

DUNDEE ENERGY LIMITED
(formerly Eurogas Corporation)

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dundee Energy Limited ("Dundee Energy" or the "Corporation") is a Canadian-based company whose common shares currently trade on the Toronto Stock Exchange ("TSX") under the symbol "DEN". Pursuant to a special resolution passed by the shareholders of the Corporation at its annual and special meeting held on June 14, 2011, the Corporation changed its name from "Eurogas Corporation" to "Dundee Energy Limited" in order to more clearly reflect its business operations in the energy sector, both in Canada and in Europe. On June 22, 2011, the common shares of the Corporation commenced trading on the TSX under the new symbol "DEN" (formerly "EUG"). Prior to February 4, 2011, the Corporation's common shares were trading on the TSX Venture Exchange.

Dundee Energy is focused on creating long-term value through the development and acquisition of high-impact energy projects. The Corporation holds interests, both directly and indirectly, in the largest accumulation of producing oil and natural gas assets in southern Ontario and in the development of an offshore underground natural gas storage facility in Spain. The Corporation also holds an investment in preferred shares of Eurogas International Inc., an oil and gas exploration company that holds a 45% working interest in the one million acre Sfax permit located offshore Tunisia.

This Management's Discussion and Analysis ("MD&A") has been prepared with an effective date of July 21, 2011, and provides an update on matters discussed in, and should be read in conjunction with the audited consolidated financial statements of the Corporation, including the notes thereto, as at and for the year ended December 31, 2010 (the "2010 Annual Consolidated Financial Statements") prepared under Canadian generally accepted accounting principles ("Canadian GAAP") and the unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 2011 (the "June 2011 Interim Consolidated Financial Statements"). All amounts are in Canadian dollars, unless otherwise specified. The financial data discussed in this MD&A, including financial data relating to comparative periods in the prior year, has been prepared in accordance with International Financial Reporting Standards ("IFRS"), unless otherwise specified. Tabular dollar amounts, unless otherwise specified, are in thousands of dollars or thousands of units of measurement, except for per unit amounts.

IFRS ADOPTION

In 2010, the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook") was revised to incorporate IFRS, and required publicly accountable enterprises to apply such standards for the financial years beginning on or after January 1, 2011.

The Corporation's June 2011 Interim Consolidated Financial Statements have been prepared in accordance with IFRS. The Corporation's 2010 Annual Consolidated Financial Statements, and its interim consolidated financial statements as at and for the three and six months ended June 30, 2010 (combined, the "Canadian Consolidated Financial Statements"), were prepared using Canadian GAAP. Included in Note 5 to the June 2011 Interim Consolidated Financial Statements is a detailed description of the differences between Canadian GAAP and IFRS, as they apply to the Corporation, as well as a reconciliation of the Canadian Consolidated Financial Statements to IFRS.

The Corporation conducted an assessment of internal controls and information technology systems to ensure compliance with IFRS, both from a transaction level accounting process and for the purpose of financial reporting disclosure requirements. Changes to existing procedures were minor and consisted primarily of establishing processes for the more granular tracking of property, plant and equipment. This granular tracking will better facilitate application of the relevant IFRS, as well as presentation and disclosure of these items.

The Corporation continues to assess amendments and updates to IFRS for purposes of preparing its 2011 audited annual consolidated financial statements as at and for the year ending December 31, 2011. In addition, the Corporation will be required to assess IFRS developments on an ongoing basis. Future changes to IFRS may significantly modify the Corporation's financial and reporting disclosure requirements.

PERFORMANCE MEASURES

The Corporation believes that important measures of operating 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 discussion, there will be references to the following performance measures which management believes are relevant in assessing the economics of its business. While these measures are non-IFRS, they are common benchmarks in the oil and natural gas industry, and are used by the Corporation as supplementary measures to net earnings and assist management in the estimation of future 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. Field level cash flows contribute to the funding of the Corporation's working capital, as well as to capital expenditure requirements for these activities. Field level cash flows also provide for repayment of amounts owing pursuant to the Corporation's credit facility (see “*Liquidity and Capital Resources*”).
- “Field Netbacks” refers 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 than 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 the ratio of proved reserves to production. For greater certainty, the reserve life index includes only proved reserves and does not include probable or possible reserves.

RECENT DEVELOPMENTS

During the second quarter of 2011, the Corporation announced that it had made an offer (the “Offer”) to acquire all of the approximately 14.6 million common shares of Torque Energy Inc. (“Torque”), a Canadian-based oil and natural gas company whose common shares are currently traded on the TSX Venture Exchange under the symbol “TQE”. Torque's business is the exploration, development and acquisition of opportunities related to the operation and production of oil and natural gas properties. The Offer, if accepted, is expected to provide the Corporation with efficiencies of scale from combining Torque's oil and natural gas interests in Ontario, including interests in some of the same wells and fields as the Corporation, with the Corporation's assets.

The structure of the Offer is by way of amalgamation of Torque with a subsidiary of the Corporation (the “Amalgamation”), pursuant to which Torque shareholders may elect to receive either (i) cash consideration of \$0.50 for each common share of Torque held or (ii) one common share of the Corporation for every two Torque common shares held.

To provide the funding for Torque shareholders who elect to receive the cash consideration as outlined above, Dundee Corporation, the Corporation's parent and 54% majority shareholder, has agreed to subscribe for common shares of the Corporation at a price of \$0.83 per common share, (being the closing price of the Corporation's common shares on the TSX on April 29, 2011, the date on which the transaction was first announced) in an amount sufficient to fund any cash consideration payable by the Corporation pursuant to the Offer.

The Offer is subject to, among other things, receipt of applicable securities, regulatory, stock exchange and minority shareholder approvals and is expected to close in the third quarter of the current year.

SIGNIFICANT PROJECTS

Dundee Energy Limited Partnership and the Southern Ontario Assets

On June 29, 2010, Dundee Energy Limited Partnership ("DELP"), a wholly-owned limited partnership of the Corporation, acquired a 95% working interest in 65,000 acres of onshore oil properties and a 65% working interest in 902,000 acres of offshore gas properties (the "Acquisition"), all located in southern Ontario, Canada (the "Southern Ontario Assets"). As part of the Acquisition and through the Corporation's investment in DELP, the Corporation acquired a 65% ownership interest in certain other assets including an offshore fleet of drilling and completion barges, six gas plants and compressor stations that process offshore dry gas at onshore locations, and a 100% interest in four onshore oil facilities. The Acquisition also provides for ownership or licensing of up to 14,680 km of 2-dimensional seismic and 331 km² of 3-dimensional seismic.

The Acquisition further provides the Corporation with potential growth opportunities, including a significant number of development drilling locations, as well as opportunities for well recompletions and the optimization of the existing infrastructure system. Importantly, the Acquisition has provided the Corporation with the potential for the development of gas storage reservoirs, the feasibility of which will require further evaluation.

Castor UGS Limited Partnership and the Castor Project

The Corporation has an indirect investment in a company that is converting the abandoned Amposta oil field, located off the eastern Mediterranean coast of Spain, to a natural gas storage facility (the "Castor Project"). The Corporation's 74% owned subsidiary, Castor UGS Limited Partnership ("CLP"), holds a 33% interest in the Castor Project through its investment in Escal UGS S.L. ("Escal"), a Spanish corporation and the owner of the related development concession, providing the Corporation with an effective 25% interest. The Corporation currently accounts for its indirect investment in Escal on an equity basis.

On June 15, 2008, the exploration permit relating to the Castor Project was replaced by a development concession (the "Development Concession"), which allows Escal to construct and utilize the Castor Project. The Castor Project will utilize the abandoned Cretaceous aged carbonate Amposta reservoir for gas storage at an estimated cost of approximately €1.6 billion, with gas injection scheduled to begin in 2012. The Castor Project consists of an underground gas storage reservoir that lies at a depth of 1,800 metres, approximately 21 kilometres off the east coast of Spain in the Mediterranean Sea, two offshore platforms for 13 wells and processing facilities, and an onshore compression and processing plant located in the municipality of Vinaroz. The onshore facilities and offshore platform will be linked by a 30-inch diameter pipeline that is 36 kilometres long, including 21 kilometres offshore.

Series A Preference Share Investment in Eurogas International Inc.

The Corporation holds a \$32,150,000 preferred share investment in Eurogas International Inc. (“Eurogas International” or “EII”), an independent oil and gas company engaged in the exploration and evaluation of its extensive landholdings offshore Tunisia, targeting large scale oil and gas reserves. EII holds a 45% working interest, and is the non-operating partner in the Sfax offshore permit (the “Sfax Permit”) covering 908,425 acres located in the shallow Mediterranean waters in the Gulf of Gabes, and southeast of the city of Sfax.

In January 2011, EII announced that it had declared a condition of Force Majeure with respect to the Sfax Permit and the related Ras-El-Besh concession, as EII believes that the political uncertainty and civil unrest in Tunisia adversely affects their ability to continue exploration and evaluation activities in that region. EII has indicated that it believes that the declaration of Force Majeure will allow EII and its partner to suspend their activities while the conditions resulting in the Force Majeure continue.

CONSOLIDATED NET EARNINGS

During the first half of 2011, the Corporation incurred a net loss before non-controlling interest of \$1.1 million, or \$0.01 per share. This compares with a net loss before non-controlling interest of \$3.8 million incurred in the first half of 2010. Following the Acquisition completed in June 2010, the Corporation began generating revenues from, and incurring expenses related to development and production activities in southern Ontario. As such, the nature of the Corporation’s operations have changed significantly, impacting the various components of operations compared with those of the first half of the prior year, where the Corporation’s activities were limited to exploration and development activities related to its Spanish interests.

A summary of the Corporation’s net loss from its various projects is summarized below:

<i>For the six months ended June 30,</i>	<i>2011</i>			<i>2010</i>		
	Net Earnings (Loss)	Attributable to Owners of the Parent	Non-Controlling Interest	Net Loss	Attributable to Owners of the Parent	Non-Controlling Interest
Southern Ontario Assets	\$ 576	\$ 576	\$ -	\$ (2,192)	\$ (2,192)	\$ -
Castor Project	(82)	(62)	(20)	(496)	(369)	(127)
Corporate activities*	(1,617)	(1,617)	-	(1,124)	(1,124)	-
Net loss for the period	\$ (1,123)	\$ (1,103)	\$ (20)	\$ (3,812)	\$ (3,685)	\$ (127)

* Include activities related to the Corporation’s investment in preferred shares of Eurogas International

SOUTHERN ONTARIO ASSETS

The Acquisition

The Corporation accounted for the Acquisition of the Southern Ontario Assets as a business combination pursuant to IFRS requirements. Accordingly, the aggregate consideration transferred of \$128.6 million was assigned to the net assets acquired based on their fair value. Transaction costs relating to the Acquisition were \$3.1 million, including \$2.8 million incurred during the second quarter of 2010, and were comprised primarily of legal and advisory costs. In accordance with IFRS, these costs were expensed as incurred.

Approximately \$67.8 million of the consideration transferred was funded using the Corporation’s working capital, with the balance funded by drawing against an \$80 million credit facility (see “*Liquidity and Capital Resources*”).

Risk Management Contracts – Price Risk Management

The Corporation may, from time to time, enter into fixed price contracts and derivative financial instruments for the purpose of protecting its oil and natural gas revenue from the volatility of oil and natural gas prices and volatility in Canadian to US foreign exchange rates. These price risk management strategies assist the Corporation in securing a stable amount of cash flow to protect a desired level of capital spending and for debt management.

The Corporation's risk management strategy includes a foreign exchange component, as fixed prices are set in Canadian dollars. These risk management contracts hedge approximately 80% of the Corporation's oil production and approximately 60% of its natural gas production.

The following is a summary of commodity contracts entered into by the Corporation as of June 30, 2011.

Contract	Remaining Term	Average Volume	Rate / Strike C\$/unit
NYMEX oil swaps	Jul - Dec 2011	100 bbls/d	89.29
NYMEX oil swaps	Jul - Dec 2011	100 bbls/d	89.60
NYMEX oil swaps	Jul - Dec 2011	100 bbls/d	90.00
NYMEX oil swaps	Jul - Dec 2011	50 bbls/d	95.00
NYMEX oil swaps	Jul - Dec 2011	100 bbls/d	99.45
NYMEX oil swaps	Jul - Dec 2011	100 bbls/d	100.00
NYMEX gas swaps	Jul 2011 - Feb 2012	6500 mbtu/d	4.66

For accounting purposes, the Corporation has not designated these risk management contracts as hedges. Accordingly, changes in the fair values of these contracts will be included in the Corporation's net operating results.

These risk management contracts are subject to periodic settlements throughout the term of the contracts. Such settlements may result in a gain or loss, which is recognized as a realized risk management gain or loss at the time of settlement.

The fair values of risk management contracts outstanding at the end of a reporting period are determined using market conditions and forecasts prevailing as at the reporting date. Any changes in the fair values of risk management contracts from amounts determined at the end of the previous reporting period are recognized as an unrealized risk management gain or loss. An unrealized risk management gain or loss may or may not be realized in subsequent periods depending upon subsequent fluctuations in commodity prices or foreign exchange rates affecting the risk management contracts.

The following table summarizes the realized and unrealized gains or losses from the Corporation's risk management contracts:

For the period ended June 30, 2011	Three Months			Six Months		
	Realized gain (loss)	Unrealized gain	Total	Realized gain (loss)	Unrealized gain	Total
Oil swaps	\$ (267)	\$ 1,816	\$ 1,549	\$ (359)	\$ 455	\$ 96
Gas swap	81	309	390	81	371	452
	\$ (186)	\$ 2,125	\$ 1,939	\$ (278)	\$ 826	\$ 548

If the risk management contracts were unwound at June 30, 2011, the Corporation would receive an amount of \$373,000.

Production and Operating Performance

In accordance with Canadian industry practice, production volumes, reserve volumes and oil and gas sales are reported on a working interest or “net” basis, before deduction of royalties. The Corporation’s operating performance is dependent on production volumes of oil, natural gas and natural gas liquids and the prices received for this production. Prices for these commodities may vary significantly and are determined by supply and demand factors, weather, general economic conditions and changes in foreign exchange rates.

Production

	Average Production Volumes			
	Quarter ended 30-Jun-11	Quarter ended 31-Mar-11	Quarter ended 31-Dec-10	Quarter ended 30-Sep-10
Natural gas (Mcf/d)	10,602	10,164	10,417	10,453
Oil (bbls/d)	674	635	669	683
Liquids (bbls/d)	36	16	22	15

Due to severe weather conditions in the late winter and early spring, the Corporation was required to make unanticipated repairs to an offshore gas pipeline, resulting in an average production loss of approximately 8.8 Mcf/d throughout the first half of 2011. Since completing the repairs in the early spring, and with the extensive workover program undertaken by the Corporation during the second quarter of 2011, the Corporation has arrested the production decline and increased natural gas production.

Oil and Gas Sales

Revenues from oil and natural gas sales totalled \$11.2 million and \$20.8 million respectively in the three and six months ended June 30, 2011.

	Quarter ended 30-Jun-11		Quarter ended 31-Mar-11		Quarter ended 31-Dec-10		Quarter ended 30-Sep-10	
	Revenue	Realized Price/unit	Revenue	Realized Price/unit	Revenue	Realized Price/unit	Revenue	Realized Price/unit
Natural gas (Mcf)	\$ 4,541	\$ 4.71	\$ 4,290	\$ 4.69	\$ 4,309	\$ 4.50	\$ 4,881	\$ 5.08
Oil (bbls)	6,479	105.63	5,211	91.18	5,342	86.82	4,799	76.38
Liquids (bbls)	185	56.47	68	47.22	117	58.18	72	50.75
Total	\$ 11,205	n/a	\$ 9,569	n/a	\$ 9,768	n/a	\$ 9,752	n/a

Natural gas sales currently represent 72% of the overall production volume on a boe basis and 43% of total revenue. During the first half of 2011, the Corporation realized an average price of \$4.70/Mcf on sales of natural gas, before adjustments resulting from risk management contracts, representing a positive basis differential from the average NYMEX price of US\$4.28/Mcf (Cdn\$4.18/Mcf). The positive basis differential is due in part, to the Corporation’s proximity to the Dawn hub, located in southwestern Ontario, which is a leading provider of natural gas supply to the greater Toronto market area.

Oil sales currently represent 28% of the overall production volume on a boe basis and 57% of total revenue. World markets continue to cause substantial volatility in the price of oil with the spot price closing on June 30, 2011 at US\$95.30/bbl West Texas Intermediate (WTI) compared with US\$91.38/bbl at December 31, 2010 and US\$75.93/bbl on the original date of the Acquisition. During the first half of 2011, the Corporation realized an average price of \$98.69/bbl on oil sales, before adjustments resulting from risk management contracts, above the average WTI price of US\$98.08/bbl (Cdn\$95.79/bbl).

Benchmark Pricing

	Average prices during the		Actual Realized CDN\$
	six months ended June 30, 2011		
	US\$	CDN\$	
Benchmark Prices			
Oil			
West Texas Intermediate (WTI)	98.08	95.79	98.69
Edmonton Par	n/a	96.18	98.69
Natural Gas			
Dawn Hub	4.65	4.55	4.70
Nymex Henry Hub	4.28	4.18	4.70

Sales revenues are received in US currency or are closely referenced to the US dollar. The Corporation converts these revenues into Canadian dollars for reporting purposes. The strengthening of the Canadian dollar relative to the US dollar during the first half of 2011 has also affected the Corporation's revenues from oil and gas sales. As previously indicated, the Corporation partially mitigates its exposure to foreign exchange risk by entering into commodity risk contracts on a Canadian dollar basis.

Oil and Gas Expenses

Royalties

The Corporation incurs royalty costs, including royalties paid to provincial governments, freehold landowners and overriding royalty holders, in respect of its oil and gas sales. Royalties are generally calculated as a percentage of oil and gas sales.

During the first half of 2011, the Corporation recorded royalty expense of \$3.2 million, representing approximately 15% of oil and natural gas sales.

	Quarter ended 30-Jun-11			Quarter ended 31-Mar-11			Quarter ended 31-Dec-10			Quarter ended 30-Sep-10		
	Revenue	Royalty Expense	Royalties as a % of Revenues	Revenue	Royalty Expense	Royalties as a % of Revenues	Revenue	Royalty Expense	Royalties as a % of Revenues	Revenue	Royalty Expense	Royalties as a % of Revenues
Natural Gas	\$ 4,541	\$ 696	15%	\$ 4,290	\$ 634	15%	\$ 4,309	\$ 664	15%	\$ 4,881	\$ 766	16%
Oil & Liquids	6,664	979	15%	5,279	863	16%	5,459	803	15%	4,871	807	17%
Total	\$ 11,205	\$ 1,675	15%	\$ 9,569	\$ 1,497	16%	\$ 9,768	\$ 1,467	15%	\$ 9,752	\$ 1,573	16%

Production Expenditures

Production expenditures for the three and six months ended June 30, 2011 were \$3.1 million and \$6.0 million, respectively.

	Quarter ended 30-Jun-11			Quarter ended 31-Mar-11			Quarter ended 31-Dec-10			Quarter ended 30-Sep-10		
	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total	Oil and Liquids	Natural Gas	Total
Production expenditures	\$ 1,338	\$ 1,716	\$ 3,054	\$ 1,128	\$ 1,770	\$ 2,898	\$ 1,480	\$ 1,446	\$ 2,926	\$ 1,115	\$ 1,678	\$ 2,793

Depreciation and Depletion

Property, plant and equipment are depreciated and/or depleted, as appropriate, based on their estimated useful life. Depletion of assets is calculated using the unit-of-production method based on relative reserve production volumes. For depletion purposes, capitalized costs relating to oil and natural gas rights are adjusted for estimated future resources required to develop proved reserves, and are depleted over estimated proved reserves. The Corporation updates depletion rates annually, unless there is a material change in circumstances. Depreciation and depletion expense for the three and six months ended June 30, 2011 was \$3.8 million and \$7.2 million, respectively.

Other Measures of Operating Performance

Field Level Cash Flows

Field level cash flows generated from the Southern Ontario Assets were \$6.5 million and \$11.7 million in the three and six months ended June 30, 2011 respectively, an 8% increase over field level cash flows of \$10.8 million generated in the second half of 2010. The increase reflects both the rise in production volumes and an increase in oil prices. The calculation of field level cash flows is summarized below:

	Field Level Cash Flows							
	Quarter ended		Quarter ended		Quarter ended		Quarter ended	
	30-Jun-11		31-Mar-11		31-Dec-10		30-Sep-10	
Oil and gas sales	\$	11,205	\$	9,569	\$	9,768	\$	9,752
Royalties		(1,675)		(1,497)		(1,467)		(1,573)
Production expenditures		(3,054)		(2,898)		(2,926)		(2,793)
Field level cash flows	\$	6,476	\$	5,174	\$	5,375	\$	5,386

Field Netbacks

Field netbacks represent the unit revenues and unit costs on a bbl or Mcf basis for items related to field level cash flows. As illustrated in the table below, field netbacks have improved in the second quarter of 2011, reflecting both production volume increases and favourable commodity prices.

	Quarter ended		Quarter ended		Quarter ended		Quarter ended	
	30-Jun-11		31-Mar-11		31-Dec-10		30-Sep-10	
	Oil and Liquids (bbls)	Natural Gas (Mcf)	Oil and Liquids (bbls)	Natural Gas (Mcf)	Oil and Liquids (bbls)	Natural Gas (Mcf)	Oil and Liquids (bbls)	Natural Gas (Mcf)
Total sales	\$ 103.14	\$ 4.71	\$ 90.10	\$ 4.69	\$ 85.91	\$ 4.50	\$ 75.81	\$ 5.08
Royalty expense	(15.15)	(0.72)	(14.74)	(0.69)	(12.64)	(0.69)	(12.56)	(0.80)
Production expenditures	(20.71)	(1.78)	(19.26)	(1.94)	(23.29)	(1.51)	(17.36)	(1.74)
Field netbacks	\$ 67.28	\$ 2.21	\$ 56.10	\$ 2.06	\$ 49.98	\$ 2.30	\$ 45.89	\$ 2.53

Capital Expenditures

During the three and six months ended June 30, 2011, the Corporation incurred capital expenditures on the Southern Ontario Assets of \$1.3 million and \$2.2 million respectively.

For the period ended June 30, 2011	Three Months	Six months
<i>Offshore</i>		
Drilling and Completion	\$ 240	\$ 343
Pipeline	86	113
Workovers	55	156
Facilities	104	105
Offshore Fleet	67	249
Total Offshore	552	966
<i>Onshore</i>		
Workovers	255	472
Facilities	2	32
Seismic	53	53
Total Onshore	310	557
Undeveloped properties	408	572
Equipment and software purchases	49	144
	\$ 1,319	\$ 2,239

Remaining 2011 Work Program

The Corporation's planned work program for the remainder of 2011 in respect of the Southern Ontario Assets is estimated at \$7.0 million on a net basis and includes approximately \$5.0 million for onshore projects and a further \$2.0 million for offshore projects.

The 2011 onshore work program is designed to achieve the Corporation's short-term and long-term objectives of adding production and proved reserves. During the second quarter, the Corporation initiated four workovers on existing producing wells and plans to recomplete an additional eight wells during the remainder of 2011. The estimated cost of completing these workovers is \$1.2 million, of which approximately \$0.5 million was incurred in the first half of 2011. In addition, the Corporation plans to drill four infill wells during the third quarter of 2011 at a cost of \$2.6 million. Also included in the 2011 onshore program is the acquisition of a large \$0.8 million 3-dimensional seismic program over producing and non-producing lands. This expenditure is expected to provide data necessary for the design of the Corporation's drilling program for 2012. In order to meet regulatory requirements, the Corporation will spend \$0.4 million to abandon and reclaim four non-producing wellbores.

The Corporation's 2011 offshore work program includes the drilling of three gas wells, at a net cost of \$1.5 million, of which approximately \$0.3 million was incurred in the second quarter of the current year. Drilling activity is expected to add natural gas production and increase reserves. Well optimization activities planned for the third quarter of 2011 are estimated at \$0.3 million, including four workovers. The Corporation has implemented a program to replace aging pipelines and estimates annual expenditures of \$0.7 million, of which \$0.1 million was incurred in the first half of 2011. The 2011 work program also included a 15-well abandonment program at a budgeted cost of \$0.7 million, which was substantially completed in the second quarter. The abandonment program, which has been approved by the Ministry of Natural Resources, reduced the total number of shut in wells by 20%.

Offshore drilling, completion and workover activities are undertaken with the Corporation's fleet of barges, and supply boats, all of which are 65% owned and were acquired with the Southern Ontario Assets. During the first half of 2011, the Corporation incurred \$0.2 million of costs associated with the upgrading of the *Time Saver II* jack-up rig and the *J.R. Rouble* fracturing barge.

Decommissioning Liability

As part of the Acquisition of the Southern Ontario Assets, the Corporation recorded a decommissioning liability representing its best estimate of costs that it will incur to settle future site restoration, abandonment and reclamation obligations. At June 30, 2011, the Corporation's estimate of these future costs on an undiscounted basis is approximately \$78.7 million, which will be incurred over a 49-year period.

In accordance with accounting requirements, the estimated decommissioning liability is recorded in the Corporation's consolidated financial statements on a discounted basis using a discount rate that is specific to the underlying obligation. At June 30, 2011, the discounted amount of the Corporation's decommissioning liability was \$32.3 million.

During the second quarter of 2011, the Corporation incurred \$0.6 million on site restoration, abandonment and reclamation expenditures. The Corporation anticipates that it will incur an additional \$0.8 million towards these costs within the next twelve months.

The discount in the Corporation's decommissioning liability is accreted over time. During the three and six months ended June 30, 2011, the Corporation incurred accretion costs of \$0.3 million and \$0.5 million respectively. These amounts have been included in the Corporation's results of operations as "*interest expense*".

CASTOR UNDERGROUND GAS STORAGE PROJECT

Agreements with ACS Servicios Comunicacions y Energia S. L.

The Corporation's Castor Project is managed by ACS Servicios Comunicacions y Energia S.L. ("ACS"), the largest construction group in Spain and a 67% shareholder of Escal. CLP, the Corporation's 74% subsidiary, holds the remaining 33% interest.

CLP has entered into certain agreements with ACS and with Enagas, S.A., ("Enagas"), Spain's top natural gas transportation company, the technical manager of the Spanish gas system and common carrier for the gas network in Spain. These agreements provide that no later than at the start-up of the Castor Project, ACS will sell and Enagas will buy 50% of ACS' interest in Escal based on a pre-established pricing formula at which point CLP, ACS and Enagas will each own 33% of the equity of Escal. In addition, and for a period of 180 days after start-up of the Castor Project, CLP may sell part or all of its shares in Escal to ACS and/or Enagas on essentially the same terms and conditions, including the pre-established pricing formula, as are offered to Enagas.

The agreement with ACS also requires that ACS assume responsibility for all project financing through the construction phase, and until commissioning of the Castor Project and its formal inclusion into the Spanish gas system. The estimated cost of the Castor Project is €1.6 billion, including financing costs during the construction period. Costs associated with the Castor Project are subject to regulatory approval before they are included into the remuneration system. In July 2010, Escal successfully completed a €1.3 billion project financing arrangement with a syndicate of banks to support the cost of the Castor Project (see "*Liquidity and Capital Resources*"). In accordance with the agreements between CLP and ACS, the balance of the funding required for the construction phase of the Castor Project will be borne by ACS. Notwithstanding any funding being provided by ACS, CLP will be entitled to 33% of all distributions from Escal.

During 2010 and the first half of 2011, Escal issued shares from treasury with a par value of €10,000. In order to maintain its 33% interest, CLP subscribed for one third of the newly issued par value shares at an aggregate cost of \$4,000 (€3,000). In order to meet the equity ratios as required by the project financing, ACS also contributed a share premium of €30.2 million and issued €36.2 million in subordinated loans. CLP has not recognized the benefit of its 33% interest in the share premium and in the subordinated loans as the realization and measurement is subject to a number of risks and uncertainties, including but not limited to, execution risk associated with the construction of the project, the availability and terms of future financing arrangements and the 50-year life span of the project.

Project Construction and Development

At June 30, 2011, Escal had invested approximately €1.1 billion and it estimates that the Castor Project is over 70% complete. The construction and development of the Castor Project, including the well drilling program, is progressing as scheduled. The routing of the subsea pipeline between the platform and the onshore facilities continued to advance, with manufacturing of the offshore pipeline having commenced in late 2010, and the onshore pipeline early in 2011. Laying of the pipeline is expected to begin during the second half of 2011.

Share of Equity Earnings from Escal

During the three and six months ended June 30, 2011, the Corporation realized a loss of \$3,000 and a gain of \$2,000 respectively (three months and six months ended June 30, 2010 - loss of \$1,000 and gain of \$5,000 respectively) as its share of earnings from its investment in Escal. During the first quarter of 2011, Escal entered into certain interest rate risk management contracts. Included in the Corporation's comprehensive loss for the three and six months ended June 30, 2011, is \$1.4 million and \$2.4 million respectively, relating primarily to the Corporation's share of the loss incurred by Escal in respect of these financial instruments.

INVESTMENT IN SERIES A PREFERENCE SHARES OF EUROGAS INTERNATIONAL

The Corporation holds a \$32,150,000 investment in the Series A Preference Shares (the "Preferred Shares") of EII. The Preferred Shares rank in priority to the common shares of EII as to the payment of dividends and the distribution of assets on dissolution, liquidation or winding up of EII and entitle the Corporation, as the holder thereof, to a fixed preferential cumulative dividend at the rate of 4% per annum. The Preferred Shares may be redeemed, at the option of either EII or the Corporation, at any time, at a price equal to their face value of \$32.15 million plus accrued and unpaid dividends.

The Corporation has provided EII with a waiver of its redemption entitlement until December 2011. In addition, the Corporation approved a request by EII to defer entitlement to the payment of the cumulative 4% cash dividends and entitlement to receive payment once such dividends are declared, until December 31, 2011. The Corporation may, if requested by EII, reinvest any cash received in respect of dividend payments on the Preferred Shares into common shares of EII, subject to regulatory approval.

The Corporation has completed an impairment analysis in respect of amounts owing to the Corporation pursuant to the terms of the Preferred Shares and determined that, based on current expected cash flows, the Preferred Shares are impaired. Accordingly, the Corporation has fully provided against the face value of the Preferred Shares and the related cumulative accrued and unpaid dividends thereon. Impairment expense during the three and six months ended June 30, 2011 was \$321,000 and \$638,000 respectively (three and six months ended June 30, 2010 - \$321,000 and \$638,000 respectively).

In June 2011, EII received approval from the Tunisian government for a one-year extension of the expiry date in respect of the Sfax Permit to December 8, 2012.

RESULTS OF OPERATIONS

The six months ended June 30, 2011 compared with the six months ended June 30, 2010

The Corporation incurred a net loss during the six months ended June 30, 2011 of \$1.1 million compared with a net loss of \$3.8 million in the same period of the prior year.

Revenues earned during the first half of 2011 were \$17.6 million and represent oil and gas sales, net of royalties, earned from the Southern Ontario Assets. As these assets were acquired at the end of the second quarter of 2010, there were no corresponding revenues earned in the six months ended June 30, 2010.

The Corporation incurred production expenditures of \$5.9 million during the first six months of 2011. Production expenditures represent costs associated with the production and sale of oil and gas and include all costs incurred to operate and maintain wells and related equipment and facilities, including direct labour costs, costs associated with repairs and maintenance, and costs for materials, fuel or other forms of energy consumed, and transportation and distribution costs related to these sales.

Depreciation and depletion during the first six months of 2011 was \$7.2 million and includes \$6.5 million of depletion associated with the oil and gas rights and pipeline infrastructure acquired as part of the Acquisition and \$0.7 million of depreciation on certain other assets included in property, plant and equipment. Depreciation expense in the first half of the prior year was nominal.

General and administrative expenses incurred in the six months ended June 30, 2011 were \$3.8 million compared with \$4.2 million incurred in the same period of the prior year. Prior year general and administrative expenses include \$2.8 million of transaction costs related to the Acquisition of the Southern Ontario Assets. Excluding these transaction costs, general and administrative costs during the first half of 2011 increased by \$2.4 million. The increase includes \$1.1 million in higher compensation costs supporting the operations related to the Southern Ontario Assets and well as an increase of \$0.5 million in stock based compensation costs following the issuance of stock options in the fourth quarter of 2010.

Interest expense incurred during the first half of 2011 was \$2.4 million and includes \$0.5 million of accretion relating to the Corporation's decommissioning liability and \$1.9 million relating to the Corporation's \$80 million credit facility (see "*Liquidity and Capital Resources*"). Interest expense in the same period of the prior year was \$0.5 million.

During the six months ended June 30, 2011, the Corporation recognized equity earnings of \$2,000 (six months ended June 30, 2010 – \$5,000) in respect of its investment in Escal. In addition, included in the Corporation's comprehensive loss during the first half of 2011 is an after-tax foreign exchange loss of \$2.4 million (six months ended June 30, 2010 – \$0.3 million), representing the Corporation's share of losses relating to Escal's interest rate risk management contracts as well as foreign exchange differences arising from the translation of Escal's operations to Canadian dollars.

The three months ended June 30, 2011 compared with the three months ended June 30, 2010

The Corporation's net income during the three months ended June 30, 2011 was \$0.9 million compared with a net loss of \$3.4 million in the same period of the prior year. Included in operations during the second quarter of 2011 was a gain of \$1.9 million from risk management contracts, primarily as a result of volatility in forecasted oil prices.

During the second quarter of the current year, the Corporation earned revenues of \$9.5 million from oil and gas sales, net of royalties, and incurred production expenses of \$3.1 million associated with the Southern Ontario Assets. Depreciation and depletion costs associated with these assets were approximately \$3.8 million in the current quarter. As these assets were acquired at the end of the second quarter of 2010, there were no comparative revenues, production expenditures or depreciation and depletion expense in the same period of the prior year.

General and administrative expenses incurred during the three months ended June 30, 2011 were \$1.9 million, an increase of \$1.0 million over general and administrative expenses of \$0.9 million incurred in the prior year, after adjusting for \$2.8 million in transaction costs associated with the Acquisition of the Southern Ontario Assets as discussed previously. Consistent with results during the first half of 2011, the increase reflects costs associated with supporting the Southern Ontario Assets, as well as higher stock based compensation expense.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Prepared in accordance with IFRS						Prepared in accordance with Canadian GAAP	
	2011		2010				2009	
	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Revenues	\$ 9,530	\$ 8,072	\$ 8,179	\$ 8,301	\$ -	\$ -	\$ 177	\$ 315
Net earnings (loss)	937	(2,040)	(7,729)	(91)	(3,363)	(322)	(921)	(757)
Basic and fully diluted (loss) earnings per share	\$ 0.01	\$ (0.01)	\$ (0.05)	\$ -	\$ (0.02)	\$ -	\$ (0.01)	\$ -
Funds provided by (used in) operations	4,775	3,502	1,847	1,876	(1,502)	(623)	(674)	(2,193)
Capital expenditures	1,319	920	1,720	2,042	-	3	404	1,082

- The Corporation completed the Acquisition of the Southern Ontario Assets on June 29, 2010. There were no operating revenues prior to the Acquisition. Revenues earned under Canadian GAAP represented interest and other similar income.
- In the second quarter of 2010, the Corporation incurred \$2.8 million of transaction costs relating to the Acquisition.
- In the fourth quarter of 2010, the Corporation provided \$6.3 million against the carrying value of its preferred share investment in EII and associated accrued dividends.
- In the second quarter of 2011, the Corporation recognized a \$1.9 million gain in respect of its risk management contracts.

LIQUIDITY AND CAPITAL RESOURCES

Cash Resources Availability

At June 30, 2011, the Corporation held cash of \$4.4 million on deposit with Canadian chartered banks. In addition, the Corporation had access to a further \$16.8 million pursuant to its \$80.0 million revolving demand credit facility.

Southern Ontario Assets

On June 29, 2010, and in connection with the Acquisition of the Southern Ontario Assets, the Corporation arranged for the establishment of an \$80.0 million credit facility, including a \$20.0 million operating facility. The credit facility was issued as a direct obligation of DELP, and was placed with a syndicate of Canadian chartered banks. The credit facility is structured as a revolving demand loan, and is subject to a tiered interest rate structure that varies based on the net debt to cash flow ratio generated from the Southern Ontario Assets. The interest rate on the credit facility is initially set at prime plus 3% for loans and letters of credit or, for bankers' acceptances, at the bankers' acceptance rate plus 4%. The credit facility is secured against all of the Southern Ontario Assets.

At June 30, 2011, the Corporation had drawn \$59.9 million against the credit facility and as required by statute, it had further issued a letter of credit for \$3.3 million in favour of the Ministry of Natural Resources in connection with future abandonment and site restoration obligations.

The Corporation anticipates that cash flows generated from ongoing operating activities, as well as amounts available pursuant to its credit facility will provide sufficient cash flow to support the ongoing working capital requirements related to the Southern Ontario Assets into the foreseeable future.

Spain

ACS is responsible for providing equity and arranging project financing for the Castor Project, including providing all guarantees that may be required, from the day it became a majority shareholder, through development and construction and inclusion of the underground storage facility into the Spanish gas system. After the system is operational, the Corporation will be responsible for its proportionate share of any new capital investments, unless otherwise funded through working capital generated directly by Escal.

Project financing was completed in July 2010, providing Escal with a 10-year, €1.3 billion project financing through a syndicate of 19 banks. To provide security for the financing, CLP and ACS have each pledged their respective shares in Escal to the banking syndicate. Other than the pledging of its shares, CLP will not be required to provide any equity or debt funds or provide any warranties required by the project finance lenders. Notwithstanding any form by which ACS may fund Escal during the construction phase, CLP's interest in Escal will at all times remain at 33%, and CLP will retain the right to 33% of all distributable cash flows.

Outstanding Share Data

As at July 21, 2011, the Corporation had 156,804,941 common shares outstanding. The Corporation also has 5,665,000 stock options outstanding to acquire common shares of the Corporation with a weighted average exercise price of \$0.92 as well as 464,637 deferred share units.

On March 30, 2011, the Corporation received regulatory approval to establish a normal course issuer bid through the facility of the TSX from April 1, 2011 to March 31, 2012. Subject to certain conditions, the Corporation may purchase up to a maximum of 7,805,922 common shares pursuant to these arrangements, representing 5% of its common shares outstanding prior to approval of the normal course issuer bid.

Since approval was received, the Corporation has acquired and cancelled 33,512 common shares in the open market at an average price of \$0.85 per share pursuant to the normal course issuer bid.

OFF BALANCE SHEET ARRANGEMENTS

In order to ensure the timely delivery of its oil and natural gas products, DELP has entered into transportation arrangements with several third-party service providers. In certain instances, the Corporation has provided guarantees to these third-party service providers for the payment of services provided to DELP.

In addition, at June 30, 2011, the Corporation had issued a letter of credit for \$3.3 million in favour of the Ministry of Natural Resources in connection with future abandonment costs.

COMMITMENTS

Other than as disclosed elsewhere in this MD&A, there have been no substantive changes in the description and nature of commitments and contingencies from those described in Note 16 to the 2010 Annual Consolidated Financial Statements.

RELATED PARTY TRANSACTIONS

There have been no substantive changes in the nature and scope of related party transactions to those described in Note 15 to the 2010 Annual 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 were detailed in the section entitled "Business Risks" in the Corporation's MD&A accompanying its 2010 Annual Consolidated Financial Statements. At June 30, 2011, 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.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

This MD&A is based upon the June 2011 Interim Consolidated Financial Statements of the Corporation. These interim consolidated financial statements have been prepared in accordance with IFRS. The preparation of these interim consolidated financial statements requires that the Corporation make assumptions, estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosure of contingent assets and liabilities. 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 judgements about the carrying value of assets and liabilities and the reported amount of revenues and expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

There have been no significant changes to the areas of accounting judgements, estimates and assumptions made by the Corporation from those detailed in Note 4 to the unaudited interim consolidated financial statements of the Corporation as at and for the three months ended March 31, 2011.

CONTROLS AND PROCEDURES

In accordance with the Canadian Securities Administrators' National Instrument 52-109, the Corporation has filed certificates signed by the Chief Executive Officer and the Chief Financial Officer certifying that, among other things, the design of disclosure controls and procedures and the design of internal control over financial reporting are adequate as at June 30, 2011.

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 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 Chief Financial Officer concluded that as of June 30, 2011, the Corporation's disclosure controls and procedures were effective.

The Chief Executive Officer and Chief Financial Officer of the Corporation have also evaluated whether there were changes to the Corporation's internal control over financial reporting during the six months ended June 30, 2011 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. Further, the Corporation has determined that there has been no material change in internal controls over financial reporting as a result of the adoption of IFRS.

FORWARD-LOOKING STATEMENTS

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

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

By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Corporation's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management and labour and labour relations generally, health and safety risks, stock market volatility, the ability to access sufficient capital from internal and external sources and other risk factors discussed or referred to in the section entitled "*Business Risks*" 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 is 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 shares 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 2011 and beyond included in this MD&A. These assumptions include: the impact of increasing competition; the general stability of the economic and political environment in which the Corporation operates; the timely receipt of any required regulatory approvals; the ability of the Corporation to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects in which the Corporation has an interest to operate such projects in a safe, efficient and effective manner; the ability of the Corporation to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development and/or exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of the Corporation to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Corporation operates; the ability of the Corporation to successfully market its oil and natural gas products; estimates on global industrial production in key geographic markets; global oil and natural gas demand and supply; that the Corporation will not have any labour, equipment or other disruptions at any of its operations of any significance in 2011 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 elsewhere in this MD&A do not materialize.

The Corporation's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what resulting benefits the Corporation will derive. The forward-looking statements, including future-oriented financial information, contained herein are presented solely for the purpose of conveying management's reasonable belief of the direction of the Corporation and may not be appropriate for other purposes. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

INFORMATION CONCERNING DUNDEE ENERGY LIMITED

Additional information relating to Dundee Energy Limited, including a copy of the Corporation's Annual Information Form, may be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com and the Corporation's website at www.eurogascorp.com.

Toronto, Ontario
July 21, 2011