



DUNDEE
ENERGY LIMITED

2018 THIRD QUARTER REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dundee Energy Limited ("Dundee Energy" or the "Corporation") is a Canadian-based company that holds interests, both directly and indirectly, in producing oil and natural gas assets in southern Ontario, and it is the original developer of an offshore underground natural gas storage facility in Spain. The Corporation also holds an investment in preferred shares of Eurogas International Inc. ("Eurogas International"), an oil and gas exploration company targeting oil and natural gas reserves, and it holds an equity interest in Windiga Energy Inc. ("Windiga"), a Canadian-based independent power producer that is focused on developing, owning and operating renewable energy facilities on the African continent.

On September 11, 2017, following a delisting review conducted by the Toronto Stock Exchange ("TSX"), the common shares of the Corporation were delisted from the TSX. Prior to September 11, 2017, the Corporation's common shares traded on the TSX under the symbol "DEN". The Corporation is not currently seeking a listing for its common shares.

This Management's Discussion and Analysis ("MD&A") has been prepared with an effective date of October 31, 2018 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, 2017 (the "2017 Consolidated Financial Statements") and the unaudited condensed interim consolidated financial statements as at and for the three and nine months ended September 30, 2018 (the "September 2018 Interim Consolidated Financial Statements"), which have been prepared using International Financial Reporting Standards ("IFRS"). All amounts in this MD&A are in Canadian dollars unless otherwise specified. Tabular dollar amounts, unless otherwise specified, are in thousands of dollars, except for per unit or per share amounts.

GOING CONCERN ASSUMPTION

On July 31, 2012, the Corporation's principal subsidiary, Dundee Energy Limited Partnership ("DELP") established a credit facility for up to \$70 million with a Canadian Schedule I Chartered Bank. The terms of the credit arrangement were detailed in a credit agreement of the same date. The credit facility was structured as a demand loan, whereby the lender to DELP retained full right, at its sole discretion, to demand repayment of all amounts borrowed under the credit arrangement, whether in whole or in part, at any time. Borrowings under the facility were subject to certain financial covenants, including maintenance of minimum levels of working capital as defined in the credit agreement, and the maintenance of certain net debt to cash flow ratios. At September 30, 2018, DELP was in compliance with all such financial covenants.

On February 18, 2016, the terms of DELP's credit facility were amended to reduce the amounts available pursuant to the credit facility from \$70 million to \$60 million, with a further requirement to reduce the facility to \$55 million before December 31, 2016. The February 2016 amendment to the credit facility required that DELP maintain a hedging strategy in respect of the sale of commodities, and it required collaboration of the Corporation for the prepayment from any net proceeds received by the Corporation in the event of the sale of certain assets.

DELP continues to generate positive cash flows from its assets in southern Ontario, and it continues to remain in compliance with the financial covenant requirements of the credit agreement. However, the volatile commodity price environment has, in the view of DELP's lender, eroded the value of DELP's assets in southern Ontario, and it has therefore also eroded the lender's underlying secured interest in such assets. In late 2016 and early 2017, the lender requested that DELP further reduce its borrowings under the credit facility by early 2017. DELP was not able to meet these requirements and in January 2017, it requested and it obtained a waiver from its lender in respect of these requirements, conditional on DELP agreeing to the terms of a forbearance agreement (the "Original Forbearance Agreement"). On January 31, 2017, DELP entered into the Original Forbearance Agreement with its lender, pursuant to which, and provided that certain conditions were met, DELP's lender had agreed to forbear from exercising its enforcement rights and remedies under the terms of the credit facility until the earlier of May 15, 2017; the occurrence of an event of default under the terms of the credit facility; the occurrence of a default or breach of representation under the Original Forbearance Agreement; or on a demand by the lender.

In connection with these events, and with the approval of its board of directors, the Corporation initiated a strategic review process for DELP, the purpose of which was to identify, examine and consider a range of strategic alternatives available to the Corporation with respect to enhancing the value of its investment in DELP. Strategic alternatives may have included, but were not limited to, a debt restructuring, a sale of all or a material portion of the assets of DELP, either in one transaction or a series of transactions, the outright sale of DELP, a business combination or other transaction involving DELP and a third party, and/or alternative financing initiatives.

The Original Forbearance Agreement provided a definitive timeline to complete this process. The Corporation and DELP engaged independent financial advisors to advise them in connection with this comprehensive review and analysis. Under the terms of the Original Forbearance Agreement, DELP had committed to enter into a binding agreement under an arrangement, which binding agreement was to be satisfactory to its lender, by April 7, 2017.

The lender did not provide its consent to any of the proposals made by DELP and the Corporation, and the Original Forbearance Agreement expired on May 15, 2017, without resolution. On July 21, 2017, DELP and the Corporation received notice from DELP's lender, demanding repayment of amounts borrowed pursuant to the credit facility by July 31, 2017. DELP was unable to comply with the demand request and consequently, on August 16, 2017, DELP commenced insolvency proceedings by filing a Notice of Intention to Make a Proposal ("NOI") pursuant to the provisions of the *Bankruptcy and Insolvency Act (Canada)* in order for it to run a court-supervised sale solicitation process ("SSP"), with the goal of identifying proposals to purchase some or all of the business, properties or assets of DELP. DELP obtained an order from the Ontario Superior Court of Justice approving the terms of the SSP. In early 2018, the SSP was continued under the terms of the *Companies' Creditors Arrangement Act* in order to extend the timeline within which the SSP is to be completed. DELP, the Corporation and the lender entered into a revised forbearance agreement (the "Forbearance Agreement") and the lender supported DELP and the Corporation in the reorganization proceedings.

On April 20, 2018, the Corporation announced that a purchaser for substantially all of the assets of DELP had been identified. On June 12, 2018, the transaction was ratified and approved by the Ontario Superior Court of Justice. Subsequent to September 30, 2018, and at the request of the proposed purchaser, the Ontario Superior Court of Justice extended the anticipated completion date for the sale of DELP's assets to October 2018. In consideration, the proposed purchaser provided cash of \$150,000 to DELP as partial reimbursement of costs associated with the transaction. Furthermore, the proposed purchaser advanced \$300,000 to DELP as a deposit against the anticipated purchase price for the assets, which amount will be forfeited by the proposed purchaser if the current transaction is not completed. The \$300,000 cash advanced to DELP was used to repay amounts borrowed pursuant to DELP's lending arrangements. On October 26, 2018, the Ontario Superior Court of Justice further extended the closing date to November 16, 2018 or earlier. In consideration, the proposed purchaser agreed to provide a payment of \$75,000 per week during the extension period, to a maximum of \$225,000, until the transaction is completed, the proceeds of which will be applied as partial reimbursement of costs associated with the transaction. In addition, the proposed purchaser agreed to pay \$300,000 per week during the extension period, to a maximum of \$900,000, as an advance against the purchase price for the assets, all of which will be immediately applied by DELP to reduce amounts borrowed pursuant to its lending arrangements, and which will be forfeited by the proposed purchaser should a transaction not be completed by November 16, 2018. DELP anticipates that any amounts received from the proposed purchaser that are designated as advances against the purchase price, and which are used by DELP to reduce its amounts borrowed under its lending arrangements, will result in a corresponding reduction in the amounts available under DELP's lending arrangements (see "*Liquidity and Capital Resources – Southern Ontario Assets*").

The Corporation's September 2018 Interim Consolidated Financial Statements have been prepared using accounting principles applicable to a going concern. The going concern basis assumes that the Corporation will continue its operations for the foreseeable future, and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The assets and liabilities of DELP have been classified in the September 2018 Interim Consolidated Financial Statements as assets and liabilities of discontinued operations held for sale. In the absence of a successful SSP, the Corporation will be challenged to deploy the capital that it requires to maintain its existing reserves and production volumes, fund repair and maintenance costs, meet its current financial obligations, including the servicing of its debt and its ability to meet decommissioning obligations, and otherwise develop its ongoing business strategy. There can be no assurance that DELP will be

successful in its efforts under the current proposed transaction as outlined above, or under any competing bid that may emerge from the SSP.

The material uncertainty caused by the events described above casts significant doubt upon the Corporation's ability to continue as a going concern and the ultimate appropriateness of using accounting principles applicable to a going concern. If the Corporation is not able to continue as a going concern, the Corporation may be required to reassess the carrying value of its assets in light of circumstances that could result in the realization of its assets and the discharge of its liabilities in other than the normal course of business and at amounts different from those reflected in these unaudited condensed interim consolidated financial statements. These differences could be material.

PERFORMANCE MEASURES AND BASIS OF PRESENTATION

The Corporation's September 2018 Interim Consolidated Financial Statements have been prepared in accordance with IFRS and use the Canadian dollar as its presentation currency. However, the Corporation believes that important measures of its economic performance include certain measures that are not defined under IFRS and as such, may not be comparable to similar measures used by other companies. Throughout this MD&A, there are references to the following performance measures which management believes are valuable in assessing the economic performance of the Corporation. While these measures are not defined by IFRS, they are common benchmarks in the energy industry, and are used by the Corporation in assessing its operating results, including net earnings and cash flow.

- "Barrel of Oil Equivalent" or "boe" is calculated at a barrel of oil conversion ratio of six thousand cubic feet ("Mcf") of natural gas to one barrel ("bbl") of oil (6 Mcf to 1 bbl), based on an energy equivalency conversion method which is primarily applicable at the burner tip and does not always represent a value equivalency at the wellhead.
- "Field Level Cash Flows" is calculated as revenues from oil and natural gas sales, less royalties and production expenditures, adjusted for the effect of the Corporation's derivative financial instruments. Field level cash flows contribute to the funding of the Corporation's working capital and to capital expenditure requirements. Field level cash flows may also provide a source of cash for repayment of amounts owing pursuant to the Corporation's credit facilities (see "*Liquidity and Capital Resources*").
- "Field Netbacks" refer to field level cash flows expressed on a measurement unit or barrel of oil equivalent basis.
- "Proved Reserves" are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- "Probable Reserves" are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.
- "Reserve Life Index" is determined by dividing proved reserves by expected annual production. For greater certainty, the reserve life index includes only proved reserves and does not include probable or possible reserves.
- "Per Day Amount" or "/d" is used throughout this MD&A to reflect production volumes on an average per day basis.

CONSOLIDATED RESULTS OF OPERATIONS

Nine months ended September 30, 2018 compared with the nine months ended September 30, 2017

Consolidated Net Loss

During the nine months ended September 30, 2018, the Corporation incurred a net loss attributable to owners of the parent of \$5.2 million, or a net loss of \$0.03 per share. This compares with a net loss attributable to owners of the parent of \$39.8 million, or a net loss of \$0.21 per share, incurred in the same period of the prior year. Operating results in the first three quarters of the prior year included an \$18.9 million provision against the carried value of certain exploration and evaluation properties, and an \$18.0 million income tax amount that reduced the Corporation's deferred income tax asset balance to \$nil. These provisions followed of an assessment of financial resources available to DELP and the Corporation as a result of demands made by DELP's lender in August of that year.

The \$5.2 million net loss attributable to owners of the parent incurred during the nine months ended September 30, 2018 includes net earnings of \$0.3 million associated with the Corporation's continuing operations (nine months ended September 30, 2017 – net loss of \$3.8 million), offset by a net loss of \$5.5 million (nine months ended September 30, 2017 – \$36.0 million) associated with the Corporation's southern Ontario operations. Operations from southern Ontario have been designated as discontinued operations in the September 2018 Interim Consolidated Financial Statements, as they are currently subject to a sales solicitation process that is anticipated to close in the fourth quarter of 2018.

For the nine months ended September 30,	2018			2017		
	Net (Loss) Earnings	Attributable to Owners of the Parent	Non- Controlling Interest	Net (Loss) Earnings	Attributable to Owners of the Parent	Non- Controlling Interest
Corporate activities	\$ 706	\$ 706	\$ -	\$ (2,636)	\$ (2,636)	\$ -
Loss from investment in preferred shares of						
Eurogas International	(962)	(962)	-	(962)	(962)	-
Castor Project	791	585	206	(204)	(151)	(53)
Net earnings (loss) from continuing operations	535	329	206	(3,802)	(3,749)	(53)
Discontinued operations:						
Southern Ontario	(5,525)	(5,525)	-	(36,028)	(36,028)	-
Net loss for the period	\$ (4,990)	\$ (5,196)	\$ 206	\$ (39,830)	\$ (39,777)	\$ (53)
Basic and diluted net loss per share						
Continuing operations		\$ -			\$ (0.02)	
Discontinued operations		(0.03)			(0.19)	
		\$ (0.03)			\$ (0.21)	

Southern Ontario Assets

Operating Performance

The operating performance of the Corporation's discontinued operations is dependent on both production volumes of oil, natural gas and natural gas liquids, as well as the prices received for these commodities. During the nine months ended September 30, 2018, sales of oil and natural gas, net of royalty interests, were \$17.2 million, consistent with sale revenue earned during the same period of the prior year. Lower production volumes for underlying commodities decreased aggregate net sales by \$0.9 million, essentially offsetting higher realized prices for underlying commodities which increased net sales by \$0.9 million.

	Natural Gas		Oil and Liquids		Total
Net Sales					
Nine months ended September 30, 2018	\$	9,189	\$	8,021	\$ 17,210
Nine months ended September 30, 2017		10,551		6,624	17,175
Net (decrease) increase in net sales	\$	(1,362)	\$	1,397	\$ 35
Effect of changes in production volumes	\$	(376)	\$	(561)	\$ (937)
Effect of changes in commodity prices		(986)		1,958	972
	\$	(1,362)	\$	1,397	\$ 35

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

Effect of Commodity Prices on Revenues from Oil and Gas Sales

Prices for oil and natural gas vary from period to period due to several factors including supply, demand, weather, general economic conditions and changes in foreign exchange rates. The following tables illustrate the price per unit realized by the Corporation during the nine months ended September 30, 2018 and 2017, and provide a comparison of relative changes in benchmark price indicators for such commodities during the respective periods.

For the nine months ended September 30,		2018		2017	
	Sales	Realized Unit Price		Sales	Realized Unit Price
Natural gas	\$ 10,807	\$ 3.99 Mcf	\$	12,393	\$ 4.42 Mcf
Oil	9,434	83.57 bbl		7,792	63.00 bbl
Liquids	26	48.45 bbl		5	22.55 bbl
	20,267			20,190	
Less: Royalties at 15% (2017 – 15%)	(3,057)			(3,015)	
Net sales	\$ 17,210		\$	17,175	

For the nine months ended September 30,		2018		2017		
	US\$	CAD\$	Realized Prices (\$)	US\$	CAD\$	Realized Prices (\$)
Natural Gas (per Mcf)						
Dawn Hub	2.90	3.73	3.99	3.07	4.04	4.42
NYMEX Henry Hub	2.95	3.79		3.01	3.96	
Oil (per bbl)						
Canadian Light Sweet	n/a	74.52	83.57	n/a	60.57	63.00
West Texas Intermediate	66.99	86.02		49.30	64.74	

During the nine months ended September 30, 2018, the Corporation realized an average price on sales of natural gas of \$3.99/Mcf, approximately 10% lower than the realized average sales price of \$4.42/Mcf earned during the same period of the prior year. The decrease correlates to an 8% decrease in the Canadian dollar-denominated price for natural gas at the Dawn Hub, although the Corporation’s actual realized price continues to benefit from its proximity to these facilities.

During the first nine months of 2018, the Corporation realized an average price of \$83.57/bbl on sales of crude oil, a 33% increase from the average price of \$63.00/bbl realized during the same period of the prior year. In comparison, the price of Canadian light sweet crude oil increased by 23%, while the US dollar-denominated West Texas Intermediate price for this commodity increased by 36%.

Derivative Financial Instruments – Price Risk Management

There were no outstanding commodity swap derivative contracts outstanding at September 30, 2018 and December 31, 2017, as investments in derivative financial instruments are no longer permitted under the terms of DELP’s lending arrangements. During the three and nine months ended September 30, 2017, DELP realized a gain of \$0.1 million and \$1.2 million respectively from outstanding derivative contracts.

Production Volumes

During the first nine months of 2018, production volumes decreased to an average of 2,068 boe/d, compared with an average of 2,167 boe/d produced in the same period of 2017. Approximately 80% of DELP's production volumes are from natural gas, while the remaining 20% of production volumes are from oil and liquids.

Average daily volume during the nine months ended September 30,	2018	2017
Natural gas (Mcf/d)	9,914	10,280
Oil (bbls/d)	414	453
Liquids (bbls/d)	2	1
Total (boe/d)	2,068	2,167

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

Production Expenditures

Production expenditures include costs associated with producing raw oil and natural gas from the reservoir through a gathering system to a central manufacturing facility. The manufacturing process includes separating oil, natural gas, water and other impurities to meet buyer and utility specifications. Also included in production expenditures is an allocation of general and administrative costs, including labour that is directly attributable to these activities.

During the first three quarters of 2018, DELP incurred production expenditures of \$8.6 million or \$15.27/boe, an increase of \$0.3 million from production expenditures of \$8.3 million or \$13.99/boe incurred in the same period of the prior year.

For the nine months ended September 30,	2018			2017		
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Production expenditures	\$ 5,346	\$ 3,277	\$ 8,623	\$ 5,448	\$ 2,832	\$ 8,280
Production expenditures per unit	(per Mcf)	(per bbl)	(per boe)	(per Mcf)	(per bbl)	(per boe)
	\$ 1.98	\$ 28.89	\$ 15.27	\$ 1.94	\$ 22.85	\$ 13.99

Field Level Cash Flows and Field Netbacks

For the nine months ended September 30,	2018			2017		
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Total sales	\$ 10,807	\$ 9,460	\$ 20,267	\$ 12,393	\$ 7,797	\$ 20,190
Royalties	(1,618)	(1,439)	(3,057)	(1,842)	(1,173)	(3,015)
Production expenditures	(5,346)	(3,277)	(8,623)	(5,448)	(2,832)	(8,280)
	3,843	4,744	8,587	5,103	3,792	8,895
Realized loss on derivative financial instruments	-	-	-	(839)	-	(839)
Field level cash flows	\$ 3,843	\$ 4,744	\$ 8,587	\$ 4,264	\$ 3,792	\$ 8,056

For the nine months ended September 30,	2018			2017		
	Natural Gas \$/Mcf	Oil and Liquids \$/bbl	Total \$/boe	Natural Gas \$/Mcf	Oil and Liquids \$/bbl	Total \$/boe
Total sales	\$ 3.99	\$ 83.40	\$ 35.90	\$ 4.42	\$ 62.92	\$ 34.12
Royalties	(0.60)	(12.68)	(5.42)	(0.66)	(9.46)	(5.10)
Production expenditures	(1.98)	(28.89)	(15.27)	(1.94)	(22.85)	(13.99)
	1.41	41.83	15.21	1.82	30.61	15.03
Realized loss on derivative financial instruments	-	-	-	(0.30)	-	(1.42)
Field netbacks	\$ 1.41	\$ 41.83	\$ 15.21	\$ 1.52	\$ 30.61	\$ 13.61

Field level cash flows from natural gas operations, before the effect of derivative financial instruments, decreased to \$3.8 million or \$1.41/Mcf, compared with field level cash flows of \$5.1 million or \$1.82/Mcf in the same period of the prior year. The decrease reflects both the effect of lower commodity prices, as well as lower production volumes.

Field level cash flows from oil and liquids increased to \$4.7 million during the first nine months of 2018, compared with field level cash flows of \$3.8 million in the same period of the prior year. On a per unit basis, field netbacks from oil and liquids production were \$41.83/bbl during the first nine months of 2018, an increase compared with field netbacks from oil and liquids production of \$30.61/bbl during the same period of the prior year. These increases were primarily driven by improved prices for oil, offset by lower production volumes.

During the first nine months of the prior year, field level cash flows were impacted by \$0.9 million of realized losses from derivative financial instruments, reducing field netbacks by \$0.30/Mcf.

Decommissioning Liabilities

DELP is subject to the provisions of the *Oil, Gas and Salt Resources Act (Ontario)* which requires, among other things, the plugging and/or decommissioning of inactive wells within 12 months of becoming inactive so that they do not become a hazard to the environment and/or public safety. DELP maintains an up-to-date emergency response program that is designed and monitored by highly qualified individuals that ensure adherence to environmental and safety policies and standards. As well, DELP maintains property and liability insurance coverage, which provides a reasonable amount of protection from risk of loss. However, not all risks are foreseeable or insurable and there can be no guarantee that DELP will be able to recover any financial losses suffered as a result of environmental factors directly from its insurance arrangements.

In August 2015, the Ministry of Natural Resources and Forestry (“MNRF”) issued an order to DELP and to its general partner, outlining its requirements for the abandonment of approximately 73 wells over a period beginning in 2015. Due to the volatile price environment in commodity markets, and its effect on DELP’s borrowing capabilities, DELP was not able to comply with the immediate requirements of the order from the MNRF and consequently, it entered into discussions with the MNRF in order to obtain a deferral of these obligations. In January 2017, DELP obtained the approval of the MNRF to defer its plugging and abandonment program, subject to DELP complying with a revised timeline for the abandonment of inactive wells. At September 30, 2018, DELP had complied with all requirements of relating to the order from the MNRF.

DELP 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, 2018, DELP’s estimate of these future costs on an undiscounted basis is approximately \$90.5 million. DELP expects to incur these forecasted obligations over the life of the underlying assets, which is currently in excess of 40 years.

In accordance with accounting requirements, DELP records its estimated decommissioning liability on a discounted basis using discount rates that are specific to the underlying obligations. At September 30, 2018, the discounted amount of DELP’s decommissioning liabilities was \$48.7 million. The discount used in calculating DELP’s decommissioning liabilities is accreted over time. During the nine months ended September 30, 2018, DELP incurred accretion expense of \$1.0 million (nine months ended September 30, 2017 – \$1.0 million) related to the carrying value of its decommissioning liabilities.

Castor UGS Limited Partnership and the Castor Project

The Corporation is the original developer of a Spanish infrastructure undertaking that converted an abandoned oilfield to a natural gas storage facility (the “Castor Project”). The Castor Project, and the related exploitation concession, were owned and developed by Escal UGS S.L. (“Escal”), a company incorporated under Spanish jurisdiction. ACS Servicios Comunicaciones y Energia S.L. (“ACS”), a construction group in Spain, is a 67% shareholder of Escal, while Castor UGS Limited Partnership (“CLP”), the Corporation’s 74% owned subsidiary, holds the remaining 33% interest in Escal.

In July 2014, Escal determined that it was appropriate to exercise its right under the underground gas storage concession to relinquish the concession to the Spanish authorities following seismicity experienced in September 2013. On October 3, 2014,

the Spanish government approved Royal Decree-Law 13/2014, which became effective on October 4, 2014, the date of its publication in the Spanish Official State Gazette. The Royal Decree-Law formally accepted the relinquishment of the Castor Project, it acknowledged the termination of the concession, and it reverted ownership of the associated facilities back to the public domain.

CLP had previously initiated binding arbitration proceedings against ACS as to the sharing of cash flows from the Castor Project. On March 27, 2017, the Corporation announced that the arbitral tribunal of the International Chamber of Commerce had rendered its decision related to the Castor Project, denying the claim made by CLP. The decision was rendered by a majority of the three-person tribunal, with the third member issuing a dissenting opinion. The Corporation has determined that it will not seek any remedies in respect of the decision rendered by the tribunal.

In May 2017, the Spanish authorities received reports from the Massachusetts Institute of Technology and from Harvard University, which concluded that the original seismicity experienced in September 2013 coincided with the region of the Amposta fault line, and that this fault line was put under stress as a result of gas injections. Therefore, the report concluded that there could be no certainty that further seismic activity would not occur should the facility recommence operations. The Spanish authorities have since indicated that they will not pursue further operations of the facility. In December 2017, and following receipt of the technical reports as outlined above, Spain's constitutional court nullified any further remuneration due to the Castor Project.

The Corporation accounts for its investment in Escal using the equity method. At September 30, 2018 and December 31, 2017, Escal's net equity available to shareholders was negative, reflecting operating losses and the settlement of unfavourable hedging transactions. Accordingly, the Corporation has reduced the carrying value of its investment in Escal to \$nil at September 30, 2018 (December 31, 2017 – \$nil). The Corporation has not reduced its carrying value in Escal to below \$nil as the Corporation does not have any legal or constructive obligations in respect of its investment in Escal, nor is it currently obligated to make any payments on behalf of Escal. A more detailed description of the Corporation's investment in Escal is provided in the MD&A accompanying the 2017 Consolidated Financial Statements under "*Significant Projects – Castor UGS Limited Partnership and the Castor Project*".

Investment in Series A Preference Shares of Eurogas International Inc.

Because of the Corporation's entitlement to demand redemption of the Series A Preference Shares at any time from Eurogas International, the Corporation has classified its investment in the Series A Preference Shares as a loan receivable and the associated dividends as interest income. The Corporation has completed an assessment of the fair value of the Series A Preference Shares. In its assessment, the Corporation considered factors such as the delinquency of dividend payments and the financial resources available to Eurogas International to meet current commitments and pursue growth opportunities. The Corporation concluded that there was significant impairment in the par value of the Series A Preference Shares and the related accrued dividends thereon and accordingly, the Corporation has fully provided against the carrying values of these assets. During the nine months ended September 30, 2018, the Corporation provided for an impairment loss relating to its investment in Eurogas International of \$1.0 million (nine months ended September 30, 2017 – \$1.0 million).

Eurogas International has entered into a farm in arrangement with DNO Tunisia AS ("DNO Tunisia") that essentially provides DNO Tunisia with an 87.5% participating interest in the Sfax exploration permit, located offshore Tunisia. Eurogas International retains a 5.625% interest. Under the terms of the farm in arrangement, DNO Tunisia assumed the obligation for 100% of all future costs associated with the permit, as well as the assumption of all related drilling obligations. In August 2015, DNO Tunisia received regulatory approval from the Tunisian authorities for a two-year extension of the first renewal period related to the permit, extending the first renewal period and the associated exploration well drilling obligation to December 8, 2017. On July 21, 2017, the Tunisian authorities approved a further one-year extension to December 8, 2018. The extension is subject to certain conditions, including the replacement of a seismic commitment with the deepening of the well drilling obligation to the Reineche formation.

On July 30, 2018, Panoro Energy ASA (“Panoro”), an independent exploration and production company based in London, England and listed on the Oslo Stock Exchange, acquired 100% of DNO Tunisia and has assumed all existing permit interests, rights and unfulfilled work obligations relating to the Sfax exploration permit. Following its acquisition of DNO Tunisia, Panoro announced that it had initiated the process to request an extension or renewal of the Sfax exploration permit beyond the current December 8, 2018 expiry date.

Other Items in Consolidated Net Earnings

General and Administrative Expenses

During the nine months ended September 30, 2018, the Corporation reversed a previously accrued legal expense of \$0.9 million related to its investment in the Castor Project. After adjusting for this amount, general and administrative expenses from continuing operations were \$0.3 million in the first nine months of 2018, a decrease of \$0.2 million when compared with expenses of \$0.5 million in the same period of the prior year. The decrease reflects a curtailment in the development of any alternative business activities ahead of the completion of the sale of DELP’s assets.

General and administrative expenses from discontinued operations during the first nine months of 2018 were \$3.8 million, compared with general and administrative expenses of \$2.1 million in the first nine months of the prior year. The increase reflects costs related to the ongoing SSP.

Interest Expense

DELP incurred interest expense of \$4.1 million during the nine months ended September 30, 2018, compared with interest expense of \$3.9 million incurred during the same period of the prior year. Included in interest expense is \$1.0 million (nine months ended September 30, 2017 – \$1.0 million) of accretion expense associated with DELP’s decommissioning liabilities, with the balance of interest expense incurred predominantly on borrowings pursuant to its credit facility.

SELECTED QUARTERLY FINANCIAL INFORMATION

	2018			2017			2016	
	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Revenues								
Discontinued operations	\$ 6,076	\$ 5,556	\$ 5,578	\$ 5,255	\$ 5,370	\$ 5,859	\$ 5,946	\$ 5,933
Net (loss) earnings attributable to owners of the parent								
Continuing operations	(83)	(86)	498	(1,489)	(3,492)	5	(262)	(174)
Discontinued operations	(2,026)	(1,885)	(1,614)	(2,384)	(35,713)	(544)	229	(6,592)
	\$ (2,109)	\$ (1,971)	\$ (1,116)	\$ (3,873)	\$ (39,205)	\$ (539)	\$ (33)	\$ (6,766)
Basic and fully diluted loss per share								
Continuing operations	\$ -	\$ -	\$ -	\$ (0.01)	\$ (0.02)	\$ -	\$ -	\$ -
Discontinued operations	(0.01)	(0.01)	(0.01)	(0.01)	(0.19)	-	-	(0.04)
	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.21)	\$ -	\$ -	\$ (0.04)
Capital expenditures before disposals								
Discontinued operations	\$ -	\$ -	\$ 33	\$ 42	\$ 53	\$ 31	\$ 408	\$ 36

- During the fourth quarter of 2017, the Corporation recognized a marked-to-market loss of \$1.4 million related to the Corporation’s 45% interest in Windiga, which is included in the Corporation’s statement of financial position as “Investments”. Additional information regarding the Corporation’s investment in Windiga is included in Note 7 to the 2017 Consolidated Financial Statements.
- In connection with DELP’s initial filing of a NOI pursuant to the provisions of the *Bankruptcy and Insolvency Act (Canada)*, during the third quarter of 2017, the Corporation recorded an impairment loss of \$18.9 million related to certain exploration and evaluation properties and the Corporation further impaired the carrying value of its deferred income tax assets by \$18.0 million.

- During the fourth quarter of 2016, the Corporation recorded an impairment loss of \$6.9 million related to certain exploration and evaluation properties.
- Changes in the fair value of the Corporation's derivative financial instruments are included in the Corporation's net earnings or loss. These fair value changes may cause significant volatility in the Corporation's operating results. The following table illustrates the impact of changes in the fair value of the Corporation's derivative financial instruments to its net operating results on a quarterly basis:

	2018			2017			2016	
	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Changes in the fair value of derivative financial instruments	\$ -	\$ -	\$ -	\$ 66	\$ 93	\$ 341	\$ 799	\$ (1,360)

QUARTERLY RESULTS OF OPERATIONS

Three months ended September 30, 2018 compared with the three months ended September 30, 2017

During the third quarter of 2018, the Corporation incurred a net loss attributable to owners of the parent of \$2.1 million, or a net loss of \$0.01 per share. This compares with a net loss attributable to owners of the parent of \$39.2 million, or a net loss of \$0.21 per share, incurred in the third quarter of the prior year. Results in the third quarter of the prior year included an impairment of \$18.9 million against certain exploration and evaluation properties, and a further \$18.0 million impairment of deferred income tax assets.

The \$2.1 million (three months ended September 30, 2017 – \$39.2 million) net loss attributable to owners of the parent incurred during the third quarter of 2018 includes a net loss of \$0.1 associated with the Corporation's continuing operations (three months ended September 30, 2017 – \$3.5 million), and a net loss of \$2.0 million (three months ended September 30, 2017 – \$35.7 million) associated with the Corporation's southern Ontario operations.

For the three months ended September 30,	2018			2017		
	Net (Loss) Earnings	Attributable to Owners of the Parent	Non-Controlling Interest	Net (Loss) Earnings	Attributable to Owners of the Parent	Non-Controlling Interest
Corporate activities	\$ 245	\$ 245	\$ -	\$ (3,097)	\$ (3,097)	\$ -
Loss from investment in preferred shares of Eurogas International	(324)	(324)	-	(324)	(324)	-
Castor Project	(5)	(4)	(1)	(97)	(71)	(26)
Net loss from continuing operations	(84)	(83)	(1)	(3,518)	(3,492)	(26)
Discontinued operations:						
Southern Ontario	(2,026)	(2,026)	-	(35,713)	(35,713)	-
Net loss for the period	\$ (2,110)	\$ (2,109)	\$ (1)	\$ (39,231)	\$ (39,205)	\$ (26)
Basic and diluted net loss per share						
Continuing operations		\$ -			\$ (0.02)	
Discontinued operations		(0.01)			(0.19)	
		\$ (0.01)			\$ (0.21)	

Southern Ontario Assets

During the third quarter of 2018, sales of oil and natural gas, net of royalty interests, were \$6.1 million, an increase of \$0.7 million when compared with net sales of oil and natural gas of \$5.4 million earned in the third quarter of the prior year. Higher realized prices for underlying commodities increased net sales by \$0.8 million, partially offset by lower production volumes for underlying commodities which decreased aggregate net sales by \$0.1 million.

	Natural Gas	Oil and Liquids	Total
Net Sales			
Three months ended September 30, 2018	\$ 3,199	\$ 2,877	\$ 6,076
Three months ended September 30, 2017	3,332	2,038	5,370
Net (decrease) increase in net sales	\$ (133)	\$ 839	\$ 706
Effect of changes in production volumes	\$ (16)	\$ (69)	\$ (85)
Effect of changes in commodity prices	(117)	908	791
	\$ (133)	\$ 839	\$ 706

During the third quarter of 2018, DELP realized an average price on sales of natural gas of \$4.00/Mcf, a 3% decrease from the realized average sales price on sales of natural gas of \$4.13/Mcf earned in the third quarter of the prior year.

DELP realized an average price of \$86.32/bbl on sales of crude oil during the third quarter of 2018, a 47% increase from the average price of \$58.91/bbl realized in the third quarter of the prior year. The increase is consistent with increases seen in comparable industry benchmarks, including a 45% increase in the US dollar-denominated West Texas Intermediate price for this commodity, and a 32% increase in the Canadian Light Sweet price.

For the three months ended September 30,		2018		2017	
	Sales	Unit Price		Sales	Unit Price
Natural gas	\$ 3,765	\$ 4.00 Mcf		\$ 3,912	\$ 4.13 Mcf
Oil	3,380	86.32 bbl		2,405	58.91 bbl
Liquids	16	54.63 bbl		(2)	n/a bbl
	7,161			6,315	
Less: Royalties at 15% (2017 – 15%)	(1,085)			(945)	
Net sales	\$ 6,076			\$ 5,370	

For the three months ended September 30,		2018		2017		
	US\$	CAD\$	Realized Prices (\$)	US\$	CAD\$	Realized Prices (\$)
Natural Gas (per Mcf)						
Dawn Hub	2.91	3.81	4.00	2.89	3.66	4.13
NYMEX Henry Hub	2.93	3.83		2.95	3.74	
Oil (per bbl)						
Canadian Light Sweet	n/a	75.64	86.32	n/a	57.15	58.91
West Texas Intermediate	69.76	91.24		48.18	61.03	

During the third quarter of 2018, production volumes decreased to an average of 2,136 boe/d, compared with an average of 2,160 boe/d produced in the same quarter of the prior year. During the third quarter of 2018, approximately 80% of DELP's production volumes were from natural gas, while the remaining 20% of production volumes were from oil and liquids.

Average daily volume during the three months ended September 30,	2018	2017
Natural gas (Mcf/d)	10,243	10,293
Oil (bbls/d)	426	444
Liquids (bbls/d)	3	-
Total (boe/d)	2,136	2,160

During the third quarter of 2018, DELP incurred production expenditures of \$3.1 million, an increase of \$0.2 million or 6% compared with production expenditures of \$2.9 million incurred in the same period of the prior year.

For the three months ended September 30,			2018	2017		
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Production expenditures	\$ 1,924	\$ 1,173	\$ 3,097	\$ 2,082	\$ 853	\$ 2,935
Production expenditures per unit	(per Mcf) \$ 2.04	(per bbl) \$ 29.75	(per boe) \$ 15.76	(per Mcf) \$ 2.20	(per bbl) \$ 20.88	(per boe) \$ 14.77

Field Level Cash Flows and Field Netbacks

During the third quarter of 2018, DELP generated field level cash flows from the production of natural gas, before the effect of any derivative financial instruments, of \$1.3 million, slightly higher than field level cash flows from the production of natural gas generated in the third quarter of the prior year. As a result of lower production expenditures, DELP generated field netbacks of \$1.36/Mcf in the third quarter of 2018 compared with field netbacks of \$1.32/Mcf generated in the third quarter of the prior year, before the effect of derivative financial instruments.

Field level cash flows from oil and liquids were \$1.7 million in the third quarter of 2018, generating field netbacks of \$43.19/bbl. This compares with field level cash flows of \$1.2 million in the third quarter of the prior year, or \$29.05/bbl. Consistent with year-to-date results, increases were primarily driven by improved prices for oil.

For the three months ended September 30,			2018	2017		
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Total sales	\$ 3,765	\$ 3,396	\$ 7,161	\$ 3,912	\$ 2,403	\$ 6,315
Royalties	(566)	(519)	(1,085)	(580)	(365)	(945)
Production expenditures	(1,924)	(1,173)	(3,097)	(2,082)	(853)	(2,935)
	1,275	1,704	2,979	1,250	1,185	2,435
Realized loss on derivative financial instruments	-	-	-	(176)	-	(176)
Field level cash flows	\$ 1,275	\$ 1,704	\$ 2,979	\$ 1,074	\$ 1,185	\$ 2,259

For the three months ended September 30,			2018	2017		
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
	\$/Mcf	\$/bbl	\$/boe	\$/Mcf	\$/bbl	\$/boe
Total sales	\$ 4.00	\$ 86.09	\$ 36.44	\$ 4.13	\$ 58.87	\$ 31.79
Royalties	(0.60)	(13.15)	(5.52)	(0.61)	(8.94)	(4.76)
Production expenditures	(2.04)	(29.75)	(15.76)	(2.20)	(20.88)	(14.77)
	1.36	43.19	15.16	1.32	29.05	12.26
Realized loss on derivative financial instruments	-	-	-	(0.19)	-	(0.89)
Field netbacks	\$ 1.36	\$ 43.19	\$ 15.16	\$ 1.13	\$ 29.05	\$ 11.37

LIQUIDITY AND CAPITAL RESOURCES

Southern Ontario Assets

The Corporation's southern Ontario operations are conducted through DELP, the Corporation's wholly-owned subsidiary. DELP established a credit facility with a Canadian chartered bank that is structured as a revolving demand loan, with a tiered interest rate schedule that varies based on DELP's net debt to cash flow ratio, as defined in the credit facility. Based on DELP's current ratios, draws on the credit facility bear interest at the bank's prime lending rate plus 3.5%. In addition, DELP is subject to a standby fee of 0.55% on unused amounts under the credit facility. At September 30, 2018, DELP had drawn \$56.2 million against the credit facility. The credit facility is subject to certain covenants, including maintenance of minimum levels of working capital. At September 30, 2018, DELP was in compliance with all such covenants. The Corporation assigned a limited recourse guarantee of its units in DELP as security pursuant to the credit facility.

DELP continues to generate positive cash flows from its assets in southern Ontario, and it continues to remain in compliance with the financial covenant requirements of the credit agreement. However, volatile commodity prices have, in the view of DELP's lender, eroded the value of DELP's assets in southern Ontario, and therefore eroded the lender's underlying secured interest in such assets.

As a consequence, on January 31, 2017, DELP and the Corporation entered into the Original Forbearance Agreement with the lender to DELP pursuant to which, and provided that certain conditions were met, DELP's lender had agreed to forbear from exercising its enforcement rights and remedies under the terms of the credit facility until the earlier of May 15, 2017; the occurrence of an event of default under the terms of the credit facility; or the occurrence of a default or breach of representation under the Original Forbearance Agreement (see "*Going Concern Assumption*").

The Original Forbearance Agreement provided a definitive timeline within which the Corporation was required to complete a strategic review process for DELP, the purpose of which was to identify, examine and consider a range of strategic alternatives available to the Corporation with respect to enhancing the value of its investment in DELP. Under the terms of the Original Forbearance Agreement, DELP committed to enter into a binding agreement under an arrangement, which binding agreement was to be satisfactory to its lender, by April 7, 2017.

The lender did not provide its consent to any of the proposals made by the Corporation, and the Original Forbearance Agreement expired on May 15, 2017, without resolution. On July 21, 2017, the Corporation received notice from its lender, demanding repayment of amounts borrowed pursuant to the credit facility by July 31, 2017. DELP was unable to meet the demand made by its lender and accordingly, on August 16, 2017, DELP commenced insolvency proceedings by filing a NOI pursuant to the provisions of the *Bankruptcy and Insolvency Act (Canada)* in order for it to run a court-supervised SSP, with the goal of identifying proposals to purchase some or all of the business, properties or assets of DELP. DELP obtained an order from the Ontario Superior Court of Justice approving the terms of the SSP. In early 2018, the SSP was continued under the terms of the *Companies' Creditors Arrangement Act* in order to extend the timeline within which the SSP is to be completed. DELP and the lender have entered into a Forbearance Agreement and the lender supported DELP and the Corporation in the reorganization proceedings.

On April 20, 2018, the Corporation announced that a purchaser for substantially all of the assets of DELP had been identified. On June 12, 2018, the transaction was ratified and approved by the Ontario Superior Court of Justice. Subsequent to September 30, 2018, and at the request of the proposed purchaser, the Ontario Superior Court of Justice extended the anticipated completion date for the sale of DELP's assets to October 2018. In consideration, the proposed purchaser provided cash of \$150,000 to DELP as partial reimbursement of costs associated with the transaction. Furthermore, the proposed purchaser advanced \$300,000 to DELP as a deposit against the anticipated purchase price for the assets, which amount will be forfeited by the proposed purchaser if the current transaction is not completed. The \$300,000 cash advanced to DELP was used to repay amounts borrowed pursuant to DELP's lending arrangements. Concurrent with the repayment, the lender to DELP reduced amounts available pursuant to its lending arrangements by \$300,000. On October 26, 2018, the Ontario Superior Court of Justice further extended the closing date to November 16, 2018 or earlier. In consideration, the proposed purchaser agreed to provide a payment of \$75,000 per week to a maximum of \$225,000 until the transaction is completed, the proceeds of which will be applied as partial reimbursement of costs associated with the transaction. In addition, the proposed purchaser agreed to pay \$300,000 per week to a maximum of \$900,000 as an advance against the purchase price for the assets. Any proceeds received will be immediately applied by DELP to reduce amounts borrowed pursuant to its lending arrangements, and will be forfeited by the proposed purchaser should a transaction not be completed by November 16, 2018. DELP anticipates that any amounts received from the proposed purchaser that are designated as advances against the purchase price, and which are used by DELP to reduce its amounts borrowed under its lending arrangements, will result in a corresponding reduction in the amounts available under DELP's lending arrangements.

Spain

Pursuant to the terms of a shareholders' agreement amongst the shareholders of Escal, ACS was responsible for providing equity and arranging project financing for the Castor Project, including providing all guarantees that may have been required, from the day it became a majority shareholder in Escal, through development and construction and inclusion of the underground storage facility into the Spanish gas system. Other than the pledging of its shares in Escal as security under lending arrangements previously provided to Escal, the Corporation and its subsidiaries were not required to provide any additional equity or debt funds. However, in accordance with the terms of the Royal Decree-Law issued by the Spanish authorities in October 2014, Escal

and its shareholders became jointly and severally liable for any possible flaws or defects in the facilities associated with the Castor Project that become apparent during the 10 years following the issuance of the Royal Decree-Law.

Cash Resources Availability

At September 30, 2018, the Corporation had cash of \$0.1 million on deposit with a Canadian Schedule I Chartered Bank, excluding cash on hand available to DELP. The Corporation's current cash resources are insufficient to meet its current obligations. The Corporation is considering its future business strategies and assessing the possibility of alternative financing options, including possible debt or equity issuances or the monetization of certain assets. There can be no assurance that the Corporation will be successful in any of these alternatives.

Outstanding Share Data and Dilutive Securities

At September 30, 2018 and October 31, 2018, the Corporation had 188,083,836 common shares outstanding. In addition, at September 30, 2018, the Corporation had issued 1,203,507 deferred share units. The terms of the Corporation's deferred share units are described in Note 13 to the 2017 Consolidated Financial Statements.

OFF BALANCE SHEET ARRANGEMENTS, COMMITMENTS AND CONTINGENCIES

Other than as may be disclosed elsewhere in this MD&A, there have been no significant changes in the nature of off balance sheet arrangements, commitments and contingencies from those described in Note 19 to the 2017 Consolidated Financial Statements and as described under "*Off Balance Sheet Arrangements*" and "*Commitments and Contingencies*" in the Corporation's MD&A as at and for the year ended December 31, 2017.

RELATED PARTY TRANSACTIONS

Other than as described in Note 16 to the September 2018 Interim Consolidated Financial Statements, there are no significant changes in the nature and scope of related party transactions to those described in Note 18 to the 2017 Consolidated Financial Statements and the accompanying MD&A.

BUSINESS RISKS

There are a number of inherent risks associated with the Corporation's activities. These risks are described in the Corporation's MD&A as at and for the year ended December 31, 2017. At September 30, 2018, the Corporation had not identified any material changes to the risk factors affecting its business, and its approach to managing those risks, from those discussed in the document referred to above. These business risks should be considered by interested parties when evaluating the Corporation's performance and outlook.

ACCOUNTING POLICIES, CRITICAL JUDGMENTS AND ESTIMATES

The preparation of the Corporation's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and other items in net earnings or loss, and the related disclosure of contingent assets and liabilities, if any. Critical judgments and estimates represent estimates made by management that are, by their very nature, uncertain. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying values of assets and liabilities and the reported amounts of revenues and other items in net earnings or loss that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Summaries of the significant accounting policies applied, and significant judgments, estimates and assumptions made by management in the preparation of its financial statements are provided in Notes 3 and 4 to the 2017 Consolidated Financial Statements.

CONTROLS AND PROCEDURES

In connection with exemption orders issued in November 2007 by each of the securities commissions across Canada, the Chief Executive Officer and the Chief Financial Officer of the Corporation will file a Venture Issuer Basic Certificate with respect to the financial information contained in the September 2018 Interim Consolidated Financial Statements and in the accompanying MD&A.

In contrast to the certificate that would be issued in accordance with the Canadian Securities Administrators' National Instrument 52-109, the Venture Issuer Basic Certification includes a "Note to Reader" stating that the Chief Executive Officer and Chief Financial Officer do not make any representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting as defined in National Instrument 52-109.

Notwithstanding the filing of a Venture Issuer Basic Certificate, the Corporation makes significant efforts to maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In addition, the Chief Executive Officer and Chief Financial Officer have designed controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in compliance with IFRS. The Chief Executive Officer and Chief Financial Officer have evaluated whether there were any changes to the Corporation's control over financial reporting during the nine months ended September 30, 2018 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.

It should be noted that while the Corporation's Chief Executive Officer and the Chief Financial Officer believe that the Corporation's disclosure controls and procedures provide a reasonable level of assurance that they are effective, there are inherent limitations in all internal control systems and no disclosure controls and procedures or internal control over financial reporting will provide complete assurance that no future errors or fraud will occur. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met.

FORWARD-LOOKING STATEMENTS

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

Certain information set forth in this MD&A, including management's assessment of the Corporation's future plans and operations, contains forward-looking statements. Forward-looking statements are statements that are predictive in nature, depend upon or refer to future events or conditions and may include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or similar expressions. In particular, forward-looking statements contained in this document include, but are not limited to, statements with respect to: expectations regarding the Corporation's ability to raise capital or to successfully complete a SSP; volatility of commodity prices; effectiveness of hedging strategies; exploration, development and production; quantity of oil and natural gas reserve and recovery estimates; pending legal actions; treatment under government regulatory regimes and tax laws; financial and business prospects and financial outlook; performance characteristics of the Corporation's oil and natural gas properties; the Corporation's capital expenditure programs; supply and demand for oil and natural gas; drilling plans and strategy; availability of rigs, equipment and other goods and services; continually adding to reserves through acquisitions, exploration and development; anticipated work programs and land tenure; the granting of formal permits, licenses or authorities to prospect; the timing of acquisitions; and the realization of the anticipated benefits of the Corporation's acquisitions and dispositions. In addition, statements relating to "resources" or "reserves" are, by their nature, forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Corporation's control, including the Corporation's ability to continue as a going concern; exploration, development and production; pending legal actions; financial and business prospects and financial outlook; performance characteristics of the Corporation's oil and natural gas properties; the Corporation's capital expenditure programs and other risk factors discussed or

referred to in the section entitled “*Business Risks*” in this MD&A 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 2018 and beyond. These assumptions include: the ability of the Corporation to obtain financing on acceptable terms; the impact of increasing competition; the general stability of the economic and political environment in which the Corporation operates; the timely receipt of any required regulatory approvals; the ability of the Corporation to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects in which the Corporation has an interest to operate such projects in a safe, efficient and effective manner; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development and/or exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of the Corporation to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Corporation operates; the ability of the Corporation to successfully market its oil and natural gas products; estimates on global industrial production in key geographic markets; global oil and natural gas demand and supply; that the Corporation will not have any labour, equipment or other disruptions at any of its operations of any significance in 2018 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 MD&A accompanying the 2017 Consolidated Financial Statements 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 may be accessed through the SEDAR website at www.sedar.com and the Corporation’s website at www.dundee-energy.com.

Toronto, Ontario
October 31, 2018

MANAGEMENT'S RESPONSIBILITY FOR UNAUDITED CONDENSED INTERIM FINANCIAL REPORTING

The accompanying unaudited condensed interim consolidated financial statements of Dundee Energy Limited (“Dundee Energy” or the “Corporation”) as at and for the three and nine months ended September 30, 2018 (the “September 2018 Interim Consolidated Financial Statements”) are the responsibility of the management and Board of Directors of the Corporation.

The September 2018 Interim Consolidated Financial Statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in Note 3 to the Corporation’s audited annual consolidated financial statements as at and for the year ended December 31, 2017. In preparing the September 2018 Interim Consolidated Financial Statements, management has made informed judgments and estimates in accounting for transactions which were not complete at the date of the statement of financial position. In the opinion of management, the September 2018 Interim Consolidated Financial Statements of the Corporation have been prepared within acceptable limits of materiality and are in compliance with International Accounting Standard 34, “*Interim Financial Reporting*”.

Management has established processes which are in place to provide it with sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the September 2018 Interim Consolidated Financial Statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated, or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as at the date of, and for the periods presented by, the September 2018 Interim Consolidated Financial Statements; and (ii) the September 2018 Interim Consolidated Financial Statements fairly present in all material respects the financial condition, results of operations and cash flows of the Corporation, as at the date of and for the periods presented by the September 2018 Interim Consolidated Financial Statements.

The Board of Directors is responsible for reviewing and approving the September 2018 Interim Consolidated Financial Statements, together with other financial information of the Corporation and for ensuring that management fulfills its financial reporting responsibility. The Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee has met with management to review the financial reporting process and other financial information of the Corporation, including the September 2018 Interim Consolidated Financial Statements. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the financial disclosure of the Corporation, including the September 2018 Interim Consolidated Financial Statements, for issuance to the Corporation’s shareholders.

Management recognizes its responsibility for conducting the Corporation’s affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

(signed) Bruce Sherley
*President and
Chief Executive Officer*

(signed) Lucie Presot
*Vice President and
Interim Chief Financial Officer*

Toronto, Canada
October 31, 2018

NOTICE TO READER

The September 2018 Interim Consolidated Financial Statements have been prepared by and are the responsibility of management. These financial statements have not been reviewed by the Corporation’s independent external auditor.

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

(expressed in thousands of Canadian dollars)

	Note	As at	
		September 30, 2018	December 31, 2017
ASSETS			
Current			
Cash		\$ 127	\$ 32
Accounts receivable		-	25
Assets of discontinued operations held for sale	4	102,775	112,182
		102,902	112,239
Non-current			
Equity accounted investment in Escal	13	-	-
		\$ 102,902	\$ 112,239
LIABILITIES			
Current			
Accounts payable and accrued liabilities	16	\$ 7,667	\$ 8,132
Liabilities of discontinued operations held for sale	4	111,793	115,675
		119,460	123,807
SHAREHOLDERS' EQUITY			
Equity Attributable to Owners of the Parent			
Share capital	10	112,682	112,682
Contributed surplus	10	7,596	7,596
Deficit		(133,245)	(128,049)
Accumulated other comprehensive loss		(3,392)	(3,392)
		(16,359)	(11,163)
Non-controlling interest			
		(199)	(405)
		(16,558)	(11,568)
		\$ 102,902	\$ 112,239

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

Commitments (Note 17)

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

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

	Note	For the three months ended		For the nine months ended	
		September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
ITEMS IN NET EARNINGS (LOSS)					
Depreciation		\$ -	\$ -	\$ -	\$ (22)
General and administrative expenses	12	(84)	(224)	581	(539)
Impairment of financial instruments	6	(324)	(324)	(962)	(962)
Interest and other items in earnings (loss)		324	324	962	962
Foreign exchange (loss) gain		-	6	(46)	(39)
NET EARNINGS (LOSS) BEFORE INCOME TAXES		(84)	(218)	535	(600)
Income tax expense	15	-	(3,300)	-	(3,202)
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)					
FROM CONTINUING OPERATIONS		\$ (84)	\$ (3,518)	\$ 535	\$ (3,802)
DISCONTINUED OPERATIONS					
Loss, net of tax expense of \$nil (2017 – tax expense of \$14,808)	4	(2,026)	(35,713)	(5,525)	(36,028)
		(2,026)	(35,713)	(5,525)	(36,028)
NET AND COMPREHENSIVE LOSS FOR THE PERIOD		\$ (2,110)	\$ (39,231)	\$ (4,990)	\$ (39,830)
NET EARNINGS (LOSS) ATTRIBUTABLE TO:					
Owners of the parent					
Continuing operations		\$ (83)	\$ (3,492)	\$ 329	\$ (3,749)
Discontinued operations		(2,026)	(35,713)	(5,525)	(36,028)
		(2,109)	(39,205)	(5,196)	(39,777)
Non-controlling interest					
Continuing operations		\$ (1)	\$ (26)	\$ 206	\$ (53)
Discontinued operations		-	-	-	-
		(1)	(26)	206	(53)
		\$ (2,110)	\$ (39,231)	\$ (4,990)	\$ (39,830)
BASIC EARNINGS (LOSS) PER SHARE					
Continuing operations	14	\$ -	\$ (0.02)	\$ -	\$ (0.02)
Discontinued operations		(0.01)	(0.19)	(0.03)	(0.19)
		\$ (0.01)	\$ (0.21)	\$ (0.03)	\$ (0.21)
DILUTED EARNINGS (LOSS) PER SHARE					
Continuing operations		\$ -	\$ (0.02)	\$ -	\$ (0.02)
Discontinued operations		(0.01)	(0.19)	(0.03)	(0.19)
		\$ (0.01)	\$ (0.21)	\$ (0.03)	\$ (0.21)

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

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

(expressed in thousands of Canadian dollars)

	Attributable to Owners of the Parent									TOTAL
	Share Capital	Contributed Surplus			Ownership Interest in Subsidiaries	Deficit	Accumulated Other Comprehensive Loss	Non-controlling Interest		
		Option Reserve	Deferred Share Unit Reserve							
Balance, December 31, 2016	\$ 112,682	\$ 6,847	\$ 810	\$ (46)	\$ (84,399)	\$ (3,392)	\$ (699)	\$	31,803	
For the nine months ended September 30, 2017										
Net loss, continuing operations	-	-	-	-	(3,749)	-	(53)		(3,802)	
Net loss, discontinued operations (Note 4)	-	-	-	-	(36,028)	-	-		(36,028)	
Changes of ownership interest in subsidiaries (Note 13)	-	-	-	(15)	-	-	351		336	
Balance, September 30, 2017	112,682	6,847	810	(61)	(124,176)	(3,392)	(401)		(7,691)	
From October 1, 2017 to December 31, 2017										
Net loss, continuing operations	-	-	-	-	(1,489)	-	(4)		(1,493)	
Net loss, discontinued operations	-	-	-	-	(2,384)	-	-		(2,384)	
Balance, December 31, 2017	112,682	6,847	810	(61)	(128,049)	(3,392)	(405)		(11,568)	
For the nine months ended September 30, 2018										
Net earnings, continuing operations	-	-	-	-	329	-	206		535	
Net loss, discontinued operations (Note 4)	-	-	-	-	(5,525)	-	-		(5,525)	
Balance, September 30, 2018	\$ 112,682	\$ 6,847	\$ 810	\$ (61)	\$ (133,245)	\$ (3,392)	\$ (199)	\$	(16,558)	

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 nine months ended	
		September 30, 2018	September 30, 2017
OPERATING ACTIVITIES			
Net loss for the period		\$ (4,990)	\$ (39,830)
Adjustments for:			
Net loss from discontinued operations	4	5,525	36,028
Depreciation and depletion		-	22
Impairment of financial instruments	6	962	962
Deferred income taxes		-	3,202
Other		(962)	(962)
		535	(578)
Changes in:			
Accounts receivable		25	-
Accounts payable and accrued liabilities		(465)	299
Prepays and security deposits		-	(45)
Cash provided from (used in) operating activities – continuing operations		95	(324)
Cash (used in) provided from operating activities – discontinued operations		(466)	1,662
CASH (USED IN) PROVIDED FROM OPERATING ACTIVITIES		(371)	1,338
FINANCING ACTIVITIES			
Issuance of shares in subsidiaries to non-controlling interest	13	-	336
Cash provided from financing activities – continuing operations		-	336
Cash (used in) provided from financing activities – discontinued operations		(777)	527
CASH (USED IN) PROVIDED FROM FINANCING ACTIVITIES		(777)	863
INVESTING ACTIVITIES			
Cash used in investing activities – continuing operations		-	-
Cash used in investing activities – discontinued operations		(33)	(459)
CASH USED IN INVESTING ACTIVITIES		(33)	(459)
(DECREASE) INCREASE IN CASH		(1,181)	1,742
Cash, continuing operations, beginning of period		32	86
Cash, discontinued operations, beginning of period	4	3,736	1,419
		2,587	3,247
Less cash, discontinued operations, end of period	4	(2,460)	(3,149)
CASH, CONTINUING OPERATIONS, END OF PERIOD		\$ 127	\$ 98

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 nine months ended September 30, 2018 and 2017 Tabular dollar amounts in thousands of Canadian dollars, except per share amounts
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1. NATURE OF OPERATIONS

Dundee Energy Limited (“Dundee Energy” or the “Corporation”) is a Canadian-based oil and natural gas company and holds interests, both directly and indirectly, in producing oil and gas assets in Ontario and, through a preferred share investment, in certain exploration and evaluation programs for oil and natural gas offshore Tunisia. Dundee Energy is incorporated under the *Canada Business Corporations Act*. The Corporation’s head office is located at Suite 2000, 1 Adelaide Street East, Toronto, Ontario, Canada, M5C 2V9. Dundee Corporation is the principal shareholder of the Corporation.

At September 30, 2018, Dundee Energy’s operating interests included its 100% ownership of Dundee Energy Limited Partnership (“DELP”), a limited partnership structure involved in the exploration, development and production of oil and gas properties in southern Ontario, Canada (Note 4). Dundee Energy also held a 74% interest in Castor UGS Limited Partnership (“CLP”), its principal asset being a 33% interest in Escal UGS S.L. (“Escal”), the original developer of the Castor underground gas storage project located in Spain, and preferred shares of Eurogas International Inc. (“Eurogas International” or “EII”), an oil and gas exploration company that holds a working interest in the Sfax permit, located offshore Tunisia.

On September 11, 2017, and following a delisting review conducted by the Toronto Stock Exchange (“TSX”), the common shares of the Corporation were delisted from the TSX. Prior to September 11, 2017, the Corporation’s common shares traded on the TSX under the symbol “DEN”.

2. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION

These unaudited condensed interim consolidated financial statements of the Corporation as at and for the three and nine months ended September 30, 2018 (“September 2018 Interim Consolidated Financial Statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and with interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook – Accounting, as applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, “*Interim Financial Reporting*”. The September 2018 Interim Consolidated Financial Statements should be read in conjunction with the Corporation’s audited consolidated financial statements as at and for the year ended December 31, 2017 (“2017 Audited Consolidated Financial Statements”) which were prepared in accordance with IFRS. The September 2018 Interim Consolidated Financial Statements were authorized for issuance by the Board of Directors on October 31, 2018.

A volatile commodity price environment has constrained the Corporation’s access to capital. On July 21, 2017, DELP and the Corporation received notice from DELP’s lender, demanding repayment of amounts borrowed pursuant to its outstanding credit facility dated July 2, 2012, as amended (Note 8). DELP was unable to comply with the demand request and consequently, DELP commenced insolvency proceedings by filing a Notice of Intention to Make a Proposal (“NOI”) pursuant to the provisions of the *Bankruptcy and Insolvency Act (Canada)* in order for it to run a court-supervised sale solicitation process (“SSP”). Pursuant to the recommendation of the proposal trustee, in early 2018, the SSP was continued under the terms of the *Companies’ Creditors Arrangement Act* in order to extend the timeline within which the SSP is to be

completed. On April 20, 2018, the Corporation announced that a purchaser for substantially all of the assets of DELP had been identified. On June 12, 2018, the transaction was ratified and approved by the Ontario Superior Court of Justice. The Corporation anticipates that the transaction will be completed during the fourth quarter of 2018 (Note 4).

In anticipation of a successful transaction, the assets and liabilities of DELP have been classified as assets and liabilities of discontinued operations held for sale (Note 4). However, in the absence of a successful SSP, the Corporation will be challenged to deploy the capital that it requires to maintain its existing reserves and production volumes, fund repair and maintenance costs, meet its current financial obligations, including the servicing of its debt and its ability to meet decommissioning obligations, and otherwise develop its ongoing business strategy. There can be no assurance that DELP will be successful in its efforts under the current proposed transaction as outlined above, or under any competing bid that may emerge from the SSP. These material uncertainties may cast significant doubt upon the Corporation's ability to continue as a going concern and the ultimate appropriateness of using accounting principles applicable to a going concern.

These unaudited condensed interim consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Corporation be unable to continue as a going concern. If the Corporation is not able to continue as a going concern, the Corporation may be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these unaudited condensed interim consolidated financial statements. These differences could be material.

Changes in Accounting Policies Implemented During the Nine Months Ended September 30, 2018

The September 2018 Interim Consolidated Financial Statements follow the same accounting principles and methods of application as those disclosed in Note 3 to the 2017 Audited Consolidated Financial Statements, except as described below.

IFRS 9, "Financial Instruments" ("IFRS 9")

On January 1, 2018, the Corporation implemented final amendments to IFRS 9 which introduce new requirements for the classification, measurement and impairment of financial assets, and new requirements related to hedge accounting. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value that focuses on how an entity manages its financial instruments in the context of its business model, as well as the contractual cash flow characteristics of the financial assets. New hedge accounting requirements incorporated into IFRS 9 increase the scope of items that may qualify as a hedged item and changes the requirements of hedge effectiveness testing that must be met in order to apply hedge accounting. The implementation of amendments to IFRS 9 had no impact to the Corporation's September 2018 Interim Consolidated Financial Statements.

IFRS 15, "Revenues from Contracts with Customers" ("IFRS 15")

On January 1, 2018, the Corporation implemented amendments to IFRS 15 which clarify the application of certain of its underlying principles, including the identification of a performance obligation, and the determination of whether a company is a principal or is acting as an agent in the provision of a good or service. The Corporation determined that there were no significant differences in the measurement and timing of revenue recognition between the requirements of IFRS 15 and the Corporation's previous revenue recognition policies. Accordingly, the implementation of amendments to IFRS 15 had no impact to the Corporation's September 2018 Interim Consolidated Financial Statements.

IFRS 2, "Share-based Payment" ("IFRS 2")

On January 1, 2018, the Corporation implemented amendments to IFRS 2 which clarify how to account for certain types of share-based payment transactions. The Corporation does not have any stock based compensation arrangements currently outstanding that remain subject to vesting requirements. Consequently, the implementation of amendments to IFRS 2 had no impact to the Corporation's consolidated financial statements.

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

IFRS accounting standards, interpretations and amendments to existing IFRS accounting standards that were not yet effective as at December 31, 2017, are described in Note 3 to the 2017 Audited Consolidated Financial Statements. There

were no other changes to existing IFRS accounting standards and interpretations since December 31, 2017 that are expected to have a material effect on the Corporation's consolidated financial statements.

3. CRITICAL JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the September 2018 Interim Consolidated Financial Statements in accordance with IFRS requires the Corporation to make judgments in applying its accounting policies and estimates and assumptions about the future. These judgments, estimates and assumptions affect the reported amounts of assets, liabilities, revenues and other items in net operating earnings or loss, including items designated as part of discontinued operations, and the related disclosure of contingent assets and liabilities included in the Corporation's consolidated financial statements. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amounts of revenues and other items in net operating earnings or loss that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. There have been no significant changes in judgments, estimates and assumptions made by the Corporation in the preparation of the September 2018 Interim Consolidated Financial Statements from those judgments, estimates and assumptions disclosed in Note 4 to the 2017 Audited Consolidated Financial Statements.

4. DISCONTINUED OPERATIONS, DUNDEE ENERGY LIMITED PARTNERSHIP

On January 31, 2017, DELP and the Corporation entered into a forbearance agreement with DELP's lender (the "Original Forbearance Agreement"), in respect of loans made by the lender under a credit agreement dated July 2, 2012, as amended (Note 8). Under the terms of the Original Forbearance Agreement, provided that certain ongoing conditions were met, the lender to DELP agreed to forbear from exercising its enforcement rights and remedies arising from DELP's failure to reduce the amounts borrowed pursuant to such credit facility, to amounts that correspond to, or fall below the borrowing base available to DELP, as determined by its lender with reference to DELP's reserves and the current and projected market prices for oil and natural gas, as determined by DELP's lender, until the earlier of May 15, 2017; the occurrence of an event of default under the terms of the credit facility; or the occurrence of a default or breach of representation by DELP under the Original Forbearance Agreement.

The Original Forbearance Agreement provided a definitive timeline within which DELP and the Corporation were required to complete their intended process to identify strategic alternatives, which may have included debt restructuring, a sale of all or a material portion of the assets of DELP, the outright sale of DELP, or a business combination or other transaction involving DELP and a third party. Under the terms of the Original Forbearance Agreement, DELP and the Corporation had committed to enter into a binding agreement under an arrangement, which binding agreement was to be satisfactory to its lender, by April 7, 2017.

The lender did not provide its consent to any of the proposals made by DELP or the Corporation, and the Original Forbearance Agreement expired on May 15, 2017, without resolution. On July 21, 2017, DELP and the Corporation received notice from DELP's lender, demanding repayment of amounts borrowed pursuant to the credit facility by July 31, 2017. DELP was not able to comply with the demand request. Accordingly, on August 16, 2017, DELP commenced insolvency proceedings by filing a NOI pursuant to the provisions of the *Bankruptcy and Insolvency Act (Canada)* in order for it to run a court-supervised SSP, with the goal of identifying proposals to purchase some or all of the business, properties or assets of DELP. DELP obtained an order from the Ontario Superior Court of Justice approving the terms of the SSP. In early 2018, the SSP was continued under the terms of the *Companies' Creditors Arrangement Act* in order to extend the timeline within which the SSP is to be completed. DELP, the Corporation and the lender entered into a revised forbearance agreement (the "Forbearance Agreement") and the lender supported DELP and the Corporation in the reorganization proceedings.

On April 20, 2018, the Corporation announced that a purchaser for substantially all of the assets of DELP had been identified. On June 12, 2018, the transaction was ratified and approved by the Ontario Superior Court of Justice. Subsequent to September 30, 2018, and at the request of the proposed purchaser, the Ontario Superior Court of Justice extended the anticipated completion date for the sale of DELP's assets to October 2018. In consideration, the proposed purchaser provided cash of \$150,000 to DELP as partial reimbursement of costs associated with the transaction. Furthermore, the proposed purchaser advanced \$300,000 to DELP as a deposit against the anticipated purchase price for the assets, which amount will be forfeited by the proposed purchaser if the current transaction is not completed. The \$300,000 cash advanced to DELP was used to repay amounts borrowed pursuant to DELP's lending arrangements. Concurrent with the repayment, the lender to DELP reduced amounts available pursuant to its lending arrangements by \$300,000 (Note 8). On October 26, 2018, the Ontario Superior Court of Justice further extended the closing date to November 16, 2018 or earlier. In consideration, the proposed purchaser agreed to provide a payment of \$75,000 per week to a maximum of \$225,000 until the transaction is completed, the proceeds of which will be applied as partial reimbursement of costs associated with the transaction. In addition, the proposed purchaser agreed to pay \$300,000 per week to a maximum of \$900,000 as an advance against the purchase price for the assets. Any proceeds received will be immediately applied by DELP to reduce amounts borrowed pursuant to its lending arrangements, and will be forfeited by the proposed purchaser should a transaction not be completed by November 16, 2018. DELP anticipates that any amounts received from the proposed purchaser that are designated as advances against the purchase price, and which are used by DELP to reduce its amounts borrowed under its lending arrangements, will result in a corresponding reduction in the amounts available under DELP's lending arrangements.

Notwithstanding these extensions, the Corporation has determined that completion of the SSP and the sale of the assets and liabilities of DELP is highly probable and is expected to be completed within one year. Accordingly, the assets and liabilities related to the DELP business have been reclassified as assets or liabilities of discontinued operations in the consolidated financial statement as at September 30, 2018 and December 31, 2017. Operating results and cash flow related to these assets and liabilities have been included as a net loss from discontinued operations in the consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2018 and 2017, and as cash flow from discontinued operations for the nine months ended September 30, 2018 and 2017, respectively.

Net Assets of Discontinued Operations Held for Sale

	Note	As at	
		September 30, 2018	December 31, 2017
ASSETS			
Cash		\$ 2,460	\$ 3,736
Accounts receivable	5	2,334	2,095
Amounts due from Dundee Energy Limited		2,002	2,425
Prepays and security deposits		1,241	797
Inventory		188	310
Oil and gas properties	7	94,550	102,819
		\$ 102,775	\$ 112,182
LIABILITIES			
Bank loan	8	\$ 56,200	\$ 57,400
Accounts payable and accrued liabilities		6,932	6,569
Decommissioning liabilities	9	48,661	51,706
		\$ 111,793	\$ 115,675
NET ASSETS OF DISCONTINUED OPERATIONS HELD FOR SALE		\$ (9,018)	\$ (3,493)

Net Loss and Comprehensive Loss from Discontinued Operations

	Note	For the three months ended		For the nine months ended	
		September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
REVENUES					
Oil and gas sales		\$ 7,161	\$ 6,315	\$ 20,267	\$ 20,190
Royalties		(1,085)	(945)	(3,057)	(3,015)
Net sales		6,076	5,370	17,210	17,175
Production expenditures	12	(3,097)	(2,935)	(8,623)	(8,280)
Depreciation	7	(2,241)	(2,170)	(6,459)	(6,295)
General and administrative expenses	12	(1,333)	(777)	(3,828)	(2,125)
Gain on fair value changes of derivative financial instruments		-	93	-	1,233
Impairment of oil and gas properties	7	-	(18,929)	-	(18,929)
Interest and other items in loss		27	43	76	157
Interest expense	8, 9	(1,411)	(1,341)	(4,115)	(3,893)
Foreign exchange gain (loss)		(47)	(151)	214	(263)
NET LOSS BEFORE INCOME TAXES		(2,026)	(20,797)	(5,525)	(21,220)
Income tax expense	15	-	(14,916)	-	(14,808)
NET AND COMPREHENSIVE LOSS FOR THE PERIOD, ATTRIBUTABLE TO OWNERS OF THE PARENT		\$ (2,026)	\$ (35,713)	\$ (5,525)	\$ (36,028)

Cash Flow from Discontinued Operations

	Note	For the nine months ended	
		September 30, 2018	September 30, 2017
OPERATING ACTIVITIES, discontinued operations			
Net loss for the period, discontinued operations		\$ (5,525)	\$ (36,028)
Adjustments for:			
Depreciation and depletion	7	6,459	6,295
Gain on fair value changes of derivative financial instruments		-	(2,072)
Impairment of oil and gas properties	7	-	18,929
Deferred income taxes	15	-	14,808
Reclamation expenditures	9	(2,234)	(3,324)
Other		618	913
		(682)	(479)
Changes in:			
Accounts receivable		(239)	735
Accounts payable and accrued liabilities		777	1,666
Prepays and security deposits		(444)	(325)
Inventory		122	65
CASH (USED IN) PROVIDED FROM OPERATING ACTIVITIES		(466)	1,662
FINANCING ACTIVITIES, discontinued operations			
Repayment of bank loan arrangements	8	(1,200)	-
Repayment from Dundee Energy Limited	16	423	527
CASH (USED IN) PROVIDED FROM FINANCING ACTIVITIES		(777)	527
INVESTING ACTIVITIES, discontinued operations			
Investment in oil and gas properties	7	(33)	(459)
CASH USED IN INVESTING ACTIVITIES		(33)	(459)
(DECREASE) INCREASE IN CASH FROM DISCONTINUED OPERATIONS		(1,276)	1,730
CASH, BEGINNING OF PERIOD, DISCONTINUED OPERATIONS		3,736	1,419
CASH, END OF PERIOD, DISCONTINUED OPERATIONS		\$ 2,460	\$ 3,149
Interest paid		\$ 3,083	\$ 2,901

5. ACCOUNTS RECEIVABLE

Accounts Receivable from Discontinued Operations

As at	September 30, 2018	December 31, 2017
Customers for oil and natural gas production	\$ 2,204	\$ 1,962
Third-party drilling receivable	119	119
Working interest partners	11	14
	\$ 2,334	\$ 2,095

6. INVESTMENTS

As at	September 30, 2018	December 31, 2017
Investment in private enterprises	\$ 2,150	\$ 2,150
Less: Impairment	(2,150)	(2,150)
	-	-
Preferred shares of Eurogas International	32,150	32,150
Less: Impairment	(32,150)	(32,150)
	-	-
Accrued dividends on preferred share investment in Eurogas International	13,059	12,097
Less: Impairment	(13,059)	(12,097)
	-	-
	\$ -	\$ -

A detailed description of the nature of the Corporation's investments is provided in Note 7 to the 2017 Audited Consolidated Financial Statements. During the three and nine months ended September 30, 2018, the Corporation recognized an impairment loss of \$324,000 and \$962,000 respectively (three and nine months ended September 30, 2017 – \$324,000 and \$962,000 respectively) relating to dividends receivable on the Series A Preference Shares of Eurogas International.

7. OIL AND GAS PROPERTIES IN DISCONTINUED OPERATIONS

	<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, 2016								
Cost	\$ 157,371	\$ 27,751	\$ 26,122	\$ 4,715	\$ 1,709	\$ 25,371	\$ 243,039	
Accumulated depreciation, depletion and impairment	(86,274)	(9,527)	(8,213)	(170)	(566)	(6,934)	(111,684)	
Net carrying value, December 31, 2016	71,097	18,224	17,909	4,545	1,143	18,437	131,355	
Nine months ended September 30, 2017								
Carrying value December 31, 2016	71,097	18,224	17,909	4,545	1,143	18,437	131,355	
Net additions	-	-	(34)	-	-	492	458	
Remeasure decommissioning liability (Note 9)	(157)	-	-	-	-	-	(157)	
Depreciation and depletion	(4,551)	(705)	(1,010)	(23)	(6)	-	(6,295)	
Impairment	-	-	-	-	-	(18,929)	(18,929)	
Net carrying value, September 30, 2017	66,389	17,519	16,865	4,522	1,137	-	106,432	
At September 30, 2017								
Cost	157,214	27,751	26,077	4,715	1,709	25,863	243,329	
Accumulated depreciation, depletion and impairment	(90,825)	(10,232)	(9,212)	(193)	(572)	(25,863)	(136,897)	
Net carrying value, September 30, 2017	66,389	17,519	16,865	4,522	1,137	-	106,432	
Transactions from October 1, 2017 to December 31, 2017								
Carrying value September 30, 2017	66,389	17,519	16,865	4,522	1,137	-	106,432	
Net additions	-	-	-	-	(2)	44	42	
Remeasure decommissioning liability (Note 9)	(1,580)	-	-	-	-	-	(1,580)	
Depreciation and depletion	(1,464)	(225)	(333)	(8)	(1)	-	(2,031)	
Impairment	-	-	-	-	-	(44)	(44)	
Net carrying value, December 31, 2017	63,345	17,294	16,532	4,514	1,134	-	102,819	
At December 31, 2017								
Cost	155,634	27,751	26,077	4,715	1,707	25,907	241,791	
Accumulated depreciation, depletion and impairment	(92,289)	(10,457)	(9,545)	(201)	(573)	(25,907)	(138,972)	
Net carrying value, December 31, 2017	63,345	17,294	16,532	4,514	1,134	-	102,819	
Nine months ended September 30, 2018								
Carrying value December 31, 2017	63,345	17,294	16,532	4,514	1,134	-	102,819	
Net additions	-	-	33	-	-	-	33	
Remeasure decommissioning liability (Note 9)	(1,843)	-	-	-	-	-	(1,843)	
Depreciation and depletion	(4,676)	(760)	(998)	(23)	(2)	-	(6,459)	
Net carrying value, September 30, 2018	56,826	16,534	15,567	4,491	1,132	-	94,550	
At September 30, 2018								
Cost	153,791	27,751	26,110	4,715	1,707	-	214,074	
Accumulated depreciation, depletion and impairment	(96,965)	(11,217)	(10,543)	(224)	(575)	-	(119,524)	
Net carrying value, September 30, 2018	\$ 56,826	\$ 16,534	\$ 15,567	\$ 4,491	\$ 1,132	\$ -	\$ 94,550	

During the nine months ended September 30, 2017, and in light of restricted financial resources available to DELP (Notes 2, 4 and 8), DELP determined that it was appropriate to impair its undeveloped properties designated as exploration and evaluation properties, by \$18,929,000, reducing their carried value to \$nil.

8. BANK LOAN

DELP established a credit facility with a Canadian Schedule I Chartered Bank. The credit facility is secured against all of the oil and natural gas properties owned by DELP. In addition to the security provided by DELP, the Corporation assigned a limited recourse guarantee of its units in DELP as further security pursuant to the credit facility. The credit facility is subject to certain covenants, including maintenance of minimum levels of working capital. At September 30, 2018, DELP was in compliance with all such covenants.

The credit facility is structured as a revolving demand loan, and is subject to a tiered interest rate structure based on DELP's net debt to cash flow ratio, as defined in the credit facility. Based on ratios at September 30, 2018, draws on the credit facility bore interest at the bank's prime lending rate plus 3.5%. DELP is subject to a standby fee of 0.55% on undrawn amounts under the credit facility.

At September 30, 2018, DELP had drawn \$56,200,000 (December 31, 2017 – \$57,400,000) pursuant to the credit facility. During the three and nine months ended September 30, 2018, DELP incurred interest expense relating to the credit facility, including bank charges, arrangement fees and standby fees, if applicable, of \$1,072,000 and \$3,083,000 respectively (three and nine months ended September 30, 2017 – \$1,019,000 and \$2,901,000 respectively).

On January 31, 2017, DELP entered into the Original Forbearance Agreement (Note 4) with its lender, pursuant to which the lender had agreed, provided that certain ongoing conditions were met, to forbear from exercising its enforcement rights and remedies arising from DELP's failure to reduce the amounts borrowed pursuant to the credit facility, to amounts that correspond to, or fall below the borrowing base available to DELP, until the earlier of May 15, 2017; the occurrence of an event of default under the terms of the credit facility; or the occurrence of a default or breach of representation by DELP under the Original Forbearance Agreement.

The Original Forbearance Agreement provided a definitive timeline within which DELP and the Corporation were required to complete their intended process to identify strategic alternatives which may have included debt restructuring, a sale of all or a material portion of the assets of DELP, the outright sale of DELP, or a business combination or other transaction involving DELP and a third party. Under the terms of the Original Forbearance Agreement, DELP and the Corporation had committed to enter into a binding agreement under an arrangement, which binding agreement was to be satisfactory to DELP's lender, by April 7, 2017.

The lender did not provide its consent to any of the proposals made by DELP or the Corporation, and the Original Forbearance Agreement expired on May 15, 2017 without resolution. On July 21, 2017, DELP and the Corporation received notice from DELP's lender, demanding repayment of amounts borrowed pursuant to the credit facility by July 31, 2017. DELP was unable to meet the demand made by its lender and accordingly, on August 16, 2017, DELP commenced insolvency proceedings by filing a NOI pursuant to the provisions of the *Bankruptcy and Insolvency Act (Canada)* in order for it to run a court-supervised SSP, with the goal of identifying proposals to purchase some or all of the business, properties or assets of DELP. Pursuant to the recommendation of the proposal trustee, in early 2018, the SSP was continued under the terms of the *Companies' Creditors Arrangement Act* in order to extend the timeline within which the SSP is to be completed. On April 20, 2018, the Corporation announced that a purchaser for substantially all of the assets of DELP had been identified. On June 12, 2018, the transaction was ratified and approved by the Ontario Superior Court of Justice.

Subsequent to September 30, 2018, the proposed purchaser of DELP's assets advanced \$300,000 to DELP as a deposit against the anticipated purchase price for the assets, which amount will be forfeited by the proposed purchaser if the current transaction is not completed. The \$300,000 cash advanced to DELP was used to repay amounts borrowed pursuant to DELP's lending arrangements. Concurrent with the repayment, the lender to DELP reduced amounts available pursuant to its lending arrangements by \$300,000. On October 26, 2018, and in consideration for a further extension of the closing date of the transaction in favour of the proposed purchaser (Note 4) to November 16, 2018, the proposed purchaser may advance up to a further \$900,000 as a deposit against the anticipated purchase price for the assets, all of which will be forfeited by the proposed purchaser if the current transaction is not completed. When received, any cash advanced to DELP will be used to repay amounts borrowed pursuant to DELP's lending arrangements. Concurrent with any such repayment, the Corporation anticipates that the lender to DELP will reduce amounts available pursuant to its lending arrangements in corresponding amounts.

9. DECOMMISSIONING LIABILITIES

The carrying amount of DELP'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 DELP's net ownership in the underlying wells and facilities, the estimated cost to abandon these wells and facilities and the estimated timing of the costs to be incurred in future periods.

	As at and for the nine months ended September 30, 2018		As at and for the year ended December 31, 2017	
Undiscounted future obligations, beginning of period	\$	92,244	\$	98,556
Effect of changes in estimates		460		(2,863)
Liabilities settled (reclamation expenditures)		(2,234)		(3,449)
Undiscounted future obligations, end of period	\$	90,470	\$	92,244

Changes in DELP'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 DELP's decommissioning liabilities on a discounted basis:

	As at and for the nine months ended September 30, 2018		As at and for the year ended December 31, 2017	
<i>Discount rates applied to future obligations</i>		2.18% - 2.43%		1.64% - 2.15%
<i>Inflation rate</i>		2.00%		2.00%
Discounted future obligations, beginning of period	\$	51,706	\$	55,520
Effect of changes in estimates and remeasurement of discount rates		(1,843)		(1,737)
Liabilities settled (reclamation expenditures)		(2,234)		(3,449)
Accretion (interest expense)		1,032		1,372
Discounted future obligations, end of period	\$	48,661	\$	51,706
Current	\$	2,873	\$	1,202
Non-current		45,788		50,504
	\$	48,661	\$	51,706

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

10. SHARE CAPITAL

Issued and Outstanding Common Shares

	Number of Common Shares Outstanding	Contributed Surplus			
		Share Capital	Option Reserve	DSUP Reserve	Ownership Interest in Subsidiaries
Outstanding, December 31, 2016	188,268,994	\$ 112,682	\$ 6,847	\$ 810	\$ (46)
For the nine months ended September 30, 2017					
Cancellation of shares pursuant to sunset clause provision	(185,158)	-	-	-	-
Issuance of shares in subsidiaries to non-controlling interest (Note 13)	-	-	-	-	(15)
Outstanding, September 30, 2018, December 31, 2017 and September 30, 2017	188,083,836	\$ 112,682	\$ 6,847	\$ 810	\$ (61)

On April 1, 2017, the Corporation cancelled 185,158 common shares pursuant to a sunset clause provision related to a 2004 corporate reorganization.

Prior to September 11, 2017, the common shares of the Corporation traded on the TSX. Following a delisting review conducted by the TSX, the common shares of the Corporation were delisted. Until the reorganization proceedings relating to the Corporation's discontinued operations are concluded (Notes 4 and 8), the Corporation does not intend to apply to list the common shares of the Corporation on a stock exchange.

11. STOCK BASED COMPENSATION

A detailed description of the Corporation's share incentive plan ("SIP") is provided in Note 13 to the Corporation's 2017 Audited Consolidated Financial Statements.

Stock Option Plan

There were no stock option awards granted during the nine months ended September 30, 2018. A summary of the status of the stock option component of the Corporation's SIP as at and for the nine months ended September 30, 2018 and the year ended December 31, 2017, is as follows:

For the period ended	September 30, 2018		December 31, 2017	
	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price
Options outstanding, beginning of period	980,000	\$ 0.50	2,380,000	\$ 0.50
Forfeited	(980,000)	0.50	(1,400,000)	0.49
Options outstanding, end of period	-	\$ -	980,000	\$ 0.50
Exercisable options	-	\$ -	980,000	\$ 0.50

The Corporation did not recognize any stock based compensation expense related to its stock option plan during the three and nine months ended September 30, 2018 and 2017.

Deferred Share Unit Plan

The Corporation did not recognize any stock based compensation expense related to its deferred share unit plan during the three and nine months ended September 30, 2018 and 2017. At September 30, 2018, there were 1,203,507 (December 31, 2017 – 1,203,507) deferred share units outstanding.

12. GENERAL AND ADMINISTRATIVE EXPENSES AND PRODUCTION EXPENDITURES BY NATURE

General and Administrative Expenses from Continuing Operations

	For the three months ended		For the nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Salary and salary-related	\$ 18	\$ 19	\$ 56	\$ 95
Corporate and professional fees	49	201	(681) *	434
General office	17	1	44	7
Exploration and development costs	-	3	-	3
	\$ 84	\$ 224	\$ (581)	\$ 539

* Includes a reversal of previously accrued legal costs of \$852,000.

General and Administrative Expenses from Discontinued Operations

	For the three months ended		For the nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Salary and salary-related	\$ 536	\$ 637	\$ 1,685	\$ 1,824
Corporate and professional fees	1,064	482	2,480	1,060
General office	189	205	958	679
Exploration and development costs	33	26	105	83
Allocation of general and administrative costs	(489)	(573)	(1,400)	(1,521)
	\$ 1,333	\$ 777	\$ 3,828	\$ 2,125

Production Expenditures from Discontinued Operations

	For the three months ended		For the nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Labour	\$ 1,163	\$ 1,133	\$ 3,142	\$ 2,929
Materials, equipment and supplies used	1,002	852	2,458	2,277
Transportation	178	164	480	462
Utilities	522	503	1,625	1,674
Rental and lease payments	112	81	287	243
Other	120	202	631	695
	\$ 3,097	\$ 2,935	\$ 8,623	\$ 8,280

13. EQUITY ACCOUNTED INVESTMENT IN ESCAL

The Corporation's 74% owned subsidiary, CLP, owns a 33% interest in Escal, the developer and former owner of the Castor underground gas storage project located in Spain (the "Castor Project"). The remaining interest in Escal is held by ACS Servicios Comunicaciones y Energia, S.L. ("ACS"). A detailed description of the nature and status of the Corporation's investment in Escal is provided in Note 15 to the 2017 Audited Consolidated Financial Statements.

The Corporation accounts for CLP's 33% interest in Escal using the equity method. Recognition of CLP's proportionate share of losses incurred by Escal draws CLP's carrying value in Escal to below zero. At September 30, 2018, CLP had not recorded a liability related to losses incurred by Escal, as it does not have the legal or constructive obligation in respect thereof. Consequently, at September 30, 2018, the carrying value of the Corporation's indirect equity interest in Escal was \$nil (December 31, 2017 – \$nil).

Issuance of Limited Partnership Units in Castor UGS Limited Partnership

During the nine months ended September 30, 2017, and in order to fund certain legal costs of the Castor Project arbitration process, CLP raised funds through a voluntary cash call to its limited partners. CLP raised partners' capital of \$1,338,000 from the cash calls, including \$1,002,000 raised directly from the Corporation. As not all limited partners participated in the voluntary cash calls, the Corporation's interest in CLP increased marginally, resulting in a reduction in the Corporation's contributed surplus balance of \$15,000.

14. NET LOSS PER SHARE

	For the three months ended		For the nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net earnings (loss) for the period attributable to owners of the parent from:				
Continuing operations	\$ (83)	\$ (3,492)	\$ 329	\$ (3,749)
Discontinued operations	(2,026)	(35,713)	(5,525)	(36,028)
	\$ (2,109)	\$ (39,205)	\$ (5,196)	\$ (39,777)
Weighted average number of common shares outstanding	188,083,836	188,083,836	188,083,836	188,144,877
Basic earnings (loss) per common share				
Continuing operations	\$ -	\$ (0.02)	\$ -	\$ (0.02)
Discontinued operations	(0.01)	(0.19)	(0.03)	(0.19)
	\$ (0.01)	\$ (0.21)	\$ (0.03)	\$ (0.21)
Effect of dilutive securities to the weighted average number of common shares outstanding	n/a	n/a	n/a	n/a
Diluted earnings (loss) per common share				
Continuing operations	\$ -	\$ (0.02)	\$ -	\$ (0.02)
Discontinued operations	(0.01)	(0.19)	(0.03)	(0.19)
	\$ (0.01)	\$ (0.21)	\$ (0.03)	\$ (0.21)

15. INCOME TAXES

The income tax (expense) recovery amount on the Corporation's earnings (loss) before income taxes differs from the income tax (expense) recovery amount that would arise using the combined Canadian federal and provincial statutory tax rate of 26% (nine months ended September 30, 2017 – 26%), as a result of the following items:

	For the nine months ended	
	September 30, 2018	September 30, 2017
(Earnings) loss before tax at statutory rate of 26% (2017 – 26%)	\$ (142)	\$ 159
Effect on taxes of:		
Non-deductible expenses	-	(14)
Unrecognized temporary differences	87	(3,352)
Other differences	55	5
Income tax expense	\$ -	\$ (3,202)

At September 30, 2017, the Corporation assessed the appropriateness of recognizing the benefit of its deferred income tax assets in light of DELP's filings pursuant to the provisions of the *Bankruptcy and Insolvency Act (Canada)*, as continued under the *Companies' Creditors Arrangement Act* (Note 4), and it determined that the probability of the Corporation utilizing its deferred income tax assets did not meet the criteria of "more-likely-than-not". Accordingly, during the nine months ended September 30, 2017, the Corporation derecognized its deferred income tax assets, resulting in an income tax expense amount of \$18,010,000, of which \$3,202,000 was allocated to continuing operations, with the balance of \$14,808,000 being allocated to discontinued operations.

16. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in these September 2018 Interim Consolidated Financial Statements, related party transactions and balances as at and for the nine months ended September 30, 2018 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 nine months ended September 30, 2018, the Corporation incurred costs of \$31,000 and \$339,000 respectively (three and nine months ended September 30, 2017 – \$114,000 and \$430,000 respectively) in respect of these arrangements.

Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities at September 30, 2018 are amounts owing to the Corporation's parent, Dundee Corporation, and to Dundee Corporation's subsidiaries of \$4,787,000 (December 31, 2017 – \$3,890,000).

Also included in accounts payable and accrued liabilities at September 30, 2018 are amounts owing by the Corporation to DELP of \$2,002,000 (December 31, 2017 – \$2,425,000). Prior to the re-categorization of DELP's net assets to discontinued operations, these amounts were eliminated in the Corporation's consolidated financial statements.

Key Management Compensation

Compensation and other fees paid to the directors, the President and Chief Executive Officer and to certain other senior executives of the Corporation are shown in the following table.

	For the three months ended		For the nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Directors' fees and executive compensation	\$ 93	\$ 95	\$ 281	\$ 371
Benefits	6	6	18	17
	\$ 99	\$ 101	\$ 299	\$ 388

17. COMMITMENTS

There have been no substantive changes to the description and nature of the Corporation's commitments from those described in Note 19 to the Corporation's 2017 Audited Consolidated Financial Statements.

18. FINANCIAL INSTRUMENTS

The Corporation's financial assets measured at fair value in the Corporation's consolidated financial statements at September 30, 2018 have been fully impaired and are carried at \$nil (Note 6).

The carrying value of cash, accounts receivable, and accounts payable and accrued liabilities approximate their fair value.

A detailed description of the Corporation's financial assets and financial liabilities and its associated risk management in respect thereof are provided in Note 20 to the 2017 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, 2017.

19. CAPITAL MANAGEMENT

The Corporation defines the capital that it manages as its working capital. The Corporation's objectives when managing capital are to manage its business in an effective manner with the goal of increasing the value of its assets. The Corporation regularly monitors its available capital and as necessary, adjusts to changing economic circumstances and the risk characteristics of the underlying assets. In order to maintain or adjust capital requirements, the Corporation may consider the issuance of new shares, the entry into joint venture arrangements or farm out agreements, or engage in debt financing (Note 2).

20. GEOGRAPHIC SEGMENTED INFORMATION

Segmented information provided in the following tables is based on geographic segments, consistent with how the Corporation manages its business and how it reviews business performance. Items that are not directly attributable to specific geographic locations have been allocated to the corporate segment.

Segmented Statements of Operations for the Nine Months Ended September 30, 2018 and September 30, 2017

	Corporate		Spain		Southern Ontario		Discontinued Operations		TOTAL	
	30-Sept-18	30-Sept-17	30-Sept-18	30-Sept-17	30-Sept-18	30-Sept-17	30-Sept-18	30-Sept-17	30-Sept-18	30-Sept-17
REVENUES										
Oil and gas sales	\$ -	\$ -	\$ -	\$ -	\$ 20,267	\$ 20,190	\$ (20,267)	\$ (20,190)	\$ -	\$ -
Royalties	-	-	-	-	(3,057)	(3,015)	3,057	3,015	-	-
Net sales	-	-	-	-	17,210	17,175	(17,210)	(17,175)	-	-
Production expenditures	-	-	-	-	(8,623)	(8,280)	8,623	8,280	-	-
Depreciation and depletion	-	(22)	-	-	(6,459)	(6,295)	6,459	6,295	-	(22)
General and administrative expenses	(256)	(374)	837	(165)	(3,828)	(2,125)	3,828	2,125	581	(539)
Gain on fair value changes of derivative financial instruments	-	-	-	-	-	1,233	-	(1,233)	-	-
Impairment of oil and gas properties	-	-	-	-	-	(18,929)	-	18,929	-	-
Impairment of financial instruments	(962)	(962)	-	-	-	-	-	-	(962)	(962)
Interest and other items in earnings (loss)	962	962	-	-	76	157	(76)	(157)	962	962
Interest expense	-	-	-	-	(4,115)	(3,893)	4,115	3,893	-	-
Foreign exchange (loss) gain	-	-	(46)	(39)	214	(263)	(214)	263	(46)	(39)
NET EARNINGS (LOSS) BEFORE INCOME TAXES	(256)	(396)	791	(204)	(5,525)	(21,220)	5,525	21,220	535	(600)
Income tax expense	-	(3,202)	-	-	-	(14,808)	-	14,808	-	(3,202)
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS FOR THE PERIOD	\$ (256)	\$ (3,598)	\$ 791	\$ (204)	\$ (5,525)	\$ (36,028)	\$ 5,525	\$ 36,028	\$ 535	\$ (3,802)
DISCONTINUED OPERATIONS	-	-	-	-	-	-	(5,525)	(36,028)	(5,525)	(36,028)
NET (LOSS) EARNINGS FOR THE PERIOD	\$ (256)	\$ (3,598)	\$ 791	\$ (204)	\$ (5,525)	\$ (36,028)	\$ -	\$ -	\$ (4,990)	\$ (39,830)
NET (LOSS) EARNINGS ATTRIBUTABLE TO:										
Owners of the parent										
Continuing operations	\$ (256)	\$ (3,598)	\$ 585	\$ (151)	\$ (5,525)	\$ (36,028)	\$ 5,525	\$ 36,028	\$ 329	\$ (3,749)
Discontinued operations	-	-	-	-	-	-	(5,525)	(36,028)	(5,525)	(36,028)
	(256)	(3,598)	585	(151)	(5,525)	(36,028)	-	-	(5,196)	(39,777)
Non-controlling interest										
Continuing operations	-	-	206	(53)	-	-	-	-	206	(53)
Discontinued operations	-	-	-	-	-	-	-	-	-	-
	-	-	206	(53)	-	-	-	-	206	(53)
	\$ (256)	\$ (3,598)	\$ 791	\$ (204)	\$ (5,525)	\$ (36,028)	\$ -	\$ -	\$ (4,990)	\$ (39,830)

Segmented Statements of Operations for the Three Months Ended September 30, 2018 and September 30, 2017

	Corporate		Spain		Southern Ontario		Discontinued Operations		TOTAL	
	30-Sept-18	30-Sept-17	30-Sept-18	30-Sept-17	30-Sept-18	30-Sept-17	30-Sept-18	30-Sept-17	30-Sept-18	30-Sept-17
REVENUES										
Oil and gas sales	\$ -	\$ -	\$ -	\$ -	\$ 7,161	\$ 6,315	\$ (7,161)	\$ (6,315)	\$ -	\$ -
Royalties	-	-	-	-	(1,085)	(945)	1,085	945	-	-
Net sales	-	-	-	-	6,076	5,370	(6,076)	(5,370)	-	-
Production expenditures	-	-	-	-	(3,097)	(2,935)	3,097	2,935	-	-
Depreciation and depletion	-	-	-	-	(2,241)	(2,170)	2,241	2,170	-	-
General and administrative expenses	(79)	(121)	(5)	(103)	(1,333)	(777)	1,333	777	(84)	(224)
Gain on fair value changes of derivative financial instruments	-	-	-	-	-	93	-	(93)	-	-
Impairment of oil and gas properties	-	-	-	-	-	(18,929)	-	18,929	-	-
Impairment of financial instruments	(324)	(324)	-	-	-	-	-	-	(324)	(324)
Interest and other items in loss	324	324	-	-	27	43	(27)	(43)	324	324
Interest expense	-	-	-	-	(1,411)	(1,341)	1,411	1,341	-	-
Foreign exchange gain (loss)	-	-	-	6	(47)	(151)	47	151	-	6
NET LOSS BEFORE INCOME TAXES	(79)	(121)	(5)	(97)	(2,026)	(20,797)	2,026	20,797	(84)	(218)
Income tax expense	-	(3,300)	-	-	-	(14,916)	-	14,916	-	(3,300)
NET LOSS FROM CONTINUING OPERATIONS FOR THE PERIOD	\$ (79)	\$ (3,421)	\$ (5)	\$ (97)	\$ (2,026)	\$ (35,713)	\$ 2,026	\$ 35,713	\$ (84)	\$ (3,518)
DISCONTINUED OPERATIONS	-	-	-	-	-	-	(2,026)	(35,713)	(2,026)	(35,713)
NET LOSS FOR THE PERIOD	\$ (79)	\$ (3,421)	\$ (5)	\$ (97)	\$ (2,026)	\$ (35,713)	\$ -	\$ -	\$ (2,110)	\$ (39,231)
NET LOSS ATTRIBUTABLE TO:										
Owners of the parent										
Continuing operations	\$ (79)	\$ (3,421)	\$ (4)	\$ (71)	\$ (2,026)	\$ (35,713)	\$ 2,026	\$ 35,713	\$ (83)	\$ (3,492)
Discontinued operations	-	-	-	-	-	-	(2,026)	(35,713)	(2,026)	(35,713)
	(79)	(3,421)	(4)	(71)	(2,026)	(35,713)	-	-	(2,109)	(39,205)
Non-controlling interest										
Continuing operations	-	-	(1)	(26)	-	-	-	-	(1)	(26)
Discontinued operations	-	-	-	-	-	-	-	-	-	-
	-	-	(1)	(26)	-	-	-	-	(1)	(26)
	\$ (79)	\$ (3,421)	\$ (5)	\$ (97)	\$ (2,026)	\$ (35,713)	\$ -	\$ -	\$ (2,110)	\$ (39,231)

Segmented Net Assets as at September 30, 2018 and December 31, 2017

	Corporate		Spain		Southern Ontario		Discontinued Operations		TOTAL	
	30-Sept-18	31-Dec-17	30-Sept-18	31-Dec-17	30-Sept-18	31-Dec-17	30-Sept-18	31-Dec-17	30-Sept-18	31-Dec-17
ASSETS										
Current										
Cash	\$ 117	\$ 21	\$ 10	\$ 11	\$ 2,460	\$ 3,736	\$ (2,460)	\$ (3,736)	\$ 127	\$ 32
Accounts receivable	-	25	-	-	4,336	4,520	(4,336)	(4,520)	-	25
Prepays and security deposits	-	-	-	-	1,241	797	(1,241)	(797)	-	-
Inventory	-	-	-	-	188	310	(188)	(310)	-	-
Assets of discontinued operations held for sale	-	-	-	-	-	-	102,775	112,182	102,775	112,182
	117	46	10	11	8,225	9,363	94,550	102,819	102,902	112,239
Non-current										
Oil and gas properties	-	-	-	-	94,550	102,819	(94,550)	(102,819)	-	-
Equity accounted investment in Escal	-	-	-	-	-	-	-	-	-	-
	\$ 117	\$ 46	\$ 10	\$ 11	\$ 102,775	\$ 112,182	\$ -	\$ -	\$ 102,902	\$ 112,239
LIABILITIES										
Current										
Bank loan	\$ -	\$ -	\$ -	\$ -	\$ 56,200	\$ 57,400	\$ (56,200)	\$ (57,400)	\$ -	\$ -
Accounts payable and accrued liabilities	7,552	7,005	115	1,127	6,932	6,569	(6,932)	(6,569)	7,667	8,132
Decommissioning liabilities	-	-	-	-	2,873	1,202	(2,873)	(1,202)	-	-
Liabilities of discontinued operations held for sale	-	-	-	-	-	-	111,793	115,675	111,793	115,675
	7,552	7,005	115	1,127	66,005	65,171	45,788	50,504	119,460	123,807
Non-current										
Decommissioning liabilities	-	-	-	-	45,788	50,504	(45,788)	(50,504)	-	-
	\$ 7,552	\$ 7,005	\$ 115	\$ 1,127	\$ 111,793	\$ 115,675	\$ -	\$ -	\$ 119,460	\$ 123,807
SEGMENTED NET ASSETS	\$ (7,435)	\$ (6,959)	\$ (105)	\$ (1,116)	\$ (9,018)	\$ (3,493)	\$ -	\$ -	\$ (16,558)	\$ (11,568)

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