CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014

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

(expressed in thousands of Canadian dollars)

	Note	As at June 30, 2014	As at December 31, 2013
ASSETS			
Current			
Cash		$ 232	$ 111
Accounts receivable	4	4,545	4,807
Prepaids and security deposits		811	1,217
Inventory		477	333
Investments	5	2,392	1,340
Taxes recoverable		72	72
		8,529	7,880
Non-current			
Oil and gas properties	6	156,406	155,460
Equity accounted investment in Escal	13	-	-
Deferred income taxes	15	8,168	9,255
		$ 173,103	$ 172,595
LIABILITIES			
Current			
Bank loan	7	$ 58,932	$ 65,709
Accounts payable and accrued liabilities	16	6,259	5,230
Derivative financial liabilities	9	373	92
Decommissioning liabilities	8	1,303	1,284
		66,867	72,315
Non-current			
Decommissioning liabilities	8	44,190	41,416
		111,057	113,731
SHAREHOLDERS' EQUITY			
Equity Attributable to Owners of the Parent			
Share capital	10	112,626	112,626
Contributed surplus	10	7,621	7,475
Deficit		(55,269)	(58,345)
Accumulated other comprehensive loss		(3,082)	(3,082)
		61,896	58,674
Non-controlling interest		150	190
		62,046	58,864
		$ 173,103	$ 172,595

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 INCOME (LOSS)
(unaudited)

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

	Note	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013
REVENUES					
Oil and gas sales		$ 11,051	$ 9,722	$ 26,028	$ 18,394
Royalties		(1,653)	(1,477)	(3,886)	(2,790)
Net sales		9,398	8,245	22,142	15,604
Production expenditures	12	(3,646)	(3,547)	(6,526)	(6,395)
Depreciation and depletion	6	(2,511)	(2,972)	(4,982)	(6,001)
General and administrative	12	(1,927)	(1,314)	(3,778)	(2,905)
(Loss) gain on fair value changes of risk management contracts	9	(213)	214	(492)	(152)
(Loss) gain on fair value changes in financial instruments	5	5	(10)	(23)	16
Impairment of financial instruments	5	(321)	(321)	(638)	(638)
Interest and other income		372	373	780	733
Interest expense	7, 8	(1,173)	(1,019)	(2,420)	(2,101)
Foreign exchange gain (loss)		(102)	133	60	185
EARNINGS (LOSS) BEFORE INCOME TAXES		(118)	(218)	4,123	(1,654)
Income tax (expense) recovery	15				
Current		-	(41)	-	(52)
Deferred		(30)	(204)	(1,087)	157
		(30)	(245)	(1,087)	105
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD		$ (148)	$ (463)	$ 3,036	$ (1,549)
NET EARNINGS (LOSS) ATTRIBUTABLE TO:					
Owners of the parent		$ (112)	$ (457)	$ 3,076	$ (1,529)
Non-controlling interest		(36)	(6)	(40)	(20)
		$ (148)	$ (463)	$ 3,036	$ (1,549)
BASIC AND DILUTED NET EARNINGS (LOSS) PER SHARE	14	$ -	$ -	$ 0.02	$ (0.01)

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

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

(expressed in thousands of Canadian dollars)

	Attributable to Owners of the Parent						
	Share Capital	Contributed Surplus for Option Reserve	Contributed Surplus for Deferred Share Unit Reserve	Deficit	Accumulated Other Comprehensive Loss	Non-controlling Interest	TOTAL
Balance, December 31, 2012	$ 104,838	$ 6,367	$ 719	$ (52,161)	$ (3,082)	$ 247	$ 56,928
For the six months ended June 30, 2013							
Net loss	-	-	-	(1,529)	-	(20)	(1,549)
Share issuance pursuant to rights offering, net of issue costs (Note 10)	7,793	-	-	-	-	-	7,793
Stock based compensation (Note 11)	11	23	69	-	-	-	103
Balance, June 30, 2013	112,642	6,390	788	(53,690)	(3,082)	227	63,275
From July 1, 2013 to December 31, 2013							
Net loss	-	-	-	(4,655)	-	(37)	(4,692)
Share issuance pursuant to rights offering, net of issue costs (Note 10)	(16)	-	-	-	-	-	(16)
Stock based compensation	-	230	67	-	-	-	297
Balance, December 31, 2013	112,626	6,620	855	(58,345)	(3,082)	190	58,864
For the six months ended June 30, 2014							
Net earnings	-	-	-	3,076	-	(40)	3,036
Stock based compensation (Note 11)	-	124	22	-	-	-	146
Balance, June 30, 2014	$ 112,626	$ 6,744	$ 877	$ (55,269)	$ (3,082)	$ 150	$ 62,046

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

DUNDEE ENERGY LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW
(unaudited)

(expressed in thousands of Canadian dollars)

	Note	For the six months ended June 30, 2014	June 30, 2013
OPERATING ACTIVITIES			
Net earnings (loss) for the period		$ 3,036	$ (1,549)
Adjustments for:			
Depreciation and depletion	6	4,982	6,001
Loss (gain) on fair value changes in financial instruments	5	23	(16)
Impairment of financial instruments	5	638	638
Loss on fair value changes of risk management contracts	9	281	151
Deferred income taxes	15	1,087	(157)
Stock based compensation	11	146	92
Reclamation expenditures	8	(663)	(625)
Other		(71)	(207)
		9,459	4,328
Changes in:			
Accounts receivable		240	(671)
Accounts payable and accrued liabilities		1,782	2,050
Current income taxes		-	(14)
Prepaids and security deposits		406	235
Inventory		(144)	(89)
CASH PROVIDED FROM OPERATING ACTIVITIES		11,743	5,839
FINANCING ACTIVITIES			
Repayment of bank loan arrangements	7	(6,777)	(8,004)
Proceeds from rights offering, net of issue costs	10	-	8,608
CASH (USED IN) PROVIDED FROM FINANCING ACTIVITIES		(6,777)	604
INVESTING ACTIVITIES			
Acquisition of investment	5	(1,075)	(1,075)
Investment in oil and gas properties	6	(3,770)	(5,048)
CASH USED IN INVESTING ACTIVITIES		(4,845)	(6,123)
INCREASE IN CASH		121	320
CASH, BEGINNING OF PERIOD		111	125
CASH, END OF PERIOD		$ 232	$ 445
Interest paid		$ 1,855	$ 1,649
Income taxes paid		$ -	$ 66

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

DUNDEE ENERGY LIMITED
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

For the three and six months ended June 30, 2014 and June 30, 2013 Tabular dollar amounts in thousands of Canadian dollars, except per share amounts

1. NATURE OF OPERATIONS

Dundee Energy Limited ("Dundee Energy" or the "Corporation") is an oil and natural gas company with a mandate to create long-term value through the exploration, development, production and marketing of oil and natural gas and through other high impact energy projects. Dundee Energy is incorporated under the Canada Business Corporations Act. The Corporation's head office is located at Suite 2100, 1 Adelaide Street East, Toronto, Ontario, Canada, M5C 2V9, and its registered office is located at Suite 250, 435 – 4th Avenue SW, Calgary, Alberta, Canada, T2P 3A8. The Corporation's common shares trade on the Toronto Stock Exchange ("TSX") under the symbol "DEN". At June 30, 2014, Dundee Corporation was the principal shareholder of the Corporation.

Dundee Energy's operating interests include its 100% ownership of Dundee Energy Limited Partnership ("DELP"), a limited partnership involved in the exploration, development and production of oil and gas properties in southern Ontario, Canada, and a 74% interest in Castor UGS Limited Partnership ("CLP"), its principal asset being a 33% interest in Escal UGS S.L. ("Escal"), the owner of the Castor underground gas storage project located in Spain. The Corporation also holds preferred shares of Eurogas International Inc. ("Eurogas International" or "EII"), an oil and gas exploration company that holds a working interest in the Sfax permit offshore Tunisia.

2. BASIS OF PREPARATION

These unaudited condensed interim consolidated financial statements of the Corporation as at and for the three and six months ended June 30, 2014 ("June 2014 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 June 2014 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, 2013 ("2013 Audited Consolidated Financial Statements") which were prepared in accordance with IFRS as applicable for annual financial statements. The June 2014 Interim Consolidated Financial Statements were authorized for issuance by the Board of Directors on July 16, 2014.

The June 2014 Interim Consolidated Financial Statements follow the same accounting principles and methods of application as those disclosed in Note 3 to the 2013 Audited Consolidated Financial Statements, except as described below.

Changes in Accounting Policies Implemented During the Six Months Ended June 30, 2014

The Corporation has adopted the following new and revised accounting standards, including any consequential amendments thereto, effective January 1, 2014. Changes in accounting policies adopted by the Corporation were made in accordance with the applicable transitional provisions as provided in those standards and amendments.

IAS 32, "Financial Instruments: Presentation" ("IAS 32")

On January 1, 2014, the Corporation implemented certain amendments to IAS 32 which require the Corporation to provide clarification on the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The implementation of amendments to IAS 32 had no impact to the Corporation's June 2014 Interim Consolidated Financial Statements.

IAS 36, "Impairment of Assets" ("IAS 36")

On January 1, 2014, the Corporation implemented certain amendments to IAS 36 which require that the Corporation disclose, if appropriate, the recoverable amount of an asset or cash generating unit, and the basis for the determination of fair value less costs of disposal or value-in-use of the asset, when an impairment loss is recognized or when an impairment loss is subsequently reversed. The implementation of amendments to IAS 36 had no impact to the Corporation's June 2014 Interim Consolidated Financial Statements.

IFRIC 21, "Levies" ("IFRIC 21")

On January 1, 2014, the Corporation implemented IFRIC 21 which provides an interpretation on IAS 37, *"Provisions, Contingent Liabilities and Contingent Assets"* ("IAS 37"), with respect to the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event. The interpretation clarifies that the obligating event is the activity described in the relevant legislation that triggers the payment of the levy. The implementation of IFRIC 21 had no impact to the Corporation's June 2014 Interim Consolidated Financial Statements.

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

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

In November 2009, the IASB issued IFRS 9, replacing IAS 39, "*Financial Instruments: Recognition and Measurement*" ("IAS 39"). IFRS 9 will be issued in three phases. The first phase, which has already been issued, addresses the accounting for financial assets and financial liabilities. The second phase will address impairment of financial instruments, while the third phase will address hedge accounting. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple category and measurement models in IAS 39. The approach in IFRS 9 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. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods currently provided in IAS 39.

Requirements for financial liabilities were added to IFRS 9 in October 2010. Although the classification criteria for financial liabilities will not change under IFRS 9, the fair value option may require different accounting for changes to the fair value of a financial liability resulting from changes to an entity's own credit risk.

In December 2013, new hedge accounting requirements were incorporated into IFRS 9 that increase the scope of items that can qualify as a hedged item and change the requirements of hedge effectiveness testing that must be met to use hedge accounting.

The effective date for IFRS 9 has been deferred by the IASB. The Corporation is currently evaluating the impact of adopting this standard on its consolidated financial statements.

IFRS 11, "Joint Arrangements" ("IFRS 11")

In May 2014, the IASB issued amendments to IFRS 11 to address the accounting for acquisitions of interests in joint operations. The amendments address how a joint operator should account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. IFRS 11, as amended, now requires that such transactions shall be accounted for using the principles related to business combinations accounting as outlined in IFRS 3, "*Business Combinations*". The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The Corporation is in the process of evaluating the impact of adopting this amendment to its consolidated financial statements.

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

In May 2014, the IASB issued IFRS 15, which supersedes IAS 18, "*Revenue*", IAS 11 "*Construction Contracts*" and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Corporation is in the process of evaluating the impact that IFRS 15 may have on the Corporation's consolidated financial statements.

IAS 16, "Property, Plant and Equipment" ("IAS 16") and *IAS 38, "Intangible Assets"* ("IAS 38")

In May 2014, the IASB issued amendments to IAS 16 and IAS 38 to clarify acceptable methods of depreciation and amortization. The amended IAS 16 eliminates the use of a revenue-based depreciation method for items of property, plant and equipment. Similarly, amendments to IAS 38 eliminate the use of a revenue-based amortization model for intangible assets except in certain specific circumstances. The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The Corporation is in the process of evaluating the impact of adopting this amendment to its consolidated financial statements.

3. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the June 2014 Interim Consolidated Financial Statements 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 Corporation's reported amounts of assets, liabilities, revenues and other items in net earnings, and the related disclosure of contingent assets and liabilities, if any. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amount of revenues and other items in net earnings that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. There have been no significant changes in accounting judgments, estimates and assumptions made by the Corporation in the preparation of the June 2014 Interim Consolidated Financial Statements from those judgments, estimates and assumptions disclosed in Note 4 to the 2013 Audited Consolidated Financial Statements.

4. ACCOUNTS RECEIVABLE

As at	June 30, 2014	December 31, 2013
Customers for oil and natural gas production	$ 3,419	$ 3,070
Third-party drilling receivable	-	542
Working interest partners	49	71
Amounts receivable from Escal	1,077	1,124
	$ 4,545	$ 4,807

5. INVESTMENTS

As at	June 30, 2014	December 31, 2013
Investment in publicly listed equity securities	$ 242	$ 265
Investment in private enterprises	2,150	1,075
Preferred shares of Eurogas International	32,150	32,150
Less: Impairment	(32,150)	(32,150)
	-	-
Accrued dividends on preferred share investment in Eurogas International	7,591	6,953
Less: Impairment	(7,591)	(6,953)
	-	-
	$ 2,392	$ 1,340

The Corporation's investments in publicly listed securities have been designated as financial assets at fair value through profit or loss and as such, changes in their fair values are recorded in net earnings. During the three and six months ended June 30, 2014, the Corporation recognized an unrealized gain of $5,000 and a loss of $23,000 respectively (three and six months ended June 30, 2013 – loss of $10,000 and gain of $16,000 respectively) from changes in fair value relating to publicly listed equity securities.

The Corporation entered into a subscription agreement dated May 22, 2013 with Windiga Energy Inc. ("Windiga"), a Canadian-based independent power producer focused on developing, owning and operating renewable energy facilities on the African continent, to provide certain seed financing amounting to $2,150,000. In April 2014, the Corporation invested the remaining tranche of $1,075,000 to acquire additional common shares of Windiga. The Corporation owns a 45% equity interest in Windiga, and senior officers of the Corporation's parent represent 20% of its board of directors. Windiga is currently seeking to finalize the negotiations for a power purchase agreement ("PPA") with the National Electricity Company of Burkina Faso. Once the PPA is negotiated and terms established, a further equity raise will occur and the equity interest of the Corporation is expected to be significantly diluted. Management is of the view that it is not directly able to exert significant influence over the operating and financial policies of Windiga and accordingly, the Corporation has classified its investment in Windiga as a financial asset at fair value through profit or loss. As Windiga is a private enterprise in the initial stages of development, its fair value cannot be reliably measured and therefore, the Corporation's investment in Windiga is carried at cost.

At June 30, 2014 and December 31, 2013, the Corporation held 32,150,000 Series A Preference Shares of Eurogas International ("Series A Preference Shares") with an aggregate par value of $32,150,000. The terms of the Corporation's investment in the Series A Preference Shares are detailed in Note 6 to the 2013 Audited Consolidated Financial Statements. Notwithstanding the Corporation not receiving any dividends on its investment at June 30, 2014, the Corporation had not exercised its entitlement to elect the majority of the members of the Board of Directors of Eurogas International. During the three and six months ended June 30, 2014, the Corporation recognized an impairment loss of $321,000 and $638,000 respectively (three and six months ended June 30, 2013 – $321,000 and $638,000 respectively) relating to dividends receivable on the Series A Preference Shares.

6. OIL AND GAS PROPERTIES

	Property, Plant and Equipment					*Exploration and Evaluation*	
	Oil and Gas Development Costs	Pipeline Infrastructure	Machinery and Equipment	Land and Buildings	Other	Undeveloped Properties	TOTAL
At December 31, 2012							
Cost	$ 134,567	$ 25,603	$ 27,021	$ 4,580	$ 3,309	$ 12,667	$ 207,747
Accumulated depreciation, depletion and impairment	(44,414)	(4,696)	(3,186)	(63)	(938)	-	(53,297)
Net carrying value, December 31, 2012	90,153	20,907	23,835	4,517	2,371	12,667	154,450
Six months ended June 30, 2013							
Carrying value December 31, 2012	90,153	20,907	23,835	4,517	2,371	12,667	154,450
Net additions	1,622	202	355	42	264	2,885	5,370
Remeasure decommissioning liability (Note 8)	(6,091)	-	-	-	-	-	(6,091)
Depreciation and depletion	(4,528)	(679)	(712)	(13)	(69)	-	(6,001)
Net carrying value, June 30, 2013	81,156	20,430	23,478	4,546	2,566	15,552	147,728
At June 30, 2013							
Cost	130,098	25,805	27,376	4,622	3,573	15,552	207,026
Accumulated depreciation and depletion	(48,942)	(5,375)	(3,898)	(76)	(1,007)	-	(59,298)
Net carrying value, June 30, 2013	81,156	20,430	23,478	4,546	2,566	15,552	147,728
Transactions from July 1, 2013 to December 31, 2013							
Carrying value June 30, 2013	81,156	20,430	23,478	4,546	2,566	15,552	147,728
Acquisitions	10,379	734	535	103	-	654	12,405
Net additions	2,614	714	(569)	(2)	(529)	4,491	6,719
Remeasure decommissioning liability (Note 8)	(1,331)	-	-	-	-	-	(1,331)
Depreciation and depletion	(4,894)	(742)	(823)	(16)	(86)	-	(6,561)
Impairment	(3,500)	-	-	-	-	-	(3,500)
Net carrying value, December 31, 2013	84,424	21,136	22,621	4,631	1,951	20,697	155,460
At December 31, 2013							
Cost	140,767	27,253	27,236	4,721	3,041	20,697	223,715
Accumulated depreciation, depletion and impairment	(56,343)	(6,117)	(4,615)	(90)	(1,090)	-	(68,255)
Net carrying value, December 31, 2013	84,424	21,136	22,621	4,631	1,951	20,697	155,460
Six months ended June 30, 2014							
Carrying value December 31, 2013	84,424	21,136	22,621	4,631	1,951	20,697	155,460
Net additions	763	-	266	25	196	1,787	3,037
Remeasure decommissioning liability (Note 8)	2,891	-	-	-	-	-	2,891
Depreciation and depletion	(3,807)	(523)	(566)	(12)	(74)	-	(4,982)
Net carrying value, June 30, 2014	84,271	20,613	22,321	4,644	2,073	22,484	156,406
At June 30, 2014							
Cost	144,421	27,253	27,502	4,746	3,237	22,484	229,643
Accumulated depreciation, depletion and impairment	(60,150)	(6,640)	(5,181)	(102)	(1,164)	-	(73,237)
Net carrying value, June 30, 2014	$ 84,271	$ 20,613	$ 22,321	$ 4,644	$ 2,073	$ 22,484	$ 156,406

During the year ended December 31, 2012, the Corporation impaired the carrying value of certain of its natural gas properties by $15,500,000, reflecting substantial decreases in the forecasted price of natural gas at the time of the impairment. Severe winter weather conditions in early 2014 resulted in considerably higher forecasted prices for natural gas, with significant volatility. Given the recent uncertainty in forecasting both short and long-term prices for natural gas, the Corporation has determined that it is appropriate to defer the recognition of an impairment reversal until the forecasted prices for natural gas have restabilized.

7. BANK LOAN

DELP has established a credit facility for $70,000,000 (December 31, 2013 – $70,000,000) with a Canadian Schedule I Chartered Bank. The credit facility provides DELP with a revolving demand loan, subject to a tiered interest rate structure based on DELP's net debt to cash flow ratio, as defined in the credit facility. Based on current ratios, draws on the credit facility bear interest, at DELP's option, at either the bank's prime lending rate plus 3.5% for loans or letters of credit, or, for bankers' acceptances, at the bank's then prevailing bankers' acceptance rate plus 4.5%. DELP is subject to a standby fee of 0.55% on unused amounts under the credit facility.

The credit facility is secured against all of the oil and natural gas properties owned by DELP. In addition, the Corporation has 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 June 30, 2014, the Corporation was in compliance with all such covenants.

As at		June 30, 2014		December 31, 2013
Prime rate loans	$	300	$	1,200
Bankers' acceptances		59,000		65,000
Less: Unamortized discount		(368)		(491)
	$	58,932	$	65,709

At June 30, 2014, DELP had drawn $59,300,000 (December 31, 2013 – $66,200,000) pursuant to the credit facility. Available credit under the credit facility at June 30, 2014 was $10,700,000 (December 31, 2013 – $3,800,000). During the three and six months ended June 30, 2014, the Corporation incurred interest expense relating to the credit facility, including bank charges, arrangement fees and standby fees, of $896,000 and $1,855,000 respectively (three and six months ended June 30, 2013 – $792,000 and $1,648,000 respectively).

8. DECOMMISSIONING LIABILITIES

The carrying amount of the Corporation's decommissioning liabilities is comprised of the expected future abandonment and site restoration costs associated with its oil and gas properties. Abandonment and site restoration costs are based on the Corporation's net ownership in the underlying wells and facilities, the estimated cost to abandon these wells and facilities and the estimated timing of the costs to be incurred in future periods.

		June 30, 2014		December 31, 2013
Undiscounted future obligations, beginning of period	$	91,753	$	81,278
Effect of acquisitions		-		12,544
Effect of changes in estimates		350		(749)
Liabilities settled (reclamation expenditures)		(663)		(1,320)
Undiscounted future obligations, end of period	$	91,440	$	91,753

Changes in the Corporation's estimate of its decommissioning liabilities on an undiscounted basis reflect the impact of inflation to the timing of abandonment and site restoration costs.

The following reconciles the Corporation's decommissioning liabilities on a discounted basis:

		June 30, 2014		December 31, 2013
Discount rates applied to future obligations		*1.10% - 2.72%*		*1.10% - 3.09%*
Inflation rate		*2.00%*		*2.00%*
Discounted future obligations, beginning of period	$	42,700	$	44,705
Effect of acquisitions		-		5,790
Effect of changes in estimates and				
remeasurement of discount rates		2,891		(7,422)
Liabilities settled (reclamation expenditures)		(663)		(1,320)
Accretion (interest expense)		565		947
Discounted future obligations, end of period	$	45,493	$	42,700
Current	$	1,303	$	1,284
Non-current		44,190		41,416
	$	45,493	$	42,700

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

9. RISK MANAGEMENT CONTRACTS

At June 30, 2014, the Corporation had entered into a risk management contract in respect of its oil production, the terms of which are illustrated in the following table.

Contract Fixed Price Swap	Volume	Pricing Point	Strike Price (Cdn$/unit)	Remaining Term		Fair Value June 30, 2014
Crude oil	300 bbl/d	NYMEX	$105.00	Jul 01/14 to Dec 31/14	$	373

The Corporation has determined that the fair value of the outstanding risk management contract at June 30, 2014 resulted in a liability balance of $373,000. The risk management contract outstanding on December 31, 2013 had a fair value liability balance of $92,000 and was settled in early 2014.

During the three and six months ended June 30, 2014, the Corporation recognized a loss of $213,000 and $492,000 respectively (three and six months ended June 30, 2013 – gain of $214,000 and loss of $152,000 respectively) from changes in the fair value of these risk management contracts.

10. SHARE CAPITAL

Issued and Outstanding

	Number of Common Shares Outstanding	Share Capital	Contributed Surplus: Option Reserve	Contributed Surplus: DSUP Reserve
Outstanding, December 31, 2012	164,651,647	$ 104,838	$ 6,367	$ 719
Transactions during the six months ended June 30, 2013				
Stock based compensation	30,874	11	23	69
Shares issued pursuant to rights offering	5,734,067	1,950	-	-
Flow-through shares issued pursuant to rights offering	17,787,596	6,937	-	-
Deferred tax recognized on flow-through shares	-	(889)	-	-
Issue costs associated with rights offering	-	(279)	-	-
Deferred tax recognized on issue costs	-	74	-	-
Outstanding, June 30, 2013	188,204,184	112,642	6,390	788
Transactions from July 1, 2013 to December 31, 2013				
Stock based compensation	-	-	230	67
Issue costs associated with rights offering	-	(22)	-	-
Deferred tax recognized on issue costs	-	6	-	-
Outstanding, December 31, 2013	188,204,184	112,626	6,620	855
Transactions during the six months ended June 30, 2014				
Stock based compensation	-	-	124	22
Outstanding, June 30, 2014	188,204,184	$ 112,626	$ 6,744	$ 877

11. STOCK BASED COMPENSATION

A detailed description of the Corporation's share incentive plan ("SIP") is provided in Note 12 to the Corporation's 2013 Audited Consolidated Financial Statements.

Stock Option Plan

On March 26, 2014, the Corporation granted 200,000 stock options at an exercise price of $0.26 per option. The fair value of the options granted was $0.15 per option and was estimated at the grant date using an option pricing model with the following assumptions:

	2014
Risk free interest rate	1.71%
Expected dividend yield	0.00%
Expected volatility	73.00%
Expected life of the options	3 to 5 years

A summary of the status of the stock option component of the Corporation's SIP as at and for the six months ended June 30, 2014 and as at and for the year ended December 31, 2013, is as follows:

For the period ended	June 30, 2014 Stock Options	June 30, 2014 Weighted Average Exercise Price	December 31, 2013 Stock Options	December 31, 2013 Weighted Average Exercise Price
Options outstanding, beginning of period	5,605,000	$ 0.68	3,815,000	$ 0.77
Granted	200,000	0.26	2,090,000	0.50
Forfeited	-	-	(300,000)	0.63
Options outstanding, end of period	5,805,000	$ 0.66	5,605,000	$ 0.68
Exercisable options	4,278,326	$ 0.73	4,078,326	$ 0.74

Option Price	Options Outstanding	Options Exercisable	Contractual Life Remaining (Years)
At $0.26	200,000	66,666	4.74
At $0.50	2,090,000	696,660	4.21
At $0.60	400,000	400,000	2.84
At $0.81	3,115,000	3,115,000	1.34

During the three and six months ended June 30, 2014, the Corporation recognized stock based compensation expense of $59,000 and $124,000 respectively (three and six months ended June 30, 2013 – $8,000 and $23,000 respectively) in respect of outstanding stock options.

Deferred Share Unit Plan

During the three and six months ended June 30, 2014, the Corporation incurred stock based compensation expense of $2,000 and $22,000 respectively (three and six months ended June 30, 2013 – $34,000 and $69,000 respectively) pursuant to its deferred share unit plan. At June 30, 2014, there were 1,390,199 (December 31, 2013 – 1,325,817) deferred share units outstanding.

12. GENERAL AND ADMINISTRATIVE EXPENSES AND PRODUCTION EXPENDITURES BY NATURE

General and Administrative Expenses

	For the three months ended		For the six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Salary and salary-related	$ 1,354	$ 1,010	$ 2,192	$ 1,922
Stock based compensation	61	42	146	92
Corporate and professional fees	478	560	1,027	1,061
General office	404	375	843	729
Exploration and development costs	361	279	684	543
Capitalization of general and administrative costs	(731)	(952)	(1,114)	(1,442)
	$ 1,927	$ 1,314	$ 3,778	$ 2,905

Production Expenditures

	For the three months ended		For the six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Labour	$ 1,134	$ 989	$ 1,883	$ 1,729
Materials, equipment and supplies used	1,203	1,356	1,929	1,953
Transportation	370	307	707	587
Utilities	541	391	1,069	947
Rental and lease payments	123	157	288	404
Other	275	347	650	775
	$ 3,646	$ 3,547	$ 6,526	$ 6,395

13. EQUITY ACCOUNTED INVESTMENT IN ESCAL

The Corporation's 74% owned subsidiary, CLP, owns a 33% interest in Escal, the owner of the Castor underground gas storage project located in Spain. A detailed description of the nature and status of the Corporation's investment in Escal is provided in Note 14 to the 2013 Audited Consolidated Financial Statements.

The Corporation's carrying value of Escal as at June 30, 2014 was $nil (December 31, 2013 – $nil). At June 30, 2014, the Corporation had not recorded a liability of $35,246,000 (December 31, 2013 – $34,096,000) relating to its share of cumulative losses incurred by Escal, as it does not have the legal or constructive obligation in respect thereof.

14. NET EARNINGS (LOSS) PER SHARE

	For the three months ended		For the six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Net earnings (loss) for the period attributable to owners of the parent	$ (112)	$ (457)	$ 3,076	$ (1,529)
Weighted average number of common shares outstanding	188,204,184	187,140,409	188,204,184	175,958,152
Basic net earnings (loss) per common share	$ -	$ -	$ 0.02	$ (0.01)
Effect of dilutive securities to the weighted average number of common shares outstanding	n/a	n/a	1,359,820	n/a
Diluted net earnings (loss) per common share	$ -	$ -	$ 0.02	$ (0.01)

15. INCOME TAXES

During the six months ended June 30, 2014, the Corporation recognized an income tax expense of $1,087,000 (six months ended June 30, 2013 – income tax recovery of $105,000).

The income tax expense (recovery) rate on the Corporation's earnings (loss) before income taxes differs from the income tax expense (recovery) rate that would arise using the combined Canadian federal and provincial statutory tax rate of 26% (six months ended June 30, 2013 – 26%) as a result of the following items:

	For the six months ended	
	June 30, 2014	June 30, 2013
Earnings (loss) before tax at statutory rate of 26% (June 30, 2013 – 26%)	$ 1,093	$ (438)
Effect on taxes of:		
Non-deductible expenses	53	35
Renounced exploration expenses	-	475
Flow-through share premium amortization	-	(230)
Other differences	(59)	53
Income tax expense (recovery)	$ 1,087	$ (105)

16. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in these June 2014 Interim Consolidated Financial Statements, related party transactions and balances as at and for the three and six months ended June 30, 2014 are as described below.

Services Arrangement with Dundee Resources Limited

Dundee Resources Limited, a wholly owned subsidiary of Dundee Corporation, provides the Corporation with administrative support services as well as geophysical, geological and engineering consultation with regard to the Corporation's activities. During the three and six months ended June 30, 2014, the Corporation incurred costs of $225,000 and $554,000 respectively (three and six months ended June 30, 2013 – $172,000 and $600,000 respectively) in respect of these arrangements.

Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities at June 30, 2014 are amounts owing to the Corporation's parent, Dundee Corporation, and to Dundee Corporation's subsidiaries of $1,956,000 (December 31, 2013 – $973,000).

Financial Services

Officers, directors and employees of the Corporation and other related parties may make use of the facilities of Dundee Securities Limited ("DSL"), a full-service investment dealer, and a subsidiary of Dundee Corporation. In addition, certain of the Corporation's incentive compensation arrangements and the purchase of its common shares for cancellation pursuant to its normal course issuer bid may be administered by DSL. Transactions with DSL are conducted on normal market terms and are recorded at their exchange value.

Key Management Compensation

Compensation and other fees paid to directors of the Corporation and to the President and Chief Executive Officer of the Corporation during the three and six months ended June 30, 2014 and 2013 are shown as follows:

	For the three months ended		For the six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Directors' fees and executive consulting	$ 135	$ 145	$ 262	$ 290
Stock based compensation	36	8	79	23
Benefits	14	10	21	18
	$ 185	$ 163	$ 362	$ 331

17. COMMITMENTS

There have been no substantive changes to the description and nature of the Corporation's commitments from those described in Note 18 to the Corporation's 2013 Audited Consolidated Financial Statements.

18. FINANCIAL INSTRUMENTS

The following table provides information about financial assets and liabilities measured at fair value in the Corporation's statement of financial position and categorized by level according to the significance of the inputs used in making the measurements.

	June 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Investment in publicly listed equity securities	$ 242	$ 242	$ -	$ -
Investment in private enterprises	2,150	-	2,150	-
Financial Liabilities				
Risk management contracts	(373)	-	(373)	-

The fair value of risk management contracts was determined using forward commodity prices at the measurement date.

A detailed description of the Corporation's financial assets and financial liabilities and its associated risk management in respect thereof are provided in Note 19 to the 2013 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, 2013.

19. GEOGRAPHIC SEGMENTED INFORMATION

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

Segmented Statements of Operations for the six months ended June 30, 2014 and June 30, 2013

	Southern Ontario		Spain		Corporate		TOTAL	
	30-Jun-14	30-Jun-13	30-Jun-14	30-Jun-13	30-Jun-14	30-Jun-13	30-Jun-14	30-Jun-13
REVENUES								
Oil and gas sales	$ 26,028	$ 18,394	$ -	$ -	$ -	$ -	$ 26,028	$ 18,394
Royalties	(3,886)	(2,790)	-	-	-	-	(3,886)	(2,790)
Net sales	22,142	15,604	-	-	-	-	22,142	15,604
Production expenditures	(6,526)	(6,395)	-	-	-	-	(6,526)	(6,395)
Depreciation and depletion	(4,978)	(5,997)	-	-	(4)	(4)	(4,982)	(6,001)
General and administrative	(2,718)	(1,811)	(156)	(121)	(904)	(973)	(3,778)	(2,905)
Loss on fair value changes of risk management contracts	(492)	(152)	-	-	-	-	(492)	(152)
(Loss) gain on fair value changes in financial instruments	-	-	-	-	(23)	16	(23)	16
Impairment of financial instruments	-	-	-	-	(638)	(638)	(638)	(638)
Interest and other income	138	87	-	-	642	646	780	733
Interest expense	(2,420)	(2,101)	-	-	-	-	(2,420)	(2,101)
Foreign exchange gain (loss)	63	146	(3)	39	-	-	60	185
EARNINGS (LOSS) BEFORE INCOME TAXES	5,209	(619)	(159)	(82)	(927)	(953)	4,123	(1,654)
Income tax (expense) recovery								
Current	-	-	-	-	-	(52)	-	(52)
Deferred	-	-	-	-	(1,087)	157	(1,087)	157
	-	-	-	-	(1,087)	105	(1,087)	105
NET EARNINGS (LOSS) FOR THE PERIOD	$ 5,209	$ (619)	$ (159)	$ (82)	$ (2,014)	$ (848)	$ 3,036	$ (1,549)
NET EARNINGS (LOSS) ATTRIBUTABLE TO:								
Owners of the parent	$ 5,209	$ (619)	$ (119)	$ (62)	$ (2,014)	$ (848)	$ 3,076	$ (1,529)
Non-controlling interest	-	-	(40)	(20)	-	-	(40)	(20)
	$ 5,209	$ (619)	$ (159)	$ (82)	$ (2,014)	$ (848)	$ 3,036	$ (1,549)

Segmented Statements of Operations for the three months ended June 30, 2014 and June 30, 2013

	Southern Ontario		Spain		Corporate		TOTAL	
	30-Jun-14	30-Jun-13	30-Jun-14	30-Jun-13	30-Jun-14	30-Jun-13	30-Jun-14	30-Jun-13
REVENUES								
Oil and gas sales	$ 11,051	$ 9,722	$ -	$ -	$ -	$ -	$ 11,051	$ 9,722
Royalties	(1,653)	(1,477)	-	-	-	-	(1,653)	(1,477)
Net sales	9,398	8,245	-	-	-	-	9,398	8,245
Production expenditures	(3,646)	(3,547)	-	-	-	-	(3,646)	(3,547)
Depreciation and depletion	(2,508)	(2,970)	-	-	(3)	(2)	(2,511)	(2,972)
General and administrative	(1,433)	(751)	(96)	(73)	(398)	(490)	(1,927)	(1,314)
(Loss) gain on fair value changes of risk management contracts	(213)	214	-	-	-	-	(213)	214
Gain (loss) on fair value changes in financial instruments	-	-	-	-	5	(10)	5	(10)
Impairment of financial instruments	-	-	-	-	(321)	(321)	(321)	(321)
Interest and other income	48	44	-	-	324	329	372	373
Interest expense	(1,173)	(1,019)	-	-	-	-	(1,173)	(1,019)
Foreign exchange (loss) gain	(56)	88	(46)	45	-	-	(102)	133
(LOSS) EARNINGS BEFORE INCOME TAXES	417	304	(142)	(28)	(393)	(494)	(118)	(218)
Income tax expense								
Current	-	-	-	-	-	(41)	-	(41)
Deferred	-	-	-	-	(30)	(204)	(30)	(204)
	-	-	-	-	(30)	(245)	(30)	(245)
NET (LOSS) EARNINGS FOR THE PERIOD	$ 417	$ 304	$ (142)	$ (28)	$ (423)	$ (739)	$ (148)	$ (463)
NET (LOSS) EARNINGS ATTRIBUTABLE TO:								
Owners of the parent	$ 417	$ 304	$ (106)	$ (22)	$ (423)	$ (739)	$ (112)	$ (457)
Non-controlling interest	-	-	(36)	(6)	-	-	(36)	(6)
	$ 417	$ 304	$ (142)	$ (28)	$ (423)	$ (739)	$ (148)	$ (463)

Segmented Net Assets as at June 30, 2014 and December 31, 2013

	Southern Ontario		Spain		Corporate		TOTAL	
	30-Jun-14	31-Dec-13	30-Jun-14	31-Dec-13	30-Jun-14	31-Dec-13	30-Jun-14	31-Dec-13
ASSETS								
Current								
Cash	$ 160	$ 25	$ 8	$ 15	$ 64	$ 71	$ 232	$ 111
Accounts receivable	3,468	3,683	1,077	1,124	-	-	4,545	4,807
Prepaids and security deposits	798	1,214	3	3	10	-	811	1,217
Inventory	477	333	-	-	-	-	477	333
Investments	-	-	-	-	2,392	1,340	2,392	1,340
Taxes recoverable	-	-	-	-	72	72	72	72
	4,903	5,255	1,088	1,142	2,538	1,483	8,529	7,880
Non-current								
Oil and gas properties	156,364	155,414	-	-	42	46	156,406	155,460
Equity accounted investment in Escal	-	-	-	-	-	-	-	-
Deferred income taxes	-	-	-	-	8,168	9,255	8,168	9,255
	$ 161,267	$ 160,669	$ 1,088	$ 1,142	$ 10,748	$ 10,784	$ 173,103	$ 172,595
LIABILITIES								
Current								
Bank loan	$ 58,932	$ 65,709	$ -	$ -	$ -	$ -	$ 58,932	$ 65,709
Accounts payable and accrued liabilities	3,705	3,777	18	22	2,536	1,431	6,259	5,230
Derivative financial liabilities	373	92	-	-	-	-	373	92
Decommissioning liabilities	1,303	1,284	-	-	-	-	1,303	1,284
	64,313	70,862	18	22	2,536	1,431	66,867	72,315
Non-current								
Decommissioning liabilities	44,190	41,416	-	-	-	-	44,190	41,416
	$ 108,503	$ 112,278	$ 18	$ 22	$ 2,536	$ 1,431	$ 111,057	$ 113,731
SEGMENTED NET ASSETS	$ 52,764	$ 48,391	$ 1,070	$ 1,120	$ 8,212	$ 9,353	$ 62,046	$ 58,864