2009 First Quarter Interim Report

For the Three Months Ended March 31, 2009

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited interim financial statements of DeeThree Exploration Ltd. (the "Company") have been prepared by and are the responsibility of the management of the Company. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

BALANCE SHEETS

As at	**March 31, 2009**	December 31, 2008
(000s) (unaudited)	*($)*	*($)*
Assets		
Current		
Restricted cash *(note 5)*	**6,000**	6,000
Accounts receivable	**866**	1,220
Prepaid expenses and other	**32**	49
	6,898	7,269
Future income taxes	**--**	219
Property and equipment *(note 4)*	**19,945**	20,483
	26,843	27,971
Liabilities		
Current		
Bank debt *(note 5)*	**8,365**	8,346
Accounts payable and accrued liabilities	**1,314**	1,632
	9,679	9,978
Future tax liability	**747**	--
Asset retirement obligations *(note 6)*	**1,341**	1,317
	11,767	11,295
Shareholders' Equity		
Share capital *(note 7)*	**16,023**	17,148
Contributed surplus *(note 7)*	**55**	40
Deficit	**(1,002)**	(512)
	15,076	16,676
	26,843	27,971

Future operations *(note 2)*

Commitments *(note 11)*

Subsequent Event *(note 12)*

See accompanying notes to the financial statements.

STATEMENTS OF OPERATIONS, OTHER COMPREHENSIVE LOSS AND DEFICIT

Three Months Ended March 31,	**2009**	2008
(000s, except per share data) (unaudited)	*($)*	*($)*
Revenue		
Oil and gas revenues	**1,595**	106
	1,595	106
Royalty expense	**(116)**	(12)
	1,479	94
Expenses		
Operating	**465**	77
Transportation	**73**	4
General and administrative	**261**	43
Interest	**80**	--
Stock-based compensation *(note 7)*	**7**	--
Depletion, depreciation and accretion	**1,242**	26
	2,128	150
Income before income taxes	**(649)**	(56)
Income taxes		
Future tax recovery	**159**	--
Net loss and comprehensive loss for the period	**(490)**	(56)
Deficit – beginning of period	**(512)**	(77)
Deficit – end of period	**(1,002)**	(133)
Net loss per share *(note 7)*		
Basic and diluted	**(0.05)**	--

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

Three Months Ended March 31,	**2009**	2008
(000s) (unaudited)	*($)*	*($)*
Cash provided by (used in):		
Operating activities		
Net loss for the period	**(490)**	(56)
Add back non-cash items:		
Depletion, depreciation and accretion	**1,242**	26
Stock-based compensation	**7**	--
Future tax expense recovery	**(159)**	--
	600	(30)
Change in non-cash working capital *(note 8)*	**189**	82
	789	52
Financing activities		
Increase in bank debt	**18**	--
	18	--
Investing activities		
Property and equipment additions	**(671)**	(193)
Change in non-cash working capital *(note 8)*	**(136)**	--
	(807)	(193)
Net decrease in cash	**--**	(141)
Cash – beginning of period	**--**	31
Cash – end of period	**--**	(110)

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009
(unaudited)

1. Nature of Operations

DeeThree Exploration Ltd. ("DeeThree" or the "Company") was incorporated under the Alberta Business Corporations Act on January 24, 2007, and commenced operations in mid 2007. Its principal business activity is petroleum and natural gas exploration, development and production in Western Canada. On July 31, 2008, the Company acquired all the common shares of 1265953 Alberta Inc., a private company and on September 30, 2008 both companies were amalgamated. In November 2008, the Company significantly increased its scope of operations as a result of acquiring an oil and gas property in the Lethbridge, Alberta area. On June 25, 2009 DeeThree completed a reverse takeover transaction with Royal Capital Corp. ("Royal"), a TSX-V listed capital pool company. Following closing of the transaction, Royal changed its name to DeeThree Exploration Inc ("DeeThree Inc"), and DeeThree is now a wholly owned subsidiary of DeeThree Inc. DeeThree Inc. now trades on the TSX Venture Exchange under the symbol "DTX".

2. Future Operations

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The Company reported a net loss of $490,000 and generated funds flow from operating activities before changes in non cash working capital balances of $600,000 for the three months ended March 31, 2009. The Company is required to expend $4.5 million of eligible exploration expenditures by December 31, 2009 with respect to the issuance of flow through shares by the Company during 2008. At March 31, 2009, the Company had a net working capital deficiency of $2,781,000, with $135,000 available under its revolving demand loan credit facility of $8,500,000 and an accumulated deficit of $1,002,000. The next review of this facility is scheduled for October 2009. In connection with the review of the loan credit facility, the lender will consider, amongst other factors, operating results, cash flows, oil and gas reserves and commodity prices. Subsequent to March 31, 2009, the lender advised the Company that the loan credit facility would be reduced to $8,000,000 effective July 31, 2009 due to market conditions and changes in commodity prices.

The Company's ability to continue as a going concern is dependent upon the generation of positive cash flow, the renewal of its credit facilities, the raising of capital and the success of the development and exploration program.

The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

These financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles. These interim financial statements should be read in conjunction with the financial statements and notes disclosed in the Company's annual report for the year ended December 31, 2008. The interim financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for the Company for the year ended December 31, 2008.

3. **Basis of Presentation and Summary of Accounting Policies**

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The disclosures contained in these interim financial statements do not include all of the requirements of GAAP for annual financial statements. These interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2008. These interim financial statements are based upon accounting policies consistent with those used and described in note 2 to the December 31, 2008 financial statements except for the accounting policy changes described below.

These interim financial statements reflect all adjustments which are, in the opinion of management, necessary to present fairly the financial position of the Company as at March 31, 2009 and the results of operations and cash flows for the three-month period ended March 31, 2009.

4. **Property and Equipment**

	Cost	Accumulated Depletion and Amortization	Net Book Value
(000s)	*($)*	*($)*	*($)*
March 31, 2009			
Petroleum and natural gas properties	**22,088**	**2,156**	**19,932**
Office equipment	**19**	**6**	**13**
	22,107	**2,162**	**19,945**
December 31, 2008			
Petroleum and natural gas properties	21,410	941	20,469
Office equipment	18	4	14
	21,428	945	20,483

The Company capitalized $41,000 (2008 – $nil) of direct general and administrative costs and $7,000 (2008 – $nil) of stock-based compensation expense .

Unevaluated and undeveloped properties with a cost of $116,000 (2008 – $nil), included in petroleum and natural gas properties, have not been subject to depletion as reserves related to these costs had not been evaluated or assigned for the period ended March 31, 2009. As at period-end, future development costs totaling $1,335,000 (2008 – $1,335,000) were included in amounts subject to depletion.

5. **Bank Debt**

At March 31, 2009, the Company had a revolving demand credit facility with an authorized borrowing amount of $8.5 million, with interest charged at the bank's prime rate plus 1.5% per annum. Standby fees associated with this facility are 0.25% per annum on the undrawn portion of each of the facilities. At March 31, 2009, $8,364,581 was drawn against the revolving demand credit facility.

In addition, at March 31, 2009 the Company had an unused $1.5 million non-revolving acquisition credit facility (the "acquisition facility") with respect to the Lethbridge property acquisition, with interest charged at the bank's prime rate plus 2.5% per annum, and repayable in full on or before July 31, 2009.

Collateral for these facilities consist of a general security agreement, providing a security interest over all present and after acquired personal property and a floating charge on all present and after acquired land interests of the Company.

The Company also has a cash secured letter of credit facility with its lender in the amount of $6.0 million to facilitate the issuance of letters of credit by the lender with respect to the Lethbridge property acquisition, which was fully utilized at March 31, 2009. This amount is fully secured by funds on deposit of $6.0 million ("restricted cash"). This facility is repayable on or before November 14, 2009.

5. Bank Debt (continued)

The lender has indicated that effective July 31, 2009 the revolving demand credit facility will be reduced to $8.0 million. The next review of the credit facilities is scheduled for October 2009.

6. Asset Retirement Obligations

The Company recorded an asset retirement obligation calculated as the present value of the estimated future cost to abandon its petroleum and natural gas properties. The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at $2,238,000. The obligation was calculated using a credit-adjusted risk free discount rate of 8 percent. The majority of expenditures are expected to be incurred in 2019 through 2024.

	Three Months Ended March 31, 2009	Year Ended December 31, 2008
(000s)	*($)*	*($)*
Balance – beginning of period	**1,317**	32
Liabilities incurred	**--**	1,270
Accretion of asset retirement obligation	**24**	15
Asset retirement obligation – end of period	**1,341**	1,317

7. Share Capital

(a) Authorized

Unlimited number of common voting shares, no par value.
Unlimited number of preferred shares, no par value, issuable in series.

(b) Issued

	Three Months Ended March 31, 2009		Year Ended December 31, 2008	
	Shares	**Amount**	Shares	Amount
	(#)	*($000s)*	*(#)*	*($000s)*
Common Shares				
Balance – beginning of period	**10,074,000**	**17,148**	1	1
Cancelled	**--**	**--**	(1)	(1)
Common shares issued	**--**	**--**	407,165	293
Common shares issued	**--**	**--**	342,835	247
Common shares issued	**--**	**--**	1,925,000	1,925
Common shares issued	**--**	**--**	586,500	587
Common shares issued	**--**	**--**	4,937,500	9,875
Flow-through shares issued	**--**	**--**	1,875,000	4,500
Tax effect of flow-through shares *(i)*	**--**	**(1,125)**	--	--
Share issue costs	**--**	**--**	--	(372)
Tax benefit of share issue costs	**--**	**--**	--	93
Balance – end of period	**10,074,000**	**16,023**	10,074,000	17,148

(i) Private Placements

In January 2009, the Company renounced the $4,500,000 in qualified exploration expenditures for the 1,875,000 flow-through common shares issued in November 2008, and the related tax effect of the transaction was booked at that time.

7. Share Capital (continued)

(c) Contributed Surplus

	Three Months Ended March 31, 2009	Year Ended December 31, 2008
(000s)	*($)*	*($)*
Balance – beginning of period	**40**	--
Stock-based compensation expense	**15**	40
Balance – end of period	**55**	40

(d) Per Share Amounts

Per share amounts have been calculated on the weighted average number of shares outstanding. The basic and diluted shares outstanding for the period ended March 31, 2009 were 10,074,000 (2008 – 1 basic and diluted).

(e) Options Outstanding

On June 1, 2008, the directors of the Company approved the granting of 200,000 stock options to an officer of the Company. The exercise price of the options was determined by the directors to be equal to the market price of the Company's stock on the date of the grant. The options issued vest one-quarter after one year following the date of grant, and a further one quarter on each anniversary date of the grant thereafter, and expire five years after the option grant date.

The following summarizes information about stock options outstanding as at March 31, 2009:

	Options	Weighted Average Exercise Price
	(#)	*($)*
Outstanding at December 31, 2008	200,000	1.20
Outstanding at March 31, 2009	**200,000**	**1.20**

Exercise Price	Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable	Weighted Average Exercise Price
($)	*(#)*	*(years)*	*($)*	*(#)*	*($)*
As at March 31, 2009					
1.20	**200,000**	**4.1**	**1.20**	**--**	**--**
	200,000	**4.1**	**1.20**	**--**	**--**

The granted options in 2008 had an estimated weighted average fair value of $1.38 as determined using the Black Scholes model using the following assumptions: risk free interest rate - 1.69%, volatility - 70% % dividend yield – nil. The options granted had an expected hold period to exercise of the lesser of 5 years and the expiry date of the options.

7. Share Capital (continued)

(f) Management of capital

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash, bank debt and equity comprising of issued share capital, contributed surplus and deficit.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues, the issue of debt or by undertaking other activities as deemed appropriate under the specific circumstances.

There are no financial ratio covenants in the amended and restated financing commitment agreement entered into in November, 2008 however there are certain covenants in the agreement with respect to restrictions in significantly altering the Company's capital structure without the approval of the lender.

The Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2008.

8. Changes in Non-Cash Working Capital

Three Months Ended March 31,	**2009**	2008
(000s)	*($)*	*($)*
Accounts receivable	**354**	(73)
Prepaid expenses and other	**17**	--
Accounts payable and accrued liabilities	**(318)**	155
	53	82

The change in non-cash working capital has been allocated to the following activities:

Three Months Ended March 31,	**2009**	2008
(000s)	*($)*	*($)*
Operating	**189**	82
Investing	**(136)**	--
	53	82

9. Financial Instruments

The Company has exposure to credit, liquidity and market risk.

DeeThree's risk management policies are established to identify and analyze the risks faced by the Company, set appropriate limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(a) Credit Risk

Substantially all of the Company's petroleum and natural gas production is marketed under standard industry terms. The industry has a pre-arranged monthly settlement day for payment of revenues from all buyers of crude oil and natural gas. This occurs on the 25th day following the month in which the production is sold. As a result, DeeThree collects sales revenues in an organized manner. Management monitors purchaser credit positions to mitigate any potential credit losses. To the extent DeeThree has joint interest activities with industry partners, the Company must collect, on a monthly basis, partners' share of capital and operating expenses.

9. Financial instruments (continued)

These collections are subject to normal industry credit risk. DeeThree attempts to mitigate risk from joint venture receivables by obtaining partner approval of capital projects prior to expenditure and collects in advance for significant amounts related to partners' share of capital expenditures in accordance with the industry operating procedures. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however, DeeThree does have the ability to withhold production from joint venture partners in the event of non-payment. At March 31, 2009, of the accounts receivable balance of $866,000, $648,000 relates to the sale of petroleum and natural gas, substantially all of which was collected as at the date of this report. The remainder relates to goods and services tax (GST) collectible which was collected as at the date of this report. DeeThree had no material accounts receivable deemed uncollectible. The Company's credit risk is limited to the carrying amount of its accounts receivable, which are due primarily from other entities involved in the oil and gas industry. These amounts are subject to the same risks as the industry as a whole.

(b) Liquidity Risk

Liquidity risk relates to the risk the Company will encounter should it have difficulty in meeting obligations associated with the financial liabilities. The financial liabilities on its balance sheet consist of accounts payable and bank debt. Accounts payable consists of invoices payable to trade suppliers relating to the office and field operating activities and its capital spending program. DeeThree processes invoices within a normal payment period. DeeThree anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future funds from operations and available bank debt. The Company had no defaults or breaches on its bank debt or any of its financial liabilities.

c) Market Risk

Market risk is the risk of changes in market prices, such as commodity prices, foreign currency exchange rates and interest rates that will affect the net earnings or value of financial instruments. The objective of managing market risk is to control market risk exposures within acceptable limits, while maximizing returns.

The Company utilizes financial derivative contracts to manage market risk. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

(i) Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in the commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar, as outlined below, but also global economic events that dictate the levels of supply and demand. The Company had no financial derivative contracts in place at March 31, 2009.

(ii) Foreign Currency Exchange Rate Risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company does not sell or transact in any foreign currency; however, the United States dollar influences the price of petroleum and natural gas sold in Canada. The Company's financial assets and liabilities are not affected by a change in currency rates. The Company had no foreign exchange contracts in place at March 31, 2009.

9. Financial Instruments (continued)

(iii) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent the changes in market interest rates will impact the Company's debts that have a floating interest rate. The Company had no interest rate swaps or hedges at March 31, 2009. With regards to interest rate risk, a change of 1% in the effective interest rate would have impacted net earnings by approximately $4,000 for the first quarter of 2009, based on average debt outstanding during the period.

(d) Fair Value of Financial Assets and Liabilities

Financial instruments of the Company consist primarily of cash, accounts receivable, accounts payable and bank debt. As at March 31, 2009, there were no significant differences between the carrying amounts reported on the balance sheet and their estimated fair values due to the short-term nature of these instruments.

10. Related Parties

The following summarizes related party transactions during 2009 and 2008**:**

a) On July 31, 2008, the Company acquired all of the issued and outstanding shares of 1265953 Alberta Inc. ("1265953"). As the purchase consideration, the Company issued 586,500 common shares to the shareholders of 1265953. Two directors and three officers of the Company were shareholders of 1265953 and received 153,000 common shares of the Company in the transaction.

b) An officer of the Company indirectly holds a 5% working interest in a property owned by the Company. During 2009 net revenue attributable to this working interest was $2,676 (2008 - nil).

All related party transactions were in the normal course of operations and have been measured at exchange amounts established and agreed to by the related parties and which are similar to those that the Company would expect to have negotiated with third parties in similar circumstances.

11. Commitments

In connection with the issuance of flow through shares issued by the Company during the year ended December 31, 2008, the Company is required to expend $4.5 million of eligible exploration expenditures by December 31, 2009. The qualifying expenditures were renounced to shareholders in January, 2009.

In connection with the acquisition of the Lethbridge property in November 2008, the Company has committed to the drilling of 30 wells in the area covered in the agreement over a three year period commencing November 14, 2008 (10 wells per year). In addition the Company has committed to acquiring 4 townships of seismic data over the same period (1 township in year 1, 2 townships in year 2, and 1 township in year 3). The total cost to the Company for these commitments, including well completions and tie-ins on a risked basis, is estimated at $23.2 million. As security for the commitment the Company provided the vendor with a letter of credit ("LC") totaling $6 million. The LC is releasable to the Company as to $2 million on the spud by the Company of the first well on the property and on a dollar for dollar basis incurred in carrying out the commitment following the drilling and either completion, capping or abandonment of the first five wells under the commitment. Three wells were drilled under the commitment in May 2009. On May 21, 2009 $2 million was released from the LC.

12. Subsequent Events

a) On May 21, 2009 $2.0 million was released from the LC issued to the vendor of the Lethbridge property (see Note 11 - Commitments).

12. Subsequent Events (continued)

b) On May 25, 2009 the Company executed an amalgamation agreement with Royal Capital Corp. ("Royal"), a TSX-V listed capital pool company, pursuant to which the Company and Royal completed a business combination (the "Transaction"). The transaction was subject to several conditions including the shareholders of Royal approving a consolidation of the shares of Royal on a 12 for 1 basis, the Company's shareholders approving the Transaction and prior to the closing of the Transaction, DeeThree completing a brokered private placement of subscription receipts for gross proceeds of not less than $5,000,000. Royal and DeeThree shareholders approved the Transaction on June 25, 2009 and the transaction closed on June 25, 2009.

c) In April, May and June 2009, the Company completed financings totaling $5,679,766 through the issuance of subscription receipts and flow through shares. The $3,952,500 proceeds from the subscription receipts were held in trust and upon closing of the transaction the funds were released to the Company on June 25, 2009. The $1,727,266 raised from the issue of flow through shares is required to be expended by the Company on eligible exploration expenditures by December 31, 2010.

d) On June 19, 2009, 500,000 common share warrants were allocated to key employees to purchase common shares at an exercise price of $1.00 of which 195,000 were exercised subsequent to the quarter end. These warrants expire on September 16, 2010.

e) On June 25, 2009, the Company granted 627,500 stock options to directors, officers and key employees to purchase common shares at an exercise price of $2.00. These shares vest over a four year period.

Management Discussion & Analysis ("MD&A)

For the Three Months Ended March 31, 2009

DEETHREE EXPLORATION LTD.
HIGHLIGHTS

Three Months Ended March 31,	**2009**	2008	Change
(000s, except per share data)	*($)*	*($)*	*(%)*
Financial			
Production revenue	**1,595**	106	1,405
Funds from operations	**600**	(30)	--
Per share – basic and diluted	**0.06**	--	--
Net loss	**(490)**	(56)	775
Per share – basic and diluted	**(0.05)**	--	--
Capital expenditures	**671**	193	248
Total assets	**26,843**	27,971	(4)
Working capital deficiency	**2,781**	2,710	3
Shareholders' equity	**15,076**	16,676	(10)
(000's)	*(#)*	*(#)*	*(%)*
Common Share Data			
Shares outstanding			
At end of period	**10,074**	--	--
Weighted average – basic and diluted	**10,154**	--	--
			(%)
Operating			
Sales			
Natural gas *(mcf/d)*	**3,345**	135	2,378
Oil & NGLs *(bbls/d)*	**18**	--	--
Total oil equivalent *(boe/d)*	**576**	23	2,404
Average wellhead prices			
Natural gas *($/mcf)*	**5.03**	8.60	(42)
Oil & NGLs *($/bbl)*	**50.69**	--	--
Total oil equivalent *($/boe)*	**30.81**	51.57	(40)

(1) Funds from operations and funds from operations per share are not recognized measures under Canadian generally accepted accounting principles. Refer to the Management's Discussion and Analysis for further discussion.
(2) For a description of the boe conversion ratio, refer to the commentary at the beginning of the Management's Discussion and Analysis.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") reports on the financial condition and the results of operations of DeeThree Exploration Ltd. ("DeeThree" or the "Company") for the three months ended March 31, 2009 and 2008 and should be read with the accompanying March 31, 2009 unaudited financial statements as well as the audited financial statements for the year ended December 31, 2008. All financial measures are expressed in Canadian dollars unless otherwise indicated. This commentary is based on the information available as at, and is dated July 6, 2009.

Production information is commonly reported in units of barrel of oil equivalent ("boe"). For purposes of computing such units, natural gas is converted to equivalent barrels of crude oil using a conversion factor of six thousand cubic feet of gas to one barrel of oil. This conversion ratio of 6:1 is based on an energy equivalent conversion for the individual products, primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Such disclosure of boes may be misleading, particularly if used in isolation. Readers should be aware that historical results are not necessarily indicative of future performance.

Non-GAAP Measurements

This MD&A contains the terms "funds from operations", "funds from operations per share", "funds flow netback" and "net income netback", which should not be considered an alternative to or more meaningful than net earnings or cash flow from operating activities as determined in accordance with Canadian generally accepted accounting principles ("GAAP") as an indicator of the Company's performance. These terms do not have any standardized meaning as prescribed by GAAP. DeeThree's determination of funds from operations, funds from operations per share, funds flow netback and net income netback may not be comparable to that reported by other companies. Management uses funds from operations to analyze operating performance and leverage, and considers funds from operations to be a key measure as it demonstrates the Company's ability to generate cash necessary to fund future capital investments and to repay debt. Funds from operations is calculated using cash flow from operating activities as presented in the statement of cash flows before changes in non-cash working capital and settlement of retirement costs. DeeThree presents funds from operations per share, which is prohibited under GAAP. Per share amounts are calculated using weighted average shares outstanding consistent with the calculation of earnings per share. The following table reconciles funds from operations to cash flow from operating activities, which is the most directly comparable measure calculated in accordance with GAAP:

Three Months Ended March 31,	**2009**	2008
(000s)	*($)*	*($)*
Cash flow from operating activities	**789**	52
Changes in non-cash working capital	**(189)**	(82)
Funds from operations	**600**	(30)

Future Outlook and Forward-Looking Information

Certain statements contained in this MD&A constitute forward-looking statements. Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "believe", "could", "estimate", "expect", "forecast", "guidance", "intend", "may", "plan", "predict", "project", "should", "target", "will" or similar words suggesting future outcomes or language suggesting an outlook. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Management believes the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct, and as a result, such forward-looking statements included in this MD&A should not be unduly relied upon.

Basis of Presentation

DeeThree Exploration Ltd. ("DeeThree" or the "Company") was incorporated under the Alberta Business Corporations Act on January 24, 2007, and commenced operations shortly thereafter. Its principal business activity is petroleum and natural gas exploration, development and production in Western Canada.

Financial and Operating Results

Sales volumes

Three Months Ended March 31,	2009	2008
Natural gas sales *(mcf/d)*	**3,345**	135
Oil & NGLs sales *(bbls/d)*	**18**	--
Total sales *(boe/d)*	**576**	23
Total sales *(boe)*	**51,870**	2,055

The Company produced 576 boe/d in the first quarter of 2009 as compared to 23 boe/d in the same quarter of last year. Production during the first quarter of 2009 increased significantly in comparison to the same quarter last year primarily due to the acquisition of three properties during 2008, the Lethbridge property acquisition being the most significant which closed in the last quarter of 2008. Production volumes for the first quarter of 2009 were favorably affected by an adjustment relating to the Lethbridge property acquisition which closed in November of 2008

Revenue and Prices

Three Months Ended March 31,	2009	2008
(000s)	*($)*	*($)*
Revenue		
Natural gas	**1,514**	106
Oil & NGLs	**82**	--
Total revenue	**1,596**	106
Average Prices		
Natural gas sales price *($/mcf)*	**5.03**	8.60
Oil & NGLs sales price *($/bbl)*	**50.69**	--
Total sales price *($/boe)*	**30.81**	51.57

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Gross revenue for the three months ended March 31, 2009 was $1,596,000 compared to $106,000 during the same period of 2008. Year over year revenues increased significantly, due to the acquisitions completed throughout 2008.

DeeThree's production is sold within Canada and it is sensitive to North American natural gas and world crude oil price variations in addition to Canada/U.S. currency exchange rate changes.

Royalties

Three Months Ended March 31,	2009	2008
(000s)	*($)*	*($)*
Total revenue	**1,596**	106
Royalties	**116**	12
	(%)	*(%)*
% of Revenue	**7**	11

Total royalties for the quarter March 31, 2009 were $116,000 or 7% of total revenues as compared to $12,000 in the same quarter of the previous year or 11% of total revenues. Royalties in the first quarter of 2009 were abnormally low due to the finalization of year end estimates with respect to the Lethbridge property acquired in the final quarter of 2008. On an ongoing basis, royalties would be expected to be higher than the 7% reflected in first quarter of 2009 depending on natural gas prices. The majority of the Company's production is not subject to Alberta Crown royalties and therefore the Company is not significantly affected by Alberta Crown royalty rates.

Operating Expense

Three Months Ended March 31,	**2009**	2008
(000s)	*($)*	*($)*
Operating expense	**465**	77
Total operating expense *($/boe)*	**8.99**	37.63

Operating expenses for the three months ended March 31, 2009 were $465,000 or $8.99 per boe, compared to $77,000 or $37.63 per boe for the three months ended March 31, 2008. The decrease in operating costs compared to the same period in 2008 is due to the addition of a significant amount of lower cost production during the last quarter of 2008. The Company expects operating expenses on a per unit basis to remain in this range for the balance of 2009.

Transportation Expense

Three Months Ended March 31,	**2009**	2008
(000s)	*($)*	*($)*
Transportation expense	**73**	4
Transportation expense *($/boe)*	**1.42**	1.98

Transportation expenses for the three months ended March 31, 2009 were $73,000 or $1.42 per boe, compared to $4,000 or $1.98 per boe for the three months ended March 31, 2008. Transportation expenses reflect primarily Nova transportation costs which the Company expects to remain consistent for the remainder of 2009.

General and Administrative ("G&A") Expenses and Stock-Based Compensation

Three Months Ended March 31,	**2009**	2008
(000s)	*($)*	*($)*
G&A expenses	**322**	43
G&A capitalized (direct)	**(41)**	--
G&A recoveries via operations	**(20)**	--
G&A expenses (net)	**261**	43

General and administrative expenses for the three months ended March 31, 2009 were $261,000 compared to $43,000 for the three months ended March 31, 2008. The increase in general and administrative expenses reflects increased expenses related to increased activity, specifically office rent, consulting fees and business development costs.

Stock based compensation of $7,000 was expensed for the three months ended March 31, 2009 (2008 – nil). In addition, stock based compensation of $7,000 has been capitalized during the quarter (2008 – nil). The expense is due to the granting of new options in 2008. Compensation expense is based on the estimated fair value of the options on the grant date in accordance with the fair value method of accounting for stock based compensation. Where options are granted to consultants, compensation expense is recalculated at each reporting date for unvested options.

Interest Expense

Interest expense for the three months ended March 31, 2009 was $80,000 (2008 - $nil). This year-over-year increase was directly attributable to the increase in the Company's bank debt throughout the first quarter of 2009 versus 2008.

Netbacks (per unit)

Three Months Ended March 31,	**2009**	2008
	($/boe)	*($/boe)*
Sales prices	**30.81**	51.58
Royalties	**(2.24)**	(5.84)
Operating	**(8.99)**	(37.47)
Transportation	**(1.42)**	(1.95)
Operating netback	**18.16**	6.32
G&A and other (excludes non-cash items)	**(1.55)**	(20.92)
Interest expense	**(5.05)**	--
Funds flow netback (1)	**11.56**	(14.60)
Depletion, depreciation and accretion	**(23.98)**	(12.65)
Stock-based compensation	**(0.14)**	--
Future tax recovery (expense)	**3.08**	--
Net income netback	**(9.48)**	(27.25)

(1) Non-GAAP measure: refer to disclosure on non-GAAP measure. Funds flow netback is calculated by dividing funds flow by the sales volume per boe for the period then ended.
(2) For a description of the boe conversion ratio, refer to the commentary at the beginning of this MD&A.

The operating netback for the three months ended March 31, 2009 was $18.16 per boe compared to $6.32 per boe for 2008 reflecting lower commodity prices in 2009, offset by lower operating expenses due to the addition of lower-cost production.

Funds from Operations

Funds from operations totaled $600,000 or $0.06 per basic and diluted share during the first quarter of 2009 compared to negative cash flow of $30,000 or in the comparable period of 2008. Refer to the beginning of this MD&A section for discussion and reconciliation of funds from operations to cash flow from operating activities, which is the most directly comparable measure calculated in accordance with GAAP.

Cash Flow from Operating Activities

Cash flow from operations for the first quarter of 2009 totaled $789,000 or $0.08 per basic and diluted share as compared to $52,000 in the same period of 2008.

Depletion, Depreciation and Accretion ("DD&A")

Three Months Ended March 31,	**2009**	2008
DD&A provision *($000s)*	**1,242**	26
DD&A provision *($/boe)*	**23.98**	12.65

The DD&A provision for the first quarter in 2009 was $1,242,000 compared to $26,000 during 2008. The increase in depletion, depreciation and accretion reflects the substantial increase in sales volumes in the three month period ended March 31, 2009 as compared to the same period of 2008.

Impairment Expense

Management has determined that there is no impairment of DeeThree's petroleum and natural gas assets at March 31, 2009.

Income Taxes

The Company had a income tax recovery of $159,000 for the three month period ended March 31, 2009 as compared to $nil in the same period last year.

Net Loss

The net loss for the three months ended March 31, 2009 was $490,000 or $0.05 per basic and diluted share compared to a loss of $56,000 in 2008. The net loss in 2009 reflects the net impact of decreased commodity prices compounded by increased depletion, depreciation and accretion expenses.

Capital Expenditures

Net cash capital expenditures totalled $671,000 in the three months ended March 31, 2009 compared to $193,000 during the three months ended March 31, 2008. The majority of expenditures in the first quarter of 2009 related to recompletion activities, and to a lesser degree, preparatory expenditures with respect to planned drilling on the Lethbridge property. The Company also spent $116,000 on freehold land throughout the quarter. In the same period of 2008 the Company drilled one well at Killam which commenced production in April 2008.

Liquidity and Capital Resources

The following table summarizes the change in working capital during the three months ended March 31, 2009 and the year ended December 31, 2008:

	Three Months Ended March 31, 2009
(000s)	*($)*
Working capital (deficiency) – beginning of period	**(2,710)**
Funds from operations	**600**
Capital expenditures	**(671)**
Working capital (deficiency) – end of period	**(2,781)**

At March 31, 2009, the Company's working capital deficiency totalled $2,781,000 compared to $2,710,000 at the end of 2008. At March 31, 2009, the Company had a revolving demand credit facility with an authorized borrowing amount of $8.5 million, with interest charged at the bank's prime rate plus 1.5% per annum. Standby fees associated with this facility are 0.25% per annum on the undrawn portion of each of the facilities. At March 31, 2009, $8,365,000 was drawn against the revolving demand credit facility.

In addition, at March 31, 2009 the Company had an unused $1.5 million non-revolving acquisition credit facility (the "acquisition facility") with respect to the Lethbridge property acquisition, with interest charged at the bank's prime rate plus 2.5% per annum, and repayable in full on or before July 31, 2009.

Collateral for these facilities consist of a general security agreement, providing a security interest over all present and after acquired personal property and a floating charge on all present and after acquired land interests of the Company.

The Company also has a cash secured letter of credit facility with its lender in the amount of $6.0 million to facilitate the issuance of a letter of credit in the amount of $6.0 million dollars (the "LC") by the lender with respect to the Lethbridge property acquisition, which was fully utilized at March 31, 2009. This amount is fully secured by funds on deposit of $6 million ("restricted cash"). This facility is repayable on or before November 14, 2009.

The lender indicated that effective July 31, 2009 the revolving demand credit facility will be reduced to $8,000,000. The next review of the credit facilities is scheduled for October, 2009.

The Company's ability to continue as a going concern is dependent upon the ability to raise capital, the continued generation of positive cash flow, and the success of the development and exploration program. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

Subsequent Events

On May 25, 2009 the Company executed an amalgamation agreement with Royal Capital Corp. (“Royal”), a TSX-V listed capital pool company, pursuant to which it is intended that the Company and Royal will complete a business combination (the “Proposed Transaction”). The proposed transaction was subject to several conditions including the shareholders of Royal approving a consolidation of the shares of Royal on a 12 for 1 basis, the Company’s shareholders approving the Proposed Transaction and prior to the closing of the Proposed Transaction, DeeThree completing a brokered private placement of subscription receipts for gross proceeds of not less than $5,000,000. Royal and DeeThree shareholders approved the Proposed Transaction on June 25, 2009 and the transaction closed on June 25, 2009.

In April and May 2009, the Company completed financings totaling $5,077,366 through the issuance of subscription receipts and flow through shares. The $3,350,100 proceeds from the subscription receipts were held in trust and upon closing of the transaction the funds were released to the Company on June 25, 2009. The $1.7 million raised from the issue of flow through shares is required to be expended by the Company on eligible exploration expenditures by December 31, 2010.

On June 25, 2009, the Company granted 627,500 stock options to directors, officers and key employees to purchase common shares at an exercise price of $2.00. These shares vest over a four year period.

On June 19, 2009, the Company issued 500,000 common share warrants to key employees to purchase common shares at an exercise price of $1.00 of which 195,000 were exercised subsequent to the quarter end. These warrants expire on September 16, 2010.

On May 21, 2009 $2.0 million was released from the letter of credit issued to the vendor of the Lethbridge property, and therefore such funds are now available to the Company (see Contractual Obligations).

Share Capital

As at July 6, 2009, DeeThree Exploration Inc., the resulting issuer following the reverse takeover transaction completed June 25, 2009 had 13,464,943 common shares, 877,500 stock options and 305,000 common share purchase warrants and 110,207 agent compensation options issued and outstanding.

At July 6, 2009, there were 3,208,575 common shares. 228,750 common share purchase warrants and 150,000 stock options held in escrow with respect to the Qualifying Transaction Escrow Agreement and 124,999 common shares with respect to the CPC Escrow Agreement.

Contractual Obligations

In connection with the issuance of flow through shares issued by the Company during the year ended December 31, 2008, the Company is required to expend $4.5 million of eligible exploration expenditures by December 31, 2009.

In connection with the acquisition of the Lethbridge property in November 2008, the Company has committed to the drilling of 30 wells in the area covered in the agreement over a three year period commencing November 14, 2008 (10 wells per year). In addition, the Company has committed to acquiring 4 townships of seismic data over the same period (1 township in year 1, 2 townships in year 2, and 1 township in year 3). The total cost to the Company for these commitments, including well completions and tie-ins on a risked basis, is estimated at $23.2 million. As security for the commitment the Company provided the vendor with a letter of credit totalling $6.0 million. The LC is releasable to the Company as to $2 million on the spud by the Company of the first well on the property and on a dollar for dollar basis incurred in carrying out the commitment following the drilling and either completion, capping or abandonment of the first five wells under the commitment. Three wells were drilled under the commitment in May 2009. On May 21, 2009 $2.0 million was released from the LC.

Related Party Transactions

The Company had the following related party transactions:

a) On July 31, 2008, the Company acquired all of the issued and outstanding shares of 1265953 Alberta Inc. ("1265953"). As part of the purchase consideration, the Company issued 586,500 common shares to the shareholders of 1265953. Two directors and three officers of the Company were shareholders of 1265953 and received 153,000 common shares of the Company in the transaction.

b) An officer of the Company indirectly holds a 5% working interest in a property owned by the Company. During 2009, subsequent to the acquisition of the property by the Company, net revenue attributable to this working interest was $2,676 (2008 - nil).

All related party transactions were in the normal course of operations and have been measured at exchange amounts established and agreed to by the related parties and which are similar to those that the Company would expect to have negotiated with third parties in similar circumstances.

Changes in Accounting Disclosures

Except as discussed in this section, please refer to the Company's accounting disclosures as described in the MD&A as at December 31, 2008. The following disclosures to the financial statements are in effect as of January 1, 2009.

Future Accounting Policy Changes

Business Combinations

In December 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 1582 "Business Combinations". This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is during the first annual reporting period beginning on or after January 1, 2011 for the company. Early adoption is permitted. This section replaces Section 1581 "Business Combination" and harmonizes the Canadian standards with IFRS.

Transition to International Financial Reporting Standards ("IFRS")

In February 2008, the CICA's Accounting Standards Board ("AcSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements for fiscal years beginning on or after January 1, 2011, including comparative figures for 2010.

The International Accounting Standards Board ("IASB") has also issued an exposure draft relating to certain amendments and exemptions to IFRS 1. It is anticipated that this exposure draft will not result in an amended IFRS 1 standard until late 2009. The amendment, if implemented, will permit the Company to apply IFRS prospectively by utilizing its current reserves at the transition date to allocate the Company's full cost pool, with the provision that a ceiling test, under IFRS standards, be conducted at the transition date. The eventual changeover to IFRS represents a change due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations.

In response, the Company is in the preliminary stages of developing a high-level IFRS transition plan and establishing a preliminary timeline for its execution and completion. The Company will perform a preliminary review of the accounting policies of the Company under Canadian GAAP and compare them to IFRS. In 2009, the Company will perform the next phase of the project, conducting an in-depth review of the significant areas of difference identified during the preliminary assessment in order to identify all specific Canadian GAAP and IFRS differences and select ongoing IFRS policies. Key areas addressed will also be reviewed to determine any information technology issues, the impact on internal controls over financial reporting and the impact on other business activities, including compensation arrangements. The Company will also continue to monitor standards development as issued by the IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of its adoption of IFRS. Additional disclosures of the key elements of the transition plan and progress of the project will be provided as the information becomes available.

Risks

Business Risks and Risk Mitigation

There are a number of risks facing participants in the Canadian oil and gas industry. Some of the risks are common to all businesses, while others are specific to the sector. The most important of these risks are set out below, together with the strategies DeeThree employs to mitigate and minimize these risks.

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in the third quarter of 2008 and are continuing in 2009, causing a loss of confidence in the broader United States and global credit and financial markets. This has created a climate of greater volatility, less liquidity, widening of credit spreads, and a lack of price transparency, increased credit losses and tighter credit conditions. These factors have negatively impacted the Company's valuations and will impact the performance of the global economy going forward.

Commodity prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns.

Inherent Industry Risks – Risk of Failing to Discover Economic Reserves Additions

The Company's strategies include focusing on gas prone selected areas in Western Canada, utilizing a team of highly qualified professionals with expertise and experience in these areas, expanding operations in core areas, continuously assessing new acquisition opportunities to complement existing activities and striving for a balance between higher risk exploratory drilling, lower risk development drilling and pursuing liquids-rich gas reservoirs.

Beyond exploration risk, there is the potential that the Company's oil and natural gas reserves may not be economically produced at prevailing prices. DeeThree minimizes this risk by generating exploration prospects internally, targeting high quality projects and attempting to operate the project along with access to the sales market through Company owned or mid-stream operators.

Financial, Commodity Price, Capital Expenditures, Liquidity and Environmental Risks

Commodity prices are driven by supply, demand and market conditions outside the Company's influence and control. DeeThree manages this risk by constantly monitoring the forecasted price given by aggregators. In addition, the Company employs a commodity hedging program that has a primary goal of minimizing significant downward movements in commodity prices and these are detailed in note 8 of the financial statements. DeeThree manages capital expenditures by two separate tracking systems: a historical accounting system that records the actual costs and a perpetual forecasting model that is constantly updated based on real-time information.

DeeThree's capital investment process is based on risk analysis to ensure capital expenditures balance the objectives of immediate cash flow growth in development activities and future cash flow from the discovery of reserves through exploration.

It is likely that in the future, DeeThree will be required to raise additional capital through debt and equity financings in order to fully realize the Company's strategic goals and business plans. DeeThree's ability to raise additional capital will depend on a number of factors, such as general economic and market conditions that are beyond the Company's control. If the Company is unable to obtain additional financing or to obtain it on favourable terms, DeeThree may be required to forego attractive business opportunities. However, as DeeThree is the operator of virtually all of its operations at a high working interest position, the Company is able to be flexible in the timing of operations to ensure a continued strong financial position. The Company is committed to maintaining a strong balance sheet combined with an adaptable capital expenditures program that can be adjusted to capitalize on or reflect acquisition opportunities or a tightening of liquidity sources if necessary.

The Company manages operational risks by employing skilled professionals utilizing leading-edge technology and conducting regular maintenance and training programs. DeeThree has established Environmental, Health and Safety Program and updated its operational emergency response plan and operational safety manual to address these operational issues. In addition, a comprehensive insurance program is maintained to mitigate risks and protect against significant losses where possible. DeeThree operates in accordance with all applicable environmental legislation and strives to maintain compliance with such regulations.

CORPORATE INFORMATION

Board of Directors

Martin Cheyne – Chairman (2)
President & Chief Executive Officer

Brendan Carrigy (2)
Vice President, Exploration

Michael Kabanuk (1) (2) (3)
Independent Businessman

Brad Porter (1) (3)
Independent Businessman

Dennis Nerland (1)(2)(3)
Partner
Shea Nerland Calnan LLP

(1) Audit Committee Member
(2) Reserves Committee Member
(3) Corporate Governance & Compensation Committee Member

Officers

Martin Cheyne
President & Chief Executive Officer

Gail Hannon
Chief Financial Officer

Brendan Carrigy
Vice President Exploration

Daniel Gundersen
Vice President Engineering

Trevor Murray
Vice President Land

Daniel E. Kenney
Corporate Secretary

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Auditors

KPMG LLP
Calgary, Alberta

Banker

Canadian Imperial Bank of Commerce
Calgary, Alberta

Evaluation Engineers

Sproule Associates Limited
Calgary, Alberta

Legal Counsel

Davis LLP
Calgary, Alberta

Registrar and Transfer Agent

Olympia Trust Company
Calgary, Alberta

Stock Trading

TSX Venture Exchange
Trading Symbol: DTX

Abbreviations

bbls	barrels
bcf	billion cubic feet
boe	barrels of oil equivalent
GJ	gigajoules
/d	per day
mcf	thousand cubic feet
mm	million
NGLs	natural gas liquids
3-D	three dimensional

Conversion of Units

1.0 acre	=	0.40 hectares
2.5 acres	=	1.0 hectare
1.0 bbl	=	0.159 cubic metres
6.29 bbls	=	1.0 cubic metre
1.0 foot	=	0.3048 metres
3.281 feet	=	1.0 metre
1.0 mcf	=	28.2 cubic metres
0.035 mcf	=	1.0 cubic metre
1.0 mile	=	1.61 kilometres
0.62 miles	=	1.0 kilometre