2014 Management's Discussion and Analysis and Financial Statements

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. The Corporation's common shares trade on the Toronto Stock Exchange ("TSX") under the symbol "DEN". Dundee Energy holds interests, both directly and indirectly, in a large accumulation of producing oil and natural gas assets in southern Ontario (the "Southern Ontario Assets") and is a participant in the development of an offshore underground natural gas storage facility in Spain (the "Castor Project"). 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.

This Management's Discussion and Analysis ("MD&A") has been prepared with an effective date of February 20, 2015 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, 2014 (the "2014 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.

PERFORMANCE MEASURES AND BASIS OF PRESENTATION

The Corporation's 2014 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 also provide 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.

SIGNIFICANT PROJECTS

The Southern Ontario Assets

Dundee Energy Limited Partnership (“DELP”), a wholly owned limited partner of the Corporation, holds an approximate 95% working interest in 62,000 gross acres of onshore oil and gas properties and an approximate 100% working interest in 324,000 gross acres of offshore gas properties, all located in and around Lake Erie in Ontario, Canada. The Southern Ontario Assets also include an approximate 100% interest in an onshore drilling rig, an offshore fleet of drilling and completion barges and five gas processing or compressor plants that are located onshore and process offshore raw gas.

The majority of the Corporation’s natural gas flows from offshore wells on Lake Erie that 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. This gas is transported to shore through a pipeline grid on the bottom of Lake Erie, and then processed at one of the Corporation’s five onshore processing facilities. The Corporation has entered into transportation agreements with pipeline companies and the majority of its natural gas is transferred to the Dawn Hub, which is conveniently located near the greater Toronto area, at which point it is sold to third parties.

Sweet, light oil production comes from onshore Ordovician and Silurian aged carbonate reservoirs located at geological depths of up to 850 metres. Raw oil and condensate is processed at six oil batteries and several single well locations. Once processed, oil is sold to a third party, which transports the oil to Sarnia, Ontario for refining.

Castor UGS Limited Partnership and the Castor Project

The Castor Project is a Spanish infrastructure undertaking that converted an abandoned oilfield to a natural gas storage facility. 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 Energy S.L. (“ACS”), a construction group in Spain, is a 67% shareholder of Escal, while Castor UGS Limited Partnership, the Corporation’s 74% owned subsidiary, holds the remaining 33% interest in Escal.

In July 2013, Escal initiated the technical and economic audits of the Castor Project, which were required for the inclusion of the project to the Spanish gas system. These audits concluded that the Castor Project was technically fit to store and deliver gas, that it had an appropriate process design and configuration, and that it had sufficient safety engineering for operation. However, in mid September 2013, micro-seismic activity was detected in the area surrounding the Castor Project, following which the Spanish authorities implemented a suspension to further activities related to the Castor Project until an independent assessment of the source of the seismic activity was completed. Independent assessments were subsequently completed, putting forth that the seismicity observed appeared to be related to a secondary fault present in the area and to be coincidental with the injection of cushion gas. However, and notwithstanding the results of the technical and economic audits, as well as the results of the independent assessments as to the source of seismic activity, the Spanish authorities did not revoke their mandated suspension.

Escal subsequently considered various 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 was effective on October 4, 2014, the date of its publication in the Spanish Official State Gazette. The Royal Decree-Law formally accepts the relinquishment of the Castor Project, it acknowledges the termination of the concession, and it reverts ownership of the associated facilities back to the public domain.

Under the terms of the relinquishment, Escal was entitled to receive compensation equal to the net value of its investment in the Castor Project, which the Royal Decree-Law determined to be €1.46 billion. In November 2014, Escal received €1.35 billion, being the net value of its investment, after deducting amounts of €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.

In addition to the net value of its investment as outlined above, the Royal Decree-Law also provides 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. The final quantification of any additional remuneration amounts, if any, and the expected timing of receipt, have not yet been determined. In November 2014, ACS arranged a €300 million refinancing of Escal, of which €60 million was applied to repay the balance of amounts owing pursuant to the outstanding bond arrangements. CLP is of the view that the refinancing arranged by ACS was not in the best interests of Escal and consequently, CLP has lodged a legal action challenging the approval of the refinancing. Additionally, CLP has determined that the use of proceeds from the refinancing may have compromised CLP's interests as a shareholder and, accordingly, CLP is currently evaluating the appropriate course of action to take in this regard.

The Royal Decree-Law mandates that the Castor Project remain mothballed until the Spanish government is satisfied with technical studies and reports on any future commissioning of such facilities. Enagás Transporte, S.A.U., the technical manager of the Spanish gas system, has been tasked with completing these studies and it is entrusted with the ongoing care and maintenance of the facilities. However, and in accordance with the terms of the Royal Decree-Law, 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.

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, 2014, 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. ("Windiga")

The Corporation has invested $2,150,000 (including $1,075,000 invested during the year ended December 31, 2014) 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. In addition to its 45% equity interest, senior officers of the Corporation's parent currently represent 20% of the board of directors of Windiga. The Corporation has completed an assessment of whether it is able to exert significant influence over the operating and financial policies of Windiga. In completing its assessment, the Corporation considered various factors, including the anticipated dilution in its ownership that will be required in order for Windiga to access the necessary capital to advance its current initiatives. Accordingly, the Corporation has classified its investment in Windiga as a financial asset at fair value through profit or loss. As Windiga is a private enterprise in the initial stages of development, its fair value cannot be reliably measured and therefore, the Corporation's investment in Windiga is carried at cost.

In October 2014, Windiga announced the signing of a power purchase agreement ("PPA") with the National Electricity Company of Burkina Faso for the construction and operation of a 20-megawatt photovoltaic plant to be located in Zina, in the province of Mouhoun. Completion of the PPA was the final step in the authorization process, and allows Windiga to begin construction of a solar power plant in sub-Saharan Africa. The plant is expected to produce approximately 34 gigawatt hours of clean energy per annum, and will be connected to Burkina Faso's main power grid. In order to commence construction of the plant, Windiga is currently focused on finalizing the necessary financing agreements needed to fund the construction phase of the project.

In Mauritania, Windiga has signed agreements that provide a framework for the general terms and conditions of a 30-year PPA with both the Mauritanian Electricity Company and with the Urban Community of Nouakchott for the construction and operation of a waste-to-energy plant. These agreements define the terms of the purchase of electricity and the supply of waste, and also furthers the development of the project to build a 15-megawatt waste-to-energy power plant in the city of Nouakchott.

Windiga also signed an agreement outlining a framework for the general terms and conditions of a 20-year PPA with the Electricity Company of Ghana for the construction and operation of a 20-megawatt solar power plant in the northern community of Tilli.

CONSOLIDATED RESULTS OF OPERATIONS

Year ended December 31, 2014 compared with the year ended December 31, 2013

SELECTED CONSOLIDATED FINANCIAL INFORMATION

For the years ended December 31,			2014			2013			2012
	Net Earnings (Loss)	Attributable to Owners of the Parent	Non-Controlling Interest	Net Earnings (Loss)	Attributable to Owners of the Parent	Non-Controlling Interest	Net Earnings (Loss)	Attributable to Owners of the Parent	Non-Controlling Interest
Southern Ontario Assets	$ 4,759	$ 4,759	$ -	$ (4,774)	$ (4,774)	$ -	$ (20,170)	$ (20,170)	$ -
Castor Project	(1,504)	(1,137)	(367)	(226)	(169)	(57)	(226)	(169)	(57)
Loss from investment in preferred shares of Eurogas International	(1,286)	(1,286)	-	(1,286)	(1,286)	-	(1,286)	(1,286)	-
Corporate activities	(988)	(988)	-	45	45	-	5,002	5,002	-
Net earnings (loss) for the year	$ 981	$ 1,348	$ (367)	$ (6,241)	$ (6,184)	$ (57)	$ (16,680)	$ (16,623)	$ (57)

Consolidated Net Earnings

During 2014, the Corporation generated net earnings attributable to owners of the parent of $1.3 million or $0.01 per share. This compares with a net loss attributable to owners of the parent of $6.2 million or $0.03 per share incurred in 2013. Losses in the prior year included an impairment of $3.5 million against a certain oil-based property, reflecting a decrease in estimated reserves relating to that property. After adjusting for the impairment of the oil-based property in 2013, 2014 consolidated net earnings attributable to owners of the parent improved by $4.0 million over the consolidated net loss incurred during 2013, reflecting substantial increases in prices realized on the sale by the Corporation of its natural gas.

Southern Ontario Assets

Acquisitions of Working Interests

On August 5, 2014, the Corporation entered into a transaction pursuant to which it acquired the remaining 15% working interest in certain offshore gas properties in southern Ontario that it did not already own, increasing its working interest to approximately 100%. The acquisition added an approximate average of 1,700 Mcf/d to the Corporation's existing natural gas production and an estimated 17.2 million Mcf in proved and probable reserves. The increase in working interest was acquired for aggregate cash consideration of $3.3 million, representing an average cost of $0.19/Mcf or $1.16/boe of proved and probable reserves.

On July 5, 2013, the Corporation entered into a transaction pursuant to which it acquired an additional 20% working interest in its offshore gas properties. At the time of completion of the transaction, the Corporation's interest in the properties increased from 65% to 85%. This prior year acquisition added 2,500 Mcf/d to natural gas production and 24.5 million Mcf in proved and probable reserves.

In addition, on September 10, 2013, the Corporation completed an asset exchange agreement pursuant to which it acquired certain oil producing assets and seismic data in exchange for the transfer of its working interests in certain other oil producing assets and certain property, plant and equipment. The Corporation realized a gain of $0.3 million from the exchange of property, plant and equipment.

Operating Performance

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

The Corporation's operating performance is dependent on both production volumes of oil, natural gas and natural gas liquids, as well as the prices received for these commodities. During 2014, sales of oil and natural gas, net of royalty interests, generated revenues of $39.3 million, an increase of $6.1 million over revenues earned during the prior year. As illustrated in the following table, the effect of higher commodity prices increased revenues by $7.1 million, although these results were partially offset by reduced production volumes, which decreased revenues by $1.0 million.

		Natural Gas		Oil and Liquids		Total
Net Sales						
Year ended December 31, 2014	$	21,555	$	17,725	$	39,280
Year ended December 31, 2013		14,203		19,005		33,208
Net increase (decrease) in net sales	$	7,352	$	(1,280)	$	6,072
Effect of changes in production volumes	$	554	$	(1,565)	$	(1,011)
Effect of changes in commodity prices		6,798		285		7,083
	$	7,352	$	(1,280)	$	6,072

Production Volumes

During 2014, production volumes increased marginally to an average of 2,348 boe/d, compared with an average of 2,333 boe/d produced in 2013.

Average daily volume during the years ended December 31,	2014	2013
Natural gas (Mcf/d)	10,594	10,196
Oil (bbls/d)	572	615
Liquids (bbls/d)	10	19
Total (boe/d)	2,348	2,333

Average daily natural gas production increased by approximately 4% over production volumes achieved in the prior year. Increased volumes from the acquisitions of additional working interests completed in each of August 2014 and July 2013 were offset by the natural decline in the Corporation's natural gas reserves, which has averaged approximately 5% per annum. The year-over-year increase was also impacted by a temporary suspension of production in parts of central Lake Erie, Ontario, while production pipelines underwent significant repairs following damage caused by ice scouring in February 2014.

In 2014, oil production volumes decreased to an average of 572 bbl/d, compared with an average of 615 bbl/d produced in 2013. The decrease reflects the natural decline of approximately 14% per annum in the underlying assets.

Net Sales of Oil and Gas

For the years ended December 31,			2014			2013
		Sales	Realized Prices ($ / unit)		Sales	Realized Prices ($ / unit)
Natural gas	$	25,298	6.54	$	16,711	4.49
Oil		20,759	99.38		22,153	98.63
Liquids		173	47.72		310	44.52
		46,230			39,174	
Less: Royalties at 15% (2013 – 15%)		(6,950)			(5,966)	
Net sales	$	39,280		$	33,208	

Revenues from oil and gas sales were $46.2 million during 2014. This compares with revenues of $39.2 million earned in 2013. The Corporation's revenues are subject to royalty payments to provincial governments, freehold landowners and overriding royalty owners. During 2014, the Corporation recorded royalty obligations of $7.0 million (2013 – $6.0 million) against its oil and gas sales, representing an average royalty rate of approximately 15% (2013 – 15%) of revenues.

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 table illustrates several benchmark prices for these commodities, compared with the prices realized by the Corporation.

For the years ended December 31,			2014			2013
	US$	CAD$	Realized Prices ($)	US$	CAD$	Realized Prices ($)
Natural Gas						
Dawn Hub	6.21	6.84	6.54	4.07	4.19	4.49
NYMEX Henry Hub	4.36	4.80		3.73	3.83	
Oil						
Edmonton Par	n/a	93.98	99.38	n/a	93.41	98.63
West Texas Intermediate	93.17	102.52		97.98	100.81	

The Corporation realized an average price on sales of natural gas of $6.54/Mcf during 2014, 46% higher than the average price of $4.49/Mcf realized in the prior year. The increase is reflective of severe weather conditions experienced in Ontario from January to April 2014 and the resulting high volatility in natural gas commodity prices during those winter months at the Dawn Hub, a leading provider of natural gas supply to the greater Toronto market area.

During 2014, the Corporation realized an average price of $99.38/bbl on sales of crude oil, an increase of 1% over an average price of $98.63/bbl realized during the prior year. The increase is consistent with period-over-period increases of 1% in the Edmonton Par average price for crude oil. In comparison, during the same period, the US dollar-denominated average West Texas Intermediate price decreased by approximately 5%.

Derivative Financial Instruments – Price Risk Management

In order to mitigate its exposure to price volatility, the Corporation may from time to time, enter into fixed price commodity contracts. These price risk management strategies assist the Corporation in securing a stable amount of cash flow to protect a desired level of capital spending and for debt management. As well, the Corporation's revenues are primarily received in Canadian dollars; however, pricing for commodities, including oil and natural gas, are closely referenced to the US dollar. The Corporation partially mitigates its exposure to changes in commodity prices resulting from foreign exchange variability by entering into commodity derivative financial instruments on a Canadian dollar basis.

The following table summarizes the realized and unrealized gains or losses from the Corporation's derivative financial instruments in 2014, compared with the prior year. For accounting purposes, the Corporation has not designated its derivative financial instruments as hedges. Accordingly, the gains or losses from these contracts are not reflected in the Corporation's reported amounts of oil and natural gas sales, but rather they are separately reported as gains or losses from derivative financial instruments in the Corporation's net earnings or loss.

For the years ended December 31,			2014			2013
	Realized Loss	Unrealized Gain	Total	Realized Loss	Unrealized Loss	Total
Oil swaps	$ (45)	$ 433	$ 388	$ (262)	$ (307)	$ (569)
Gas swaps	-	-	-	(12)	-	(12)
	$ (45)	$ 433	$ 388	$ (274)	$ (307)	$ (581)

The Corporation's derivative financial instruments at December 31, 2014 had a positive value of $341,000 and consisted of the following contract, which settled in January 2015.

Contract Fixed Price Swap	Volume	Pricing Point	Strike Price (Cdn$/unit)	Maturity Date	Settlement Date
Crude oil	300 bbl/d	NYMEX	$105.00	Dec 31/14	Jan 26/15

The fair value of derivative financial instruments outstanding at the end of a reporting period is determined using market conditions and third-party forecasts prevailing as at the reporting date. The fair value of derivative financial instruments at the end of a reporting period may or may not be realized in subsequent periods and are dependent on changes in commodity prices and foreign exchange rates prior to settlement.

Production Expenditures

Production expenditures include costs associated with bringing oil and natural gas from the reservoir to the surface sales point, and include separating the oil and gas, treating the oil and gas to remove impurities and disposing of produced water. Also included in production expenditures is an allocation of general and administrative costs, including labour, which is directly attributable to these activities. During 2014, the Corporation incurred production expenditures of $15.9 million, an increase of $0.9 million compared with $15.0 million incurred in the prior year. Production costs incurred during 2014 include costs associated with the acquisition of the increased working interest in certain natural gas properties completed in August 2014. Production costs on a per unit basis increased to $18.59/boe in 2014, compared with $17.60/boe incurred during the prior year, and reflects the unexpected costs associated with the repair of pipeline infrastructure in Lake Erie, Ontario, damaged by ice scouring in February 2014.

For the years ended December 31,			2014			2013
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Production expenditures	$ 9,223	$ 6,706	$ 15,929	$ 8,007	$ 6,983	$ 14,990
Production expenditures	(per Mcf)	(per bbl)	(per boe)	(per Mcf)	(per bbl)	(per boe)
per unit	$ 2.39	$ 31.56	$ 18.59	$ 2.15	$ 30.16	$ 17.60

Field Level Cash Flows

During 2014, the Corporation earned field level cash flows of $23.4 million, before the effect of its price risk management arrangements. This compares with field level cash flows of $18.2 million earned in 2013. Field level cash flows from natural gas doubled on a year-over-year basis, reflecting higher prices for this commodity, especially during the period from January to April 2014. Increased field level cash flows also reflect the benefit of the acquisition of additional working interest in the underlying properties, which was completed in August 2014. Field level cash flows from production and sales of oil and liquids decreased to $11.0 million in 2014, compared with field level cash flows of $12.0 million in 2013, reflecting lower production volumes.

For the years ended December 31,				2014				2013
	Natural Gas		Oil and Liquids	Total	Natural Gas		Oil and Liquids	Total
Total sales	$ 25,298	$	20,932	$ 46,230	$ 16,711	$	22,463	$ 39,174
Royalties	(3,743)		(3,207)	(6,950)	(2,508)		(3,458)	(5,966)
Production expenditures	(9,223)		(6,706)	(15,929)	(8,007)		(6,983)	(14,990)
	12,332		11,019	23,351	6,196		12,022	18,218
Loss on derivative financial instruments	-		(45)	(45)	(12)		(262)	(274)
Field level cash flows	$ 12,332	$	10,974	$ 23,306	$ 6,184	$	11,760	$ 17,944

Field Netbacks

Field netbacks from natural gas, before the effect of the Corporation's price risk management strategies, was $3.18/Mcf in 2014, compared with $1.67/Mcf realized during the prior year. The substantial increase reflects both an improvement in the underlying commodity price, as well as operating efficiencies resulting from the acquisition of an increased working interest in the underlying properties.

Field netbacks from oil and liquids decreased marginally to $51.85/bbl in 2014, compared with $51.90/bbl in 2013. The benefit of higher realized prices for this commodity in 2014 was offset by higher production costs as a result of lower production volumes.

The Corporation's price risk management contracts decreased field netbacks by $0.05/boe in 2014, compared with a decrease of $0.32/boe incurred during 2013.

For the years ended December 31,			2014			2013
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
	$/Mcf	$/bbl	$/boe	$/Mcf	$/bbl	$/boe
Total sales	$ 6.54	$ 98.50	$ 53.94	$ 4.49	$ 97.00	$ 45.99
Royalties	(0.97)	(15.09)	(8.11)	(0.67)	(14.94)	(7.00)
Production expenditures	(2.39)	(31.56)	(18.59)	(2.15)	(30.16)	(17.60)
	3.18	51.85	27.24	1.67	51.90	21.39
Loss on derivative financial instruments	-	(0.21)	(0.05)	-	(1.13)	(0.32)
Field netbacks	$ 3.18	$ 51.64	$ 27.19	$ 1.67	$ 50.77	$ 21.07

Capital Expenditures

For the years ended December 31,	2014	2013
Offshore		
Pipeline	$ -	$ 916
Workovers	903	-
Facilities	75	59
Total offshore	978	975
Onshore		
Drilling and completion	1,377	4,122
Workovers	90	853
Facilities	323	344
Land and building	222	72
Total onshore	2,012	5,391
Exploration and Evaluation		
Undeveloped properties	2,562	2,679
Onshore seismic	752	4,697
Total exploration and evaluation	3,314	7,376
Office equipment, computer hardware and software	145	(268)
	6,449	13,474
Disposition of property, plant and equipment	(128)	(1,385)
	$ 6,321	$ 12,089

During 2014, the Corporation expended $6.3 million on capital expenditures. This compares with capital expenditures of $12.1 million incurred in the prior year.

Approximately $1.0 million of capital expenditures were incurred offshore, including $0.9 million on four re-completions conducted on existing wellbores to access a bypassed pay zone, and $0.1 million in upgrading offshore facilities. Two of the four re-completions are currently producing from the new pay zone. The third well was subsequently depleted, while the fourth well was shut-in pending further evaluation planned for the second or third quarter of 2015. These results were encouraging and additional re-completions are planned for 2015, with the potential for a future horizontal drilling program.

Capital expenditures on onshore properties were $2.0 million during 2014, including $1.4 million in drilling costs. The Corporation drilled one vertical development well and one re-entry horizontal sidetrack well. While initial results were encouraging, the re-entry horizontal well came back into production in the third quarter of 2014 at 42 bbl/d and has subsequently settled at 11 bbl/d. The Corporation is still testing the vertical development well to evaluate its economic viability. In addition to these drilling activities, the Corporation expended $0.1 million in final costs associated with two workovers commenced in late 2013, $0.3 million on efficiency and equipment upgrades to onshore facilities, and $0.2 million on land and building acquisitions.

During 2014, the Corporation incurred costs of $0.8 million on completing 2-D and 3-D seismic work, which had been started in late 2013, and $2.6 million on two exploration wells on certain undeveloped land. The vertical exploration well requires further testing and analysis to determine flow rates and its economic viability. The second exploration well, in which the Corporation is a non-operating 50% working interest partner, has shown good test results to date. The Corporation and the operator of this well are planning a pipeline connection for this well in the second quarter of 2015.

2015 Work Program

The Corporation intends to substantially reduce its 2015 work program, primarily in response to the considerable decline in the price for oil. As currently anticipated, the 2015 work program will consist of approximately $1.1 million to maintain the existing and essential land portfolio, and a further $0.6 million to complete offshore re-completions. These strategic endeavours will allow the Corporation to apply any residual cash flow from operations towards the repaying of outstanding debt.

Reserves

The Corporation retained Deloitte LLP ("Deloitte"), an independent qualified reserves evaluator to prepare a report on the Corporation's working interest in its oil and natural gas reserves in southern Ontario. The Corporation has a Corporate Governance and Reserves Committee that oversees the selection, qualifications and reporting procedures of the independent engineering consultants. Reserves at December 31, 2014 were determined using the guidelines and definitions set out under National Instrument 51-101. At December 31, 2014, the proved and probable reserves in southern Ontario increased by 6% to 20,516 million boe ("Mboe") from 19,364 Mboe at December 31, 2013. The following table outlines the change in the Corporation's reserves since December 31, 2013.

	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, 2014	83,722	1,545	45	15,543	$ 131,795	$ 8.48
Net acquisitions	14,122	-	-	2,354		
Revisions	(5,364)	203	24	(668)		
Production	(3,575)	(213)	(4)	(813)		
Closing balance, December 31, 2014	88,905	1,535	65	16,417	$ 174,605	$ 10.64
Probable Reserves						
Opening balance, January 1, 2014	18,365	737	24	3,821	$ 33,001	$ 8.64
Net acquisitions	3,035	-	-	506		
Revisions	(1,411)	(17)	24	(228)		
Closing balance, December 31, 2014	19,989	720	48	4,099	$ 38,004	$ 9.27
Total proved and probable	108,894	2,255	113	20,516	$ 212,609	$ 10.36
Percentage increase (decrease) in reserves	7%	(1%)	64%	6%		

At December 31, 2013, the Corporation estimated the reserve life index for natural gas and oil at 25 years and 9.4 years, respectively. As at December 31, 2014, the reserve life index for natural gas increased to 25.7 years, while the reserve life index for oil increased to 11.8 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, 2014, as outlined above.

	Natural Gas	Oil
Reserve Prices	Union Parkway CAD$ / Mcf	Edmonton Par (delivered to Sarnia, ON) CAD$ / bbl
2015	4.85	74.45
2016	5.15	80.70
2017	5.50	85.90
2018	5.85	91.30
2019	6.10	96.95
Average five year forecast	5.49	85.86

Impairment of Natural Gas Assets

During the year ended December 31, 2013, the Corporation recognized an impairment of $3.5 million on an oil property and its related cash generating unit ("CGU"). The impairment charge reflects a reduction in reserves and associated expected future production volumes from the oil property. The recoverable amount of the impaired CGU was determined by calculating its value-in-use. In determining the CGU's value-in-use, the Corporation considered expected cash flows based on its most recent externally evaluated reserves reports and long-term views on commodity prices. In computing the recoverable amount, expected future cash flows were discounted using a discount rate of 8%.

In response to the significant decline and subsequent volatility in the price for oil, the Corporation completed a further assessment of potential impairment to both its oil and natural gas properties as at December 31, 2014. The Corporation's assessment for impairment in 2014 was based on an assessment of cash flows, discounted at 8%, and based on the average forecasted prices for oil and natural gas that formed the basis for the Corporation's report on its reserves pursuant to National Instrument 51-101. Based on the Corporation's assessment, no further impairment was required as at December 31, 2014. The Corporation also completed an assessment of potential impairment assuming a further 10% decline on the forecasted prices of oil and natural gas as outlined above, with all other assessment criteria kept constant, and determined that a further 10% decline in the price of oil would result in an impairment of approximately $0.8 million.

Decommissioning Liabilities

The Corporation 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, 2014, the Corporation's estimate of these future costs on an undiscounted basis was approximately $99.8 million. These obligations are forecasted to be incurred over a 50-year period. The Corporation incurred $1.2 million in reclamation costs during 2014 and it anticipates that it will incur another $1.4 million in reclamation costs over the next 12 months.

In accordance with accounting requirements, the estimated decommissioning liability is recorded in the Corporation's consolidated financial statements on a discounted basis using discount rates that are specific to the underlying obligations. At December 31, 2014, the discounted amount of the Corporation's decommissioning liabilities was $56.3 million. The discount used in calculating the Corporation's decommissioning liabilities is accreted over time. During 2014, the Corporation incurred accretion expense of $1.1 million (2013 – $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, 2014 and 2013, 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, 2014 (2013 – $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.

During the year ended December 31, 2014, and following the relinquishment by Escal of the Castor Project in October 2014, the Corporation determined that there were significant uncertainties in its ability to collect certain amounts owing from Escal to the Corporation, and accordingly, the Corporation recognized an impairment of $1.0 million in respect of these amounts receivable, reducing the amounts to $nil. The impairment in amounts receivable from Escal have been included as *"Impairment of financial instruments"* in the Corporation's consolidated statement of operations for the year ended December 31, 2014.

In prior years, the Corporation had recognized a net deferred income tax asset of $0.3 million in respect of its investment in Escal, in expectation of the realization of profits associated with its operations once the project was accepted into the Spanish gas system. During the year ended December 31, 2014, and following the relinquishment of the Castor Project, the Corporation reassessed the likelihood of the recoverability of its net deferred income tax asset and determined that derecognition of the net deferred tax asset was appropriate. Accordingly, the Corporation recognized an income tax amount of $0.4 million through other comprehensive income, net of an income tax recovery amount of $0.1 million in net earnings.

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 2014, the Corporation provided for an impairment loss relating to its investment in Eurogas International of $1.3 million (2013 – $1.3 million).

In January 2014, Eurogas International completed a farmout arrangement with DNO Tunisia AS with respect to its working interest in the Sfax exploration permit, located offshore Tunisia. The arrangement provides DNO Tunisia AS with an 87.5% participating interest in the Sfax permit in exchange for a US$6 million cash payment to the original joint venture partners in the Sfax permit, of which Eurogas International's share was US$2.7 million, and the carrying value of 100% of all future costs associated with the Sfax permit, including drilling obligations.

Subsequent to December 31, 2014, DNO Tunisia AS completed the drilling of its first well on the Sfax permit. The well was drilled to a total depth of 2,815 metres. The Douleb and Bireno fractured carbonates formations proved to be water bearing in the compartment of the principal structure targeted by the drilling activity and therefore, DNO Tunisia AS concluded that further analysis of the well's logging and testing results would be required in order to re-evaluate the prospect. In view of these results, DNO Tunisia AS is currently reassessing its work plan for the remainder of 2015, taking into consideration the implications of its obligations and commitments pursuant to the terms of the Sfax permit, against the approaching maturity of the current permit renewal period, which expires in December 2015.

Other Items in Consolidated Net Earnings

General and Administrative Expenses
General and administrative expenses incurred during 2014 were $6.5 million, an increase of $0.6 million over general and administrative expenses of $5.9 million incurred in the prior year. In the prior year, the Corporation was able to allocate a larger amount of its general and administrative expense to exploration and evaluation pools, reflecting increased capital expenditures in that year, compared with exploration and evaluation activities undertaken in the current year.

Interest Expense
The Corporation incurred interest expense of $4.6 million in 2014, compared to interest expense of $4.6 million incurred in the prior year. Included in interest expense is $1.1 million (2013 – $0.9 million) of accretion expense associated with the Corporation's decommissioning liabilities, with the balance of interest expense incurred in respect of borrowings pursuant to the Corporation's credit facility.

Income Tax Expense
The Corporation recognized an income tax expense of $0.7 million in 2014 (2013 – $0.8 million income tax recovery), generating an effective income tax rate of 43% (2013 – effective income tax recovery rate of 11%). The higher than expected 2014 effective income tax expense rate can be primarily attributed to certain non-deductible expenses. The low effective income tax recovery rate in 2013 can be attributed primarily to renunciation of exploration expenses. As at December 31, 2014, the Corporation's net deferred income tax assets were $8.1 million (2013 – $9.3 million) and included deferred income tax assets of $8.2 million (2013 – $9.4 million) offset by deferred income tax liabilities of $0.1 million (2013 – $0.1 million).

SELECTED QUARTERLY FINANCIAL INFORMATION

	2014				2013			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Revenues	$ 8,564	$ 8,574	$ 9,398	$ 12,744	$ 8,264	$ 9,340	$ 8,245	$ 7,359
Net earnings (loss) attributable to owners of the parent	**(1,431)**	**(297)**	**(112)**	**3,188**	**(3,183)**	**(1,472)**	**(457)**	**(1,072)**
Basic and fully diluted earnings (loss) per share	$ (0.01)	$ -	$ -	$ 0.02	$ (0.01)	$ (0.01)	$ -	$ (0.01)
Capital expenditures	$ 771	$ 2,513	$ 1,578	$ 1,459	$ 3,300	$ 3,419	$ 3,447	$ 1,923

- During the fourth quarter of 2014, the Corporation recorded an impairment on financial instruments related to certain amounts owing from Escal of $1.0 million.
- During the third quarter of 2014 and the third quarter of 2013, the Corporation completed acquisitions of additional working interests of 15% and 20% respectively, in certain natural gas properties, resulting in increased revenues.
- During the fourth quarter of 2013, the Corporation recognized an impairment on an oil property of $3.5 million, reflecting decreased production from certain oil wells.
- Changes in the fair value of the Corporation's derivative financial instruments are included in the Corporation's net earnings. The key drivers affecting fair value changes may cause significant volatility in the Corporation's earnings, some of which are beyond the control of the Corporation. The following table illustrates the impact of changes in the fair value of the Corporation's derivative financial instruments to its net earnings (loss) on a quarterly basis:

	2014				2013			
	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	$ 504	$ 376	$ (213)	$ (279)	$ 80	$ (509)	$ 214	$ (366)

QUARTERLY CONSOLIDATED RESULTS OF OPERATIONS

Three months ended December 31, 2014 compared with the three months ended December 31, 2013

During the quarter ended December 31, 2014, the Corporation's net loss attributable to the owners of the parent was $1.4 million, compared with a net loss attributable to the owners of the parent of $3.2 million in the fourth quarter of the prior year. As previously discussed, during the fourth quarter of the prior year, the Corporation recognized an impairment loss of $3.5 million on certain of its oil properties.

For the three months ended December 31,			2014			2013
	Net Earnings (Loss)	Attributable to Owners of the Parent	Non-Controlling Interest	Net Earnings (Loss)	Attributable to Owners of the Parent	Non-Controlling Interest
Southern Ontario Assets	$ (568)	$ (568)	$ -	$ (3,617)	$ (3,617)	$ -
Castor Project	(1,226)	(929)	(297)	2	1	1
Loss from investment in preferred shares of Eurogas International	(324)	(324)	-	(324)	(324)	-
Corporate activities	390	390	-	757	757	-
Net loss for the period	$ (1,728)	$ (1,431)	$ (297)	$ (3,182)	$ (3,183)	$ 1

The net loss during the fourth quarter of 2014 includes a $1.2 million loss ($0.9 million loss after non-controlling interest) associated with the Corporation's investment in Escal, including an impairment of $1.1 million in amounts receivable from Escal.

Southern Ontario Assets

During the fourth quarter of 2014, sales of oil and natural gas, net of royalty interests were $8.6 million, an increase of $0.3 million from the $8.3 million earned in the same period of the prior year. As illustrated in the table below, higher production volumes, combined with higher realized prices on the sale of natural gas, resulted in a $1.0 million increase in net sales. This increase was offset by a $0.7 million decrease in net sales from oil-based activities, reflecting both lower oil production volumes and lower realized oil prices.

		Natural Gas		Oil and Liquids		Total
Net Sales						
Three months ended December 31, 2014	$	4,946	$	3,618	$	8,564
Three months ended December 31, 2013		3,909		4,355		8,264
Net increase (decrease) in net sales	$	1,037	$	(737)	$	300
Effect of changes in production volumes	$	770	$	(143)	$	627
Effect of changes in commodity prices		267		(594)		(327)
	$	1,037	$	(737)	$	300

Production volumes averaged 2,747 boe/d during the fourth quarter of 2014, compared with an average of 2,410 boe/d in the same period of the prior year. Part of the increase is attributable to the acquisition of an additional 15% working interest in certain natural gas properties completed in August 2014. Production volume increases in the Corporation's natural gas operations were marginally offset by decreases in oil production.

Average daily volume during the three months ended December 31,	2014	2013
Natural gas (Mcf/d)	12,999	10,860
Oil (bbls/d)	577	584
Liquids (bbls/d)	3	16
Total (boe/d)	2,747	2,410

For the three months ended December 31,			2014			2013
		Sales	Realized Prices ($ / unit)		Sales	Realized Prices ($ / unit)
Natural gas	$	5,816	4.86	$	4,597	4.60
Oil		4,261	80.27		5,112	95.22
Liquids		11	38.44		56	37.18
		10,088			9,765	
Less: Royalties at 15% (2013 – 15%)		(1,524)			(1,501)	
Net sales	$	8,564		$	8,264	

During the fourth quarter of 2014, the Corporation realized an average sales price of $4.86/Mcf for natural gas, a 6% increase over the realized price of $4.60/Mcf generated in the fourth quarter of 2013. During the same period, the realized sales price for crude oil declined to $80.27/bbl, compared with $95.22/bbl realized in the same quarter of the prior year. Comparable benchmark prices for oil and natural gas are illustrated in the following table.

For the three months ended December 31,			2014			2013
	US$	CAD$	Realized Prices ($)	US$	CAD$	Realized Prices ($)
Natural Gas						
Dawn Hub	4.04	4.56	4.86	4.11	4.29	4.60
NYMEX Henry Hub	3.78	4.27		3.86	4.03	
Oil						
Edmonton Par	n/a	75.22	80.27	n/a	86.72	95.22
West Texas Intermediate	73.21	82.75		97.50	101.76	

The Corporation incurred production expenditures of $5.0 million during the fourth quarter of 2014, compared with $4.0 million incurred during the same period of the prior year.

Production expenditures associated with natural gas activities were $3.0 million in the fourth quarter of 2014, compared with $2.0 million incurred in the same period of the prior year. Part of this increase is attributable to production costs associated with the additional working interest acquired in August 2014. However, during the fourth quarter of 2014, the Corporation also completed the repairs to its pipeline infrastructure following the damage caused by the winter ice scouring earlier in the year. As a result, production expenditures for natural gas were $2.52/Mcf in the fourth quarter of 2014, compared with $2.00/Mcf during the same period of 2013.

Production expenditures associated with oil and liquids were $1.9 million in the fourth quarter of 2014, essentially unchanged from production expenditures of $2.0 million incurred during the fourth quarter of the prior year. However, on a per unit basis, production expenditures relating to oil-based activities increased to $36.52/bbl in the fourth quarter of 2014, compared with $35.49/bbl incurred in the fourth quarter of 2013, reflecting reduced production volumes.

For the three months ended December 31,			2014			2013
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Production expenditures	$ 3,011	$ 1,949	$ 4,960	$ 2,001	$ 1,958	$ 3,959
Production expenditures	(per Mcf)	(per bbl)	(per boe)	(per Mcf)	(per bbl)	(per boe)
per unit	$ 2.52	$ 36.52	$ 19.63	$ 2.00	$ 35.49	$ 17.86

Field level cash flows in the fourth quarter of 2014, before amounts realized from the Corporation's price risk management strategies, were $3.6 million or $14.26/boe, a 16% decrease over field level cash flows of $4.3 million or $19.41/boe generated in the fourth quarter of the prior year.

For the three months ended December 31,			2014			2013
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Total sales	$ 5,816	$ 4,272	$ 10,088	$ 4,597	$ 5,168	$ 9,765
Royalties	(870)	(654)	(1,524)	(688)	(813)	(1,501)
Production expenditures	(3,011)	(1,949)	(4,960)	(2,001)	(1,958)	(3,959)
	1,935	1,669	3,604	1,908	2,397	4,305
Gain (loss) on derivative financial instruments	-	292	292	173	(271)	(98)
Field level cash flows	$ 1,935	$ 1,961	$ 3,896	$ 2,081	$ 2,126	$ 4,207

For the three months ended December 31,			2014			2013
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
	$/Mcf	$/bbl	$/boe	$/Mcf	$/bbl	$/boe
Total sales	$ 4.86	$ 80.04	$ 39.92	$ 4.60	$ 93.64	$ 44.04
Royalties	(0.73)	(12.25)	(6.03)	(0.69)	(14.74)	(6.77)
Production expenditures	(2.52)	(36.52)	(19.63)	(2.00)	(35.49)	(17.86)
	1.61	31.27	14.26	1.91	43.41	19.41
Gain (loss) on derivative financial instruments	-	5.47	1.16	0.17	(4.91)	(0.44)
Field netbacks	$ 1.61	$ 36.74	$ 15.42	$ 2.08	$ 38.50	$ 18.97

LIQUIDITY AND CAPITAL RESOURCES

Cash Resources Availability

At December 31, 2014, the Corporation had cash of $0.8 million on deposit with a Canadian Schedule I Chartered Bank. In addition, the Corporation had access to a further $8.0 million pursuant to a $70.0 million revolving demand credit facility.

Southern Ontario Assets

The Corporation's southern Ontario operations are conducted through DELP, the Corporation's wholly-owned subsidiary. DELP has 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 DELP's option, at either the bank's prime lending rate plus 3.5% or, at the bank's then prevailing bankers' acceptance rate plus 4.5%. DELP is subject to a standby fee of 0.55% on unused amounts under the credit facility. At December 31, 2014, DELP had drawn $62.0 million against the credit facility.

The Corporation has assigned a limited recourse guarantee of its units in DELP as 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, 2014, the Corporation was in compliance with all such covenants.

Cash flows generated from ongoing operating activities, combined with amounts available pursuant to its credit facility, provide the Corporation with sufficient cash flow to support its working capital requirements for the foreseeable future.

Spain

Under the terms of a shareholders' agreement between 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 current lending arrangements established by Escal, the Corporation and its subsidiaries were not required to provide any additional equity or debt funds.

Notwithstanding any form by which ACS may have previously funded Escal, the Corporation retains full entitlement to its existing proportionate interest in Escal and in any distribution made by Escal. 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. The Corporation has not completed an assessment of the impact of the terms of the Royal Decree-Law to the Corporation.

Outstanding Share Data and Dilutive Securities

At December 31, 2014 and February 20, 2015, the Corporation had 188,204,184 common shares outstanding. In addition, at December 31, 2014, it had granted 5,705,000 stock options to purchase common shares of the Corporation to directors and key management at a weighted average exercise price of $0.66 per share, and it had issued 1,457,426 deferred share units.

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 were entered into 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, 2014.

	Expected Payments Schedule				
	2015	2016 to 2017	2018 to 2019	Thereafter	TOTAL
Bank loan	$ 62,000	$ -	$ -	$ -	$ 62,000
Decommissioning liabilities	1,358	3,023	3,269	92,107	99,757
Office, vehicle and equipment leases	425	551	292	-	1,268
	$ 63,783	$ 3,574	$ 3,561	$ 92,107	$ 163,025

RELATED PARTY TRANSACTIONS

Other than as described in Note 17 to the 2014 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. These risks are described in the Corporation's 2014 Annual Information Form dated February 20, 2015, under *"Risk Factors"*, which may be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website *www.sedar.com*. These business risks should be considered by interested parties when evaluating the Corporation's performance and its outlook.

ACCOUNTING POLICIES, CRITICAL JUDGMENTS AND ESTIMATES

The preparation of the Corporation's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and other items in net earnings or loss, and the related disclosure of contingent assets and liabilities, if any. Critical judgments and estimates represent estimates made by management that are, by their very nature, uncertain. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying values of assets and liabilities and the reported amounts of revenues and other items in net earnings or loss that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Summaries of the significant accounting policies applied in the preparation 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 2014 Consolidated Financial Statements.

CONTROLS AND PROCEDURES

In accordance with the Canadian Securities Administrators' National Instrument 52-109, the Corporation has filed certificates signed by its Chief Executive Officer and the Chief Financial Officer certifying that, among other things, the design of disclosure controls and procedures and the design of internal control over financial reporting are adequate as at December 31, 2014.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Corporation in the reports it files or submits under securities legislation is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and reported to management, including the Corporation's Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow required disclosures to be made in a timely fashion. Based on their evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as at December 31, 2014, the Corporation's disclosure controls and procedures were effective.

The Chief Executive Officer and the Chief Financial Officer of the Corporation have also evaluated whether there were changes to the Corporation's internal control over financial reporting during 2014 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.

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: financial and business prospects and financial outlook; performance characteristics of the Corporation's oil and natural gas properties; oil and natural gas production levels and reserve estimates; the quantity of oil and natural gas reserves and recovery rates; the Corporation's capital expenditure programs; supply and demand for oil and natural gas and commodity prices; drilling plans and strategy; availability of rigs, equipment and other goods and services; expectations regarding the Corporation's ability to raise capital and continually add to reserves through acquisitions, exploration and development; treatment under government regulatory regimes and tax laws; 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 "reserves" or "resources" 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 risks related to the exploration, development and production of oil and gas, uncertainty of reserve estimates, project development risks, reliance on operators, management and key personnel, the cyclical nature of the oil and gas business, dependence on a small number of customers, the need for additional funding to execute on further exploration and development work, the granting of operating permits and licenses, the mitigation of environmental risks including risks associated with induced or activated seismicity and other risk factors discussed or referred to in the section entitled *"Risk Factors"* in the Corporation's Annual Information Form and other documents filed from time to time with the securities administrators, all of which may be accessed at *www.sedar.com*. These statements are only predictions, not guarantees, and actual events or results may differ materially. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements.

Forward-looking statements and other information contained herein concerning the oil and gas industry and the Corporation's general expectations concerning this industry are based on estimates prepared by management using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which the Corporation believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market share and performance characteristics. While the Corporation is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors.

In addition, a number of assumptions were made by the Corporation in connection with certain forward-looking information and forward-looking statements for 2015 and beyond. These assumptions include: 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; the ability of the Corporation to obtain financing on acceptable terms; 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 2015 other than any planned maintenance or similar shutdowns and that any third parties on which the Corporation is relying will not experience any unplanned disruptions; that the reports it relies on for certain of its estimates are accurate; and that the above mentioned risks and the risk factors described in the Corporation's Annual Information Form 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, including a copy of the Corporation's Annual Information Form, may be accessed through the SEDAR website at *www.sedar.com* and the Corporation's website at *www.dundee-energy.com*.

Toronto, Ontario
February 20, 2015

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 professional 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) M. Jaffar Khan
President and
Chief Executive Officer

(signed) David Bhumgara
Chief Financial Officer

Toronto, Canada
February 20, 2015

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, 2014 and 2013 and the consolidated statements of operations, comprehensive income (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, 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 in our audits 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, 2014 and 2013 and its financial performance and its cash flow for the years then ended in accordance with International Financial Reporting Standards.

(signed) PricewaterhouseCoopers LLP
Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada
February 20, 2015

DUNDEE ENERGY LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(expressed in thousands of Canadian dollars)

	Note	As at December 31, 2014	December 31, 2013
ASSETS			
Current			
Cash		$ 829	$ 111
Accounts receivable	5	3,162	4,807
Prepaids and security deposits		1,468	1,217
Inventory		454	333
Investments	6	2,345	1,340
Derivative financial assets	10	341	-
Taxes recoverable		72	72
		8,671	7,880
Non-current			
Oil and gas properties	7	167,820	155,460
Equity accounted investment in Escal	14	-	-
Deferred income taxes	16	8,108	9,255
		$ 184,599	$ 172,595
LIABILITIES			
Current			
Bank loan	8	$ 61,617	$ 65,709
Accounts payable and accrued liabilities	17	7,081	5,230
Derivative financial liabilities	10	-	92
Decommissioning liabilities	9	1,358	1,284
		70,056	72,315
Non-current			
Decommissioning liabilities	9	54,903	41,416
		124,959	113,731
SHAREHOLDERS' EQUITY			
Equity Attributable to Owners of the Parent			
Share capital	11	112,626	112,626
Contributed surplus	11	7,691	7,475
Deficit		(56,997)	(58,345)
Accumulated other comprehensive loss		(3,392)	(3,082)
		59,928	58,674
Non-controlling interest		(288)	190
		59,640	58,864
		$ 184,599	$ 172,595

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

Commitments (Note 18)

On behalf of the Board,

(signed) Harold P. (Sonny) Gordon
Director

(signed) Garth MacRae
Director

DUNDEE ENERGY LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 2014 and 2013
(expressed in thousands of Canadian dollars, except per share amounts)

	Note		2014		2013
REVENUES					
Oil and gas sales		$	46,230	$	39,174
Royalties			(6,950)		(5,966)
Net sales			39,280		33,208
Production expenditures	13		(15,929)		(14,990)
Depreciation and depletion	7		(10,901)		(12,562)
General and administrative expenses	13		(6,504)		(5,900)
Gain (loss) on fair value changes of derivative financial instruments	10		388		(581)
(Loss) gain on fair value changes in investments	6		(70)		24
Impairment of oil and gas properties	7		-		(3,500)
Impairment of financial instruments	5, 6		(2,320)		(1,286)
Interest and other income			2,168		2,885
Interest expense	8, 9		(4,553)		(4,588)
Foreign exchange gain			148		267
EARNINGS (LOSS) BEFORE INCOME TAXES			1,707		(7,023)
Income tax (expense) recovery	16				
Current			-		(5)
Deferred			(726)		787
			(726)		782
NET EARNINGS (LOSS) FOR THE YEAR		$	981	$	(6,241)
NET EARNINGS (LOSS) ATTRIBUTABLE TO:					
Owners of the parent		$	1,348	$	(6,184)
Non-controlling interest			(367)		(57)
		$	981	$	(6,241)
BASIC AND DILUTED NET EARNINGS (LOSS) PER SHARE	15	$	0.01	$	(0.03)

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

DUNDEE ENERGY LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the years ended December 31, 2014 and 2013
(expressed in thousands of Canadian dollars)

	Note		2014		2013
NET EARNINGS (LOSS) FOR THE YEAR		$	981	$	(6,241)
Other comprehensive loss					
Items that may be reclassified to net earnings (loss)					
Taxes associated with equity accounted investment	16		(421)		-
Other comprehensive loss for the year			(421)		-
COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		$	560	$	(6,241)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:					
Owners of the parent		$	1,038	$	(6,184)
Non-controlling interest			(478)		(57)
		$	560	$	(6,241)

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, 2014 and 2013
(expressed in thousands of Canadian dollars)

	Attributable to Owners of the Parent						
	Share Capital	Contributed Surplus for Option Reserve	Contributed Surplus for Deferred Share Unit Reserve	Deficit	Accumulated Other Comprehensive Loss	Non-controlling Interest	TOTAL
Balance, December 31, 2012	$ 104,838	$ 6,367	$ 719	$ (52,161)	$ (3,082)	$ 247	$ 56,928
For the year ended December 31, 2013							
Net loss	-	-	-	(6,184)	-	(57)	(6,241)
Share issuance pursuant to rights offering, net of issue costs (Note 11)	7,777	-	-	-	-	-	7,777
Stock based compensation (Note 12)	11	253	136	-	-	-	400
Balance, December 31, 2013	112,626	6,620	855	(58,345)	(3,082)	190	58,864
For the year ended December 31, 2014							
Net earnings	-	-	-	1,348	-	(367)	981
Other comprehensive loss	-	-	-	-	(310)	(111)	(421)
Stock based compensation (Note 12)	-	188	28	-	-	-	216
Balance, December 31, 2014	$ 112,626	$ 6,808	$ 883	$ (56,997)	$ (3,392)	$ (288)	$ 59,640

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, 2014 and 2013
(expressed in thousands of Canadian dollars)

	Note	2014	2013
OPERATING ACTIVITIES			
Net earnings (loss) for the year		$ 981	$ (6,241)
Adjustments for:			
Depreciation and depletion	7	10,901	12,562
(Gain) loss on fair value changes of derivative financial instruments	10	(433)	307
Loss (gain) on fair value changes in financial instruments	6	70	(24)
Impairment of oil and gas properties	7	-	3,500
Impairment of financial instruments	5, 6	2,320	1,286
Deferred income taxes	16	726	(787)
Stock based compensation	12	216	389
Reclamation expenditures	9	(1,210)	(1,320)
Other		(96)	(781)
		13,475	8,891
Changes in:			
Accounts receivable		569	(1,037)
Accounts payable and accrued liabilities		2,889	(515)
Current income taxes		-	(97)
Prepaids and security deposits		(251)	(19)
Inventory		(121)	17
CASH PROVIDED FROM OPERATING ACTIVITIES		16,561	7,240
FINANCING ACTIVITIES			
(Repayment of) advance from bank loan arrangements	8	(4,092)	3,076
Proceeds from rights offering, net of issue costs	11	-	8,586
CASH (USED IN) PROVIDED FROM FINANCING ACTIVITIES		(4,092)	11,662
INVESTING ACTIVITIES			
Acquisition of investment	6	(1,075)	(1,075)
Acquisition of working interest in oil and gas properties	7	(3,314)	(4,893)
Investment in oil and gas properties	7	(7,362)	(12,948)
CASH USED IN INVESTING ACTIVITIES		(11,751)	(18,916)
INCREASE (DECREASE) IN CASH		718	(14)
CASH, BEGINNING OF YEAR		111	125
CASH, END OF YEAR		$ 829	$ 111
Interest paid		$ 3,408	$ 3,641
Income taxes paid		$ -	$ 102

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, 2014 and 2013
Tabular dollar amounts in thousands of Canadian dollars, except per share amounts

1. NATURE OF OPERATIONS

Dundee Energy Limited ("Dundee Energy" or the "Corporation") is an oil and natural gas company with a mandate to create long-term value through the exploration, development, production and marketing of oil and natural gas and through other high impact energy projects. Dundee Energy is incorporated under the Canada Business Corporations Act. The Corporation's head office is located at Suite 2100, 1 Adelaide Street East, Toronto, Ontario, Canada, M5C 2V9, and its registered office is located at 850 – 2nd Street S.W., 15th Floor, Calgary, Alberta, Canada, T2P 0R8. The Corporation's common shares trade on the Toronto Stock Exchange ("TSX") under the symbol "DEN". At December 31, 2014, Dundee Corporation was the principal shareholder of the Corporation.

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

2. BASIS OF PREPARATION

These consolidated financial statements of the Corporation as at and for the year ended December 31, 2014 ("2014 Consolidated Financial Statements"), with comparative information as at and for the year ended December 31, 2013, 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 approved by the Board of Directors on February 20, 2015.

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.

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. 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 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 immediately preceding 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, derivative financial instruments, investments, amounts due pursuant to bank loan arrangements and accounts payable and accrued liabilities.

Financial assets and liabilities 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 manages its exposure to changes in commodity prices and associated earnings volatility by periodically entering into derivative contracts in accordance with its risk management policy. These derivative contracts are carried at fair value and are generally reported as assets in circumstances when they have a positive fair value and as liabilities when they have a negative fair value. Both realized and unrealized gains and losses from changes in fair value of these derivative contracts are recorded in the consolidated statement of operations.

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 and production expenditures in southern Ontario, including accrued costs for decommissioning liabilities. Capitalized costs include the acquisition of leases and 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 is 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.

Flow-Through Common Shares

Canadian tax legislation permits a company to issue flow-through common shares, whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investor rather than the Corporation. Recording these expenditures for accounting purposes gives rise to taxable temporary differences. Upon issuance of flow-through common shares, the quoted value of the common share, or the non-flow-through common share price, as appropriate, is used to record the increase to share capital.

The difference between the amount recognized in share capital and the amount paid by the investor is recognized as a flow-through share premium liability, which is reversed into operations when eligible expenditures are made, extinguishing the obligation. A deferred tax liability, and the associated income tax expense, are recorded when eligible expenditures are made.

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 presented before 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 probable 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 the Year Ended December 31, 2014

During the year ended December 31, 2014, the Corporation adopted the following new and revised accounting standards, including any consequential amendments thereto. Changes in accounting policies adopted by the Corporation were made in accordance with the applicable transitional provisions as provided in those standards and amendments.

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

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

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

On January 1, 2014, the Corporation implemented certain amendments to IAS 36 which require that the Corporation disclose, if appropriate, the recoverable amount of an asset or cash generating unit, and the basis for the determination of fair value less costs of disposal or value-in-use of the asset, when an impairment loss is recognized or when an impairment loss is subsequently reversed. These amendments resulted in the Corporation including additional disclosures in respect of the recognition of impairments related to its oil and gas properties.

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

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

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

IAS 1, "Presentation of Financial Statements" ("IAS 1")

In December 2014, the IASB issued amendments to IAS 1, clarifying guidance on the concepts of materiality and aggregation of items in the financial statements, the use and presentation of subtotals in the statement of operations and the statement of comprehensive income or loss, and providing additional flexibility in the structure and disclosures of the financial statements to enhance understandability. The amendments to IAS 1 may be applied immediately, and become mandatory for annual periods beginning on or after January 1, 2016. The Corporation has yet to assess the impact of the amendments to IAS 1 to its consolidated financial statements.

IFRS 10, "Consolidated Financial Statements" ("IFRS 10") and
IAS 28, "Investments in Associates and Joint Ventures (2011)" ("IAS 28")

In September 2014, the IASB announced certain amendments to IFRS 10 and IAS 28 that resolved certain inconsistencies in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments provide that a full gain or loss is recognized when a transaction involves a business, whereas a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The amendments will be effective from annual periods commencing on or after January 1, 2016. The Corporation has yet to assess the impact of the amendments to IFRS 10 and IAS 28 to its consolidated financial statements.

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

In November 2009, the IASB issued IFRS 9, replacing IAS 39, "*Financial Instruments: Recognition and Measurement*" ("IAS 39"). IFRS 9 was issued in three phases. The first phase addressed the accounting for financial assets and financial liabilities. The second phase addressed impairment of financial instruments, while the third phase addressed hedge accounting. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple category and measurement models in IAS 39. The approach in IFRS 9 focuses on how an entity manages its financial instruments in the context of its business model, as well as the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods currently provided in IAS 39.

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

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

In July 2014, the IASB issued final amendments to IFRS 9, replacing earlier versions of IFRS 9. These amendments to IFRS 9 introduce a single, forward-looking 'expected loss' impairment model for financial assets which will require more timely recognition of expected credit losses, and a fair value through other comprehensive income category for financial assets that are debt instruments.

The amendments to IFRS 9 are effective for annual periods beginning on or after January 1, 2018 and are available for earlier adoption. The Corporation does not expect that the implementation of IFRS 9 will have a material effect on the Corporation's consolidated financial statements.

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

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

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

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

IAS 16, "Property, Plant and Equipment" ("IAS 16") and IAS 38, "Intangible Assets" ("IAS 38")
In May 2014, the IASB issued amendments to IAS 16 and IAS 38 to clarify acceptable methods of depreciation and amortization. The amended IAS 16 eliminates the use of a revenue-based depreciation method for items of property, plant and equipment. Similarly, amendments to IAS 38 eliminate the use of a revenue-based amortization model for intangible assets except in certain specific circumstances. The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The Corporation does not expect that these amendments will have a significant impact to 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, 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.

Business Combinations and Asset Acquisitions

Management uses judgment in applying the acquisition method of accounting for business combinations and in determining fair values in asset acquisitions, and specifically, in identifying and valuing intangible assets and liabilities acquired in acquisitions, if any. The value placed on the acquired assets and liabilities, including identifiable intangible assets, will have an effect on the amount of goodwill that the Corporation may record on an acquisition.

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 models require the use of assumptions. Changes in the underlying assumptions of these models 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. ACCOUNTS RECEIVABLE

As at December 31,		2014		2013
Customers for oil and natural gas production	$	2,755	$	3,070
Third-party drilling receivable		331		542
Working interest partners		76		71
Amounts receivable from Escal (Note 14)		-		1,124
	$	3,162	$	4,807

During the year ended December 31, 2014, and following the relinquishment by Escal of the Castor Project (Note 14) in October 2014, the Corporation determined that there were significant uncertainties in its ability to collect certain amounts owing from Escal to the Corporation, and accordingly, the Corporation recognized an impairment of $1,034,000 in respect of these amounts receivable, reducing the amounts to $nil. The impairment in amounts receivable from Escal have been included in *"Impairment of financial instruments"* on the Corporation's consolidated statement of operations.

6. INVESTMENTS

As at December 31,		2014		2013
Investment in publicly listed equity securities	$	195	$	265
Investment in private enterprises		2,150		1,075
Preferred shares of Eurogas International		32,150		32,150
Less: Impairment		(32,150)		(32,150)
		-		-
Accrued dividends on preferred share investment in Eurogas International		8,239		6,953
Less: Impairment		(8,239)		(6,953)
		-		-
	$	2,345	$	1,340

The Corporation's investments in publicly listed equity securities are designated as financial assets at fair value through profit or loss and as such, changes in their fair values are recorded in net earnings or loss. During the year ended December 31, 2014, the Corporation recognized an unrealized loss of $70,000 (2013 – gain of $24,000) from changes in the fair value of investments held in its portfolio of publicly listed equity securities.

The Corporation has invested $2,150,000, including $1,075,000 invested during the year ended December 31, 2014, 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. In addition to its 45% equity interest, senior officers of the Corporation's parent represent 20% of the board of directors of Windiga. The Corporation has completed an assessment of whether it is able to exert significant influence over the operating and financial policies of Windiga. In completing its assessment, the Corporation considered various factors, including the anticipated dilution in its ownership that may be required in order for Windiga to access the necessary capital to advance its current initiatives. Accordingly, the Corporation has classified its investment in Windiga as a financial asset at fair value through profit or loss. As Windiga is a private enterprise in the initial stages of development, its fair value cannot be reliably measured and therefore, the Corporation's investment in Windiga is carried at cost.

At each of December 31, 2014 and December 31, 2013, the Corporation held 32,150,000 Series A Preference Shares of Eurogas International ("Series A Preference Shares") with an aggregate par value of $32,150,000. The 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, 2014, 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 the year ended December 31, 2014, the Corporation recognized an impairment loss of $1,286,000 (2013 – $1,286,000) relating to dividends receivable on the Series A Preference Shares.

7. OIL AND GAS PROPERTIES

Significant Transactions

On July 5, 2013 and August 6, 2014, the Corporation completed transactions pursuant to which it acquired an additional 20% and 15% working interest respectively, in certain offshore gas properties in southern Ontario. The transactions increase the Corporation's working interest in these properties to approximately 100% at December 31, 2014.

On September 10, 2013, the Corporation entered into an asset exchange agreement pursuant to which it acquired certain seismic data and certain other oil producing assets in exchange for the transfer of its working interests in certain other oil producing assets and certain property, plant and equipment. Included in *"interest and other income"* on the consolidated statement of operations for the year ended December 31, 2013 is a net gain of $337,000 relating to the asset exchange agreement completed on September 10, 2013.

A summary of the allocation of the aggregate consideration transferred to the fair value of the net assets acquired in the above transactions is summarized below.

	Acquisition of Working Interests		Asset Exchange
	Transaction on August 6, 2014	Transaction on July 5, 2013	Transaction on September 10, 2013
Net assets acquired			
Oil and gas development costs	$ 7,246	$ 10,035	$ 344
Pipeline infrastructure	498	734	-
Machinery and equipment	362	535	-
Land and buildings	70	103	-
Undeveloped properties	8	12	642
	8,184	11,419	986
Decommissioning liability	(4,870)	(6,526)	(68)
	$ 3,314	$ 4,893	$ 918
Aggregate consideration transferred:			
Cash	$ 3,314	$ 4,893	$ -
Transfer of interests in property, plant and equipment	-	-	918
	$ 3,314	$ 4,893	$ 918

Property, Plant and Equipment as at December 31, 2014

	Property, Plant and Equipment					*Exploration and Evaluation*	
	Oil and Gas Development Costs	Pipeline Infrastructure	Machinery and Equipment	Land and Buildings	Other	Undeveloped Properties	TOTAL
At December 31, 2012							
Cost	$ 134,567	$ 25,603	$ 27,021	$ 4,580	$ 3,309	$ 12,667	$ 207,747
Accumulated depreciation, depletion and impairment	(44,414)	(4,696)	(3,186)	(63)	(938)	-	(53,297)
Net carrying value, December 31, 2012	90,153	20,907	23,835	4,517	2,371	12,667	154,450
Year ended December 31, 2013							
Carrying value December 31, 2012	90,153	20,907	23,835	4,517	2,371	12,667	154,450
Acquisitions	10,379	734	535	103	-	654	12,405
Net additions	4,236	916	(214)	40	(265)	7,376	12,089
Remeasure decommissioning liability (Note 9)	(7,422)	-	-	-	-	-	(7,422)
Depreciation and depletion	(9,422)	(1,421)	(1,535)	(29)	(155)	-	(12,562)
Impairment	(3,500)	-	-	-	-	-	(3,500)
Net carrying value, December 31, 2013	84,424	21,136	22,621	4,631	1,951	20,697	155,460
At December 31, 2013							
Cost	140,767	27,253	27,236	4,721	3,041	20,697	223,715
Accumulated depreciation and depletion	(56,343)	(6,117)	(4,615)	(90)	(1,090)	-	(68,255)
Net carrying value, December 31, 2013	84,424	21,136	22,621	4,631	1,951	20,697	155,460
Year ended December 31, 2014							
Carrying value December 31, 2013	84,424	21,136	22,621	4,631	1,951	20,697	155,460
Acquisitions	7,246	498	362	70	-	8	8,184
Net additions	2,370	-	270	222	145	3,314	6,321
Remeasure decommissioning liability (Note 9)	8,756	-	-	-	-	-	8,756
Depreciation and depletion	(8,328)	(1,159)	(1,267)	(28)	(119)	-	(10,901)
Net carrying value, December 31, 2014	94,468	20,475	21,986	4,895	1,977	24,019	167,820
At December 31, 2014							
Cost	159,139	27,751	27,809	5,013	3,186	24,019	246,917
Accumulated depreciation, depletion and impairment	(64,671)	(7,276)	(5,823)	(118)	(1,209)	-	(79,097)
Net carrying value, December 31, 2014	$ 94,468	$ 20,475	$ 21,986	$ 4,895	$ 1,977	$ 24,019	$ 167,820

Impairment of Oil and Gas Properties

During the year ended December 31, 2013, the Corporation recognized an impairment of $3,500,000 on an oil property and its related CGU. The impairment charge reflects a reduction in reserves and associated expected future production volumes from the oil property.

The recoverable amount of the impaired CGU was determined by calculating its value-in-use. In determining the CGU's value-in-use, the Corporation considered expected cash flows based on the December 31, 2013 externally evaluated reserves reports and long-term views on commodity prices. In computing the recoverable amount, expected future cash flows were discounted using a discount rate of 8%.

As at December 31, 2013, selected key price forecasts used to determine the recoverable amount of the Corporation's oil and gas properties were as follows:

	Natural Gas	Oil
Reserve Prices	Union Parkway CAD$ / Mcf	Edmonton Par (delivered to Sarnia, ON) CAD$ / bbl
2014	4.50	99.55
2015	4.75	96.10
2016	4.90	99.00
2017	5.10	98.60
2018	5.35	99.40
Average five year forecast	4.92	98.53

There was no recognition of impairment for the year ended December 31, 2014.

8. BANK LOAN

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

The credit facility is secured against all of the oil and natural gas properties owned by DELP. In addition, the Corporation has assigned a limited recourse guarantee of its units in DELP as further security pursuant to the credit facility. The credit facility is subject to certain covenants, including maintenance of minimum levels of working capital. At December 31, 2014, the Corporation was in compliance with all such covenants.

As at December 31,		2014		2013
Prime rate loans	$	-	$	1,200
Bankers' acceptances		62,000		65,000
Less: Unamortized discount		(383)		(491)
	$	61,617	$	65,709

At December 31, 2014, DELP had drawn $62,000,000 (2013 – $66,200,000) pursuant to the credit facility. Available credit under the credit facility at December 31, 2014 was $8,000,000 (2013 – $3,800,000). During the year ended December 31, 2014, the Corporation incurred interest expense relating to the credit facility, including bank charges, arrangement fees and standby fees, of $3,408,000 (2013 – $3,637,000).

9. DECOMMISSIONING LIABILITIES

The carrying amount of the Corporation's decommissioning liabilities is comprised of the expected future abandonment and site restoration costs associated with its oil and gas properties and is anticipated to be incurred over 48 years. Abandonment and site restoration costs are based on the Corporation's net ownership in the underlying wells and facilities, the estimated cost to abandon these wells and facilities and the estimated timing of the costs to be incurred in future periods.

As at December 31,		2014		2013
Undiscounted future obligations, beginning of year	$	91,753	$	81,278
Effect of acquisitions		9,978		12,544
Effect of changes in estimates		(764)		(749)
Liabilities settled (reclamation expenditures)		(1,210)		(1,320)
Undiscounted future obligations, end of year	$	99,757	$	91,753

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

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

As at December 31,		2014		2013
Discount rates applied to future obligations		*1.00% - 2.22%*		*1.10% - 3.09%*
Inflation rate		*2.00%*		*2.00%*
Discounted future obligations, beginning of year	$	42,700	$	44,705
Effect of acquisitions (Note 7)		4,870		5,790
Effect of changes in estimates and remeasurement of discount rates		8,756		(7,422)
Liabilities settled (reclamation expenditures)		(1,210)		(1,320)
Accretion (interest expense)		1,145		947
Discounted future obligations, end of year	$	56,261	$	42,700
Current	$	1,358	$	1,284
Non-current		54,903		41,416
	$	56,261	$	42,700

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

10. DERIVATIVE FINANCIAL INSTRUMENTS

During the year ended December 31, 2014, the Corporation entered into 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, they 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 the consolidated statement of operations. The Corporation has determined that the fair value of commodity swap derivative contracts at December 31, 2014 resulted in an asset balance of $341,000 (2013 – a liability balance of $92,000).

During the year ended December 31, 2014, the Corporation recognized a gain of $388,000 (2013 – loss of $581,000) from changes in the fair value of commodity swap derivative contracts.

11. 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, 2014, there were no preferred shares of the Corporation issued and outstanding.

Issued and Outstanding Common Shares

	Number of Common Shares Outstanding	Share Capital	Contributed Surplus: Option Reserve	Contributed Surplus: DSUP Reserve
Outstanding, December 31, 2012	164,651,647	$ 104,838	$ 6,367	$ 719
Transactions during the year ended December 31, 2013				
Stock based compensation	30,874	11	253	136
Shares issued pursuant to rights offering	5,734,067	1,950	-	-
Flow-through shares issued pursuant to rights offering	17,787,596	6,937	-	-
Deferred tax recognized on flow-through shares (Note 16)	-	(889)	-	-
Issue costs associated with rights offering	-	(301)	-	-
Deferred tax recognized on issue costs (Note 16)	-	80	-	-
Outstanding, December 31, 2013	188,204,184	112,626	6,620	855
Transactions during the year ended December 31, 2014				
Stock based compensation	-	-	188	28
Outstanding, December 31, 2014	188,204,184	$ 112,626	$ 6,808	$ 883

Normal Course Issuer Bid

On May 2, 2014, the Corporation announced that it had received regulatory approval for the renewal of its normal course issuer bid from May 7, 2014 to May 6, 2015. Subject to certain conditions, the Corporation may purchase up to a maximum of 9,410,209 common shares for cancellation pursuant to these arrangements, representing approximately 5% of its common shares outstanding immediately prior to approval of the normal course issuer bid. The Corporation did not purchase any common shares for cancellation under its normal course issuer bid arrangements during the years ended December 31, 2014 and 2013.

Rights Offering

On April 5, 2013, the Corporation completed a rights offering for aggregate gross proceeds of $8,887,000. Pursuant to the rights offering, the Corporation issued 5,734,067 common shares at a price of $0.34 per common share and it issued 17,787,596 flow-through common shares at a price of $0.39 per flow-through common share. The Corporation incurred costs of $301,000 to complete the rights offering.

The Corporation initially recorded a share premium liability of $889,000 in "*Accounts payable and accrued liabilities*", representing the premium paid for the flow-through benefit. During the year ended December 31, 2013, the share premium liability was fully amortized and was recognized as "*current income tax expense*" in the consolidated statement of operations, commensurate with the Corporation renouncing associated expenditures of $6,937,000 (Note 16).

Issuance of Shares Pursuant to Share Incentive Arrangements

On June 28, 2013, the Corporation issued 30,874 common shares pursuant to the share bonus component of its share incentive plan (Note 12). The Corporation incurred compensation expense of $20,000 in respect of the issuance of shares pursuant to these arrangements, including $9,000 in associated income taxes.

12. 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.

During the year ended December 31, 2014, the Corporation granted 200,000 (2013 – 2,090,000) stock options at an exercise price of $0.26 (2013 – $0.50) per option. The fair value of the options granted was $0.15 (2013 – $0.20) per option and was estimated at the grant date using an option pricing model with the following assumptions:

	2014	2013
Risk free interest rate	1.71%	1.03%
Expected dividend yield	0.00%	0.00%
Expected volatility	73.00%	62.00%
Expected life of the options	3 to 5 years	3 to 5 years

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

For the years ended December 31,			2014			2013
	Stock Options		Weighted Average Exercise Price	Stock Options		Weighted Average Exercise Price
Options outstanding, beginning of year	5,605,000	$	0.68	3,815,000	$	0.77
Granted	200,000		0.26	2,090,000		0.50
Forfeited	(100,000)		0.81	(300,000)		0.63
Options outstanding, end of year	5,705,000	$	0.66	5,605,000	$	0.68
Exercisable options	4,874,991	$	0.70	4,078,326	$	0.74

Option Price	Options Outstanding	Options Exercisable	Contractual Life Remaining (Years)
At $0.26	200,000	66,666	4.24
At $0.50	2,090,000	1,393,325	3.70
At $0.60	400,000	400,000	2.34
At $0.81	3,015,000	3,015,000	0.83

During the year ended December 31, 2014, the Corporation recognized stock based compensation expense of $188,000 (2013 – $253,000) in respect of outstanding stock options.

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. During the year ended December 31, 2014, the Corporation issued 131,609 (2013 – 380,507) deferred share units with a fair value on the date of issuance of $28,000 (2013 – $136,000). The deferred share units were issued in settlement of outstanding directors' fees payable. At December 31, 2014, the Corporation had 1,457,426 (2013 – 1,325,817) 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.

For the years ended December 31,	2014	2013
Number of deferred share units outstanding, beginning of year	1,325,817	945,310
Granted	131,609	380,507
Number of deferred share units outstanding, end of year	1,457,426	1,325,817

13. GENERAL AND ADMINISTRATIVE EXPENSES AND PRODUCTION EXPENDITURES BY NATURE

General and Administrative Expenses

For the years ended December 31,		2014		2013
Salary and salary-related	$	3,834	$	4,017
Stock based compensation		216		389
Corporate and professional fees		2,266		2,095
General office		1,660		1,692
Exploration and development costs		1,256		1,299
Capitalization of general and administrative costs		(2,728)		(3,592)
	$	6,504	$	5,900

Production Expenditures

For the years ended December 31,		2014		2013
Labour	$	4,359	$	3,742
Materials, equipment and supplies used		6,594		6,540
Transportation		1,442		1,340
Utilities		2,164		1,851
Rental and lease payments		518		710
Other		852		807
	$	15,929	$	14,990

14. EQUITY ACCOUNTED INVESTMENT IN ESCAL

The Corporation's 74% owned subsidiary, CLP, owns a 33% interest in Escal, the developer and former owner of the Castor underground gas storage project ("Castor Project") located in Spain. The remaining interest in Escal is held by ACS Servicios Comunicaciones y Energia, S.L. ("ACS").

In July 2013, Escal initiated the technical and economic audits of the Castor Project, which were required for the inclusion of the project to the Spanish gas system. These audits concluded that the Castor Project was technically fit to store and deliver gas, that it had an appropriate process design and configuration, and that it had sufficient safety engineering for operation. However, in mid September 2013, micro-seismic activity was detected in the area surrounding the Castor Project, following which the Spanish authorities implemented a suspension of further activities, pending an independent assessment of the source of the seismic activity. Independent assessments were subsequently completed, putting forth that the seismicity observed appeared to be related to a secondary fault present in the area. However, and notwithstanding the results of the technical and economic audits, as well as the results of the independent assessments as to the source of seismic activity, the Spanish authorities did not revoke their mandated suspension.

Escal subsequently considered various 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 formally accepted the relinquishment of the Castor Project. The Royal Decree-Law came into force on October 4, 2014, the date of its publication in the Spanish Official State Gazette, acknowledging the termination of the concession, and reverting ownership of the associated facilities back to the public domain. As provided in the terms for relinquishment, Escal is entitled to receive compensation equal to the net value of its investment in the Castor Project, which the Royal Decree-Law has determined to be €1.46 billion. Accordingly, in November 2014, Escal received €1.35 billion, being the net value of its investment, after deducting amounts of €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.

In addition to the net value of its investment as outlined above, the Royal Decree-Law also provides 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. The determination and timing of these additional amounts, if any, have not yet been finalized. In November 2014, ACS arranged a €300 million refinancing of Escal, of which €60 million was applied to repay the balance of amounts owing pursuant to the outstanding bond arrangements. CLP is of the view that the refinancing arranged by ACS was not in the best interests of Escal and consequently, CLP has lodged a legal action challenging the approval of the refinancing. Additionally, CLP has determined that the use of proceeds from the refinancing may have compromised CLP’s interests as a shareholder and, accordingly, CLP is currently evaluating the appropriate course of action to take in this regard.

The Royal Decree-Law further confirms that the Castor Project is to remain mothballed until the Spanish government is satisfied with technical studies and reports on the commissioning of such facilities. Enagás Transporte, S.A.U., the technical manager of the Spanish gas system, has been tasked with completing these studies and it will be entrusted with ongoing care and maintenance of the facilities.

In accordance with the terms of the Royal Decree-Law, 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. Recognition of the Corporation’s proportionate share of losses incurred by Escal draws the Corporation’s carrying value in Escal to below zero. At December 31, 2014, the Corporation had not recorded a liability of $32,616,000 (2013 – $34,096,000) related to losses incurred by Escal, as it does not have the legal or constructive obligation in respect thereof. Consequently, at December 31, 2014, the carrying value of the Corporation’s equity interest in Escal was $nil (2013 – $nil).

The following table summarizes financial information about Escal’s assets and liabilities as at and for the years ended December 31, 2014 and 2013. As the Corporation only has significant influence, it is unable to obtain reliable information at year-end on a timely basis. The Corporation has included in its consolidated financial statements, equity accounted information based on the most recent audited annual financial statements and the subsequent unaudited interim financial statements prepared by Escal, issued within three months of the year-end of the Corporation. Adjustments are made to reflect material transactions and events in the intervening period. For purposes of the following disclosure, the assets and liabilities of Escal have been translated using prevailing foreign exchange rates at the dates of the consolidated statements of financial position.

As at and for the years ended December 31,	2014	2013
Assets	$ 2,471,702	$ 2,496,348
Liabilities	(2,513,505)	(2,540,542)
Net liabilities	$ (41,803)	$ (44,194)

15. NET EARNINGS (LOSS) PER SHARE

		2014		2013
Net earnings (loss) for the year attributable to owners of the parent	$	1,348	$	(6,184)
Weighted average number of common shares outstanding		188,204,184		182,131,494
Basic net earnings (loss) per common share	$	0.01	$	(0.03)
Effect of dilutive securities to the weighted average number of common shares outstanding		1,379,667		n/a
Diluted net earnings (loss) per common share	$	0.01	$	(0.03)

16. INCOME TAXES

During the year ended December 31, 2014, the Corporation recognized an income tax expense of $726,000 (2013 – income tax recovery of $782,000), the major components of which include the following items:

For the years ended December 31,		2014		2013
Current income tax expense				
Adjustments in respect of prior years	$	-	$	(5)
Deferred income tax (expense) recovery				
Origination and reversal of timing differences		(726)		(102)
Flow-through share premium		-		889
		(726)		787
Income tax (expense) recovery	$	(726)	$	782

The income tax amounts on the Corporation's earnings (loss) before income taxes differs from the income tax amount that would arise using the combined Canadian federal and provincial statutory tax rate of 26% (2013 – 26%) as a result of the following items:

For the years ended December 31,		2014		2013
(Earnings) loss before tax at statutory rate of 26% (2013 – 26%)	$	(452)	$	1,860
Effect on taxes of:				
Non-deductible expenses		(227)		(122)
Renounced exploration expenses		-		(1,838)
Flow-through share premium amortization		-		889
Net income tax not previously recognized		-		(5)
Other differences		(47)		(2)
Income tax (expense) recovery	$	(726)	$	782

Deferred tax assets arise from available income tax loss carry forwards and future income tax deductions. A deferred tax asset is recognized when management believes it is more likely than not that the benefit will be recognized.

The movement in the deferred income tax assets and liabilities during the year, and the net components of the Corporation's net 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, 2012	$ 38	$ 6,882	$ 1,816	$ 175	$ 11	$ 511	$ 9,433
(Charged) credited to statement of operations	(38)	(474)	373	(12)	(28)	25	(154)
(Charged) credited to shareholders' equity	-	-	-	-	80	-	80
Balance, December 31, 2013	$ -	$ 6,408	$ 2,189	$ 163	$ 63	$ 536	$ 9,359
(Charged) credited to statement of operations	-	(1,157)	536	(12)	(17)	(90)	(740)
(Charged) credited to statement of comprehensive income	-	-	-	-	-	(421)	(421)
Balance, December 31, 2014	$ -	$ 5,251	$ 2,725	$ 151	$ 46	$ 25	$ 8,198

Deferred Tax Liabilities	Flow-Through Shares	Equity Accounted Investment	Other	TOTAL
Balance, December 31, 2012	$ -	$ (89)	$ (67)	$ (156)
(Charged) credited to statement of operations	889	-	52	941
(Charged) credited to accounts payable	(889)	-	-	(889)
Balance, December 31, 2013	$ -	$ (89)	$ (15)	$ (104)
(Charged) credited to statement of operations	-	89	(75)	14
Balance, December 31, 2014	$ -	$ -	$ (90)	$ (90)

The Corporation had no operating loss carry forwards on December 31, 2014 and 2013.

17. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in these 2014 Consolidated Financial Statements, related party transactions and balances as at and for the year ended December 31, 2014 and 2013 are as described below.

Services Arrangement with Dundee Resources Limited

Dundee Resources Limited, a wholly owned subsidiary of Dundee Corporation, provides the Corporation with administrative support services as well as geophysical, geological and engineering consultation with regard to the Corporation's activities. During the year ended December 31, 2014, the Corporation incurred costs of $1,117,000 (2013 – $1,393,000) in respect of these arrangements.

Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities at December 31, 2014 are amounts owing to the Corporation's parent, Dundee Corporation, and to Dundee Corporation's subsidiaries of $3,213,000 (2013 – $973,000).

Financial Services

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

Key Management Compensation

Compensation and other fees paid to directors of the Corporation and to the President and Chief Executive Officer of the Corporation during the years ended December 31, 2014 and 2013 are shown as follows:

For the years ended December 31,	2014	2013
Directors' fees and executive consulting	$ 518	$ 562
Stock based compensation	116	153
Benefits	26	25
	$ 660	$ 740

18. COMMITMENTS

The Corporation and its subsidiaries have lease agreements 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,	2014	2013
Less than 1 year	$ 425	$ 317
Between 1 and 5 years	843	465
Thereafter	-	-

19. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The following table provides information about financial assets and financial liabilities measured at fair value in the Corporation's consolidated statement of financial position as at December 31, 2014. These financial assets and financial liabilities have been categorized by level, according to the significance of the inputs used in determining fair value measurements.

		Fair Value as at December 31, 2014		
	Carrying Value as at December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring Measurements				
Financial Assets				
Investment in publicly listed equity securities	$ 195	$ 195	$ -	$ -
Investment in private enterprises	2,150	-	2,150	-
Derivative financial instruments	341	-	341	-

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 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.

The Corporation currently 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.

The majority of the Corporation's revenue is from three (2013 – four) core customers, who individually accounted for 46%, 29% and 24% (2013 – 57%, 20%, 12% and 9%) of total revenue. Of the Corporation's individual accounts receivable due from customers, approximately 41% (2013 – 49%) was due from one marketer.

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 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 natural gas. A 3% change in the foreign exchange translation rate of Canadian to U.S. dollars would result in a change to net earnings of approximately $832,000 (2013 – $532,000), 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, 2014 and 2013, 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 borrowing base under its bank loan, or its ability to raise additional capital, if required.

In order to mitigate its exposure to adverse changes in commodity prices, the Corporation has entered into commodity swap derivative contracts (Note 10). These derivative instruments are recognized in the consolidated financial statements at fair value. The fair value of these derivative financial instruments is primarily driven by prices of the underlying commodities. Accordingly, the Corporation is exposed to fair value risk in respect of these contracts that is partially correlated to changes in commodity prices. A $1.00 change in the price of crude oil on a per barrel basis would result in a change to net earnings of $11,000 (2013 – $16,000) before associated taxes. There are no outstanding natural gas commodity swap derivative contracts at December 31, 2014 (2013 – $nil).

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 under its bank loan arrangements. In general, for every 50 basis point change in market interest rates, net earnings before income taxes would change by approximately $321,000 (2013 – $316,000).

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, 2014.

		Carrying Amount	Contractual Term to Maturity
Bank loan	$	61,617	Demand facility
Accounts payable and accrued liabilities		7,081	Typically due within 20 to 90 days
Current portion of decommissioning liabilities		1,358	Expected settlement in 2015
	$	70,056	

Draws against the Corporation's bank loan arrangements are due on demand. The Corporation anticipates that amounts pursuant to the facility will be available on a revolving basis until May 31, 2015, after which the Corporation may request annual renewal periods, subject to approval by the lender. At December 31, 2014, the Corporation was in compliance with all required financial covenants pursuant to its bank loan arrangements.

Significant volatility in the underlying prices of commodities, including more recent volatility in the price of crude oil, may impact the aggregate amounts that the lender may make available to the Corporation. The Corporation mitigates the risk associated with the possible curtailment of lending capacity by actively managing its budgeted cash flow forecast, in consultation with its lender. Otherwise, the Corporation mitigates liquidity risk by monitoring operational cash flows, planning its project expenditures and securing financing facilities in advance of undertaking significant commitments. The Corporation currently anticipates that its borrowing availability and its future operational cash flow will be adequate to meet its financial liabilities.

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 farmout agreements, or engage in debt financing.

20. GEOGRAPHIC SEGMENTED INFORMATION

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

Segmented Statements of Operations for the Years Ended December 31, 2014 and December 31, 2013

	Southern Ontario		Spain		Corporate		TOTAL	
	31-Dec-14	31-Dec-13	31-Dec-14	31-Dec-13	31-Dec-14	31-Dec-13	31-Dec-14	31-Dec-13
REVENUES								
Oil and gas sales	$ 46,230	$ 39,174	$ -	$ -	$ -	$ -	$ 46,230	$ 39,174
Royalties	(6,950)	(5,966)	-	-	-	-	(6,950)	(5,966)
Net sales	39,280	33,208	-	-	-	-	39,280	33,208
Production expenditures	(15,929)	(14,990)	-	-	-	-	(15,929)	(14,990)
Depreciation and depletion	(10,896)	(12,555)	-	-	(5)	(7)	(10,901)	(12,562)
General and administrative expenses	(4,599)	(3,516)	(426)	(339)	(1,479)	(2,045)	(6,504)	(5,900)
Gain (loss) on fair value changes of derivative financial instruments	388	(581)	-	-	-	-	388	(581)
(Loss) gain on fair value changes in investments	-	-	-	-	(70)	24	(70)	24
Impairment of oil and gas properties	-	(3,500)	-	-	-	-	-	(3,500)
Impairment of financial instruments	-	-	(1,034)	-	(1,286)	(1,286)	(2,320)	(1,286)
Interest and other income	876	1,590	-	-	1,292	1,295	2,168	2,885
Interest expense	(4,553)	(4,584)	-	-	-	(4)	(4,553)	(4,588)
Foreign exchange gain (loss)	192	154	(44)	113	-	-	148	267
EARNINGS (LOSS) BEFORE INCOME TAXES	4,759	(4,774)	(1,504)	(226)	(1,548)	(2,023)	1,707	(7,023)
Income tax (expense) recovery								
Current	-	-	-	-	-	(5)	-	(5)
Deferred	-	-	-	-	(726)	787	(726)	787
	-	-	-	-	(726)	782	(726)	782
NET EARNINGS (LOSS) FOR THE YEAR	$ 4,759	$ (4,774)	$ (1,504)	$ (226)	$ (2,274)	$ (1,241)	$ 981	$ (6,241)
NET EARNINGS (LOSS) ATTRIBUTABLE TO:								
Owners of the parent	$ 4,759	$ (4,774)	$ (1,137)	$ (169)	$ (2,274)	$ (1,241)	$ 1,348	$ (6,184)
Non-controlling interest	-	-	(367)	(57)	-	-	(367)	(57)
	$ 4,759	$ (4,774)	$ (1,504)	$ (226)	$ (2,274)	$ (1,241)	$ 981	$ (6,241)

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

	Southern Ontario		Spain		Corporate		TOTAL	
	31-Dec-14	31-Dec-13	31-Dec-14	31-Dec-13	31-Dec-14	31-Dec-13	31-Dec-14	31-Dec-13
ASSETS								
Current								
Cash	$ 776	$ 25	$ -	$ 15	$ 53	$ 71	$ 829	$ 111
Accounts receivable	3,162	3,683	-	1,124	-	-	3,162	4,807
Prepaids and security deposits	1,468	1,214	-	3	-	-	1,468	1,217
Inventory	454	333	-	-	-	-	454	333
Investments	-	-	-	-	2,345	1,340	2,345	1,340
Derivative financial assets	341	-	-	-	-	-	341	-
Taxes recoverable	-	-	-	-	72	72	72	72
	6,201	5,255	-	1,142	2,470	1,483	8,671	7,880
Non-current								
Oil and gas properties	167,779	155,414	-	-	41	46	167,820	155,460
Equity accounted investment in Escal	-	-	-	-	-	-	-	-
Deferred income taxes	-	-	-	-	8,108	9,255	8,108	9,255
	$ 173,980	$ 160,669	$ -	$ 1,142	$ 10,619	$ 10,784	$ 184,599	$ 172,595
LIABILITIES								
Current								
Bank loan	$ 61,617	$ 65,709	$ -	$ -	$ -	$ -	$ 61,617	$ 65,709
Accounts payable and accrued liabilities	3,316	3,777	122	22	3,643	1,431	7,081	5,230
Derivative financial liabilities	-	92	-	-	-	-	-	92
Decommissioning liabilities	1,358	1,284	-	-	-	-	1,358	1,284
	66,291	70,862	122	22	3,643	1,431	70,056	72,315
Non-current								
Decommissioning liabilities	54,903	41,416	-	-	-	-	54,903	41,416
	$ 121,194	$ 112,278	$ 122	$ 22	$ 3,643	$ 1,431	$ 124,959	$ 113,731
SEGMENTED NET ASSETS	$ 52,786	$ 48,391	$ (122)	$ 1,120	$ 6,976	$ 9,353	$ 59,640	$ 58,864

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