DUNDEE ENERGY LIMITED

2016 THIRD 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 a large accumulation of producing oil and natural gas assets in southern Ontario and is the original developer of an offshore underground natural gas storage facility in Spain. The Corporation also holds an investment in preferred shares of Eurogas International Inc. ("Eurogas International"), an oil and gas exploration company targeting oil and natural gas reserves.

This Management's Discussion and Analysis ("MD&A") has been prepared with an effective date of October 27, 2016 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, 2015 (the "2015 Consolidated Financial Statements") and the unaudited condensed interim consolidated financial statements as at and for the three and nine months ended September 30, 2016 (the "September 2016 Interim Consolidated Financial Statements"), which have been prepared using International Financial Reporting Standards ("IFRS"). All amounts in this MD&A 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 September 2016 Interim Consolidated Financial Statements have been prepared in accordance with IFRS and use the Canadian dollar as its presentation currency. However, the Corporation believes that important measures of its economic performance include certain measures that are not defined under IFRS and as such, may not be comparable to similar measures used by other companies. Throughout this MD&A, there are references to the following performance measures which management believes are valuable in assessing the economic performance of the Corporation. While these measures are not defined by IFRS, they are common benchmarks in the energy industry, and are used by the Corporation in assessing its operating results, including net earnings and cash flow.

- "Barrel of Oil Equivalent" or "boe" is calculated at a barrel of oil conversion ratio of six thousand cubic feet ("Mcf") of natural gas to one barrel ("bbl") of oil (6 Mcf to 1 bbl), based on an energy equivalency conversion method which is primarily applicable at the burner tip and does not always represent a value equivalency at the wellhead.

- "Field Level Cash Flows" is calculated as revenues from oil and natural gas sales, less royalties and production expenditures, adjusted for the effect of the Corporation's derivative financial instruments. Field level cash flows contribute to the funding of the Corporation's working capital and to capital expenditure requirements. Field level cash flows also provide for repayment of amounts owing pursuant to the Corporation's credit facilities (see *"Liquidity and Capital Resources"*).

- "Field Netbacks" refer to field level cash flows expressed on a measurement unit or barrel of oil equivalent basis.

- "Proved Reserves" are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

- "Probable Reserves" are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

- "Reserve Life Index" is determined by dividing proved reserves by expected annual production. For greater certainty, the reserve life index includes only proved reserves and does not include probable or possible reserves.

- "Per Day Amount" or "/d" is used throughout this MD&A to reflect production volumes on an average per day basis.

CONSOLIDATED RESULTS OF OPERATIONS

Nine months ended September 30, 2016 compared with the nine months ended September 30, 2015

Consolidated Net Loss

During the nine months ended September 30, 2016, the Corporation incurred a net loss attributable to owners of the parent of $12.4 million, representing a loss of $0.07 per share. This compares with a net loss attributable to owners of the parent of $4.6 million, or a net loss of $0.02 per share incurred during the same period of the prior year. Included in the net loss attributable to owners of the parent during the nine months ended September 30, 2016 is an impairment loss of $5.0 million against certain natural gas properties, reflecting a decrease in the value of estimated reserves relating to those properties, a loss of $1.5 million realized on the disposal of an offshore jack-up drilling platform, and a marked-to-market loss of $0.7 million related to the Corporation's 45% interest in Windiga Energy Inc.

For the nine months ended September 30,			2016			2015
	Net (Loss) Earnings	Attributable to Owners of the Parent	Non-Controlling Interest	Net (Loss) Earnings	Attributable to Owners of the Parent	Non-Controlling Interest
Southern Ontario Assets	$ (14,126)	$ (14,126)	$ -	$ (4,953)	$ (4,953)	$ -
Castor Project	(2,084)	(1,540)	(544)	(962)	(710)	(252)
Loss from investment in preferred shares of Eurogas International	(962)	(962)	-	(962)	(962)	-
Corporate activities*	4,273	4,273	-	1,977	1,977	-
Net loss for the period	**$ (12,899)**	**$ (12,355)**	**$ (544)**	**$ (4,900)**	**$ (4,648)**	**$ (252)**

* Corporate activities include income tax recovery (expense) amounts associated with the underlying operations of the Corporation's subsidiaries.

Southern Ontario Assets

The Corporation's operating performance is dependent on produced volumes of oil, natural gas and natural gas liquids, as well as the prices received for these commodities. During the nine months ended September 30, 2016, sales of oil and natural gas, net of royalty interests, were $14.4 million, a decrease of $5.7 million from net sales of $20.1 million earned during the same period of the prior year. Approximately $3.8 million of the decrease results directly from lower realized prices for the underlying commodities. The remaining $1.9 million decrease in net revenues reflects lower production volumes as a consequence of scheduled overhaul work completed on two compressors related to the offshore gas manufacturing facilities, and reduced workover activities in the oilfield during the period.

	Natural Gas	Oil and Liquids	Total
Net Sales			
Nine months ended September 30, 2016	$ 8,517	$ 5,860	$ 14,377
Nine months ended September 30, 2015	11,742	8,370	20,112
Net decrease in net sales	**$ (3,225)**	**$ (2,510)**	**$ (5,735)**
Effect of changes in production volumes	$ (716)	$ (1,184)	$ (1,900)
Effect of changes in commodity prices	(2,509)	(1,326)	(3,835)
	$ (3,225)	$ (2,510)	$ (5,735)

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

Effect of Commodity Prices on Revenues from Oil and Gas Sales

Prices for oil and natural gas vary from period to period due to several factors including supply, demand, weather, general economic conditions and changes in foreign exchange rates. The following tables illustrate the price per unit realized by the Corporation during the nine months ended September 30, 2016 and 2015, and provide a comparison of relative changes in benchmark price indicators for such commodities during these periods.

For the nine months ended September 30,				2016					2015	
				Realized					Realized	
		Sales		Unit Price			Sales		Unit Price	
Natural gas	$	10,007	$	3.31	Mcf	$	13,830	$	4.30	Mcf
Oil		6,869		50.88	bbl		9,867		62.78	bbl
Liquids		12		17.99	bbl		20		23.68	bbl
		16,888					23,717			
Less: Royalties at 15% (2015 – 15%)		(2,511)					(3,605)			
Net sales	**$**	**14,377**				**$**	**20,112**			

For the nine months ended September 30,			2016			2015
			Realized			Realized
	US$	CAD$	Prices ($)	US$	CAD$	Prices ($)
Natural Gas (per Mcf)						
Dawn Hub	2.36	3.12	3.31	3.17	3.98	4.30
NYMEX Henry Hub	2.34	3.10		2.80	3.51	
Oil (per bbl)						
Edmonton Par	n/a	49.55	50.88	n/a	58.80	62.78
West Texas Intermediate	41.34	54.78		50.94	63.87	

During the nine months ended September 30, 2016, the Corporation realized an average price on sales of natural gas of $3.31/Mcf, representing a 6% premium over the average benchmark price at the Dawn Hub of $3.12/Mcf. The Corporation continues to benefit from its proximity to the Dawn Hub, as it is a provider of natural gas supply to the greater Toronto market area. Despite this premium however, the average realized price on sales of natural gas in the first nine months of 2016 declined 23% from the average price of $4.30/Mcf realized by the Corporation in the same period of the prior year.

Volatility in the trading price for crude oil remains high, driven by uncertainty over future global economic growth and supply/demand fundamentals. Consistent with this volatility, during the first nine months of 2016, the Corporation realized an average price of $50.88/bbl on sales of crude oil, a 19% decrease from the average price of $62.78/bbl realized during the same period of the prior year. On a comparative basis, the US dollar-denominated West Texas Intermediate price for this commodity fell 19%, while the Edmonton Par average price for crude oil during the first three quarters of 2016 fell by 16%.

Derivative Financial Instruments – Price Risk Management

In order to mitigate its exposure to price volatility, the Corporation may from time to time, enter into fixed price commodity contracts. These derivative financial instruments assist the Corporation in securing a stable amount of cash flow to fund its operations, manage its outstanding debt, and to provide for its discretionary capital expenditures. The Corporation's revenues are primarily received in US dollars and 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 some of its commodity derivative financial instruments on a Canadian dollar basis.

The following table summarizes the realized and unrealized gains or losses from the Corporation's derivative financial instruments during the nine months ended September 30, 2016, compared with the same period of the prior year. For accounting purposes, the Corporation has not designated its derivative financial instruments as hedges. Accordingly, the gains or losses from these contracts are not reflected in the Corporation's reported amounts of oil and natural gas sales, but rather they are separately reported as gains or losses from derivative financial instruments in the Corporation's net earnings or loss.

For the nine months ended September 30,						2016						2015
		Realized		Unrealized				Realized		Unrealized		
		Gain		Loss		Total		Gain		Loss		Total
Oil swaps	$	-	$	-	$	-	$	341	$	(341)	$	-
Gas swaps		473		(1,078)		(605)		-		-		-
	$	**473**	**$**	**(1,078)**	**$**	**(605)**	**$**	**341**	**$**	**(341)**	**$**	**-**

The Corporation's derivative financial instruments at September 30, 2016 had a negative value of $1.1 million and consisted of the following contracts.

Contract Fixed Price Swap	Volume	Pricing Point	Strike Price ($/unit)	Currency	Remaining Term	Fair Value as at September 30, 2016
Natural gas	2,000 mbtu/d	NYMEX	$3.41	CDN	Oct 1/16 to Dec 31/16	$ (98)
Natural gas	1,000 mbtu/d	NYMEX	$3.48	CDN	Oct 1/16 to Dec 31/16	(43)
Natural gas	1,000 mbtu/d	NYMEX	$3.64	CDN	Oct 1/16 to Dec 31/16	(28)
Natural gas	5,000 mbtu/d	NYMEX	$2.70	USD	Jan 1/17 to Dec 31/17	(930)
						$ (1,099)

Production Volumes

During the nine months ended September 30, 2016, production volumes decreased to an average of 2,333 boe/d, compared with an average of 2,543 boe/d produced in the same period of 2015.

Average daily volume during the nine months ended September 30,	2016	2015
Natural gas (Mcf/d)	11,026	11,785
Oil (bbls/d)	493	576
Liquids (bbls/d)	2	3
Total (boe/d)	2,333	2,543

Average daily natural gas production volumes decreased to 11,026 Mcf/d during the first nine months of 2016, compared with production volumes of 11,785 Mcf/d achieved in the same period of the prior year. This represents a decrease of approximately 6%, which is higher than the expected natural decline rate, reflecting reduced production of over 400 Mcf/d due to the downtime effect of maintenance at two of the Corporation's compressors related to offshore gas manufacturing facilities.

Oil production volumes decreased to an average of 493 bbl/d during the first nine months of 2016, compared with an average of 576 bbl/d produced in the same period of the prior year. The decrease reflects the natural decline of approximately 14% in the underlying assets, as well as the effect of an extensive workover program undertaken during the first nine months of the prior year, which significantly increased production during that period.

Production Expenditures

Production expenditures include costs associated with transporting raw oil and natural gas from the reservoir through a gathering system to a central manufacturing facility where oil, natural gas and water are separated and other impurities are removed to meet buyer specifications. Also included in production expenditures is an allocation of general and administrative costs, including labour, which is directly attributable to these activities.

During the first nine months of 2016, the Corporation incurred production expenditures of $9.9 million or $15.55/boe, a decrease of $2.4 million from production expenditures of $12.3 million or $17.78/boe incurred in the same period of the prior year. Due to the decline in commodity prices, the Corporation has contained production expenditures through the implementation of efficiency and other cost-effective measures, and has deferred major maintenance projects on a priority basis until commodity prices rebound.

For the nine months ended September 30,			2016			2015
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Production expenditures	$ 6,541	$ 3,396	$ 9,937	$ 7,285	$ 5,061	$ 12,346
Production expenditures	(per Mcf)	(per bbl)	(per boe)	(per Mcf)	(per bbl)	(per boe)
per unit	$ 2.17	$ 25.03	$ 15.55	$ 2.26	$ 32.03	$ 17.78

Field Level Cash Flows and Field Netbacks

For the nine months ended September 30,			2016			2015
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Total sales	$ 10,007	$ 6,881	$ 16,888	$ 13,830	$ 9,887	$ 23,717
Royalties	(1,490)	(1,021)	(2,511)	(2,088)	(1,517)	(3,605)
Production expenditures	(6,541)	(3,396)	(9,937)	(7,285)	(5,061)	(12,346)
	1,976	2,464	4,440	4,457	3,309	7,766
Realized gain on derivative financial instruments	473	-	473	-	341	341
Field level cash flows	**$ 2,449**	**$ 2,464**	**$ 4,913**	**$ 4,457**	**$ 3,650**	**$ 8,107**

For the nine months ended September 30,			2016			2015
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
	$/Mcf	$/bbl	$/boe	$/Mcf	$/bbl	$/boe
Total sales	$ 3.31	$ 50.72	$ 26.42	$ 4.30	$ 62.57	$ 34.16
Royalties	(0.49)	(7.53)	(3.93)	(0.65)	(9.60)	(5.19)
Production expenditures	(2.17)	(25.03)	(15.55)	(2.26)	(32.03)	(17.78)
	0.65	18.16	6.94	1.39	20.94	11.19
Realized gain on derivative financial instruments	0.16	-	0.74	-	2.16	0.49
Field netbacks	**$ 0.81**	**$ 18.16**	**$ 7.68**	**$ 1.39**	**$ 23.10**	**$ 11.68**

During the first nine months of 2016, the Corporation earned field level cash flows, before the effect of any derivative financial instruments, of $4.4 million or $6.94/boe, compared with field level cash flows, before derivative financial instruments, of $7.8 million or $11.19/boe earned during the same period of the prior year.

Field level cash flows from natural gas operations, before the effect of derivative financial instruments, decreased to $2.0 million or $0.65/Mcf, compared with field level cash flows of $4.5 million or $1.39/Mcf in the same period of the prior year. Field level cash flows from oil and liquids, before the effect of derivative financial instruments, decreased to $2.5 million or $18.16/bbl during the first nine months of 2016, compared with field level cash flows of $3.3 million or $20.94/bbl in the same period of the prior year. Decreases in field level cash flows, and corresponding decreases in field netbacks, reflect both the effect of decreases in realized prices for the sale of the underlying commodities, as well as the reduction in the Corporation's production volumes.

Capital Expenditures

In response to declining commodity prices for both crude oil and natural gas, the Corporation reduced its planned 2016 capital expenditure program significantly. Accordingly, the Corporation's work plan for 2016 is $0.8 million and consists of costs to maintain the existing and essential land portfolio. During the first nine months of 2016, the Corporation incurred $0.5 million (nine months ended September 30, 2015 – $0.4 million) related to its land portfolio and $0.2 million (nine months ended September 30, 2015 – $0.2 million) related to the completion of prior year projects.

In February 2016, the Corporation sold an offshore jack-up drilling platform for proceeds of $88,000. The Corporation identified the jack-up drilling platform as redundant to its current offshore activities and any future drilling operations will be adequately performed by the existing offshore fleet. Included in the September 2016 Interim Consolidated Financial Statements is a loss of $1.5 million related to the disposal.

Impairment of Natural Gas Properties

During the nine months ended September 30, 2016, and in response to the continued decline in the outlook for long-term natural gas prices, the Corporation recognized an impairment loss of $5.0 million on certain natural gas properties in southern Ontario, reducing their carried value to their recoverable amount of $49.8 million. The recoverable amount of these natural gas properties was measured based on their value-in-use, determined by the application of a discounted cash flow model, using reserves volumes and forecasted natural gas prices as provided by independent, third party oil and gas reserves evaluators. In computing the recoverable amount, expected future cash flows were adjusted for risks specific to the natural gas properties and discounted using a discount rate of 8% and based on the average forecasted prices for natural gas at September 30, 2016 as published by Deloitte LLP.

The following table outlines Deloitte's forecasted future prices for natural gas as at September 30, 2016.

Reserve Prices	Natural Gas Union Parkway CAD$ / Mcf
2016	4.05
2017	4.15
2018	4.20
2019	4.35
2020	4.55
Average five year forecast	4.26

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 September 30, 2016, the Corporation's estimate of these future costs on an undiscounted basis was approximately $89.7 million. These obligations are forecasted to be incurred over the reserve life which is currently in excess of 40 years. During the first nine months of 2016, the Corporation incurred $0.6 million in reclamation costs related to the carrying value of its decommissioning liabilities and it anticipates that it will incur another $4.2 million in reclamation costs over the next 12 months.

In accordance with accounting requirements, the estimated decommissioning liability is recorded in the Corporation's consolidated financial statements on a discounted basis using discount rates that are specific to the underlying obligations. At September 30, 2016, the discounted amount of the Corporation's decommissioning liabilities was $64.6 million. The discount used in calculating the Corporation's decommissioning liabilities is accreted over time. During the first nine months of 2016, the Corporation incurred accretion expense of $0.7 million (nine months ended September 30, 2015 – $0.8 million) related to the carrying value of its decommissioning liabilities.

Castor UGS Limited Partnership and the Castor Project

The Corporation is the original developer of a Spanish infrastructure undertaking that converted an abandoned oilfield to a natural gas storage facility (the "Castor Project"). The Castor Project, and the related exploitation concession, were owned and developed by Escal UGS S.L. ("Escal"), a company incorporated under Spanish jurisdiction. ACS Servicios Communicacions y Energia S.L. ("ACS"), a construction group in Spain, is a 67% shareholder of Escal, while Castor UGS Limited Partnership ("CLP"), the Corporation's 74% owned subsidiary, holds the remaining 33% interest in Escal.

In September 2013, the Spanish authorities mandated suspension of activities at the Castor Project, following micro-seismic activity detected in the surrounding area. Escal subsequently considered options available in respect of the Castor Project and in July 2014, Escal determined that it was appropriate to exercise its right under the underground gas storage concession to relinquish the concession to the Spanish authorities. On October 3, 2014, the Spanish government approved Royal Decree-Law 13/2014, which became effective on October 4, 2014, the date of its publication in the Spanish Official State Gazette. The Royal Decree-Law formally accepted the relinquishment of the Castor Project, it acknowledged the termination of the concession, and it reverted ownership of the associated facilities back to the public domain.

In November 2014 and under the terms of the relinquishment, Escal received €1.35 billion, being the net value of its investment in the Castor Project, after deducting €110 million previously received by Escal during the pre-commissioning stage of development. These proceeds were applied towards the partial repayment of the €1.41 billion of outstanding bonds issued by Watercraft Capital S.A., Escal's financing vehicle.

The Royal Decree-Law mandates that the Castor Project remain mothballed until the Spanish government is satisfied with technical studies and reports on any future commissioning of such facilities. Enagás Transporte, S.A.U., an affiliate of the technical manager of the Spanish gas system, has been tasked with completing these studies and it is entrusted with the ongoing care and maintenance of the facilities. Notwithstanding the assumption of ongoing care and maintenance by Enagás Transporte, S.A.U., Escal and its shareholders remain responsible for any possible flaws or defects in the facilities associated with the Castor Project that become apparent during the 10 years following the issuance of the Royal Decree-Law.

The Royal Decree-Law also provided Escal with certain other remuneration rights, including financial remuneration for the period from the provisional commissioning date of the Castor Project on July 5, 2012 through to October 4, 2014, as well as the reimbursement of operating and maintenance costs incurred during this period. On November 17, 2015, the Spanish Ministry of Industry, Energy and Tourism issued a resolution establishing the additional remuneration at €253.3 million, and the reimbursement of operating and maintenance costs at an additional €42.3 million. Escal currently anticipates that approximately 75% of these amounts will be received in late 2016, with the balance to be received, subject to interest at 1.2%, over a 15-year period. On December 18, 2015, a further €4.56 million was authorized and subsequently received, as compensation for operating and maintenance costs between October 4, 2014 through to November 30, 2014, being the date of the hand-over of the facilities to Enagás Transporte, S.A.U. The Corporation anticipates that all amounts to be received by Escal pursuant to such arrangements will be applied to reduce debt outstanding in Escal, as further described below.

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

Furthermore, in the opinion of CLP, the use of the €240 million in payment of subordinated loans solely to ACS contravenes the terms of the 2007 memorandum of understanding in respect of CLP’s ownership rights in the equity and shareholder loans of Escal. Therefore, early in the second quarter of 2015, CLP commenced binding arbitration proceedings to resolve this contractual dispute with ACS. As required pursuant to the terms of the memorandum of understanding referred to above, the arbitration was in accordance with the rules of the International Chamber of Commerce (“ICC”) in Paris, and was heard by an arbitral tribunal consisting of three arbitrators. Evidentiary hearings were completed in late July, and the Corporation anticipates that the arbitral tribunal will reach its decision in December 2016.

The Corporation accounts for its investment in Escal using the equity method. At September 30, 2016 and December 31, 2015, Escal’s net equity available to shareholders was negative, reflecting operating losses and the settlement of unfavourable hedging transactions. Accordingly, the Corporation has reduced the carrying value of its investment in Escal to $nil at September 30, 2016 (December 31, 2015 – $nil). The Corporation has not reduced its carrying value in Escal to below $nil as the Corporation does not have any legal or constructive obligations in respect of its investment in Escal, nor is it currently obligated to make any payments on behalf of Escal.

Investment in Series A Preference Shares of Eurogas International Inc.

Because of the Corporation's entitlement to demand redemption of the Series A Preference Shares at any time from Eurogas International, the Corporation has classified its investment in the Series A Preference Shares as a loan receivable and the associated dividends as interest income. The Corporation has completed an assessment of the fair value of the Series A Preference Shares. In its assessment, the Corporation considered factors such as the delinquency of dividend payments and the financial resources available to Eurogas International to meet current commitments and pursue growth opportunities. The Corporation concluded that there was significant impairment in the par value of the Series A Preference Shares and the related accrued dividends thereon and accordingly, the Corporation has fully provided against the carrying values of these assets. During the first nine months of 2016, the Corporation provided for an impairment loss relating to its investment in Eurogas International of $1.0 million (nine months ended September 30, 2015 – $1.0 million).

In 2014, Eurogas International entered into a farm in arrangement with DNO Tunisia AS ("DNO") that essentially provides DNO with an 87.5% participating interest in the Sfax exploration permit. Eurogas International retains a 5.625% interest. Under the terms of the farm in arrangement, DNO assumed the obligation for 100% of all future costs associated with the permit, as well as the assumption of all related drilling obligations. In August 2015, DNO received regulatory approval from the Tunisian authorities for a two-year extension of the first renewal period related to the permit, extending the first renewal period and the associated exploration well drilling obligation to December 8, 2017.

Other Items in Consolidated Net Earnings

General and Administrative Expenses

General and administrative expenses incurred during the nine months ended September 30, 2016 were $4.1 million, an increase of $0.9 million over general and administrative expenses of $3.2 million incurred in the same period of the prior year. The increase in general and administrative expenses relates primarily to legal and other costs of the arbitration process associated with the Corporation's investment in Escal and the Castor Project. These costs aggregated $2.0 million in the first nine months of 2016, compared with costs of $0.9 million in the same period of the prior year.

Interest Expense

The Corporation incurred interest expense of $3.3 million in the first nine months of 2016, compared with interest expense of $3.4 million incurred in the same period of the prior year. Included in interest expense is $0.7 million (nine months ended September 30, 2015 – $0.8 million) of accretion expense associated with the Corporation's decommissioning liabilities, with the balance of interest expense incurred predominantly on borrowings pursuant to the Corporation's credit facility.

Income Tax Expense

The Corporation recognized an income tax recovery of $4.4 million in the nine months ended September 30, 2016 (nine months ended September 30, 2015 – $1.7 million), generating an effective income tax rate of 26% (nine months ended September 30, 2015 – 26%).

SELECTED QUARTERLY FINANCIAL INFORMATION

	2016			2015				2014
	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Revenues	$ 5,449	$ 4,698	$ 4,230	$ 4,974	$ 6,400	$ 6,886	$ 6,826	$ 8,564
Net loss attributable to owners of the parent	**(2,111)**	**(7,303)**	**(2,941)**	**(3,633)**	**(1,902)**	**(1,540)**	**(1,206)**	**(1,431)**
Basic and fully diluted loss per share	$ (0.01)	$ (0.04)	$ (0.02)	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)
Capital expenditures before disposals	$ 38	$ 189	$ 434	$ 249	$ 56	$ 195	$ 261	$ 899

- During the third quarter of 2016, the Corporation recognized a marked-to-market loss of $0.7 million related to the Corporation's 45% interest in Windiga Energy Inc.

- During the second quarter of 2016, the Corporation recorded an impairment loss of $5.0 million on certain natural gas properties in response to a continued decline in long-term natural gas prices.
- During the first quarter of 2016, the Corporation recorded a loss on the disposal of redundant offshore oil and gas assets of $1.5 million.
- During the fourth quarter of 2015, the Corporation recorded an impairment loss of $0.9 million on certain oil properties in response to a sharp decline in oil prices.
- During the fourth quarter of 2014, the Corporation recorded an impairment loss of $1.0 million on financial instruments related to certain amounts owing from Escal.
- Changes in the fair value of the Corporation's derivative financial instruments are included in the Corporation's net earnings or loss. These fair value changes may cause significant volatility in the Corporation's operating results. The following table illustrates the impact of changes in the fair value of the Corporation's derivative financial instruments to its net operating results on a quarterly basis:

	2016			2015				2014
	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Changes in the fair value of derivative financial instruments	$ 269	$ (1,580)	$ 706	$ (21)	$ -	$ -	$ -	$ 504

QUARTERLY CONSOLIDATED RESULTS OF OPERATIONS

Three months ended September 30, 2016 compared with the three months ended September 30, 2015

During the quarter ended September 30, 2016, the Corporation's net loss attributable to the owners of the parent was $2.1 million, compared with a net loss attributable to the owners of the parent of $1.9 million in the third quarter of the prior year.

For the three months ended September 30,			2016			2015
	Net (Loss) Earnings	Attributable to Owners of the Parent	Non-Controlling Interest	Net (Loss) Earnings	Attributable to Owners of the Parent	Non-Controlling Interest
Southern Ontario Assets	$ (1,495)	$ (1,495)	$ -	$ (2,074)	$ (2,074)	$ -
Castor Project	(837)	(619)	(218)	(430)	(318)	(112)
Loss from investment in preferred shares of Eurogas International	(322)	(322)	-	(324)	(324)	-
Corporate activities*	325	325	-	814	814	-
Net loss for the period	**$ (2,329)**	**$ (2,111)**	**$ (218)**	**$ (2,014)**	**$ (1,902)**	**$ (112)**

* Corporate activities include income tax recovery (expense) amounts associated with the underlying operations of the Corporation's subsidiaries.

Southern Ontario Assets

During the third quarter of 2016, sales of oil and natural gas, net of royalty interests were $5.4 million, a decrease of $1.0 million from the $6.4 million earned in the same period of the prior year. Decreases in production volumes accounted for approximately $0.3 million of the decrease in revenues, with the remaining $0.7 million decrease resulting from lower realized commodity prices.

	Natural Gas	Oil and Liquids	Total
Net Sales			
Three months ended September 30, 2016	$ 3,284	$ 2,165	$ 5,449
Three months ended September 30, 2015	3,809	2,591	6,400
Net decrease in net sales	**$ (525)**	**$ (426)**	**$ (951)**
Effect of changes in production volumes	$ (91)	$ (218)	$ (309)
Effect of changes in commodity prices	(434)	(208)	(642)
	$ (525)	$ (426)	$ (951)

Production volumes decreased during the third quarter of 2016, to an average of 2,403 boe/d, compared with an average of 2,496 boe/d produced in the same period of 2015. The decline in production was less than historical natural declines due to summer maintenance work completed in the third quarter of 2016, which improved production volumes in the current quarter.

Average daily volume during the three months ended September 30,	2016	2015
Natural gas (Mcf/d)	11,403	11,681
Oil (bbls/d)	502	545
Liquids (bbls/d)	-	4
Total (boe/d)	2,403	2,496

During the third quarter of 2016, the Corporation realized an average sales price of $3.69/Mcf for natural gas, representing a 12% decrease from a realized price of $4.17/Mcf generated in the third quarter of the prior year. In comparison, the average US-denominated price of natural gas at the Dawn Hub fell by only 4%.

The Corporation realized $55.07/bbl on sales of oil during the third quarter of 2016, compared with $60.90/bbl realized during the third quarter of the prior year. The 10% decrease is higher than the US-denominated West Texas Intermediate price for this commodity, which fell 4% in the third quarter of 2016, compared with the third quarter of the prior year.

For the three months ended September 30,		2016					2015			
				Realized					Realized	
		Sales		Unit Price			Sales		Unit Price	
Natural gas	$	3,869	$	3.69	Mcf	$	4,481	$	4.17	Mcf
Oil		2,545		55.07	bbl		3,052		60.90	bbl
Liquids		-		n/a	bbl		9		25.03	bbl
		6,414					7,542			
Less: Royalties at 15% (2015 – 15%)		(965)					(1,142)			
Net sales	**$**	**5,449**				**$**	**6,400**			

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

For the three months ended September 30,			2016			2015
			Realized			Realized
	US$	CAD$	Prices ($)	US$	CAD$	Prices ($)
Natural Gas (per Mcf)						
Dawn Hub	2.81	3.67	3.69	2.97	3.84	4.17
NYMEX Henry Hub	2.88	3.76		2.76	3.56	
Oil (per bbl)						
Edmonton Par	n/a	54.36	55.07	n/a	54.78	60.90
West Texas Intermediate	44.84	58.56		46.49	60.04	

During the three months ended September 30, 2016, the Corporation recognized a $0.3 million gain on its derivative financial instruments.

For the three months ended September 30,						2016						2015
		Realized		Unrealized				Realized		Unrealized		
		Loss		Gain		Total		Gain		Gain		Total
Oil swaps	$	-	$	-	$	-	$	-	$	-	$	-
Gas swaps		(75)		344		269		-		-		-
	$	**(75)**	**$**	**344**	**$**	**269**	**$**	**-**	**$**	**-**	**$**	**-**

During the third quarter of 2016, the Corporation incurred production expenditures of $3.3 million or $14.85/boe, a decrease of $1.1 million or 25% from production expenditures of $4.4 million or $19.08/boe incurred in the same period of the prior year.

For the three months ended September 30,				2016			2015
		Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Production expenditures		$ 2,328	$ 955	$ 3,283	$ 2,935	$ 1,445	$ 4,380
Production expenditures		(per Mcf)	(per bbl)	(per boe)	(per Mcf)	(per bbl)	(per boe)
per unit		$ 2.22	$ 20.67	$ 14.85	$ 2.73	$ 28.63	$ 19.08

During the third quarter of 2016, and before the effect of any derivative financial instruments, the Corporation generated field level cash flows of $2.2 million, a 7% increase when compared with $2.0 million of field level cash flows generated in the third quarter of the prior year. Despite the decline in commodity prices, field level cash flows increased during the period, due to reduced discretionary spending and the prioritization of maintenance activities while commodity prices remain at low levels. As a result, field netbacks in the third quarter of 2016 increased to $9.79/boe, compared with $8.80/boe in the third quarter of the prior year.

For the three months ended September 30,			2016			2015
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
Total sales	$ 3,869	$ 2,545	$ 6,414	$ 4,481	$ 3,061	$ 7,542
Royalties	(585)	(380)	(965)	(672)	(470)	(1,142)
Production expenditures	(2,328)	(955)	(3,283)	(2,935)	(1,445)	(4,380)
	956	1,210	2,166	874	1,146	2,020
Realized loss on derivative financial instruments	(75)	-	(75)	-	-	-
Field level cash flows	**$ 881**	**$ 1,210**	**$ 2,091**	**$ 874**	**$ 1,146**	**$ 2,020**

For the three months ended September 30,			2016			2015
	Natural Gas	Oil and Liquids	Total	Natural Gas	Oil and Liquids	Total
	$/Mcf	$/bbl	$/boe	$/Mcf	$/bbl	$/boe
Total sales	$ 3.69	$ 55.07	$ 29.01	$ 4.17	$ 60.66	$ 32.85
Royalties	(0.56)	(8.23)	(4.37)	(0.63)	(9.31)	(4.97)
Production expenditures	(2.22)	(20.67)	(14.85)	(2.73)	(28.63)	(19.08)
	0.91	26.17	9.79	0.81	22.72	8.80
Realized loss on derivative financial instruments	(0.07)	-	(0.34)	-	-	-
Field netbacks	**$ 0.84**	**$ 26.17**	**$ 9.45**	**$ 0.81**	**$ 22.72**	**$ 8.80**

LIQUIDITY AND CAPITAL RESOURCES

Southern Ontario Assets

The Corporation's southern Ontario operations are conducted through Dundee Energy Limited Partnership ("DELP"), the Corporation's wholly-owned subsidiary. To finance the acquisition of these assets, DELP has established a credit facility with a Canadian Schedule I Chartered Bank secured by the assets of DELP, and the Corporation has also assigned a limited recourse guarantee of its units in DELP.

On February 18, 2016, amounts available pursuant to the credit facility were reduced from $70.0 million at December 31, 2015 to $60.0 million, and amounts available will be further reduced to $55.0 million before December 31, 2016. The credit facility is structured as a revolving demand loan, and is subject to a tiered interest rate structure based on DELP's net debt to cash flow ratio, as defined in the credit facility. Draws on the credit facility currently bear interest at the bank's prime lending rate plus 3.5%. The credit facility is subject to a standby fee of 0.55% on undrawn amounts under the credit facility.

The demand credit facility is subject to certain covenants, including maintenance of minimum levels of working capital. At September 30, 2016, the Corporation was in compliance with all such covenants. However, during the third quarter of 2016, lenders to DELP initiated discussions with the Corporation, expressing concerns regarding their valuation of the Corporation's assets which have been pledged as security under the terms of the demand credit facility, and which have decreased in value as a result of corresponding decreases in the price of commodities. As a result, the lenders are currently requiring that the Corporation reduce its borrowings to below $38 million by January 2017 (see "*Cash Resources Availability*").

Spain

Pursuant to the terms of a shareholders' agreement amongst the shareholders of Escal, ACS was responsible for providing equity and arranging project financing for the Castor Project, including providing all guarantees that may have been required, from the day it became a majority shareholder in Escal, through development and construction and inclusion of the underground storage facility into the Spanish gas system. Other than the pledging of its shares in Escal as security under lending arrangements previously provided to Escal, the Corporation and its subsidiaries were not required to provide any additional equity or debt funds.

Notwithstanding any form by which ACS may have previously funded Escal, the Corporation retains full entitlement to its existing proportionate interest in Escal and in any distribution made by Escal. However, in accordance with the terms of the Royal Decree-Law issued by the Spanish authorities in October 2014, Escal and its shareholders became jointly and severally liable for any possible flaws or defects in the facilities associated with the Castor Project that become apparent during the 10 years following the issuance of the Royal Decree-Law.

Cash Resources Availability

At September 30, 2016, the Corporation had cash of $0.1 million on deposit with a Canadian Schedule I Chartered Bank and it had drawn $57.2 million against its current demand credit facility.

The Corporation's ability to continue its operations in the normal course of business is dependent upon, among other things, commodity prices. Prices for natural gas and crude oil remain low, and as a result, the Corporation's cash flows have been significantly reduced. In addition, as a reflection of lower commodity prices, the deemed value of the Corporation's natural gas and crude oil reserves has also declined. These conditions could, among other things, impede access to further borrowings, or increase the cost of borrowing, which would have an adverse effect on the Corporation's ability to access the financing necessary to fund its operations.

The Corporation and its lenders initiated discussions pursuant to which the lenders have requested that the Corporation further reduce its borrowings to $38.0 million by mid January 2017, representing a reduction in borrowings of approximately $19.2 million from that outstanding at September 30, 2016. The Corporation is currently working in cooperation with its lenders, and it is assessing further alternatives. There can be no assurance that the Corporation will be able to reduce its borrowings to the level requested by its lenders, or that the Corporation will have access to alternative capital, either on terms acceptable to the Corporation or at all.

Outstanding Share Data and Dilutive Securities

At September 30, 2016 and October 27, 2016, the Corporation had 188,268,994 common shares outstanding. In addition, at September 30, 2016, the Corporation had granted 2,480,000 stock options to purchase common shares of the Corporation to directors and key management at a weighted average exercise price of $0.50 per share, and it had issued 1,203,507 deferred share units. The terms of the Corporation's stock options and deferred share units are described in Note 13 to the 2015 Consolidated Financial Statements.

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 2015 Consolidated Financial Statements and as described under "*Off Balance Sheet Arrangements*" and "*Commitments and Contingencies*" in the Corporation's MD&A as at and for the year ended December 31, 2015.

RELATED PARTY TRANSACTIONS

Other than as described in Note 17 to the September 2016 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 2015 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 Annual Information Form dated February 18, 2016, under "*Risk Factors*", which may be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at *www.sedar.com*. At September 30, 2016, 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 outlook.

ACCOUNTING POLICIES, CRITICAL JUDGMENTS AND ESTIMATES

The preparation of the Corporation's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and other items in net earnings or loss, and the related disclosure of contingent assets and liabilities, if any. Critical judgments and estimates represent estimates made by management that are, by their very nature, uncertain. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying values of assets and liabilities and the reported amounts of revenues and other items in net earnings or loss that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Summaries of the significant accounting policies applied, 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 2015 Consolidated Financial Statements.

There have been no significant changes to the Corporation's significant accounting policies or to the judgments, estimates and assumptions made by the Corporation in the preparation of the September 2016 Interim Consolidated Financial Statements from those significant accounting policies and judgments, estimates and assumptions made by the Corporation in the preparation of its 2015 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 September 30, 2016.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Corporation in the reports it files or submits under securities legislation is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and reported to management, including the Corporation's Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow required disclosures to be made in a timely fashion. Based on their evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as at September 30, 2016, 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 nine months ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect the Corporation's internal control over financial reporting. There were no changes identified during their evaluation.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements that reflect management's expectations regarding the Corporation's future growth, results of operations, performance, business prospects and opportunities. Forward-looking statements include future-oriented financial information, within the meaning of the "safe harbour" provisions of the *U.S. Private Securities Litigation Reform Act of 1995* and the securities legislation of certain of the provinces of Canada, including the *Securities Act* (Ontario).

Certain information set forth in this MD&A, including management's assessment of the Corporation's future plans and operations, contains forward-looking statements. Forward-looking statements are statements that are predictive in nature, depend upon or refer to future events or conditions and may include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or similar expressions. In particular, forward-looking statements contained in this document include, but are not limited to, statements with respect to: expectations regarding the Corporation's ability to raise capital; volatility of commodity prices; effectiveness of hedging strategies; exploration, development and production; quantity of oil and natural gas reserve and recovery estimates; pending legal actions; treatment under government regulatory regimes and tax laws; financial and business prospects and financial outlook; performance characteristics of the Corporation's oil and natural gas properties; the Corporation's capital expenditure programs; supply and demand for oil and natural gas; drilling plans and strategy; availability of rigs, equipment and other goods and services; continually adding to reserves through acquisitions, exploration and development; anticipated work programs and land tenure; the granting of formal permits, licenses or authorities to prospect; the timing of acquisitions; and the realization of the anticipated benefits of the Corporation's acquisitions and dispositions. In addition, statements relating to "resources" or "reserves" are, by their nature, forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Corporation's control, including risks related to the exploration, development and production of oil and gas, the need for additional funding to execute on further exploration and development work, 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 granting of operating permits and licenses, the mitigation of environmental risks 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 2016 and beyond. These assumptions include: the ability of the Corporation to obtain financing on acceptable terms; the impact of increasing competition; the general stability of the economic and political environment in which the Corporation operates; the timely receipt of any required regulatory approvals; the ability of the Corporation to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects in which the Corporation has an interest to operate such projects in a safe, efficient and effective manner; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development and/or exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of the Corporation to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Corporation operates; the ability of the Corporation to successfully market its oil and natural gas products; estimates on global industrial production in key geographic markets; global oil and natural gas demand and supply; that the Corporation will not have any labour, equipment or other disruptions at any of its operations of any significance in 2016 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
October 27, 2016

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

(expressed in thousands of Canadian dollars)

	Note	As at September 30, 2016	As at December 31, 2015
ASSETS			
Current			
Cash		$ 59	$ 86
Accounts receivable	4	2,171	1,761
Prepaids and security deposits		1,150	845
Loan receivable	5	-	6
Inventory		313	376
Investments	6	1,425	2,150
Taxes recoverable		32	72
		5,150	5,296
Non-current			
Loan receivable	5	-	347
Oil and gas properties	7	149,744	156,435
Equity accounted investment in Escal	14	-	-
Deferred income taxes		15,571	11,121
		$ 170,465	**$ 173,199**
LIABILITIES			
Current			
Bank loan	8	$ 57,200	$ 58,802
Accounts payable and accrued liabilities	17	8,971	4,452
Derivative financial liabilities	10	1,099	21
Decommissioning liabilities	9	4,199	3,013
		71,469	66,288
Non-current			
Decommissioning liabilities	9	60,378	55,395
		131,847	121,683
SHAREHOLDERS' EQUITY			
Equity Attributable to Owners of the Parent			
Share capital	11	112,682	112,682
Contributed surplus	11	7,611	7,610
Deficit		(77,633)	(65,278)
Accumulated other comprehensive loss		(3,392)	(3,392)
		39,268	51,622
Non-controlling interest		(650)	(106)
		38,618	51,516
		$ 170,465	**$ 173,199**

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

Commitments (Note 18)

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

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

	Note	For the three months ended September 30, 2016	For the three months ended September 30, 2015	For the nine months ended September 30, 2016	For the nine months ended September 30, 2015
REVENUES					
Oil and gas sales		$ 6,414	$ 7,542	$ 16,888	$ 23,717
Royalties		(965)	(1,142)	(2,511)	(3,605)
Net sales		5,449	6,400	14,377	20,112
Production expenditures	13	(3,283)	(4,380)	(9,937)	(12,346)
Depreciation and depletion	7	(2,292)	(2,893)	(6,831)	(8,958)
General and administrative expenses	13	(1,440)	(952)	(4,132)	(3,185)
(Loss) gain on fair value changes of derivative financial instruments	10	269	-	(605)	-
(Loss) gain on fair value changes in investments	6	(725)	-	(725)	10
Impairment of oil and gas properties	7	-	-	(5,000)	-
Impairment of financial instruments	6	(322)	(324)	(962)	(962)
Interest and other items in earnings	7	348	419	(107)	1,980
Interest expense	8, 9	(1,082)	(1,096)	(3,266)	(3,358)
Foreign exchange (loss) gain		(13)	117	(121)	128
NET LOSS BEFORE INCOME TAXES		(3,091)	(2,709)	(17,309)	(6,579)
Income tax recovery (expense)	16				
Current		-	-	(40)	(19)
Deferred		762	695	4,450	1,698
		762	695	4,410	1,679
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		**$ (2,329)**	**$ (2,014)**	**$ (12,899)**	**$ (4,900)**
NET LOSS ATTRIBUTABLE TO:					
Owners of the parent		$ (2,111)	$ (1,902)	$ (12,355)	$ (4,648)
Non-controlling interest		(218)	(112)	(544)	(252)
		$ (2,329)	**$ (2,014)**	**$ (12,899)**	**$ (4,900)**
BASIC AND DILUTED NET LOSS PER SHARE	15	$ (0.01)	$ (0.01)	$ (0.07)	$ (0.02)

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							
		Contributed Surplus						
	Share Capital	Option Reserve	Deferred Share Unit Reserve	Ownership Interest in Subsidiaries	Deficit	Accumulated Other Comprehensive Loss	Non-controlling Interest	TOTAL
Balance, December 31, 2014	$ 112,626	$ 6,808	$ 883	$ -	$ (56,997)	$ (3,392)	$ (288)	$ 59,640
For the nine months ended September 30, 2015								
Net loss	-	-	-	-	(4,648)	-	(252)	(4,900)
Stock based compensation (Note 12)	-	37	-	-	-	-	-	37
Share incentive arrangement (Note 12)	56	-	(66)	-	-	-	-	(10)
Changes of ownership interest in subsidiaries	-	-	-	(46)	-	-	587	541
Balance, September 30, 2015	112,682	6,845	817	(46)	(61,645)	(3,392)	47	55,308
From October 1, 2015 to December 31, 2015								
Net loss	-	-	-	-	(3,633)	-	(153)	(3,786)
Stock based compensation		1	-	-	-	-	-	1
Share incentive arrangement (Note 12)	-	-	(7)	-	-	-	-	(7)
Balance, December 31, 2015	112,682	6,846	810	(46)	(65,278)	(3,392)	(106)	51,516
For the nine months ended September 30, 2016								
Net loss	-	-	-	-	(12,355)	-	(544)	(12,899)
Stock based compensation (Note 12)	-	1	-	-	-	-	-	1
Balance, September 30, 2016	**$ 112,682**	**$ 6,847**	**$ 810**	**$ (46)**	**$ (77,633)**	**$ (3,392)**	**$ (650)**	**$ 38,618**

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

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

(expressed in thousands of Canadian dollars)

	Note	For the nine months ended September 30, 2016	September 30, 2015
OPERATING ACTIVITIES			
Net loss for the period		$ (12,899)	$ (4,900)
Adjustments for:			
Depreciation and depletion	7	6,831	8,958
Loss on fair value changes of derivative financial instruments	10	1,078	341
Loss (gain) on fair value changes in financial instruments	6	725	(10)
Impairment of oil and gas properties	7	5,000	-
Impairment of financial instruments	6	962	962
Deferred income taxes		(4,450)	(1,698)
Stock based compensation	12	1	37
Reclamation expenditures	9	(568)	(308)
Other	7	1,235	(441)
		(2,085)	2,941
Changes in:			
Accounts receivable		(410)	753
Accounts payable and accrued liabilities		4,099	(959)
Current income taxes		40	19
Prepaids and security deposits		(305)	328
Inventory		63	65
CASH PROVIDED FROM OPERATING ACTIVITIES		1,402	3,147
FINANCING ACTIVITIES			
Repayment of bank loan arrangements	8	(1,602)	(2,195)
Issuance of shares in subsidiaries to non-controlling interest		-	541
CASH USED IN FINANCING ACTIVITIES		(1,602)	(1,654)
INVESTING ACTIVITIES			
Proceeds from the sale of investment		-	205
Receipts pursuant to loan receivable	5	326	9
Investment in oil and gas properties	7	(153)	(390)
CASH PROVIDED FROM (USED IN) INVESTING ACTIVITIES		173	(176)
(DECREASE) INCREASE IN CASH		(27)	1,317
CASH, BEGINNING OF PERIOD		86	829
CASH, END OF PERIOD		**$ 59**	**$ 2,146**
Interest paid		$ 2,590	$ 2,574
Income taxes paid		$ -	$ -

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 nine months ended September 30, 2016 and 2015 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. The Corporation's common shares trade on the Toronto Stock Exchange ("TSX") under the symbol "DEN". At September 30, 2016, Dundee Corporation was the principal shareholder of the Corporation.

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

2. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION

These unaudited condensed interim consolidated financial statements of the Corporation as at and for the three and nine months ended September 30, 2016 ("September 2016 Interim Consolidated Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and with interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook – Accounting, as applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, "*Interim Financial Reporting*". The September 2016 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, 2015 ("2015 Audited Consolidated Financial Statements") which were prepared in accordance with IFRS. The September 2016 Interim Consolidated Financial Statements were authorized for issuance by the Board of Directors on October 27, 2016.

These unaudited condensed interim consolidated financial statements have been prepared using accounting principles applicable to a going concern. The going concern basis assumes that the Corporation will continue its operations for the foreseeable future, and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at September 30, 2016, the Corporation had negative working capital of $66,319,000 (December 31, 2015 – $60,992,000) and during the nine months then ended, it incurred a net loss of $12,899,000 (nine months ended September 30, 2015 – $4,900,000). The Corporation's borrowing facility is structured as a demand facility (Note 8) and the Corporation expects that the lenders will undertake a review of the basis for the lending arrangement, which will include an assessment of the Corporation's future performance, with a focus on forecasted prices for oil and natural gas in an uncertain environment. There can be no assurance that the Corporation's lender will not exercise its right to demand under the terms of the credit facility, whether in whole or in part. This material uncertainty casts significant doubt upon the Corporation's ability to continue as a going concern and the ultimate appropriateness of using accounting principles applicable to a going concern.

These unaudited condensed interim consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Corporation be unable to continue as a going concern. If the Corporation is not able to continue as a going concern, the Corporation may be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these unaudited condensed interim consolidated financial statements. These differences could be material.

Changes in Accounting Policies Implemented During the Nine Months Ended September 30, 2016

The September 2016 Interim Consolidated Financial Statements follow the same accounting principles and methods of application as those disclosed in Note 3 to the 2015 Audited Consolidated Financial Statements, except as described below.

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

On January 1, 2016, the Corporation implemented certain amendments to IAS 1, which clarify guidance on the concepts of materiality and aggregation of items in the financial statements, the use and presentation of subtotals in the statement of operations and the statement of comprehensive income or loss, and which provide additional flexibility in the structure and disclosures of the financial statements to enhance understandability. The implementation of amendments to IAS 1 had no impact to the Corporation's September 2016 Interim Consolidated Financial Statements.

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

The Corporation implemented certain amendments to IFRS 10 and IAS 28 on January 1, 2016. These amendments relate to the sale or contribution of assets between an investor and its associate or joint venture and require the recognition of a full gain or loss when a transaction involves a business, whereas a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The implementation of amendments to IFRS 10 and IAS 28 had no impact to the Corporation's September 2016 Interim Consolidated Financial Statements.

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

Amendments to IFRS 11 address how a joint operator should account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business and requires that such transactions be accounted for using the principles related to business combinations accounting as outlined in IFRS 3, "*Business Combinations*". The Corporation implemented the amendments to IFRS 11 effective January 1, 2016. The implementation of amendments to IFRS 11 had no impact to the Corporation's September 2016 Interim Consolidated Financial Statements.

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

On January 1, 2016, the Corporation implemented amendments to IAS 16 and IAS 38, which eliminated the use of a revenue-based depreciation method for items of property, plant and equipment and eliminated the use of a revenue-based amortization model for intangible assets except in certain specific circumstances. The implementation of amendments to IAS 16 and IAS 38 had no impact to the Corporation's September 2016 Interim Consolidated Financial Statements.

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

IFRS accounting standards, interpretations and amendments to existing IFRS accounting standards that were not yet effective as at December 31, 2015, are described in Note 3 to the 2015 Audited Consolidated Financial Statements. Other than as described below, there have been no other changes to existing IFRS accounting standards and interpretations since December 31, 2015 that are expected to have a material effect on the Corporation's consolidated financial statements.

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

In January 2016, the IASB issued amendments to IAS 7 pursuant to which entities will be required to provide enhanced information about changes in their financial liabilities, including changes from cash flows and non-cash changes. The IAS 7 amendments are effective for annual periods beginning on or after January 1, 2017. The Corporation is in the process of evaluating the impact of adopting these amendments to its consolidated financial statements.

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

In January 2016, the IASB issued amendments to IAS 12, which clarify guidance on the recognition of deferred tax assets related to unrealized losses resulting from debt instruments that are measured at their fair value. The IAS 12 amendments are effective for annual periods beginning on or after January 1, 2017. The Corporation does not currently measure any of its debt instruments at fair value. Therefore, the implementation of IFRS 12 is not expected to have a material impact to the Corporation's consolidated financial statements.

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

In April 2016, the IASB issued amendments to IFRS 15, clarifying the application of certain of its underlying principles, including the identification of a performance obligation, and the determination of whether a company is a principal or is acting as an agent in the provision of a good or service. The amendments will become effective concurrent with the effective date of IFRS 15 on January 1, 2018. The Corporation is in the process of evaluating the impact of adopting these amendments to its consolidated financial statements.

IFRS 2, "Share-based Payment" ("IFRS 2")

In June 2016, the IASB issued amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions, including the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and accounting for modifications to the terms and conditions of a share-based payment that changes the classification of the share-based payment transaction from cash-settled to equity-settled. The IFRS 2 amendments are effective for annual periods beginning on or after January 1, 2018. The Corporation is in the process of evaluating the impact of adopting these amendments to its consolidated financial statements.

3. CRITICAL JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the September 2016 Interim Consolidated Financial Statements in accordance with IFRS requires the Corporation to make judgments in applying its accounting policies and estimates and assumptions about the future. These judgments, estimates and assumptions affect the reported amounts of assets, liabilities, revenues and other items in net operating earnings or loss, and the related disclosure of contingent assets and liabilities included in the Corporation's consolidated financial statements. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amount of revenues and other items in net operating earnings or loss that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. There have been no significant changes in judgments, estimates and assumptions made by the Corporation in the preparation of the September 2016 Interim Consolidated Financial Statements from those judgments, estimates and assumptions disclosed in Note 4 to the 2015 Audited Consolidated Financial Statements.

4. ACCOUNTS RECEIVABLE

As at	September 30, 2016	December 31, 2015
Customers for oil and natural gas production	$ 2,021	$ 1,650
Third-party drilling receivable	119	108
Working interest partners	31	3
	$ 2,171	**$ 1,761**

5. LOAN RECEIVABLE

The Corporation had issued a vendor-take-back mortgage in connection with the disposal of certain land and buildings in southern Ontario during 2015, which was secured by the underlying property. During the nine months ended September 30, 2016, the Corporation received $326,000 in payment of outstanding amounts, and the loan receivable was subsequently extinguished.

6. INVESTMENTS

As at	September 30, 2016	December 31, 2015
Investment in private enterprises	$ 1,425	$ 2,150
Preferred shares of Eurogas International	32,150	32,150
Less: Impairment	(32,150)	(32,150)
	-	-
Accrued dividends on preferred share investment in Eurogas International	10,487	9,525
Less: Impairment	(10,487)	(9,525)
	-	-
	$ 1,425	**$ 2,150**

Included in the condensed interim consolidated statement of operations and comprehensive loss for the nine months ended September 30, 2016, as "*(Loss) gain on fair value changes in investments*", is an unrealized loss of $725,000 related to the Corporation's assessment of the fair value of its investment in Windiga Energy Inc. ("Windiga"). The Corporation originally invested $2,150,000 to acquire a 45% equity interest in Windiga, a Canadian-based independent power producer focused on developing, owning and operating renewable energy facilities on the African continent. In addition to its 45% equity interest, the controlling shareholder of the Corporation's parent represents 20% of the Board of Directors of Windiga. The Corporation has completed an assessment of whether it is able to exert significant influence over the operating and financial policies of Windiga. In completing its assessment, the Corporation considered various factors, including the anticipated dilution in its ownership that may be required in order for Windiga to access the necessary capital to advance its current initiatives. Accordingly, the Corporation has classified its investment in Windiga as a financial asset at fair value through profit or loss.

At September 30, 2016 and December 31, 2015, the Corporation held 32,150,000 Series A Preference Shares of Eurogas International ("Series A Preference Shares") with an aggregate par value of $32,150,000. The terms of the Corporation's investment in the Series A Preference Shares are detailed in Note 7 to the 2015 Audited Consolidated Financial Statements. Notwithstanding the Corporation not receiving any dividends on its investment at September 30, 2016, 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 nine months ended September 30, 2016, the Corporation recognized an impairment loss of $322,000 and $962,000 respectively (three and nine months ended September 30, 2015 – $324,000 and $962,000 respectively) relating to dividends receivable on the Series A Preference Shares.

7. 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, 2014							
Cost	$ 159,139	$ 27,751	$ 27,809	$ 5,013	$ 3,186	$ 24,019	$ 246,917
Accumulated depreciation, depletion and impairment	(64,671)	(7,276)	(5,823)	(118)	(1,209)	-	(79,097)
Net carrying value, December 31, 2014	94,468	20,475	21,986	4,895	1,977	24,019	167,820
Nine months ended September 30, 2015							
Carrying value December 31, 2014	94,468	20,475	21,986	4,895	1,977	24,019	167,820
Net additions	5	-	58	(287)	(121)	556	211
Remeasure decommissioning liability (Note 9)	812	-	-	-	-	-	812
Depreciation and depletion	(6,876)	(982)	(1,053)	(24)	(23)	-	(8,958)
Net carrying value, September 30, 2015	88,409	19,493	20,991	4,584	1,833	24,575	159,885
At September 30, 2015							
Cost	159,956	27,751	27,867	4,715	3,057	24,575	247,921
Accumulated depreciation, depletion and impairment	(71,547)	(8,258)	(6,876)	(131)	(1,224)	-	(88,036)
Net carrying value, September 30, 2015	88,409	19,493	20,991	4,584	1,833	24,575	159,885
Transactions from October 1, 2015 to December 31, 2015							
Carrying value September 30, 2015	88,409	19,493	20,991	4,584	1,833	24,575	159,885
Net additions	3	-	58	1	(601)	206	(333)
Remeasure decommissioning liability (Note 9)	606	-	-	-	-	-	606
Depreciation and depletion	(2,141)	(312)	(353)	(9)	(8)	-	(2,823)
Impairment	(900)	-	-	-	-	-	(900)
Net carrying value, December 31, 2015	85,977	19,181	20,696	4,576	1,224	24,781	156,435
At December 31, 2015							
Cost	160,565	27,751	27,925	4,715	2,458	24,781	248,195
Accumulated depreciation, depletion and impairment	(74,588)	(8,570)	(7,229)	(139)	(1,234)	-	(91,760)
Net carrying value, December 31, 2015	85,977	19,181	20,696	4,576	1,224	24,781	156,435
Nine months ended September 30, 2016							
Carrying value December 31, 2015	85,977	19,181	20,696	4,576	1,224	24,781	156,435
Net additions	-	-	(1,432)	-	(31)	542	(921)
Remeasure decommissioning liability (Note 9)	6,061	-	-	-	-	-	6,061
Depreciation and depletion	(5,050)	(725)	(1,015)	(23)	(18)	-	(6,831)
Impairment	(5,000)	-	-	-	-	-	(5,000)
Net carrying value, September 30, 2016	81,988	18,456	18,249	4,553	1,175	25,323	149,744
At September 30, 2016							
Cost	166,626	27,751	26,134	4,715	2,427	25,323	252,976
Accumulated depreciation, depletion and impairment	(84,638)	(9,295)	(7,885)	(162)	(1,252)	-	(103,232)
Net carrying value, September 30, 2016	**$ 81,988**	**$ 18,456**	**$ 18,249**	**$ 4,553**	**$ 1,175**	**$ 25,323**	**$ 149,744**

Impairment of Natural Gas Properties

During the nine months ended September 30, 2016, and in response to the continued decline in the outlook for long-term natural gas prices, the Corporation recognized an impairment loss of $5,000,000 on certain natural gas properties in southern Ontario, reducing their carried value to their recoverable amount of $49,753,000.

The recoverable amount of these natural gas properties was measured based on their value-in-use, determined by the application of a discounted cash flow model, using reserves volumes and forecasted natural gas prices as provided by independent, third party oil and gas reserves evaluators. In computing the recoverable amount, expected future cash flows were adjusted for risks specific to the natural gas properties and discounted using a discount rate of 8%.

As at September 30, 2016, selected key price forecasts used to determine the recoverable amount of the Corporation's natural gas properties were as follows:

Reserve Prices	Natural Gas Union Parkway CAD$ / Mcf
2016	4.05
2017	4.15
2018	4.20
2019	4.35
2020	4.55
Average five year forecast	4.26

Loss on Disposal of Machinery and Equipment

In February 2016, the Corporation sold an offshore jack-up platform for proceeds of $88,000. Included in the condensed interim consolidated statement of operations and comprehensive loss for the nine months ended September 30, 2016, as "*interest and other items in earnings*", is a realized loss of $1,494,000 related to the disposal.

8. BANK LOAN

DELP has established a credit facility with a Canadian Schedule I Chartered Bank secured by the assets of DELP, and the Corporation has also assigned a limited recourse guarantee of its units in DELP. On February 18, 2016, amounts available pursuant to the credit facility were reduced from $70,000,000 at December 31, 2015 to $60,000,000, and amounts available will be further reduced to $55,000,000 before December 31, 2016. The credit facility is structured as a revolving demand loan, and is subject to a tiered interest rate structure based on DELP's net debt to cash flow ratio, as defined in the credit facility. Draws on the credit facility currently bear interest at the bank's prime lending rate plus 3.5%. DELP is subject to a standby fee of 0.55% on undrawn amounts under the credit facility.

The credit facility is subject to certain covenants, including maintenance of minimum levels of working capital. At September 30, 2016, the Corporation was in compliance with all such covenants.

As at	September 30, 2016	December 31, 2015
Prime rate loans	$ 57,200	$ 200
Bankers' acceptances	-	59,000
Less: Unamortized discount	-	(398)
	$ 57,200	**$ 58,802**
Letter of credit	$ -	$ -

At September 30, 2016, DELP had drawn $57,200,000 (December 31, 2015 – $59,200,000) pursuant to the credit facility. During the three and nine months ended September 30, 2016, the Corporation incurred interest expense relating to the credit facility, including bank charges, arrangement fees and standby fees, of $869,000 and $2,590,000 respectively (three and nine months ended September 30, 2015 – $826,000 and $2,574,000 respectively).

The Corporation and its lenders have initiated discussions pursuant to which the lenders have requested that the Corporation further reduce its borrowing capacity to $38,000,000 by mid January 2017. The Corporation is currently working in cooperation with its lenders, and it is assessing further alternatives. However, the Corporation's access to alternative capital may not be available on terms acceptable to the Corporation or at all.

9. DECOMMISSIONING LIABILITIES

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

	As at and for the nine months ended September 30, 2016	As at and for the year ended December 31, 2015
Undiscounted future obligations, beginning of period	$ 94,873	$ 99,757
Effect of changes in estimates	(4,632)	(4,574)
Liabilities settled (reclamation expenditures)	(568)	(310)
Undiscounted future obligations, end of period	**$ 89,673**	**$ 94,873**

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

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

	As at and for the nine months ended September 30, 2016	As at and for the year ended December 31, 2015
Discount rates applied to future obligations	*0.51% - 1.52%*	*0.48% - 2.04%*
Inflation rate	*2.00%*	*2.00%*
Discounted future obligations, beginning of period	$ 58,408	$ 56,261
Effect of changes in estimates and remeasurement of discount rates	6,061	1,418
Liabilities settled (reclamation expenditures)	(568)	(310)
Accretion (interest expense)	676	1,039
Discounted future obligations, end of period	**$ 64,577**	**$ 58,408**
Current	$ 4,199	$ 3,013
Non-current	60,378	55,395
	$ 64,577	**$ 58,408**

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

10. DERIVATIVE FINANCIAL INSTRUMENTS

At September 30, 2016, the Corporation had entered into certain commodity swap derivative contracts to manage its exposure to volatility in the prices received for the sale of the underlying commodities. These derivative instruments were not designated as hedging instruments and accordingly, were classified as financial instruments at fair value through profit or loss. Therefore, changes in the fair value of these derivative financial instruments are recorded in the condensed interim consolidated statement of operations and comprehensive loss.

The Corporation has determined that the fair value of the commodity swap derivative contracts at September 30, 2016 resulted in a liability balance of $1,099,000 (December 31, 2015 – $21,000). During the three and nine months ended September 30, 2016, the Corporation recognized a gain of $269,000 and a loss of $605,000 respectively (three and nine months ended September 30, 2015 – $nil) from changes in the fair value of the commodity swap derivative contracts.

Contract Fixed Price Swap	Volume	Pricing Point	Strike Price ($/unit)	Currency	Remaining Term	Fair Value as at September 30, 2016
Natural gas	2,000 mbtu/d	NYMEX	$3.41	CDN	Oct 1/16 to Dec 31/16	$ (98)
Natural gas	1,000 mbtu/d	NYMEX	$3.48	CDN	Oct 1/16 to Dec 31/16	(43)
Natural gas	1,000 mbtu/d	NYMEX	$3.64	CDN	Oct 1/16 to Dec 31/16	(28)
Natural gas	5,000 mbtu/d	NYMEX	$2.70	USD	Jan 1/17 to Dec 31/17	(930)
						$ (1,099)

11. SHARE CAPITAL

Issued and Outstanding Common Shares

	Number of Common Shares Outstanding	Share Capital	Contributed Surplus Option Reserve	Contributed Surplus DSUP Reserve	Contributed Surplus Ownership Interest in Subsidiaries
Outstanding, December 31, 2014	188,204,184	$ 112,626	$ 6,808	$ 883	$ -
Transactions during the nine months ended September 30, 2015					
Stock based compensation	-	-	37	-	-
Share incentive arrangement	64,810	56	-	(66)	-
Issuance of shares in subsidiaries to non-controlling interest	-	-	-	-	(46)
Outstanding, September 30, 2015	188,268,994	112,682	6,845	817	(46)
Transactions from October 1, 2015 to December 31, 2015					
Stock based compensation	-	-	1	-	-
Share incentive arrangement	-	-	-	(7)	-
Outstanding, December 31, 2015	188,268,994	112,682	6,846	810	(46)
Transactions during the nine months ended September 30, 2016					
Stock based compensation	-	-	1	-	-
Outstanding, September 30, 2016	**188,268,994**	**$ 112,682**	**$ 6,847**	**$ 810**	**$ (46)**

12. STOCK BASED COMPENSATION

A detailed description of the Corporation’s share incentive plan (“SIP”) is provided in Note 13 to the Corporation’s 2015 Audited Consolidated Financial Statements.

Stock Option Plan

There were no stock option awards granted during the nine months ended September 30, 2016. A summary of the status of the stock option component of the Corporation’s SIP as at and for the nine months ended September 30, 2016 and the year ended December 31, 2015, is as follows:

For the period ended	September 30, 2016		December 31, 2015	
	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price
Options outstanding, beginning of period	2,480,000	$ 0.50	5,705,000	$ 0.66
Forfeited	-	-	(3,225,000)	0.79
Options outstanding, end of period	**2,480,000**	**$ 0.50**	**2,480,000**	**$ 0.50**
Exercisable options	2,480,000	$ 0.50	2,413,333	$ 0.50

Option Price	Options Outstanding	Options Exercisable	Contractual Life Remaining (Years)
At $0.26	200,000	200,000	2.48
At $0.50	1,880,000	1,880,000	1.95
At $0.60	400,000	400,000	0.59

During the three and nine months ended September 30, 2016, the Corporation recognized stock based compensation expense of $nil and $1,000 respectively (three and nine months ended September 30, 2015 – $3,000 and $37,000 respectively) in respect of outstanding stock options.

Deferred Share Unit Plan

The Corporation did not recognize any stock based compensation expense related to its deferred share unit plan during the nine months ended September 30, 2016. At September 30, 2016, there were 1,203,507 (December 31, 2015 – 1,203,507) deferred share units outstanding.

During the nine months ended September 30, 2015, the Corporation paid cash of $13,000 and it issued 64,810 common shares to settle 253,919 deferred share units that had been issued to former directors of the Corporation. There was no stock based compensation expense associated with the Corporation's deferred share unit plan during the nine months ended September 30, 2015.

13. GENERAL AND ADMINISTRATIVE EXPENSES AND PRODUCTION EXPENDITURES BY NATURE

General and Administrative Expenses

	For the three months ended		For the nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Salary and salary-related	$ 588	$ 467	$ 2,066	$ 1,591
Stock based compensation	-	3	1	37
Corporate and professional fees	1,167	878	2,970	2,167
General office	153	213	555	982
Exploration and development costs	28	34	71	99
Allocation of general and administrative costs	(496)	(643)	(1,531)	(1,691)
	$ 1,440	**$ 952**	**$ 4,132**	**$ 3,185**

Production Expenditures

	For the three months ended		For the nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Labour	$ 1,219	$ 1,580	$ 3,465	$ 4,141
Materials, equipment and supplies used	1,049	1,575	3,342	4,200
Transportation	146	241	441	988
Utilities	562	551	1,738	1,663
Rental and lease payments	77	177	198	434
Other	230	256	753	920
	$ 3,283	**$ 4,380**	**$ 9,937**	**$ 12,346**

14. EQUITY ACCOUNTED INVESTMENT IN ESCAL

The Corporation's 74% owned subsidiary, CLP, owns a 33% interest in Escal, the developer and former owner of the Castor underground gas storage project located in Spain (the "Castor Project"). The remaining interest in Escal is held by ACS Servicios Comunicaciones y Energia, S.L. ("ACS"). A detailed description of the nature and status of the Corporation's investment in Escal is provided in Note 15 to the 2015 Audited Consolidated Financial Statements.

The Corporation accounts for CLP's 33% interest in Escal using the equity method. Recognition of CLP's proportionate share of losses incurred by Escal draws CLP's carrying value in Escal to below zero. At September 30, 2016, CLP had not recorded a liability related to losses incurred by Escal, as it does not have the legal or constructive obligation in respect thereof. Consequently, at September 30, 2016, the carrying value of the Corporation's indirect equity interest in Escal was $nil (December 31, 2015 – $nil).

15. NET LOSS PER SHARE

	For the three months ended		For the nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net loss for the period attributable to owners of the parent	$ (2,111)	$ (1,902)	$ (12,355)	$ (4,648)
Weighted average number of common shares outstanding	188,268,994	188,262,654	188,268,994	188,223,888
Basic and diluted net loss per common share	$ (0.01)	$ (0.01)	$ (0.07)	$ (0.02)

16. INCOME TAXES

During the nine months ended September 30, 2016, the Corporation recognized an income tax recovery amount of $4,410,000 (nine months ended September 30, 2015 – $1,679,000).

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% (nine months ended September 30, 2015 – 26%) as a result of the following items:

	For the nine months ended	
	September 30, 2016	September 30, 2015
Loss before tax at statutory rate of 26% (September 30, 2015 – 26%)	$ 4,588	$ 1,744
Effect on taxes of:		
Non-deductible expenses	(151)	(77)
Other differences	(27)	12
Income tax recovery	$ 4,410	$ 1,679

17. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in these September 2016 Interim Consolidated Financial Statements, related party transactions and balances as at and for the nine months ended September 30, 2016 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 nine months ended September 30, 2016, the Corporation incurred costs of $170,000 and $357,000 respectively (three and nine months ended September 30, 2015 – $249,000 and $764,000 respectively) in respect of these arrangements.

Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities at September 30, 2016 are amounts owing to the Corporation's parent, Dundee Corporation, and to Dundee Corporation's subsidiaries of $2,429,000 (December 31, 2015 – $1,810,000).

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. At September 30, 2016, the Corporation had cash deposits with DSL of $6,000 (December 31, 2015 – $6,000) to facilitate trades pursuant to its normal course issuer bid as described in Note 12 to the Corporation's 2015 Audited Consolidated Financial Statements.

Key Management Compensation

Compensation and other fees related to directors of the Corporation and to each of the President and Chief Executive Officer and Chief Financial Officer of the Corporation during the three and nine months ended September 30, 2016 and 2015 are as follows:

	For the three months ended		For the nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Directors' fees and executive compensation	$ 187	$ 65	$ 562	$ 278
Stock based compensation	-	(1)	1	24
Benefits	7	4	38	12
	$ 194	**$ 68**	**$ 601**	**$ 314**

18. 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 2015 Audited Consolidated Financial Statements.

19. FINANCIAL INSTRUMENTS

The following table provides information about financial assets and financial liabilities measured at fair value in the Corporation's consolidated statement of financial position as at September 30, 2016. These financial assets and financial liabilities have been categorized by level, according to the significance of the inputs used in determining fair value measurements.

		Fair Value as at September 30, 2016		
	Carrying Value as at September 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring Measurements				
Financial Assets				
Investment in private enterprises	$ 1,425	$ -	$ 1,425	$ -
Financial Liabilities				
Derivative financial instruments	(1,099)	-	(1,099)	-

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 2015 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, 2015.

20. CAPITAL MANAGEMENT

The Corporation defines the capital that it manages as its working capital. The Corporation's objectives when managing capital are to manage its business in an effective manner with the goal of increasing the value of its assets. The Corporation regularly monitors its available capital and as necessary, adjusts to changing economic circumstances and the risk characteristics of the underlying assets. In order to maintain or adjust capital requirements, the Corporation may consider the issuance of new shares, the entry into joint venture arrangements or farmout agreements, or engage in debt financing.

21. GEOGRAPHIC SEGMENTED INFORMATION

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

Segmented Statements of Operations for the Nine Months Ended September 30, 2016 and September 30, 2015

	Southern Ontario		Spain		Corporate		TOTAL	
	30-Sept-16	30-Sept-15	30-Sept-16	30-Sept-15	30-Sept-16	30-Sept-15	30-Sept-16	30-Sept-15
REVENUES								
Oil and gas sales	$ 16,888	$ 23,717	$ -	$ -	$ -	$ -	$ 16,888	$ 23,717
Royalties	(2,511)	(3,605)	-	-	-	-	(2,511)	(3,605)
Net sales	14,377	20,112	-	-	-	-	14,377	20,112
Production expenditures	(9,937)	(12,346)	-	-	-	-	(9,937)	(12,346)
Depreciation and depletion	(6,829)	(8,955)	-	-	(2)	(3)	(6,831)	(8,958)
General and administrative expenses	(1,676)	(1,561)	(2,084)	(951)	(372)	(673)	(4,132)	(3,185)
Loss on fair value changes of derivative financial instruments	(605)	-	-	-	-	-	(605)	-
(Loss) gain on fair value changes in investments	-	-	-	-	(725)	10	(725)	10
Impairment of oil and gas properties	(5,000)	-	-	-	-	-	(5,000)	-
Impairment of financial instruments	-	-	-	-	(962)	(962)	(962)	(962)
Interest and other items in earnings	(1,069)	1,016	-	-	962	964	(107)	1,980
Interest expense	(3,266)	(3,358)	-	-	-	-	(3,266)	(3,358)
Foreign exchange (loss) gain	(121)	139	-	(11)	-	-	(121)	128
NET LOSS BEFORE INCOME TAXES	(14,126)	(4,953)	(2,084)	(962)	(1,099)	(664)	(17,309)	(6,579)
Income tax recovery (expense)								
Current	-	-	-	-	(40)	(19)	(40)	(19)
Deferred	-	-	-	-	4,450	1,698	4,450	1,698
	-	-	-	-	4,410	1,679	4,410	1,679
NET (LOSS) EARNINGS FOR THE PERIOD	**$ (14,126)**	**$ (4,953)**	**$ (2,084)**	**$ (962)**	**$ 3,311**	**$ 1,015**	**$ (12,899)**	**$ (4,900)**
NET (LOSS) EARNINGS ATTRIBUTABLE TO:								
Owners of the parent	$ (14,126)	$ (4,953)	$ (1,540)	$ (710)	$ 3,311	$ 1,015	$ (12,355)	$ (4,648)
Non-controlling interest	-	-	(544)	(252)	-	-	(544)	(252)
	$ (14,126)	**$ (4,953)**	**$ (2,084)**	**$ (962)**	**$ 3,311**	**$ 1,015**	**$ (12,899)**	**$ (4,900)**

Segmented Statements of Operations for the Three Months Ended September 30, 2016 and September 30, 2015

	Southern Ontario		Spain		Corporate		TOTAL	
	30-Sept-16	30-Sept-15	30-Sept-16	30-Sept-15	30-Sept-16	30-Sept-15	30-Sept-16	30-Sept-15
REVENUES								
Oil and gas sales	$ 6,414	$ 7,542	$ -	$ -	$ -	$ -	$ 6,414	$ 7,542
Royalties	(965)	(1,142)	-	-	-	-	(965)	(1,142)
Net sales	5,449	6,400	-	-	-	-	5,449	6,400
Production expenditures	(3,283)	(4,380)	-	-	-	-	(3,283)	(4,380)
Depreciation and depletion	(2,291)	(2,893)	-	-	(1)	-	(2,292)	(2,893)
General and administrative expenses	(595)	(324)	(812)	(423)	(33)	(205)	(1,440)	(952)
Gain on fair value changes of derivative financial instruments	269	-	-	-	-	-	269	-
Loss on fair value changes in investments	-	-	-	-	(725)	-	(725)	-
Impairment of oil and gas properties	-	-	-	-	-	-	-	-
Impairment of financial instruments	-	-	-	-	(322)	(324)	(322)	(324)
Interest and other items in earnings	26	95	-	-	322	324	348	419
Interest expense	(1,082)	(1,096)	-	-	-	-	(1,082)	(1,096)
Foreign exchange (loss) gain	12	124	(25)	(7)	-	-	(13)	117
LOSS BEFORE INCOME TAXES	(1,495)	(2,074)	(837)	(430)	(759)	(205)	(3,091)	(2,709)
Income tax recovery								
Current	-	-	-	-	-	-	-	-
Deferred	-	-	-	-	762	695	762	695
	-	-	-	-	762	695	762	695
NET (LOSS) EARNINGS FOR THE PERIOD	**$ (1,495)**	**$ (2,074)**	**$ (837)**	**$ (430)**	**$ 3**	**$ 490**	**$ (2,329)**	**$ (2,014)**
NET (LOSS) EARNINGS ATTRIBUTABLE TO:								
Owners of the parent	$ (1,495)	$ (2,074)	$ (619)	$ (318)	$ 3	$ 490	$ (2,111)	$ (1,902)
Non-controlling interest	-	-	(218)	(112)	-	-	(218)	(112)
	$ (1,495)	**$ (2,074)**	**$ (837)**	**$ (430)**	**$ 3**	**$ 490**	**$ (2,329)**	**$ (2,014)**

Segmented Net Assets as at September 30, 2016 and December 31, 2015

	Southern Ontario		Spain		Corporate		TOTAL	
	30-Sept-16	31-Dec-15	30-Sept-16	31-Dec-15	30-Sept-16	31-Dec-15	30-Sept-16	31-Dec-15
ASSETS								
Current								
Cash	$ 21	$ 30	$ 2	$ 3	$ 36	$ 53	$ 59	$ 86
Accounts receivable	2,171	1,761	-	-	-	-	2,171	1,761
Prepaids and security deposits	1,146	845	-	-	4	-	1,150	845
Loan receivable	-	6	-	-	-	-	-	6
Inventory	313	376	-	-	-	-	313	376
Investments	-	-	-	-	1,425	2,150	1,425	2,150
Taxes recoverable	-	-	-	-	32	72	32	72
	3,651	3,018	2	3	1,497	2,275	5,150	5,296
Non-current								
Loan receivable	-	347	-	-	-	-	-	347
Oil and gas properties	149,710	156,399	-	-	34	36	149,744	156,435
Equity accounted investment in Escal	-	-	-	-	-	-	-	-
Deferred income taxes	-	-	-	-	15,571	11,121	15,571	11,121
	$ 153,361	$ 159,764	$ 2	$ 3	$ 17,102	$ 13,432	$ 170,465	$ 173,199
LIABILITIES								
Current								
Bank loan	$ 57,200	$ 58,802	$ -	$ -	$ -	$ -	$ 57,200	$ 58,802
Accounts payable and accrued liabilities	4,642	1,795	1,380	537	2,949	2,120	8,971	4,452
Derivative financial liabilities	1,099	21	-	-	-	-	1,099	21
Decommissioning liabilities	4,199	3,013	-	-	-	-	4,199	3,013
	67,140	63,631	1,380	537	2,949	2,120	71,469	66,288
Non-current								
Decommissioning liabilities	60,378	55,395	-	-	-	-	60,378	55,395
	$ 127,518	**$ 119,026**	**$ 1,380**	**$ 537**	**$ 2,949**	**$ 2,120**	**$ 131,847**	**$ 121,683**
SEGMENTED NET ASSETS	$ 25,843	$ 40,738	$ (1,378)	$ (534)	$ 14,153	$ 11,312	$ 38,618	$ 51,516

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Stock Symbol
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