



DUNDEE
ENERGY LIMITED

2012 OPERATIONS REVIEW

Southern Ontario

Oil and Gas Assets

Spain Offshore

Castor Underground Gas Storage

ONTARIO OIL AND NATURAL GAS ASSETS



Port Maitland gas plant



Pump jack

2011

Highlights ▶ Activity

- \$11.1 million capital expenditures
- Six well workovers, two oil wells drilled, two natural gas wells drilled, one well suspended
- Acquisition of Torque Energy Inc.
- Stabilized natural gas production decline by year-end
- Reversed crude oil production decline – production growing at year-end
- New 11.5-square-kilometre 3D seismic program, reprocessing of legacy 2D seismic

▶ 2011 Average Production

- 10.5 mmcf/d natural gas – average netback \$2.22/mcf
- 692 bbls/d crude oil – average netback \$58.47/bbl
- 26 bbls/d natural gas liquids

▶ 2012 Program

- Capital budget of \$10.6 million
- Up to 6 workovers on producing oil wells
- Up to six new vertical wells targeting crude oil
- 70 percent of production hedged through year-end
- Targeting stable or growing production

In 2011 Dundee Energy began to demonstrate the long-term potential in its southern Ontario oil and natural gas assets, acquired in spring 2010 for \$129 million. The year's capital program comprised a mix of well workovers and drilling with the immediate goal of arresting the long-term production decline, and more strategic activities focused on positioning the Company to pursue new opportunities in the years ahead. Given current commodity prices, the primary focus was on crude oil.

The year's most important event was Dundee's acquisition on August 4, 2011 of Torque Energy Inc. Situated close to Dundee Energy's current onshore assets, the Torque asset base consists of 47 wells producing a combined 85 bbls of oil and 300 mcf of natural gas per day, 16,026 net acres of land, several oil facilities, an extensive 2D and 3D seismic database, experienced staff and rights to a gas storage opportunity. Following the acquisition, Dundee Energy's Ontario portfolio includes 777 oil and natural gas wells, both onshore and offshore.

Key Facts

	Onshore	Offshore
Average working interests	↻ 95 percent	↻ 65 percent
Geology	↻ Ordovician and Silurian age carbonates at 850 metres average geological depth; main oil producing horizons are the Trenton and Black River formations and Silurian Reefs	↻ Silurian age sandstone and carbonates at 550 metres average geological depth; main gas producing horizons are Grimsby and Whirlpool sandstone formations and Guelph carbonate reefs
Land and seismic	↻ 84,000 gross acres ↻ 15 square km new 3D seismic ↻ 206 producing and water disposal oil wells	↻ 904,000 gross acres ↻ 2D seismic – up to 14,680 linear km ↻ 3D seismic – up to 39 square km ↻ Lake bottom bathymetric survey – 292 square km
Facilities	↻ Five natural gas compressors ↻ One natural gas processing plant ↻ Four central oil batteries	↻ 571 natural gas wells ↻ Fleet of drilling, completion and workover vessels

Key objectives in 2011 were to reduce or, if possible, reverse the historical production declines while increasing the Company's percentage of crude oil production. Supported by its existing 2D and 3D seismic database, the Company drilled a total of five wells in 2011. The resulting two new oil wells added production of approximately 50 bbls per day, beginning late in the year, while two new gas wells flowed approximately 450 mcf per day. Workovers on six onshore oil wells added a further 15 bbls per day at low capital cost. This increased the Company's oil weighting by approximately 1 percent which, given the current high price of oil, increased the oil revenue contribution by 7 percent. By year-end 2011 oil production was generating 59 percent of total revenue.

Equally important was the effect on the Company's production curves. Natural gas production from these assets had been declining by an average of 6.5 percent per year for the previous decade, while oil production had been declining by an average of 13.8 percent per year over the same period. The internal work on the asset base in 2011 plus the Torque acquisition essentially stabilized natural gas production for the year, while halting the oil production decline by the third quarter. Since then, oil production has increased, reaching 800 bbls per day at the end of February 2012. Dundee Energy is very pleased with these results.

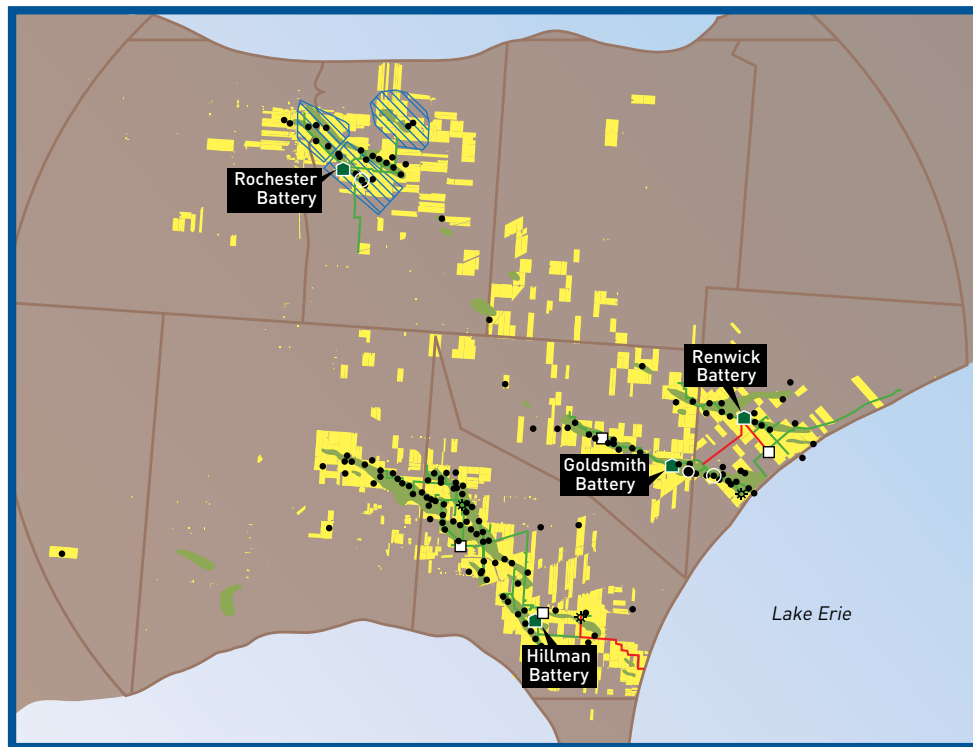
The year's internal work plus the Torque acquisition drove growth in the Company's proved plus probable reserves

of 10 percent, net of production, to 16.1 million boe at December 31, 2011, as determined by independent qualified reserves evaluators. This is promising evidence of the assets' ability to add value.

Meanwhile, Dundee Energy's geology department continued to assess and interpret existing and newly acquired seismic data to identify new onshore drilling opportunities. During 2011, the Company conducted two onshore 3D seismic projects, totalling 15.5 square km, over producing and undeveloped lands. In addition, legacy 2D seismic was reprocessed and integrated into the interpretation to identify new drilling opportunities. Initial interpretation and observations showed promising new prospects, along with pinnacle reef drilling and/or storage opportunities.

The Company continued to benefit from its positioning amidst major residential, commercial and industrial markets, including the Dawn natural gas hub. This resulted in the Company's gas selling at a premium of \$0.30 per mmbtu to NYMEX, with crude oil production realizing a modest premium to WTI. Following initiatives to contain operating expenses, together with its price risk management strategy, the Company generated favourable field netbacks averaging \$2.22 per mcf (\$13.32 per boe) for natural gas and \$58.47 per bbl for crude oil. Having hedged approximately 70 percent of anticipated 2012 production, the Company considers itself well-positioned for another year of favourable netbacks.

- Onshore lease
- Offshore lease
- 3D seismic area
- Producing well
- Natural gas transmission pipeline
- Gas pipeline
- Oil pool
- ■ ■ Facilities



Dundee Energy oil properties



Renwick oil battery

Dundee Energy's comprehensive health, safety and environmental protection (HSE) program is a key component of its operations. Last year the Company created an HSE Committee of the Board of Directors. Its mandate is to ensure consistent application of the Company's HSE standards and to continually reassess their adequacy. For 2011, Dundee Energy is proud to once again report no lost-time incidents – strong testament to the strength of the HSE program and the dedication and commitment of the Company's field personnel.

Further to Dundee Energy's community involvement, the Company in 2011 was pleased to accept an invitation from Ducks Unlimited to sponsor four field trips for grade 4 elementary school classes to the Hillman Marsh in Essex County.



Dundee's sponsorship of Ducks Unlimited elementary school field trip

The Company has multiple activities underway or planned for 2012. In conjunction with Ontario's Ministry of Natural Resources, Dundee Energy will complete the abandonment and reclamation of six onshore wells and 15 offshore wells.

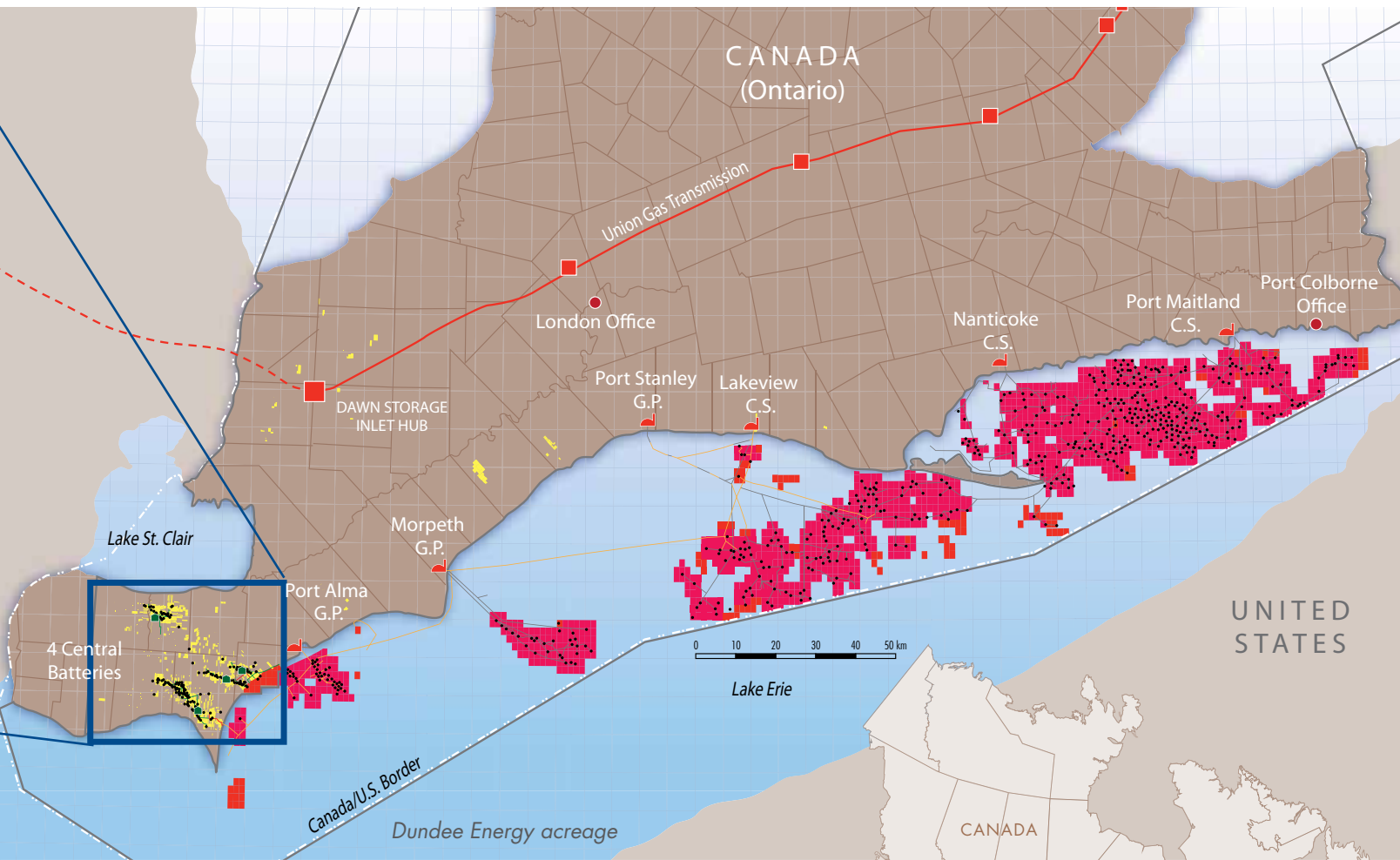


Photo Left Top: Port Maitland dock



Photo Left Bottom: Completion and stimulation barges

Onshore drilling in southwest Ontario has historically presented logistical challenges because of a lack of service infrastructure, including a scarcity of suitable drilling rigs. To support the efficient execution of this year's drilling program, Dundee Energy has acquired a drilling rig to alleviate these constraints to growth. The rig will be delivered in time for the September drilling season. The Company's field operations will also conduct an offshore 2D seismic program in Lake Erie to identify potential drilling targets.

Reflecting current commodity prices, Dundee Energy's 2012 capital program of \$10.6 million is focused almost exclusively on oil opportunities. The Company plans to undertake workovers, to drill and complete new wells, and to apply innovative but not capital-intensive techniques to optimize natural gas production from various offshore fields. The evolving results will be evaluated to help identify the most promising drilling sites through 2014. Dundee Energy anticipates that this year's activities will maintain stable natural gas rates while driving further growth in oil production.

CASTOR UNDERGROUND GAS STORAGE PROJECT (CASTOR PROJECT)

Critical Remaining Milestones

► April 2012

- Commencement of commissioning of all systems with natural gas

► June 2012

- Initiation of injection of cushion gas

► September 2012

- Completion of cushion gas injection, followed by performance testing

► 1st quarter 2013

- Regulatory acceptance and commencement of commercial operations



Onshore gas facilities

Castor Underground Gas Storage

The Castor Project utilizes the depleted Amposta oil field, located 21 km off the Spanish coast, to store natural gas. Amposta provides storage capacity of 1.9 billion cubic metres (67 bcf) – of which cushion gas will comprise .6 billion cubic metres. It's karstified carbonate reservoir will facilitate a high gas deliverability rate and the Castor Project facilities have been designed for the deliverability of up to 25 million cubic metres (882 mmcf) through eight wells.

The Castor Project is well-situated offshore the northeast coast of Spain amidst an industrialized region that accounts for approximately 40 percent

of national gas demand. The Spanish government recognizes the Castor Project as a key element in Spain's gas infrastructure, offering strategic storage capacity, and in a high consumption region it will play an important role in balancing gas supply and demand. In 2008 Escal UGS S.L. (Escal), the operating company, was granted the Development Concession for Castor UGS to be built as a regulated gas storage facility. The Environmental Impact Declaration and Integrated Environmental Authorization were issued in 2009 by the Ministry of the Environment. As of 2010 all required national, regional and local permits were issued and in good standing.

Project Ownership

Dundee Energy (formerly Eurogas Corporation) guided the Castor Project through the conceptual, technical evaluation and regulatory permitting stages, as majority owner and project operator. In late 2007, a strategic agreement was reached with ACS Servicios Comunicaciones y Energia S.L. (ACS), whereby ACS was assigned 66.67 percent ownership in Escal and control of the project development. In return the Corporation recovered its past investment of Cdn\$43.4 million. In addition, under the terms of the agreement, the Corporation is not required to provide further funding through construction, commissioning and final inclusion in the Spanish gas system. As a result, ACS owns 66.67 percent of Escal and Castor Limited Partnership (CLP) owns the remaining 33.33 percent. Dundee has 73.7 percent ownership of CLP.



Key Facts

21 km offshore pipeline

8 km onshore pipeline

1 process platform

1 wellhead platform

1.3 bcm working storage capacity

.6 bcm cushion gas

24 mmcm/d design capacity



Installation of offshore platforms

Project Cost and Funding

Total cost of development of the Castor Project is estimated at €1.6 billion, of which construction costs are €1.3 billion and the rest is cost of cushion gas and financing costs incurred during the construction period. Funding has been provided by a €1.3 billion 10-year bank financing arranged in July 2010 with 13 institutions, equity contributions by ACS, and provisional advances against future remuneration to commence once the project is accepted into the Spanish gas system. As part of the security for the financing, CLP has pledged its shareholding in Escal, but is not obligated to provide any funding through construction and commissioning.

Construction and Commissioning

Construction of the Castor Project facilities, both offshore and onshore construction and related hook-up, is substantially complete. The commissioning team has performed a variety of independent functional tests, such as pressure testing and leak checks, of all equipment items and systems, without hydrocarbons. The current commissioning works are being conducted with the systematic introduction of natural gas, approximately 1 million cubic metres, and the Castor Project is on track to commence injection of 600 million cubic metres of cushion gas in mid June 2012, a process that will be completed in September 2012.

Commencing 2011, development progressed steadily throughout the last year, substantially on budget and on schedule, without undue problems and with a high level of health, safety and environmental performance. No significant design or construction

change orders were recorded, attesting to the soundness of the original design and the able execution of the construction contract. The major construction elements comprise:

- Drilling and completion of the 13 injection/retrieval, monitoring, disposal and observation wells. This was done by March and the drilling campaign was officially completed on March 23, 2012;
- The offshore system consists of two platforms: a wellhead platform and a processing platform (PUQ). The wellhead platform was installed in August 2010. The processing platform, built in the United States, was towed to site in November 2011 and connected to the wellhead platform the same month.
- The pipeline system, consisting of 21 km of seabed pipeline offshore and 8 km from the coastline to the onshore operations plant, and from the plant to the national gas pipeline system. All three pipeline segments were completed by February, 2012; and
- The onshore gas treatment and operations plant, which was substantially completed in March 2012.

Path to Commercial Operation

The completion of hook-up, testing and commissioning of all the systems is deemed complete upon the issuance by the authorities of a provisional start-up certificate ("Acta de puesta en marcha provisional"). This certification is required before the injection of cushion gas can commence. Injection is currently expected to be initiated in mid June 2012 and to be completed in September 2012. The procurement of cushion gas is conducted under regulatory supervision by relevant authorities, involving an auction process in order to ensure a competitive price. The auction has been announced and date for first delivery has been fixed for June 15, 2012.



Installation of offshore platforms



Onshore UGS facilities

This process is currently underway.

Upon the completion of cushion gas injection, the facility must successfully pass specified injection and withdrawal performance tests, to be conducted over a 48-hour period. This is a regulatory requirement before the definitive start-up certificate ("Acta de puesta en servicio definitiva") can be issued. Once that is achieved, Escal will apply for the Castor Project facility to be included in the Spanish gas system in order to commence operations and to be eligible to receive the regulated remuneration from the gas system. Acceptance will be subject to a technical review and an audit of the total project investment, and which will constitute the basis for the regulated remuneration. Escal is expecting formal acceptance by the authorities to be received in early 2013.

Gas Injection/Withdrawal Process

