interest in the Sfax permit offshore Tunisia (the “Sfax Permit”).

2. BASIS OF PRESENTATION

These unaudited condensed interim consolidated financial statements of the Corporation as at and for the three and six months ended June 30, 2012 (“June 2012 Interim Consolidated Financial Statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, “*Interim Financial Reporting*”. The June 2012 Interim Consolidated Financial Statements were authorized by the Board of Directors on July 31, 2012.

The June 2012 Interim Consolidated Financial Statements follow the same accounting principles and methods of application as those disclosed in Note 3 to the Corporation’s audited consolidated financial statements as at and for the year ended December 31, 2011 (“2011 Audited Consolidated Financial Statements”). The June 2012 Interim Consolidated Financial Statements do not include all disclosures required by IFRS for annual financial statements and accordingly, should be read in conjunction with the 2011 Audited Consolidated Financial Statements.

The preparation of the June 2012 Interim Consolidated Financial Statements requires management to make judgments in applying its accounting policies and estimates and assumptions about the future. These judgments, estimates and assumptions affect the Corporation's reported amounts of assets, liabilities, revenues and other items in earnings, and the related disclosure of contingent assets and liabilities, if any. 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 earnings 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 accounting judgments, estimates and assumptions made by the Corporation in the preparation of the June 2012 Interim Consolidated Financial Statements from those judgments, estimates and assumptions disclosed in Note 4 to the 2011 Audited Consolidated Financial Statements.

3. ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS NOT YET EFFECTIVE

On May 17, 2012, the IASB released "*Annual Improvements 2009 - 2011 Cycle*", as a series of amendments to IFRS, as its latest set of annual improvements. The Corporation has noted the following specific amendments included in the release which may impact the Corporation's financial statements:

Amendment to IAS 1, "*Presentation of Financial Statements*" ("IAS 1") – IAS 1 requires the presentation of an additional, opening statement of financial position when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification. Amendments to IAS 1 clarify the disclosure requirements such that certain comparative information is only required if it has a material effect upon the information that is presented in the statement of financial position.

Amendment to IAS 16, "*Property, Plant & Equipment*" ("IAS 16") – IAS 16 was amended to provide further clarity on accounting for spare parts and servicing equipment. Before the amendment, IFRS required the classification of spare parts and servicing equipment as inventory. The amendment clarifies that these items should be classified as property, plant and equipment if they meet the definition pursuant to IAS 16.

Amendment to IAS 32, "*Financial Instruments: Presentation*" ("IAS 32") – IAS 32 was amended to clarify the treatment of income taxes relating to distributions and transaction costs.

Amendment to IAS 34, "*Interim Financial Reporting*" ("IAS 34") – IAS 34 was amended to align the disclosure requirements for segmented assets and segmented liabilities in interim financial reports with those of IFRS 8, "*Operating Segments*". Under the amendment, IAS 34 requires a measure of total assets and liabilities for an operating segment in interim financial statements if such information is regularly provided to the chief operating decision maker and there has been a material change in those measures since the last annual financial statements.

The above referenced amendments are effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

Other than as discussed above, new accounting standards, interpretations and amendments to existing standards that are not yet effective were outlined in Note 3 to the 2011 Audited Consolidated Financial Statements.

The Corporation has not yet determined the impact, if any, that the new and amended standards may have on its financial statements.

4. BUSINESS COMBINATION

Acquisition of Torque Energy Inc.

In August of the prior year, the Corporation completed the acquisition of Torque Energy Inc. (“Torque”), a Canadian-based oil and natural gas company that was engaged in the exploration, development and acquisition of oil and natural gas properties, primarily in southern Ontario, Canada.

The fair value of the purchase consideration for Torque was \$7,130,000 including (i) cash of \$6,012,000 and (ii) the issuance of 1,346,926 fully paid common shares of the Corporation at a price of \$0.83 per share (Note 11). Aggregate transaction costs associated with the acquisition of Torque were \$385,000 and were charged to the Corporation’s consolidated statements of operations as incurred. A summary of the allocation of the aggregate consideration transferred to the fair value of the various identifiable assets and liabilities acquired is as follows:

| | |
|--|-----------|
| Net assets acquired | |
| Oil and gas properties | \$ 10,076 |
| Accounts receivable | 1,024 |
| Prepays | 147 |
| | 11,247 |
| Bank loan | (1,429) |
| Accounts payable and accrued liabilities | (519) |
| Decommissioning liability | (2,169) |
| | \$ 7,130 |
| Aggregate consideration transferred: | |
| Cash | \$ 6,012 |
| 1,346,926 common shares of the Corporation issued at \$0.83 per common share | 1,118 |
| | \$ 7,130 |

On December 1, 2011, the Corporation converged the assets and operations acquired pursuant to the Torque transaction with its existing business in southern Ontario.

As part of the acquisition of Torque, the Corporation assumed a \$6,100,000 revolving demand credit facility. The credit facility was fully repaid and cancelled on December 22, 2011.

5. INVESTMENTS

| | June 30, 2012 | December 31, 2011 |
|--|---------------|-------------------|
| Publicly listed equity securities | \$ 251 | \$ 279 |
| Investment in Lake Erie Limited Partnership | 300 | 300 |
| Preferred shares of Eurogas International | 32,150 | 32,150 |
| Less: Impairment | (32,150) | (32,150) |
| | - | - |
| Accrued dividends on preferred share investment in Eurogas International | 5,021 | 4,381 |
| Less: Impairment | (5,021) | (4,381) |
| | - | - |
| | \$ 551 | \$ 579 |

At June 30, 2012, and December 31, 2011, the Corporation held 32,150,000 Series A Preference Shares of Eurogas International with an aggregate par value of \$32,150,000. The terms of the Corporation’s investment in the Series A Preference Shares are detailed in Note 7 to the 2011 Audited Consolidated Financial Statements. Notwithstanding the Corporation not receiving any dividends on its investment at June 30, 2012, 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, 2012, the Corporation recognized an unrealized loss from changes in the fair value of its investment in publicly listed equity securities of \$19,000 and \$28,000 respectively (three and six months ended June 30, 2011 – loss of \$89,000 and \$50,000 respectively) and it recognized an impairment loss of \$320,000 and \$640,000 respectively (three and six months ended June 30, 2011 – loss of \$321,000 and \$638,000 respectively) relating to dividends receivable on the Series A Preference Shares of Eurogas International.

6. LOAN RECEIVABLE

Amounts advanced to Escal for utilization in the development of its underground gas storage project in Spain are reflected in the June 2012 Interim Consolidated Financial Statements as a loan receivable. Amounts advanced are denominated in Euros. The loan receivable is non-interest bearing and has no fixed term to maturity.

| | | Canadian dollars | Euros |
|---|----|---------------------|-------|
| Balance, December 31, 2010 | \$ | 560 | € 421 |
| Transactions during the six months ended June 30, 2011 | | | |
| Foreign exchange gain | | 29 | - |
| Balance, June 30, 2011 | | 589 | 421 |
| Transactions from July 1, 2011 to December 31, 2011 | | | |
| Foreign exchange loss | | (34) | - |
| Balance, December 31, 2011 | | 555 | 421 |
| Transactions during the six months ended June 30, 2012 | | | |
| Foreign exchange loss | | (12) | - |
| Balance, June 30, 2012 | \$ | 543 | € 421 |

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, 2010 | | | | | | | | |
| Cost | \$ 107,172 | \$ 23,408 | \$ 20,256 | \$ 4,525 | \$ 6,611 | \$ 837 | \$ 162,810 | |
| Accumulated depreciation and depletion | (5,194) | (926) | (554) | (12) | (673) | - | (7,360) | |
| Net carrying value, December 31, 2010 | 101,978 | 22,482 | 19,702 | 4,513 | 5,938 | 837 | 155,450 | |
| Six months ended June 30, 2011 | | | | | | | | |
| Carrying value December 31, 2010 | 101,978 | 22,482 | 19,702 | 4,513 | 5,938 | 837 | 155,450 | |
| Net additions | 1,648 | 1,543 | 1,729 | - | (3,306) | 625 | 2,239 | |
| Remeasure decommissioning liability (Note 9) | 465 | - | - | - | - | - | 465 | |
| Depreciation and depletion | (5,560) | (991) | (620) | (12) | (65) | - | (7,248) | |
| Net carrying value, June 30, 2011 | 98,531 | 23,034 | 20,811 | 4,501 | 2,567 | 1,462 | 150,906 | |
| At June 30, 2011 | | | | | | | | |
| Cost | 109,285 | 24,951 | 21,985 | 4,525 | 3,305 | 1,462 | 165,513 | |
| Accumulated depreciation and depletion | (10,754) | (1,917) | (1,174) | (24) | (738) | - | (14,607) | |
| Net carrying value, June 30, 2011 | 98,531 | 23,034 | 20,811 | 4,501 | 2,567 | 1,462 | 150,906 | |
| Transactions from July 1, 2011 to December 31, 2011 | | | | | | | | |
| Carrying value June 30, 2011 | 98,531 | 23,034 | 20,811 | 4,501 | 2,567 | 1,462 | 150,906 | |
| Acquisitions (Note 4) | 6,948 | - | 1,166 | 55 | 4 | 1,903 | 10,076 | |
| Net additions | 4,220 | 366 | 278 | - | (555) | 4,563 | 8,872 | |
| Remeasure decommissioning liability (Note 9) | 9,717 | - | - | - | - | - | 9,717 | |
| Depreciation and depletion | (6,385) | (1,042) | (668) | (13) | (79) | - | (8,187) | |
| Net carrying value, December 31, 2011 | 113,031 | 22,358 | 21,587 | 4,543 | 1,937 | 7,928 | 171,384 | |
| At December 31, 2011 | | | | | | | | |
| Cost | 130,170 | 25,317 | 23,429 | 4,580 | 2,754 | 7,928 | 194,178 | |
| Accumulated depreciation and depletion | (17,139) | (2,959) | (1,842) | (37) | (817) | - | (22,794) | |
| Net carrying value, December 31, 2011 | 113,031 | 22,358 | 21,587 | 4,543 | 1,937 | 7,928 | 171,384 | |
| Six months ended June 30, 2012 | | | | | | | | |
| Carrying value December 31, 2011 | 113,031 | 22,358 | 21,587 | 4,543 | 1,937 | 7,928 | 171,384 | |
| Net additions | 927 | 195 | 1,566 | - | 349 | 2,862 | 5,899 | |
| Remeasure decommissioning liability (Note 9) | 1,945 | - | - | - | - | - | 1,945 | |
| Depreciation and depletion | (5,808) | (879) | (668) | (13) | (60) | - | (7,428) | |
| Net carrying value, June 30, 2012 | 110,095 | 21,674 | 22,485 | 4,530 | 2,226 | 10,790 | 171,800 | |
| At June 30, 2012 | | | | | | | | |
| Cost | 133,042 | 25,512 | 24,995 | 4,580 | 3,103 | 10,790 | 202,022 | |
| Accumulated depreciation and depletion | (22,947) | (3,838) | (2,510) | (50) | (877) | - | (30,222) | |
| Net carrying value, June 30, 2012 | \$ 110,095 | \$ 21,674 | \$ 22,485 | \$ 4,530 | \$ 2,226 | \$ 10,790 | \$ 171,800 | |

8. BANK LOAN

DELP had established a credit facility for \$80,000,000 with certain Canadian chartered banks. The credit facility provided 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 DELP's current ratios, draws on the credit facility bore interest, at DELP's option, at either the bank's prime lending rate plus 3.0% for loans or letters of credit, or, for bankers' acceptances, at the bank's then prevailing bankers' acceptance rate plus 4.0%. DELP was subject to a standby fee of 0.55% on unused amounts under the credit facility.

The credit facility was secured against all of the oil and natural gas properties owned by DELP. In addition, the Corporation had assigned a limited recourse guarantee of its units in DELP as further security pursuant to the credit facility. The credit facility was subject to certain covenants, including maintenance of minimum levels of working capital. At June 30, 2012, the Corporation was in compliance with all such covenants.

| | June 30, 2012 | December 31, 2011 |
|----------------------------|---------------|-------------------|
| Prime rate loans | \$ 15,100 | \$ 3,500 |
| Bankers' acceptances | 45,000 | 56,000 |
| Less: Unamortized discount | (456) | (309) |
| Letter of credit (Note 9) | \$ 59,644 | \$ 59,191 |
| | \$ 3,270 | \$ 3,270 |

At June 30, 2012, DELP had drawn \$63,370,000 (December 31, 2011 – \$62,770,000) pursuant to the credit facility, including \$3,270,000 (December 31, 2011 – \$3,270,000) issued in the form of a letter of credit. Available credit under the credit facility at June 30, 2012 was \$16,630,000. During the three and six months ended June 30, 2012, the Corporation incurred interest expense relating to the credit facility, including bank charges, arrangement fees and standby fees of \$842,000 and \$1,673,000 respectively (three and six months ended June 30, 2011 – \$1,037,000 and \$1,862,000 respectively).

Subsequent to June 30, 2012, DELP's credit facility was amended to reduce amounts available pursuant to the credit facility from \$80,000,000 to \$70,000,000. There were no other material changes to the terms of the credit facility as a result of the amendment.

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.

| | June 30, 2012 | December 31, 2011 |
|--|---------------|-------------------|
| Undiscounted future obligations, beginning of period | \$ 83,739 | \$ 80,123 |
| Acquisition (Note 4) | - | 4,621 |
| Effect of changes in estimates | 39 | 42 |
| Liabilities settled (reclamation expenditures) | (755) | (1,047) |
| Undiscounted future obligations, end of period | \$ 83,023 | \$ 83,739 |

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:

| | June 30, 2012 | December 31, 2011 |
|---|----------------------|----------------------|
| <i>Discount rates applied to future obligations</i> | <i>1.00% - 2.24%</i> | <i>0.95% - 2.42%</i> |
| <i>Inflation rate</i> | <i>2.00%</i> | <i>2.00%</i> |
| Discounted future obligations, beginning of period | \$ 44,288 | \$ 31,960 |
| Acquisition (Note 4) | - | 2,169 |
| Effect of changes in estimates and remeasurement of discount rates | 1,945 | 10,182 |
| Liabilities settled (reclamation expenditures) | (755) | (1,047) |
| Accretion | 483 | 1,024 |
| Discounted future obligations, end of period | \$ 45,961 | \$ 44,288 |
| Current | \$ 1,683 | \$ 1,985 |
| Non-current | 44,278 | 42,303 |
| | \$ 45,961 | \$ 44,288 |

As required by statute, the Corporation has provided the Ontario Ministry of Natural Resources with a letter of credit in respect of future abandonment costs. At June 30, 2012 and December 31, 2011, the amount of the letter of credit was \$3,270,000 (Note 8).

10. RISK MANAGEMENT CONTRACTS

At June 30, 2012, the Corporation had entered into certain risk management contracts as identified in the table below.

| Contract | Volume | Pricing Point | Strike Price CDNS/unit | Remaining Term |
|--------------------------------|---------------|---------------|------------------------|-------------------------|
| Fixed Price Swap - Crude oil | 500 bbl/day | NYMEX | \$101.20 | July 01/12 to Dec 31/12 |
| Fixed Price Swap - Natural Gas | 7000 mbtu/day | NYMEX | \$3.84 | July 01/12 to Dec 31/12 |

The Corporation has determined that the fair value of risk management contracts at June 30, 2012 resulted in an asset balance of \$2,514,000 (December 31, 2011 – asset balance of \$1,616,000).

During the three and six months ended June 30, 2012, the Corporation recognized a gain of \$1,507,000 and \$2,767,000 respectively (three and six months ended June 30, 2011 – gain of \$1,939,000 and \$548,000 respectively) from changes in the fair value of risk management contracts.

11. SHARE CAPITAL

Issued and Outstanding

| | Number of Common Shares Outstanding | Contributed Surplus | | |
|---|-------------------------------------|---------------------|--------------------------|------------------------|
| | | Share Capital | Option Reserve (Note 12) | DSUP Reserve (Note 12) |
| Outstanding, December 31, 2010 | 156,118,453 | \$ 97,746 | \$ 5,345 | \$ 401 |
| Transactions during the six months ended June 30, 2011 | | | | |
| Stock based compensation | - | - | 394 | 89 |
| Redeemed pursuant to issuer bid | (33,512) | (22) | - | - |
| Outstanding, June 30, 2011 | 156,084,941 | 97,724 | 5,739 | 490 |
| Transactions from July 1, 2011 to December 31, 2011 | | | | |
| Stock based compensation | - | - | 312 | 90 |
| Shares issued on private placement financing | 7,243,280 | 6,012 | - | - |
| Shares issued on acquisition (Note 4) | 1,346,926 | 1,118 | - | - |
| Outstanding, December 31, 2011 | 164,675,147 | 104,854 | 6,051 | 580 |
| Transactions during the six months ended June 30, 2012 | | | | |
| Stock based compensation | - | - | 194 | 72 |
| Redeemed pursuant to issuer bid | (23,500) | (16) | - | - |
| Outstanding, June 30, 2012 | 164,651,647 | \$ 104,838 | \$ 6,245 | \$ 652 |

Normal Course Issuer Bid

On March 30, 2011, the Corporation established a normal course issuer bid through the facility of the TSX from April 1, 2011 to March 31, 2012. On March 30, 2012, the Corporation received regulatory approval to continue the terms of its normal course issuer bid from April 3, 2012 to April 2, 2013 (the “Amended NCIB”). Subject to certain conditions, the Corporation may purchase up to a maximum of 8,232,582 common shares pursuant to the Amended NCIB, representing approximately 5% of its common shares outstanding immediately prior to approval of the Amended NCIB.

During the six months ended June 30, 2012, the Corporation purchased 23,500 common shares, having an aggregate stated capital value of \$16,000 for cancellation pursuant to these arrangements. The Corporation paid \$16,000 or \$0.61 per share to retire these shares.

Private Placement Financing

In August of the prior year, the Corporation completed a private placement financing with Dundee Corporation, the Corporation's parent. The private placement consisted of the issuance of 7,243,280 common shares issued from treasury at a price of \$0.83 per share for gross proceeds of approximately \$6,012,000. The net proceeds from the private placement were used to fund the cash portion of the aggregate consideration transferred for the acquisition of Torque (Note 4).

12. STOCK BASED COMPENSATION

A detailed description of the Corporation's share incentive plan (the "SIP") is provided in Note 14 to the Corporation's 2011 Audited Consolidated Financial Statements.

Stock Option Plan

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, 2012 and as at and for the year ended December 31, 2011, is as follows:

| | June 30, 2012 | | December 31, 2011 | |
|--|---------------|---------------------------------|-------------------|---------------------------------|
| | Stock Options | Weighted Average Exercise Price | Stock Options | Weighted Average Exercise Price |
| Options outstanding, beginning of period | 5,665,000 | \$ 0.92 | 6,125,000 | \$ 0.98 |
| Granted | 400,000 | 0.60 | - | - |
| Forfeited | (2,250,000) | 1.12 | (460,000) | 1.65 |
| Options outstanding, end of period | 3,815,000 | \$ 0.77 | 5,665,000 | \$ 0.92 |
| Exercisable options | 2,476,664 | \$ 0.78 | 4,593,332 | \$ 0.95 |

| Option Price | Options Outstanding | Options Exercisable | Contractual Life Remaining (Years) |
|--------------|---------------------|---------------------|------------------------------------|
| At \$0.54 | 200,000 | 200,000 | 1.30 |
| At \$0.60 | 400,000 | 133,332 | 4.84 |
| At \$0.81 | 3,215,000 | 2,143,332 | 3.33 |

During the three and six months ended June 30, 2012, the Corporation recognized stock based compensation expense of \$125,000 and \$194,000 respectively (three and six months ended June 30, 2011 – \$153,000 and \$394,000 respectively) in respect of outstanding stock options.

Deferred Share Unit Plan

During the six months ended June 30, 2012, the Corporation issued 141,633 (year ended December 31, 2011 – 248,830) deferred share units with a fair value on the date of issuance of \$72,000 pursuant to its deferred share unit plan ("DSUP"). Units issued pursuant to the DSUP were in settlement of outstanding directors' fees payable.

| | June 30, 2012 | December 31, 2011 |
|---|---------------|-------------------|
| Number of deferred share units outstanding, beginning of period | 603,830 | 355,000 |
| Granted | 141,633 | 248,830 |
| Number of deferred share units outstanding, end of period | 745,463 | 603,830 |

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, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| Salary and salary-related | \$ 1,144 | \$ 1,276 | \$ 2,057 | \$ 1,957 |
| Stock based compensation | 160 | 242 | 266 | 483 |
| Corporate and professional fees | 657 | 823 | 1,450 | 1,761 |
| General office | 336 | 207 | 715 | 519 |
| Exploration and development costs | 259 | 229 | 522 | 435 |
| Capitalization of general and administrative costs | (962) | (850) | (1,424) | (1,310) |
| | \$ 1,594 | \$ 1,927 | \$ 3,586 | \$ 3,845 |

Production Expenditures

| | For the three months ended | | For the six months ended | |
|--|----------------------------|---------------|--------------------------|---------------|
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| Labour | \$ 1,172 | \$ 1,165 | \$ 1,857 | \$ 1,870 |
| Materials, equipment and supplies used | 1,179 | 1,126 | 2,082 | 1,579 |
| Transportation | 337 | 319 | 652 | 629 |
| Utilities | 428 | 392 | 921 | 861 |
| Rental and lease payments | 202 | 78 | 397 | 468 |
| Other | (183) | (26) | 271 | 545 |
| | \$ 3,135 | \$ 3,054 | \$ 6,180 | \$ 5,952 |

14. EQUITY ACCOUNTED INVESTMENT IN ESCAL

| | |
|---|----------|
| Carrying value, December 31, 2010 | \$ 4,476 |
| Transactions during the six months ended June 30, 2011 | |
| New investment | 1 |
| Share of earnings | 2 |
| Share of other comprehensive loss | (2,755) |
| Carrying value, June 30, 2011 | 1,724 |
| Transactions from July 1, 2011 to December 31, 2011 | |
| New investment | 2 |
| Share of losses | (15) |
| Share of other comprehensive loss | (1,711) |
| Carrying value, December 31, 2011 and June 30, 2012 | \$ - |

During the six months ended June 30, 2012, Escal issued 39 par value shares for €2,000 (year ended December 31, 2011 – 99 par value shares for €5,000). To maintain its proportionate interest in Escal, CLP acquired 13 of the newly issued shares (year ended December 31, 2011 – 33) for a nominal amount (year ended December 31, 2011 – \$3,000; €2,000). In addition and in order to comply with minimum equity to debt ratio requirements, the majority shareholder in Escal also contributed an issuance premium on the newly issued shares of €5,774,000 (year ended December 31, 2011 – €14,659,000) and it issued €15,400,000 (year ended December 31, 2011 – €43,300,000) in subordinated loans. CLP has not recognized the benefit of its 33% interest in the issuance premium and subordinated loans as the ultimate realization and measurement of the benefit is subject to a significant number of risks and uncertainties, including but not limited to, execution risk associated with the construction of the project, the availability and terms of future financing arrangements and the 50-year life span of the project.

Escal has established a hedging strategy to mitigate its exposure to interest rate risk associated with its project financing agreement. At June 30, 2012, the fair value of Escal's obligations in respect of these hedging strategies was approximately €72,762,000 (year ended December 31, 2011 – €74,790,000). Recognition of these losses draws the Corporation's carrying value in Escal to zero. At June 30, 2012, the Corporation had not recorded a liability of \$27,030,000 (year ended December

31, 2011 – \$28,562,000) related to additional losses incurred by Escal, as it does not have the legal or constructive obligation in respect thereof.

15. NET (LOSS) EARNINGS PER SHARE

| | For the three months ended | | For the six months ended | |
|---|----------------------------|---------------|--------------------------|---------------|
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| Net (loss) earnings for the period attributable to owners of the parent | \$ (302) | \$ 937 | \$ (722) | \$ (1,103) |
| Weighted average number of common shares outstanding | 164,651,647 | 156,089,772 | 164,655,095 | 156,104,033 |
| Basic net (loss) earnings per common share | \$ - | \$ 0.01 | \$ - | \$ (0.01) |
| Effect of dilutive securities to the weighted average number of common shares outstanding | n/a | 574,442 | n/a | n/a |
| Diluted net (loss) earnings per common share | \$ - | \$ 0.01 | \$ - | \$ (0.01) |

16. INCOME TAXES

During the six months ended June 30, 2012, the Corporation recognized an income tax recovery amount of \$204,000 (June 30, 2011 – \$123,000).

The income tax recovery amount on the Corporation's loss before income taxes differs from the income tax recovery amount that would arise using the combined Canadian federal and provincial statutory tax rate of 26% (six months ended June 30, 2011 – 28%), as a result of the following items:

| | For the six months ended | |
|--|--------------------------|---------------|
| | June 30, 2012 | June 30, 2011 |
| Loss before tax at statutory rate of 26% (June 30, 2011 – 28%) | \$ (256) | \$ (352) |
| Effect on taxes of: | | |
| Non-deductible expenses | 84 | 172 |
| Net income tax not previously recognized | 145 | 5 |
| Change in substantively enacted income tax rates | (177) | - |
| Other differences | - | 52 |
| Income tax recovery | \$ (204) | \$ (123) |

17. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in these June 2012 Interim Consolidated Financial Statements, related party transactions and balances as at and for the six months ended June 30, 2012 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, 2012, the Corporation incurred costs of \$348,000 and \$669,000 respectively (three and six months ended June 30, 2011 – \$288,000 and \$535,000 respectively) in respect of these arrangements.

Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities is an accrued provision for \$500,000. The accrual will be paid to a director of Dundee Corporation in respect of the director's involvement in the Castor underground gas storage project (Note 14). The payment to the director is conditional on the acceptance of terms and conditions of the director's total compensation and approval by the Compensation Committee of the Corporation.

Also included in accounts payable and accrued liabilities at June 30, 2012 are amounts owing to the Corporation's parent, Dundee Corporation, and to Dundee Corporation's subsidiaries of \$1,716,000 (December 31, 2011 – \$4,516,000).

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 brokerage firm and 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 (Note 11) are 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, 2012 and 2011 are shown below:

| | For the three months ended | | For the six months ended | |
|--|----------------------------|---------------|--------------------------|---------------|
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| Directors' fees and executive consulting | \$ 138 | \$ 129 | \$ 274 | \$ 260 |
| Stock based compensation | 88 | 92 | 120 | 184 |
| Benefits | 15 | 10 | 18 | 14 |
| | \$ 241 | \$ 231 | \$ 412 | \$ 458 |

18. COMMITMENTS

There have been no substantive changes to the description and nature of the Corporation's commitments, from those described in Note 20 to the Corporation's 2011 Audited Consolidated Financial Statements.

19. FINANCIAL INSTRUMENTS

A detailed description of the Corporation's financial assets and financial liabilities and its associated risk management in respect thereof are provided in Note 21 to the 2011 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, 2011.

20. GEOGRAPHIC SEGMENTED INFORMATION

Segmented information is provided 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, 2012 and June 30, 2011

| <i>For the six months ended</i> | Southern Ontario | | Spain | | Corporate | | TOTAL | |
|---|------------------|-----------|-----------|-----------|-----------|------------|-----------|------------|
| | 30-Jun-12 | 30-Jun-11 | 30-Jun-12 | 30-Jun-11 | 30-Jun-12 | 30-Jun-11 | 30-Jun-12 | 30-Jun-11 |
| REVENUES | | | | | | | | |
| Oil and gas sales | \$ 18,339 | \$ 20,774 | \$ - | \$ - | \$ - | \$ - | \$ 18,339 | \$ 20,774 |
| Royalties | (2,722) | (3,172) | - | - | - | - | (2,722) | (3,172) |
| Net sales | 15,617 | 17,602 | - | - | - | - | 15,617 | 17,602 |
| Production expenditures | (6,180) | (5,952) | - | - | - | - | (6,180) | (5,952) |
| Depreciation and depletion | (7,423) | (7,241) | - | - | (5) | (7) | (7,428) | (7,248) |
| General and administrative | (2,315) | (2,024) | (124) | (135) | (1,147) | (1,686) | (3,586) | (3,845) |
| Gain on fair value changes of risk management contracts | 2,767 | 548 | - | - | - | - | 2,767 | 548 |
| Loss on fair value changes in financial instruments | - | - | - | - | (28) | (50) | (28) | (50) |
| Impairment loss on financial instruments | - | - | - | - | (640) | (638) | (640) | (638) |
| Interest income | 83 | 101 | - | - | 644 | 641 | 727 | 742 |
| Interest expense | (2,154) | (2,378) | - | - | 1 | - | (2,153) | (2,378) |
| Foreign exchange (loss) gain | (39) | (80) | (21) | 51 | - | - | (60) | (29) |
| (LOSS) EARNINGS BEFORE SHARE OF EARNINGS FROM EQUITY ACCOUNTED INVESTMENT AND INCOME TAXES | 356 | 576 | (145) | (84) | (1,175) | (1,740) | (964) | (1,248) |
| Share of earnings from equity accounted investment | - | - | - | 2 | - | - | - | 2 |
| (LOSS) EARNINGS BEFORE INCOME TAXES | 356 | 576 | (145) | (82) | (1,175) | (1,740) | (964) | (1,246) |
| Income tax recovery (expense) | | | | | | | | |
| Current | - | - | - | - | (90) | - | (90) | - |
| Deferred | - | - | - | - | 294 | 123 | 294 | 123 |
| | - | - | - | - | 204 | 123 | 204 | 123 |
| NET (LOSS) EARNINGS FOR THE PERIOD | \$ 356 | \$ 576 | \$ (145) | \$ (82) | \$ (971) | \$ (1,617) | \$ (760) | \$ (1,123) |
| NET (LOSS) EARNINGS ATTRIBUTABLE TO: | | | | | | | | |
| Owners of the parent | \$ 356 | \$ 576 | \$ (107) | \$ (62) | \$ (971) | \$ (1,617) | \$ (722) | \$ (1,103) |
| Non-controlling interest | - | - | (38) | (20) | - | - | (38) | (20) |
| | \$ 356 | \$ 576 | \$ (145) | \$ (82) | \$ (971) | \$ (1,617) | \$ (760) | \$ (1,123) |

Segmented Statements of Operations for the three months ended June 30, 2012 and June 30, 2011

| <i>For the three months ended</i> | Southern Ontario | | Spain | | Corporate | | TOTAL | |
|---|------------------|-----------|-----------|-----------|-----------|------------|-----------|-----------|
| | 30-Jun-12 | 30-Jun-11 | 30-Jun-12 | 30-Jun-11 | 30-Jun-12 | 30-Jun-11 | 30-Jun-12 | 30-Jun-11 |
| REVENUES | | | | | | | | |
| Oil and gas sales | \$ 8,893 | \$ 11,205 | \$ - | \$ - | \$ - | \$ - | \$ 8,893 | \$ 11,205 |
| Royalties | (1,350) | (1,675) | - | - | - | - | (1,350) | (1,675) |
| Net sales | 7,543 | 9,530 | - | - | - | - | 7,543 | 9,530 |
| Production expenditures | (3,135) | (3,054) | - | - | - | - | (3,135) | (3,054) |
| Depreciation and depletion | (3,669) | (3,785) | - | - | (3) | (4) | (3,672) | (3,789) |
| General and administrative | (904) | (1,087) | (87) | (54) | (603) | (786) | (1,594) | (1,927) |
| Gain on fair value changes of risk management contracts | 1,507 | 1,939 | - | - | - | - | 1,507 | 1,939 |
| Loss on fair value changes in financial instruments | - | - | - | - | (19) | (89) | (19) | (89) |
| Impairment loss on financial instruments | - | - | - | - | (320) | (321) | (320) | (321) |
| Interest income | 38 | 73 | - | - | 323 | 323 | 361 | 396 |
| Interest expense | (1,084) | (1,294) | - | - | 4 | - | (1,080) | (1,294) |
| Foreign exchange (loss) gain | (2) | 10 | (30) | 17 | - | - | (32) | 27 |
| (LOSS) EARNINGS BEFORE SHARE OF LOSS FROM EQUITY ACCOUNTED INVESTMENT AND INCOME TAXES | 294 | 2,332 | (117) | (37) | (618) | (877) | (441) | 1,418 |
| Share of loss from equity accounted investment | - | - | - | (3) | - | - | - | (3) |
| (LOSS) EARNINGS BEFORE INCOME TAXES | 294 | 2,332 | (117) | (40) | (618) | (877) | (441) | 1,415 |
| Income tax recovery (expense) | | | | | | | | |
| Current | - | - | - | - | (90) | - | (90) | - |
| Deferred | - | - | - | - | 198 | (487) | 198 | (487) |
| | - | - | - | - | 108 | (487) | 108 | (487) |
| NET (LOSS) EARNINGS FOR THE PERIOD | \$ 294 | \$ 2,332 | \$ (117) | \$ (40) | \$ (510) | \$ (1,364) | \$ (333) | \$ 928 |
| NET (LOSS) EARNINGS ATTRIBUTABLE TO: | | | | | | | | |
| Owners of the parent | \$ 294 | \$ 2,332 | \$ (86) | \$ (31) | \$ (510) | \$ (1,364) | \$ (302) | \$ 937 |
| Non-controlling interest | - | - | (31) | (9) | - | - | (31) | (9) |
| | \$ 294 | \$ 2,332 | \$ (117) | \$ (40) | \$ (510) | \$ (1,364) | \$ (333) | \$ 928 |

Segmented Net Assets as at June 30, 2012 and December 31, 2011

| <i>As at</i> | Southern Ontario | | Spain | | Corporate | | TOTAL | |
|--|------------------|------------|-----------|-----------|-----------|-----------|------------|------------|
| | 30-Jun-12 | 31-Dec-11 | 30-Jun-12 | 31-Dec-11 | 30-Jun-12 | 31-Dec-11 | 30-Jun-12 | 31-Dec-11 |
| ASSETS | | | | | | | | |
| Current | | | | | | | | |
| Cash | \$ 564 | \$ 1,856 | \$ 12 | \$ 15 | \$ 175 | \$ 685 | \$ 751 | \$ 2,556 |
| Accounts receivable | 3,061 | 4,142 | 408 | 419 | - | - | 3,469 | 4,561 |
| Prepays | 656 | 1,529 | 3 | 3 | 11 | - | 670 | 1,532 |
| Inventory | 331 | 621 | - | - | - | - | 331 | 621 |
| Investments | 300 | 300 | - | - | 251 | 279 | 551 | 579 |
| Derivative financial assets | 2,514 | 1,616 | - | - | - | - | 2,514 | 1,616 |
| Loan receivable | - | - | 543 | 555 | - | - | 543 | 555 |
| Taxes recoverable | - | - | - | - | 5 | 30 | 5 | 30 |
| | 7,426 | 10,064 | 966 | 992 | 442 | 994 | 8,834 | 12,050 |
| Non-current | | | | | | | | |
| Oil and gas properties | 171,743 | 171,326 | - | - | 57 | 58 | 171,800 | 171,384 |
| Equity accounted investment in Escal | - | - | - | - | - | - | - | - |
| Deferred income taxes | - | - | - | - | 3,508 | 3,182 | 3,508 | 3,182 |
| | \$ 179,169 | \$ 181,390 | \$ 966 | \$ 992 | \$ 4,007 | \$ 4,234 | \$ 184,142 | \$ 186,616 |
| LIABILITIES | | | | | | | | |
| Current | | | | | | | | |
| Bank loan | \$ 59,644 | \$ 59,191 | \$ - | \$ - | \$ - | \$ - | \$ 59,644 | \$ 59,191 |
| Accounts payable and accrued liabilities | 3,220 | 4,530 | 513 | 528 | 2,145 | 4,942 | 5,878 | 10,000 |
| Decommissioning liabilities | 1,683 | 1,985 | - | - | - | - | 1,683 | 1,985 |
| | 64,547 | 65,706 | 513 | 528 | 2,145 | 4,942 | 67,205 | 71,176 |
| Non-current | | | | | | | | |
| Decommissioning liabilities | 44,278 | 42,303 | - | - | - | - | 44,278 | 42,303 |
| | \$ 108,825 | \$ 108,009 | \$ 513 | \$ 528 | \$ 2,145 | \$ 4,942 | \$ 111,483 | \$ 113,479 |
| SEGMENTED NET ASSETS | \$ 70,344 | \$ 73,381 | \$ 453 | \$ 464 | \$ 1,862 | \$ (708) | \$ 72,659 | \$ 73,137 |



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Stock Exchange
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Stock Symbol
DEN

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