DUNDEE ENERGY LIMITED

REPORT TO SHAREHOLDERS – MAY 2015

Underground Gas Storage Facility ("Castor Project")

On October 4, 2014, the ownership of the Castor Project formally reverted to the Spanish public domain and the related exploitation concession was terminated by a Royal Decree-Law, following a series of seismic events which occurred during the initial injection of gas as part of the final commissioning of the of the facility in late 2012. The Castor Project was owned and developed by Escal UGS S.L. ("Escal"), a company incorporated under Spanish jurisdiction. ACS Servicios Communicacions y Energy S.L. ("ACS") 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.

Under the terms of the relinquishment, Escal was entitled to receive compensation equal to the net value of its investment in the Castor Project, which the Spanish authorities determined to be €1.46 billion. In November 2014, Escal received €1.35 billion, being the net value of its investment, after deducting amounts previously received during the pre-commissioning stage of development. These proceeds were applied towards the partial repayment of the €1.41 billion of outstanding bonds issued by Escal through its financing vehicle.

In addition to the net value of its investment as outlined above, the Royal Decree-Law also provides Escal with additional remuneration rights, namely financial remuneration for the period from the provisional commissioning date of the Castor Project on July 5, 2012 through to October 4, 2014, as well as the reimbursement of operating and maintenance costs incurred during this period. As of this writing, Escal is still awaiting formal notification of the amount and timing of these additional payments.

In November 2014, ACS arranged a new €300 million bank financing for Escal, of which €60 million was applied to repay the balance of amounts owing pursuant to the outstanding bond financing. The remainder was used to repay shareholder loans, solely to ACS. CLP is of the view that not only was the above transaction against the corporate interests of Escal, but it also ignored CLP's ownership rights in the equity and shareholder loans of Escal, which are, in CLP'S opinion, established in the 2007 Memorandum of Understanding between CLP and ACS. Consequently, CLP has lodged a legal action challenging the approval of the new bank financing by the board of directors of Escal, and additionally, it has commenced binding arbitration proceeds against ACS under the auspices of the International Chamber of Commerce in Paris in order to resolve the dispute between the parties.

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Southern Ontario Assets

At the close of the year, the Company booked significant proven developed and undeveloped oil and gas reserves for its southern Ontario long-life assets. Gas reserves were 108,894 MMCF, with a reserve life index of 25.7 years. Oil reserves were 2.25 MMBBLs, with a reserve life index of 11.8 years. An independent reservoir engineer has evaluated these reserves at $212.6 million using a 10% discount factor, representing $1.13 per share before debt.

During the year, the Company, through operational measures, primarily through the use of condensates, was able to sustain its daily net oil production to approximately 576 bopd and curtailed the decline rate to approximately 6% per annum from natural decline of 14% per annum. Offshore gas production was impacted negatively during part of the year due to cold weather problems, but is now back to approximately 11,985 Mcf/d (including onshore gas), with a decline rate of approximately 6%, which is in line with the rate established by the independent reservoir engineer.

The crash of oil prices which commenced during the fourth quarter of 2014, on top of the now-historical low Canadian gas prices, has put significant pressure on the oil and gas sector; organizations are reacting to the challenges with significant cuts in capital spending and other costs. The Company is making every effort to reduce operating costs in the field through efficiencies and operational enhancements to ensure the continuation of robust field netbacks. As a reflection of this, at current low prices, the Company was able to book netbacks of $21.05/bbl for oil and $2.56/Mcf for gas production during the first quarter of 2015. The Company has closed the Calgary office to centralize the technical functions in London, Ontario, with significant savings. The present priority for the Company is to maintain a strong balance sheet, and to that end, discretionary capital spending has been suspended, with all free cash flow being directed to debt reduction. Even at the level of current commodity prices, the Company is on target to reduce debt to approximately $55 million by mid-2016.

The Company continues to be very positive about the quality of the operations in southern Ontario and its portfolio of new geological prospects identified and matured over the last two years. We look forward to the recovery of commodity prices so that the Company can pursue these opportunities when the time is right. In the meantime, the Company is pursuing opportunities to employ its drilling rig, commissioned in 2012, for third party drilling activities in eastern Canada, where rig availability is very low.

We would like to thank the Company's shareholders and board of directors for their continuing support during some challenging times.

Harold Sonny Gordon
Chairman

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President & CEO

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