

DUNDEE ENERGY LIMITED
(formerly Eurogas Corporation)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

DUNDEE ENERGY LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(unaudited)

(expressed in thousands of Canadian dollars)

	Note	As at	
		June 30, 2011	December 31, 2010
ASSETS			
Current			
Cash		\$ 4,414	\$ 1,524
Accounts receivable	12	4,709	4,202
Prepays		1,230	1,250
Inventory		1,184	902
Investments	7	725	775
Loan receivable	8	589	560
Taxes recoverable	18	30	30
		<u>12,881</u>	<u>9,243</u>
Property, plant and equipment	6, 9	150,906	155,450
Equity accounted investment in Escal	16	1,724	4,476
Deferred income taxes	18	2,002	1,535
		<u>\$ 167,513</u>	<u>\$ 170,704</u>
LIABILITIES			
Current			
Bank loan	10	\$ 59,867	\$ 62,371
Accounts payable and accrued liabilities	12, 19	7,969	5,940
Decommissioning liability	6, 11	831	1,017
		<u>68,667</u>	<u>69,328</u>
Decommissioning liability	6, 11	31,492	30,943
		<u>100,159</u>	<u>100,271</u>
SHAREHOLDERS' EQUITY			
Equity Attributable to Owners of the Parent			
Share capital	13	97,724	97,746
Contributed surplus	13	6,229	5,746
Deficit	13	(35,395)	(34,286)
Accumulated other comprehensive loss		(1,965)	(188)
		<u>66,593</u>	<u>69,018</u>
Non-controlling interest		<u>761</u>	<u>1,415</u>
		<u>67,354</u>	<u>70,433</u>
		<u>\$ 167,513</u>	<u>\$ 170,704</u>

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

DUNDEE ENERGY LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

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

	Note	For the three months ended		For the six months ended	
		June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
REVENUES					
Oil and gas sales		\$ 11,205	\$ -	\$ 20,774	\$ -
Royalties		(1,675)	-	(3,172)	-
Net sales	6	9,530	-	17,602	-
EXPENSES					
Production expenditures	6	3,054	-	5,952	-
Depreciation and depletion	6, 9	3,789	4	7,248	9
General and administrative	14, 15, 19	1,927	3,718	3,845	4,208
Impairment	7	321	321	638	638
		9,091	4,043	17,683	4,855
(LOSS) EARNINGS FROM OPERATIONS					
		439	(4,043)	(81)	(4,855)
Interest and other income		307	396	692	812
Risk management gain	12	1,939	-	548	-
Interest expense	10, 11	(1,294)	(453)	(2,378)	(454)
Foreign exchange (loss) gain		27	(55)	(29)	(150)
Share of earnings (loss) of equity accounted investment	16	(3)	(1)	2	5
Income tax recovery (provision)					
Deferred	18	(487)	731	123	830
		(487)	731	123	830
NET (LOSS) EARNINGS FOR THE PERIOD					
		928	(3,425)	(1,123)	(3,812)
NET (LOSS) EARNINGS ATTRIBUTABLE TO:					
Owners of the parent		937	(3,363)	(1,103)	(3,685)
Non-controlling interest		(9)	(62)	(20)	(127)
		\$ 928	\$ (3,425)	\$ (1,123)	\$ (3,812)
BASIC AND DILUTED					
NET (LOSS) EARNINGS PER SHARE					
	17	\$ 0.01	\$ (0.02)	\$ (0.01)	\$ (0.02)

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

DUNDEE ENERGY LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(unaudited)

(expressed in thousands of Canadian dollars)

	Note	For the three months ended		For the six months ended	
		June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
NET (LOSS) EARNINGS FOR THE PERIOD		\$ 928	\$ (3,425)	\$ (1,123)	\$ (3,812)
Other comprehensive loss					
Share of other comprehensive loss of equity accounted investments	16	(1,595)	(218)	(2,755)	(337)
Less: Associated taxes		199	27	344	42
Other comprehensive loss for the period		(1,396)	(191)	(2,411)	(295)
COMPREHENSIVE LOSS FOR THE PERIOD		\$ (468)	\$ (3,616)	\$ (3,534)	\$ (4,107)
COMPREHENSIVE LOSS ATTRIBUTABLE TO:					
Owners of the parent		(92)	(3,504)	(2,880)	(3,903)
Non-controlling interest		(376)	(112)	(654)	(204)
		\$ (468)	\$ (3,616)	\$ (3,534)	\$ (4,107)

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

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

(expressed in thousands of Canadian dollars)

	Attributable to owners of the parent							Non-controlling Interest	Total
	Share Capital	Contributed Surplus for Option Reserve	Contributed Surplus for Deferred Share Unit Reserve	Deficit	Accumulated Other Comprehensive Loss				
Balance, January 1, 2010	\$ 97,746	\$ 4,719	\$ 401	\$ (22,781)	\$ -	\$ 1,647	\$	\$ 81,732	
For the six months ended June 30, 2010									
Net loss	-	-	-	(3,685)	-	(127)	-	(3,812)	
Stock based compensation	-	18	-	-	-	-	-	18	
Other comprehensive loss	-	-	-	-	(218)	(77)	-	(295)	
Balance, June 30, 2010	\$ 97,746	\$ 4,737	\$ 401	\$ (26,466)	\$ (218)	\$ 1,443	\$	\$ 77,643	
From July 1, 2010 to December 31, 2010									
Net loss	-	-	-	(7,820)	-	(38)	-	(7,858)	
Stock based compensation	-	608	-	-	-	-	-	608	
Other comprehensive earnings	-	-	-	-	30	10	-	40	
Balance, December 31, 2010	\$ 97,746	\$ 5,345	\$ 401	\$ (34,286)	\$ (188)	\$ 1,415	\$	\$ 70,433	
For the six months ended June 30, 2011									
Acquisition of common shares for cancellation pursuant to normal course issuer bid (note 13)	(22)	-	-	(6)	-	-	-	(28)	
Net loss	-	-	-	(1,103)	-	(20)	-	(1,123)	
Stock based compensation	-	394	89	-	-	-	-	483	
Other comprehensive loss	-	-	-	-	(1,777)	(634)	-	(2,411)	
Balance, June 30, 2011	\$ 97,724	\$ 5,739	\$ 490	\$ (35,395)	\$ (1,965)	\$ 761	\$	\$ 67,354	

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

DUNDEE ENERGY LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOW
(unaudited)

(expressed in thousands of Canadian dollars)

	Note	For the six months ended	
		June 30, 2011	June 30, 2010
OPERATING ACTIVITIES			
Net loss for the period		\$ (1,123)	\$ (3,812)
Non-cash items in operations			
Share of earnings from equity accounted investment	16	(2)	(5)
Depreciation and depletion	6, 9	7,248	9
Loss on investments	7	50	-
Impairment	7	638	638
Unrealized risk management gain	12	(826)	-
Deferred income taxes	18	(123)	(830)
Stock based compensation	14	483	18
Other		(154)	(525)
		6,191	(4,507)
Changes in:			
Accounts receivable		(134)	(462)
Accounts payable and accrued liabilities		2,482	3,387
Prepays		20	(542)
Inventory		(282)	-
		8,277	(2,124)
FINANCING ACTIVITIES			
Acquisition of common shares for cancellation	13	(28)	-
Advanced from (repayment of) bank loan arrangements	10	(2,504)	63,888
		(2,532)	63,888
INVESTING ACTIVITIES			
Net proceeds from investments		-	70,454
Acquisition of oil and gas properties	6	-	(130,281)
Investment in property, plant and equipment	9	(2,239)	(3)
Reclamation expenditures	11	(616)	-
		(2,855)	(59,830)
INCREASE IN CASH		2,890	1,934
CASH, BEGINNING OF PERIOD		1,524	77
CASH, END OF PERIOD		\$ 4,414	\$ 2,011

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

DUNDEE ENERGY LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

As at and for the three and six months ended June 30, 2011 and June 30, 2010 Tabular dollar amounts in thousands of Canadian dollars, except per share amounts

1. NATURE OF OPERATIONS

Dundee Energy Limited (formerly “Eurogas Corporation”) (“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 other high impact energy projects. Dundee Energy is incorporated under the Canada Business Corporations Act. The Corporation’s head office is located at Dundee Place, 1 Adelaide Street East, Toronto, Ontario, Canada, M5C 2V9, and its registered office is located at Suite 250, 435 – 4th Avenue SW, Calgary, Alberta, Canada, T2P 3A8.

On February 2, 2011, Dundee Energy received approval for the listing of its common shares on the Toronto Stock Exchange (“TSX”) under the symbol “DEN” (formerly “EUG”) effective February 4, 2011. The Corporation’s common shares previously traded on the TSX Venture Exchange.

Dundee Energy’s operating interests include its 100% ownership interest in Dundee Energy Limited Partnership (“DELDP”), a limited partnership involved in the exploration, development and production of oil and gas properties in southern Ontario, Canada, and a 73.7% interest in Castor UGS Limited Partnership (“CLP”), its principal asset being a 33% interest in Escal UGS S.L. (“Escal”), the owner of the Castor underground gas storage project located in Spain. The Corporation has also invested in preferred shares of Eurogas International Inc. (“Eurogas International” or “EII”), an oil and gas exploration company that holds a 45% working interest in the one million acre Sfax permit offshore Tunisia (the “Sfax Permit”).

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

These interim consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim consolidated financial statements, including International Accounting Standard 34, “*Interim Financial Reporting*” (“IAS 34”) and IFRS 1, “*First-time Adoption of IFRS*” (“IFRS 1”), which the Corporation adopted on January 1, 2010 (the “Transition Date”). Prior to the Transition Date, the Corporation prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). Note 5 discloses the impact of the transition to IFRS on the Corporation’s reported financial position, financial performance and cash flow, including the nature and effect of significant changes in accounting policies from those used in the Corporation’s consolidated financial statements for the year ended December 31, 2010.

These condensed interim consolidated financial statements of the Corporation do not include all disclosures required by IFRS for annual consolidated financial statements. Accordingly, these condensed interim consolidated financial statements of the Corporation should be read in conjunction with the Corporation’s audited consolidated financial statements as at and for the year ended December 31, 2010 (“2010 Annual Consolidated Financial Statements”) and the Corporation’s interim consolidated financial statements as at and for the three months ended March 31, 2011 (“March 2011 Interim Consolidated Financial Statements”).

The accounting policies applied in these interim consolidated financial statements are based on IFRS effective for the year ending December 31, 2011, as issued and effective as at July 21, 2011, the date the Board of Directors authorized the issuance of these interim consolidated financial statements. Any subsequent changes to IFRS that are given effect in the

Corporation's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

3. SIGNIFICANT ACCOUNTING POLICIES

These interim consolidated financial statements follow the same accounting principles and methods of application as those disclosed in note 3 to the Corporation's March 2011 Interim Consolidated Financial Statements. Subject to certain elections made on transition to IFRS as disclosed in note 5, these accounting policies have been consistently applied throughout all periods presented in these interim consolidated financial statements, as if these policies had always been in effect.

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

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

The IASB intends to replace IAS 39, "*Financial Instruments: Recognition and Measurements*" ("IAS 39"), with IFRS 9, "*Financial Instruments*" ("IFRS 9"). IFRS 9 will be published in three phases. The first phase, which has already been published, addresses the accounting for financial assets and financial liabilities. The second phase will address impairment of financial instruments, while the third phase will address hedge accounting.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 focuses on how an entity manages its financial instruments in the context of its business model, as well as the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods currently provided in IAS 39.

Although the classification criteria for financial liabilities will not change under IFRS 9, the fair value option may require different accounting for changes to the fair value of a financial liability resulting from changes to an entity's own credit risk. IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with varying transitional arrangements dependent on the date of initial application.

IFRS 10, "Consolidation" ("IFRS 10")

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, "*Consolidation—Special Purpose Entities*" and parts of IAS 27, "*Consolidated and Separate Financial Statements*". This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

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

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation, the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, "*Interests in Joint Ventures*", and SIC-13, "*Jointly Controlled Entities—Non-monetary Contributions by Venturers*". This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

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

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, equity accounted investments, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's

interests in other entities. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

IFRS 13, “Fair Value Measurement” (“IFRS 13”)

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

Amendments to Other Standards

In addition to the issuance of new standards as detailed above, there have also been amendments to existing standards, including IAS 1, “*Presentation of Financial Statements*” (“IAS 1”), IAS 19, “*Employee Benefits*” (“IAS 19”), IAS 27, “*Consolidated and Separate Financial Statements*” (“IAS 27”) and IAS 28, “*Investments in Associates and Joint Venture*” (“IAS 28”).

The amendments to IAS 1 will require that entities group items presented in other comprehensive income (“OCI”) based on an assessment of whether such items may, or may not, be reclassified to earnings at a subsequent date. Amendments to IAS 1 are applicable to annual periods beginning on or after July 1, 2012, with early adoption permitted.

Amendments to IAS 19 eliminate an entity’s option to defer the recognition of certain gains and losses related to post-employment benefits and requires remeasurement of associated assets and liabilities in OCI. Amendments to IAS 19 are applicable on a modified retrospective basis to annual periods beginning on or after January 1, 2013, with early adoption permitted.

The amended IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 through 13 as outlined above. Amendments to IAS 27 and IAS 28 are applicable to annual periods beginning on or after January 1, 2013, with early adoption permitted.

The Corporation has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these interim consolidated financial statements in accordance with IFRS requires the Corporation to make judgements, estimates and assumptions 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 March 2011 Interim Consolidated Financial Statements.

5. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

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 financial years beginning on or after January 1, 2011.

The accounting policies adopted by the Corporation have been applied in preparing the interim consolidated financial statements for the three and six month periods ended June 30, 2011, the comparative information presented in these interim consolidated financial statements for the three and six month periods ended June 30, 2010, and as at December 31, 2010.

IFRS 1: First-time Adoption of IFRS

IFRS 1 provides the framework for the first-time adoption of IFRS and specifies that, in general, an entity shall apply the principles under IFRS retrospectively. IFRS 1 also specifies that the adjustments that arise on retrospective conversion to IFRS from Canadian GAAP should be directly recognized in retained earnings. Certain optional exemptions and mandatory exceptions to retrospective application are provided for under IFRS 1.

Transition Elections upon Adoption

The Corporation has applied the following transitional exemption to full retrospective application of IFRS:

- *Cumulative Translation Differences* – IFRS 1 permits cumulative translation gains and losses to be reset to zero at the Transition Date. The Corporation elected this exemption. This resulted in the exclusion of translation differences that arose prior to the Transition Date from gains and losses on subsequent disposal of foreign operations.

Mandatory Exceptions upon Adoption

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Corporation has applied the following guidelines in the preparation of its opening consolidated statement of financial position as at the Transition Date:

- In accordance with IFRS 1, an entity’s estimates under IFRS as at the Transition Date must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Corporation’s estimates as at the Transition Date are consistent with estimates made under Canadian GAAP as at the same date.

Reconciliation of Canadian GAAP to IFRS

The effect of the Corporation’s transition from Canadian GAAP to IFRS is set out in the following reconciliations and the footnotes that accompany such reconciliation.

For illustrative purposes, amounts previously reported as “short term investments” in the Corporation’s interim consolidated financial statements prepared in accordance with Canadian GAAP have been reclassified to “investments” to conform to the presentation adopted at December 31, 2010. Additionally, the amounts previously referred to as an “asset retirement obligation” and “future income tax assets” have been renamed “decommissioning liability” and “deferred income taxes” to correspond to nomenclature appropriate under IFRS. Amounts attributed to non-controlling interests in the net assets of the Corporation have been included in equity. Under Canadian GAAP, these amounts were included as liabilities.

Reconciliation of Consolidated Equity as at December 31, 2010 and June 30, 2010 as previously reported under Canadian GAAP to IFRS

As at	Ref:	December 31, 2010						June 30, 2010					
		Canadian GAAP	Transition Date Adjustments		2010 IFRS Adjustments		Canadian GAAP	Transition Date Adjustments		2010 IFRS Adjustments		IFRS	
			Deconsolidation EII (i)	Other	Deconsolidation EII (i)	Other		Deconsolidation EII (i)	Other	Deconsolidation EII (i)	Other		
ASSETS													
Current													
Cash		\$ 2,578	\$ (186)	\$ -	\$ (868)	\$ -	\$ 1,524	\$ 2,044	\$ (186)	\$ -	\$ 153	\$ -	\$ 2,011
Accounts receivable	(x)	5,741	94	-	(1,633)	-	4,202	678	94	-	315	150	1,237
Prepays	(x)	1,295	(78)	-	33	-	1,250	612	(78)	-	23	751	1,308
Inventory	(x)	902	-	-	-	-	902	-	-	-	-	758	758
Investments		836						1,324					
			(4,005)		3,944				(4,005)		2,681		
	(ii, iii)		32,150	(26,174)		(5,976)			32,150	(26,174)			
	(ii, iii)		1,809	(1,809)					1,809	(1,809)			
	(x)						775					300	6,276
Loan receivable		560	-	-	-	-	560	547	-	-	-	-	547
Taxes recoverable		30	-	-	-	-	30	91	-	-	-	-	91
		11,942	29,784	(27,983)	1,476	(5,976)	9,243	5,296	29,784	(27,983)	3,172	1,959	12,228
Property, plant and equipment		144,445						140,872					
	(v)					(3,602)						(3,228)	
	(vi)					14,657						23,912	
	(viii)					(50)							
	(x)						155,450					(1,959)	159,597
Exploration and evaluation properties		21,470	(21,176)	-	(294)	-	-	23,208	(21,176)	-	(2,032)	-	-
Equity accounted investment in Escal		4,476	-	-	-	-	4,476	3,929	-	-	-	-	3,929
Deferred income taxes	(ix)	615	-	-	-	920	1,535	370	-	-	-	807	1,177
		\$ 182,948	\$ 8,608	\$ (27,983)	\$ 1,182	\$ 5,949	\$ 170,704	\$ 173,675	\$ 8,608	\$ (27,983)	\$ 1,140	\$ 21,491	\$ 176,931
LIABILITIES													
Current													
Bank loan		\$ 62,371	\$ -	\$ -	\$ -	\$ -	\$ 62,371	\$ 63,888	\$ -	\$ -	\$ -	\$ -	\$ 63,888
Accounts payable and accrued liabilities		6,162	(555)	-	333	-	5,940	4,586	(555)	-	167	-	4,198
Decommissioning liability	(vii)	2,728	(1,603)	-	(92)	(16)	1,017	442	-	-	-	302	744
		71,261	(2,158)	-	241	(16)	69,328	68,916	(555)	-	167	302	68,830
Decommissioning liability	(vi, vii)	16,301	-	-	-	14,642	30,943	8,497	(1,603)	-	(46)	23,610	30,458
		87,562	(2,158)	-	241	14,626	100,271	77,413	(2,158)	-	121	23,912	99,288
SHAREHOLDERS' EQUITY													
Equity Attributable to Owners of the Parent													
Share capital		97,746	-	-	-	-	97,746	97,746	-	-	-	-	97,746
Contributed surplus		5,746	-	-	-	-	5,746	5,138	-	-	-	-	5,138
Deficit		(9,612)	10,775		947			(8,123)	10,775		1,022		
	(iv)			264						264			
	(ii, iii)			(26,174)		(5,976)				(26,174)			
	(ii, iii)			(1,809)						(1,809)			
	(v)					(3,602)						(3,228)	
	(viii)					(50)							
	(vii)					31							
	(ix)					920	(34,286)					807	(26,466)
Accumulated other comprehensive income	(iv)	76	-	(264)	-	-	(188)	46	-	(264)	-	-	(218)
		93,956	10,775	(27,983)	947	(8,677)	69,018	94,807	10,775	(27,983)	1,022	(2,421)	76,200
Non-controlling interest		1,430	(9)	-	(6)	-	1,415	1,455	(9)	-	(3)	-	1,443
		95,386	10,766	(27,983)	941	(8,677)	70,433	96,262	10,766	(27,983)	1,019	(2,421)	77,643
		\$ 182,948	\$ 8,608	\$ (27,983)	\$ 1,182	\$ 5,949	\$ 170,704	\$ 173,675	\$ 8,608	\$ (27,983)	\$ 1,140	\$ 21,491	\$ 176,931

**Reconciliation of the Consolidated Statements of Operations and Comprehensive Loss
for the three and six months ended June 30, 2010 as previously reported under Canadian GAAP to IFRS**

	Ref:	Six months ended June 30, 2010				Three months ended June 30, 2010			
		2010 IFRS Adjustments				2010 IFRS Adjustments			
		Canadian GAAP	Deconsolidation EII (i)	Other	IFRS	Canadian GAAP	Deconsolidation EII (i)	Other	IFRS
EXPENSES	(i)								
Depreciation and depletion		\$ 55	\$ (46)	\$ -	\$ 9	\$ 27	\$ (23)	\$ -	\$ 4
General and administrative		2,419	(980)			1,316	(367)		
	(v)			2,769	4,208			2,769	3,718
Impairment	(iii)			638	638			321	321
		2,474	(1,026)	3,407	4,855	1,343	(390)	3,090	4,043
LOSS FROM OPERATIONS		(2,474)	1,026	(3,407)	(4,855)	(1,343)	390	(3,090)	(4,043)
Interest and other income	(iii)	179	(5)	638	812	77	(2)	321	396
Interest expense		(456)	2	-	(454)	(454)	1	-	(453)
Foreign exchange loss		(149)	(1)	-	(150)	(46)	(9)	-	(55)
Earnings (loss) of equity accounted investment		5	-	-	5	(1)	-	-	(1)
Income tax recovery									
Deferred		482				383			
	(v)			(459)				(459)	
	(ix)			807	830			807	731
		482	-	348	830	383	-	348	731
NET LOSS FOR THE PERIOD		\$ (2,413)	\$ 1,022	\$ (2,421)	\$ (3,812)	\$ (1,384)	\$ 380	\$ (2,421)	\$ (3,425)
NET LOSS ATTRIBUTABLE TO:									
Owners of the parent		\$ (2,286)	\$ 1,022	\$ (2,421)	\$ (3,685)	\$ (1,322)	\$ 380	\$ (2,421)	\$ (3,363)
Non-controlling interest		(127)	-	-	(127)	(62)	-	-	(62)
		\$ (2,413)	\$ 1,022	\$ (2,421)	\$ (3,812)	\$ (1,384)	\$ 380	\$ (2,421)	\$ (3,425)
NET LOSS PER SHARE									
Basic and diluted		\$ (0.01)			\$ (0.02)	\$ (0.01)			\$ (0.02)
NET LOSS FOR THE PERIOD		\$ (2,413)	\$ 1,022	\$ (2,421)	\$ (3,812)	\$ (1,384)	\$ 380	\$ (2,421)	\$ (3,425)
Other comprehensive loss									
Net foreign currency loss on equity accounted investment		(337)	-	-	(337)	(218)	-	-	(218)
Less: Associated taxes		42	-	-	42	27	-	-	27
Other comprehensive loss for the period		(295)	-	-	(295)	(191)	-	-	(191)
COMPREHENSIVE LOSS FOR THE PERIOD		(2,708)	1,022	(2,421)	(4,107)	(1,575)	380	(2,421)	(3,616)
COMPREHENSIVE LOSS ATTRIBUTABLE TO:									
Owners of the parent		(2,504)	1,022	(2,421)	(3,903)	(1,463)	380	(2,421)	(3,504)
Non-controlling interest		(204)	-	-	(204)	(112)	-	-	(112)
		\$ (2,708)	\$ 1,022	\$ (2,421)	\$ (4,107)	\$ (1,575)	\$ 380	\$ (2,421)	\$ (3,616)

**Reconciliation of the Consolidated Statements of Cash Flow
for the three and six months ended June 30, 2010 as previously reported under Canadian GAAP to IFRS**

	(i)	Six months ended June 30, 2010				Three months ended June 30, 2010			
		Canadian GAAP	2010 IFRS Adjustments			Canadian GAAP	2010 IFRS Adjustments		
			Deconsolidation EII (i)	Other	IFRS		Deconsolidation EII (i)	Other	IFRS
OPERATING ACTIVITIES									
Net loss for the period		\$ (2,413)	\$ 1,022	\$ (2,421)	\$ (3,812)	\$ (1,384)	\$ 380	\$ (2,421)	\$ (3,425)
Non-cash items in operations									
(Earnings) loss of equity accounted investment		(5)	-	-	(5)	1	-	-	1
Depreciation and depletion		55	(46)	-	9	27	(23)	-	4
Gain on investments		(158)	-	158	-	(158)	-	158	-
Impairment	(iii)			638	638			321	321
Deferred income taxes		(482)				(383)			
	(ix)			(807)				(807)	
	(v)			459	(830)			459	(731)
Stock based compensation		21	(3)	-	18	11	(2)	-	9
Other	(iii)	113		(638)	(525)	57		(321)	(264)
		(2,869)	973	(2,611)	(4,507)	(1,829)	355	(2,611)	(4,085)
Changes in:									
Accounts receivable		(143)	(319)	-	(462)	60	(416)	-	(356)
Accounts payable and accrued liabilities		3,217	170	-	3,387	3,422	53	-	3,475
Prepays		(520)	(22)	-	(542)	(488)	(47)	-	(535)
		(315)	802	(2,611)	(2,124)	1,165	(55)	(2,611)	(1,501)
FINANCING ACTIVITIES									
Advanced from bank loan arrangements		63,888	-	-	63,888	63,888	-	-	63,888
		63,888	-	-	63,888	63,888	-	-	63,888
INVESTING ACTIVITIES									
Net proceeds from sales of investments		73,293	(2,681)	(158)	70,454	70,719	(684)	(158)	69,877
Acquisition of oil and gas properties	(v)	(133,050)	-	2,769	(130,281)	(133,050)	-	2,769	(130,281)
Investment in property, plant and equipment		(3)	-	-	(3)	-	-	-	-
Deferred exploration expenditures		(2,032)	2,032	-	-	(807)	807	-	-
		(61,792)	(649)	2,611	(59,830)	(63,138)	123	2,611	(60,404)
INCREASE IN CASH		1,781	153	-	1,934	1,915	68	-	1,983
CASH, BEGINNING OF PERIOD		263	(186)	-	77	129	(101)	-	28
CASH, END OF PERIOD		\$ 2,044	\$ (33)	\$ -	\$ 2,011	\$ 2,044	\$ (33)	\$ -	\$ 2,011

References to the IFRS Conversion Adjustments

IAS 27: Consolidated and Separate Financial Statements

Canadian GAAP requires that an entity assess whether it should consolidate another entity using two different frameworks: the variable interest entity model and the voting control model. Under IFRS, the appropriateness of consolidating an entity is based on control, which is defined as the power to govern the financial and operating policies of an entity to obtain benefit. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power, but also exists when the parent owns half or less of the voting power but has legal or contractual rights to control, or where it has de facto control.

- (i) Under Canadian GAAP, Eurogas International met the definition of a variable interest entity in which the Corporation was the primary beneficiary because of the nature of its preferred share holdings. Accordingly, under Canadian GAAP, the Corporation consolidated Eurogas International for financial reporting purposes. On transition to IFRS, the Corporation completed an assessment of whether its preferred share holding gives the Corporation the power to govern the financial and reporting policies of Eurogas International and it concluded that such control did not exist. Consequently, on the Transition Date, the Corporation retrospectively deconsolidated the accounts of Eurogas International.

IAS 39: Financial Instruments: Recognition and Measurement

The Corporation recognizes its investment in preferred shares of Eurogas International as a financial asset under IFRS. The carrying value of the preferred shares in Eurogas International and the associated accrued dividends were eliminated as intercompany balances under Canadian GAAP. The Corporation has determined that the terms of the preferred shares result in their classification as a loan receivable under IFRS. The preferred shares will therefore be included in the Corporation's consolidated financial statements at amortized cost, and will be subject to impairment testing in accordance with the provisions of IAS 39.

- (ii) IAS 39 requires an assessment of impairment, generally determined by comparing the carrying amount of the loan receivable against the discounted value of estimated future cash flows. The Corporation has determined that at January 1, 2010, the Corporation's preferred share investment in Eurogas International and the related dividends receivable are impaired and accordingly, the Corporation has recorded an impairment of \$26,174,000 against the face value of the preferred shares in Eurogas International and \$1,809,000 against the associated cumulative dividends receivable.
- (iii) During the year ended December 31, 2010 and following the declaration of Force Majeure by Eurogas International in early January 2011, the Corporation further provided \$5,976,000 against the face value of the preferred shares in Eurogas International. In addition, during the three and six months ended June 30, 2010, the Corporation provided \$321,000 and \$638,000, respectively against the associated cumulative dividends receivable.

IFRS 1: First-time Adoption of IFRS

The Corporation elected to reset its cumulative translation adjustment relating to its equity accounted investment in Escal to zero at the Transition Date.

- (iv) The Corporation has accordingly recorded the cumulative translation gain of \$264,000 in its consolidated deficit account in its consolidated statement of financial position as at the Transition Date.

IFRS 3: Business Combinations

Under Canadian GAAP, the acquisition of the assets in southern Ontario completed in June 2010 was accounted for as an asset acquisition with the aggregate purchase price paid, including related transaction costs, allocated to the net assets acquired based on an estimate of their underlying fair values.

The Corporation has concluded that the nature of the assets acquired in southern Ontario meets the definition of a business pursuant to IFRS 3 and, as such, the transaction is accounted for as a business combination under IFRS rather than as an asset acquisition as was appropriate under Canadian GAAP.

- (v) Under Canadian GAAP, transaction costs of \$3,602,000 (three and six months ended June 30, 2010 - \$3,228,000 before current income taxes of \$459,000) associated with the acquisition of the assets in southern Ontario were included in the aggregate purchase price and allocated to the various assets acquired. Under IFRS, these amounts were expensed in the periods in which they were incurred.

IAS 37: Provisions, Contingent Liabilities and Contingent Assets

Accounting for decommissioning liabilities pursuant to IFRS falls under IAS 37. IFRS requires the inclusion of both constructive and legal obligations in determining the amount of a decommissioning liability. While only legal obligations are required under Canadian GAAP, the Corporation has historically included both legal and constructive obligations in its estimate of its decommissioning liability.

Consistent with Canadian GAAP, decommissioning liabilities under IFRS are recorded in the consolidated financial statements on a discounted basis. However, discount rates used under IFRS should reflect the risks specific to the decommissioning liability, whereas under Canadian GAAP, discount rates for asset retirement obligations were based on the entity's credit-adjusted risk-free rate. At each period end, IFRS requires that the Corporation remeasure its decommissioning liability for market changes in the discount rate, whereas under Canadian GAAP, changes in discount rates alone do not result in a remeasurement of the asset retirement obligation.

- (vi) The Corporation has completed the calculation of its decommissioning liability at each period end using a market interest rate appropriate at each respective date. Accordingly, at December 31, 2010, the Corporation's decommissioning liability has increased by \$14,657,000 (June 30, 2010 - \$23,912,000). The related assets have increased by a corresponding amount.
- (vii) At December 31, 2010, and as a result of the remeasurement of the decommissioning liability, the Corporation's accretion expense has decreased by \$31,000 since the acquisition of the assets in June 2010. Furthermore, accretion charges under IFRS are classified as interest expense or financing charges. Under Canadian GAAP, these amounts were included with depreciation and depletion. As a result of the reclassification, the \$31,000 decrease in the accretion expense is reflected in the attached reconciliation of the consolidated statements of operations as a decrease in depreciation and depletion charges of \$532,000, offset by an increase in interest expense of \$501,000. The Corporation subsequently allocated the remeasurement of its decommissioning liability under IFRS between current and non-current, reducing the current portion by \$16,000 (June 30, 2010 - increase of \$302,000) when compared to the current asset retirement obligation calculated under Canadian GAAP.

Other Implications of IFRS Adjustments

- (viii) Under IFRS, the carrying value of the assets acquired in southern Ontario increased from the remeasurement of the decommissioning liability, offset by a decrease resulting from the expensing of transaction costs incurred on the acquisition. Accordingly, the Corporation has increased the depreciation and depletion of the related assets by \$50,000 since the acquisition of the assets in June 2010.
- (ix) At December 31, 2010, deferred income tax assets have increased by \$920,000 (June 30, 2010 - \$807,000) to give effect to the adjustments as described above.
- (x) At June 30, 2010, the consideration transferred with respect to the acquisition in southern Ontario has been allocated to the identifiable net assets purchased (note 6).

6. ACQUISITION OF SOUTHERN ONTARIO OIL AND GAS PROPERTIES

On June 29, 2010, DELP acquired a 95% working interest in onshore oil properties and a 65% working interest in offshore gas properties, all located in southern Ontario. As part of the acquisition, DELP also acquired a 65% working interest in certain other tangible assets, including drilling and completion vessels, gas plants and compressor stations and a 100% interest in oil production facilities. The acquisition also provides for ownership of certain offshore and onshore seismic data. The assets were acquired for aggregate cash consideration of \$128,608,000. Aggregate transaction costs associated with the acquisition of the southern Ontario oil and gas properties were \$3,602,000 and were charged to the Corporation's consolidated statements of operations as incurred.

At June 30, 2010, the Corporation had paid cash of \$130,281,000 towards the aggregate consideration transferred. During the three and six months ended June 30, 2011, the Corporation earned revenues of \$9,530,000 and \$17,602,000, respectively and earned net pre-tax comprehensive earnings of \$2,332,000 and \$576,000, respectively as a result of the above-referenced transaction. A summary of the fair value of the net assets acquired is as follows:

Net assets acquired	
Property, plant and equipment*	\$ 157,851
Prepays	751
Inventory	758
Investment in Lake Erie Limited Partnership	300
Accounts receivable	150
	159,810
Decommissioning liability	(31,202)
	\$ 128,608
Aggregate consideration transferred:	
Cash	\$ 128,608

*Includes capitalization of \$31,202,000 future abandonment and reclamation costs.

7. INVESTMENTS

	Carrying value of investments as at:	
	June 30, 2011	December 31, 2010
Publicly listed equity securities	425	475
Investment in Lake Erie Limited Partnership	300	300
Preferred shares of Eurogas International	32,150	32,150
Less impairment	(32,150)	(32,150)
	-	-
Accrued dividends on preferred share investment	3,733	3,095
Less impairment	(3,733)	(3,095)
	-	-
	\$ 725	\$ 775

At each of June 30, 2011 and December 31, 2010, the Corporation held 32,150,000 Series A Preference Shares of Eurogas International with an aggregate par value of \$32,150,000. The Series A Preference Shares earn cumulative dividends at a rate of 4% per annum. At June 30, 2011, accrued but unpaid dividends in respect of the Series A Preference Shares of Eurogas International were \$3,733,000 (December 31, 2010 - \$3,095,000). The Corporation has determined that the par value of the Series A Preference Shares and the related accrued dividends thereon are impaired and accordingly, the Corporation has fully provided against its carrying value in these assets.

8. LOAN RECEIVABLE

Amounts advanced to Escal for utilization in the development of its underground gas storage project in Spain, are reflected in the Corporation's interim consolidated financial statements as a loan receivable. Amounts advanced are denominated in Euros. The loan receivable is non-interest bearing and has no fixed term to maturity.

	Canadian dollars		Euros
Balance, January 1, 2010	\$	660	€ 441
Transactions during the six months ended June 30, 2010			
Received during the six months ended June 30, 2010		(25)	(20)
Foreign exchange loss		(88)	-
Balance, June 30, 2010	\$	547	€ 421
Transactions from July 1, 2010 to December 31, 2010			
Foreign exchange gain		13	-
Balance, December 31, 2010	\$	560	€ 421
Transactions during the six months ended June 30, 2011			
Foreign exchange gain		29	-
Balance, June 30, 2011	\$	589	€ 421

9. PROPERTY, PLANT AND EQUIPMENT

As at and for the six months ended June 30, 2011						
	Carrying Value, December 31,		Other	Depreciation and	Carrying Value,	
	2010	Net Additions	Adjustments*	Depletion	June 30, 2011	
Oil and natural gas rights	\$ 101,978	\$ 1,648	\$ 465	\$ (5,560)	\$ 98,531	
Undeveloped properties	837	625	-	-	1,462	
Pipeline infrastructure	22,482	1,543	-	(991)	23,034	
Machinery and equipment	19,702	1,729	-	(620)	20,811	
Land and buildings	4,513	-	-	(12)	4,501	
Office equipment, computer hardware and software	317	145	-	(65)	397	
Spare parts inventory	1,490	(51)	-	-	1,439	
Work in progress	4,131	(3,400)	-	-	731	
	\$ 155,450	\$ 2,239	\$ 465	\$ (7,248)	\$ 150,906	
As at and for the year ended December 31, 2010						
	Carrying Value, January 1, 2010	Acquisitions (note 6)	Net Additions	Other Adjustments*	Depreciation and Depletion	Carrying Value, December 31, 2010
Oil and natural gas rights	\$ -	\$ 106,647	\$ 34	\$ 492	\$ (5,194)	\$ 101,978
Undeveloped properties	-	821	16	-	-	837
Pipeline infrastructure	-	23,408	-	-	(926)	22,482
Machinery and equipment	-	20,174	82	-	(554)	19,702
Land and buildings	-	4,525	-	-	(12)	4,513
Office equipment, computer hardware and software	79	5	283	-	(50)	317
Spare parts inventory	-	861	629	-	-	1,490
Work in progress	-	1,410	2,721	-	-	4,131
	\$ 79	\$ 157,851	\$ 3,765	\$ 492	\$ (6,736)	\$ 155,450

* Adjustments result from remeasurement of decommissioning liability (note 11).

10. BANK LOAN

On June 29, 2010, DELP established a credit facility in the amount of \$80,000,000 with a syndicate comprised of certain Canadian chartered banks. The credit facility provides DELP with a revolving demand loan, subject to a tiered interest rate structure based on DELP's net debt to cash flow ratio, as defined in the credit facility. Based on DELP's current ratios, draws on the credit facility bear interest, at DELP's option, at either the bank's prime lending rate plus 3.0% for loans or letters of credit, or, for bankers' acceptances, at the bank's then prevailing bankers' acceptance rate plus 4.0%. DELP is subject to a standby fee of 0.55% on unused amounts under the credit facility.

At June 30, 2011, DELP had drawn \$63,137,000 (December 31, 2010 – \$65,641,000) pursuant to the credit facility, including \$3,270,000 (December 31, 2010 - \$3,270,000) issued in the form of a letter of credit. Of the total amount drawn, \$63,888,000 was in connection with the acquisition of the assets in southern Ontario (note 6), of which \$4,021,000 was subsequently repaid. Available credit under the credit facility at June 30, 2011 was \$16,863,000.

The credit facility is secured against all of the oil and natural gas properties owned by DELP. In addition, the Corporation has assigned a limited recourse guarantee of its units in DELP as further security pursuant to the credit facility. The credit facility is subject to certain covenants, including maintenance of minimum levels of working capital. At June 30, 2011, the Corporation was in compliance with all such covenants.

During the three and six months ended June 30, 2011, the Corporation incurred interest expense relating to the credit facility of \$1,037,000 and \$1,862,000 respectively (three and six months ended June 30, 2010 - \$437,000).

11. DECOMMISSIONING LIABILITY

The carrying amount of the Corporation's decommissioning liability is comprised of the expected future abandonment and reclamation costs associated with the oil and gas properties acquired in southern Ontario (note 6). The Corporation has estimated its abandonment and reclamation costs based on the Corporation's net ownership in the wells and facilities acquired, the estimated cost to abandon and reclaim these wells and facilities and the estimated timing of the costs to be incurred in future periods.

	As at and for the six months ended June 30, 2011	As at and for the year ended December 31, 2010
Undiscounted future obligation, beginning of period	\$ 80,123	\$ -
Acquisition (note 6)	-	80,358
Adjustments to estimates	(784)	-
Liabilities settled	(616)	(235)
Undiscounted future obligation, end of period	\$ 78,723	\$ 80,123

Changes in estimates recognized during the six months ended June 30, 2011 reflect the impact of inflation to the timing of abandonment and restoration costs related to certain land and buildings used in production.

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

	As at and for the six months ended June 30, 2011	As at and for the year ended December 31, 2010
<i>Discount rates applied to future obligation</i>	<i>1.55% - 3.47%</i>	<i>1.68% - 3.51%</i>
<i>Inflation rate</i>	<i>2.00%</i>	<i>2.00%</i>
Discounted future obligation, beginning of period	\$ 31,960	\$ -
Acquisition (note 6)	-	31,202
Liabilities settled	(616)	(235)
Effect of changes in estimates and remeasurement of discount rates	465	492
Accretion	514	501
Discounted future obligation, end of period	\$ 32,323	\$ 31,960
Current	\$ 831	\$ 1,017
Non-current	31,492	30,943
	\$ 32,323	\$ 31,960

As required by statute, the Corporation has provided the Ontario Ministry of Natural Resources with a letter of credit in respect of future abandonment costs. At June 30, 2011 and December 31, 2010, the amount of the letter of credit was \$3,270,000 (note 10).

12. RISK MANAGEMENT CONTRACTS

At June 30, 2011, the Corporation had entered into certain risk management contracts as identified below:

Contract	Volume	Pricing Point	Strike Price CD\$/unit	Remaining Term
Fixed Price Swap - Crude oil	100 bbl/day	NYMEX	\$89.29	Jul 01/11 to Dec 31/11
Fixed Price Swap - Crude oil	100 bbl/day	NYMEX	\$89.60	Jul 01/11 to Dec 31/11
Fixed Price Swap - Crude oil	100 bbl/day	NYMEX	\$90.00	Jul 01/11 to Dec 31/11
Fixed Price Swap - Crude oil	50 bbl/day	NYMEX	\$95.00	Jul 01/11 to Dec 31/11
Fixed Price Swap - Crude oil	100 bbl/day	NYMEX	\$99.45	Jul 01/11 to Dec 31/11
Fixed Price Swap - Crude oil	100 bbl/day	NYMEX	\$100.00	Jul 01/11 to Dec 31/11
Fixed Price Swap - Natural Gas	6500 mbtu/d	NYMEX	\$4.66	Jul 01/11 to Feb 28/12

The fair value of the risk management contracts at June 30, 2011 resulted in a net asset balance of \$373,000, due principally to lower price forecasts for crude oil. The asset has been included in "accounts receivable". At December 31, 2010, the Corporation recorded a net liability of \$453,000 in "accounts payable and accrued liabilities" in respect of these contracts.

During the six months ended June 30, 2011, the Corporation recognized a gain of \$548,000 relating to these risk management contracts, including a gain of \$1,939,000 earned since March 31, 2011.

The market prices used to determine fair value of risk management contracts reflect management's best estimate at the measurement date, and considers various factors. However, future market prices will vary from those used in recording the fair value of the related risk management contracts and it is possible that such variations could be material, causing volatility in the Corporation's financial results.

13. SHARE CAPITAL

Issued and Outstanding

	Number of Common Shares Outstanding	Contributed Surplus		
		Capital	Option Reserve	DSU Reserve
Outstanding, January 1, 2010	156,118,453	\$ 97,746	\$ 4,719	\$ 401
Transactions during the six months ended June 30, 2010				
Stock based compensation	-	-	18	-
Outstanding, June 30, 2010	156,118,453	\$ 97,746	\$ 4,737	\$ 401
Transactions from July 1, 2010 to December 31, 2010				
Stock based compensation	-	-	608	-
Outstanding, December 31, 2010	156,118,453	\$ 97,746	\$ 5,345	\$ 401
Transactions during the six months ended June 30, 2011				
Stock based compensation	-	-	394	89
Redeemed pursuant to issuer bid	(33,512)	(22)	-	-
Outstanding, June 30, 2011	156,084,941	\$ 97,724	\$ 5,739	\$ 490

Normal Course Issuer Bid

On March 30, 2010, 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 approximately 5% of its common shares outstanding prior to approval of the normal course issuer bid.

During the three and six months ended June 30, 2011, the Corporation purchased 33,512 common shares, having an aggregate stated capital value of \$22,000 for cancellation pursuant to these arrangements. The Corporation paid \$28,000 to retire these shares. The excess of the purchase price over the value of stated capital, which totalled \$6,000, was recorded as an increase in the deficit.

14. STOCK BASED COMPENSATION

A detailed description of the Corporation's stock based compensation arrangements is provided in note 10 to the Corporation's 2010 Annual Consolidated Financial Statements, which were prepared using Canadian GAAP. During the three and six months ended June 30, 2011, the Corporation recognized stock based compensation expense of \$242,000 and \$483,000 respectively (three and six months ended June 30, 2010 - \$9,000 and \$18,000 respectively).

Deferred Share Unit Plan

During the three and six months ended June 30, 2011, the Corporation issued 56,283 and 109,637 deferred share units, respectively, with a fair value on the date of issuance of \$44,000 and \$89,000, respectively. The deferred share units were issued in settlement of outstanding directors' fees payable. At June 30, 2011, the Corporation had issued an aggregate of 544,637 deferred share units.

	As at and for the six months ended	As at and for the year ended
	June 30, 2011	December 31, 2010
Number of deferred share units outstanding, beginning of period	355,000	355,000
Granted	109,637	-
Number of deferred share units outstanding, end of period	464,637	355,000

Stock Option Plan

A summary of the status of the stock option plan as at and for the six months ended June 30, 2011 and as at and for the year ended December 31, 2010 is as follows:

	June 30, 2011		December 31, 2010	
	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price
Options outstanding, beginning of period	6,125,000	\$ 0.98	3,985,000	\$ 1.26
Granted	-	-	3,215,000	0.81
Exercised	-	-	-	-
Forfeited	(460,000)	1.65	(1,075,000)	1.54
Options outstanding, end of period	5,665,000	\$ 0.92	6,125,000	\$ 0.98
Exercisable options	3,521,666	\$ 0.99	3,981,666	\$ 1.07

Option Price	Options Outstanding	Options Exercisable	Contractual Life Remaining (Years)
At \$0.54	200,000	200,000	2.30
At \$0.81	3,215,000	1,071,666	4.34
At \$1.12	2,250,000	2,250,000	0.88

15. GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

	For the three months ended		For the six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Salary and salary-related	\$ 689	\$ 1	\$ 1,086	\$ 7
Stock based compensation	242	9	483	18
Corporate and professional fees	706	750	1,584	1,067
General office	290	2,958	692	3,116
	\$ 1,927	\$ 3,718	\$ 3,845	\$ 4,208

16. EQUITY ACCOUNTED INVESTMENT IN ESCAL

Carrying value, January 1, 2010	\$ 4,261
Transactions during the six months ended June 30, 2010	
Share of earnings	5
Share of other comprehensive loss	(337)
Carrying value, June 30, 2010	3,929
Transactions from July 1, 2010 to December 31, 2010	
Transaction costs associated with Project Financing	500
New investment	3
Share of losses	(1)
Share of other comprehensive earnings	45
Carrying value, December 31, 2010	4,476
Transactions during the six months ended June 30, 2011	
New investment	1
Share of earnings	2
Share of other comprehensive loss	(2,755)
Carrying value, June 30, 2011	\$ 1,724

Escal has established a hedging strategy to mitigate its exposure to interest rate risk associated with project financing for the construction and development of the Castor underground gas storage project. During the six months ended June 30, 2011, the Corporation recognized an unrealized loss in respect of these hedging strategies of \$2,733,000, representing its 33% interest in the underlying unrealized loss recognized by Escal.

During the six months ended June 30, 2011, Escal issued 66 par value shares for €3,000 (year ended December 31, 2010 – 138 par value shares for €7,000). To maintain its proportionate interest in Escal, CLP acquired 22 (year ended December 31, 2010 – 46) of the newly issued shares at a cost of \$1,000 (€1,000) (year ended December 31, 2010 - \$3,000; €2,000). In addition and in order to comply with minimum equity to debt ratio requirements, the controlling shareholder also contributed an issuance premium on the newly issued shares of €9,772,000 (year ended December 31, 2010 – €20,429,000) and it issued €30,700,000 (year ended December 31, 2010 – €5,500,000) in subordinated loans.

CLP has not recognized the benefit of its 33% interest in the issuance premium and subordinated loans as the ultimate realization and measurement of the benefit is subject to a significant number of risks and uncertainties, including but not limited to, execution risk associated with the construction of the project, the availability and terms of future financing arrangements and the 50-year life span of the project.

17. NET (LOSS) EARNINGS PER SHARE

	For the three months ended		For the six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Net (loss) earnings for the period				
attributable to owners of the parent	\$ 937	\$ (3,363)	\$ (1,103)	\$ (3,685)
Weighted average number of common shares outstanding	156,089,772	156,118,453	156,104,033	156,118,453
Basic net (loss) earnings per common share	\$ 0.01	\$ (0.02)	\$ (0.01)	\$ (0.02)
Effect of dilutive securities to the weighted average number of common shares outstanding	574,442	n/a	n/a	n/a
Diluted net (loss) earnings per common share	\$ 0.01	\$ (0.02)	\$ (0.01)	\$ (0.02)

18. INCOME TAXES

The Corporation's net deferred income tax assets are comprised of the following:

	June 30, 2011	December 31, 2010
Deferred income tax assets		
Loss carry forwards	\$ 587	\$ 588
Property, plant and equipment	885	886
Decommissioning liability	618	363
Cumulative eligible capital	186	193
Share issue costs	68	92
Other	330	101
Total deferred income tax assets	2,674	2,223
Deferred income tax liabilities		
Partnership deferred income	460	587
Equity accounted investment	86	86
Other	126	15
Total deferred income tax liabilities	672	688
Net deferred income tax assets	\$ 2,002	\$ 1,535

The reconciliation of the expected combined federal and provincial statutory income tax rate during the six months ended June 30, 2011 of 28% (six months ended June 30, 2010 – 31%) to the effective tax rate on pre-tax losses of \$1,246,000 (six months ended June 30, 2010 - \$4,642,000) is as follows:

	For the six months ended	
	June 30, 2011	June 30, 2010
Computed expected recovery of income taxes	\$ (352)	\$ (1,440)
Effect on taxes of:		
Non-deductible expenses	172	483
Other differences	57	127
Income tax recovery	\$ (123)	\$ (830)

As at June 30, 2011, the Corporation had operating loss carry forwards of \$2,304,000. There are no loss carry forwards expiring prior to 2016.

19. RELATED PARTY TRANSACTIONS

Services Arrangement with Dundee Resources Limited

Dundee Resources Limited, a wholly owned subsidiary of the Corporation's parent, Dundee Corporation, provides the Corporation with administrative support services as well as geophysical, geological and engineering consultation with regard to the Corporation's activities. During the three and six months ended June 30, 2011, the Corporation incurred costs of \$288,000 and \$535,000 respectively (three and six months ended June 30, 2010 - \$102,000 and \$197,000 respectively) in respect of these arrangements.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities include amounts due to Dundee Corporation and certain subsidiaries of Dundee Corporation. At June 30, 2011, these amounts totalled \$3,486,000 (December 31, 2010 – \$1,926,000).

20. FINANCIAL INSTRUMENTS

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, 2010.

A detailed description of the Corporation's financial assets and financial liabilities and its associated risk management in respect thereof are provided in note 17 to the 2010 Annual Consolidated Financial Statements, which were prepared using Canadian GAAP.

There were no significant changes to the description of the Corporation's financial assets and financial liabilities and its associated risk management arising out of the transition to IFRS (note 5), other than in respect of the recognition of the Corporation's investment in preferred shares of Eurogas International and the associated accrued dividends thereon (note 7).

21. GEOGRAPHIC SEGMENTED INFORMATION

The Corporation defines its reportable segments based on the geographic location of its oil and gas properties. Items that are not directly attributable to specific geographic locations have been allocated to the corporate segment.

Segmented Statements of Operations for the three and six months ended June 30, 2011 and June 30, 2010

For the six months ended	Southern Ontario		Spain		Corporate		TOTAL	
	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
REVENUES								
Oil and gas sales	\$ 20,774	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,774	\$ -
Royalties	(3,172)	-	-	-	-	-	(3,172)	-
Net sales	17,602	-	-	-	-	-	17,602	-
EXPENSES								
Production expenditures	5,952	-	-	-	-	-	5,952	-
Depreciation and depletion	7,241	-	-	-	7	9	7,248	9
General and administrative	2,024	1,740	135	350	1,686	2,118	3,845	4,208
Impairment	-	-	-	-	638	638	638	638
	15,217	1,740	135	350	2,331	2,765	17,683	4,855
(LOSS) EARNINGS FROM OPERATIONS	2,385	(1,740)	(135)	(350)	(2,331)	(2,765)	(81)	(4,855)
Interest and other income	101	-	-	-	591	812	692	812
Risk management gain	548	-	-	-	-	-	548	-
Interest expense	(2,378)	(452)	-	(1)	-	(1)	(2,378)	(454)
Foreign exchange (loss) gain	(80)	-	51	(150)	-	-	(29)	(150)
Equity earnings	-	-	2	5	-	-	2	5
Income tax recovery	-	-	-	-	123	830	123	830
NET (LOSS) EARNINGS FOR THE PERIOD	\$ 576	\$ (2,192)	\$ (82)	\$ (496)	\$ (1,617)	\$ (1,124)	\$ (1,123)	\$ (3,812)
NET (LOSS) EARNINGS ATTRIBUTABLE TO:								
Owners of the parent	\$ 576	\$ (2,192)	\$ (62)	\$ (369)	\$ (1,617)	\$ (1,124)	\$ (1,103)	\$ (3,685)
Non-controlling interest	-	-	(20)	(127)	-	-	(20)	(127)
	\$ 576	\$ (2,192)	\$ (82)	\$ (496)	\$ (1,617)	\$ (1,124)	\$ (1,123)	\$ (3,812)

For the three months ended	Southern Ontario		Spain		Corporate		TOTAL	
	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
REVENUES								
Oil and gas sales	\$ 11,205	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,205	\$ -
Royalties	(1,675)	-	-	-	-	-	(1,675)	-
Net sales	9,530	-	-	-	-	-	9,530	-
EXPENSES								
Production expenditures	3,054	-	-	-	-	-	3,054	-
Depreciation and depletion	3,785	-	-	-	4	4	3,789	4
General and administrative	1,087	1,740	54	190	786	1,788	1,927	3,718
Impairment	-	-	-	-	321	321	321	321
	7,926	1,740	54	190	1,111	2,113	9,091	4,043
EARNINGS (LOSS) FROM OPERATIONS	1,604	(1,740)	(54)	(190)	(1,111)	(2,113)	439	(4,043)
Interest and other income	73	-	-	-	234	396	307	396
Risk management gain	1,939	-	-	-	-	-	1,939	-
Interest expense	(1,294)	(452)	-	(1)	-	-	(1,294)	(453)
Foreign exchange gain (loss)	10	-	17	(55)	-	-	27	(55)
Equity losses	-	-	(3)	(1)	-	-	(3)	(1)
Income tax recovery	-	-	-	-	(487)	731	(487)	731
NET EARNINGS (LOSS) FOR THE PERIOD	\$ 2,332	\$ (2,192)	\$ (40)	\$ (247)	\$ (1,364)	\$ (986)	\$ 928	\$ (3,425)
NET EARNINGS (LOSS) ATTRIBUTABLE TO:								
Owners of the parent	\$ 2,332	\$ (2,192)	\$ (31)	\$ (185)	\$ (1,364)	\$ (986)	\$ 937	\$ (3,363)
Non-controlling interest	-	-	(9)	(62)	-	-	(9)	(62)
	\$ 2,332	\$ (2,192)	\$ (40)	\$ (247)	\$ (1,364)	\$ (986)	\$ 928	\$ (3,425)

Segmented Net Assets as at June 30, 2011 and December 31, 2010

As at	Southern Ontario		Spain		Corporate		TOTAL	
	30-Jun-11	31-Dec-10	30-Jun-11	31-Dec-10	30-Jun-11	31-Dec-10	30-Jun-11	31-Dec-10
Segmented assets	\$ 162,126	\$ 162,356	\$ 2,761	\$ 5,470	\$ 2,626	\$ 2,878	\$ 167,513	\$ 170,704
Segmented liabilities	96,412	97,251	543	529	3,204	2,491	100,159	100,271
SEGMENTED NET ASSETS	\$ 65,714	\$ 65,105	\$ 2,218	\$ 4,941	\$ (578)	\$ 387	\$ 67,354	\$ 70,433

22. OTHER

On May 2, 2011, the Corporation announced that it had made an offer (the “Offer”) to acquire all of the approximately 14.6 million outstanding 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 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 has agreed to subscribe for common shares of the Corporation pursuant to a private placement, 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 2011.