DUNDEE ENERGY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012

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 October 29, 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 nine months ended September 30, 2012 (the "September 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 September 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.

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 Communicacions 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

Nine months ended September 30, 2012 compared with the nine months ended September 30, 2011

Consolidated Net Loss

During the nine months ended September 30, 2012, the Corporation incurred a net loss attributable to the owners of the parent of $3.2 million. This compares with a net loss attributable to the owners of the parent of $2.2 million incurred in the nine months ended September 30, 2011. During the nine months ended September 30, 2012, results were adversely impacted by a substantial decrease in the realized price of natural gas, which resulted in a reduction to net sales of approximately $4.3 million. The effect of the decrease in net sales of natural gas was partially offset by reduced general and administrative and production expenditures. A summary of the Corporation's net earnings (loss) from its various projects is summarized below:

For the nine months ended September 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	$	(2,432)	$ (2,432)	$ -	$	729	$ 729	$ -
Castor Project		(211)	(157)	(54)		(149)	(112)	(37)
Loss from investment in preferred shares of Eurogas International		(963)	(963)	-		(962)	(962)	-
Corporate activities		360	360	-		(1,886)	(1,886)	-
Net loss for the period	$	(3,246)	$ (3,192)	$ (54)	$	(2,268)	$ (2,231)	$ (37)

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 nine months ended September 30, 2012, sales of oil and gas, net of royalty interests, were $23.0 million, a decrease of $3.4 million from $26.4 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			
Nine months ended September 30, 2012	$ 7,021	$ 15,955	$ 22,976
Nine months ended September 30, 2011	11,328	15,031	26,359
Net increase (decrease) in net sales	$ (4,307)	$ 924	$ (3,383)
Effect of changes in production volumes	$ (329)	$ 1,518	$ 1,189
Effect of changes in commodity prices	(3,978)	(594)	(4,572)
	$ (4,307)	$ 924	$ (3,383)

Production Volumes

Natural gas production currently represents 69% (nine months ended September 30, 2011 – 72%) of the Corporation's overall production volume on a boe basis, with oil production representing the remaining 31% (nine months ended September 30, 2011 – 28%).

Average daily volume during the nine months ended September 30,	2012	2011
Natural gas (Mcf/d)	10,149	10,491
Oil (bbls/d)	733	669
Liquids (bbls/d)	28	25
Total (boe/d)	2,453	2,442

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 decline in the average daily production volumes for natural gas during the nine months ended September 30, 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. However, in response to declining natural gas prices, the Corporation has reduced its offshore capital expenditure and workover programs, which may impact average production volumes for natural gas in the short term.

Net Sales of Oil and Gas

For the nine months ended September 30,			2012			2011
		Sales	Realized Prices ($ / unit)		Sales	Realized Prices ($ / unit)
Natural gas	$	8,275	2.98	$	13,339	4.66
Oil		18,305	91.16		17,437	95.52
Liquids		445	57.32		382	55.05
		27,025			31,158	
Less: Royalties at 15% (2011 – 15%)		(4,049)			(4,799)	
Net sales	$	22,976		$	26,359	

The Corporation pays a royalty on gross sales of approximately 15% (nine months ended September 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.

For the nine months ended September 30,			2012			2011
	US$	CAD$	Realized Prices ($)	US$	CAD$	Realized Prices ($)
Natural Gas						
Dawn Hub	2.83	2.84	2.98	4.57	4.45	4.66
NYMEX Henry Hub	2.53	2.54		4.23	4.11	
Oil						
Edmonton Par	n/a	87.28	91.16	n/a	94.83	95.52
West Texas Intermediate	96.09	96.50		95.22	92.64	

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$3.08/Mcf at September 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 $2.98/Mcf during the nine months ended September 30, 2012, a decrease of 36% from the average price of $4.66/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 nine months ended September 30, 2012, the Corporation realized an average price on sales of oil of $91.16/bbl (nine months ended September 30, 2011 – $95.52/bbl), representing a 4% premium (nine months ended September 30, 2011 – 1%) to the Edmonton Par average price during the same period.

During the first half of 2012, slowing global economic growth and uncertainties in the European Union's ability to contend with its financial challenges, exerted downward pressure on the price for crude oil. Global oil prices tightened somewhat in the third quarter of 2012, as field maintenance issues and labour disputes affected output of crude oil from the North Sea, compounded with concerns over Iran's nuclear development program, and stimulus measures proposed by the US and European central banks to address concerns over global economic growth.

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 nine months ended September 30, 2012 and September 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 nine months ended September 30,			2012			2011
	Realized gain	Unrealized (loss) gain	Total	Realized gain (loss)	Unrealized gain	Total
Oil swaps	$ 415	$ 632	$ 1,047	$ (63)	$ 1,113	$ 1,050
Gas swaps	2,662	(1,296)	1,366	436	548	984
	$ 3,077	$ (664)	$ 2,413	$ 373	$ 1,661	$ 2,034

The following is a summary of commodity contracts entered into by the Corporation as of September 30, 2012. The positive value of the Corporation's natural gas and oil based risk management contracts at September 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 Fixed Price Swap	Volume	Pricing Point	Strike Price (Cdn$/unit)	Remaining Term	Fair Value September 30, 2012
Crude oil	500 bbl/d	NYMEX	$101.20	Oct 01/12 to Dec 31/12	$ 583
Natural gas	7,000 mbtu/d	NYMEX	$3.84	Oct 01/12 to Dec 31/12	369
					$ 952

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 nine months ended September 30, 2012, the Corporation incurred production expenditures of $10.1 million or $14.96/boe. This compares to $10.7 million or $16.06/boe in the same period of the prior year.

For the nine months ended September 30,			2012			2011
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Production expenditures	$ 5,325	$ 4,731	$ 10,056	$ 6,291	$ 4,418	$ 10,709
Production expenditures	(per Mcf)	(per bbl)	(per boe)	(per Mcf)	(per bbl)	(per boe)
per unit	$ 1.91	$ 22.68	$ 14.96	$ 2.20	$ 23.31	$ 16.06

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 $1.91/Mcf compared with $2.20/Mcf in the same period of the prior year. Oil-based production expenditures have increased to $4.7 million for the nine months ended September 30, 2012 compared with $4.4 million in the same period of the prior year. However, production expenditures per barrel decreased to $22.68/bbl in the nine months ended September 30, 2012 compared with $23.31/bbl in the same period of the prior year as a result of efficiencies from higher oil and liquids production volumes in the current year.

Field Level Cash Flows and Field Netbacks

For the nine months ended September 30,			2012			2011
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Total sales	$ 8,275	$ 18,750	$ 27,025	$ 13,339	$ 17,819	$ 31,158
Realized risk management gain (loss)	2,662	415	3,077	436	(63)	373
Royalties	(1,254)	(2,795)	(4,049)	(2,011)	(2,788)	(4,799)
Production expenditures	(5,325)	(4,731)	(10,056)	(6,291)	(4,418)	(10,709)
Field level cash flows	$ 4,358	$ 11,639	$ 15,997	$ 5,473	$ 10,550	$ 16,023

For the nine months ended September 30,			2012			2011
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
	$/Mcf	$/bbl	$/boe	$/Mcf	$/bbl	$/boe
Total sales	$ 2.98	$ 89.90	$ 40.21	$ 4.66	$ 94.06	$ 46.73
Realized risk management gain (loss)	0.96	1.99	4.58	0.15	(0.33)	0.56
Royalties	(0.45)	(13.40)	(6.02)	(0.70)	(14.72)	(7.20)
Production expenditures	(1.91)	(22.68)	(14.96)	(2.20)	(23.31)	(16.06)
Field netbacks	$ 1.58	$ 55.81	$ 23.81	$ 1.91	$ 55.70	$ 24.03

During the nine months ended September 30, 2012, the Corporation earned field level cash flows of $16.0 million or $23.81/boe compared with $16.0 million or $24.03/boe earned in the same period of the prior year.

Field netbacks from natural gas were $4.4 million or $1.58/Mcf in the nine months ended September 30, 2012, a decline of $0.33/Mcf or 20% over the $5.5 million or $1.91/Mcf earned in the same period of 2011. Through its price risk management strategies, the Corporation increased its field netbacks from natural gas by $0.96/Mcf, effectively realizing an average sales price of $3.94/Mcf in the nine months ended September 30, 2012, although still below an average sales price of $4.81/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 $11.6 million or $55.81/bbl in the nine months ended September 30, 2012 compared with $10.6 million or $55.70/bbl in the nine months ended September 30, 2011. Field netbacks have improved by $1.0 million or $0.11/bbl mainly as result of increased oil and liquid production over the same period of the prior year.

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 nine months ended September 30, 2012, the Corporation incurred capital expenditures of $3.9 million and $9.8 million respectively (three and nine months ended September 30, 2011 – $4.1 million and $6.3 million respectively) on its assets in southern Ontario.

For the nine months ended September 30,	2012	2011
Offshore		
Drilling and completion	$ -	$ 2,379
Pipeline	89	246
Workovers	-	162
Facilities	25	164
Offshore fleet	-	367
Total Offshore	114	3,318
Onshore		
Drilling and completion	736	1,172
Pipeline	196	-
Workovers	1,462	588
Facilities	2,859	116
Seismic	3,394	-
Other	(40)	177
Total Onshore	8,607	2,053
Undeveloped properties	1,058	778
Office equipment, computer hardware and software	14	199
	$ 9,793	$ 6,348

In response to low natural gas prices, the Corporation limited its offshore capital expenditure activities to $0.1 million during the nine months ended September 30, 2012, compared with $3.3 million in the same period of the prior year. Offshore activities were limited to pipeline repairs and the Corporation's reclamation activities (see *"Decommissioning Liabilities"*). During the three months ended September 30, 2012, the Corporation recovered $0.3 million in mobilization and demobilization costs from a related party that utilized the offshore equipment.

Onshore, the Corporation expended $3.4 million on the acquisition and processing of 2-D and 3-D seismic data, which will be critical in identifying drill candidates. In addition, the Corporation expended $0.7 million on drilling and completion activities and it expended $1.5 million to stimulate four vertical wells and one horizontal well. As a result of these workovers, production increased by approximately 10 bbls/d.

In addition to its planned capital work program, the Corporation purchased an onshore drilling rig at an estimated cost of $3.3 million, of which $2.9 million had been spent to September 30, 2012. The Corporation anticipates the drilling rig will be assembled and operational in October. The rig will augment the offshore drilling and completion barge operation in Lake Erie as the personnel and a portion of the equipment are interchangeable. Owning the rig will enhance drilling efficiencies significantly 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 Remaining Work Program

The Corporation's remaining 2012 work program is budgeted at $5.0 million. The Corporation's capital programs will continue to focus on onshore oil projects and will include a number of facility initiatives to optimize oil production from existing fields. Furthermore, the Corporation will drill three development wells to increase production and to replenish reserves. The Corporation plans to spend a further $1.1 million to reprocess onshore and offshore 2-D seismic data before year end.

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 September 30, 2012, the Corporation's estimate of these future costs on an undiscounted basis is approximately $82.8 million, and is forecasted to be incurred over a 49-year period. The Corporation spent $1.0 million in reclamation activities in the nine months ended September 30, 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 September 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 nine months ended September 30, 2012, the Corporation incurred accretion expense of $0.2 million and $0.7 million respectively (three and nine months ended September 30, 2011 – $0.3 million and $0.8 million respectively). These amounts have been included in the Corporation's September 2012 Interim Consolidated Financial Statements as *"interest expense"*.

Castor Underground Gas Storage Project

The construction of the Castor Project is 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 nine months ended September 30, 2012. In the same period of the prior year, the Corporation recognized a $13,000 loss, representing its share of losses 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 September 30, 2012, the fair value of Escal's obligations in respect of these hedging strategies was approximately €89.0 million (December 31, 2011 – €74.8 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 $33.2 million, as it does not have the legal or constructive obligation in respect thereof.

From 2010 to September 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 nine months ended September 30, 2012, the Corporation provided for an impairment loss relating to its investment in Eurogas International of $1.0 million (nine months ended September 30, 2011 – $1.0 million). Notwithstanding the Corporation not receiving any dividends from its investment at September 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.

Eurogas International and its joint venture partner have identified three separate potential drilling locations which they consider prospective for containing oil reserves, each of which would, if drilled, meet the joint venture's current drilling commitment pursuant to the Sfax permit.

In anticipation of commencing its drilling program, during the third quarter of 2012, the joint venture began a procurement process to identify a suitable offshore drilling rig. In September 2012, the joint venture partners determined that they would not be able to secure the appropriate drilling rig in sufficient time to meet the joint venture's current drilling commitment and, as a result, the joint venture partners filed an application with the Tunisian Director General of Energy for a renewal of the Sfax permit for an additional three-year period. In addition, the joint venture requested an extension of the drilling commitment period to coincide with the renewal period. As of the date hereof, there can be no certainty that the Tunisian authorities will grant the three-year renewal to the Sfax permit, or concede on the deferral of the drilling commitment. Eurogas International received a commitment from Dundee Corporation to provide the necessary financial resources to enable Eurogas International to meet its drilling obligation pursuant to the terms of the Sfax permit, subject to certain conditions, including obtaining the consent of the Tunisian authorities to an extension of the Sfax permit.

Other Items in Consolidated Net Earnings

General and Administrative Expenses

General and administrative expenses incurred during the nine months ended September 30, 2012 were $4.9 million, a decrease of $0.9 million from general and administrative expenses of $5.8 million incurred during the nine months ended September 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 and $0.5 million in transaction costs, including costs associated with the Torque acquisition. Otherwise, there were no significant changes in the nature of general and administrative expenses incurred by the Corporation on a period-over-period basis.

Interest Expense

The Corporation incurred interest expense of $3.5 million during the nine months ended September 30, 2012, consistent with $3.5 million incurred in the same period of the prior year. Included in interest expense is $0.7 million (nine months ended September 30, 2011 – $0.8 million) of accretion expense associated with the Corporation's decommissioning liability, with the balance of interest expense incurred in respect of borrowings pursuant to the Corporation's credit facility.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Prepared in accordance with IFRS							
	2012			2011				2010
	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Revenues	$ 7,359	$ 7,543	$ 8,074	$ 9,459	$ 8,757	$ 9,530	$ 8,072	$ 8,301
Net (loss) earnings attributable to owners of the parent	**(2,470)**	**(302)**	**(420)**	**985**	**(1,128)**	**937**	**(2,040)**	**(7,729)**
Basic and fully diluted (loss) earnings per share	$ (0.02)	$ -	$ -	$ 0.01	$ (0.01)	$ 0.01	$ (0.01)	$ (0.05)
Capital expenditures	$ 3,894	$ 4,532	$ 1,367	$ 4,763	$ 4,109	$ 1,319	$ 920	$ 1,720

- 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-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Changes in the fair value of risk management contracts	$ (354)	$ 1,507	$ 1,260	$ 1,038	$ 1,486	$ 1,939	$ (1,391)	$ (455)

QUARTERLY CONSOLIDATED RESULTS OF OPERATIONS

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

During the three months ended September 30, 2012, the Corporation's net loss attributable to the owners of the parent was $2.5 million compared with a net loss attributable to the owners of the parent of $1.1 million in the third quarter of the prior year.

For the three months ended September 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	$	(2,788)	$ (2,788)	$ -	$	153	$ 153	$ -
Castor Project		(66)	(50)	(16)		(67)	(50)	(17)
Loss from investment in preferred shares of Eurogas International		(323)	(323)	-		(324)	(324)	-
Corporate activities		691	691	-		(907)	(907)	-
Net loss for the period	$	(2,486)	$ (2,470)	$ (16)	$	(1,145)	$ (1,128)	$ (17)

Southern Ontario Assets

As illustrated in the table below, 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 September 30, 2012	$	2,443	$ 4,916	$ 7,359
Three months ended September 30, 2011		3,827	4,930	8,757
Net decrease in net sales	$	(1,384)	$ (14)	$ (1,398)
Effect of changes in production volumes	$	(183)	$ 2	$ (181)
Effect of changes in commodity prices		(1,201)	(16)	(1,217)
	$	(1,384)	$ (14)	$ (1,398)

Average daily oil production volumes during the third quarter of 2012 were 696 bbls/d comparable with 697 bbls/d produced in the same quarter of the prior year. During the same period, natural gas production volumes decreased to 10,188 Mcf/d in the third quarter of 2012 compared to 10,698 Mcf/d in the third 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 September 30,	2012	2011
Natural gas (Mcf/d)	10,188	10,698
Oil (bbls/d)	696	697
Liquids (bbls/d)	25	24
Total (boe/d)	2,420	2,504

Revenues from oil and gas sales net of associated royalties were $7.4 million in the third quarter of 2012 compared with revenues of $8.8 million earned in the same quarter of the prior year. Declining oil and gas prices represented $1.2 million of the decrease, while the decline in natural gas production volumes represented a further $0.2 million decrease in revenues.

For the three months ended September 30,			2012			2011
			Realized			Realized
		Sales	Prices ($ / unit)		Sales	Prices ($ / unit)
Natural gas	$	2,892	3.09	$	4,508	4.58
Oil		5,675	88.59		5,747	89.51
Liquids		119	51.07		129	58.59
		8,686			10,384	
Less: Royalties at 15% (2011 – 16%)		(1,327)			(1,627)	
Net sales	$	7,359		$	8,757	

Natural gas sales in the third quarter of 2012 represented 70% 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 33% of total revenue. Oil sales in the current quarter represented 30% of overall production volume on a boe basis and 67% of total revenue.

The Corporation realized an average sales price of $3.09/Mcf in the third quarter of 2012, compared with $4.58/Mcf realized in the third quarter of the prior year, contributing to a loss in revenues of $1.6 million. During the third quarter of 2012, the Corporation realized an average sales price of $88.59/bbl on sales of oil compared to $89.51/bbl in the same period of the prior year.

For the three months ended September 30,			2012			2011
			Realized			Realized
	US$	CAD$	Prices ($)	US$	CAD$	Prices ($)
Natural Gas						
Dawn Hub	3.10	3.11	3.09	4.41	4.25	4.58
NYMEX Henry Hub	2.88	2.88		4.12	3.97	
Oil						
Edmonton Par	n/a	84.70	88.59	n/a	92.32	89.51
West Texas Intermediate	92.15	92.36		89.64	86.55	

The Corporation incurred production expenditures of $3.9 million during the three months ended September 30, 2012, a decrease of $0.9 million compared with $4.8 million incurred during the same period of the prior year. The third quarter of 2011 includes $0.3 million in one time pipeline relocation costs in the natural gas field.

For the three months ended September 30,						2012						2011
		Natural Gas		Oil and Liquids		Total		Natural Gas		Oil and Liquids		Total
Production expenditures	$	2,245	$	1,631	$	3,876	$	2,805	$	1,952	$	4,757
Production expenditures		(per Mcf)		(per bbl)		(per boe)		(per Mcf)		(per bbl)		(per boe)
per unit	$	2.39	$	24.56	$	17.41	$	2.85	$	29.42	$	20.65

Production expenditures associated with natural gas have decreased to $2.2 million in the third quarter of 2012 compared with $2.8 million in the same period of the prior year, reflecting the Corporation's decision to refocus its resources on oil and liquids production in response to the decline in natural gas prices.

While oil and liquids production expenditures have increased for the nine months ended September 30, 2012 compared with the nine months of the prior year, on a quarterly basis, production expenditures in oil and liquids production decreased to $1.6 million in the third quarter of 2012 compared with $2.0 million in the third quarter of the prior year.

Field level cash flows in the third quarter of 2012 were $4.7 million, consistent with field level cash flows of $4.7 million in the same period of the prior year. Field level cash flows include a gain of $1.2 million (three months ended September 30, 2011 – $0.7 million) realized on risk management contracts.

For the three months ended September 30,			2012			2011
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Total sales	$ 2,892	$ 5,794	$ 8,686	$ 4,508	$ 5,876	$ 10,384
Realized risk management gain	654	554	1,208	355	296	651
Royalties	(449)	(878)	(1,327)	(681)	(946)	(1,627)
Production expenditures	(2,245)	(1,631)	(3,876)	(2,805)	(1,952)	(4,757)
Field level cash flows	$ 852	$ 3,839	$ 4,691	$ 1,377	$ 3,274	$ 4,651

Field netbacks in the third quarter of 2012 were $21.08/boe, an increase of $0.90/boe compared with field netbacks of $20.18/boe generated in the third quarter of the prior year. The Corporation's gain on risk management contracts during the third quarter of 2012 added $5.43/boe to field netbacks compared to $2.83/boe in the same period of the prior year.

For the three months ended September 30,			2012			2011
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
	$/Mcf	$/bbl	$/boe	$/Mcf	$/bbl	$/boe
Total sales	$ 3.09	$ 87.26	$ 39.02	$ 4.58	$ 88.53	$ 45.07
Realized risk management gain	0.70	8.34	5.43	0.36	4.46	2.82
Royalties	(0.48)	(13.21)	(5.96)	(0.69)	(14.25)	(7.06)
Production expenditures	(2.39)	(24.56)	(17.41)	(2.85)	(29.42)	(20.65)
Field netbacks	$ 0.92	$ 57.83	$ 21.08	$ 1.40	$ 49.32	$ 20.18

Other Items in Consolidated Quarterly Earnings

General and administrative expenses incurred in the three months ended September 30, 2012 were $1.3 million compared with $2.0 million incurred in the same period of the prior year. Consistent with year-to-date results, the decrease in general and administrative expenses reflect transaction costs of $0.5 million incurred in the third quarter of the prior year.

LIQUIDITY AND CAPITAL RESOURCES

Cash Resources Availability

At September 30, 2012, the Corporation held cash of $0.2 million on deposit with Canadian chartered banks. In addition, the Corporation had access to a further $3.5 million pursuant to its $70 million revolving demand credit facility as at September 30, 2012. In July 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 September 30, 2012, the Corporation had drawn $66.5 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 September 30, 2012, the Corporation was in compliance with all such covenants.

The Corporation's current cash flows generated from ongoing operating activities, as well as amounts available pursuant to its credit facility, provide the Corporation with sufficient cash flow to support its working capital requirements in the foreseeable future.

In the event that the Corporation determines that it wants to augment its currently planned capital expenditure and drilling program, the Corporation may consider alternative sources of capital, including potential debt or equity issuances.

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 September 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 September 30, 2012 and October 29, 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 September 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 September 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 September 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 nine months ended September 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 September 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 September 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 nine months ended September 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 the Corporation's Annual Information Form and other documents filed from time to time with the securities administrators, all of which may be accessed at *www.sedar.com*. These statements are only predictions, not guarantees, and actual events or results may differ materially. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements.

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

In addition, a number of assumptions were made by the Corporation in connection with certain forward-looking information and forward-looking statements for 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
October 29, 2012