

DUNDEE ENERGY LIMITED
(formerly Eurogas Corporation)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

AS AT AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011

DUNDEE ENERGY LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(unaudited)

(expressed in thousands of Canadian dollars)

	Note	As at	
		September 30, 2011	December 31, 2010
ASSETS			
Current			
Cash		\$ 959	\$ 1,524
Accounts receivable	12	6,236	4,202
Prepays		1,197	1,250
Inventory		883	902
Investments	7	577	775
Loan receivable	8	587	560
Taxes recoverable	18	30	30
		10,469	9,243
Property, plant and equipment	6, 9	167,346	155,450
Equity accounted investment in Escal	16	-	4,476
Deferred income taxes	18	2,340	1,535
		\$ 180,155	\$ 170,704
LIABILITIES			
Current			
Bank loans	10	\$ 58,718	\$ 62,371
Accounts payable and accrued liabilities	12, 19	8,597	5,940
Decommissioning liabilities	6, 11	1,662	1,017
		68,977	69,328
Decommissioning liabilities	6, 11	39,153	30,943
		108,130	100,271
SHAREHOLDERS' EQUITY			
Equity Attributable to Owners of the Parent			
Share capital	13	104,854	97,746
Contributed surplus	13	6,474	5,746
Deficit	13	(36,523)	(34,286)
Accumulated other comprehensive loss		(3,114)	(188)
		71,691	69,018
Non-controlling interest		334	1,415
		72,025	70,433
		\$ 180,155	\$ 170,704

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 nine months ended	
		September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
REVENUES					
Oil and gas sales		\$ 10,384	\$ 9,752	\$ 31,158	\$ 9,752
Royalties		(1,627)	(1,573)	(4,799)	(1,573)
Net sales	6	8,757	8,179	26,359	8,179
EXPENSES					
Production expenditures	6	4,757	2,793	10,709	2,793
Depreciation and depletion	6, 9	3,848	3,205	11,096	3,214
General and administrative	14, 15, 19	1,959	1,200	5,804	5,408
		10,564	7,198	27,609	11,415
(LOSS) EARNINGS FROM OPERATIONS					
		(1,807)	981	(1,250)	(3,236)
Interest and other income		253	345	945	1,157
Risk management gain	12	1,486	-	2,034	-
Impairment	7	(324)	(324)	(962)	(962)
Interest expense	10, 11	(1,105)	(1,080)	(3,483)	(1,534)
Foreign exchange gain (loss)		181	22	152	(128)
Share of (loss) earnings of equity accounted investment	16	(15)	-	(13)	5
Income tax recovery (provision)					
Deferred	18	186	(40)	309	790
		186	(40)	309	790
NET LOSS FOR THE PERIOD					
		(1,145)	(96)	(2,268)	(3,908)
NET LOSS ATTRIBUTABLE TO:					
Owners of the parent		(1,128)	(91)	(2,231)	(3,776)
Non-controlling interest		(17)	(5)	(37)	(132)
		\$ (1,145)	\$ (96)	\$ (2,268)	\$ (3,908)
BASIC AND DILUTED					
NET LOSS PER SHARE	17	\$ (0.01)	\$ -	\$ (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 nine months ended	
		September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
NET LOSS FOR THE PERIOD		\$ (1,145)	\$ (96)	\$ (2,268)	\$ (3,908)
Other comprehensive loss					
Share of other comprehensive loss of equity accounted investments	16	(1,711)	(123)	(4,466)	(460)
Less: Associated taxes		152	16	496	58
Other comprehensive loss for the period		(1,559)	(107)	(3,970)	(402)
COMPREHENSIVE LOSS FOR THE PERIOD		\$ (2,704)	\$ (203)	\$ (6,238)	\$ (4,310)
COMPREHENSIVE LOSS ATTRIBUTABLE TO:					
Owners of the parent		(2,277)	(169)	(5,157)	(4,072)
Non-controlling interest		(427)	(34)	(1,081)	(238)
		\$ (2,704)	\$ (203)	\$ (6,238)	\$ (4,310)

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 nine months ended September 30, 2010									
Net loss	-	-	-	(3,776)	-	(132)	-	(3,908)	
Stock based compensation	-	27	-	-	-	-	-	27	
Other comprehensive loss	-	-	-	-	(296)	(106)	-	(402)	
Balance, September 30, 2010	\$ 97,746	\$ 4,746	\$ 401	\$ (26,557)	\$ (296)	\$ 1,409	\$	\$ 77,449	
From October 1, 2010 to December 31, 2010									
Net loss	-	-	-	(7,729)	-	(33)	-	(7,762)	
Stock based compensation	-	599	-	-	-	-	-	599	
Other comprehensive earnings	-	-	-	-	108	39	-	147	
Balance, December 31, 2010	\$ 97,746	\$ 5,345	\$ 401	\$ (34,286)	\$ (188)	\$ 1,415	\$	\$ 70,433	
For the nine months ended September 30, 2011									
Acquisition of common shares for cancellation pursuant to normal course issuer bid (note 13)	(22)	-	-	(6)	-	-	-	(28)	
Shares issued - private placement financing (note 13)	6,012	-	-	-	-	-	-	6,012	
Shares issued on acquisition (note 6)	1,118	-	-	-	-	-	-	1,118	
Net loss	-	-	-	(2,231)	-	(37)	-	(2,268)	
Stock based compensation	-	595	133	-	-	-	-	728	
Other comprehensive loss	-	-	-	-	(2,926)	(1,044)	-	(3,970)	
Balance, September 30, 2011	\$ 104,854	\$ 5,940	\$ 534	\$ (36,523)	\$ (3,114)	\$ 334	\$	\$ 72,025	

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 nine months ended	
		September 30, 2011	September 30, 2010
OPERATING ACTIVITIES			
Net loss for the period		\$ (2,268)	\$ (3,908)
Non-cash items in operations			
Share of loss (earnings) from equity accounted investment	16	13	(5)
Depreciation and depletion	6, 9	11,096	3,214
Loss on investments	7	198	-
Impairment	7	962	962
Unrealized risk management gain	12	(1,661)	-
Deferred income taxes	18	(309)	(790)
Stock based compensation	14	728	27
Other		(212)	(637)
		8,547	(1,137)
Changes in:			
Accounts receivable		198	(3,866)
Accounts payable and accrued liabilities		2,591	4,753
Prepays		200	2
Inventory		19	-
		11,555	(248)
FINANCING ACTIVITIES			
(Repayment of) advanced from bank loan arrangements	10	(5,082)	62,645
Acquisition of common shares for cancellation	13	(28)	-
Issuance of common shares	13	6,012	-
		902	62,645
INVESTING ACTIVITIES			
Net proceeds from investments		(3)	70,451
Acquisition of Torque	6	(6,012)	
Acquisition of oil and gas properties	6	-	(130,281)
Investment in property, plant and equipment	9	(6,348)	(2,045)
Reclamation expenditures	11	(659)	-
		(13,022)	(61,875)
(DECREASE) INCREASE IN CASH		(565)	522
CASH, BEGINNING OF PERIOD		1,524	77
CASH, END OF PERIOD		\$ 959	\$ 599

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 nine months ended September 30, 2011 and September 30, 2010 Tabular dollar amounts in thousands of Canadian dollars, except per share amounts
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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 through 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 (“DELP”), a limited partnership involved in the exploration, development and production of oil and gas properties in southern Ontario, Canada, and a 74% interest in Castor UGS Limited Partnership (“CLP”), its principal asset being a 33% interest in Escal UGS S.L. (“Escal”), the owner of the Castor underground gas storage project located in Spain. The Corporation also holds preferred shares of Eurogas International Inc. (“Eurogas International” or “EII”), an oil and gas exploration company that holds a 45% working interest in the 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 annual consolidated financial statements as at and for the year ended December 31, 2010 prepared in accordance with Canadian GAAP (“2010 Audited 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 October 19, 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 International Accounting Standards Board ("IASB") intends to replace IAS 39, "*Financial Instruments: Recognition and Measurements*" ("IAS 39"), with 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*" ("IAS 27"). 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*" 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 unaudited 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. TRANSITION 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 reconciliations.

The Corporation has applied the provisions of IFRS 1, "*First-Time Adoption of IFRS*" in these unaudited interim consolidated financial statements. 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 provides for certain optional exemptions from full retrospective application.

The Corporation has applied the following transition 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.

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 the Transition Date. Additionally, the amounts previously referred to as "asset retirement obligation" and "future income tax assets" have been renamed "decommissioning liability" and "deferred income taxes" respectively, 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 Canadian GAAP Consolidated Equity as at December 31, 2010 and September 30, 2010 to IFRS

As at	Ref:	December 31, 2010						September 30, 2010					
		Canadian	Transition Date Adjustments			2010 IFRS Adjustments		Canadian	Transition Date Adjustments			2010 IFRS Adjustments	
			GAAP	Deconsolidation	Other	Deconsolidation	Other		IFRS	GAAP	Deconsolidation	Other	Deconsolidation
ASSETS													
Current													
Cash		\$ 2,578	\$ (186)	\$ -	\$ (868)	\$ -	\$ 1,524	\$ 649	\$ (186)	\$ -	\$ 136	\$ -	\$ 599
Accounts receivable	(x)	5,741	94	-	(1,633)	-	4,202	3,961	94	-	436	150	4,641
Prepays	(x)	1,295	(78)	-	33	-	1,250	1,095	(78)	-	28	(281)	764
Inventory	(x)	902	-	-	-	-	902	-	-	-	-	758	758
Investments		836					790						
			(4,005)		3,944				(4,005)		3,215		
	(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	588	-	-	-	-	588
Taxes recoverable		30	-	-	-	-	30	91	-	-	-	-	91
		11,942	29,784	(27,983)	1,476	(5,976)	9,243	7,174	29,784	(27,983)	3,815	927	13,717
Property, plant and equipment		144,445						151,221					
	(v)					(3,602)						(3,444)	
	(vi)					14,657						13,978	
	(viii)					(50)						81	
	(x)						155,450					(927)	160,909
Exploration and evaluation properties		21,470	(21,176)	-	(294)	-	-	23,717	(21,176)	-	(2,541)	-	-
Equity accounted investment in Escal		4,476	-	-	-	-	4,476	3,809	-	-	-	-	3,809
Deferred income taxes	(ix)	615	-	-	-	920	1,535	282	-	-	-	871	1,153
		\$ 182,948	\$ 8,608	\$ (27,983)	\$ 1,182	\$ 5,949	\$ 170,704	\$ 186,203	\$ 8,608	\$ (27,983)	\$ 1,274	\$ 11,486	\$ 179,588
LIABILITIES													
Current													
Bank loan		\$ 62,371	\$ -	\$ -	\$ -	\$ -	\$ 62,371	\$ 62,645	\$ -	\$ -	\$ -	\$ -	\$ 62,645
Accounts payable and accrued liabilities		6,162	(555)	-	333	-	5,940	6,051	(555)	-	68	-	5,564
Decommissioning liability	(vii)	2,728	(1,603)	-	(92)	(16)	1,017	1,245	-	-	-	(247)	998
		71,261	(2,158)	-	241	(16)	69,328	69,941	(555)	-	68	(247)	69,207
Decommissioning liability	(vi, vii)	16,301	-	-	-	14,642	30,943	20,448	(1,603)	-	(69)	14,156	32,932
		87,562	(2,158)	-	241	14,626	100,271	90,389	(2,158)	-	(1)	13,909	102,139
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	5,147	-	-	-	-	5,147
Deficit		(9,612)	10,775		947			(8,469)	10,775		1,279		
	(iv)			264						264			
	(ii, iii)			(26,174)		(5,976)				(26,174)			
	(ii, iii)			(1,809)						(1,809)			
	(v)					(3,602)						(3,444)	
	(viii)					(50)						81	
	(vii)					31						69	
	(ix)					920	(34,286)					871	(26,557)
Accumulated other comprehensive loss	(iv)	76	-	(264)	-	-	(188)	(32)	-	(264)	-	-	(296)
		93,956	10,775	(27,983)	947	(8,677)	69,018	94,392	10,775	(27,983)	1,279	(2,423)	76,040
Non-controlling interest		1,430	(9)	-	(6)	-	1,415	1,422	(9)	-	(4)	-	1,409
		95,386	10,766	(27,983)	941	(8,677)	70,433	95,814	10,766	(27,983)	1,275	(2,423)	77,449
		\$ 182,948	\$ 8,608	\$ (27,983)	\$ 1,182	\$ 5,949	\$ 170,704	\$ 186,203	\$ 8,608	\$ (27,983)	\$ 1,274	\$ 11,486	\$ 179,588

**Reconciliation of Canadian GAAP Consolidated Statements of Operations and Comprehensive Loss
for the three and nine months ended September 30, 2010 to IFRS**

Ref:	Nine months ended September 30, 2010				Three months ended September 30, 2010			
	2010 IFRS Adjustments				2010 IFRS Adjustments			
	Canadian GAAP	Deconsolidation EII (i)	Other	IFRS	Canadian GAAP	Deconsolidation EII (i)	Other	IFRS
(i)								
REVENUE								
Oil and gas sales	\$ 9,752	\$ -	\$ -	\$ 9,752	\$ 9,752	\$ -	\$ -	\$ 9,752
Royalties	(1,573)	-	-	(1,573)	(1,573)	-	-	(1,573)
Net sales	8,179	-	-	8,179	8,179	-	-	8,179
EXPENSES								
Production expenditures	2,793	-	-	2,793	2,793	-	-	2,793
Depreciation and depletion	3,686	(69)	-	3,617	3,631	(23)	-	3,608
(vii)			(322)				(322)	
(viii)			(81)	3,214			(81)	3,205
General and administrative	3,681	(1,232)	-	2,449	1,262	(252)	-	1,010
(v)			2,959	5,408			190	1,200
	10,160	(1,301)	2,556	11,415	7,686	(275)	(213)	7,198
(LOSS) EARNINGS FROM OPERATIONS								
	(1,981)	1,301	(2,556)	(3,236)	493	275	213	981
Interest and other income	201	(6)	962	1,157	22	(1)	324	345
Impairment	-	-	(962)	(962)	-	-	(324)	(324)
Interest expense	(1,284)	3	(253)	(1,534)	(828)	1	(253)	(1,080)
Foreign exchange (loss) gain	(109)	(19)	-	(128)	40	(18)	-	22
Earnings from equity accounted investment	5	-	-	5	-	-	-	-
Income tax recovery (provision)								
Deferred	404	-	(485)	(81)	(78)	-	(26)	(104)
(v)			871	790			64	(40)
(ix)			386	790	(78)	-	38	(40)
	404	-	386	790	(78)	-	38	(40)
NET LOSS FOR THE PERIOD								
	\$ (2,764)	\$ 1,279	\$ (2,423)	\$ (3,908)	\$ (351)	\$ 257	\$ (2)	\$ (96)
NET LOSS ATTRIBUTABLE TO:								
Owners of the parent	\$ (2,632)	\$ 1,279	\$ (2,423)	\$ (3,776)	\$ (346)	\$ 257	\$ (2)	\$ (91)
Non-controlling interest	(132)	-	-	(132)	(5)	-	-	(5)
	\$ (2,764)	\$ 1,279	\$ (2,423)	\$ (3,908)	\$ (351)	\$ 257	\$ (2)	\$ (96)
NET LOSS PER SHARE								
Basic and diluted	\$ (0.02)			\$ (0.02)	\$ -			\$ -
NET LOSS FOR THE PERIOD								
	\$ (2,764)	\$ 1,279	\$ (2,423)	\$ (3,908)	\$ (351)	\$ 257	\$ (2)	\$ (96)
Other comprehensive loss								
Net foreign currency loss on equity accounted investment	(460)	-	-	(460)	(123)	-	-	(123)
Less: Associated taxes	58	-	-	58	16	-	-	16
Other comprehensive loss for the period	(402)	-	-	(402)	(107)	-	-	(107)
COMPREHENSIVE LOSS FOR THE PERIOD								
	(3,166)	1,279	(2,423)	(4,310)	(458)	257	(2)	(203)
COMPREHENSIVE LOSS ATTRIBUTABLE TO:								
Owners of the parent	(2,928)	1,279	(2,423)	(4,072)	(424)	257	(2)	(169)
Non-controlling interest	(238)	-	-	(238)	(34)	-	-	(34)
	\$ (3,166)	\$ 1,279	\$ (2,423)	\$ (4,310)	\$ (458)	\$ 257	\$ (2)	\$ (203)

**Reconciliation of Canadian GAAP Consolidated Statements of Cash Flow
for the three and nine months ended September 30, 2010 to IFRS**

	Nine months ended September 30, 2010				Three months ended September 30, 2010				
	(i)	2010 IFRS Adjustments			Canadian GAAP	2010 IFRS Adjustments			
		Canadian GAAP	Deconsolidation EII (i)	Other		IFRS	Canadian GAAP	Deconsolidation EII (i)	Other
OPERATING ACTIVITIES									
Net loss for the period		\$ (2,764)	\$ 1,279	\$ (2,423)	\$ (3,908)	\$ (351)	\$ 257	\$ (2)	\$ (96)
Non-cash items in operations									
Earnings from equity accounted investment		(5)	-	-	(5)	-	-	-	-
Depreciation and depletion		3,686	(69)			3,631	(23)		
	(vii)			(322)				(322)	
	(viii)			(81)	3,214			(81)	3,205
Gain on investments		(159)	-	159	-	(1)	-	1	-
Impairment	(iii)			962	962			324	324
Deferred income taxes		(404)				78			
	(ix)			(871)				(64)	
	(v)			485	(790)			26	40
Stock based compensation		31	(4)	-	27	10	(1)	-	9
Other	(iii)	72		(962)		(41)		(324)	
	(vii)			253	(637)			253	(112)
		457	1,206	(2,800)	(1,137)	3,326	233	(189)	3,370
Changes in:									
Accounts receivable		(3,426)	(440)	-	(3,866)	(3,283)	(121)	-	(3,404)
Accounts payable and accrued liabilities		4,682	71	-	4,753	1,465	(99)	-	1,366
Prepays		29	(27)	-	2	549	(5)	-	544
		1,742	810	(2,800)	(248)	2,057	8	(189)	1,876
FINANCING ACTIVITIES									
Advanced from (repayment of) bank loan arrangements		62,645	-	-	62,645	(1,243)	-	-	(1,243)
		62,645	-	-	62,645	(1,243)	-	-	(1,243)
INVESTING ACTIVITIES									
Net proceeds from sales of investments		73,825	(3,215)	(159)	70,451	532	(534)	(1)	(3)
Acquisition of oil and gas properties	(v)	(133,240)	-	2,959	(130,281)	(190)	-	190	-
Investment in property, plant and equipment		(2,045)	-	-	(2,045)	(2,042)	-	-	(2,042)
Deferred exploration expenditures		(2,541)	2,541	-	-	(509)	509	-	-
		(64,001)	(674)	2,800	(61,875)	(2,209)	(25)	189	(2,045)
INCREASE (DECREASE) IN CASH		386	136	-	522	(1,395)	(17)	-	(1,412)
CASH, BEGINNING OF PERIOD		263	(186)	-	77	2,044	(33)	-	2,011
CASH, END OF PERIOD		\$ 649	\$ (50)	\$ -	\$ 599	\$ 649	\$ (50)	\$ -	\$ 599

Explanation of IFRS Transition 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 the Corporation's preferred share holdings in Eurogas International. 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 nine months ended September 30, 2010, the Corporation provided \$324,000 and \$962,000, 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 nine months ended September 30, 2010 - \$216,000 and \$3,444,000 respectively, before current income taxes of \$26,000 and \$485,000 respectively) 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 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 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 (September 30, 2010 - \$13,978,000). The related assets have increased by a corresponding amount.
- (vii) At December 31, 2010 and September 30, 2010, and as a result of the remeasurement of the decommissioning liability, the Corporation's accretion expense has decreased by \$31,000 and \$69,000, respectively, 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 and \$69,000 decreases 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 and \$322,000, respectively, offset by an increase in interest expense of \$501,000 and \$253,000, respectively. The Corporation subsequently allocated the remeasurement of its decommissioning liability under IFRS between current and non-current, reducing the current portion by \$16,000 (September 30, 2010 – decrease of \$247,000) 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 (decrease of \$81,000 at September 31, 2010).
- (ix) At December 31, 2010, deferred income tax assets have increased by \$920,000 (September 30, 2010 - \$871,000) 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. BUSINESS COMBINATIONS

Acquisition of Torque Energy Inc.

On August 4, 2011, the Corporation completed the acquisition of Torque Energy Inc. (“Torque”), a Canadian-based oil and natural gas company. Torque’s business is the exploration, development and acquisition of opportunities related to the operation and production of oil and natural gas properties, primarily in southern Ontario, Canada.

The fair value of the purchase consideration for Torque was \$7,130,000 and consisted of (i) cash of \$6,012,000 and (ii) the issuance of 1,346,926 fully paid common shares of the Corporation at a price of \$0.83 per share. The Corporation incurred transaction costs of \$377,000 in respect of the acquisition. A preliminary allocation of the aggregate consideration transferred to the various identifiable assets and liabilities acquired was based on an estimate of their underlying fair values and is summarized below. The allocation of the aggregate consideration transferred has not been finalized and is subject to adjustment.

Net assets acquired	
Property, plant and equipment*	\$ 10,076
Accounts receivable	1,024
Prepays	147
	11,247
Bank loan	(1,429)
Accounts payable and accrued liabilities	(519)
Decommissioning liability	(2,169)
	\$ 7,130
Aggregate consideration transferred:	
Cash	\$ 6,012
1,346,926 common shares of the Corporation issued at \$0.83 per common share	1,118
	\$ 7,130

*Includes capitalization of \$2,169,000 future abandonment and reclamation costs.

The following unaudited proforma summary presents the Corporation’s consolidated results of operations as if Torque had been acquired on January 1, 2011. The proforma summary is presented for illustrative purposes and is not necessarily indicative of the results of operations that would have been achieved had the acquisition of Torque been consummated at the dates or for the periods presented, nor are they necessarily indicative of future results.

	Dundee Energy 1-Jan-11 to 30-Sep-11 (Actual)	Torque 1-Jan-11 to 31-Jul-11 (Actual)	Proforma Adjustments	Ref	Dundee Energy 1-Jan-11 to 30-Sep-11 (Proforma)
REVENUES	\$ 31,158	\$ 1,882			\$ 33,040
EXPENSES	32,408	1,349	83	a)	33,840
(LOSS) EARNINGS FROM OPERATIONS	(1,250)	533	(83)		(800)
Other Items	(1,018)	(68)	(10)	b)	(1,096)
NET (LOSS) EARNINGS FOR THE PERIOD	\$ (2,268)	\$ 465	\$ (93)		\$ (1,896)

References

- a) To record an increase in depreciation and depletion expense of \$83,000 to reflect fair value adjustments to underlying assets at the time of acquisition;
- b) To record an increase in accretion expense of \$10,000 to reflect fair value adjustments relating to decommissioning liabilities.

Since the completion of the acquisition of Torque, the Corporation earned revenues of \$430,000 and net pre-tax comprehensive earnings of \$5,000 from the net assets acquired.

Acquisition of Working Interest in Oil and Gas Properties in Southern Ontario

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.

A summary of the allocation of the aggregate consideration transferred to 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.

During the three and nine months ended September 30, 2011, the Corporation earned revenues of \$8,327,000 and \$25,929,000, respectively and earned net pre-tax comprehensive earnings of \$169,000 and \$745,000, respectively as a result of the above-referenced transaction.

7. INVESTMENTS

	Carrying value of investments as at	
	September 30, 2011	December 31, 2010
Publicly listed equity securities	\$ 277	\$ 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 in Eurogas International	4,057	3,095
Less impairment	(4,057)	(3,095)
	-	-
	\$ 577	\$ 775

At each of September 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 September 30, 2011, accrued but unpaid dividends in respect of the Series A Preference Shares of Eurogas International were \$4,057,000 (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 nine months ended September 30, 2010		
Received during the nine months ended September 30, 2010	(25)	(20)
Foreign exchange loss	(47)	-
Balance, September 30, 2010	\$ 588 €	421
Transactions from October 1, 2010 to December 31, 2010		
Foreign exchange loss	(28)	-
Balance, December 31, 2010	\$ 560 €	421
Transactions during the nine months ended September 30, 2011		
Foreign exchange gain	27	-
Balance, September 30, 2011	\$ 587 €	421

9. PROPERTY, PLANT AND EQUIPMENT

As at and for the nine months ended September 30, 2011							
	Carrying Value, December 31, 2010	Acquisitions (note 6)	Net Additions	Other Adjustments*	Depreciation and Depletion		Carrying Value, September 30, 2011
Oil and natural gas rights	\$ 101,978	\$ 6,948	\$ 2,681	\$ 6,568	\$ (8,518)		\$ 109,657
Undeveloped properties	837	1,903	3,965	-	-		6,705
Pipeline infrastructure	22,482	-	1,703	-	(1,503)		22,682
Machinery and equipment	19,702	1,166	1,912	-	(955)		21,825
Land and buildings	4,513	55	-	-	(18)		4,550
Office equipment, computer hardware and software	317	4	199	-	(102)		418
Spare parts inventory	1,490	-	19	-	-		1,509
Work in progress	4,131	-	(4,131)	-	-		-
	\$ 155,450	\$ 10,076	\$ 6,348	\$ 6,568	\$ (11,096)		\$ 167,346

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 liabilities (note 11).

10. BANK LOANS

	September 30, 2011	December 31, 2010
\$80 million demand revolving credit facility, DELP	\$ 57,570	\$ 62,371
\$6.1 million demand revolving credit facility, Torque (note 6)	1,148	-
	\$ 58,718	\$ 62,371

Credit Facility, Dundee Energy Limited Partnership

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 September 30, 2011, DELP had drawn \$60,992,000 (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. Available credit under the credit facility at September 30, 2011 was \$19,008,000.

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 September 30, 2011, the Corporation was in compliance with all such covenants.

During the three and nine months ended September 30, 2011, the Corporation incurred interest expense relating to the credit facility of \$814,000 and \$2,676,000 respectively (three and nine months ended September 30, 2010 - \$837,000 and \$1,274,000 respectively).

Credit Facility, Torque Energy Inc.

As part of its acquisition of Torque (note 6), the Corporation assumed a \$6,100,000 credit facility established by Torque with a Canadian chartered bank on April 25, 2011. The credit facility provides Torque with a revolving demand loan, bearing interest at the bank's prime lending rate plus 1.5%. Torque is subject to a standby fee of 0.25% on unused amounts under the credit facility.

At September 30, 2011, Torque had drawn \$1,148,000 pursuant to the credit facility. Available credit under the credit facility at September 30, 2011 was \$4,952,000.

The credit facility is secured against all of the oil and natural gas properties owned by Torque.

Since the acquisition of Torque on August 4, 2011, interest expense relating to Torque's credit facility at September 30, 2011 was \$9,000.

11. DECOMMISSIONING LIABILITIES

The carrying amount of the Corporation's decommissioning liabilities is comprised of the expected future abandonment and reclamation costs associated with the oil and gas properties acquired in southern Ontario, including the oil and gas properties acquired pursuant to the acquisition of Torque (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 nine months ended September 30, 2011	As at and for the year ended December 31, 2010
Undiscounted future obligations, beginning of period	\$ 80,123	\$ -
Acquisition (note 6)	4,618	80,358
Adjustments to estimates	(658)	-
Liabilities settled	(659)	(235)
Undiscounted future obligations, end of period	\$ 83,424	\$ 80,123

Changes in estimates recognized during the nine months ended September 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 liabilities on a discounted basis:

	As at and for the nine months ended September 30, 2011		As at and for the year ended December 31, 2010	
<i>Discount rates applied to future obligations</i>	<i>0.95% - 2.74%</i>		<i>1.68% - 3.51%</i>	
<i>Inflation rate</i>	<i>2.00%</i>		<i>2.00%</i>	
Discounted future obligations, beginning of period	\$	31,960	\$	-
Acquisition (note 6)		2,169		31,202
Liabilities settled		(659)		(235)
Effect of changes in estimates and remeasurement of discount rates		6,568		492
Accretion		777		501
Discounted future obligations, end of period	\$	40,815	\$	31,960
Current	\$	1,662	\$	1,017
Non-current		39,153		30,943
	\$	40,815	\$	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 September 30, 2011 and December 31, 2010, the amount of the letter of credit was \$3,270,000 (note 10).

12. RISK MANAGEMENT CONTRACTS

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

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

The fair value of the risk management contracts at September 30, 2011 resulted in a net asset balance of \$1,208,000, 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 three and nine months ended September 30, 2011, the Corporation recognized a gain of \$1,486,000 and \$2,034,000, respectively relating to these risk management contracts.

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 nine months ended September 30, 2010				
Stock based compensation	-	-	27	-
Outstanding, September 30, 2010	156,118,453	\$ 97,746	\$ 4,746	\$ 401
Transactions from October 1, 2010 to December 31, 2010				
Stock based compensation	-	-	599	-
Outstanding, December 31, 2010	156,118,453	\$ 97,746	\$ 5,345	\$ 401
Transactions during the nine months ended September 30, 2011				
Stock based compensation	-	-	595	133
Redeemed pursuant to issuer bid	(33,512)	(22)	-	-
Shares issued - private placement financing	7,243,280	6,012	-	-
Shares issued on acquisition (note 6)	1,346,926	1,118	-	-
Outstanding, September 30, 2011	164,675,147	\$ 104,854	\$ 5,940	\$ 534

Normal Course Issuer Bid

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 approximately 5% of its common shares outstanding prior to approval of the normal course issuer bid.

During the second quarter of 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. There were no shares acquired pursuant to the normal course issuer bid subsequent to the second quarter of 2011.

Private Placement Financing

On August 2, 2011, the Corporation completed a private placement financing with Dundee Corporation, the Corporation's parent. The private placement consisted of the issuance of 7,243,280 common shares issued from treasury at a price of \$0.83 per share for gross proceeds of approximately \$6,012,000. The net proceeds from the private placement were used to fund the cash portion of the aggregate consideration transferred for the acquisition of Torque (note 6).

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 Audited Consolidated Financial Statements, which were prepared using Canadian GAAP. During the three and nine months ended September 30, 2011, the Corporation recognized stock based compensation expense of \$245,000 and \$728,000 respectively (three and nine months ended September 30, 2010 - \$9,000 and \$27,000 respectively).

Deferred Share Unit Plan

During the three and nine months ended September 30, 2011, the Corporation issued 68,649 and 178,286 deferred share units, respectively, with a fair value on the date of issuance of \$44,000 and \$133,000, respectively. The deferred share units were issued in settlement of outstanding directors' fees payable. At September 30, 2011, the Corporation had 533,286 deferred share units outstanding.

	As at and for the nine months ended September 30, 2011	As at and for the year ended December 31, 2010
Number of deferred share units outstanding, beginning of period	355,000	355,000
Granted	178,286	-
Number of deferred share units outstanding, end of period	533,286	355,000

Stock Option Plan

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

	September 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	2.05
At \$0.81	3,215,000	1,071,666	4.09
At \$1.12	2,250,000	2,250,000	0.63

15. GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

	For the three months ended		For the nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Salary and salary-related	\$ 1,144	\$ 914	\$ 3,100	\$ 920
Stock based compensation	245	9	728	27
Corporate and professional fees	1,053	796	2,814	4,617
General office	477	168	998	493
Exploration and development costs	141	45	576	83
Expense recoveries	(1,101)	(732)	(2,412)	(732)
	\$ 1,959	\$ 1,200	\$ 5,804	\$ 5,408

16. EQUITY ACCOUNTED INVESTMENT IN ESCAL

Carrying value, January 1, 2010	\$	4,261
Transactions during the nine months ended September 30, 2010		
New investment		3
Share of earnings		5
Share of other comprehensive loss		(460)
Carrying value, September 30, 2010		3,809
Transactions from October 1, 2010 to December 31, 2010		
Transaction costs associated with Project Financing		500
Share of losses		(1)
Share of other comprehensive earnings		168
Carrying value, December 31, 2010		4,476
Transactions during the nine months ended September 30, 2011		
New investment		3
Share of losses		(13)
Share of other comprehensive loss		(4,466)
Carrying value, September 30, 2011	\$	-

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. At September 30, 2011, the fair value of Escal's obligations in respect of these hedging strategies was approximately €60,286,000. Included in other comprehensive loss during the nine months ended September 30, 2011 is a fair value loss of \$4,401,000, representing the Corporation's maximum share of these losses.

During the nine months ended September 30, 2011, Escal issued 93 par value shares for €5,000 (year ended December 31, 2010 – 138 par value shares for €7,000). To maintain its proportionate interest in Escal, CLP acquired 31 (year ended December 31, 2010 – 46) of the newly issued shares at a cost of \$3,000 (€2,000) (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 €13,771,000 (year ended December 31, 2010 – €20,429,000) and it issued €1,700,000 (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 PER SHARE

	For the three months ended		For the nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net loss for the period				
attributable to owners of the parent	\$ (1,128)	\$ (91)	\$ (2,231)	\$ (3,776)
Weighted average number of				
common shares outstanding	161,657,968	156,118,453	157,975,689	156,118,453
Basic and diluted net loss per common share	\$ (0.01)	\$ -	\$ (0.01)	\$ (0.02)

18. INCOME TAXES

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

	September 30, 2011	December 31, 2010
Deferred income tax assets		
Loss carry forwards	\$ 596	\$ 588
Property, plant and equipment	1,218	886
Decommissioning liability	818	363
Cumulative eligible capital	182	193
Share issue costs	56	92
Other	507	101
Total deferred income tax assets	3,377	2,223
Deferred income tax liabilities		
Partnership deferred income	624	587
Equity accounted investment	84	86
Other	329	15
Total deferred income tax liabilities	1,037	688
Net deferred income tax assets	\$ 2,340	\$ 1,535

The reconciliation of the expected combined federal and provincial statutory income tax rate during the nine months ended September 30, 2011 of 28% (nine months ended September 30, 2010 – 31%) to the effective tax rate on pre-tax losses of \$2,577,000 (nine months ended September 30, 2010 - \$4,698,000) is as follows:

	September 30, 2011	For the nine months ended September 30, 2010
Computed expected recovery of income taxes	\$ (728)	\$ (1,456)
Effect on taxes of:		
Non-deductible expenses	331	516
Other differences	88	150
Income tax recovery	\$ (309)	\$ (790)

As at September 30, 2011, the Corporation had operating loss carry forwards of \$2,339,000. 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 Dundee Corporation, provides the Corporation with administrative support services as well as geophysical, geological and engineering consultation with regard to the Corporation's activities. During the three and nine months ended September 30, 2011, the Corporation incurred costs of \$274,000 and \$809,000 respectively (three and nine months ended September 30, 2010 - \$167,000 and \$364,000 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 September 30, 2011, these amounts totalled \$3,963,000 (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 Audited 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 nine months ended September 30, 2011 and September 30, 2010

For the nine months ended	Southern Ontario		Spain		Corporate		TOTAL	
	30-Sep-11	30-Sep-10	30-Sep-11	30-Sep-10	30-Sep-11	30-Sep-10	30-Sep-11	30-Sep-10
REVENUES								
Oil and gas sales	\$ 31,158	\$ 9,752	\$ -	\$ -	\$ -	\$ -	\$ 31,158	\$ 9,752
Royalties	(4,799)	(1,573)	-	-	-	-	(4,799)	(1,573)
Net sales	26,359	8,179	-	-	-	-	26,359	8,179
EXPENSES								
Production expenditures	10,709	2,793	-	-	-	-	10,709	2,793
Depreciation and depletion	11,086	3,200	-	-	10	14	11,096	3,214
General and administrative	2,686	2,522	183	437	2,935	2,449	5,804	5,408
	24,481	8,515	183	437	2,945	2,463	27,609	11,415
(LOSS) EARNINGS FROM OPERATIONS	1,878	(336)	(183)	(437)	(2,945)	(2,463)	(1,250)	(3,236)
Interest and other income	177	15	-	-	768	1,142	945	1,157
Risk management gain	2,034	-	-	-	-	-	2,034	-
Impairment	-	-	-	-	(962)	(962)	(962)	(962)
Interest expense	(3,464)	(1,527)	(1)	(6)	(18)	(1)	(3,483)	(1,534)
Foreign exchange gain (loss)	104	(46)	48	(78)	-	(4)	152	(128)
Equity (losses) earnings	-	-	(13)	5	-	-	(13)	5
Income tax recovery	-	-	-	-	309	790	309	790
NET (LOSS) EARNINGS FOR THE PERIOD	\$ 729	\$ (1,894)	\$ (149)	\$ (516)	\$ (2,848)	\$ (1,498)	\$ (2,268)	\$ (3,908)
NET (LOSS) EARNINGS ATTRIBUTABLE TO:								
Owners of the parent	\$ 729	\$ (1,894)	\$ (112)	\$ (384)	\$ (2,848)	\$ (1,498)	\$ (2,231)	\$ (3,776)
Non-controlling interest	-	-	(37)	(132)	-	-	(37)	(132)
	\$ 729	\$ (1,894)	\$ (149)	\$ (516)	\$ (2,848)	\$ (1,498)	\$ (2,268)	\$ (3,908)

For the three months ended	Southern Ontario		Spain		Corporate		TOTAL	
	30-Sep-11	30-Sep-10	30-Sep-11	30-Sep-10	30-Sep-11	30-Sep-10	30-Sep-11	30-Sep-10
REVENUES								
Oil and gas sales	\$ 10,384	\$ 9,752	\$ -	\$ -	\$ -	\$ -	\$ 10,384	\$ 9,752
Royalties	(1,627)	(1,573)	-	-	-	-	(1,627)	(1,573)
Net sales	8,757	8,179	-	-	-	-	8,757	8,179
EXPENSES								
Production expenditures	4,757	2,793	-	-	-	-	4,757	2,793
Depreciation and depletion	3,845	3,200	-	-	3	5	3,848	3,205
General and administrative	662	782	48	87	1,249	331	1,959	1,200
	9,264	6,775	48	87	1,252	336	10,564	7,198
(LOSS) EARNINGS FROM OPERATIONS	(507)	1,404	(48)	(87)	(1,252)	(336)	(1,807)	981
Interest and other income	76	15	-	-	177	330	253	345
Risk management gain	1,486	-	-	-	-	-	1,486	-
Impairment	-	-	-	-	(324)	(324)	(324)	(324)
Interest expense	(1,086)	(1,075)	(1)	(5)	(18)	-	(1,105)	(1,080)
Foreign exchange gain (loss)	184	(46)	(3)	72	-	(4)	181	22
Equity losses	-	-	(15)	-	-	-	(15)	-
Income tax recovery (provision)	-	-	-	-	186	(40)	186	(40)
NET (LOSS) EARNINGS FOR THE PERIOD	\$ 153	\$ 298	\$ (67)	\$ (20)	\$ (1,231)	\$ (374)	\$ (1,145)	\$ (96)
NET (LOSS) EARNINGS ATTRIBUTABLE TO:								
Owners of the parent	\$ 153	\$ 298	\$ (50)	\$ (15)	\$ (1,231)	\$ (374)	\$ (1,128)	\$ (91)
Non-controlling interest	-	-	(17)	(5)	-	-	(17)	(5)
	\$ 153	\$ 298	\$ (67)	\$ (20)	\$ (1,231)	\$ (374)	\$ (1,145)	\$ (96)

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

As at	Southern Ontario		Spain		Corporate		TOTAL	
	30-Sep-11	31-Dec-10	30-Sep-11	31-Dec-10	30-Sep-11	31-Dec-10	30-Sep-11	31-Dec-10
Segmented assets	\$ 175,499	\$ 162,356	\$ 1,034	\$ 5,470	\$ 3,622	\$ 2,878	\$ 180,155	\$ 170,704
Segmented liabilities	103,145	97,251	528	529	4,457	2,491	108,130	100,271
SEGMENTED NET ASSETS	\$ 72,354	\$ 65,105	\$ 506	\$ 4,941	\$ (835)	\$ 387	\$ 72,025	\$ 70,433