2017 Management's Discussion and Analysis and Financial Statements

DECEMBER 2017 – DUNDEE ENERGY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dundee Energy Limited ("Dundee Energy" or the "Corporation") is a Canadian-based company focused on creating long-term value through the development and acquisition of high-impact energy projects. Dundee Energy holds interests, both directly and indirectly, in a large accumulation of 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 March 5, 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"), which have been prepared using International Financial Reporting Standards ("IFRS"). All amounts are in Canadian dollars unless otherwise specified. Tabular dollar amounts, unless otherwise specified, are in thousands of dollars, except for per unit or per share amounts.

2017 DEVELOPMENTS AND 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 December 31, 2017, 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 and/or the favourable settlement of the arbitration process in respect of the Castor Project (see *"Significant Projects – Castor UGS Limited Partnership and the Castor Project"* below).

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 low 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 and the lender have entered into a revised forbearance agreement (the "Forbearance Agreement") and the lender is supporting DELP in the reorganization proceedings. DELP has obtained an order from the Ontario Superior Court of Justice (the "Court") approving the terms of the SSP. Subsequent to December 31, 2017, and pursuant to the recommendation of the proposal trustee, 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. Accordingly, the assets and liabilities of DELP have been classified in the 2017 Consolidated Financial Statements as assets and liabilities of discontinued operations held for sale.

The Corporation's 2017 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. 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 SSP, or that the Court will approve the SSP or any competing bid that may emerge from such process.

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. Other than an assessment of the Corporation's ability to continue to develop its exploration properties and of the appropriateness of recognizing the benefit of its deferred income tax assets, the 2017 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 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 the 2017 Consolidated Financial Statements. These differences could be material.

SIGNIFICANT PROJECTS

Assets of Discontinued Operations Held for Sale – Southern Ontario, Dundee Energy Limited Partnership

DELP, a wholly-owned limited partnership structure of the Corporation, holds an approximate 93% working interest in 35,000 gross acres of onshore oil and gas properties and an approximate 98% working interest in 268,000 gross acres of offshore gas properties, all located in and around Lake Erie in Ontario, Canada. The Corporation's assets in southern Ontario also include a 100% interest in six onshore oil processing facilities, an onshore rotary drilling rig, an offshore fleet of drilling and completion barges, three natural gas manufacturing facilities and two gas compressor booster stations.

The majority of DELP's raw natural gas production flows from offshore wells located under Lake Erie. These wells produce from Silurian aged sandstone and carbonates at a maximum depth of 550 metres. The main producing horizons are the Grimsby, Whirlpool and Guelph formations. DELP then gathers this raw natural gas through a pipeline grid on the bottom of Lake Erie to one of its onshore gas manufacturing facilities. The manufacturing facilities then transform the raw natural gas into dry natural gas to meet utility specifications. The Corporation has transportation agreements in place with utility pipeline companies, and delivers the majority of its natural gas to the Dawn Hub, which is conveniently located near the greater Toronto area, at which point the gas is sold to third parties.

Sweet, light oil is produced from onshore Ordovician and Silurian aged carbonate reservoirs located at geological depths of up to 850 metres. Raw oil and condensate is extracted and processed at six oil facilities and several single well locations. The majority of DELP's processed oil production is sold to a third party purchaser in Pennsylvania, USA, which provides DELP with a consistent basis for pricing its crude oil production. DELP may also transport oil to Sarnia, Ontario for refining.

Castor UGS Limited Partnership and the Castor Project

The Corporation is the original developer of an infrastructure undertaking in Spain that converted an abandoned offshore 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 Communicacions 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 September 2013, the Spanish authorities mandated suspension of activities at the Castor Project, following micro-seismic activity detected in the surrounding area. Escal subsequently considered options available in respect of the Castor Project and 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. 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. In November 2014, and under the terms of the relinquishment, Escal received €1.35 billion, being the net value of its investment in the Castor Project, after deducting €110 million previously received by Escal 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 Watercraft Capital S.A., Escal's financing vehicle.

The Royal Decree-Law mandated that the Castor Project remain mothballed until the Spanish government was satisfied with technical studies and reports on any future commissioning of such facilities. Enagás Transporte, S.A.U., an affiliate of the technical manager of the Spanish gas system, was tasked with completing these studies and it was entrusted with the ongoing care and maintenance of the facilities.

The Royal Decree-Law also provided Escal with certain other remuneration rights, including 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. On November 17, 2015, the Spanish Ministry of Industry, Energy and Tourism issued a resolution establishing the additional remuneration at €253.3 million, and the reimbursement of operating and maintenance costs at an additional €42.3 million.

On December 18, 2015, a further €4.56 million was authorized and subsequently received, as compensation for operating and maintenance costs between October 4, 2014 through to November 30, 2014, being the date of the hand-over of the facilities to Enagás Transporte, S.A.U. During the year ended December 31, 2016, Escal received a further €212 million under these arrangements, permitting Escal to further reduce debt outstanding in Escal, as detailed below. The balance of the remuneration was to be received over a 15-year period.

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.

In November 2014 and following relinquishment of the Castor Project, ACS arranged a €300 million bank financing for Escal. At that time, €60 million of the bank facility was applied to repay the balance of all amounts owing pursuant to the outstanding bond arrangements. The remaining €240 million available pursuant to the bank line were used by Escal to repay Escal's shareholder loans solely to ACS. CLP was of the view that the new financing arranged by ACS was not in the best interest of Escal and consequently, CLP lodged a legal action challenging the approval of the new financing.

Furthermore, in the opinion of CLP, the use of the €240 million in payment of subordinated loans solely to ACS contravened the terms of the 2007 memorandum of understanding in respect of CLP's ownership rights in the equity and shareholder loans of Escal. Therefore, early in the second quarter of 2015, CLP commenced binding arbitration proceedings to resolve this contractual dispute with ACS. On March 27, 2017, the arbitral tribunal of the International Chamber of Commerce 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. CLP has determined that it will not seek any remedies in respect of the decision rendered by the tribunal. Furthermore, CLP withdrew legal action challenging the approval of the new financing arranged by ACS.

Notwithstanding the above, Escal and its shareholders remain responsible 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.

The Corporation accounts for its investment in Escal using the equity method. At December 31, 2017 and 2016, 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 December 31, 2017 (2016 – $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.

Series A Preference Share Investment in Eurogas International Inc.

The Corporation holds a $32,150,000 preferred share investment in Eurogas International, an independent oil and gas company engaged in the exploration and evaluation of landholdings offshore Tunisia, targeting large scale oil and gas reserves. The Series A Preference Shares rank in priority to the common shares of Eurogas International as to the payment of dividends and the distribution of assets on dissolution, liquidation or winding up of Eurogas International and entitle the Corporation to a fixed preferential cumulative dividend at a rate of 4% per annum. The Corporation may reinvest any dividends received into common shares of Eurogas International, subject to obtaining the necessary regulatory approvals. The Series A Preference Shares may be redeemed at the option of the Corporation or may be retracted by Eurogas International at any time at a price equal to their face value of $1.00 per Series A Preference Share.

The Series A Preference Shares are non-voting except in the event Eurogas International fails to pay the cumulative 4% dividend for eight quarters. Thereafter, but only so long as any dividends on the Series A Preference Shares remain in arrears, the Corporation shall be entitled, voting exclusively and separately as a series, to elect a majority of the members of the Board of Directors of Eurogas International. Notwithstanding the Corporation not receiving any dividends on its investment at December 31, 2017, the Corporation had not exercised its entitlement to elect the majority of the members of the Board of Directors of Eurogas International.

Because of the Corporation's entitlement to demand redemption of its preferred share investment in Eurogas International at any time and at its full discretion, the Corporation classified its preferred share investment in Eurogas International as a loan receivable and the associated dividends as interest income. The Corporation has completed an assessment of the fair value of its preferred share interest in Eurogas International, which included forecasted cash flow expectations in respect of its investment. The assessment concluded that the Corporation's investment in the preferred shares of Eurogas International and the accrued dividends thereon are impaired and accordingly, the Corporation has fully provided against the carrying value of these assets.

Investment in Windiga Energy Inc.

The Corporation holds a 45% equity interest in Windiga that it originally acquired in 2013 and 2014 for $2.15 million. Windiga has been actively engaged in securing an equity raise for its Zina project, a 20-megawatt photovoltaic plant to be located in Zina, in the Mouhoun province of Burkina Faso. In light of the Corporation's ongoing liquidity concerns, the Corporation declined to participate in Windiga's equity raise and instead, the Corporation negotiated an agreement for Windiga to repurchase the Corporation's 45% equity interest for subsequent cancellation at a price of $1.425 million, which Windiga intended to pay from the proceeds of its equity raise. During 2016, the Corporation impaired its original cost in Windiga by $0.725 million, reducing the fair value to the amount of the expected proceeds of $1.425 million.

Subsequent to December 31, 2017, Windiga advised the Corporation that it was seeking a purchaser for its Zina project after its intended engineering, procurement and construction contractor withdrew its services, citing geo-political security concerns. In assessing the potential outcome of the sale of the project, the Corporation has determined that it is unlikely that Windiga will have the cash resources necessary to complete the repurchase of the Corporation's equity interest and accordingly, the Corporation impaired its investment in Windiga by a further $1.425 million, reducing its fair value to $nil.

PERFORMANCE MEASURES AND BASIS OF PRESENTATION

The Corporation's 2017 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

Year ended December 31, 2017 compared with the year ended December 31, 2016

SELECTED CONSOLIDATED FINANCIAL INFORMATION

For the years ended December 31,			2017			2016			2015
	Net Loss	Attributable to Owners of the Parent	Non-Controlling Interest	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	$ (3,788)	$ (3,788)	$ -	$ 2,452	$ 2,452	$ -	$ 967	$ 967	$ -
Loss from investment in preferred shares of Eurogas International	(1,286)	(1,286)	-	(1,286)	(1,286)	-	(1,286)	(1,286)	-
Castor Project	(221)	(164)	(57)	(2,269)	(1,676)	(593)	(1,546)	(1,141)	(405)
Net loss from continuing operations	**(5,295)**	**(5,238)**	**(57)**	**(1,103)**	**(510)**	**(593)**	**(1,865)**	**(1,460)**	**(405)**
Discontinued operations:									
Southern Ontario	(38,412)	(38,412)	-	(18,611)	(18,611)	-	(6,821)	(6,821)	-
Net loss for the year	**$ (43,707)**	**$ (43,650)**	**$ (57)**	**$ (19,714)**	**$ (19,121)**	**$ (593)**	**$ (8,686)**	**$ (8,281)**	**$ (405)**
Basic and diluted net loss per share									
Continuing operations		$ (0.03)			$ -			$ (0.01)	
Discontinued operations		(0.20)			(0.10)			(0.03)	
		$ (0.23)			$ (0.10)			$ (0.04)	

Consolidated Net Loss

During 2017, the Corporation incurred a net loss attributable to owners of the parent of $43.7 million, or a net loss of $0.23 per share. This compares with a net loss attributable to owners of the parent of $19.1 million, or a net loss of $0.10 per share incurred in the prior year.

The $43.7 million net loss attributable to owners of the parent incurred during 2017 includes a net loss of $5.2 million associated with the Corporation's continuing operations (2016 – $0.5 million), and a net loss of $38.5 million (2016 – $18.6 million) associated with the Corporation's southern Ontario operations which are currently subject to a sales solicitation process and are therefore considered discontinued operations.

Certain of the Corporation's oil and gas properties were designated as exploration and evaluation properties, the exploitation of which would require financial resources substantially in excess of those currently available to the Corporation. Accordingly, in 2017, and following recent negotiations with its lender (see *"Going Concern Assumption"*), the Corporation determined that it was appropriate to provide a $19.0 million provision against the carried value of these assets, reducing their carried value to $nil. In addition, the Corporation assessed the appropriateness of continuing to recognize the benefit of its deferred income tax assets, and it identified that the probability of the Corporation utilizing its deferred income tax assets no longer met the criteria of "more-likely-than-not". As a result, during 2017, the Corporation further recognized an income tax expense amount of $18.0 million, drawing its deferred income tax asset balance to $nil.

In comparison, during the prior year, the Corporation recorded an impairment of $11.9 million against certain natural gas properties and certain other exploration and evaluation properties, reducing their carried value to their net recoverable amounts determined using expected future cash flows as adjusted for risks specific to these properties and discounted using a discount rate of 8%. In addition, during the prior year, the Corporation realized a loss of $1.4 million on the disposal of an offshore jack-up drilling platform.

During 2017, the Corporation's consolidated net loss attributable to owners of the parent was also impacted by a $1.425 million impairment against the fair value of its 45% interest in Windiga (see *"Significant Projects – Investment in Windiga Energy Inc."*) (2016 – $0.725 million).

The net loss incurred during 2017, adjusted for the items discussed above, was reduced to $5.3 million, compared with a net loss of $5.7 million in the same period of the prior year.

For the years ended December 31,		2017		2016
Net loss and comprehensive loss for the year	$	(43,707)	$	(19,714)
Adjustments:				
Impairment of oil and gas properties		18,973		11,934
Derecognition of deferred income tax assets		18,010		-
Loss on disposal of redundant equipment		-		1,384
Impairment of investment in Windiga Energy Inc.		1,425		725
	$	**(5,299)**	**$**	**(5,671)**
Attributable to:				
Continuing operations	$	(668)	$	(378)
Discontinued operations		(4,631)		(5,293)
	$	**(5,299)**	**$**	**(5,671)**

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 2017, sales of oil and natural gas, net of royalty interests, were $22.4 million, an increase of $2.1 million when compared with net sales of $20.3 million earned during the prior year.

		Natural Gas		Oil and Liquids		Total
Net Sales						
Year ended December 31, 2017	$	13,635	$	8,795	$	22,430
Year ended December 31, 2016		12,196		8,114		20,310
Net increase in net sales	**$**	**1,439**	**$**	**681**	**$**	**2,120**
Effect of changes in production volumes	$	(929)	$	(790)	$	(1,719)
Effect of changes in commodity prices		2,368		1,471		3,839
	$	1,439	$	681	$	2,120

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

Higher realized prices for underlying commodities increased aggregate net sales by $3.8 million. The benefit of higher commodity prices was partially offset by lower production volumes, the effect of which was to reduce net sales by $1.7 million.

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 2017 and 2016, and provide a comparison of relative changes in benchmark price indicators for such commodities during the respective periods.

For the years ended December 31,					2017						2016
				Realized						Realized	
		Sales		Unit Price			Sales		Unit Price		
Natural gas	$	16,026	$	4.31	Mcf	$	14,349	$	3.56	Mcf	
Oil		10,337		64.42	bbl		9,521		53.69	bbl	
Liquids		18		35.05	bbl		21		21.90	bbl	
		26,381					23,891				
Less: Royalties at 15% (2016 – 15%)		(3,951)					(3,581)				
Net sales	**$**	**22,430**				**$**	**20,310**				

For the years ended December 31,			2017			2016
			Realized			Realized
	US$	CAD$	Prices ($)	US$	CAD$	Prices ($)
Natural Gas (per Mcf)						
Dawn Hub	3.04	3.96	4.31	2.56	3.39	3.56
NYMEX Henry Hub	2.99	3.90		2.52	3.34	
Oil (per bbl)						
Canadian Light Sweet	n/a	61.85	64.42	n/a	52.80	53.69
West Texas Intermediate	50.80	66.23		43.28	57.41	

During 2017, the Corporation realized an average price on sales of natural gas of $4.31/Mcf, approximately 21% higher than the realized average sales price of $3.56/Mcf earned during the prior year. While the increase corresponds to increases in commodity markets, the Corporation’s realized prices for natural gas continue to benefit from its proximity to the Dawn Hub, as it is a provider of natural gas supply to the greater Toronto market area. During 2017, the Corporation realized an average price of $64.42/bbl on sales of crude oil, a 20% increase from the average price of $53.69/bbl realized during the prior year and modestly higher than a 17% increase in both the US dollar-denominated West Texas Intermediate price for this commodity and the Canadian dollar-denominated price of Canadian light sweet crude oil.

Derivative Financial Instruments – Price Risk Management

In order to mitigate its exposure to price volatility, DELP may enter into fixed price commodity contracts. These derivative financial instruments assist DELP in securing a stable amount of cash flow to fund its operations, to provide for any discretionary capital expenditures, and to reduce borrowings under its debt arrangements. DELP receives the majority of its revenues in US dollars and the pricing for commodities, including oil and natural gas, are closely referenced to the US dollar. DELP has, from time to time, mitigated its exposure to changes in commodity prices resulting from foreign exchange variability by entering into some of its commodity derivative financial instruments on a Canadian dollar basis.

The following table summarizes the realized and unrealized gains or losses from DELP’s derivative financial instruments during 2017, compared with the prior year. For accounting purposes, DELP has not designated its derivative financial instruments as hedges. Accordingly, the gains or losses from these contracts are not reflected in DELP’s reported amounts of oil and natural gas sales, but rather they are separately reported as gains or losses from derivative financial instruments in its net earnings or loss.

For the years ended December 31,						2017						2016
		Realized		Unrealized				Realized		Unrealized		
		Loss		Gain		Total		Gain		Loss		Total
Gas swaps	$	(976)	$	2,275	$	1,299	$	289	$	(2,254)	$	(1,965)

There were no outstanding commodity swap derivative contracts outstanding at December 31, 2017, as investments in derivative financial instruments are no longer permitted under the terms of DELP's lending arrangements. DELP previously determined that the fair value of outstanding commodity swap derivative contracts at December 31, 2016 resulted in a liability balance of $2.3 million.

Production Volumes

During 2017, production volumes decreased to an average of 2,140 boe/d, compared with an average of 2,322 boe/d produced in 2016. Approximately 79% of DELP's production volumes are from natural gas, while the remaining 21% of production volumes are from oil and liquids.

Average daily volume during the years ended December 31,	2017	2016
Natural gas (Mcf/d)	10,191	11,001
Oil (bbls/d)	440	485
Liquids (bbls/d)	1	3
Total (boe/d)	2,140	2,322

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 2017, DELP incurred production expenditures of $10.9 million or $14.00/boe, a decrease of $1.5 million from production expenditures of $12.4 million or $14.58/boe incurred in the prior year. Decreases in production expenditures reflect a higher allocation of labour and materials to reclamation activities, as well as a deferral of discretionary expenditures in order to accommodate DELP's limited financial resources.

For the years ended December 31,			2017			2016
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Production expenditures	$ 7,168	$ 3,761	$ 10,929	$ 8,130	$ 4,255	$ 12,385
Production expenditures	(per Mcf)	(per bbl)	(per boe)	(per Mcf)	(per bbl)	(per boe)
per unit	$ 1.93	$ 23.37	$ 14.00	$ 2.02	$ 23.86	$ 14.58

Field Level Cash Flows and Field Netbacks

For the years ended December 31,				2017				2016
		Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids		Total
Total sales	$	16,026	$ 10,355	$ 26,381	$ 14,349	$ 9,542	$	23,891
Royalties		(2,391)	(1,560)	(3,951)	(2,153)	(1,428)		(3,581)
Production expenditures		(7,168)	(3,761)	(10,929)	(8,130)	(4,255)		(12,385)
		6,467	5,034	11,501	4,066	3,859		7,925
Realized (loss) gain on derivative financial instruments		(976)	-	(976)	289	-		289
Field level cash flows	**$**	**5,491**	**$ 5,034**	**$ 10,525**	**$ 4,355**	**$ 3,859**	**$**	**8,214**

For the years ended December 31,				2017				2016
		Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids		Total
		$/Mcf	$/bbl	$/boe	$/Mcf	$/bbl		$/boe
Total sales	$	4.31	$ 64.33	$ 33.78	$ 3.56	$ 53.52	$	28.13
Royalties		(0.64)	(9.69)	(5.06)	(0.53)	(8.01)		(4.22)
Production expenditures		(1.93)	(23.37)	(14.00)	(2.02)	(23.86)		(14.58)
		1.74	31.27	14.72	1.01	21.65		9.33
Realized (loss) gain on derivative financial instruments		(0.26)	-	(1.25)	0.07	-		0.34
Field netbacks	**$**	**1.48**	**$ 31.27**	**$ 13.47**	**$ 1.08**	**$ 21.65**	**$**	**9.67**

Improved prices for commodities, before the effect of any of the Corporation’s derivative financial instruments, increased field level cash flows to $11.5 million or $14.72/boe, a 45% increase from field level cash flows of $7.9 million or $9.33/boe generated during the prior year.

Field level cash flows from natural gas operations, before the effect of derivative financial instruments, increased to $6.5 million or $1.74/Mcf, compared with field level cash flows of $4.1 million or $1.01/Mcf in the prior year.

Field level cash flows from oil and liquids increased to $5.0 million during 2017, compared with field level cash flows of $3.9 million in the prior year. On a per unit basis, field netbacks from oil and liquids production were $31.27/bbl during 2017, an increase from field netbacks from oil and liquids production of $21.65/bbl during the prior year.

During 2017, the Corporation recognized a $1.3 million net gain from its derivative financial instruments, including an unrealized gain of $2.3 million, offset by a realized loss of $1.0 million. The realized loss reduced field netbacks from natural gas by $0.26/Mcf.

Capital Expenditures

As a result of the impact of lower commodity prices on the Corporation’s ability to borrow pursuant to its existing lending arrangements, the Corporation limited its 2017 capital work plan. During 2017, the Corporation incurred capital expenditures of $0.5 million, all of which related to maintaining its existing and essential land portfolio.

DELP has not advanced its 2018 work plan, as it is dependent on the results of the SSP. In the interim, and with the consent of its lenders, DELP will continue to maintain its existing and essential land portfolio for further exploitation work in expectation of a successful SSP.

Reserves

DELP has retained Deloitte LLP ("Deloitte"), an independent qualified reserves evaluator to prepare a report on DELP's working interest in its oil and natural gas reserves. Reserves at December 31, 2017 were determined using the guidelines and definitions set out under National Instrument 51-101. At December 31, 2017, the proved and probable reserves decreased by 12% to 19,620 million boe ("Mboe") from 22,360 Mboe at December 31, 2016. The following table outlines the change in DELP's reserves since December 31, 2016.

	Natural Gas *(MMcf)*	Oil *(Mbbl)*	Natural Gas Liquids *(Mbbl)*	Total *(Mboe)*	NPV @ 10% Before Tax *(M$)*	NPV per boe
Proved Reserves						
Opening balance, January 1, 2017	96,359	2,179	11	18,249	$ 142,568	$ 7.81
Revisions	(10,196)	(67)	(2)	(1,768)		
Production	(3,691)	(130)	(1)	(746)		
Closing balance, December 31, 2017	**82,472**	**1,982**	**8**	**15,735**	**$ 104,914**	**$ 6.67**
Probable Reserves						
Opening balance, January 1, 2017	19,546	850	3	4,111	$ 31,113	$ 7.57
Revisions	(1,017)	(56)	-	(226)		
Production	-	-	-	-		
Closing balance, December 31, 2017	**18,529**	**794**	**3**	**3,885**	**$ 26,324**	**$ 6.78**
Total proved and probable	101,001	2,776	11	19,620	$ 131,238	$ 6.69
Percentage decrease in proved and probable reserves	(13%)	(8%)	(21%)	(12%)		

At December 31, 2016, the Corporation estimated the reserve life index for its proved natural gas and oil reserves at 23.5 years and 13.4 years, respectively. As at December 31, 2017, the reserve life index for natural gas was 22.8 years, while the reserve life index for oil was 14.1 years.

The following table outlines Deloitte's forecasted future prices for each of oil and natural gas. These forecasts form the basis for Deloitte's evaluation of the Corporation's reserves at December 31, 2017, as outlined above.

	Natural Gas	Oil
	Ontario Dawn Reference Point	WTI at Cushing Oklahoma
Reserve Prices	CAD$ / mmbtu*	US$ / bbl
2018	3.85	55.00
2019	4.00	58.65
2020	4.15	62.40
2021	4.40	69.00
2022	4.60	75.75
Average five year forecast	4.20	64.16

* The Corporation's gas quality is 1.042 mmbtu for one 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 low 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, including the abandonment of nine onshore and 44 offshore wells in 2017. At December 31, 2017, DELP had completed the abandonment and site reclamation of eight onshore wells. In addition, DELP completed the abandonment of 51 offshore wells pursuant to these requirements.

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 December 31, 2017, DELP's estimate of these future costs on an undiscounted basis is approximately $92.2 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 December 31, 2017, the discounted amount of DELP's decommissioning liabilities was $51.7 million. The discount used in calculating DELP's decommissioning liabilities is accreted over time. During 2017, DELP incurred accretion expense of $1.4 million (2016 – $0.9 million) related to the carrying value of its decommissioning liabilities.

Accounting for Escal on an Equity Basis

The Corporation accounts for its investment in Escal using the equity method. At December 31, 2017 and 2016, Escal's net equity available to shareholders was negative, reflecting operating losses and the settlement of unfavourable hedging transactions previously incurred. Accordingly, the Corporation has reduced the carrying value of its investment in Escal to $nil at December 31, 2017 (2016 – $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.

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 2017, the Corporation provided for an impairment loss relating to its investment in Eurogas International of $1.3 million (2016 – $1.3 million).

Eurogas International has entered into a farm in arrangement with DNO Tunisia AS ("DNO") that essentially provides DNO 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 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 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. DNO has advised Eurogas International that it intends to drill a well on the Sfax exploration permit during the first part of 2018.

Other Items in Consolidated Net Earnings

General and Administrative Expenses

General and administrative expenses from continuing operations incurred during 2017 were $0.6 million, a substantial decrease from general and administrative expenses of $2.8 million incurred during the prior year. During 2016, the Corporation incurred costs of $2.1 million related to the arbitration process associated with the Castor Project.

General and administrative expenses from discontinued operations incurred during 2017 were $3.7 million, compared with $2.5 million incurred during the prior year. General and administrative expenses during 2017 include approximately $1.7 million of costs associated with DELP's lending arrangements.

Interest Expense

DELP incurred interest expense of $5.3 million during 2017, compared with interest expense of $4.4 million incurred during the prior year. Included in interest expense is $1.4 million (2016 – $0.9 million) of accretion expense associated with its decommissioning liabilities, with the balance of interest expense incurred predominantly on borrowings pursuant to its credit facility. Interest expense has increased as a result of increases in the prime lending rate.

SELECTED QUARTERLY FINANCIAL INFORMATION

	2017				2016			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Revenues								
Discontinued operations	$ 5,255	$ 5,370	$ 5,859	$ 5,946	$ 5,933	$ 5,449	$ 4,698	$ 4,230
Net (loss) earnings attributable to owners of the parent								
Continuing operations	(1,489)	(3,492)	5	(262)	(174)	(1,012)	1,191	(515)
Discontinued operations	(2,384)	(35,713)	(544)	229	(6,592)	(1,099)	(8,494)	(2,426)
	$ (3,873)	$ (39,205)	$ (539)	$ (33)	$ (6,766)	$ (2,111)	$ (7,303)	$ (2,941)
Basic and fully diluted (loss) earnings per share								
Continuing operations	$ (0.01)	$ (0.02)	$ -	$ -	$ -	$ (0.01)	$ 0.01	$ -
Discontinued operations	(0.01)	(0.19)	-	-	(0.04)	-	(0.05)	(0.02)
	$ (0.02)	$ (0.21)	$ -	$ -	$ (0.04)	$ (0.01)	$ (0.04)	$ (0.02)
Capital expenditures before disposals								
Discontinued operations	$ 42	$ 53	$ 31	$ 408	$ 36	$ 38	$ 189	$ 434

- During the fourth quarter of 2017 and the third quarter of 2016, the Corporation recognized a marked-to-market loss of $1.4 million and $0.7 million, respectively, 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.
- During the second quarter of 2016, the Corporation recorded an impairment loss of $5.0 million on certain natural gas properties in response to a continued decline in long-term natural gas prices.
- During the first quarter of 2016, the Corporation recorded a loss on the disposal of redundant offshore oil and gas assets of $1.4 million.

- 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:

	2017				2016			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Changes in the fair value of derivative financial instruments	$ 66	$ 93	$ 341	$ 799	$ (1,360)	$ 269	$ (1,580)	$ 706

QUARTERLY CONSOLIDATED RESULTS OF OPERATIONS

Three months ended December 31, 2017 compared with the three months ended December 31, 2016

During the quarter ended December 31, 2017, the Corporation incurred a net loss attributable to owners of the parent of $3.9 million, or a net loss of $0.02 per share. This compares with a net loss attributable to owners of the parent of $6.8 million, or a net loss of $0.04 per share incurred in the fourth quarter of the prior year.

The $3.9 million net loss attributable to owners of the parent incurred during the fourth quarter of 2017 includes a net loss of $1.5 million associated with the Corporation's continuing operations (2016 – $0.2 million), and a net loss of $2.4 million (2016 – $6.6 million) associated with the Corporation's southern Ontario operations.

For the three months ended December 31,			2017			2016
	Net Loss	Attributable to Owners of the Parent	Non-Controlling Interest	Net (Loss) Earnings	Attributable to Owners of the Parent	Non-Controlling Interest
Corporate activities	$ (1,152)	$ (1,152)	$ -	$ 286	$ 286	$ -
Loss from investment in preferred shares of Eurogas International	(324)	(324)	-	(324)	(324)	-
Castor Project	(17)	(13)	(4)	(185)	(136)	(49)
Net loss from continuing operations	**(1,493)**	**(1,489)**	**(4)**	**(223)**	**(174)**	**(49)**
Discontinued operations:						
Southern Ontario	(2,384)	(2,384)	-	(6,592)	(6,592)	-
Net loss for the period	**$ (3,877)**	**$ (3,873)**	**$ (4)**	**$ (6,815)**	**$ (6,766)**	**$ (49)**

Operating performance from continuing operations in the fourth quarter of 2017 was impacted by a $1.425 million impairment against the fair value of the Corporation's 45% interest in Windiga (see *"Significant Projects – Investment in Windiga Energy Inc."*).

Fourth quarter operating performance from discontinued operations includes a $44,000 impairment against oil and gas properties in the current year. In comparison, during the fourth quarter of the prior year, DELP impaired certain exploration and evaluation properties in an amount of $6.9 million.

The net loss incurred during the fourth quarter of 2017, adjusted for the items discussed above, was reduced to $2.4 million, compared with net earnings of $119,000 in the same period of the prior year.

For the three months ended December 31,		2017		2016
Net loss and comprehensive loss for the period	$	(3,877)	$	(6,815)
Adjustments:				
Impairment of oil and gas properties		44		6,934
Derecognition of deferred income tax assets		-		-
Loss on disposal of redundant equipment		-		-
Impairment of investment in Windiga Energy Inc.		1,425		-
	$	**(2,408)**	**$**	**119**
Attributable to:				
Continuing operations	$	(68)	$	(223)
Discontinued operations		(2,340)		342
	$	**(2,408)**	**$**	**119**

Southern Ontario Assets

During the fourth quarter of 2017, sales of oil and natural gas, net of royalty interests were $5.2 million, a decrease of $0.7 million when compared with net sales of oil and natural gas of $5.9 million earned in the fourth quarter of the prior year. The decrease in net sales resulted both from lower commodity prices for natural gas, which decreased net sales by $0.4 million, as well as a drop in production volumes for both oil and natural gas, which further reduced net sales by $0.3 million.

		Natural Gas		Oil and Liquids		Total
Net Sales						
Three months ended December 31, 2017	$	3,084	$	2,171	$	5,255
Three months ended December 31, 2016		3,679		2,254		5,933
Net decrease in net sales	**$**	**(595)**	**$**	**(83)**	**$**	**(678)**
Effect of changes in production volumes	$	(213)	$	(96)	$	(309)
Effect of changes in commodity prices		(382)		13		(369)
	$	(595)	$	(83)	$	(678)

During the fourth quarter of 2017, DELP realized an average price on sales of natural gas of $3.98/Mcf, an 8% decrease from the realized average sales price on sales of natural gas of $4.32/Mcf earned in the fourth quarter of the prior year. The decrease is consistent with a 7% decrease in the US dollar-denominated price of natural gas at the Dawn Hub.

DELP realized an average price of $69.22/bbl on sales of crude oil during the fourth quarter of 2017, a 10% increase from the average price of $62.65/bbl realized in the fourth quarter of the prior year. The increase is consistent with increases seen in comparable industry benchmarks, including a 12% increase in the US dollar-denominated West Texas Intermediate price for this commodity, and an 8% increase in the Canadian Light Sweet price.

For the three months ended December 31,				2017						2016	
		Sales		Realized Unit Price			Sales		Realized Unit Price		
Natural gas	$	3,633	$	3.98	Mcf	$	4,342	$	4.32	Mcf	
Oil		2,545		69.22	bbl		2,652		62.65	bbl	
Liquids		13		45.83	bbl		9		30.18	bbl	
		6,191					7,003				
Less: Royalties at 15% (2016 – 15%)		(936)					(1,070)				
Net sales	**$**	**5,255**				**$**	**5,933**				

For the three months ended December 31,			2017			2016
	US$	CAD$	Realized Prices ($)	US$	CAD$	Realized Prices ($)
Natural Gas (per Mcf)						
Dawn Hub	2.93	3.74	3.98	3.16	4.21	4.32
NYMEX Henry Hub	2.91	3.71		3.04	4.05	
Oil (per bbl)						
Canadian Light Sweet	n/a	65.68	69.22	n/a	60.76	62.65
West Texas Intermediate	55.27	70.48		49.14	65.43	

During the fourth quarter of 2017, production volumes decreased to an average of 2,057 boe/d, compared with an average of 2,284 boe/d produced in the same quarter of the prior year. 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 three months ended December 31,	2017	2016
Natural gas (Mcf/d)	9,924	10,925
Oil (bbls/d)	400	460
Liquids (bbls/d)	3	3
Total (boe/d)	2,057	2,284

During the fourth quarter of 2017, DELP incurred production expenditures of $2.6 million, a decrease of $0.2 million or 8% compared with production expenditures of $2.4 million incurred in the same period of the prior year. Consistent with year-to-date results, decreases in production expenditures reflect a deferral of discretionary expenditures in order to accommodate DELP's limited financial resources.

For the three months ended December 31,			2017			2016
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Production expenditures	$ 1,720	$ 929	$ 2,649	$ 1,589	$ 859	$ 2,448
Production expenditures	(per Mcf)	(per bbl)	(per boe)	(per Mcf)	(per bbl)	(per boe)
per unit	$ 1.88	$ 25.09	$ 14.00	$ 1.58	$ 20.14	$ 11.65

Field Level Cash Flows and Field Netbacks

During the fourth quarter of 2017, DELP generated field level cash flows, before the effect of any derivative financial instruments, of $2.6 million, substantially lower than field level cash flows of $3.5 million generated in the fourth quarter of the prior year. The decrease in field level cash flows is predominantly a result of lower natural gas prices in the current quarter compared with the same quarter of the prior year, as well as the impact of lower production volumes resulting from the natural decline in DELP's oil and gas assets. As a result, DELP generated field netbacks of $13.77/boe in the fourth quarter of 2017 compared with field netbacks of $16.58/boe in the fourth quarter of the prior year.

For the three months ended December 31,			2017			2016
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Total sales	$ 3,633	$ 2,558	$ 6,191	$ 4,342	$ 2,661	$ 7,003
Royalties	(549)	(387)	(936)	(663)	(407)	(1,070)
Production expenditures	(1,720)	(929)	(2,649)	(1,589)	(859)	(2,448)
	1,364	1,242	2,606	2,090	1,395	3,485
Realized loss on derivative financial instruments	(137)	-	(137)	(184)	-	(184)
Field level cash flows	**$ 1,227**	**$ 1,242**	**$ 2,469**	**$ 1,906**	**$ 1,395**	**$ 3,301**

For the three months ended December 31,			2017			2016
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
	$/Mcf	$/bbl	$/boe	$/Mcf	$/bbl	$/boe
Total sales	$ 3.98	$ 69.05	$ 32.72	$ 4.32	$ 62.41	$ 33.32
Royalties	(0.60)	(10.46)	(4.95)	(0.66)	(9.54)	(5.09)
Production expenditures	(1.88)	(25.09)	(14.00)	(1.58)	(20.14)	(11.65)
	1.50	33.50	13.77	2.08	32.73	16.58
Realized loss on derivative financial instruments	(0.15)	-	(0.72)	(0.18)	-	(0.88)
Field netbacks	**$ 1.35**	**$ 33.50**	**$ 13.05**	**$ 1.90**	**$ 32.73**	**$ 15.70**

During the fourth quarter of 2017, the Corporation recognized a $0.1 million gain from its derivative financial instruments, including an unrealized gain of $0.2 million, offset by a realized loss of $0.1 million. In comparison, during the fourth quarter of 2016, DELP incurred a loss of $1.4 million from its derivative financial instruments, of which $0.2 million was realized. Realized losses from derivative financial instruments further reduced field netbacks by $0.72/boe in the fourth quarter of 2017 ($0.88/boe in the fourth quarter of 2016).

LIQUIDITY AND CAPITAL RESOURCES

Southern Ontario Assets

The Corporation's southern Ontario operations are conducted through DELP, the Corporation's wholly-owned subsidiary. DELP had 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 December 31, 2017, DELP had drawn $57.4 million against the credit facility. The credit facility is subject to certain covenants, including maintenance of minimum levels of working capital. At December 31, 2017, DELP was in compliance with all such covenants.

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, low 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 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 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 and the lender have entered into a Forbearance Agreement and the lender is supporting DELP in the reorganization proceedings. DELP has obtained an order from the Court approving the terms of the SSP. Subsequent to December 31, 2017, and pursuant to the recommendation of the proposal trustee, 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.

The Corporation has assigned a limited recourse guarantee of its units in DELP as security pursuant to the credit facility.

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 December 31, 2017, the Corporation had cash of $32,000 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

On April 1, 2017, the Corporation cancelled 185,158 common shares pursuant to a sunset clause provision related to a 2004 corporate reorganization. At December 31, 2017 and March 5, 2018, the Corporation had 188,083,836 common shares outstanding. In addition, at December 31, 2017, the Corporation had granted 980,000 stock options to purchase common shares of the Corporation to directors and key management at a weighted average exercise price of $0.50 per share, and it had issued 1,203,507 deferred share units. The terms of the Corporation's stock options and deferred share units are described in Note 13 to the 2017 Consolidated Financial Statements.

OFF BALANCE SHEET ARRANGEMENTS

In the normal course of business, the Corporation and its subsidiaries have entered into arrangements with several third-party goods and services providers. In certain instances, the Corporation, directly and through its subsidiaries, has provided indemnities and/or guarantees to these third parties for the payment of goods or services provided, or otherwise. Generally, there are no pre-determined amounts or limits included in these arrangements, and the occurrence of an event that would trigger the Corporation's obligations pursuant to these arrangements is difficult to predict. Therefore, the Corporation's potential future liability cannot be reasonably estimated.

COMMITMENTS AND CONTINGENCIES

In accordance with the terms of the Royal Decree-Law issued by the Spanish authorities in October 2014 in respect of the Castor Project, Escal and its shareholders remain responsible 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.

The Corporation has certain lease arrangements that it established in the normal course of operations. All leases are treated as operating leases and accordingly, lease payments are included in net operations as incurred. No asset or liability value has been assigned to these leases on the consolidated statement of financial position at December 31, 2017.

	Expected Payments Schedule				
	2018	2019 to 2020	2021 to 2022	Thereafter	TOTAL
Continuing Operations					
Office leases	$ 162	$ 108	$ -	$ -	$ 270
Discontinued Operations					
Bank loan	57,400	-	-	-	57,400
Decommissioning liabilities	1,202	5,252	2,790	83,000	92,244
Vehicle and equipment leases	180	186	7	-	373
	$ 58,944	$ 5,546	$ 2,797	$ 83,000	$ 150,287

RELATED PARTY TRANSACTIONS

Other than as described in Note 18 to the 2017 Consolidated Financial Statements, there are no other material related party transactions.

BUSINESS RISKS

There are a number of inherent risks associated with the Corporation's activities. The following outlines some of the Corporation's principal risks and their potential impact to the Corporation. If any of the following risks actually occur, the Corporation's business may be harmed and the Corporation's financial condition and results of operations may suffer significantly.

General

The Corporation is engaged in oil and gas exploration, and development. The business is inherently risky and there is no assurance that oil and gas reserves will be discovered and economically produced and sold. Operational risks include reservoir performance, uncertainties, environmental factors, competition and regulatory and safety concerns. Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates, currency exchange rates, and the cost of goods and services.

The Corporation's financial and operating performance is potentially affected by a number of factors including, but not limited to, risks associated with the production of oil and gas, commodity prices and exchange rates, environmental legislation, changes to royalty and income tax legislation, credit and capital market conditions, credit risk for failure of performance of third parties, unforeseen title defects and other risks and uncertainties.

Through its subsidiary, the Corporation employs highly qualified people and uses sound operating and business practices. The Corporation complies with government regulations and has in place an up-to-date emergency response program. It adheres to environmental and safety policies and standards, and it maintains property and liability insurance coverage. The coverage provides a reasonable amount of protection from risk of loss; however, not all risks are foreseeable or insurable.

Going Concern

The material uncertainty caused by events pertaining to the outstanding credit facility and related insolvency proceedings casts significant doubt upon the Corporation's ability to continue as a going concern.

The Corporation continues to move forward with the court-supervised SSP, with the goal of identifying proposals to purchase some or all of the business, properties or assets of DELP. DELP and the lender have entered into a revised forbearance agreement and the lender is supporting DELP in the reorganization proceedings. DELP has obtained an order from the Court approving the terms of the court-supervised SSP.

Future operations are dependent on the Corporation's ability to restructure its balance sheet to provide the potential to generate positive cash flows from operations; maintain existing operations; and discharge obligations as they come due. The risks and uncertainties associated with a potential asset sale, corporate sale, and/or implementation of a balance sheet restructuring casts significant doubt upon the Corporation's ability to continue as a going concern.

The annual audited financial statements have been prepared on a basis which asserts that the Corporation will continue to have the ability to realize its assets and discharge its liabilities and commitments in a planned manner with consideration to expected possible outcomes. Conversely, if the assumption made by management is not appropriate, adjustments to the carrying amounts of the Corporation's assets, liabilities, revenues, expenses and balance sheet classifications may be necessary and such adjustments could be material.

Liquidity of Common Shares

On September 11, 2017, following a delisting review conducted by the 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".

Until the reorganization proceedings as described above are concluded, the Corporation does not intend to apply to list the common shares of the Corporation on a stock exchange. There can be no assurance that the Corporation will be successful in relisting its common shares on any marketplace or that such shares will hold realizable value.

Substantial Capital Requirements

The business and operations of the Corporation, including the business and operations of DELP, may require substantial additional capital in order to fund its operations, debt obligations, to execute on further exploration and development work, and to satisfy decommissioning liabilities. There can be no assurance that debt or equity financing or cash generated by future operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. An inability to raise additional funds, if necessary, would have a material effect upon the Corporation's operations and share price. Raising additional funds may result in shareholder dilution, possibly substantial, depending on the size, price and nature of the offering. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's financial condition and/or its results of operations.

Castor Project Liability

Escal and its shareholders, including the Corporation, remain responsible 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 in October 2014. If any possible flaws or defects in the facilities associated with the Castor Project materialize, the Corporation may be responsible for associated costs.

Litigation Risk

The legal risks facing the Corporation, its directors, officers and/or employees include potential liability for violations of governmental regulations, environmental laws, health and safety laws, securities laws, damage claims for worker exposure to hazardous substances and for accidents causing injury or death. It is also possible that litigation and in particular class action litigation may increase in Canada as a result of the introduction of the secondary market civil liability regime. Litigation risk cannot be eliminated, even if there is no legal cause of action. Although the Corporation maintains liability insurance in an amount which it considers adequate and consistent with industry practice, the nature of these risks is such that legal liabilities could exceed policy limits, in which event the Corporation could incur significant costs that could have a material adverse effect on its financial condition. The seismic events that have occurred in Spain in relation to the injection of cushion gas at the Castor Project may increase the legal risk facing the directors and shareholders of the general partner of CLP and Escal, entities involved in the Castor Project.

Foreign Operations
The Corporation's operations and investments are subject to special risks inherent in doing business in other countries, including Spain and, with respect to its investment in Eurogas International, Tunisia. These risks may involve matters arising out of the policies and regulations of foreign governments, imposition of special taxes, royalties or similar charges by government bodies, foreign exchange fluctuations and controls, access to capital markets, civil disturbances and deprivation or unenforceability of contract rights or the taking of property without fair compensation. Foreign properties, operations and investments may also be adversely affected by local political and economic developments, including nationalization, laws affecting foreign ownership, government participation, royalties, duties, rates of exchange, exchange controls, currency fluctuations, taxation and new laws or policies as well as bylaws and policies of Canada affecting foreign trade, investment and taxation.

The Corporation's operations are also subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. In the event of a dispute arising from international operations, the Corporation may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada. The Corporation operates in such a manner as to minimize and mitigate its exposure to these risks; however, there can be no assurance that the Corporation will be successful in protecting itself from the impact of all of these risks.

Accounting Impairments as a Result of IFRS
The Corporation uses the "modified full cost method" of accounting for oil and natural gas properties. Under this accounting method, the Corporation evaluates the carrying value of its exploration and evaluation properties when events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount of an asset is the greater of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows ("cash generating units" or "CGUs"). If their carrying value is assessed not to be recoverable, an impairment loss is recognized. The Corporation evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

IFRS requires that management apply certain accounting policies and make certain estimates and assumptions which affect reported amounts in the Corporation's consolidated financial statements. The accounting policies may result in non-cash charges to net income and impairments of net assets in the consolidated financial statements. Such non-cash charges and impairments may be viewed unfavourably by the market and may result in an inability to borrow funds and/or may result in a decline in the perceived value of the common shares of the Corporation.

Environmental Concerns
All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. The Corporation's activities are subject to environmental legislation in the jurisdictions in which it operates. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of such legislation may result in the imposition of fines or other penalties, some of which may be material. Should the Corporation be unable to fully remedy the cost of a breach of environmental laws, the Corporation or its operators may be required to suspend operations or enter into compliance measures pending completion of the required remedy. In certain circumstances, the Corporation may be required to obtain approval of environmental impact assessments.

Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it is in material compliance with current applicable environmental regulations, the enactment of new environmental laws may result in a curtailment of current activities or a material increase in the future costs of production, development or exploration activities or otherwise adversely affect the Corporation's financial condition or results of operations.

Potential Conflicts of Interest

There are potential conflicts of interest to which directors of the Board, the senior management and the principal shareholders of the Corporation may be subject to in connection with the Corporation's operations. Some of the Corporation's directors, the senior management and Dundee Corporation are or may become engaged in other oil and gas interests on their own behalf or on behalf of other companies or investment funds managed by Dundee Corporation and its subsidiaries, and situations may arise where the directors or senior management may be in competition with the Corporation. Further, no assurances can be given that opportunities identified by such board members or officers will be provided to the Corporation. Conflicts, if any, will be subject to the procedures and remedies set out under applicable corporate and securities laws.

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 2017 Audited 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 2017 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*](http://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 this MD&A 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
March 5, 2018

Management's Report on Internal Control over Financial Reporting

The consolidated financial statements of Dundee Energy Limited ("the Corporation"), the accompanying notes thereto and other financial information contained in the Corporation's management's discussion and analysis and annual information form have been prepared by, and are the responsibility of the management of the Corporation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and, where appropriate, include management's best estimates and judgments. Management has reviewed the financial information presented throughout the documents accompanying these consolidated financial statements and has ensured it is consistent with the consolidated financial statements.

Management maintains a system of internal control designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and that financial information is timely and reliable. However, any system of internal control over financial reporting, no matter how well designed and implemented, has inherent limitations and may not prevent or detect all misstatements.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board of Directors carries out this responsibility principally through its Audit Committee. The Audit Committee, which is comprised entirely of independent directors, reviews the interim and annual consolidated financial statements and management's discussion and analysis of the Corporation and recommends them for approval by the Board of Directors. Other key responsibilities of the Audit Committee include the monitoring of the Corporation's system of internal control over financial reporting, including disclosure controls, and reviewing the qualifications, fees, independence and performance of the external auditor. The Audit Committee reports its findings to the Board of Directors before the consolidated financial statements and the accompanying management's discussion and analysis are approved by the Board of Directors.

PricewaterhouseCoopers LLP, an independent firm of Chartered Professional Accountants, was appointed by the shareholders of the Corporation at the last annual meeting to examine the consolidated financial statements and provide an independent opinion as to their compliance with International Financial Reporting Standards. The auditor has full and unrestricted access to the Audit Committee to discuss the audit and other related matters.

(signed) Bruce Sherley
President and
Chief Executive Officer

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

Toronto, Canada
March 5, 2018

Independent Auditor's Report

To the Shareholders of **Dundee Energy Limited**

We have audited the accompanying consolidated financial statements of Dundee Energy Limited, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016 and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity, and the cash flow for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Dundee Energy Limited as at December 31, 2017 and 2016 and its financial performance and its cash flow for the years then ended in accordance with IFRS.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the company's ability to continue as a going concern.

(signed) PricewaterhouseCoopers LLP
Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada
March 5, 2018

DUNDEE ENERGY LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(expressed in thousands of Canadian dollars)

	Note	As at December 31, 2017	As at December 31, 2016
ASSETS			
Current			
Cash		$ 32	$ 1,505
Accounts receivable	6	25	2,729
Prepaids and security deposits		-	649
Inventory		-	335
Investments	7	-	1,425
Assets of discontinued operations held for sale	5	112,182	-
		112,239	6,643
Non-current			
Oil and gas properties	8	-	131,387
Equity accounted investment in Escal	15	-	-
Deferred income taxes	17	-	18,010
		$ 112,239	**$ 156,040**
LIABILITIES			
Current			
Bank loan	9	$ -	$ 57,400
Accounts payable and accrued liabilities	18	8,132	9,042
Derivative financial liabilities	11	-	2,275
Decommissioning liabilities	10	-	3,965
Liabilities of discontinued operations held for sale	5	115,675	-
		123,807	72,682
Non-current			
Decommissioning liabilities	10	-	51,555
		123,807	124,237
SHAREHOLDERS' EQUITY			
Equity Attributable to Owners of the Parent			
Share capital	12	112,682	112,682
Contributed surplus	12	7,596	7,611
Deficit		(128,049)	(84,399)
Accumulated other comprehensive loss		(3,392)	(3,392)
		(11,163)	32,502
Non-controlling interest		(405)	(699)
		(11,568)	31,803
		$ 112,239	**$ 156,040**

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

Going Concern Assumption (Note 2)

Commitments (Note 19)

On behalf of the Board,

(signed) Garth MacRae
Director

(signed) Samuel Ingram
Director

DUNDEE ENERGY LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

For the years ended December 31, 2017 and 2016
(expressed in thousands of Canadian dollars, except per share amounts)

	Note		2017		2016
ITEMS IN NET LOSS					
Depreciation		$	(32)	$	(4)
General and administrative expenses	14		(576)		(2,788)
Loss on fair value changes in investments	7		(1,425)		(725)
Impairment of financial instruments	7		(1,286)		(1,286)
Interest and other items in earnings			1,286		1,286
Foreign exchange (loss) gain			(60)		49
NET LOSS BEFORE INCOME TAXES			(2,093)		(3,468)
Income tax (expense) recovery	17				
Current			-		(40)
Deferred			(3,202)		2,405
			(3,202)		2,365
NET LOSS AND COMPREHENSIVE LOSS FROM CONTINUING OPERATIONS		**$**	**(5,295)**	**$**	**(1,103)**
DISCONTINUED OPERATIONS					
Loss, net of tax expense of $14,808 (2016 – tax recovery of $4,484)	5		(38,412)		(18,611)
			(38,412)		(18,611)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		**$**	**(43,707)**	**$**	**(19,714)**
NET LOSS ATTRIBUTABLE TO:					
Owners of the parent					
Continuing operations		$	(5,238)	$	(510)
Discontinued operations			(38,412)		(18,611)
			(43,650)		(19,121)
Non-controlling interest					
Continuing operations		$	(57)	$	(593)
Discontinued operations			-		-
			(57)		(593)
		$	**(43,707)**	**$**	**(19,714)**
BASIC AND DILUTED NET LOSS PER SHARE	16				
Continuing operations		$	(0.03)	$	-
Discontinued operations			(0.20)		(0.10)
		$	(0.23)	$	(0.10)

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

DUNDEE ENERGY LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2017 and 2016
(expressed in thousands of Canadian dollars)

	Attributable to Owners of the Parent							
		Contributed Surplus						
	Share Capital	Option Reserve	Deferred Share Unit Reserve	Ownership Interest in Subsidiaries	Deficit	Accumulated Other Comprehensive Loss	Non-controlling Interest	TOTAL
Balance, December 31, 2015	$ 112,682	$ 6,846	$ 810	$ (46)	$ (65,278)	$ (3,392)	$ (106)	$ 51,516
For the year ended December 31, 2016								
Net loss, continuing operations	-	-	-	-	(510)	-	(593)	(1,103)
Net loss, discontinued operations (Note 5)	-	-	-	-	(18,611)	-	-	(18,611)
Stock based compensation	-	1	-	-	-	-	-	1
Balance, December 31, 2016	112,682	6,847	810	(46)	(84,399)	(3,392)	(699)	31,803
For the year ended December 31, 2017								
Net loss, continuing operations	-	-	-	-	(5,238)	-	(57)	(5,295)
Net loss, discontinued operations (Note 5)	-	-	-	-	(38,412)	-	-	(38,412)
Changes of ownership interest in subsidiaries (Note 15)	-	-	-	(15)	-	-	351	336
Balance, December 31, 2017	**$ 112,682**	**$ 6,847**	**$ 810**	**$ (61)**	**$ (128,049)**	**$ (3,392)**	**$ (405)**	**$ (11,568)**

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

DUNDEE ENERGY LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOW

For the years ended December 31, 2017 and 2016
(expressed in thousands of Canadian dollars)

	Note	2017	2016
OPERATING ACTIVITIES			
Net loss for the year		$ (43,707)	$ (19,714)
Adjustments for:			
Net loss from discontinued operations	5	38,412	18,611
Depreciation and depletion		32	4
Loss on fair value changes in financial instruments	7	1,425	725
Impairment of financial instruments	7	1,286	1,286
Deferred income taxes		3,202	(2,405)
Stock based compensation	13	-	1
Other		(1,286)	(1,286)
		(636)	(2,778)
Changes in:			
Accounts receivable		(25)	-
Accounts payable and accrued liabilities		312	2,695
Current income taxes		-	72
Prepaids and security deposits		(41)	41
Cash (used in) provided from operating activities – continuing operations		(390)	30
Cash provided from operating activities – discontinued operations		2,160	3,766
CASH PROVIDED FROM OPERATING ACTIVITIES		1,770	3,796
FINANCING ACTIVITIES			
Issuance of shares in subsidiaries to non-controlling interest	15	336	-
Cash provided from financing activities – continuing operations		336	-
Cash provided from (used in) financing activities – discontinued operations		658	(2,017)
CASH PROVIDED FROM (USED IN) FINANCING ACTIVITIES		994	(2,017)
INVESTING ACTIVITIES			
Cash used in investing activities – continuing operations		-	-
Cash used in investing activities – discontinued operations		(501)	(360)
CASH USED IN INVESTING ACTIVITIES		(501)	(360)
INCREASE IN CASH		2,263	1,419
Cash, continuing operations, beginning of year		86	56
Cash, discontinued operations, beginning of year	5	1,419	30
		3,768	1,505
Less cash, discontinued operations, end of year	5	(3,736)	(1,419)
CASH, CONTINUING OPERATIONS, END OF YEAR		**$ 32**	**$ 86**
Income tax refund		$ -	$ 32

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

DUNDEE ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016
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. Dundee Corporation is the principal shareholder of the Corporation.

At December 31, 2017, 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 5). 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 consolidated financial statements of the Corporation as at and for the year ended December 31, 2017 ("2017 Consolidated Financial Statements"), with comparative information as at and for the year ended December 31, 2016, 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. These consolidated financial statements were authorized for issuance by the Board of Directors on March 5, 2018.

These 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 low 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 9). 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"). Subsequent to December 31, 2017, and pursuant to the recommendation of the proposal trustee, 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. Accordingly, the assets and liabilities of DELP have been classified as assets and liabilities of discontinued operations held for sale (Note 5).

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 SSP, or that the court will approve the SSP or any competing bid that may emerge from such process. 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 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 consolidated financial statements. These differences could be material.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Corporation in the preparation of its consolidated financial statements are set out below. Certain of these accounting policies are in respect of assets and liabilities that have been classified as assets and liabilities of discontinued operations held for sale.

Basis of Measurement

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments, including derivative financial instruments, which are measured at fair value as determined at each reporting date.

Principles of Consolidation

These consolidated financial statements include the accounts of the Corporation and its subsidiaries. Other than in respect of its discontinued operations, all intercompany transactions have been eliminated in these consolidated financial statements. Subsidiaries are those entities that Dundee Energy controls by having the power to govern the financial and operating policies of the entity. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether Dundee Energy controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by Dundee Energy and are subsequently deconsolidated from the consolidated financial statements on the date that control ceases.

Non-controlling Interest

Non-controlling interest represents equity interests in subsidiaries owned by outside parties. The share of net assets, net earnings or loss and other comprehensive income or loss of subsidiaries attributable to non-controlling interest is presented as a component of equity. Changes in the Corporation's interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Equity Accounted Investments

Equity accounted investments are investments over which the Corporation has significant influence, but not control. The financial results of the Corporation's equity accounted investments are included in the Corporation's consolidated financial statements using the equity method whereby the Corporation recognizes its proportionate share of income or loss and other comprehensive income or loss of the equity accounted investment in its own operations or comprehensive income or loss, as applicable.

Dilution gains and losses arising from changes in the Corporation's interest in equity accounted investments are recognized in net operations. If the Corporation's investment is reduced to zero, additional losses are not provided for, and a liability is not recognized, unless the Corporation has incurred legal or constructive obligations, or made payments on behalf of the equity accounted investment.

The Corporation assesses at least annually, whether there is objective evidence that its interests in equity accounted investments are impaired. If impaired, the carrying value of the Corporation's share of the underlying assets of equity accounted investments is written down to its estimated recoverable amount, with any difference charged to the consolidated statement of operations.

Foreign Currency

Functional and Presentation Currency
These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

Functional Currency of Subsidiaries and Equity Accounted Investments
The financial statements of consolidated subsidiaries and equity accounted investments that have a functional currency that is different from that of the Corporation are translated into Canadian dollars using average rates for the period for items included in the consolidated statement of operations and the consolidated statement of comprehensive income or loss and the rates in effect at the date of the consolidated statement of financial position for assets and liabilities. All resulting changes are recognized in comprehensive income or loss as cumulative translation adjustments.

If the Corporation's interest in foreign operations of a subsidiary is diluted, but the foreign operations remain a subsidiary, a pro rata portion of cumulative translation adjustments related to those foreign operations are reallocated between controlling and non-controlling interest. When the Corporation disposes of its entire interest in foreign operations, or when it loses control or significant influence, the cumulative translation adjustment included in accumulated comprehensive income or loss related to the foreign operations is recognized in the consolidated statement of operations on a pro rata basis.

Transactions
Foreign currency transactions are translated into the Corporation's functional currency using exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in currencies other than the Corporation's functional currency at each period-end date, are recognized in the consolidated statement of operations.

Inventory
The Corporation's oil production is stored in oil batteries until such time as it is delivered for sale. Any remaining oil production in oil batteries at the end of a reporting period is recognized as inventory in the consolidated financial statements and is valued at the lower of cost and net realizable value. Cost of inventory includes production costs, including direct overhead costs, and depreciation and depletion. Net realizable value is determined with reference to the relevant average sales price realized for oil production during the previous 12-month period, less variable selling expenses. The Corporation's natural gas production is immediately interconnected to the gas distribution network and therefore, the Corporation does not hold inventory of natural gas.

Financial Instruments
The Corporation's financial instruments include cash, accounts receivable, investments, amounts due pursuant to bank loan arrangements, accounts payable and accrued liabilities and derivative financial instruments.

Financial assets and liabilities, including financial assets and liabilities that may have been designated as part of discontinued operations and which are held for sale, are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or are assigned and the Corporation has transferred substantially all risks and rewards of ownership in respect of the asset. Financial liabilities are derecognized when the related obligation is discharged or cancelled, or when such obligation expires.

Classification of financial instruments in the Corporation's consolidated financial statements depends on the purpose for which the financial instruments were acquired or incurred. Management determines the classification of financial instruments at initial recognition.

Financial Assets and Liabilities at Fair Value through Profit or Loss

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Derivatives, if any, are also included in this category, unless they are designated as hedges. The Corporation's derivative financial instruments, which have not been designated as hedges for accounting purposes, have been classified in this category. Transaction costs related to these financial instruments are expensed in the consolidated statement of operations.

Derivative Financial Instruments

The Corporation has managed its exposure to changes in commodity prices and associated earnings volatility by periodically entering into derivative contracts in accordance with its risk management policy. Derivative contracts were carried at fair value and were generally reported as assets in circumstances when they had a positive fair value and as liabilities when they had a negative fair value. Both realized and unrealized gains and losses from changes in fair value of these derivative contracts were recorded in the consolidated statement of operations. There were no derivative contracts outstanding at December 31, 2017.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Corporation's financial assets that are classified as loans and receivables include cash, accounts receivable and the Corporation's preferred share investment in Eurogas International (which has been included with other investments in the consolidated statement of financial position). Financial assets classified as loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the carrying value of the financial asset to its fair value. Subsequently, financial assets classified as loans and receivables are measured at amortized cost using the effective interest method, less a provision for impairment as may be required.

Financial Liabilities at Amortized Cost

The Corporation's financial instruments classified as financial liabilities at amortized cost include amounts due pursuant to bank loan arrangements and accounts payable and accrued liabilities. Financial instruments designated as financial liabilities at amortized cost are initially recognized at the amount required to be paid, less, when material, a discount to reduce the carrying value of the liability to its fair value. Subsequently, these financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

Impairment of Financial Assets at Amortized Cost

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset, other than a financial asset that is carried in the Corporation's consolidated financial statements at fair value, is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event impacted the estimated future cash flows of the financial asset in an amount that can be reliably estimated. Objective evidence may include significant financial difficulty of the obligor or delinquencies in interest and principal payments. If such evidence exists, the Corporation recognizes an impairment loss equal to the difference between the carrying value of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate for the financial asset. An impairment of a financial asset carried at amortized cost is reversed in subsequent periods if the amount of the loss decreased and the decrease can be related objectively to an event occurring after the impairment was recognized.

Oil and Gas Properties

A portion of the Corporation's exploration, evaluation, development and production activities is conducted pursuant to working interest arrangements with third parties. Accordingly, these consolidated financial statements reflect only the Corporation's share of capital expenditures associated with these activities.

Oil and Gas Development Costs

The Corporation capitalizes all costs associated with its development expenditures in southern Ontario, including accrued costs for decommissioning liabilities. Capitalized costs include the acquisition of oil and gas rights, geological and geophysical expenditures, equipment costs and that portion of general and administrative expenses directly attributable to these activities. Expenditures that improve the productive capacity or extend the life of a property are capitalized. Maintenance and repairs are generally expensed as incurred.

Capitalized costs associated with properties with proved reserves, adjusted for estimated future costs to be incurred in developing such proved reserves, are depleted over estimated proved reserves using the unit of production method. For purposes of these calculations, production and reserves of natural gas are converted to barrels on an energy equivalent basis at a ratio of 6,000 cubic feet ("6 Mcf") of natural gas to one barrel ("1 bbl") of oil. Depletion rates are updated annually unless there is a material change in circumstances, in which case they are updated more frequently. Acquisition costs of probable reserves are not depleted or depreciated while under active evaluation for commercial reserves. Costs are transferred to depletable costs as proved reserves are recognized.

Assets used in the development and production of oil and gas properties are depreciated over the estimated economic life of the asset.

Asset Category	Depreciation Method	Depreciation Rate
Pipeline infrastructure	Unit of production	n/a
Machinery and equipment	Straight line	3% to 12%
Land and buildings	Straight line	2% to 5%
Office equipment, computer hardware and software	Declining balance	10% to 35%

Undeveloped Properties

Included in oil and gas properties are undeveloped properties on which the Corporation is conducting exploration and evaluation activities. The Corporation capitalizes all costs associated with undeveloped properties, except for costs incurred before the Corporation has obtained the legal right to explore an area, in which case costs are expensed as incurred. Expenditures on undeveloped properties include costs for an area or project for which technical feasibility and commercial viability have not yet been determined and may include lease acquisitions, geological and geophysical expenditures, carrying costs of non-productive properties, equipment costs, that portion of general and administrative expenses directly attributable to these activities and costs associated with decommissioning liabilities. Technical feasibility and commercial viability of a project are considered to be determined when proved or probable reserves are determined to exist, at which time the costs are reclassified as development costs, with assigned reserves.

Impairment of Oil and Gas Properties
The Corporation evaluates the carrying value of oil and gas properties when events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount of an asset is the greater of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows ("cash generating units" or "CGUs"). If their carrying value is assessed not to be recoverable, an impairment loss is recognized. The Corporation evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

Decommissioning Liabilities
A decommissioning liability is recognized when the Corporation has a legal or constructive obligation to plug a well, dismantle and remove property, plant and equipment, or complete site restoration work, and when a reliable estimate of the liability can be made. The Corporation has estimated its decommissioning liabilities in consultation with third parties, and such estimates are based on current costs and technology. When a decommissioning liability is recognized, a corresponding amount, equivalent to the amount of the obligation, is recognized as part of the cost of related oil and gas properties.

Decommissioning liabilities are measured at the present value of the expected expenditures required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The effect of any changes to decommissioning liabilities, including changes to the underlying estimates and changes in market interest rates used to discount the obligation, is added to or deducted from the cost of the related assets. Accretion, representing the increase in decommissioning liabilities due to the passage of time, is recognized as interest expense.

Revenue Recognition
Revenue associated with the Corporation's production and sale of crude oil, natural gas and natural gas liquids is recognized when title is transferred to the customer and delivery has taken place. A portion of the Corporation's production and sales activities is conducted pursuant to working interest arrangements with third parties. Accordingly, these consolidated financial statements reflect only the proportionate interest of the Corporation in such activities.

Revenue from oil and gas sales is subject to royalty payments to third parties, including the government and other mineral interest owners. Royalties on production are recorded using rates in effect under the terms of contracts with such third parties at the time of production.

Stock Based Compensation
The Corporation issues stock based compensation awards to directors, employees and consultants. These arrangements include stock options and other stock based awards such as deferred share units. The Corporation expects that these stock based awards will be settled in equity of the Corporation.

The Corporation uses a fair value method to account for stock based compensation. The fair value of stock based compensation, as at the date of grant, is measured using an option-pricing model and is recognized over the applicable vesting period as compensation expense, based on the number of stock based awards expected to vest, with a corresponding increase in contributed surplus. When stock options or other stock based compensation arrangements are exercised, the proceeds received, together with any amount in contributed surplus, are included in share capital. The expected number of stock based awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

Income Taxes
The Corporation follows the balance sheet liability method to provide for income taxes on all transactions recorded in its consolidated financial statements. The balance sheet liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases.

Deferred income tax assets and liabilities are determined for each temporary difference and for unused tax losses and unused tax credits, as applicable, at rates expected to be in effect when the asset is realized or the liability is settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of operations and the consolidated statement of comprehensive income or loss, as appropriate, in the period that includes the substantive enactment date. Deferred tax assets are recognized only to the extent that it is more likely than not that the assets can be recovered.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regard to previous years.

Per Share Information

The basic earnings or loss per common share is computed by dividing the net earnings or loss attributable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted per common share amounts, if applicable, are calculated to reflect the dilutive effect of exercising outstanding share based awards by applying the treasury stock method.

Changes in Accounting Policies Implemented During 2017

IAS 7, "Statement of Cash Flows" ("IAS 7")

On January 1, 2017, the Corporation implemented certain amendments to IAS 7, which require that entities provide enhanced information about changes in their financial liabilities, including changes from cash flows and non-cash changes. The implementation of amendments to IAS 7 had no impact to the Corporation's 2017 Consolidated Financial Statements.

IAS 12, "Income Taxes" ("IAS 12")

On January 1, 2017, the Corporation implemented certain amendments to IAS 12, which clarify guidance on the recognition of deferred tax assets related to unrealized losses resulting from debt instruments that are measured at their fair value. The Corporation does not currently measure any of its debt instruments at fair value. Therefore, the implementation of IAS 12 had no impact to the Corporation's 2017 Consolidated Financial Statements.

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

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

In July 2014, the IASB issued final amendments to IFRS 9, replacing IAS 39, "*Financial Instruments: Recognition and Measurement*" ("IAS 39"). IFRS 9 introduces 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, and replaces the multiple category and measurement models in IAS 39. The categorization 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. 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 requirements of IFRS 9 are effective for annual periods beginning on or after January 1, 2018. The Corporation has completed an analysis of the requirements of IFRS 9 in order to determine the effect that IFRS 9 will have on its future financial reporting. The Corporation does not anticipate any immediate changes to its consolidated financial statements resulting from the implementation of IFRS 9.

IFRS 16, "Leases" ("IFRS 16")
In January 2016, the IASB issued IFRS 16, replacing IAS 17, "*Leases*". IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its balance sheet, providing the reader with greater transparency of an entity's lease obligations. Leases to explore for or use oil or natural gas are specifically excluded from the scope of IFRS 16. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Corporation has not yet begun its assessment of the implementation of amendments to IFRS 16, and such assessment is scheduled for completion in 2018.

IFRS 15, "Revenues from Contracts with Customers" ("IFRS 15")
In April 2016, the IASB issued amendments to IFRS 15, clarifying 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 IFRS 15 amendments are effective for annual periods beginning on or after January 1, 2018. The Corporation has completed an assessment of the requirements of IFRS 15, including the identification of relevant performance obligations for each of its contracts with customers. It has reviewed the determination of expected consideration in respect of each such performance obligation and it has allocated the expected consideration to the components of the performance obligations, as appropriate. The Corporation has determined that there are no significant differences in the measurement and timing of revenue recognition between the requirements of IFRS 15 and the Corporation's current revenue recognition policies. Accordingly, the Corporation does not expect that the implementation of IFRS 15 will have a significant effect on the Corporation's consolidated financial statements.

IFRS 2, "Share-based Payment" ("IFRS 2")
In June 2016, the IASB issued amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions, including the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and accounting for modifications to the terms and conditions of a share-based payment that changes the classification of the share-based payment transaction from cash-settled to equity-settled. The IFRS 2 amendments are effective for annual periods beginning on or after January 1, 2018. 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 is not expected to have any effect on the Corporation's consolidated financial statements.

4. CRITICAL JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these 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. The following discusses the most significant judgments, estimates and assumptions that the Corporation has made in the preparation of its consolidated financial statements.

Oil and Natural Gas Reserves
The Corporation's proved and probable reserves of oil, natural gas and natural gas liquids are estimated by management and are evaluated and reported on by independent petroleum engineering consultants in accordance with Canadian Securities Administrators' National Instrument 51-101. The process of estimating proved and probable reserves requires significant

judgment in evaluating and assessing available geological, geophysical, engineering and economic data, projected rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are, by their very nature, subject to interpretation and uncertainty. The evaluation of reserves is an ongoing process impacted by current production, continuing development activities and changing economic conditions. The aggregate of capitalized costs, net of certain costs related to unproved properties, and estimated future development costs are depleted using the unit of production method based on estimated proved reserves. Changes in estimates of proved and probable reserves may materially impact the determination of recoverability of the carrying value of the Corporation's oil and gas properties, the recorded amount of depletion and depreciation, the determination of the Corporation's obligations pursuant to decommissioning liabilities and the assessment of impairment provisions.

Recoverability of the Carrying Value of Exploration and Evaluation Costs on Undeveloped Properties

The Corporation is required to review the carrying value of its undeveloped properties for potential impairment. Impairment is indicated if the carrying value of the Corporation's undeveloped properties is not recoverable. If impairment is indicated, the amount by which the carrying value of undeveloped properties exceeds their estimated recoverable amount is charged to the consolidated statement of operations.

Evaluating for recoverability during the exploration and evaluation phase requires judgment in determining whether it is likely that future economic benefit from future exploitation, sale or otherwise, is likely. Evaluations may be more complex where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. Management must make certain estimates and assumptions about future events or circumstances including, but not limited to, the interpretation of geological, geophysical and seismic data, the Corporation's financial ability to continue exploration and evaluation activities, contractual issues with working interest partners and the impact of current and expected future oil and natural gas prices to potential reserves.

Decommissioning Liabilities

The Corporation is required to provide for decommissioning liabilities. The Corporation must estimate these costs in accordance with existing laws, contracts and other policies. The estimate of future costs involves a number of estimates relating to timing, type of costs and associated contract negotiations, and review of potential methods and other technical advancements. Furthermore, due to uncertainties concerning environmental remediation, the ultimate cost of the Corporation's decommissioning liabilities could differ from amounts provided.

The estimate of the Corporation's obligations are subject to change due to amendments to applicable laws and regulations and as new information concerning the Corporation's operations becomes available. The Corporation is not able to determine the impact on its financial position, if any, of environmental laws and regulations that may be enacted in the future.

Income Tax

The determination of the Corporation's income and other tax liabilities requires the interpretation of complex laws and regulations, often involving multiple jurisdictions. Judgment is required in determining whether deferred tax assets should be recognized on the consolidated statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, requires management to assess the likelihood that the Corporation will generate taxable income in future periods in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each applicable jurisdiction.

To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Corporation to realize a deferred tax asset could be materially impacted.

Fair Value of Financial Instruments

Certain financial instruments are recorded in the Corporation's statements of financial position at values that are representative of, or approximate fair value. The fair value of a financial instrument that is traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations. For all other financial instruments carried at fair value, the fair value is determined using valuation techniques. By their nature, these valuation techniques require the use of assumptions. Changes in the underlying assumptions of a valuation model could materially impact the determination of the fair value of a financial instrument. Imprecision in determining fair value using these valuation techniques may affect the amount of net operating earnings or loss recorded for a particular investment in a particular period.

The Corporation believes that its estimates of fair value are reasonable and appropriate. The Corporation reviews assumptions relating to financial instruments on an ongoing basis to ensure that the basis for determination of fair value is appropriate.

5. 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 9). 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, the Corporation and the lender have entered into a revised forbearance agreement (the "Forbearance Agreement") and the lender is supporting DELP and the Corporation in the reorganization proceedings. DELP has obtained an order from the Ontario Superior Court of Justice approving the terms of the SSP. Subsequent to December 31, 2017, and pursuant to the recommendation of the proposal trustee, 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.

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 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, and as cash flow from discontinued operations respectively, for each of the years ended December 31, 2017 and 2016.

Net Assets of Discontinued Operations Held for Sale

	Note		As at December 31, 2017
ASSETS			
Cash		$	3,736
Accounts receivable			5,627
Oil and gas properties	15		102,819
		$	**112,182**
LIABILITIES			
Bank loan	20	$	57,400
Accounts payable and accrued liabilities			6,569
Decommissioning liabilities	21		51,706
		$	**115,675**
NON-CONTROLLING INTEREST		$	(1,469)
NET ASSETS OF DISCONTINUED OPERATIONS HELD FOR SALE		**$**	**(2,024)**

Net Loss and Comprehensive Loss from Discontinued Operations

For the years ended December 31,	Note		2017		2016
REVENUES					
Oil and gas sales		$	26,381	$	23,891
Royalties			(3,951)		(3,581)
Net sales			22,430		20,310
Production expenditures	14		(10,929)		(12,385)
Depreciation and depletion	8		(8,326)		(9,031)
General and administrative expenses	14		(3,692)		(2,534)
Gain (loss) on fair value changes of derivative financial instruments	11		1,299		(1,965)
Impairment of oil and gas properties	8		(18,973)		(11,934)
Interest and other items in net loss	8		183		(1,045)
Interest expense	9, 10		(5,320)		(4,399)
Foreign exchange loss			(276)		(112)
NET LOSS BEFORE INCOME TAXES			(23,604)		(23,095)
Income tax (expense) recovery	17		(14,808)		4,484
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR, ATTRIBUTABLE TO OWNERS OF THE PARENT		**$**	**(38,412)**	**$**	**(18,611)**

Cash Flow from Discontinued Operations

For the years ended December 31,	Note		2017		2016
OPERATING ACTIVITIES, discontinued operations					
Net loss for the year, discontinued operations		$	(38,412)	$	(18,611)
Adjustments for:					
Depreciation and depletion	8		8,326		9,031
(Gain) loss on fair value changes of derivative financial instruments	11		(2,275)		2,254
Impairment of oil and gas properties	8		18,973		11,934
Deferred income taxes	17		14,808		(4,484)
Reclamation expenditures	10		(3,449)		(570)
Other			1,867		2,525
			(162)		2,079
Changes in:					
Accounts receivable			(24)		(353)
Accounts payable and accrued liabilities			2,428		1,844
Prepaids and security deposits			(107)		155
Inventory			25		41
CASH PROVIDED FROM OPERATING ACTIVITIES			2,160		3,766
FINANCING ACTIVITIES, discontinued operations					
Repayment of bank loan arrangements	9		-		(1,402)
Repayment from (advances to) Dundee Energy Limited	18		658		(615)
CASH PROVIDED FROM (USED IN) FINANCING ACTIVITIES			658		(2,017)
INVESTING ACTIVITIES, discontinued operations					
Proceeds from sale of property and equipment			-		326
Investment in oil and gas properties	8		(501)		(686)
CASH USED IN INVESTING ACTIVITIES			(501)		(360)
INCREASE IN CASH FROM DISCONTINUED OPERATIONS			2,317		1,389
CASH, BEGINNING OF YEAR, DISCONTINUED OPERATIONS			1,419		30
CASH, END OF YEAR, DISCONTINUED OPERATIONS		**$**	**3,736**	**$**	**1,419**
Interest paid		$	3,948	$	3,523

6. ACCOUNTS RECEIVABLE

Accounts Receivable from Continuing Operations

As at December 31,		2017		2016
Customers for oil and natural gas production	$	-	$	2,596
Third-party drilling receivable		-		119
Working interest partners		-		14
Other		25		-
	$	**25**	**$**	**2,729**

Accounts Receivable from Discontinued Operations

As at December 31,		2017		2016
Customers for oil and natural gas production	$	1,962	$	-
Third-party drilling receivable		119		-
Working interest partners		14		-
	$	**2,095**	**$**	**-**

7. INVESTMENTS

As at December 31,		2017		2016
Investment in private enterprises	$	2,150	$	2,150
Less: Impairment		(2,150)		(725)
		-		1,425
Preferred shares of Eurogas International		32,150		32,150
Less: Impairment		(32,150)		(32,150)
		-		-
Accrued dividends on preferred share investment in Eurogas International		12,097		10,811
Less: Impairment		(12,097)		(10,811)
		-		-
	$	**-**	**$**	**1,425**

The Corporation had invested $2,150,000 to acquire a 45% equity interest in Windiga Energy Inc. ("Windiga"), a Canadian-based independent power producer focused on developing, owning and operating renewable energy facilities on the African continent. Subsequent to December 31, 2017, the board of directors of Windiga advised that they were seeking to sell their principal asset, a solar project in Burkina Faso, following the withdrawal of their engineering, procurement and construction contractor over concerns of geo-political safety and security. During 2017, the Corporation recognized an unrealized loss of $1,425,000 (2016 – $725,000) in respect of its investment in Windiga, reducing its fair value to $nil. The loss has been included in the 2017 Consolidated Financial Statements as *"Loss on fair value changes in investments"*.

At each of December 31, 2017 and December 31, 2016, 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 Series A Preference Shares rank in priority to the common shares of Eurogas International as to the payment of dividends and the distribution of assets on dissolution, liquidation or winding up of Eurogas International and entitle the Corporation to a fixed preferential cumulative dividend at the rate of 4% per annum. The Corporation may reinvest any dividends received into common shares of Eurogas International, subject to obtaining the necessary regulatory approvals.

The Series A Preference Shares may be redeemed at the option of the Corporation or may be retracted by Eurogas International at any time at a price equal to their face value of $1.00 per Series A Preference Share.

The Series A Preference Shares are non-voting except in the event Eurogas International fails to pay the cumulative 4% dividend for eight quarters. Thereafter, but only so long as any dividends on the Series A Preference Shares remain in arrears, the Corporation shall be entitled, voting exclusively and separately as a series, to elect a majority of the members of the Board of Directors of Eurogas International. Notwithstanding the Corporation not receiving any dividends on its investment at December 31, 2017, the Corporation had not exercised its entitlement to elect the majority of the members of the Board of Directors of Eurogas International.

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 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 and has determined that the par value of the Series A Preference Shares and the related accrued income thereon are impaired and accordingly, the Corporation has fully provided against the carrying value of these assets. During 2017, the Corporation recognized an impairment loss of $1,286,000 (2016 – $1,286,000) relating to dividends receivable on the Series A Preference Shares.

8. 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, 2015							
Cost	$ 160,565	$ 27,751	$ 27,925	$ 4,715	$ 2,458	$ 24,781	$ 248,195
Accumulated depreciation, depletion and impairment	(74,588)	(8,570)	(7,229)	(139)	(1,234)	-	(91,760)
Net carrying value, December 31, 2015	85,977	19,181	20,696	4,576	1,224	24,781	156,435
Year ended December 31, 2016							
Carrying value December 31, 2015	85,977	19,181	20,696	4,576	1,224	24,781	156,435
Net additions	-	-	(1,444)	-	(31)	590	(885)
Remeasure decommissioning liability (Note 10)	(3,194)	-	-	-	-	-	(3,194)
Depreciation and depletion	(6,686)	(957)	(1,343)	(31)	(18)	-	(9,035)
Impairment	(5,000)	-	-	-	-	(6,934)	(11,934)
Net carrying value, December 31, 2016	71,097	18,224	17,909	4,545	1,175	18,437	131,387
At December 31, 2016							
Cost	157,371	27,751	26,122	4,715	2,427	25,371	243,757
Accumulated depreciation, depletion and impairment	(86,274)	(9,527)	(8,213)	(170)	(1,252)	(6,934)	(112,370)
Net carrying value, December 31, 2016	71,097	18,224	17,909	4,545	1,175	18,437	131,387
Year ended December 31, 2017							
Carrying value December 31, 2016	71,097	18,224	17,909	4,545	1,175	18,437	131,387
Net additions	-	-	(34)	-	(2)	536	500
Remeasure decommissioning liability (Note 10)	(1,737)	-	-	-	-	-	(1,737)
Depreciation and depletion	(6,015)	(930)	(1,343)	(31)	(39)	-	(8,358)
Impairment	-	-	-	-	-	(18,973)	(18,973)
Transferred to discontinued operations (Note 5)	(63,345)	(17,294)	(16,532)	(4,514)	(1,134)	-	(102,819)
Net carrying value, December 31, 2017	-	-	-	-	-	-	-
At December 31, 2017							
Cost	-	-	-	-	718	-	718
Accumulated depreciation, depletion and impairment	-	-	-	-	(718)	-	(718)
Net carrying value, December 31, 2017	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Impairment of Oil and Natural Gas Properties

Impairment of Exploration and Evaluation Properties

DELP's undeveloped properties include properties that have been designated as exploration and evaluation properties. DELP requires substantial amounts of financial resources to further exploit these properties. At December 31, 2017, and in light of restricted financial resources available to DELP (Notes 2, 5 and 9), DELP determined that it was appropriate to impair these assets by $18,973,000, reducing their carried value to $nil. During 2016, the Corporation had provided an impairment of $6,934,000 against certain other undeveloped properties that did not have any identified commercially viable resources or reserves, also reducing their carried value to $nil.

Impairment of Natural Gas Properties

On June 30, 2016, and in response to the continued decline in the outlook for long-term gas prices, DELP recognized an impairment loss of $5,000,000 on certain natural gas properties in southern Ontario, reducing their carried value to their recoverable amount on June 30, 2016 of $49,753,000. The recoverable amount of these natural gas properties was measured based on their value-in-use, determined by application of a discounted cash flow model, using reserves volumes and forecasted natural gas prices as provided by independent, third party oil and gas evaluators.

Effect of Discount Rate on Determination of Impairment
DELP's assessment of impairment relating to its oil and gas properties was determined by an assessment of anticipated cash flows relating to specific properties, discounted using a discount rate of 8%. Had DELP completed its analysis during 2016 using a discount rate of 10%, DELP's gas properties would have been further impaired by $77,000 and its oil properties would have been further impaired by $328,000.

9. BANK LOAN

DELP has 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 December 31, 2017, 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 December 31, 2017, 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 December 31, 2017, DELP had drawn $57,400,000 (2016 – $57,400,000) pursuant to the credit facility. During 2017, DELP incurred interest expense relating to the credit facility, including bank charges, arrangement fees and standby fees, of $3,948,000 (2016 – $3,523,000).

On January 31, 2017, DELP entered into the Original Forbearance Agreement (Note 5) 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. Subsequent to December 31, 2017, and pursuant to the recommendation of the proposal trustee, 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 have entered into a Forbearance Agreement and the lender is supporting DELP and the Corporation in the reorganization proceedings.

10. 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 and is anticipated to be incurred over 45 years. 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 years ended December 31,		2017		2016
Undiscounted future obligations, beginning of year	$	98,556	$	94,873
Effect of changes in estimates		(2,863)		4,253
Liabilities settled (reclamation expenditures)		(3,449)		(570)
Transferred to discontinued operations (Note 5)		(92,244)		-
Undiscounted future obligations, end of year	**$**	**-**	**$**	**98,556**

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 years ended December 31,		2017		2016
Discount rates applied to future obligations		*1.64% - 2.15%*		*0.76% - 2.24%*
Inflation rate		*2.00%*		*2.00%*
Discounted future obligations, beginning of year	$	55,520	$	58,408
Effect of changes in estimates and remeasurement of discount rates		(1,737)		(3,194)
Liabilities settled (reclamation expenditures)		(3,449)		(570)
Accretion (interest expense)		1,372		876
Transferred to discontinued operations (Note 5)		(51,706)		-
Discounted future obligations, end of year	**$**	**-**	**$**	**55,520**
Current	$	-	$	3,965
Non-current		-		51,555
	$	**-**	**$**	**55,520**

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.

11. DERIVATIVE FINANCIAL INSTRUMENTS

During 2017, DELP had entered into certain commodity swap derivative contracts to manage its exposure to volatility in the prices received for the sale of the underlying commodities. These derivative instruments were not designated as hedging instruments and accordingly, were classified as financial instruments at fair value through profit or loss. Therefore, changes in the fair value of these derivative financial instruments are recorded in net operating earnings or loss.

There were no outstanding commodity swap derivative contracts outstanding at December 31, 2017. DELP determined that the fair value of outstanding commodity swap derivative contracts at December 31, 2016 resulted in a liability balance of $2,275,000.

During 2017, DELP recognized a gain of $1,299,000 (2016 – loss of $1,965,000) from changes in the fair value of commodity swap derivative contracts, including a realized loss of $976,000 (2016 – realized gain of $289,000), offset by an unrealized gain of $2,275,000 (2016 – unrealized loss of $2,254,000).

12. SHARE CAPITAL

Authorized

The authorized capital of the Corporation consists of an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares without nominal or par value, issuable in series. At December 31, 2017, there were no preferred shares of the Corporation issued and outstanding.

Issued and Outstanding Common Shares

				Contributed Surplus	
	Number of Common Shares Outstanding	Share Capital	Option Reserve	DSUP Reserve	Ownership Interest in Subsidiaries
Outstanding, December 31, 2015	188,268,994	$ 112,682	$ 6,846	$ 810	$ (46)
For the year ended December 31, 2016					
Stock based compensation	-	-	1	-	-
Outstanding, December 31, 2016	188,268,994	112,682	6,847	810	(46)
For the year ended December 31, 2017					
Cancellation of shares pursuant to sunset clause provision	(185,158)	-	-	-	-
Issuance of shares in subsidiaries to non-controlling interest (Note 15)	-	-	-	-	(15)
Outstanding, December 31, 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 5 and 9), the Corporation does not intend to apply to list the common shares of the Corporation on a stock exchange.

13. STOCK BASED COMPENSATION

Stock Option Plan

The shareholders of the Corporation have approved a share incentive plan (the “SIP”) pursuant to which the Corporation may issue up to 15,611,845 common shares of the Corporation to employees, directors and officers. Included in the SIP is a stock option plan component. The exercise price of each option issued pursuant to the terms of the SIP shall be established at the grant date by the directors of the Corporation and in all cases shall not be less than the closing price of the common shares of the Corporation on the trading day immediately preceding the grant date. Options are generally issued with a five-year term from the date of grant and are subject to vesting conditions whereby one third of the options granted vest immediately, with the remaining two thirds vesting over a two-year period.

There were no stock option awards granted during 2017 and 2016. A summary of the status of the stock option component of the Corporation's SIP as at and for the years ended December 31, 2017 and 2016, is as follows:

For the years ended December 31,		2017		2016
	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price
Options outstanding, beginning of year	2,380,000	$ 0.50	2,480,000	$ 0.50
Forfeited	(1,400,000)	0.49	(100,000)	0.50
Options outstanding, end of year	**980,000**	**$ 0.50**	**2,380,000**	**$ 0.50**
Exercisable options	980,000	$ 0.50	2,380,000	$ 0.50

Option Price	Options Outstanding	Options Exercisable	Contractual Life Remaining (Years)
At $0.50	980,000	980,000	0.70

During 2016, the Corporation recognized stock based compensation expense of $1,000. The Corporation did not recognize any stock based compensation expense related to its stock option plan during 2017.

Deferred Share Unit Plan

The Corporation has established a deferred share unit plan ("DSUP") pursuant to which directors, officers, employees and consultants of the Corporation or any affiliate of the Corporation may be granted deferred share units. The Compensation Committee of the Board of Directors administers the DSUP, which is intended to provide participants with a long-term incentive tied to the long-term performance of the Corporation's common shares. Discretionary awards will be based on certain criteria, including services performed or to be performed. The total number of deferred share units cannot exceed 4,000,000. At December 31, 2017 and 2016, there were 1,203,507 deferred share units outstanding.

The Corporation's deferred share units have no vesting period and may only be redeemed by the recipient upon retirement from the Corporation. The terms of the deferred share units provide for the issuance of shares to the recipient in settlement of these awards, subject to the necessary regulatory approvals.

The Corporation did not recognize any stock based compensation expense related to its DSUP during 2017 and 2016.

14. GENERAL AND ADMINISTRATIVE EXPENSES AND PRODUCTION EXPENDITURES BY NATURE

General and Administrative Expenses from Continuing Operations

For the years ended December 31,	2017	2016
Salary and salary-related	$ 114	$ 149
Stock based compensation	-	1
Corporate and professional fees	450	2,588
General office	10	47
Exploration and development costs	2	3
	$ 576	**$ 2,788**

General and Administrative Expenses from Discontinued Operations

For the years ended December 31,	2017	2016
Salary and salary-related	$ 2,284	$ 2,456
Corporate and professional fees	2,424	1,246
General office	782	633
Exploration and development costs	111	95
Allocation of general and administrative costs	(1,909)	(1,896)
	$ 3,692	**$ 2,534**

Production Expenditures from Discontinued Operations

For the years ended December 31,		2017		2016
Labour	$	3,914	$	4,397
Materials, equipment and supplies used		2,914		3,813
Transportation		608		574
Utilities		2,300		2,321
Rental and lease payments		318		262
Other		875		1,018
	$	**10,929**	**$**	**12,385**

15. EQUITY ACCOUNTED INVESTMENT IN ESCAL

The Corporation owns a 74% interest in CLP, the original developer of an infrastructure undertaking in Spain 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, 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 CLP holds the remaining 33% interest in Escal.

In September 2013, the Spanish authorities mandated suspension of activities at the Castor Project, following micro-seismic activity detected in the surrounding area. Escal subsequently considered options available in respect of the Castor Project and 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. 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.

In November 2014, and under the terms of the relinquishment, Escal received €1.35 billion, being the net value of its investment in the Castor Project, after deducting €110 million previously received by Escal 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 Watercraft Capital S.A., Escal's financing vehicle.

The Royal Decree-Law mandated that the Castor Project remain mothballed until the Spanish government was satisfied with technical studies and reports on any future commissioning of such facilities. 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.

The Royal Decree-Law provided Escal with certain remuneration rights, including 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. On November 17, 2015, the Spanish authorities issued a resolution establishing the additional remuneration at €253.3 million, and the reimbursement of operating and maintenance costs at an additional €42.3 million. On December 18, 2015, a further €4.56 million was authorized as compensation for operating and maintenance costs between October 4, 2014 through to November 30, 2014, being the date of the hand-over of the facilities.

During 2016, Escal received a further €212 million under these arrangements, permitting Escal to further reduce debt outstanding in Escal, as further detailed below. The balance of remuneration was set to be received over a 15-year period. In December 2017, and following receipt of reports from the Massachusetts Institute of Technology and from Harvard University as outlined above, Spain's constitutional court nullified any further remuneration due to the Castor Project pursuant to these arrangements.

In November 2014 and following relinquishment of the Castor Project, ACS arranged a €300 million bank financing for Escal. At that time, €60 million of the bank facility was applied to repay the balance of all amounts owing pursuant to the outstanding bond arrangements. The remaining €240 million available pursuant to the bank line were used by Escal to repay Escal's shareholder loans solely to ACS. CLP was of the view that the new financing arranged by ACS was not in the best interest of Escal and consequently, CLP lodged legal action, challenging the approval of the new financing.

Furthermore, in the opinion of CLP, the use of the €240 million in payment of shareholder loans solely to ACS contravened the terms of the 2007 memorandum of understanding in respect of CLP's ownership rights in the equity and shareholder loans of Escal. Therefore, early in the second quarter of 2015, CLP commenced binding arbitration proceedings against ACS as to the sharing of cash flows from the Castor Project. On March 27, 2017, the arbitral tribunal of the International Chamber of Commerce 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. CLP has determined that it will not seek any remedies in respect of the decision rendered by the tribunal. Furthermore, CLP withdrew legal action challenging the approval of the new financing arranged by ACS.

Notwithstanding, Escal and its shareholders remain responsible 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.

Issuance of Limited Partnership Units in Castor UGS Limited Partnership

During 2017, and in order to fund legal and other related costs of the Castor Project arbitration process, CLP raised funds through voluntary cash calls 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.

Accounting for the Corporation's Investment in Escal

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 December 31, 2017, 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 December 31, 2017, the carrying value of the Corporation's indirect interest in Escal was $nil.

As the Corporation only has significant influence over its investment in Escal, it has been unable to obtain reliable information regarding Escal's assets and liabilities and information regarding Escal's operating results since the issuance of the arbitral tribunal's decision in March 2017.

16. NET LOSS PER SHARE

For the years ended December 31,		2017		2016
Net loss for the year attributable to owners of the parent from:				
Continuing operations	$	(5,238)	$	(510)
Discontinued operations		(38,412)		(18,611)
	$	(43,650)	$	(19,121)
Weighted average number of common shares outstanding		188,129,491		188,268,994
Basic and diluted loss per common share				
Continuing operations	$	(0.03)	$	-
Discontinued operations		(0.20)		(0.10)
Basic and diluted net loss per common share	**$**	**(0.23)**	**$**	**(0.10)**

17. INCOME TAXES

During 2017, the Corporation recognized an income tax expense amount of $18,010,000 (2016 – income tax recovery amount of $6,849,000).

For the years ended December 31,		2017				2016		
		Current Income Tax Expense		Deferred Income Tax Expense		Current Income Tax Expense		Deferred Income Tax Recovery
Continuing operations	$	-	$	(3,202)	$	(40)	$	2,405
Discontinued operations		-		(14,808)		-		4,484
	$	-	$	(18,010)	$	(40)	$	6,889

During 2017, the Corporation assessed the appropriateness of recognizing the benefit of deferred income tax assets, in light of DELP filing a NOI pursuant to the provisions of the *Bankruptcy and Insolvency Act (Canada)* (Note 5), 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 2017, the Corporation derecognized its deferred income tax assets, resulting in an income tax expense amount of $3,202,000 attributable to continuing operations and $14,808,000 attributable to discontinued operations.

The income tax expense or recovery rate on the Corporation's pre-tax loss from continuing operations differs from the income tax expense or recovery rate that would arise using the combined Canadian federal and provincial statutory rate of 26% (2016 – 26%) as a result of the following items:

For the years ended December 31,		2017		2016
Loss before tax at statutory rate of 26% (2016 – 26%)	$	555	$	919
Effect on taxes of:				
Unrecognized temporary differences		(3,742)		-
Net income tax benefits not previously recognized		-		1,631
Non-deductible expenses		(15)		(158)
Other differences		-		(27)
Income tax (expense) recovery	**$**	**(3,202)**	**$**	**2,365**

The movement in the Corporation's deferred income tax assets during 2017 and 2016, and the components of the Corporation's deferred income tax assets are as follows:

Deferred Tax Assets	Loss Carry Forwards	Oil and Gas Properties	Decomm-issioning Liability	Cumulative Eligible Capital	Share Issue Costs	Other	TOTAL
Balance, December 31, 2015	$ 963	$ 6,349	$ 3,632	$ 141	$ 30	$ 6	$ 11,121
(Charged) credited to statement of operations	2,440	(9)	-	(10)	(16)	-	2,405
(Charged) credited to discontinued operations	603	2,605	679	-	-	597	4,484
Balance, December 31, 2016	4,006	8,945	4,311	131	14	603	18,010
(Charged) credited to statement of operations	(3,025)	(32)	-	(131)	(14)	-	(3,202)
(Charged) credited to discontinued operations	(981)	(8,913)	(4,311)	-	-	(603)	(14,808)
Balance, December 31, 2017	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

The Corporation has unrecognized operating loss carry forwards of $15,362,000 (2016 – $15,118,000) as summarized below:

Year of Expiry:	Discontinued Operations	Continuing Operations	TOTAL
2035 and subsequent years	$ 2,140	$ 13,222	$ 15,362

18. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in these 2017 Consolidated Financial Statements, related party transactions and balances as at and for the year ended December 31, 2017 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 2017, the Corporation incurred costs of $538,000 (2016 – $543,000) in respect of these arrangements, including services provided to the Corporation's discontinued operations.

Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities at December 31, 2017 are amounts owing to the Corporation's parent, Dundee Corporation, and to certain of Dundee Corporation's subsidiaries of $3,890,000 (2016 – $2,830,000).

Also included in accounts payable and accrued liabilities at December 31, 2017 are amounts owing by the Corporation to DELP of $2,425,000 (2016 – $3,083,000). 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 years ended December 31,	2017	2016
Directors' fees and executive compensation	$ 465	$ 725
Stock based compensation	-	1
Benefits	22	47
	$ 487	**$ 773**

19. COMMITMENTS

The Corporation and its subsidiaries have lease arrangements for premises and equipment pursuant to which future minimum annual lease payments, exclusive of operating costs and realty taxes, are as follows:

As at December 31, 2017		Continuing Operations		Discontinued Operations
Less than 1 year	$	162	$	180
Between 1 and 5 years		108		193
Thereafter		-		-

20. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The Corporation's only financial instrument measured at fair value in the Corporation's consolidated financial statements at December 31, 2017 is the Corporation's investment in Windiga (Note 7). The Corporation has not categorized this financial asset by level, according to the significance of the inputs used in determining its fair value measurement, as the investment has been impaired to a value of $nil.

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

Risk Management

The Corporation is exposed to financial risks due to the nature of its business and the financial assets and liabilities that it holds. The Corporation's overall risk management strategy seeks to minimize potential adverse effects on the Corporation's financial performance.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Corporation's accounts receivable from both continuing and discontinued operations, are with customers for its oil and natural gas production, with its working interest partners in oil and natural gas development and production activities and with third parties. These amounts expose the Corporation to risk for non-payment. The Corporation's maximum exposure to credit risk relating to these items approximates the carrying amount of these assets on the Corporation's consolidated statement of financial position.

Through its subsidiaries, the Corporation markets its production to customers with investment grade credit ratings. Otherwise, the Corporation may seek parental guarantees and/or letters of credit prior to transacting with such customers.

Revenue included in discontinued operations is from three (2016 – three) core customers, who individually accounted for 34% (2016 – 36%), 31% (2016 – 30%), and 29% (2016 – 28%) of total revenue. Of the Corporation's individual accounts receivable from discontinued operations at December 31, 2017, approximately 91% (2016 – 95%) was due from these three customers.

Amounts receivable from working interest partners and from other third parties represent receivables from other participants in the oil and natural gas sector, and collection of the outstanding balances may be dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. The Corporation attempts to mitigate the credit risk on receivables from working interest partners by obtaining pre-approval of significant capital expenditures. Where the Corporation, through its operating subsidiaries, is the operator of properties, it has the ability to withhold production from working interest partners in the event of non-payment.

Market Risk

Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, the Corporation segregates market risk into three categories: currency risk, fair value risk and interest rate risk.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Corporation is exposed to the risk of changes in the Canadian to U.S. dollar exchange rate on sales of oil and natural gas, which has been included in discontinued operations. A 3% change in the foreign exchange translation rate of Canadian to U.S. dollars during 2017 would have resulted in a change to net earnings of approximately $768,000 (2016 – $655,000), before associated income taxes.

The functional and presentation currency of the Corporation's equity accounted investment in Escal is the Euro. As the Corporation's investment in Escal had been reduced to zero at December 31, 2017 and 2016, the Corporation is no longer exposed to currency risk in respect of this investment.

Fair Value Risk

Fair value risk is the potential for loss from an adverse movement in market prices of financial instruments, excluding movements relating to changes in interest rates and foreign exchange currency rates. Fair value risk includes commodity price risk, which is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices are influenced by global levels of supply and demand and when realized, may be further impacted by changes in the Canadian and U.S. dollar exchange rate. Significant commodity price fluctuations may materially impact the Corporation's access to capital, including its ability to borrow under its existing credit facilities.

In order to mitigate its exposure to adverse changes in commodity prices, the Corporation had entered into commodity swap derivative contracts (Note 11). These derivative instruments were recognized in the financial statements at fair value. The fair value of these derivative financial instruments was primarily driven by prices of the underlying commodities. Accordingly, the Corporation was exposed to fair value risk in respect of these contracts that were partially correlated to changes in commodity prices. There were no outstanding commodity swap derivative contracts at December 31, 2017.

Interest Rate Risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation's primary exposure to interest rate risk is through amounts borrowed by its subsidiary under bank lending arrangements. In general, a 50 basis point change in market interest rates during 2017 would have resulted in a change to net earnings during that period of approximately $284,000 (2016 – $293,000).

Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities as they become due. The following table summarizes the maturity profile of the Corporation's financial liabilities as at December 31, 2017.

	Continuing Operations	Discontinued Operations	Contractual Term to Maturity
Bank loan	$ -	$ 57,400	Demand facility
Accounts payable and accrued liabilities	8,132	6,569	Typically due within 20 to 90 days
Current portion of decommissioning liabilities	-	1,202	Expected settlement in 2018
	$ 8,132	$ 65,171	

Draws against the bank loan arrangements of the Corporation's subsidiary are due on demand. At December 31, 2017, the subsidiary was in compliance with all required financial covenants pursuant to its bank loan arrangements (Note 9).

The Corporation's current financial assets, combined with its current operational cash flows, will not be sufficient to sustain its ability to meet its ongoing financial liabilities as they become due, including liabilities related to the bank lending arrangement of its subsidiary. The Corporation's ability to meet these obligations is therefore partially dependent on the outcome of its SSP (Notes 2 and 9) and its ability to identify and implement viable financing or restructuring alternatives. There can be no assurance that the Corporation will be successful in these initiatives.

21. 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).

22. 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 Years Ended December 31, 2017 and December 31, 2016

	Corporate		Spain		Southern Ontario		Discontinued Operations		TOTAL	
	31-Dec-17	31-Dec-16	31-Dec-17	31-Dec-16	31-Dec-17	31-Dec-16	31-Dec-17	31-Dec-16	31-Dec-17	31-Dec-16
REVENUES										
Oil and gas sales	$ -	$ -	$ -	$ -	$ 26,381	$ 23,891	$ (26,381)	$ (23,891)	$ -	$ -
Royalties	-	-	-	-	(3,951)	(3,581)	3,951	3,581	-	-
Net sales	-	-	-	-	22,430	20,310	(22,430)	(20,310)	-	-
Production expenditures	-	-	-	-	(10,929)	(12,385)	10,929	12,385	-	-
Depreciation and depletion	(32)	(4)	-	-	(8,326)	(9,031)	8,326	9,031	(32)	(4)
General and administrative expenses	(415)	(470)	(161)	(2,318)	(3,692)	(2,534)	3,692	2,534	(576)	(2,788)
Gain (loss) on fair value changes of derivative financial instruments	-	-	-	-	1,299	(1,965)	(1,299)	1,965	-	-
Loss on fair value changes in investments	(1,425)	(725)	-	-	-	-	-	-	(1,425)	(725)
Impairment of oil and gas properties	-	-	-	-	(18,973)	(11,934)	18,973	11,934	-	-
Impairment of financial instruments	(1,286)	(1,286)	-	-	-	-	-	-	(1,286)	(1,286)
Interest and other items in (loss) earnings	1,286	1,286	-	-	183	(1,045)	(183)	1,045	1,286	1,286
Interest expense	-	-	-	-	(5,320)	(4,399)	5,320	4,399	-	-
Foreign exchange (loss) gain	-	-	(60)	49	(276)	(112)	276	112	(60)	49
NET LOSS BEFORE INCOME TAXES	(1,872)	(1,199)	(221)	(2,269)	(23,604)	(23,095)	23,604	23,095	(2,093)	(3,468)
Income tax (expense) recovery										
Current	-	(40)	-	-	-	-	-	-	-	(40)
Deferred	(3,202)	2,405	-	-	(14,808)	4,484	14,808	(4,484)	(3,202)	2,405
	(3,202)	2,365	-	-	(14,808)	4,484	14,808	(4,484)	(3,202)	2,365
NET (LOSS) EARNINGS										
FROM CONTINUING OPERATIONS FOR THE YEAR	$ (5,074)	$ 1,166	$ (221)	$ (2,269)	$ (38,412)	$ (18,611)	$ 38,412	$ 18,611	$ (5,295)	$ (1,103)
DISCONTINUED OPERATIONS	-	-	-	-	-	-	(38,412)	(18,611)	(38,412)	(18,611)
NET (LOSS) EARNINGS FOR THE YEAR	**$ (5,074)**	**$ 1,166**	**$ (221)**	**$ (2,269)**	**$ (38,412)**	**$ (18,611)**	**$ -**	**$ -**	**$ (43,707)**	**$ (19,714)**
NET (LOSS) EARNINGS ATTRIBUTABLE TO:										
Owners of the parent										
Continuing operations	$ (5,074)	$ 1,166	$ (164)	$ (1,676)	$ (38,412)	$ (18,611)	$ 38,412	$ 18,611	$ (5,238)	$ (510)
Discontinued operations	-	-	-	-	-	-	(38,412)	(18,611)	(38,412)	(18,611)
	(5,074)	1,166	(164)	(1,676)	(38,412)	(18,611)	-	-	(43,650)	(19,121)
Non-controlling interest										
Continuing operations	-	-	(57)	(593)	-	-	-	-	(57)	(593)
Discontinued operations	-	-	-	-	-	-	-	-	-	-
	-	-	(57)	(593)	-	-	-	-	(57)	(593)
	$ (5,074)	**$ 1,166**	**$ (221)**	**$ (2,269)**	**$ (38,412)**	**$ (18,611)**	**$ -**	**$ -**	**$ (43,707)**	**$ (19,714)**

Segmented Net Assets as at December 31, 2017 and December 31, 2016

	Corporate		Spain		Southern Ontario		Discontinued Operations		TOTAL	
	31-Dec-17	31-Dec-16	31-Dec-17	31-Dec-16	31-Dec-17	31-Dec-16	31-Dec-17	31-Dec-16	31-Dec-17	31-Dec-16
ASSETS										
Current										
Cash	$ 21	$ 42	$ 11	$ 44	$ 3,736	$ 1,419	$ (3,736)	$ -	$ 32	$ 1,505
Accounts receivable	25	-	-	-	4,520	2,729	(4,520)	-	25	2,729
Prepaids and security deposits	-	-	-	(41)	797	690	(797)	-	-	649
Inventory	-	-	-	-	310	335	(310)	-	-	335
Investments	-	1,425	-	-	-	-	-	-	-	1,425
Assets of discontinued operations held for sale	-	-	-	-	-	-	112,182	-	112,182	-
	46	1,467	11	3	9,363	5,173	102,819	-	112,239	6,643
Non-current										
Oil and gas properties	-	32	-	-	102,819	131,355	(102,819)	-	-	131,387
Equity accounted investment in Escal	-	-	-	-	-	-	-	-	-	-
Deferred income taxes	-	18,010	-	-	-	-	-	-	-	18,010
	$ 46	$ 19,509	$ 11	$ 3	$ 112,182	$ 136,528	$ -	$ -	$ 112,239	$ 156,040
LIABILITIES										
Current										
Bank loan	$ -	$ -	$ -	$ -	$ 57,400	$ 57,400	$ (57,400)	$ -	$ -	$ 57,400
Accounts payable and accrued liabilities	7,005	3,418	1,127	1,319	6,569	4,305	(6,569)	-	8,132	9,042
Derivative financial liabilities	-	-	-	-	-	2,275	-	-	-	2,275
Decommissioning liabilities	-	-	-	-	1,202	3,965	(1,202)	-	-	3,965
Liabilities of discontinued operations held for sale	-	-	-	-	-	-	115,675	-	115,675	-
	7,005	3,418	1,127	1,319	65,171	67,945	50,504	-	123,807	72,682
Non-current										
Decommissioning liabilities	-	-	-	-	50,504	51,555	(50,504)	-	-	51,555
	$ 7,005	$ 3,418	$ 1,127	$ 1,319	$ 115,675	$ 119,500	$ -	$ -	$ 123,807	$ 124,237
SEGMENTED NET ASSETS	**$ (6,959)**	**$ 16,091**	**$ (1,116)**	**$ (1,316)**	**$ (3,493)**	**$ 17,028**	**$ -**	**$ -**	**$ (11,568)**	**$ 31,803**

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