DUNDEE ENERGY LIMITED

2013 SECOND QUARTER REPORT

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 the largest accumulation of producing oil and natural gas assets in southern Ontario (the “Southern Ontario Assets”) and 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 that holds a 45% participating interest in the Sfax permit located offshore Tunisia (the “Sfax Permit”).

This Management’s Discussion and Analysis (“MD&A”) has been prepared with an effective date of July 30, 2013 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, 2012 (the “2012 Audited Consolidated Financial Statements”) and the unaudited condensed interim consolidated financial statements as at and for the three and six months ended June 30, 2013 (the “June 2013 Interim Consolidated Financial Statements”), 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 June 2013 Interim Consolidated Financial Statements are 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 will be 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 risk management contracts. Field level cash flows contribute to the funding of the Corporation’s working capital, as well as to capital expenditure requirements for these activities. 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.

BUSINESS DEVELOPMENTS

Completion of Rights Offering

On April 5, 2013, the Corporation completed a rights offering for aggregate gross proceeds of $8.9 million. 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 $0.3 million to complete the rights offering. Dundee Corporation, the Corporation's parent, subscribed for and received 15,771,991 flow-through common shares pursuant to the rights offering, increasing its interest in the Corporation to 58%. Following completion of the rights offering, the Corporation had 188.2 million shares outstanding.

The net proceeds raised pursuant to the rights offering will be used for exploration on the Corporation's assets in southern Ontario, including an enhancement of its previously forecasted 2013 drilling program, and for general corporate purposes. In accordance with the terms of the flow-through shares issued, the Corporation will renounce to the subscribers of flow-through shares, Canadian Exploration Expenditures, as defined in the *Income Tax Act*, related to the Corporation's properties in southern Ontario, in an amount equal to the aggregate proceeds allocated to the flow-through shares.

Investment in Windiga Energy Inc. ("Windiga")

On May 22, 2013, the Corporation acquired a 31% interest in Windiga (formerly SMF Energy Inc.) for $1.1 million of cash consideration. Windiga is a private, Canadian-based independent power producer that is focused on developing, owning and operating renewable energy facilities on the African continent.

Windiga's most advanced initiative includes an 85% interest in the Zina Solar project, which is comprised of a 40-hectare, 20 megawatt (AC) private solar power plant in Burkina Faso. The feasibility study has been completed and a power purchase agreement with the state-owned power utility is currently being negotiated. Windiga is also undertaking a feasibility study for a 15 megawatt waste-to-energy facility in Mauritania, which uses municipal solid waste to generate electricity.

Increase of Working Interest in Southern Ontario Properties

On July 5, 2013, the Corporation acquired a further 20% working interest in certain offshore gas properties in southern Ontario, increasing its working interest to 85%. The Corporation paid $5.0 million of cash consideration for the acquisition, subject to final closing adjustments. The acquisition is expected to add an average of 2,500 Mcf/d to the Corporation's existing natural gas production and an estimated 24.5 million Mcf in proved and probable reserves at an average cost of $0.20/Mcf ($1.22/boe).

Refinancing of Castor Project

On July 26, 2013, Escal UGS S.L. ("Escal"), the owner of the Castor Project, announced that it had arranged for the issuance of euro-denominated senior secured bonds (the "Euro Bonds") totalling €1.40 billion. The Euro Bonds are subject to an annual interest rate of 5.756%, payable semi-annually, and are repayable in equal semi-annual installments over a period of 21 and a half years, with the last payment due in December 2034. The Euro Bonds will be listed on the Luxembourg stock exchange.

The Euro Bonds will be issued by a special purpose vehicle, Watercraft Capital S.A. ("Watercraft"), a Luxembourg corporation. The proceeds from the issuance will be subsequently on-lent to Escal, pursuant to a credit facility between Watercraft and Escal, and will be used by Escal to repay amounts owing pursuant to Escal's existing project financing.

Escal will provide a general security interest against its assets for the benefit of Watercraft to secure Escal's obligations under these arrangements, and the shareholders of Escal shall pledge their respective shares in Escal as part of the overall security package. In addition, the European Investment Bank has committed to provide a standby letter of credit as a form of subordinated credit enhancement instrument in support of the Euro Bonds. The Euro Bonds have been issued a BBB+ rating from Fitch Ratings, Inc. and a rating of BBB from Standard & Poor's. A copy of the prospectus document relating to the Euro Bonds may be accessed at *www.bourse.lu/home*, and referencing ISIN code XS0943010503.

CONSOLIDATED RESULTS OF OPERATIONS

Six months ended June 30, 2013 compared with the six months ended June 30, 2012

Consolidated Net Loss

During the six months ended June 30, 2013, the Corporation incurred a net loss attributable to the owners of the parent of $1.5 million or a loss of $0.01 per share. This compares with a net loss attributable to the owners of the parent of $0.7 million incurred in the six months ended June 30, 2012. The Corporation's net loss from its various projects is summarized below.

For the six months ended June 30,			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
Southern Ontario Assets	$ (619)	$ (619)	$ -	$ 356	$ 356	$ -
Castor Project	(82)	(62)	(20)	(145)	(107)	(38)
Loss from investment in preferred shares of Eurogas International	(638)	(638)	-	(640)	(640)	-
Corporate activities	(210)	(210)	-	(331)	(331)	-
Net loss for the period	$ (1,549)	$ (1,529)	$ (20)	$ (760)	$ (722)	$ (38)

During the first half of 2013, results from the Corporation's assets in southern Ontario were adversely affected by a mark-to-market loss of $0.2 million relating to risk management contracts, compared with a mark-to-market gain of $2.8 million realized in the first half of the prior year.

Southern Ontario Assets

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

Operating Performance

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 the first half of 2013, sales of oil and natural gas, net of royalty interests, were $15.6 million, consistent with revenues earned during the same period of the prior year. As illustrated in the tables below, the effect of reduced production volumes decreased revenues by $2.2 million, but was offset by improved commodity prices, which increased revenues by approximately the same amount.

	Natural Gas	Oil and Liquids	Total
Net Sales			
Six months ended June 30, 2013	$ 6,155	$ 9,449	$ 15,604
Six months ended June 30, 2012	4,578	11,039	15,617
Net increase (decrease) in net sales	$ 1,577	$ (1,590)	$ (13)
Effect of changes in production volumes	$ (564)	$ (1,682)	$ (2,246)
Effect of changes in commodity prices	2,141	92	2,233
	$ 1,577	$ (1,590)	$ (13)

Production Volumes

Average daily volume during the six months ended June 30,	2013	2012
Natural gas (Mcf/d)	8,931	10,129
Oil (bbls/d)	642	751
Liquids (bbls/d)	24	30
Total (boe/d)	2,155	2,469

During the first half of 2013, production volumes decreased to an average of 2,155 boe/d compared with an average of 2,469 boe/d produced in the same period of 2012.

Average daily natural gas production dropped by approximately 12% on a period-over-period basis. The decrease partially reflects the natural decline rate of the Corporation's assets. However, natural gas production during the first half of 2013 also decreased because of scheduled plant shutdowns associated with the permanent closing of the Corporation's Port Stanley gas plant, which is expected to improve the efficiency of the gathering system in the central Lake Erie field, and ultimately improve production.

Oil and liquids average daily production declined by 15% during the first half of 2013, compared with the same period of the prior year. Consistent with the decline in natural gas production, the decrease partially reflects natural declines in the underlying assets. Production of oil and liquids was also adversely affected by a pipeline rupture at an Imperial Oil facility in Sarnia, Ontario, impeding the Corporation's ability to deliver to that facility.

During the remainder of 2013, and in the absence of a marked improvement in the price for natural gas, the Corporation intends to focus its capital expenditure program on onshore oil projects to further optimize oil production from existing fields. In addition, the Corporation has initiated its drill program in an ongoing effort to replenish reserves.

Net Sales of Oil and Gas

For the six months ended June 30,			2013			2012
		Sales	Realized Prices ($ / unit)		Sales	Realized Prices ($ / unit)
Natural gas	$	7,239	4.48	$	5,383	2.92
Oil		10,942	94.22		12,630	92.37
Liquids		213	48.58		326	60.02
		18,394			18,339	
Less: Royalties at 15% (2012 – 15%)		(2,790)			(2,722)	
Net sales	$	15,604		$	15,617	

Revenues from oil and gas sales were $18.4 million in the first half of 2013. This compares with revenues of $18.3 million earned in the same period of the prior year. During the six months ended June 30, 2013, the Corporation recorded royalty obligations of $2.8 million (six months ended June 30, 2012 – $2.7 million) against its oil and gas sales, representing an average royalty rate of approximately 15% (six months ended June 30, 2012 – 15%) of revenues.

Effect of Commodity Prices on Revenues from Oil and Gas Sales

Prices for oil and natural gas vary significantly from quarter to quarter 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 Corporation's realized prices prior to the effect of its risk management contracts.

For the six months ended June 30,			2013			2012
	US$	CAD$	Realized Prices ($)	US$	CAD$	Realized Prices ($)
Natural Gas						
Dawn Hub	4.08	4.13	4.48	2.69	2.70	2.92
NYMEX Henry Hub	3.75	3.80		2.36	2.37	
Oil						
Edmonton Par	n/a	90.84	94.22	n/a	88.58	92.37
West Texas Intermediate	94.18	95.43		98.19	98.70	

Realized Price for Natural Gas Sales

Prices for natural gas in North America trended higher during the first half of 2013, reflecting an extended winter season on the eastern coast of North America, forecasted warmer-than-average temperatures in the then upcoming summer months, and speculation of rising exporting prospects in the United States. The Corporation realized an average price on sales of natural gas of $4.48/Mcf during the six months ended June 30, 2013, an increase of 53% from the average price of $2.92/Mcf realized in the same period of the prior year. Due to the proximity of the Corporation's operations to the Dawn Hub, a leading provider of natural gas supply to the greater Toronto market area, the Corporation's realized price from sales of natural gas continues to include a positive basis differential from the average industry benchmarks.

Realized Price for Sales of Oil

During the second quarter of 2013, concerns that slower global growth would reduce the demand for energy, compounded by higher inventory levels in the United States, exerted downward pressure on the price of crude oil. On an average basis, and despite a marked increase in late June, the West Texas Intermediate ("WTI") price for crude oil averaged US$94.18/bbl during the first half of 2013, down approximately 4% from an average of US$98.19/bbl in the first six months of the prior year, and down 2% from an average of $94.33 in the first quarter of 2013. During this period, the Corporation realized an average price of $94.22/bbl on sales of crude oil, an increase of 2% over an average price of $92.36/bbl realized during the first half of the prior year. The increase reflects a realignment of the Corporation's crude oil marketing contracts, whereby the sales price received is based on the higher-priced WTI benchmark rather than the Edmonton Par price.

Risk Management Contracts – Price Risk Management

In order to mitigate its exposure to price volatility, the Corporation may, from time to time, enter into fixed price 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 risk management contracts on a Canadian dollar basis.

The following table summarizes the realized and unrealized gains or losses from the Corporation's risk management contracts during the first six months of 2013, compared with the first six months of the prior year. For accounting purposes, the Corporation has not designated its risk management contracts 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 risk management contracts in the Corporation's net earnings or loss.

For the six months ended June 30,			2013			2012
	Realized (loss) gain	Unrealized (loss) gain	Total	Realized (loss) gain	Unrealized (loss) gain	Total
Oil swaps	$ 380	$ (413)	$ (33)	$ (139)	$ 1,511	$ 1,372
Gas swaps	(381)	262	(119)	2,008	(613)	1,395
	$ (1)	$ (151)	$ (152)	$ 1,869	$ 898	$ 2,767

The following is a summary of commodity contracts entered into by the Corporation as of June 30, 2013. The fair values of risk management contracts outstanding at the end of a reporting period are determined using market conditions and third-party forecasts prevailing as at the reporting date. Changes in the fair values of risk management contracts are recognized as an unrealized risk management gain or loss. Unrealized risk management gains or losses may or may not be realized in subsequent periods and are dependent on changes in commodity prices and foreign exchange rates.

Contract Fixed Price Swap	Volume	Pricing Point	Strike Price (Cdn$/unit)	Remaining Term	Fair Value June 30, 2013
Crude oil	500 bbl/d	NYMEX	$98.22	Jul 01/13 to Dec 31/13	$ (198)
Natural gas	6,250 mbtu/d	NYMEX	$4.07	Jul 01/13 to Dec 31/13	262
					$ 64

During the six months ended June 30, 2013, and in anticipation of an upswing in natural gas prices, the Corporation paid $0.3 million to cancel natural gas risk management contracts representing 3,750 mbtu/d.

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. Included in production expenditures is an allocation of general and administrative costs, including labour, which is directly attributable to these activities.

For the six months ended June 30,				2013				2012
		Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids		Total
Production expenditures	$	3,334	$ 3,061	$ 6,395	$ 3,080	$ 3,100	$	6,180
Production expenditures		(per Mcf)	(per bbl)	(per boe)	(per Mcf)	(per bbl)		(per boe)
per unit	$	2.06	$ 25.40	$ 16.40	$ 1.67	$ 21.81	$	13.75

During the first half of 2013, aggregate production expenditures increased by approximately 3% to $6.4 million, compared with $6.2 million incurred in the same period of the prior year. Increases in production costs relate primarily to natural gas operations and reflect unanticipated repair costs associated with the Corporation's facilities.

Production expenditures on a boe/d basis increased to $16.40/boe in the first half of 2013, compared with $13.75/boe in the first half of the prior year, reflecting reduced production volumes.

Field Level Cash Flows and Field Netbacks

For the six months ended June 30,				2013				2012
		Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids		Total
Total sales	$	7,239	$ 11,155	$ 18,394	$ 5,383	$ 12,956	$	18,339
Royalties		(1,084)	(1,706)	(2,790)	(805)	(1,917)		(2,722)
Production expenditures		(3,334)	(3,061)	(6,395)	(3,080)	(3,100)		(6,180)
		2,821	6,388	9,209	1,498	7,939		9,437
Realized risk management (loss) gain		(381)	380	(1)	2,008	(139)		1,869
Field level cash flows	$	2,440	$ 6,768	$ 9,208	$ 3,506	$ 7,800	$	11,306

For the six months ended June 30,				2013				2012
		Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids		Total
		$/Mcf	$/bbl	$/boe	$/Mcf	$/bbl		$/boe
Total sales	$	4.48	$ 92.56	$ 47.17	$ 2.92	$ 91.13	$	40.81
Royalties		(0.67)	(14.15)	(7.15)	(0.44)	(13.49)		(6.06)
Production expenditures		(2.06)	(25.40)	(16.40)	(1.67)	(21.81)		(13.75)
		1.75	53.01	23.62	0.81	55.83		21.00
Realized risk management (loss) gain		(0.24)	3.15	-	1.09	(0.98)		4.16
Field netbacks	$	1.51	$ 56.16	$ 23.62	$ 1.90	$ 54.85	$	25.16

During the six months ended June 30, 2013, the Corporation earned field level cash flows, before realized amounts related to risk management contracts, of $9.2 million or $23.62/boe, compared with field level cash flows of $9.4 million or $21.00/boe during the first six months of the prior year.

Field level cash flows from natural gas, before realized amounts related to risk management contracts, increased over 88% to $2.8 million, compared with $1.5 million during the same period of the prior year, reflecting improved realized prices. However, the Corporation's risk management contracts adversely affected field level cash flows during the first half of 2013, reducing amounts by $0.4 million. During the first half of the prior year, risk management contracts added $2.0 million to field level cash flows. Resulting field netbacks were $1.51/Mcf in the current period, a decrease of 21% from field netbacks of $1.90/Mcf generated in the same period of the prior year.

Field level cash flows from oil and liquids fell to $6.4 million during the first half of 2013, from $7.9 million in the same period of 2012. The decrease is primarily related to a decrease in production volumes, offset marginally by improved realized prices. Risk management contracts added a further $0.4 million to field level cash flows in the current period, compared with a realized loss of $0.1 million in the prior year. Field netbacks were $56.16/bbl during the first half of 2013, compared with $54.85/bbl in the six months ended June 30, 2012, reflecting fluctuations in production volumes.

Capital Expenditures

For the six months ended June 30,	2013	2012
Offshore		
Pipeline	$ 202	$ 58
Facilities	-	25
Offshore fleet	-	335
Total offshore	202	418
Onshore		
Drilling and completion	1,622	241
Pipeline	-	137
Workovers	-	686
Facilities	397	1,541
Total onshore	2,019	2,605
Exploration and Evaluation		
Undeveloped properties	1,499	877
Onshore seismic	1,386	1,985
Total exploration and evaluation	2,885	2,862
Office equipment, computer hardware and software	264	14
	$ 5,370	$ 5,899

During the six months ended June 30, 2013, the Corporation incurred $5.4 million of capital expenditures on its oil and gas properties in southern Ontario. This compares with expenditures of $5.9 million incurred during the same period of 2012. Fluctuations in capital expenditures are reflective of activity levels. Capital expenditures continue to focus on onshore projects, as the Corporation anticipates that these activities will yield greater returns in the short term due to natural gas prices.

Included in capital expenditures during the current period are $1.6 million of costs associated with completion activities related to drillings initiated during the fourth quarter of 2012, including the horizontal drill of a development well that resulted in successful oil production. The Corporation also expended $0.4 million on upgrading facilities, and a further $0.2 million to enhance offshore gas pipelines.

During the first half of 2013, the Corporation commenced its 2013 six-well drilling program (see *"2013 Work Program"* below), with the drilling of the first exploration well at a cost of $1.5 million to June 30, 2013. This well will be completed in the second half of 2013. Furthermore, the Corporation also expended $1.4 million on the acquisition and processing of 2-D and 3-D seismic data, which will be critical in identifying future drill candidates.

The Corporation has determined that approximately $1.8 million of capital expenditures incurred during the first six months of 2013 qualify as Canadian exploration expenditures and are available for renunciation to flow-through shareholders.

2013 Work Program

With the successful completion of the rights offering in April, the Corporation increased its 2013 work program to $13.2 million, including $7.8 million on exploration activities that it intends to incur over the remainder of 2013. The Corporation's intent is to focus its efforts on the addition of new oil reserves in order to increase production. Consequently, approximately $7.2 million of the remaining 2013 work program will be directed to onshore oil projects, with the balance of $0.6 million reserved for natural gas projects.

During the remainder of 2013, the Corporation anticipates drilling and completing an additional five wells at a cost of approximately $5.1 million. The Corporation will also complete a 314 km 2-D seismic project at a cost of an additional $2.0 million. The data accumulated will be processed and interpreted to identify future drilling programs. A further $0.1 million will be invested in facility enhancements.

As part of its offshore program, the Corporation intends to reactivate a company-owned dock located in Port Burwell in conjunction with its planned strategy to abandon a dock and a gas plant located at Port Stanley. This comprehensive project includes dredging of the Port Burwell harbour, and replacement of a pipeline to a larger diameter pipe, all of which will improve production efficiencies throughout central Lake Erie. Capital costs relating to this project are approximately $0.4 million. A further $0.2 million of the 2013 offshore work program will be incurred for non-discretionary dry dock inspection costs for two vessels.

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 June 30, 2013, the Corporation's estimate of these future costs on an undiscounted basis was approximately $80.5 million, and is forecasted to be incurred over a 50-year period. The Corporation incurred $0.6 million in reclamation costs during the first half of 2013, completing nine of its 15-well abandonment program, and it anticipates that it will incur approximately $1.0 million in additional reclamation costs during the remainder of 2013.

During the three and six months ended June 30, 2013, the Corporation incurred accretion expense of $0.3 million and $0.5 million respectively (three and six months ended June 30, 2012 – $0.3 million and $0.5 million respectively). Accretion amounts have been included in the Corporation's June 2013 Interim Consolidated Financial Statements as *"interest expense"*.

Castor Underground Gas Storage Project

During the first quarter of 2013, Escal reached an agreement with Enagas S.A., the leading gas transporter in Spain, to provide the 600 million cubic metres of cushion gas required for completion of the Castor Project. During the second quarter, Enagas completed the acquisition of approximately 150 million cubic metres of natural gas, of which 15 million cubic metres were used to test the on-shore compression facilities, and then injected into the reservoir. The balance will be delivered during August and September of this year. Procurement initiatives are underway for additional volumes.

The technical and economic audits that are required for inclusion of the Castor Project to the Spanish gas system have recently commenced. Once completed, the investment base for remuneration will be determined. For remuneration purposes, the end of the capital investment period and initiation of remuneration is deemed to be July 5, 2012, the date of receipt by Escal of the Provisional Commissioning Act. Escal currently anticipates that the necessary audits will be completed late in the fourth quarter of 2013.

Share of Loss from Equity Accounted Investment in Escal

The Corporation accounts for its investment in Escal using the equity method. Escal has established a hedging strategy to mitigate its exposure to interest rate risk associated with the project financing for the Castor Project. At June 30, 2013, the fair value of Escal's obligations in respect of these hedging strategies was approximately €107.3 million (December 31, 2012 – €140.1 million), before associated taxes.

Recording its share of Escal's obligations in respect of these hedging contracts would cause the Corporation's investment in Escal to fall below zero. The Corporation has not recognized its share of these losses, estimated at $29.8 million net of taxes, as it does not have the legal or constructive obligation in respect thereof.

From 2010 to December 31, 2012, Escal issued shares from treasury with a par value of €14,000. There were no new issuances of shares in Escal during the first half of 2013. In order to maintain its 33% interest, the Corporation indirectly subscribed for one third of the newly issued par value shares at an aggregate cost of $6,000 (€5,000). Furthermore, and in order to meet the equity ratios as required by lenders to the Castor Project, Escal's controlling shareholder contributed a share premium of €40.9 million and issued €64.2 million in subordinated loans. The Corporation has not recognized the benefit of its interest in the share premium as the realization and measurement is subject to a number of risks and uncertainties, including but not limited to, execution risk associated with completion of the project, the availability and terms of future financing arrangements and the 50-year life span of the project.

Investment in Series A Preference Shares of Eurogas International

The terms of the Corporation's investment in the Series A Preference Shares of Eurogas International are detailed in Note 7 to the 2012 Audited Consolidated Financial Statements.

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 the six months ended June 30, 2013, the Corporation provided for an impairment loss relating to its investment in Eurogas International of $0.6 million (six months ended June 30, 2012 – $0.6 million).

During early 2013, Eurogas International, together with its joint venture partner, continued to actively explore alternatives to raise the necessary funding for the drilling of two exploration wells, which it committed to as part of the Tunisian authorities' approval of a renewal of the Sfax Permit to December 8, 2015. In June 2013, Eurogas International announced that, together with its joint venture partner, it had entered into a farmout agreement with DNO Tunisia AS ("DNO") with respect to the Sfax Permit and the associated Ras El Besh development concession (the "DNO Agreement"). Completion of the DNO Agreement is conditional on the approval by the relevant Tunisian authorities of the terms of the DNO Agreement, including the appointment of DNO as the operator, and is subject to other normal conditions of closing, including the absence of a material adverse change. Once completed, the DNO Agreement will provide DNO with an 87.5% participating interest in the Sfax Permit in exchange for (i) a US$6 million cash payment to the joint venture, Eurogas International's share of which approximates US$2.7 million; and (ii) the carrying of 100% of all future costs associated with the Sfax Permit, including Eurogas International's commitment to the drilling of two exploration wells as outlined above.

Other Items in Consolidated Net Earnings

General and Administrative Expenses

In the latter part of 2012, the Corporation implemented certain initiatives aimed at reducing costs associated with professional services paid to third parties, predominantly costs associated with maintaining its database of land rights, leases and other entitlements. These initiatives have contributed significantly to a decrease in general and administrative expenses incurred to $2.9 million during the first six months of 2013, compared with $3.6 million incurred during the six months ended June 30, 2012.

Interest Expense

The Corporation incurred interest expense of $2.1 million during the first half of 2013, compared with interest expense of $2.2 million incurred during the first half of 2012. Included in interest expense is $0.5 million (six months ended June 30, 2012 – $0.5 million) of accretion expense associated with the Corporation's decommissioning liability, with the balance of interest expense incurred in respect of borrowings pursuant to the Corporation's credit facility.

SELECTED QUARTERLY FINANCIAL INFORMATION

	2013		2012				2011	
	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Revenues	$ 8,245	$ 7,359	$ 7,507	$ 7,359	$ 7,543	$ 8,074	$ 9,459	$ 8,757
Net (loss) earnings attributable to owners of the parent	**(457)**	**(1,072)**	**(13,431)**	**(2,470)**	**(302)**	**(420)**	**985**	**(1,128)**
Basic and fully diluted (loss) earnings per share	$ -	$ (0.01)	$ (0.08)	$ (0.02)	$ -	$ -	$ 0.01	$ (0.01)
Capital expenditures	$ 3,447	$ 1,923	$ 3,009	$ 3,894	$ 4,532	$ 1,367	$ 4,763	$ 4,109

- In the fourth quarter of 2012, the Corporation recognized an impairment on certain natural gas properties of $15.5 million, reflecting a reduction in forecasted natural gas prices.
- Changes in the fair value of the Corporation's risk management contracts 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 risk management contracts to its net earnings (loss) on a quarterly basis:

	2013		2012				2011	
	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Changes in the fair value of risk management contracts	$ 214	$ (366)	$ 114	$ (354)	$ 1,507	$ 1,260	$ 1,038	$ 1,486

QUARTERLY CONSOLIDATED RESULTS OF OPERATIONS

Three months ended June 30, 2013 compared with the three months ended June 30, 2012

During the three months ended June 30, 2013, the Corporation's net loss attributable to the owners of the parent was $0.5 million compared with a net loss attributable to the owners of the parent of $0.3 million in the second quarter of the prior year. The increase in the net loss reflects the income tax effect of the renunciation of Canadian exploration expenses to flow-through common shareholders, the consequence of which is reflected in the Corporation's corporate segment.

For the three months ended June 30,	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
Southern Ontario Assets	$ 304	$ 304	$ -	$ 294	$ 294	$ -
Castor Project	(28)	(22)	(6)	(117)	(86)	(31)
Loss from investment in preferred shares of Eurogas International	(321)	(321)	-	(320)	(320)	-
Corporate activities	(418)	(418)	-	(190)	(190)	-
Net loss for the period	$ (463)	$ (457)	$ (6)	$ (333)	$ (302)	$ (31)

Southern Ontario Assets

During the second quarter of 2013, sales of oil and natural gas, net of royalty interests were $8.2 million, an increase of $0.7 million from the $7.5 million earned in the same period of the prior year. As illustrated in the table below, improved commodity prices increased revenues by $1.7 million in the second quarter, partially offset by reduced production volumes which decreased revenues by $1.0 million.

	Natural Gas	Oil and Liquids	Total
Net Sales			
Three months ended June 30, 2013	$ 3,233	$ 5,012	$ 8,245
Three months ended June 30, 2012	2,136	5,407	7,543
Net increase (decrease) in net sales	$ 1,097	$ (395)	$ 702
Effect of changes in production volumes	$ (288)	$ (730)	$ (1,018)
Effect of changes in commodity prices	1,385	335	1,720
	$ 1,097	$ (395)	$ 702

Average daily volume during the three months ended June 30,	2013	2012
Natural gas (Mcf/d)	8,770	10,135
Oil (bbls/d)	664	769
Liquids (bbls/d)	28	30
Total (boe/d)	2,154	2,488

During the second quarter of 2013, production volumes decreased to an average of 2,154 boe/d compared with an average of 2,488 boe/d produced in the same period of 2012. The decrease is consistent with year-to-date production levels and reflects the historical decline rate for the Corporation's assets, as well as scheduled plant shutdowns and unanticipated repairs to the Corporation's delivery systems incurred during the second quarter of the current year.

For the three months ended June 30,	2013		2012	
	Sales	Realized Prices ($ / unit)	Sales	Realized Prices ($ / unit)
Natural gas	$ 3,808	4.77	$ 2,508	2.72
Oil	5,799	96.03	6,232	89.01
Liquids	115	45.52	153	56.64
	9,722		8,893	
Less: Royalties at 15% (2012 – 15%)	(1,477)		(1,350)	
Net sales	$ 8,245		$ 7,543	

During the second quarter of 2013, the Corporation realized an average sales price of $4.77/Mcf for natural gas, a substantial increase over a realized price of $2.72/Mcf realized in the second quarter of the prior year. Despite reductions in production volumes, the improvement contributed to a $1.3 million increase in quarter-over-quarter gross revenues.

Partially as a result of the Corporation's realignment of the sales price for its oil inventory to the WTI benchmark price, the Corporation realized $96.03/bbl sold during the second quarter of 2013, compared with $89.01/bbl sold during the second quarter of the prior year. This increase added a further $0.4 million to gross revenues on a quarter-over-quarter basis.

Comparable benchmark prices for oil and natural gas are illustrated in the following table.

For the three months ended June 30,			2013			2012
	US$	CAD$	Realized Prices ($)	US$	CAD$	Realized Prices ($)
Natural Gas						
Dawn Hub	4.39	4.47	4.77	2.50	2.52	2.72
NYMEX Henry Hub	4.01	4.08		2.27	2.29	
Oil						
Edmonton Par	n/a	93.04	96.03	n/a	84.45	89.01
West Texas Intermediate	94.05	95.83		93.40	94.10	

The Corporation incurred production expenditures of $3.5 million during the three months ended June 30, 2013, an increase of $0.4 million, compared with $3.1 million incurred during the same period of the prior year. Increases in production costs include unanticipated repair costs associated with the Corporation's natural gas facilities. Consistent with year-to-date results, production expenditures on a boe/d basis have increased to $18.10/boe in the second quarter of 2013, compared with $13.85/boe in the second quarter of the prior year, reflecting reduced production volumes.

For the three months ended June 30,			2013			2012
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Production expenditures	$ 1,922	$ 1,625	$ 3,547	$ 1,636	$ 1,499	$ 3,135
Production expenditures	(per Mcf)	(per bbl)	(per boe)	(per Mcf)	(per bbl)	(per boe)
per unit	$ 2.41	$ 25.82	$ 18.10	$ 1.77	$ 20.62	$ 13.85

Field level cash flows in the second quarter of 2013, before realized risk management contract gains or losses, were $4.7 million, a 7% increase over field level cash flows of $4.4 million generated in the second quarter of the prior year. Higher realized prices from sales of both oil and natural gas, partially offset by increased production costs per unit as a result of lower production volumes, increased field netbacks in the second quarter of 2013 to $23.98/boe compared with $19.46/boe earned in the second quarter of the prior year.

For the three months ended June 30,			2013			2012
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Total sales	$ 3,808	$ 5,914	$ 9,722	$ 2,508	$ 6,385	$ 8,893
Royalties	(575)	(902)	(1,477)	(372)	(978)	(1,350)
Production expenditures	(1,922)	(1,625)	(3,547)	(1,636)	(1,499)	(3,135)
	1,311	3,387	4,698	500	3,908	4,408
Realized risk management (loss) gain	(381)	137	(244)	1,029	(2)	1,027
Field level cash flows	$ 930	$ 3,524	$ 4,454	$ 1,529	$ 3,906	$ 5,435

For the three months ended June 30,			2013			2012
	Natural Gas $/Mcf	Oil and Liquids $/bbl	Total $/boe	Natural Gas $/Mcf	Oil and Liquids $/bbl	Total $/boe
Total sales	$ 4.77	$ 94.01	$ 49.62	$ 2.72	$ 87.80	$ 39.27
Royalties	(0.72)	(14.34)	(7.54)	(0.40)	(13.46)	(5.96)
Production expenditures	(2.41)	(25.82)	(18.10)	(1.77)	(20.62)	(13.85)
	1.64	53.85	23.98	0.55	53.72	19.46
Realized risk management (loss) gain	(0.48)	2.18	(1.25)	1.12	(0.03)	4.54
Field netbacks	$ 1.16	$ 56.03	$ 22.73	$ 1.67	$ 53.69	$ 24.00

Realized losses resulting from the Corporation's risk management contracts reduced field netbacks in the second quarter of 2013 by $1.25/boe. In the comparable period of 2012, these contracts added $1.0 million to field level cash flows and $4.54/boe to field netbacks.

Other Items in Consolidated Quarterly Earnings

General and administrative expenses incurred in the three months ended June 30, 2013 were $1.3 million compared with $1.6 million incurred in the same period of the prior year. Consistent with year-to-date results, the decrease in general and administrative expenses reflects a reduction in costs associated with professional services paid to third parties, predominantly costs associated with maintaining the Corporation's database of land rights, leases and other entitlements.

LIQUIDITY AND CAPITAL RESOURCES

Cash Resources Availability

At June 30, 2013, the Corporation had cash of $0.4 million on deposit with Canadian chartered banks. In addition, the Corporation had access to a further $14.9 million pursuant to its $70.0 million revolving demand credit facility.

Southern Ontario Assets

The Corporation's southern Ontario operations are conducted through Dundee Energy Limited Partnership ("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% or, at the bank's then prevailing bankers' acceptance rate plus 4%. At June 30, 2013, DELP had drawn $55.1 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 June 30, 2013, the Corporation was in compliance with all such covenants.

During the second quarter of 2013, the Corporation raised cash proceeds of $8.9 million pursuant to its rights offering. On an interim basis, the Corporation used the funds raised to reduce amounts borrowed pursuant to the DELP credit facility. As expenditures are incurred on exploration activities, the Corporation will subsequently draw against this same facility. The Corporation is committed under the terms of its flow-through common share issuance to incur eligible exploration costs of at least $6.9 million prior to December 31, 2013 for renunciation to holders of the flow-through common shares issued. Cash flows generated from ongoing operating activities, combined with amounts available pursuant to its credit facility and funds raised as part of the rights offering, provide the Corporation with sufficient cash flow to support its working capital requirements in the foreseeable future.

Spain

Escal's controlling shareholder, ACS Servicios Communicacions y Energia S.L. ("ACS"), is responsible for providing equity and arranging project financing for the Castor Project, including providing all guarantees that may be 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. After the Castor Project is operational, the Corporation will be responsible for its proportionate share of any new capital investments, unless otherwise funded through working capital generated directly by Escal.

Escal established a 10-year, €1.3 billion credit facility through a syndicate of 19 banks to complete the construction of the Castor Project. At June 30, 2013, approximately €1.0 billion had been borrowed pursuant to these arrangements. To provide security for the financing, the shareholders of Escal have pledged their respective shares in Escal to the banking syndicate. Other than the pledging of its shares, the Corporation and its subsidiaries will not be required to provide any additional equity or debt funds or provide any warranties required by the project finance lenders. Notwithstanding any form by which ACS has, or may in the future, fund Escal during the construction phase, the Corporation retains full entitlement to its existing proportionate interest in Escal and in any distribution made by Escal.

As part of the proposed refinancing of the Castor Project, and subject to final terms and conditions, amounts raised pursuant to the Euro Bond offering are expected to be utilized to repay amounts borrowed pursuant to Escal's existing credit facility, including settlement of Escal's obligations pursuant to outstanding interest rate swap arrangements.

Outstanding Share Data and Dilutive Securities

At June 30, 2013 and July 30, 2013, the Corporation had 188,204,184 common shares outstanding. In addition, it had granted 3,715,000 stock options to purchase common shares of the Corporation to directors and key management at a weighted average exercise price of $0.77 per share, and it had issued 1,039,358 deferred share units.

OFF BALANCE SHEET ARRANGEMENTS, COMMITMENTS AND CONTINGENCIES

Other than as may be disclosed elsewhere in this MD&A, there have been no significant changes in the nature of off balance sheet arrangements, commitments and contingencies from those described in Note 19 to the 2012 Audited Consolidated Financial Statements and under *"Off Balance Sheet Arrangements"* and *"Commitments and Contingencies"* in the Corporation's MD&A as at and for the year ended December 31, 2012.

RELATED PARTY TRANSACTIONS

Other than as described in Note 16 to the June 2013 Interim Consolidated Financial Statements, there are no significant changes in the nature and scope of related party transactions to those described in Note 18 to the 2012 Audited Consolidated Financial Statements and the accompanying MD&A.

BUSINESS RISKS

There are a number of inherent risks associated with the Corporation's activities. These risks are described in the Corporation's 2012 Annual Information Form dated February 15, 2013, under *"Risk Factors"*, which may be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website *www.sedar.com*. At June 30, 2013, the Corporation had not identified any material changes to the risk factors affecting its business, and its approach to managing those risks, from those discussed in the document referred to above. These business risks should be considered by interested parties when evaluating the Corporation's performance and its outlook.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING 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 expenses and the related disclosure of contingent assets and liabilities. Critical accounting 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 amount of revenues and expenses 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 2012 Audited Consolidated Financial Statements.

Other than as disclosed in Note 2 to the June 2013 Interim Consolidated Financial Statements, there have been no changes in the accounting policies applied in the preparation of the Corporation's June 2013 Interim Consolidated Financial Statements from those detailed in Note 3 to the Corporation's 2012 Audited Consolidated Financial Statements. The changes in accounting policies adopted during the first half of 2013 did not have a material impact to the June 2013 Interim 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 June 30, 2013.

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 of June 30, 2013, 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 the six months ended June 30, 2013 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 harbor" 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, licences 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, 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 2013 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 2013 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
July 30, 2013

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

(expressed in thousands of Canadian dollars)

		As at	
	Note	June 30, 2013	December 31, 2012
ASSETS			
Current			
Cash		$ 445	$ 125
Accounts receivable	4	4,346	3,775
Prepaids and security deposits		963	1,198
Inventory		439	350
Investments	5	1,332	241
Derivative financial assets	9	64	215
		7,589	5,904
Non-current			
Oil and gas properties	6	147,728	154,450
Equity accounted investment in Escal	13	-	-
Deferred income taxes	15	9,278	9,277
		$ 164,595	$ 169,631
LIABILITIES			
Current			
Bank loan	7	$ 54,629	$ 62,633
Accounts payable and accrued liabilities	16	8,239	5,340
Taxes payable		11	25
Decommissioning liabilities	8	1,026	1,796
		63,905	69,794
Non-current			
Decommissioning liabilities	8	37,415	42,909
		101,320	112,703
SHAREHOLDERS' EQUITY			
Equity Attributable to Owners of the Parent			
Share capital	10	112,642	104,838
Contributed surplus	10	7,178	7,086
Deficit		(53,690)	(52,161)
Accumulated other comprehensive loss		(3,082)	(3,082)
		63,048	56,681
Non-controlling interest		227	247
		63,275	56,928
		$ 164,595	$ 169,631

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

Commitments (Note 17)

DUNDEE ENERGY LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

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

		For the three months ended		For the six months ended	
	Note	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
REVENUES					
Oil and gas sales		$ 9,722	$ 8,893	$ 18,394	$ 18,339
Royalties		(1,477)	(1,350)	(2,790)	(2,722)
Net sales		8,245	7,543	15,604	15,617
Production expenditures	12	(3,547)	(3,135)	(6,395)	(6,180)
Depreciation and depletion	6	(2,972)	(3,672)	(6,001)	(7,428)
General and administrative	11, 12, 16	(1,314)	(1,594)	(2,905)	(3,586)
(Loss) gain on fair value changes of risk management contracts	9	214	1,507	(152)	2,767
Gain (loss) on fair value changes in financial instruments	5	(10)	(19)	16	(28)
Impairment loss on financial instruments	5	(321)	(320)	(638)	(640)
Interest income		373	361	733	727
Interest expense	7, 8	(1,019)	(1,080)	(2,101)	(2,153)
Foreign exchange gain (loss)		133	(32)	185	(60)
LOSS BEFORE INCOME TAXES		(218)	(441)	(1,654)	(964)
Income tax recovery (expense)	15				
Current		(41)	(90)	(52)	(90)
Deferred		(204)	198	157	294
		(245)	108	105	204
NET LOSS FOR THE PERIOD		$ (463)	$ (333)	$ (1,549)	$ (760)
NET LOSS ATTRIBUTABLE TO:					
Owners of the parent		$ (457)	$ (302)	$ (1,529)	$ (722)
Non-controlling interest		(6)	(31)	(20)	(38)
		$ (463)	$ (333)	$ (1,549)	$ (760)
BASIC AND DILUTED NET LOSS PER SHARE	14	$ -	$ -	$ (0.01)	$ -

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

DUNDEE ENERGY LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(unaudited)

(expressed in thousands of Canadian dollars)

	For the three months ended		For the six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
NET LOSS FOR THE PERIOD	$ (463)	$ (333)	$ (1,549)	$ (760)
Other comprehensive income				
Taxes associated with equity accounted investment	-	32	-	32
Other comprehensive income for the period	-	32	-	32
COMPREHENSIVE LOSS FOR THE PERIOD	$ (463)	$ (301)	$ (1,549)	$ (728)
COMPREHENSIVE LOSS ATTRIBUTABLE TO:				
Owners of the parent	$ (457)	$ (270)	$ (1,529)	$ (690)
Non-controlling interest	(6)	(31)	(20)	(38)
	$ (463)	$ (301)	$ (1,549)	$ (728)

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

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

(expressed in thousands of Canadian dollars)

	Attributable to owners of the parent						
	Share Capital	Contributed Surplus for Option Reserve	Contributed Surplus for Deferred Share Unit Reserve	Deficit	Accumulated Other Comprehensive Loss	Non-controlling Interest	TOTAL
Balance, December 31, 2011	$ 104,854	$ 6,051	$ 580	$ (35,538)	$ (3,114)	$ 304	$ 73,137
For the six months ended June 30, 2012							
Acquisition of common shares for cancellation pursuant to normal course issuer bid (Note 10)	(16)	-	-	-	-	-	(16)
Net loss	-	-	-	(722)	-	(38)	(760)
Stock based compensation (Note 11)	-	194	72	-	-	-	266
Other comprehensive income	-	-	-	-	32	-	32
Balance, June 30, 2012	104,838	6,245	652	(36,260)	(3,082)	266	72,659
From July 1, 2012 to December 31, 2012							
Net loss	-	-	-	(15,901)	-	(19)	(15,920)
Stock based compensation (Note 11)	-	122	67	-	-	-	189
Balance, December 31, 2012	104,838	6,367	719	(52,161)	(3,082)	247	56,928
For the six months ended June 30, 2013							
Net loss	-	-	-	(1,529)	-	(20)	(1,549)
Share issuance pursuant to rights offering net of issue costs (Note 10)	7,793	-	-	-	-	-	7,793
Stock based compensation (Notes 10, 11)	11	23	69	-	-	-	103
Balance, June 30, 2013	$ 112,642	$ 6,390	$ 788	$ (53,690)	$ (3,082)	$ 227	$ 63,275

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

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

(expressed in thousands of Canadian dollars)

		For the six months ended	
	Note	June 30, 2013	June 30, 2012
OPERATING ACTIVITIES			
Net loss for the period		$ (1,549)	$ (760)
Adjustments for:			
Depreciation and depletion	6	6,001	7,428
(Gain) loss on fair value changes in financial instruments	5	(16)	28
Impairment loss on financial instruments	5	638	640
Loss (gain) on fair value changes of risk management contracts	9	151	(898)
Deferred income taxes	15	(157)	(294)
Stock based compensation	11	92	266
Reclamation expenditures	8	(625)	(755)
Other		(207)	(145)
		4,328	5,510
Changes in:			
Accounts receivable		(671)	1,079
Accounts payable and accrued liabilities		2,050	(3,490)
Taxes payable		(14)	25
Prepaids and security deposits		235	862
Inventory		(89)	290
CASH PROVIDED FROM OPERATING ACTIVITIES		5,839	4,276
FINANCING ACTIVITIES			
(Repayment of) advanced from bank loan arrangements	7	(8,004)	453
Proceeds from rights offering, net of issue costs	10	8,608	-
Acquisition of common shares for cancellation	10	-	(16)
CASH PROVIDED FROM FINANCING ACTIVITIES		604	437
INVESTING ACTIVITIES			
Acquisition of investments	5	(1,075)	-
Investment in oil and gas properties	6	(5,048)	(6,518)
CASH USED IN INVESTING ACTIVITIES		(6,123)	(6,518)
INCREASE (DECREASE) IN CASH		320	(1,805)
CASH, BEGINNING OF PERIOD		125	2,556
CASH, END OF PERIOD		$ 445	$ 751
Interest paid		$ 1,649	$ 1,670
Income taxes paid		$ 66	$ 65

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

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

For the three and six months ended June 30, 2013 and June 30, 2012
Tabular dollar amounts in thousands of Canadian dollars, except per share amounts

1. NATURE OF OPERATIONS

Dundee Energy Limited ("Dundee Energy" or the "Corporation") is an oil and natural gas company with a mandate to create long-term value through the exploration, development, production and marketing of oil and natural gas and through other high impact energy projects. Dundee Energy is incorporated under the Canada Business Corporations Act. The Corporation's head office is located at Suite 2100, 1 Adelaide Street East, Toronto, Ontario, Canada, M5C 2V9, and its registered office is located at Suite 250, 435 – 4th Avenue SW, Calgary, Alberta, Canada, T2P 3A8. The Corporation's common shares trade on the Toronto Stock Exchange ("TSX") under the symbol "DEN". At June 30, 2013, Dundee Corporation was the principal shareholder of the Corporation.

Dundee Energy's operating interests include its 100% ownership interest in Dundee Energy Limited Partnership ("DELP"), a limited partnership involved in the exploration, development and production of oil and gas properties in southern Ontario, Canada, and a 74% interest in Castor UGS Limited Partnership ("CLP"), its principal asset being a 33% interest in Escal UGS S.L. ("Escal"), the owner of the Castor underground gas storage project located in Spain. The Corporation also holds preferred shares of Eurogas International Inc. ("Eurogas International" or "EII"), an oil and gas exploration company that holds a 45% working interest in the Sfax permit offshore Tunisia.

2. BASIS OF PREPARATION

These unaudited condensed interim consolidated financial statements of the Corporation as at and for the three and six months ended June 30, 2013 ("June 2013 Interim Consolidated Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and with interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the Handbook of Canadian Institute of Chartered Accountants, as applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, "*Interim Financial Reporting"*. The June 2013 Interim Consolidated Financial Statements should be read in conjunction with the Corporation's audited consolidated financial statements as at and for the year ended December 31, 2012 ("2012 Audited Consolidated Financial Statements") which were prepared in accordance with IFRS as applicable for annual financial statements. The June 2013 Interim Consolidated Financial Statements were authorized for issuance by the Board of Directors on July 30, 2013.

The June 2013 Interim Consolidated Financial Statements follow the same accounting principles and methods of application as those disclosed in Note 3 to the 2012 Audited Consolidated Financial Statements, except as described below.

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.

Reclassified 2012 Comparative Amounts

Certain items on the consolidated statement of financial position as at December 31, 2012 have been reclassified to conform to the June 30, 2013 presentation. The Corporation does not believe that these reclassifications had a material effect on the June 2013 Interim Consolidated Financial Statements, from either a quantitative or a qualitative perspective.

Changes in Accounting Policies Implemented During the Six Months Ended June 30, 2013

The Corporation has adopted the following new and revised accounting standards, including any consequential amendments thereto, effective January 1, 2013. Changes in accounting policies adopted by the Corporation were made in accordance with the applicable transitional provisions as provided in those standards and amendments.

IFRS 7, "Financial Instruments: Disclosure" ("IFRS 7")

Amendments to IFRS 7 require the disclosure of information that enables users of an entity's financial statements to evaluate the effect, or potential effect, of offsetting financial assets and financial liabilities, to the entity's financial position. The Corporation adopted IFRS 7 on January 1, 2013 and, accordingly, the Corporation has included disclosures relating to the offsetting of derivative financial assets against derivative financial liabilities, if any, in Note 9 to the June 2013 Interim Consolidated Financial Statements.

IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12")

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, equity accounted investments, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosure and also introduces significant additional disclosure requirements that address the nature of, and risks associated with an entity's interests in other entities. The Corporation adopted IFRS 12 on January 1, 2013. The adoption of this disclosure standard did not have an impact on the Corporation's June 2013 Interim Consolidated Financial Statements, but is expected to result in additional disclosure in the Corporation's annual financial statements as at and for the year ending December 31, 2013.

IFRS 13, "Fair Value Measurement" ("IFRS 13")

IFRS 13 provides a single framework for measuring fair value within IFRS. The new standard requires that the measurement of the fair value of an asset or liability be based on assumptions that market participants would use when pricing the asset or liability under market conditions existing as of the date of the statement of financial position, including assumptions relating to risk. The Corporation adopted IFRS 13 on January 1, 2013, on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Corporation to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

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

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

On May 29, 2013, the IASB made amendments to the disclosure requirements of IAS 36, requiring disclosure, in certain instances, of the recoverable amount of an asset or cash generating unit, and the basis for the determination of fair value less costs of disposal, when an impairment loss is recognized or when an impairment loss is subsequently reversed. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014 and will be applied prospectively.

IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39")

On June 27, 2013, the IASB made amendments to IAS 39 that will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amendments to IAS 39 are effective for annual periods beginning on or after January 1, 2014.

Amendments to Other Standards and Impact to Financial Statements

Other accounting standards, interpretations and amendments to existing standards that are not yet effective are outlined in Note 3 to the 2012 Audited Consolidated Financial Statements. The Corporation has not completed its assessment of the impact that the new and amended standards will have on its financial statements, or whether to early adopt any of the new requirements.

3. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the June 2013 Interim Consolidated Financial Statements requires management to make judgments in applying its accounting policies and estimates and assumptions about the future. These judgments, estimates and assumptions affect the Corporation's reported amounts of assets, liabilities, revenues and other items in net earnings (loss), and the related disclosure of contingent assets and liabilities, if any. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amount of revenues and other items in net earnings (loss) that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. There have been no significant changes in accounting judgments, estimates and assumptions made by the Corporation in the preparation of the June 2013 Interim Consolidated Financial Statements from those judgments, estimates and assumptions disclosed in Note 4 to the 2012 Audited Consolidated Financial Statements.

4. ACCOUNTS RECEIVABLE

	June 30, 2013	December 31, 2012
Customers for oil and natural gas production	$ 2,991	$ 2,635
Working interest partners	348	174
Amounts receivable from Escal	1,007	966
	$ 4,346	$ 3,775

5. INVESTMENTS

	June 30, 2013	December 31, 2012
Investment in publicly listed equity securities	$ 257	$ 241
Investment in private enterprises	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	6,305	5,667
Less: Impairment	(6,305)	(5,667)
	-	-
	$ 1,332	$ 241

At June 30, 2013 and December 31, 2012, the Corporation held 32,150,000 Series A Preference Shares of Eurogas International with an aggregate par value of $32,150,000. The terms of the Corporation's investment in the Series A Preference shares are detailed in Note 7 to the 2012 Audited Consolidated Financial Statements. Notwithstanding the Corporation not receiving any dividends on its investment at June 30, 2013, the Corporation had not exercised its entitlement to elect the majority of the members of the Board of Directors of Eurogas International. During the three and six months ended June 30, 2013, the Corporation recognized an impairment loss of $321,000 and $638,000 respectively (three and six months ended June 30, 2012 – $320,000 and $640,000 respectively) relating to dividends receivable on the Series A Preference Shares of Eurogas International.

During the three and six months ended June 30, 2013, the Corporation recognized an unrealized loss of $10,000 and a gain of $16,000 respectively (three and six months ended June 30, 2012 – loss of $19,000 and $28,000 respectively) from changes in the fair value of its investments in publicly listed equity securities.

During the second quarter of 2013, the Corporation acquired a 31% interest in Windiga Energy Inc. (formerly SMF Energy Inc.) ("Windiga") for $1,075,000. The Corporation has determined that it does not have significant influence over the operating and financial policies of Windiga and accordingly, the Corporation is accounting for its investment in Windiga as a financial instrument at fair value through profit and loss. As Windiga is a private enterprise and its fair value cannot be reliably measured, the Corporation's investment in Windiga is carried at cost.

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6. OIL AND GAS PROPERTIES

	Property, Plant and Equipment					*Exploration and Evaluation*	
	Oil and Gas Development Costs	Pipeline Infrastructure	Machinery and Equipment	Land and Buildings	Other	Undeveloped Properties	TOTAL
At December 31, 2011							
Cost	$ 130,470	$ 25,317	$ 23,429	$ 4,580	$ 2,754	$ 7,928	$ 194,478
Accumulated depreciation and depletion	(17,139)	(2,959)	(1,842)	(37)	(817)	-	(22,794)
Net carrying value, December 31, 2011	113,331	22,358	21,587	4,543	1,937	7,928	171,684
Six months ended June 30, 2012							
Carrying value December 31, 2011	113,331	22,358	21,587	4,543	1,937	7,928	171,684
Net additions	927	195	1,566	-	349	2,862	5,899
Remeasure decommissioning liability (Note 8)	1,945	-	-	-	-	-	1,945
Depreciation and depletion	(5,808)	(879)	(668)	(13)	(60)	-	(7,428)
Net carrying value, June 30, 2012	110,395	21,674	22,485	4,530	2,226	10,790	172,100
At June 30, 2012							
Cost	133,342	25,512	24,995	4,580	3,103	10,790	202,322
Accumulated depreciation and depletion	(22,947)	(3,838)	(2,510)	(50)	(877)	-	(30,222)
Net carrying value, June 30, 2012	110,395	21,674	22,485	4,530	2,226	10,790	172,100
Transactions from July 1, 2012 to December 31, 2012							
Carrying value June 30, 2012	110,395	21,674	22,485	4,530	2,226	10,790	172,100
Net additions	2,703	91	2,026	-	206	1,877	6,903
Remeasure decommissioning liability (Note 8)	(1,478)	-	-	-	-	-	(1,478)
Depreciation and depletion	(5,967)	(858)	(676)	(13)	(61)	-	(7,575)
Impairment	(15,500)	-	-	-	-	-	(15,500)
Net carrying value, December 31, 2012	90,153	20,907	23,835	4,517	2,371	12,667	154,450
At December 31, 2012							
Cost	134,567	25,603	27,021	4,580	3,309	12,667	207,747
Accumulated depreciation, depletion and impairment	(44,414)	(4,696)	(3,186)	(63)	(938)	-	(53,297)
Net carrying value, December 31, 2012	90,153	20,907	23,835	4,517	2,371	12,667	154,450
Six months ended June 30, 2013							
Carrying value December 31, 2012	90,153	20,907	23,835	4,517	2,371	12,667	154,450
Net additions	1,622	202	355	42	264	2,885	5,370
Remeasure decommissioning liability (Note 8)	(6,091)	-	-	-	-	-	(6,091)
Depreciation and depletion	(4,528)	(679)	(712)	(13)	(69)	-	(6,001)
Net carrying value, June 30, 2013	81,156	20,430	23,478	4,546	2,566	15,552	147,728
At June 30, 2013							
Cost	130,098	25,805	27,376	4,622	3,573	15,552	207,026
Accumulated depreciation and depletion	(48,942)	(5,375)	(3,898)	(76)	(1,007)	-	(59,298)
Net carrying value, June 30, 2013	$ 81,156	$ 20,430	$ 23,478	$ 4,546	$ 2,566	$ 15,552	$ 147,728

Increase in Working Interest

Subsequent to June 30, 2013, the Corporation acquired a further 20% working interest in certain offshore gas properties in southern Ontario, for cash consideration of $5,000,000, increasing its working interest to 85%. The transaction was completed on July 5, 2013, with an effective date of April 1, 2013.

7. BANK LOAN

DELP has established a credit facility for $70,000,000 (December 31, 2012 – $70,000,000) with a Canadian 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 DELP's current ratios, draws on the credit facility bear interest, at DELP's option, at either the bank's prime lending rate plus 3.0% for loans or letters of credit, or, for bankers' acceptances, at the bank's then prevailing bankers' acceptance rate plus 4.0%. DELP is subject to a standby fee of 0.50% on unused amounts under the credit facility.

The credit facility is secured against all of the oil and natural gas properties owned by DELP. In addition, the Corporation has assigned a limited recourse guarantee of its units in DELP as further security pursuant to the credit facility. The credit facility is subject to certain covenants, including maintenance of minimum levels of working capital. At June 30, 2013, the Corporation was in compliance with all such covenants.

		June 30, 2013		December 31, 2012
Prime rate loans	$	1,100	$	3,100
Bankers' acceptances		54,000		60,000
Less: Unamortized discount		(471)		(467)
	$	54,629	$	62,633
Letter of credit (Note 8)	$	-	$	3,270

At June 30, 2013, DELP had drawn $55,100,000 (December 31, 2012 – $66,370,000) pursuant to the credit facility. Available credit under the credit facility at June 30, 2013 was $14,900,000. During the three and six months ended June 30, 2013, the Corporation incurred interest expense relating to the credit facility, including bank charges, arrangement fees and standby fees, of $792,000 and $1,648,000 respectively (three and six months ended June 30, 2012 – $842,000 and $1,673,000 respectively).

Subsequent to June 30, 2013, the interest rate structure of DELP's credit facility was amended, increasing the interest rate to the bank's prime lending rate plus 3.5% for loans or letters of credit, or, for bankers' acceptances, to the bank's then prevailing bankers' acceptance rate plus 4.5%. The amended agreement provides for a standby fee of 0.55% on unused amounts under the credit facility. There were no other material changes to the terms of the credit facility as a result of the amendment.

8. DECOMMISSIONING LIABILITIES

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

		June 30, 2013		December 31, 2012
Undiscounted future obligations, beginning of period	$	81,278	$	83,739
Effect of changes in estimates		(113)		(1,468)
Liabilities settled (reclamation expenditures)		(625)		(993)
Undiscounted future obligations, end of period	$	80,540	$	81,278

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

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

		June 30, 2013		December 31, 2012
Discount rates applied to future obligations		*1.25% - 2.90%*		*1.13% - 2.27%*
Inflation rate		*2.00%*		*2.00%*
Discounted future obligations, beginning of period	$	44,705	$	44,288
Effect of changes in estimates and				
remeasurement of discount rates		(6,091)		467
Liabilities settled (reclamation expenditures)		(625)		(993)
Accretion (interest expense)		452		943
Discounted future obligations, end of period	$	38,441	$	44,705
Current	$	1,026	$	1,796
Non-current		37,415		42,909
	$	38,441	$	44,705

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

9. RISK MANAGEMENT CONTRACTS

At June 30, 2013, the Corporation had entered into certain risk management contracts as identified in the table below.

Contract Fixed Price Swap	Volume	Pricing Point	Strike Price (Cdn$/unit)	Remaining Term		Fair Value June 30, 2013
Crude oil	500 bbl/d	NYMEX	$98.22	Jul 01/13 to Dec 31/13	$	(198)
Natural gas	6,250 mbtu/d	NYMEX	$4.07	Jul 01/13 to Dec 31/13		262
					$	64

The Corporation has determined that the fair value of risk management contracts at June 30, 2013 resulted in an asset balance of $64,000 (December 31, 2012 – $215,000). During the six months ended June 30, 2013, the Corporation cancelled natural gas fixed price contracts representing 3,750 mbtu/day at a cost of $313,000.

During the three and six months ended June 30, 2013, the Corporation recognized a gain of $214,000 and a loss of $152,000 respectively (three and six months ended June 30, 2012 – gain of $1,507,000 and $2,767,000 respectively) from changes in the fair value of risk management contracts.

10. SHARE CAPITAL

Issued and Outstanding

	Number of Common Shares Outstanding	Share Capital	Contributed Surplus: Option Reserve (Note 11)	Contributed Surplus: DSUP Reserve (Note 11)
Outstanding, December 31, 2011	164,675,147	$ 104,854	$ 6,051	$ 580
Transactions during the six months ended June 30, 2012				
Stock based compensation	-	-	194	72
Redeemed pursuant to issuer bid	(23,500)	(16)	-	-
Outstanding, June 30, 2012	164,651,647	104,838	6,245	652
Transactions from July 1, 2012 to December 31, 2012				
Stock based compensation	-	-	122	67
Outstanding, December 31, 2012	164,651,647	104,838	6,367	719
Transactions during the six months ended June 30, 2013				
Stock based compensation	30,874	11	23	69
Shares issued pursuant to rights offering	5,734,067	1,950	-	-
Flow-through shares issued pursuant to rights offering	17,787,596	6,937	-	-
Deferred tax recognized on flow-through shares (Note 15)	-	(889)	-	-
Issue costs associated with rights offering	-	(279)	-	-
Deferred tax recognized on issue costs (Note 15)	-	74	-	-
Outstanding, June 30, 2013	188,204,184	$ 112,642	$ 6,390	$ 788

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 $279,000 to complete the rights offering. As at June 30, 2013, the Corporation had incurred $1,793,000 of expenses available for renunciation to flow-through common shareholders.

Included in "*Accounts payable and accrued liabilities*" as at June 30, 2013 is a share premium liability of $889,000, representing the premium paid for the flow-through benefit associated with the issuance of flow-through common shares pursuant to the rights offering. The share premium liability will be amortized to income as the associated expenditures are incurred and renounced by the Corporation (Note 15). During the six months ended June 30, 2013, the Corporation amortized $230,000 of the share premium liability, which amount was recognized as "*current income tax expense*" in the statement of operations.

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 11). 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.

11. STOCK BASED COMPENSATION

A detailed description of the Corporation's share incentive plan is provided in Note 13 to the Corporation's 2012 Audited Consolidated Financial Statements.

Stock Option Plan

A summary of the status of the stock option component of the Corporation's share incentive plan as at and for the six months ended June 30, 2013 and as at and for the year ended December 31, 2012, is as follows:

	June 30, 2013			December 31, 2012		
	Stock Options		Weighted Average Exercise Price	Stock Options		Weighted Average Exercise Price
Options outstanding, beginning of period	3,815,000	$	0.77	5,665,000	$	0.92
Granted	-		-	400,000		0.60
Forfeited	(100,000)		0.81	(2,250,000)		1.12
Options outstanding, end of period	3,715,000	$	0.77	3,815,000	$	0.77
Exercisable options	3,581,666	$	0.78	3,548,332	$	0.79

Option Price	Options Outstanding	Options Exercisable	Contractual Life Remaining (Years)
At $0.54	200,000	200,000	0.30
At $0.60	400,000	266,666	3.84
At $0.81	3,115,000	3,115,000	2.34

During the three and six months ended June 30, 2013, the Corporation recognized stock based compensation expense of $8,000 and $23,000 respectively (three and six months ended June 30, 2012 – $125,000 and $194,000 respectively) in respect of outstanding stock options.

Deferred Share Unit Plan

During the three and six months ended June 30, 2013, the Corporation incurred stock based compensation expense of $34,000 and $69,000 respectively (three and six months ended June 30, 2012 – $35,000 and $72,000 respectively) pursuant to its deferred share unit plan ("DSUP"). At June 30, 2013, there were 1,039,358 (December 31, 2012 – 945,310) deferred share units outstanding.

12. GENERAL AND ADMINISTRATIVE EXPENSES AND PRODUCTION EXPENDITURES BY NATURE

General and Administrative Expenses

	For the three months ended				For the six months ended			
		June 30, 2013		June 30, 2012		June 30, 2013		June 30, 2012
Salary and salary-related	$	1,010	$	1,144	$	1,922	$	2,057
Stock based compensation		42		160		92		266
Corporate and professional fees		560		657		1,061		1,450
General office		375		336		729		715
Exploration and development costs		279		259		543		522
Capitalization of general and administrative costs		(952)		(962)		(1,442)		(1,424)
	$	1,314	$	1,594	$	2,905	$	3,586

Production Expenditures

	For the three months ended				For the six months ended			
		June 30, 2013		June 30, 2012		June 30, 2013		June 30, 2012
Labour	$	989	$	1,172	$	1,729	$	1,857
Materials, equipment and supplies used		1,356		1,179		1,953		2,082
Transportation		307		337		587		652
Utilities		391		428		947		921
Rental and lease payments		157		202		404		397
Other		347		(183)		775		271
	$	3,547	$	3,135	$	6,395	$	6,180

13. EQUITY ACCOUNTED INVESTMENT IN ESCAL

During the year ended December 31, 2012, Escal issued 39 par value shares for €2,000 of which CLP acquired 13 par value shares for a nominal amount in order to maintain its proportionate interest in Escal. In addition and in order to comply with minimum equity to debt ratio requirements, during the year ended December 31, 2012, the majority shareholder in Escal also contributed an issuance premium on the newly issued shares of €5,774,000 and Escal issued €15,400,000 in subordinated loans. There were no additional shares or subordinated loans issued by Escal during the six months ended June 30, 2013. CLP has not recognized the benefit of its 33% interest in the issuance premium and subordinated loans as the ultimate realization and measurement of the benefit is subject to a significant number of risks and uncertainties, including but not limited to, execution risk associated with the construction of the project, the availability and terms of future financing arrangements and the 50-year life span of the project.

Escal has established a hedging strategy to mitigate its exposure to interest rate risk associated with its project financing agreement. At June 30, 2013, the fair value of Escal's obligations in respect of these hedging strategies was approximately €107,322,000 (December 31, 2012 – €140,104,000). Recognition of these losses draws the Corporation's carrying value in Escal to zero. At June 30, 2013, the Corporation had not recorded a liability of $29,830,000 (December 31, 2012 – $38,552,000) related to additional losses incurred by Escal, as it does not have the legal or constructive obligation in respect thereof.

Refinancing of the Castor Project

On July 26, 2013, Escal announced that it had arranged for the issuance of euro-denominated senior secured bonds (the "Euro Bonds") totalling €1.40 billion. The Euro Bonds are subject to an annual interest rate of 5.756%, payable semi-annually, and are repayable in equal semi-annual installments over a period of 21 and a half years, with the last payment due in December 2034. The Euro Bonds will be listed on the Luxembourg stock exchange.

The Euro Bonds will be issued by a special purpose vehicle, Watercraft Capital S.A. ("Watercraft"), a Luxembourg corporation. The proceeds from the issuance will be subsequently on-lent to Escal, pursuant to a credit facility between Watercraft and Escal, and will be used by Escal to repay amounts owing pursuant to Escal's existing project financing.

Escal will provide a general security interest against its assets for the benefit of Watercraft to secure Escal's obligations under these arrangements, and the shareholders of Escal shall pledge their respective shares in Escal as part of the overall security package. In addition, the European Investment Bank has committed to provide a standby letter of credit as a form of subordinated credit enhancement instrument in support of the Euro Bonds.

14. NET LOSS PER SHARE

	For the three months ended		For the six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Net loss for the period attributable to owners of the parent	$ (457)	$ (302)	$ (1,529)	$ (722)
Weighted average number of common shares outstanding	187,140,409	164,651,647	175,958,152	164,655,095
Basic and diluted net loss per common share	$ -	$ -	$ (0.01)	$ -

15. INCOME TAXES

During the six months ended June 30, 2013, the Corporation recognized an income tax recovery amount of $105,000 (June 30, 2012 – $204,000).

The income tax recovery amount on the Corporation's loss before income taxes differs from the income tax recovery amount that would arise using the combined Canadian federal and provincial statutory tax rate of 26% (six months ended June 30, 2012 – 26%), as a result of the following items:

	For the six months ended	
	June 30, 2013	June 30, 2012
Loss before tax at statutory rate of 26% (June 30, 2012 – 26%)	$ (438)	$ (256)
Effect on taxes of:		
Non-deductible expenses	35	84
Renounced exploration expenses	475	-
Flow-through share premium amortization	(230)	-
Net income tax not previously recognized	-	145
Change in substantively enacted income tax rates	-	(177)
Other differences	53	-
Income tax recovery	$ (105)	$ (204)

16. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in these June 2013 Interim Consolidated Financial Statements, related party transactions and balances as at and for the six months ended June 30, 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 three and six months ended June 30, 2013, the Corporation incurred costs of $172,000 and $600,000 respectively (three and six months ended June 30, 2012 – $492,000 and $959,000 respectively) in respect of these arrangements.

Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities at June 30, 2013 are amounts owing to the Corporation's parent, Dundee Corporation, and to Dundee Corporation's subsidiaries of $3,224,000 (December 31, 2012 – $762,000).

Financial Services

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

Key Management Compensation

Compensation and other fees paid to directors of the Corporation and to the President and Chief Executive Officer of the Corporation during the three and six months ended June 30, 2013 and 2012 are shown below:

	For the three months ended		For the six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Directors' fees and executive consulting	$ 145	$ 138	$ 290	$ 274
Stock based compensation	8	88	23	120
Benefits	10	15	18	18
	$ 163	$ 241	$ 331	$ 412

17. COMMITMENTS

There have been no substantive changes to the description and nature of the Corporation's commitments from those described in Note 19 to the Corporation's 2012 Audited Consolidated Financial Statements.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	June 30, 2013	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial Assets				
Investment in publicly listed equity securities	$ 257	$ 257	$ -	$ -
Investment in private enterprises	1,075	-	1,075	-
Risk management contracts	64	-	64	-

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

A detailed description of the Corporation's financial assets and financial liabilities and its associated risk management in respect thereof are provided in Note 20 to the 2012 Audited Consolidated Financial Statements. There have been no significant changes in the business and economic circumstances and the related financial risks that affect the fair value of the Corporation's financial assets and financial liabilities since December 31, 2012.

19. GEOGRAPHIC SEGMENTED INFORMATION

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

Segmented Statements of Operations for the six months ended June 30, 2013 and June 30, 2012

	Southern Ontario		Spain		Corporate		TOTAL	
	30-Jun-13	30-Jun-12	30-Jun-13	30-Jun-12	30-Jun-13	30-Jun-12	30-Jun-13	30-Jun-12
REVENUES								
Oil and gas sales	$ 18,394	$ 18,339	$ -	$ -	$ -	$ -	$ 18,394	$ 18,339
Royalties	(2,790)	(2,722)	-	-	-	-	(2,790)	(2,722)
Net sales	15,604	15,617	-	-	-	-	15,604	15,617
Production expenditures	(6,395)	(6,180)	-	-	-	-	(6,395)	(6,180)
Depreciation and depletion	(5,997)	(7,423)	-	-	(4)	(5)	(6,001)	(7,428)
General and administrative	(1,811)	(2,315)	(121)	(124)	(973)	(1,147)	(2,905)	(3,586)
(Loss) gain on fair value changes of risk management contracts	(152)	2,767	-	-	-	-	(152)	2,767
Gain (loss) on fair value changes in financial instruments	-	-	-	-	16	(28)	16	(28)
Impairment loss on financial instruments	-	-	-	-	(638)	(640)	(638)	(640)
Interest income	87	83	-	-	646	644	733	727
Interest expense	(2,101)	(2,154)	-	-	-	1	(2,101)	(2,153)
Foreign exchange gain (loss)	146	(39)	39	(21)	-	-	185	(60)
(LOSS) EARNINGS BEFORE INCOME TAXES	(619)	356	(82)	(145)	(953)	(1,175)	(1,654)	(964)
Income tax recovery (expense)								
Current	-	-	-	-	(52)	(90)	(52)	(90)
Deferred	-	-	-	-	157	294	157	294
	-	-	-	-	105	204	105	204
NET (LOSS) EARNINGS FOR THE PERIOD	$ (619)	$ 356	$ (82)	$ (145)	$ (848)	$ (971)	$ (1,549)	$ (760)
NET (LOSS) EARNINGS ATTRIBUTABLE TO:								
Owners of the parent	$ (619)	$ 356	$ (62)	$ (107)	$ (848)	$ (971)	$ (1,529)	$ (722)
Non-controlling interest	-	-	(20)	(38)	-	-	(20)	(38)
	$ (619)	$ 356	$ (82)	$ (145)	$ (848)	$ (971)	$ (1,549)	$ (760)

Segmented Statements of Operations for the three months ended June 30, 2013 and June 30, 2012

	Southern Ontario		Spain		Corporate		TOTAL	
	30-Jun-13	30-Jun-12	30-Jun-13	30-Jun-12	30-Jun-13	30-Jun-12	30-Jun-13	30-Jun-12
REVENUES								
Oil and gas sales	$ 9,722	$ 8,893	$ -	$ -	$ -	$ -	$ 9,722	$ 8,893
Royalties	(1,477)	(1,350)	-	-	-	-	(1,477)	(1,350)
Net sales	8,245	7,543	-	-	-	-	8,245	7,543
Production expenditures	(3,547)	(3,135)	-	-	-	-	(3,547)	(3,135)
Depreciation and depletion	(2,970)	(3,669)	-	-	(2)	(3)	(2,972)	(3,672)
General and administrative	(751)	(904)	(73)	(87)	(490)	(603)	(1,314)	(1,594)
Gain on fair value changes of risk management contracts	214	1,507	-	-	-	-	214	1,507
Loss on fair value changes in financial instruments	-	-	-	-	(10)	(19)	(10)	(19)
Impairment loss on financial instruments	-	-	-	-	(321)	(320)	(321)	(320)
Interest income	44	38	-	-	329	323	373	361
Interest expense	(1,019)	(1,084)	-	-	-	4	(1,019)	(1,080)
Foreign exchange gain (loss)	88	(2)	45	(30)	-	-	133	(32)
(LOSS) EARNINGS BEFORE INCOME TAXES	304	294	(28)	(117)	(494)	(618)	(218)	(441)
Income tax recovery (expense)								
Current	-	-	-	-	(41)	(90)	(41)	(90)
Deferred	-	-	-	-	(204)	198	(204)	198
	-	-	-	-	(245)	108	(245)	108
NET (LOSS) EARNINGS FOR THE PERIOD	$ 304	$ 294	$ (28)	$ (117)	$ (739)	$ (510)	$ (463)	$ (333)
NET (LOSS) EARNINGS ATTRIBUTABLE TO:								
Owners of the parent	$ 304	$ 294	$ (22)	$ (86)	$ (739)	$ (510)	$ (457)	$ (302)
Non-controlling interest	-	-	(6)	(31)	-	-	(6)	(31)
	$ 304	$ 294	$ (28)	$ (117)	$ (739)	$ (510)	$ (463)	$ (333)

Segmented Net Assets as at June 30, 2013 and December 31, 2012

	Southern Ontario		Spain		Corporate		TOTAL	
	30-Jun-13	31-Dec -12	30-Jun-13	31-Dec -12	30-Jun-13	31-Dec -12	30-Jun-13	31-Dec -12
ASSETS								
Current								
Cash	$ 126	$ 76	$ 2	$ 7	$ 317	$ 42	$ 445	$ 125
Accounts receivable	3,339	2,809	1,007	966	-	-	4,346	3,775
Prepaids and security deposits	951	1,195	3	3	9	-	963	1,198
Inventory	439	350	-	-	-	-	439	350
Investments	-	-	-	-	1,332	241	1,332	241
Derivative financial assets	64	215	-	-	-	-	64	215
	4,919	4,645	1,012	976	1,658	283	7,589	5,904
Non-current								
Oil and gas properties	147,679	154,397	-	-	49	53	147,728	154,450
Equity accounted investment in Escal	-	-	-	-	-	-	-	-
Deferred income taxes	-	-	-	-	9,278	9,277	9,278	9,277
	$ 152,598	$ 159,042	$ 1,012	$ 976	$ 10,985	$ 9,613	$ 164,595	$ 169,631
LIABILITIES								
Current								
Bank loan	$ 54,629	$ 62,633	$ -	$ -	$ -	$ -	$ 54,629	$ 62,633
Accounts payable and accrued liabilities	3,900	4,029	25	29	4,314	1,282	8,239	5,340
Taxes payable	-	-	-	-	11	25	11	25
Decommissioning liabilities	1,026	1,796	-	-	-	-	1,026	1,796
	59,555	68,458	25	29	4,325	1,307	63,905	69,794
Non-current								
Decommissioning liabilities	37,415	42,909	-	-	-	-	37,415	42,909
	$ 96,970	$ 111,367	$ 25	$ 29	$ 4,325	$ 1,307	$ 101,320	$ 112,703
SEGMENTED NET ASSETS	$ 55,628	$ 47,675	$ 987	$ 947	$ 6,660	$ 8,306	$ 63,275	$ 56,928

Dundee Energy Limited
250-435-4th Avenue SW
Calgary, Alberta
T2P 3A8
Canada

www.dundee-energy.com

Registrar and Transfer Agent
Computershare Investor Services Inc.
100 University Avenue, 8th Floor
Toronto, Ontario M5J 2Y1
Toll Free: 1.800.564.6253
Email: service@computershare.com

Stock Exchange
Toronto Stock Exchange

Stock Symbol
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