Q3

Third Quarter Interim Report For the Three and Nine Months Ended September 30, 2010

HIGHLIGHTS

	Three Months Ended September 30, 2010	2009	Change	Nine Months Ended September 30, 2010	2009	Change
(000s, except per share amounts)	*($)*	*($)*	*(%)*	*($)*	*($)*	*(%)*
Financial						
Oil and gas revenues	**1,618**	820	97	**5,590**	3,455	62
Funds from (used in) operations (1)	**413**	(18)	2,394	**1,626**	677	140
Per share – basic and diluted	**0.02**	–	–	**0.08**	0.05	60
Net loss	**(666)**	(830)	(20)	**(1,481)**	(2,399)	(38)
Per share – basic and diluted	**(0.03)**	(0.06)	(50)	**(0.07)**	(0.18)	(61)
Capital expenditures	**3,525**	1,683	109	**14,689**	4,177	252
Working capital	**20,668**	(190)	10,978	**20,668**	(190)	10,978
Shareholders' equity	**55,912**	20,106	178	**55,912**	20,106	178
(000s)	*(#)*	*(#)*	*(%)*	*(#)*	*(#)*	*(%)*
Share Data						
At period-end	**29,311**	13,465	118	**29,311**	13,465	118
Weighted average – basic and diluted	**20,452**	13,465	52	**20,452**	13,143	56
			(%)			*(%)*
Operating						
Production						
Natural gas *(mcf/d)*	**3,958**	2,900	36	**4,449**	3,130	42
Crude oil and NGLs *(bbls/d)*	**18**	10	80	**16**	15	7
Total *(boe/d)*	**678**	493	38	**758**	536	41
Average wellhead prices						
Natural gas *($/mcf)* (2)	**4.12**	2.84	45	**4.33**	3.78	15
Crude oil and NGLs *($/bbl)*	**71.24**	67.85	5	**72.74**	57.37	27
Total *($/boe)*	**25.95**	18.08	44	**27.01**	23.61	14
Operating cost *($/boe)*	**8.71**	8.84	(1)	**8.11**	8.57	(5)
Operating netback *($/boe)*	**12.93**	6.86	88	**13.33**	11.89	12
Gross (net) wells drilled						
Gas *(#)*	**1 (1.0)**	2 (2.0)	(50) (-50)	**5 (5.0)**	5 (5.0)	– (–)
Oil *(#)*	**– (–)**	– (–)	– (–)	**– (–)**	– (–)	– (–)
Standing *(#)*	**1 (1.0)**	– (–)	– (–)	**1 (1.0)**	2 (2.0)	(50) (-50)
Dry and abandoned *(#)*	**3 (3.0)**	– (–)	– (–)	**6 (6.0)**	– (–)	– (–)
Total *(#)*	**5 (5.0)**	2 (2.0)	150 (150)	**12 (12.0)**	7 (7.0)	71 (71)
Average working interest *(%)*	**100**	100	–	**100**	100	–

(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) Product prices include realized gains/losses from physical fixed priced contracts.

(3) For a description of the boe conversion ratio, refer to the commentary at the beginning of the Management's Discussion and Analysis.

DeeThree Exploration Ltd.

LETTER TO SHAREHOLDERS

DeeThree Exploration Ltd. is pleased to report its financial and operating results for the three and nine months ended September 30, 2010.

Financial and Operational Accomplishments

Our Company continued to post record year-over-year third quarter results, despite depressed natural gas prices and operational challenges. DeeThree's accomplishments during the three-month period included:

- Growing average daily production 38% to 678 boe/d.
- Increasing funds from operations to $0.4 million.
- Investing $3.5 million in capital expenditures.
- Raising $22.0 million through a common share public offering at $2.75 per share.
- Exiting the quarter with positive working capital of $20.7 million.

During the third quarter of 2010, DeeThree drilled five gross (5.0 net) wells on its Lethbridge property, thereby fulfilling the second year drilling commitment on these lands. To date, the Company has drilled a total of 15 gross (15.0 net) shallow wells in this core area (50% success rate) primarily targeting the Bow Island, Barons and Sunburst formations.

Our Company is currently producing approximately 675 boe/d with an estimated 550 boe/d behind pipe volumes from our 2009 and 2010 drilling successes. Due primarily to weakening natural gas prices, we have elected not to expend capital on tie-ins required to bring these volumes on-stream at this time.

Bakken/Exshaw Oil Play

Although our recent drilling results targeting the shallow horizons have fallen short of our expectations, management firmly believes that our Lethbridge property holds tremendous potential for shallow crude oil and natural gas as well as light crude oil from the Bakken/Exshaw formations.

With over 100 sections of lands that we feel are prospective from the Bakken/Exshaw, coupled with our ownership of all facilities and pipeline infrastructure in the area, we believe that DeeThree is well positioned to capitalize on this emerging oil play, which boasts potential for exceptional recoverable oil reserves per section. As a result, we have shifted our focus to the exploration and development of the Bakken/Exshaw oil play on our undeveloped land holdings.

DeeThree has two firm drilling locations identified for vertical stratigraphic tests of the Bakken/Exshaw fairway to be completed by year-end and anticipates drilling another six locations (four vertical, two horizontal) during the first half of 2011. These locations are designed to test multiple intervals within the play across the Company's large acreage position. We have also commenced a 20-section 3-D seismic program over a portion of these lands, and upon completion (estimated for November 15, 2010), DeeThree will have also fulfilled its second year seismic commitment on the Lethbridge property.

Financial Strength

DeeThree is firmly positioned financially to implement its future endeavours. We entered the final quarter of 2010 with over $20 million in working capital and we anticipate receiving an additional $15 million from a recently announced flow-through share private placement at the price $4.55 per share. This financing is expected to close on or about November 18, 2010 and will further enhance our ability to explore and develop the Bakken/Exshaw oil play.

Outlook

On October 20, 2010, DeeThree's listing for its common shares was transferred from the TSX Venture Exchange to the Toronto Stock Exchange. The move to the TSX is another milestone for DeeThree as we build a resource company with securities listed on Canada's major investment market.

Due to the continued stagnation of natural gas prices and the emergence of the Bakken/Exshaw oil play, DeeThree has revised its corporate guidance accordingly. Given the Company's decision to defer any further tie-ins of behind pipe volumes, the 2010 average production rates are expected to be 700 to 750 boe/d with an exit rate of approximately 650 to 700 boe/d. In addition, DeeThree's Board of Directors recently approved shifting a portion of the Company's 2011 capital expenditures into 2010, thereby allowing the Company to drill an additional three locations by year-end in order to take advantage of favourable weather conditions and availability to oilfield services. The increased activity will result in an expanded 2010 capital budget to $22 million from $20 million.

I look forward to reporting our fourth quarter activities and 2010 year-end results, as well as the opportunities that 2011 will present.

Respectfully,

Martin Cheyne
President & Chief Executive Officer

November 5, 2010

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 and nine months ended September 30, 2010 and 2009 and should be read in conjunction with the financial statements and accompanying notes. All financial measures are expressed in Canadian dollars unless otherwise indicated. This commentary is based on the information available as at, and is dated November 5, 2010.

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.

Future Outlook and Forward-Looking Information

Certain statements contained in this MD&A may constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", and similar expressions. 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. The Company believes that 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 such forward-looking statements included in this MD&A should not be unduly relied upon by investors. These statements speak only as at the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement.

In particular, this MD&A contains forward-looking statements pertaining to the following: projections of market prices and costs, supply and demand for natural gas and crude oil, the quantity of reserves, natural gas and crude oil production levels, capital expenditure programs, treatment under governmental regulatory and taxation regimes, expectations regarding the Company's ability to raise capital and to continually add to reserves through acquisitions and development, and projections of market prices and costs.

With respect to forward-looking statements contained in this MD&A, the Company has made assumptions regarding, among other things, the legislative and regulatory environments of the jurisdictions where the Company carries on business or has operations, the impact of increasing competition and the Company's ability to obtain additional financing on satisfactory terms.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors included in this MD&A such as: volatility in the market prices for natural gas and crude oil; uncertainties associated with estimating reserves; geological, technical, drilling and processing problems; liabilities and risks, including environmental liabilities and risks inherent in natural gas and crude oil operations; incorrect assessments of the value of acquisitions; and, competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel.

This forward-looking information represents the Company's views as at the date of this MD&A and such information should not be relied upon as representing its views as of any date subsequent to the date of this MD&A. DeeThree has attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimates expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations. There can be no assurance that forward-looking information will prove to be accurate, as results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as expressly required by applicable securities legislation.

Basis of Presentation

DeeThree is a Calgary based junior oil and gas company actively engaged in natural gas and crude oil exploration, development and production primarily in southern Alberta. DeeThree commenced operations in 2007 as a private company, and on June 25, 2009, completed a reverse takeover transaction with Royal Capital Corp., a public capital pool company, and began trading on the TSX Venture Exchange. On October 20, 2010, DeeThree's listing for its common shares was transferred to the Toronto Stock Exchange.

Financial and Operating Results

Sales Volumes

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
Natural gas sales *(mcf/d)*	**3,958**	2,900	**4,449**	3,130
Crude oil and NGLs sales *(bbls/d)*	**18**	10	**16**	15
Total sales *(boe/d)*	**678**	493	**758**	536
Total sales *(boe)*	**62,362**	45,365	**206,944**	146,367

For the three months ended September 30, 2010, the Company's production averaged 678 boe/d compared to 493 boe/d in the same period of 2009 and 714 boe/d recorded in the second quarter of 2010. This represents a 38% year-over-year increase and a 5% decrease from the second quarter of this year. The year-over-year increase was primarily attributable to the Company's drilling success throughout 2009 and the first nine months of 2010. Late in the second quarter of 2010, the installation of a refrigeration facility allowed the Company to bring on-stream approximately 350 boe/d of shut-in volumes; however, sharp declines on the new production from the Company's drilling program has more than offset this incremental production resulting in the slight quarter-over-quarter decrease in production volumes. DeeThree currently has 550 boe/d of behind pipe volumes; however, due to the current depressed natural gas price environment and the Company's shift towards the prospective Alberta Bakken oil play, the Company has chosen not to direct capital towards these natural gas projects at this time.

For the first nine months of 2010, DeeThree's production averaged 758 boe/d versus 536 boe/d a year ago. During the 2010 nine-month period, production was comprised of 4,449 mcf/d of natural gas or 98% of the Company's production and 16 bbls/d of crude oil and NGLs or 2% of total corporate production. The year-over-year increase was again directly attributable to the Company's drilling activity.

Revenue and Prices

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
(000s)	*($)*	*($)*	*($)*	*($)*
Revenue				
Natural gas (1)	**1,499**	759	**5,260**	3,228
Crude oil and NGLs	**119**	61	**330**	227
Total revenue	**1,618**	820	**5,590**	3,455
Average Prices				
Natural gas *($/mcf)* (1)	**4.12**	2.84	**4.33**	3.78
Crude oil and NGLs *($/bbl)*	**71.24**	67.85	**72.74**	57.37
Total sales price *($/boe)*	**25.95**	18.08	**27.01**	23.61

(1) Natural gas revenue and price includes realized gains/losses from physical fixed priced contracts.

During the third quarter of 2010, revenue increased 97% to $1,618,000 from $820,000 recorded in the comparative period of 2009 due to a 44% increase in the Company's overall realized price to $25.95/boe from $18.08/boe recorded last year and a 38% year-over-year increase in production. During the 2010 three-month period, DeeThree realized an average natural gas price of $4.12/mcf (including a $0.64/mcf hedging gain from physical sales contracts) and $71.24/bbl for crude oil and NGLs. For the corresponding period of 2009, the Company realized a natural gas price of $2.84/mcf and a combined crude oil and NGLs price of $67.85/bbl.

For the first nine months of 2010, revenue totaled $5,590,000 versus $3,455,000 for the same period of 2009 with an average sales price of $27.01/boe compared to $23.61/boe received the prior year.

DeeThree's current production profile is weighted 98% to natural gas, and as a result, revenues are largely reliant on Canadian natural gas prices that are determined by a variety of factors such as weather patterns, liquefied natural gas imports, North American supply and demand, storage levels in North America and alternative fuel sources. DeeThree's production is sold within Canada and is marketed to one significant North American purchaser.

The Company has fixed the price applicable to future sales through the following contracts:

Daily Quantity	Term of Contract	Fixed Price (AECO)
700 GJ/d	Apr. 1, 2010 – Oct. 31, 2010	$4.67/GJ
700 GJ/d	Apr. 1, 2010 – Oct. 31, 2010	$4.48/GJ
700 GJ/d	Apr. 1, 2010 – Dec. 31, 2010	$4.485/GJ

Royalties

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
(000s)	*($)*	*($)*	*($)*	*($)*
Total revenue	**1,618**	820	**5,590**	3,455
Total revenue, excluding hedging gains	**1,385**	820	**5,199**	3,455
Royalties	**186**	47	**871**	251
Percent of revenue, excluding hedging gains *(%)*	**13**	6	**17**	7

Royalty expenses consist primarily of freehold royalties relating to the Lethbridge property acquisition and royalties paid to provincial governments relating to the Company's non-core areas. The freehold royalty payable to the vendor in connection with the acquisition is a sliding scale royalty determined monthly on a well-by-well basis using a calculation that is based on the Alberta New Royalty Framework as announced on October 25, 2007 with a cap of 30%. The sliding scale varies based on productivity (a higher royalty is payable from wells with higher production rates) and commodity prices (a higher royalty is payable in times of higher natural gas prices).

For the third quarter of 2010, royalties totaled $186,000 or 13% of revenue (excluding hedging gains) compared to $47,000 or 6% of revenue for the same quarter in 2009 and $285,000 or 19% of revenue (excluding hedging gains) in the second quarter of 2010. The year-over-year increase in the royalty rate was primarily due to higher rate wells that have come on-stream as a result of the Company's drilling program. The quarter-over-quarter decline was primarily due to the drop in natural gas prices in the third quarter compared to the second quarter of 2010.

During the first nine months of 2010, royalties totaled $871,000 or 17% of revenue (excluding hedging gains) versus $251,000 or 7% of revenue a year ago, which was again attributable to higher rate wells coming on-stream throughout 2010 combined with higher natural gas prices throughout 2010 versus 2009.

Operating Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
(000s)	*($)*	*($)*	*($)*	*($)*
Operating expenses	**543**	401	**1,678**	1,254
Operating expenses *($/boe)*	**8.71**	8.84	**8.11**	8.57

Operating costs include all costs associated with the production of natural gas and crude oil. The major components of operating costs include charges for contract operating, lease rentals, property and pipeline taxes, and well maintenance charges.

Operating expenses for the third quarter of 2010 were relatively consistent on a per barrel basis totaling $543,000 or $8.71/boe compared to $401,000 or $8.84/boe in the same period last year and $574,000 or $8.84/boe in the second quarter of 2010.

For the nine months ended September 30, 2010, the Company incurred operating expenses of $1,678,000 or $8.11/boe compared to $1,254,000 or $8.57/boe in the corresponding 2009 period. The decrease on a per barrel basis was due to increased volumes coming on-stream resulting in economies of scale.

Transportation Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
(000s)	*($)*	*($)*	*($)*	*($)*
Transportation expenses	**83**	61	**282**	211
Transportation expenses *($/boe)*	**1.33**	1.34	**1.36**	1.44

Transportation expenses for the three months ended September 30, 2010 were $83,000 or $1.33/boe ($0.22/mcf) compared to $61,000 or $1.34/boe ($0.22/mcf) recorded in the third quarter of 2009 and $104,000 or $1.60/boe ($0.27/mcf) in the second quarter of 2010. Transportation expenses reflect primarily NOVA and ATCO transportation costs and will fluctuate depending on the proportion of the Company's gas that is flowing on firm service versus interruptible service (interruptible service is slightly more expensive) as well as the proportion of Company volumes on ATCO versus NOVA (ATCO is less expensive).

During the first nine months of 2010, transportation costs totaled $282,000 or $1.36/boe ($0.23/mcf) versus $211,000 or $1.44/boe ($0.24/mcf) for the same period in 2009.

General and Administrative ("G&A") Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
(000s)	*($)*	*($)*	*($)*	*($)*
G&A expenses	**541**	322	**1,546**	1,008
G&A capitalized (direct)	**(121)**	(53)	**(349)**	(181)
G&A recoveries from operations	**(34)**	(13)	**(101)**	(59)
G&A expenses (net)	**386**	256	**1,096**	768
G&A expenses *($/boe)*	**6.19**	5.64	**5.30**	5.25

G&A net expenses totaled $386,000 or $6.19/boe for the three-month period ended September 30, 2010 versus $256,000 or $5.64/boe in the same period a year ago and $350,000 or $5.39/boe in the second quarter of 2010. Year-over-year expenses rose primarily as a result of increased salaries and benefits, consultants and rent. Throughout the third quarter of 2010, the Company had eight full-time employees and three consultants versus five full-time employees and four consultants in the same period a year ago. The quarter-over-quarter increase in net G&A expenses was primarily due to increased marketing costs related to the financing, which closed in September 2010, as well as increased salaries due to two employees starting late in the second quarter of 2010. During the third quarter of 2010, the Company capitalized $121,000 (2009 – $53,000) in direct costs relating to its exploration and development efforts and $34,000 (2009 – $13,000) of capital overhead recoveries.

G&A net expenses totaled $1,096,000 or $5.30/boe for the first nine months of 2010 compared to $768,000 or $5.25/boe in the same period a year ago. During the nine months ended September 30, 2010, the Company capitalized $349,000 (2009 – $181,000) in direct costs relating to its exploration and development efforts and $101,000 (2009 – $59,000) of capital overhead recoveries.

Stock-Based Compensation Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
(000s)	*($)*	*($)*	*($)*	*($)*
Gross stock-based compensation expense	**283**	156	**514**	748
Capitalized stock-based compensation expense	**(106)**	(68)	**(197)**	(339)
Stock-based compensation expense	**177**	88	**317**	409
Stock-based compensation expense *($/boe)*	**2.84**	1.94	**1.53**	2.79

Stock-based compensation expenses are non-cash charges that reflect an estimate of the cost to the Company for stock options and warrants issued to directors, employees, consultants and agents/brokers. The value is amortized over the vesting period of the award.

During the third quarter of 2010, DeeThree recorded non-cash stock-based compensation expense of $283,000 (2009 – $156,000) and capitalized $106,000 (2009 – $68,000) for net stock-based compensation of $177,000 (2009 – $88,000). The year-over-year increase was the direct result of the additional options being granted to both new and existing employees and directors. During the second quarter of 2010, the Company booked $97,000 for net stock-based compensation, which was lower than the current quarter due to options being issued to employees and directors throughout the three months ended September 30, 2010. The Company capitalizes a portion of its stock-based compensation expense consistent with the treatment of capitalized G&A expenses.

During the first nine months of 2010, DeeThree recorded non-cash stock-based compensation expense of $514,000 (2009 – $748,000) and capitalized $197,000 (2009 – $339,000) for total stock-based compensation of $317,000 (2009 – $409,000). A future tax liability of $32,000 (2009 – $24,000) and $76,000 (2009 – $118,000) was booked for the three and nine-month periods of 2010 in association with the capitalized stock-based compensation expense.

Interest Expense

For the three and nine months ended September 30, 2010, interest expense was $7,000 and $37,000, respectively, compared to $73,000 and $294,000 recorded in the respective three and nine-month periods of 2009. These year-over-year decreases were directly attributable to the decrease in the Company's bank debt throughout 2010 versus 2009. The Company had no debt throughout the three-month period ended September 30, 2010; however, incurred standby fees on the undrawn portion of its $12,000,000 credit facility of 0.25% per annum.

Funds From Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
(000s)	*($)*	*($)*	*($)*	*($)*
Net loss	**(666)**	(830)	**(1,481)**	(2,399)
Non-cash items:				
Depletion, depreciation and accretion	**1,112**	952	**3,279**	3,312
Stock-based compensation	**177**	88	**317**	409
Future income tax recovery	**(210)**	(228)	**(489)**	(645)
Funds from (used in) operations	**413**	(18)	**1,626**	677

During the three months ended September 30, 2010, funds from operations were $413,000 or $0.02 per basic and diluted share compared to $18,000 or $nil per basic share used in operations in the comparative period of 2009. This 2,394% increase was due to a 38% and 44% year-over-year increase in sales volumes and overall sales price, respectively.

For the nine months ended September 30, 2010, the Company recorded funds from operations of $1,626,000 or $0.08 per basic and diluted share compared to $677,000 or $0.05 per basic and diluted share in the same period of 2009.

Funds from operations is a non-GAAP measure and has been defined by the Company as net losses plus the add back of non-cash items (depletion, depreciation and accretion, stock-based compensation and future income taxes) and exclude the change in non-cash working capital related to operating activities. Management uses funds from operations to analyze performance and considers it a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future capital investments and to repay debt.

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 September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
(000s)	*($)*	*($)*	*($)*	*($)*
Funds from (used in) operations	**413**	(18)	**1,626**	677
Abandonment and reclamation charges	**–**	–	**(20)**	–
Changes in non-cash working capital	**225**	(90)	**91**	426
Cash flow from operations	**638**	(108)	**1,697**	1,103

Cash flow from operating activities for the three-month period ended September 30, 2010 was $638,000 ($0.03 per basic and diluted share) compared to a deficit of $108,000 ($0.01 per basic and diluted share) in the same period of 2009.

During the first nine months of 2010, the Company's cash flow from operating activities was $1,697,000 ($0.08 per basic and diluted share) versus $1,103,000 ($0.08 per basic and diluted share) in 2009.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
(000s)	*($)*	*($)*	*($)*	*($)*
DD&A provision	**1,112**	952	**3,279**	3,312
DD&A provision *($/boe)*	**17.83**	20.99	**15.84**	22.63

DeeThree follows the full cost method of accounting for its depletion calculation whereby all incurred acquisition, exploration and development costs relating to the exploration and development of gas and oil reserves are capitalized. In addition to these capital costs are the estimated future capital expenditures to be incurred in order to develop proved non-producing reserves, which are included in a third party engineering report. This accumulation of costs is then depleted on a unit-of-production basis using estimated proved gas and oil reserves. Depreciation of office assets is provided using the declining balance method at rates between 20% and 30%. Accretion is the increase for the reporting period in the present value of the Company's asset retirement obligation, which is calculated using an interest rate of 8%.

The Company's DD&A expense for the three months ended September 30, 2010 was $1,112,000 or $17.83/boe versus $952,000 or $20.99/boe in the comparable period of 2009. The year-over-year decrease in DD&A was primarily due to positive reserves additions resulting from the Company's 2009 and 2010 drilling programs. DeeThree's depletion rate increased throughout the third quarter of 2010 compared to the first and second quarters of 2010 due to a negative revision of the Company's internally generated reserves estimate. This negative revision was primarily due to poor well performance on two of the Company's wells that were drilled in 2009.

For the nine months ended September 30, 2010, the DD&A provision was $3,279,000 or $15.84/boe compared to $3,312,000 or $22.63/boe recorded in the same period of 2009.

Impairment Expense

Management's determination is dependent upon a number of key factors, one of which is the price of commodities. If the current factors were held constant and if the price of natural gas were to decrease from the price deck used, there would be an impairment. The amount of the impairment would be dependent upon the quantum of decrease in the gas prices. As at September 30, 2010, no impairment write-down was required.

Income Taxes

A future tax recovery of $210,000 was recognized for the three months ended September 30, 2010 compared to $228,000 in the same period of 2009.

The Company recorded an income tax recovery of $489,000 for the nine-month period ended September 30, 2010 compared to $645,000 a year ago.

Net Loss

For the three months ended September 30, 2010, the Company recorded a net loss of $666,000 or $0.03 per basic and diluted share compared to $830,000 or $0.06 per basic and diluted share in 2009. The year-over-year decrease in the net loss was primarily due to increased production volumes and stronger commodity prices compounded by reduced interest expense, partially offset by increased royalty charges and G&A expenses.

The net loss for the nine months ended September 30, 2010 was $1,481,000 or $0.07 per basic and diluted share versus $2,399,000 or $0.18 per basic and diluted share in the comparative period of 2009.

Netbacks (per unit)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
	($/boe)	*($/boe)*	*($/boe)*	*($/boe)*
Sales prices [(1)]	**25.95**	18.08	**27.01**	23.61
Royalties	**(2.98)**	(1.04)	**(4.21)**	(1.71)
Operating	**(8.71)**	(8.84)	**(8.11)**	(8.57)
Transportation	**(1.33)**	(1.34)	**(1.36)**	(1.44)
Operating netback	**12.93**	6.86	**13.33**	11.89
G&A and other (excludes non-cash items)	**(6.19)**	(5.64)	**(5.30)**	(5.25)
Interest expense	**(0.11)**	(1.61)	**(0.18)**	(2.01)
Funds flow netback [(2)]	**6.63**	(0.39)	**7.85**	4.63
Depletion, depreciation and accretion	**(17.83)**	(20.99)	**(15.84)**	(22.63)
Stock-based compensation	**(2.84)**	(1.94)	**(1.53)**	(2.79)
Future tax recovery	**3.37**	5.03	**2.36**	4.41
Net loss netback	**(10.67)**	(18.29)	**(7.16)**	(16.38)

(1) Product prices include realized gains/losses from physical fixed priced contracts.

(2) Non-GAAP measure: refer to disclosure on non-GAAP measurements at the beginning of this MD&A. Funds flow netback is calculated by dividing funds flow by the sales volume in boes for the period then ended.

(3) For a description of the boe conversion ratio, refer to the commentary at the beginning of this MD&A.

The operating netback was $12.93/boe for the three months ended September 30, 2010 compared to $6.86/boe in the same period last year. The Company experienced stronger pricing (including a $3.74/boe hedging gain) throughout the third quarter of 2010 offset by higher royalties.

For the nine months ended September 30, 2010, DeeThree achieved an operating netback of $13.33/boe versus $11.89/boe in the same period of 2009, again reflecting stronger commodity prices compounded by lower operating and transportation costs offset by increased royalty rates.

Investment and Investment Efficiencies

Capital Expenditures

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
(000s) (excluding asset retirement obligations and capitalized stock-based compensation)	*($)*	*($)*	*($)*	*($)*
Land and lease retention	**393**	6	**418**	155
Property acquisitions and adjustments	**–**	(168)	**–**	(171)
Drilling and completions	**2,459**	1,128	**7,021**	3,013
Equipment and facilities	**567**	55	**3,448**	353
Geological and geophysical	**(25)**	607	**3,438**	639
Capitalized G&A and other	**131**	55	**364**	188
Total capital expenditures	**3,525**	1,683	**14,689**	4,177

In the third quarter of 2010, the Company incurred $3,525,000 (2009 – $1,683,000) in capital expenditures, excluding the non-cash asset retirement obligation and capitalized stock-based compensation. Drilling and completion expenditures totaled $2,459,000 (2009 – $1,129,000) that involved the drilling of 5 gross (5.0 net) wells on the Lethbridge property. In the comparative quarter of 2009, the Company drilled 2 gross (2.0 net) wells at Lethbridge. For the three months ended September 30, 2010, DeeThree also spent $567,000 (2009 – $55,000) on equipping and tie-ins whereby the Company completed the tie-in of one well that was drilled in the second quarter of this year and also recorded the final costs related to the installation of the refrigeration unit, $393,000 (2009 – $6,000) at land sales, and a reduction in geological and geophysical costs to $25,000 (2009 – $607,000) due to a credit adjustment relating to the 3-D seismic program shot in the first quarter of 2010. The remaining $131,000 (2009 – $55,000) was invested in capitalized G&A and other corporate assets.

For the first nine months of 2010, net cash capital expenditures totaled $14,689,000 versus $4,177,000 in the comparative period of 2009. Drilling and completion expenditures totaled $7,021,000 (2009 – $3,013,000), equipping and tie-in costs were $3,448,000 (2009 – $353,000), $3,438,000 related to the shooting of two seismic programs (2009 – $639,000), $418,000 (2009 – $155,000) was spent on land purchases and the remaining $364,000 (2009 – $188,000) was invested in capitalized G&A and other.

Drilling Activity

During the three months ended September 30, 2010, DeeThree drilled 5 gross (5.0 net) wells (100% working interest) in the Lethbridge area. Two wells tested natural gas and contribute to the Company's 550 boe/d of behind pipe volumes, while the remaining three wells were unsuccessful. The two natural gas wells require tie-in and facility capital; however, due to the current depressed natural gas price environment, the Company has elected not to proceed with these capital projects at this time.

During the nine months ended September 30, 2010, DeeThree drilled 12 gross (12.0 net) wells (100% working interest) in the Lethbridge area for a 50% success rate compared to 7 gross (7.0 net) wells (100% working interest) for an 86% success rate in the same period last year.

Liquidity and Capital Resources

Working Capital

Accounts receivable consist of production revenue receivables from DeeThree's major purchaser as well as joint venture receivables from the Company's partners with respect to operating and capital costs. Prepaid costs primarily include unamortized insurance premiums and prepaid property taxes that are being amortized over the related period.

Accounts payable include capital, operating, royalty and G&A costs as well as accrued or estimated costs for these items. Included in accounts payable are amounts owing to the Company's joint venture partners with respect to non-operated properties and processing, gathering and transportation charges.

The following table summarizes the change in working capital during the nine months ended September 30, 2010 and the year ended December 31, 2009:

	Nine Months Ended September 30, 2010	Year Ended December 31, 2009
(000s)	*($)*	*($)*
Working capital (deficiency) – beginning of period	**375**	(2,710)
Funds from operations	**1,626**	1,112
Capital expenditures	**(14,689)**	(8,778)
Abandonment and reclamation charges	**(20)**	–
Issue of capital stock for cash (net of share issue expenses)	**33,376**	9,935
Net working capital acquired on acquisition	**–**	816
Working capital – end of period	**20,668**	375

DeeThree entered 2010 with a working capital of $375,000. During the nine-month period, the Company generated funds from operations of $1,626,000 and invested $14,689,000 in capital expenditures. On March 5, 2010, the Company closed a bought deal equity financing resulting in the issue of 4,197,500 common shares at a price of $2.40 per common share and 1,236,250 flow-through shares at a price of $2.80 per flow-through share for total gross proceeds of $13,536,000 ($12,465,000 net of estimated share issue expenses), including 547,500 common shares and 161,250 flow-through shares issued on the exercise in full of the underwriter's over-allotment option. On September 8, 2010, the Company closed an equity financing resulting in the issue of 8,000,000 common shares at a price of $2.75 per common share for total gross proceeds of $22,000,000 ($20,441,000 net of estimated share issue expenses), including 1,043,478 common shares issued on the exercise in full of the underwriter's over-allotment option. Also during the period, 106,374 stock options and 252,500 warrants were exercised for proceeds of $470,000. DeeThree exited the period with working capital of $20,668,000.

As at September 30, 2010, the Company had a revolving demand credit facility with an authorized borrowing base of $12,000,000, with interest charged at the bank's prime rate plus 1.25% per annum. Standby fees associated with this facility are 0.25% per annum on the undrawn portion of the facility. As at September 30, 2010, $nil was drawn against the facility. The next review of the credit facility is scheduled to take place on or before October 31, 2010 and had commenced as at the date of this report. Collateral for this facility consists 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's ability to continue as a going concern is dependent on its ability to continue to raise capital, the continued generation of positive cash flow and the success of its 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.

Share Capital

As at November 5, 2010, the Company had 29,310,717 common shares outstanding and 1,885,000 stock options outstanding.

Consolidation of DeeThree Exploration Inc. (formerly Royal Capital Corp.)

On June 25, 2009, DeeThree Exploration Inc. (formerly Royal Capital Corp. ("Royal")) completed the acquisition of DeeThree Exploration Ltd. Immediately prior to the completion of the transaction, Royal shareholders approved a consolidation of the outstanding common shares of the corporation on a 1-for-12 basis, and at the same time, changed the name of the corporation to DeeThree Exploration Inc. On January 1, 2010, DeeThree Exploration Inc. changed its name to DeeThree Exploration Ltd. in conjunction with the amalgamation of DeeThree Exploration Inc. with DeeThree Exploration Ltd., its wholly owned operating subsidiary.

As at November 5, 2010, there were 1,145,775 common shares and 50,000 stock options held in escrow with respect to the Qualifying Transaction Escrow Agreement and 43,236 common shares with respect to the CPC Escrow Agreement.

Selected Quarterly Information

Three Months Ended	**Sep.30, 2010**	Jun.30, 2010	Mar.31, 2010	Dec.31, 2009	Sep.30, 2009	Jun.30, 2009	Mar.31, 2009	Dec.31, 2008
(000s, except per share amounts)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Oil and gas revenues	**1,618**	1,679	2,293	1,563	820	1,040	1,595	859
Funds from (used in) operations	**413**	359	854	435	(18)	95	600	71
Per share – basic and diluted	**0.02**	0.02	0.05	0.03	–	0.01	0.05	0.01
Net loss	**(666)**	(550)	(265)	(438)	(830)	(1,079)	(490)	(466)
Per share – basic and diluted	**(0.03)**	(0.03)	(0.02)	(0.03)	(0.06)	(0.08)	(0.05)	(0.04)
Capital expenditures	**3,525**	3,999	7,165	4,601	1,683	1,823	671	18,656
Working capital (deficiency)	**20,668**	3,133	6,601	375	(190)	1,511	2,781	(2,710)
Shareholders' equity	**55,912**	35,232	35,432	24,674	20,106	20,780	15,076	16,676
Production								
Natural gas *(mcf/d)*	**3,958**	4,191	5,211	3,636	2,900	3,150	3,345	1,623
Crude oil and NGLs *(bbls/d)*	**18**	15	16	17	10	15	18	12
Total *(boe/d)*	**678**	714	885	623	493	541	576	282

Note: The selected quarterly information has been prepared in accordance with the accounting principles as contained in the notes to the consolidated financial statements for the years ended December 31, 2009 and 2008.

Factors That Have Caused Variations Over the Quarters

DeeThree's working capital increased significantly in the third quarter of 2010 due to a $22 million common share private placement that closed on September 8, 2010. The fluctuations in DeeThree's revenue and net earnings from quarter to quarter are primarily caused by increases in production volumes, realized commodity prices and the related impact on royalties and operating costs. DeeThree increased sales and related volumes significantly in the second quarter of 2009, having benefited from its Lethbridge property acquisition for the entire quarter versus a partial quarter in the final three months of 2008. In the second, third and fourth quarters of 2009, the Company experienced natural declines with no additional volumes brought on production. During the first quarter of 2010, DeeThree began to bring on-stream production from its 2009 drilling successes, thereby recording a significant increase in production volumes. In each of the second and third quarters of 2010, the Company experienced operational difficulties, including inclement weather, high liquids content in its gas stream that required the Company to shut-in volumes as well as steep natural declines on its new production causing production decreases. Please refer to the "Financial and Operating Results" section and other sections of this MD&A for detailed discussions on variations during the comparative quarters and to DeeThree's previously issued interim and annual MD&A for changes in prior quarters.

Contractual Obligations

In connection with the issuance of flow-through shares by the Company during the first quarter of 2010, DeeThree is required to spend $3,462,000 of eligible exploration expenditures by December 31, 2011. As at September 30, 2010, approximately $2,470,000 of eligible expenditures had been incurred. These expenditures will be renounced to shareholders in 2011 effective December 31, 2010.

In connection with the issuance of flow-through shares by the Company during 2009, DeeThree is required to spend $6,727,000 of eligible exploration expenditures by December 31, 2010. The qualifying expenditures were renounced to shareholders in January 2010. As at September 30, 2010, all eligible exploration expenditures had been incurred.

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 (ten wells per year). In addition, DeeThree has committed to shooting four townships of seismic data over the same period (one township in year one, two townships in year two and one township in year three). As at September 30, 2010, the Company drilled 12 wells, thereby satisfying the second year drilling commitment. Subsequent to September 30, 2010, the Company commenced shooting the remaining 20 sections of 3-D seismic data, which is expected to be completed by November 15, 2010, thereby satisfying the second year seismic commitment. On April 13, 2010, the Company executed a two-year extension to its amended lease agreement, which is part of a lease issuance, seismic and drilling commitment agreement. This extension involves a commitment to drill an additional 20 wells over the two-year period (ten wells per year) into the Mississippian horizon and expires on November 13, 2013.

During the second quarter of 2010, the Company entered into a long-term operating lease for its current office premises, which expires December 31, 2013 at an annual cost of approximately $230,000.

Related Party Transactions

As at September 30, 2010, the Company had the following related party transactions:

The Company has retained a law firm to provide legal services. The Corporate Secretary of DeeThree is a partner of this firm. During the period ended September 30, 2010, the Company incurred $229,000 in costs with the firm (2009 – $187,000), which have been included in G&A expenses and share issue costs, and $49,000 (2009 – $nil) remained in accounts payable at September 30, 2010. Services provided related to advice and counsel primarily in the areas of general legal, corporate governance and banking matters. The Company expects to continue using the services of this firm throughout the balance of 2010.

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.

Critical Estimates

Management is required to make judgements and use estimates in the application of generally accepted accounting principles that have significant impact on the financial results of the Company. The following discussion outlines the accounting policies and practices that are critical to determining DeeThree's financial results.

Full Cost Accounting

DeeThree follows the Canadian Institute of Chartered Accountants' ("CICA") guideline on full cost accounting in the oil and gas industry to account for oil and gas properties. Under this method, all costs associated with the acquisition of, exploration for and development of natural gas and crude oil reserves are capitalized and costs associated with production are expensed. The capitalized costs are depreciated, depleted and amortized using the unit-of-production method based on estimated proved reserves. Reserves estimates can have a significant impact on earnings as they are a key component in the calculation of DD&A. A downward revision in a reserves estimate could result in a higher DD&A charge to earnings. In addition, if capitalized costs are determined to be in excess of the calculated ceiling, which is based largely on reserves estimates, the excess must be written off as an expense charged against earnings. In the event of a property disposition, proceeds are normally deducted from the full cost pool without recognition of a gain or loss unless there is a change in the DD&A rate of 20% or greater.

Asset Retirement Obligations

The Company records a liability for the fair value of its legal obligations associated with the retirement of long-lived assets in the period in which it is incurred, normally when the asset is purchased or developed. On recognition of the liability, there is a corresponding increase in the carrying value of the related asset and the asset retirement obligation. The total amount of the asset retirement obligation is an estimate based on the Company's net ownership in all wells and facilities, the estimated cost to abandon and reclaim the wells and facilities, the estimated timing of those cash flows, changes in environmental regulations and the discount rate used to calculate the present value of those cash flows. These estimates are subject to measurement uncertainty and any change in these estimates would impact the asset retirement liability.

Reserves Determination

The proved natural gas, crude oil and NGLs reserves that are used in determining DeeThree's depletion rates, the magnitude of the borrowing base available to the Company from its lender and the ceiling test are based on management's best estimates, and are subject to uncertainty. Through the use of geological, geophysical and engineering data, the reservoirs and deposits of natural gas, crude oil and NGLs are examined to determine quantities available for future production, given existing operations and economic conditions and technology. The evaluation of recoverable reserves is an ongoing process impacted by current production, continuing development activities and changing economic conditions as reflected in natural gas and crude oil prices. Consequently, the reserves are estimated, which are subject to variability. To assist with the reserves evaluation process, the Company employs the services of independent oil and gas reservoir engineers.

Income Taxes

The determination of DeeThree's income and other tax liability requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from the liability estimated or recorded.

Other Estimates

The accrual method of accounting will require management to incorporate certain estimates, including revenues, royalties, production costs and capital expenditures as at a specific reporting date but for which actual revenue and royalties have not yet been received, and estimates on capital projects that are in progress or recently completed where actual costs have not been received at a specific reporting date.

Changes in Accounting Disclosures

Except as discussed in this section, please refer to the Company's accounting disclosures as described in the MD&A of DeeThree Exploration Ltd. as at December 31, 2009. 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 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 International Financial Reporting Standards.

Transition to International Financial Reporting Standards

On January 1, 2011, International Financial Reporting Standards ("IFRS") will become the generally accepted accounting principles in Canada. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by DeeThree for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010.

Although IFRS is principles-based and uses a conceptual framework similar to Canadian GAAP, there are significant differences and choices in accounting policies as well as increased disclosure requirements under IFRS. As a result, 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.

The Company has been assessing the impact of adopting IFRS and is continuing to implement plans for transition. The project is being managed by an in-house accounting professional, who has engaged in IFRS educational programs and continues to develop DeeThree's adoption to IFRS. The Company has involved its auditors in the process to ensure DeeThree's policies are in accordance with these new standards. Management is currently reviewing its accounting policy choices, and at present, is currently unable to quantify the impact of adopting IFRS on the financial statements. The audit of DeeThree's opening balance sheet is scheduled for the fourth quarter of 2010.

In July 2009, the International Accounting Standards Board ("IASB") published amendments to the IFRS 1 deemed cost exemption. The amendment permits the Company to allocate the Company's full cost pool under existing GAAP using its current reserves volumes or reserves values at the transition date, with the provision that an impairment test, under IFRS standards, be conducted at the transition date. IFRS 1 also provides a number of other optional exemptions and mandatory exceptions in certain areas to the general requirement for full retrospective application. Management is analyzing the various accounting policy choices available and will implement those determined to be the most appropriate for the Company.

DeeThree has identified key differences that will impact the financial statements as follows:

Exploration and Evaluation ("E&E") expenditures. On transition to IFRS, DeeThree will reclassify all E&E expenditures that are currently included in the property, plant and equipment ("PP&E") balance on the balance sheet. This will consist of the book value of undeveloped land and unevaluated seismic data that relates to exploration properties. E&E assets will not be depleted and must be assessed for impairment when indicators of impairment exist.

Depletion expense. Prior to transition to IFRS, DeeThree will make an accounting policy choice whether to use proved reserves or proved plus probable reserves to calculate depletion and to test for impairment. DeeThree has not yet made this policy choice.

Impairment of PP&E assets. Under IFRS, impairment tests of PP&E must be performed at the cash generating unit ("CGU") level using either total proved or proved plus probable reserves. Canadian GAAP allows an impairment test to be performed on a country cost centre basis. Based on the Company's preliminary assessment to date, it is management's view that DeeThree will likely have one CGU due to the concentration of the Company's assets in the Lethbridge area.

Withdrawal of the exposure draft on IAS 12 "Income Taxes". In November 2009 and the issuance of the exposure draft on IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" in January 2010, management is still determining the impact of these revised standards on its IFRS transition.

Decommissioning liabilities (asset retirement obligations). Under IFRS, either cash flows or the interest rate should be risked in calculating the asset retirement obligation, but the company specific risk should be excluded. DeeThree has determined that it will risk future cash flows and discount the asset retirement obligation using a risk-free interest rate. This differs from Canadian GAAP, which requires a company specific credit adjusted risk-free interest rate to be used to discount future cash flows. As the Company is utilizing the IFRS 1 full cost exemption, this change will result in a retained earnings adjustment at January 1, 2010.

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 continued in 2009 and the first nine months of 2010, 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 natural gas and crude oil 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 infrastructure 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. The Company 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 an 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.

Outlook

Due to the continued stagnation of natural gas prices and the emergence of the Bakken/Exshaw oil play, DeeThree has revised its corporate guidance accordingly. Given the Company's decision to defer any further tie-ins of behind pipe volumes, the 2010 average production rates are expected to be 700 to 750 boe/d with an exit rate of approximately 650 to 700 boe/d. In addition, DeeThree's Board of Directors recently approved shifting a portion of the Company's 2011 capital expenditures into 2010, thereby allowing the Company to drill an additional three locations by year-end in order to take advantage of favourable weather conditions and availability to oilfield services. The increased activity will result in an expanded 2010 capital budget to $22 million from $20 million.

BALANCE SHEETS

As at	**September 30, 2010**	December 31, 2009
(000s) (unaudited)	*($)*	*($)*
Assets		
Current		
Cash	**21,740**	–
Restricted cash *(note 5)*	**–**	4,000
Accounts receivable	**978**	1,059
Prepaid expenses and other	**222**	254
	22,940	5,313
Property and equipment *(note 4)*	**37,917**	26,016
	60,857	31,329
Liabilities		
Current		
Bank debt *(note 5)*	**–**	2,436
Accounts payable and accrued liabilities	**2,272**	2,502
	2,272	4,938
Asset retirement obligations *(note 6)*	**1,837**	1,636
Future tax liability	**836**	81
Shareholders' equity		
Share capital *(note 7)*	**59,831**	27,263
Share purchase warrants *(note 7)*	**–**	283
Contributed surplus *(note 7)*	**911**	477
Deficit	**(4,830)**	(3,349)
	55,912	24,674
	60,857	31,329

Commitments *(note 11)*

Subsequent event *(note 12)*

See accompanying notes to the financial statements.

STATEMENT OF OPERATIONS, OTHER COMPREHENSIVE LOSS AND DEFICIT

	Three Months Ended September 30, **2010**	2009	Nine Months Ended September 30, **2010**	2009
(000s, except per share amounts) (unaudited)	*($)*	*($)*	*($)*	*($)*
Revenue				
Oil and gas revenues	**1,618**	820	**5,590**	3,455
Royalty expense	**(186)**	(47)	**(871)**	(251)
	1,432	773	**4,719**	3,204
Expenses				
Operating	**543**	401	**1,678**	1,254
Transportation	**83**	61	**282**	211
General and administrative	**386**	256	**1,096**	768
Interest	**7**	73	**37**	294
Stock-based compensation *(note 7)*	**177**	88	**317**	409
Depletion, depreciation and accretion	**1,112**	952	**3,279**	3,312
	2,308	1,831	**6,689**	6,248
Loss before income taxes	**(876)**	(1,058)	**(1,970)**	(3,044)
Income taxes				
Future tax recovery	**210**	228	**489**	645
Net loss and comprehensive loss for the period	**(666)**	(830)	**(1,481)**	(2,399)
Deficit – beginning of period	**(4,164)**	(2,081)	**(3,349)**	(512)
Deficit – end of period	**(4,830)**	(2,911)	**(4,830)**	(2,911)
Net loss per share *(note 7)*				
Basic and diluted	**(0.03)**	(0.06)	**(0.07)**	(0.18)

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
(000s) (unaudited)	*($)*	*($)*	*($)*	*($)*
Cash provided by (used in):				
Operating activities				
Net loss for the period	**(666)**	(830)	**(1,481)**	(2,399)
Add back non-cash items:				
Depletion, depreciation and accretion	**1,112**	952	**3,279**	3,312
Stock-based compensation	**177**	88	**317**	409
Future income tax recovery	**(210)**	(228)	**(489)**	(645)
	413	(18)	**1,626**	677
Abandonment and reclamation charges	**–**	–	**(20)**	–
Change in non-cash working capital *(note 8)*	**225**	(90)	**91**	426
	638	(108)	**1,697**	1,103
Financing activities				
Increase (decrease) in bank debt	**–**	1,082	**(2,436)**	(5,386)
Issuance of share capital	**22,206**	–	**36,006**	5,875
Share issue expenses	**(1,559)**	–	**(2,630)**	(671)
Change in non-cash working capital *(note 8)*	**66**	49	**66**	20
	20,713	1,131	**31,006**	(162)
Investing activities				
Property and equipment additions	**(3,525)**	(1,683)	**(14,689)**	(4,177)
Decrease in restricted cash	**–**	–	**4,000**	2,000
Net working capital acquired upon acquisition	**–**	–	**–**	816
Change in non-cash working capital *(note 8)*	**15**	(162)	**(274)**	420
	(3,510)	(1,845)	**(10,963)**	(941)
Net increase (decrease) in cash	**17,841**	(822)	**21,740**	–
Cash – beginning of period	**3,899**	822	**–**	–
Cash – end of period	**21,740**	–	**21,740**	–

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2010

(unaudited)

1. NATURE OF OPERATIONS

DeeThree Exploration Ltd. ("DeeThree") was incorporated under the Business Corporations Act (Alberta) on January 24, 2007 and commenced operations in mid-2007. DeeThree's principal business activity is petroleum and natural gas exploration, development and production in Western Canada. On July 31, 2008, DeeThree acquired all the common shares of 1265953 Alberta Inc., a private company, and on September 30, 2008, both companies were amalgamated. In November 2008, DeeThree 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 Venture Exchange listed capital pool company. Following the closing of the transaction, Royal changed its name to DeeThree Exploration Inc. ("DeeThree Inc." or the "Company"), and DeeThree is now a wholly owned subsidiary of the Company, which trades on the TSX Venture Exchange under the symbol DTX. On January 1, 2010, the name of DeeThree Inc. was changed to "DeeThree Exploration Ltd." in conjunction with the amalgamation of DeeThree and DeeThree Inc.

2. BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The interim financial statements of the Company have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2009. The disclosures provided below are incremental to those included with the annual consolidated financial statements and certain disclosures, which are normally required to be included in the notes to the annual consolidated financial statements, have been condensed or omitted. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's annual filings for the year ended December 31, 2009.

(a) Pending Accounting Pronouncements

(i) The Canadian Institute of Chartered Accountants ("CICA") issued Section 1582, "Business Combinations", which replaces former guidance on business combinations. Section 1582 establishes principles and requirements for the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Company has chosen not to early adopt the new section.

(ii) The CICA issued Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-Controlling Interests", which replace existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Company has chosen not to early adopt the new section.

These financial statements reflect all adjustments that are, in the opinion of management, necessary to present fairly the financial position of the Company as at September 30, 2010 and the results of operations and cash flows for the period ended September 30, 2010.

3. ACQUISITION

Effective June 25, 2009, DeeThree Inc. (formerly Royal Capital Corp.) acquired all of the issued and outstanding shares of DeeThree Exploration Ltd., a private oil and gas company incorporated in Alberta with operations also in that province. As consideration, DeeThree Exploration Inc. issued 12,964,943 common shares on the basis of one DeeThree Exploration Inc. share for every one DeeThree Exploration Ltd. share. Although the legal parent in the acquisition is DeeThree Exploration Inc., the transaction under securities regulations and for accounting purposes deemed control to pass to the legal subsidiary, DeeThree Exploration Ltd., and accordingly, reverse takeover accounting applied (note 7).

The transaction was accounted for by the purchase method based on fair values as follows:

(000s)	*($)*
Net assets acquired:	
Cash	822
Other net working capital	(6)
	816
Consideration:	
Common shares	816

4. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depletion and Amortization	Net Book Value
(000s)	*($)*	*($)*	*($)*
September 30, 2010			
Petroleum and natural gas properties	**45,994**	**8,109**	**37,885**
Office equipment	**52**	**20**	**32**
	46,046	**8,129**	**37,917**
December 31, 2009			
Petroleum and natural gas properties	30,928	4,936	25,992
Office equipment	37	13	24
	30,965	4,949	26,016

The Company capitalized $349,000 (2009 – $182,000) of direct general and administrative costs and $197,000 (2009 – $339,000) of stock-based compensation expense.

As at September 30, 2010, unevaluated and undeveloped properties with a cost of $6,331,000 (2009 – $1,322,000), 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 September 30, 2010. Future capital costs required to develop proved reserves in the amount of $700,000 (2009 – $2,945,000) were included in amounts subject to depletion and estimated salvage values of $3,103,000 (2009 – $2,316,000) have been excluded from the depletion calculation.

An impairment test was completed as at September 30, 2010. Management's determination is dependent upon a number of key factors, one of which is the price of commodities. If the current factors were held constant and if the price of natural gas were to decrease from the price deck used, there would be an impairment. The amount of the impairment would be dependent upon the quantum of decrease in the gas prices. As at September 30, 2010, no impairment write-down was required. The impairment test was calculated using the following benchmark reference prices:

	Crude Oil Edmonton Par Price 40° API	Natural Gas Alberta AECO-C
	($CDN/bbl)	*($CDN/mmbtu)*
2010	79.12	3.88
2011	84.42	4.40
2012	87.82	5.07
2013	90.29	5.71
2014	94.69	6.43
2015 – 2020 (1)	99.82	7.80
Thereafter (2)	2%/year	2%/year

(1) Prices shown are the average over the period.

(2) Percentage change of 2% represents the change in future prices each year after 2020 to the end of the reserves life.

5. BANK DEBT

At September 30, 2010, the Company had a revolving demand credit facility with an authorized borrowing base of $12,000,000, with interest charged at the bank's prime rate plus 1.25% per annum. Standby fees associated with this facility are 0.25% per annum on the undrawn portion of the facility. At September 30, 2010, $nil was drawn against the revolving demand credit facility. The next review of the credit facility is scheduled to take place on or before October 31, 2010 and had commenced as at the date of this report. The amount of the facility is subject to a borrowing base test performed on a periodic basis by the lenders, based primarily on reserves and using commodity prices estimated by the lenders as well as other factors. A decrease in the borrowing base could result in a reduction to the credit facility. Collateral for this facility consists 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 had a cash secured letter of credit facility with its lender in the amount of $4,000,000 to facilitate the issuance of a letter of credit by the lender with respect to the Lethbridge property acquisition and DeeThree's commitment to drill ten wells and shoot one township of seismic during the first year following the completion of the transaction. As at December 31, 2009, the Company had fulfilled the first year commitment, and in January 2010, the vendor released the letter of credit.

6. ASSET RETIREMENT OBLIGATIONS

The Company recorded an asset retirement obligation associated with 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 $3,128,000. The obligation was calculated using a credit adjusted risk-free discount rate of 8%. The majority of expenditures are expected to be incurred in 2013 through 2023.

	Nine Months Ended September 30, 2010	Year Ended December 31, 2009
(000s)	*($)*	*($)*
Balance – beginning of period	**1,636**	1,317
Liabilities incurred	**114**	67
Revisions	**11**	144
Accretion of asset retirement obligation	**105**	108
Liabilities settled	**(29)**	–
Balance – end of period	**1,837**	1,636

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 – Common Shares

	Nine Months Ended September 30, 2010		Year Ended December 31, 2009	
	Shares	Amount	Shares	Amount
	(#)	*($000s)*	*(#)*	*($000s)*
Balance – beginning of period	**15,518,093**	**27,263**	6,000,000	816
Consolidation of outstanding common shares 1-for-12 basis	**–**	**–**	(5,500,000)	–
Shares issued to acquire outstanding shares of DeeThree *(i)*	**–**	**–**	12,964,943	21,570
Common shares issued *(ii)*	**12,197,500**	**32,074**	–	–
Flow-through shares issued *(ii)*	**1,236,250**	**3,462**	2,000,000	5,000
Tax effect of flow-through shares *(iii)*	**–**	**(1,872)**	–	–
Exercise of warrants *(iv)*	**252,500**	**535**	52,500	112
Exercise of options *(v)*	**106,374**	**297**	650	2
Share issue costs	**–**	**(2,630)**	–	(323)
Tax benefit of share issue costs	**–**	**702**	–	86
Balance – end of period	**29,310,717**	**59,831**	15,518,093	27,263

7. SHARE CAPITAL (CONTINUED)

(b) Issued – Common Shares (continued)

(i) Under reverse takeover accounting, the authorized and issued share capital is that of DeeThree Exploration Inc., while the stated value is that of DeeThree Exploration Ltd. (note 3).

(ii) Private Placements

In March 2010, DeeThree issued 4,197,500 common shares at a price of $2.40 per common share and 1,236,250 flow-through common shares at a price of $2.80 per flow-through common share for total gross proceeds of $13,536,000 ($12,465,000 net of share issue expenses), including 547,500 common shares and 161,250 flow-through shares issued on the exercise in full of the underwriter's over-allotment option.

In September 2010, DeeThree issued 8,000,000 common shares at a price of $2.75 per common share for total gross proceeds of $22,000,000 ($20,441,000 net of share issue expenses), including 1,043,478 common shares issued on the exercise in full of the underwriter's over-allotment option.

(iii) Flow-Through Shares

In January 2010, DeeThree renounced the $6,727,000 in qualified exploration expenditures for the 2,719,693 flow-through common shares issued in April, May and October of 2009, and the related tax effect of the transaction was booked at that time.

(iv) On May 19, 2010 and September 14, 2010, 200,000 and 52,500 warrants were exercised at $1.00 share, respectively.

(v) On February 2, 2010, 12,500 options were exercised at $2.40 per share, on March 5, 2010, 17,000 options were exercised at $2.00 per share, and on September 14, 2010, 76,874 agent options were exercised at $2.00 per share.

(c) Issued – Share Purchase Warrants

	Nine Months Ended September 30, 2010	Year Ended December 31, 2009
(000s)	*($)*	*($)*
Balance – beginning of period	**283**	–
Stock-based compensation expense – warrants	**–**	560
Reduction due to exercise of warrants	**(283)**	(277)
Balance – end of period	**–**	283

On June 19, 2009, the Company issued 500,000 share purchase warrants with an exercise price of $1.00 per share purchase warrant. These warrants vested immediately and expired on September 16, 2010. The fair value of the warrants was estimated using the Black-Scholes pricing model and the assumptions are outlined below.

As at	**September 30, 2010**	December 31, 2009
Risk-free interest rate *(%)*	**–**	1.28
Expected life *(years)*	**–**	1.2
Expected volatility *(%)*	**–**	70
Expected dividend yield *(%)*	**–**	–
Fair value of options granted during the period *($/share)*	**–**	1.12

Warrants Outstanding

The following summarizes information about common share purchase warrants as at September 30, 2010:

	Warrants	Weighted Average Exercise Price
	(#)	*($)*
Outstanding at December 31, 2009	252,500	1.00
Issued	**–**	**–**
Exercised	**(252,500)**	**(1.00)**
Balance – September 30, 2010	**–**	**–**

7. SHARE CAPITAL (CONTINUED)

(c) Issued – Share Purchase Warrants (continued)

Compensation expense for warrants granted is based on the estimated fair value at the time of the grant and is amortized to expense over the warrants' vesting period. All related compensation expense was recorded in 2009.

(d) Contributed Surplus

	Nine Months Ended September 30, 2010	Year Ended December 31, 2009
(000s)	*($)*	*($)*
Balance – beginning of period	**477**	40
Stock-based compensation expense – options	**533**	377
Reduction due to exercise of options	**(79)**	–
Reduction due to forfeiture of options	**(20)**	–
Share issue costs – agent/broker options	**–**	60
Balance – end of period	**911**	477

(e) 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 September 30, 2010 were 20,452,440 basic and diluted (2009 – 13,142,599 basic and 13,404,701 diluted).

(f) Options Outstanding

The following summarizes information about stock options outstanding as at September 30, 2010:

	Options	Weighted Average Exercise Price
	(#)	*($)*
Outstanding at December 31, 2009	1,047,057	1.88
Issued	**1,045,000**	**2.60**
Exercised	**(106,374)**	**2.05**
Forfeited	**(100,683)**	**2.13**
Balance – September 30, 2010	**1,885,000**	**2.26**

Exercise Price	Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable	Weighted Average Price Outstanding and Exercisable
($)	*(#)*	*(years)*	*($)*	*(#)*	*($)*
As at September 30, 2010					
1.20	**200,000**	**2.7**	**1.20**	**100,000**	**1.20**
2.00	**542,500**	**3.7**	**2.00**	**217,000**	**2.00**
2.01	**135,000**	**4.4**	**2.01**	**–**	**–**
2.13	**85,000**	**4.2**	**2.13**	**17,000**	**2.13**
2.40	**347,500**	**4.5**	**2.40**	**146,500**	**2.40**
2.45	**45,000**	**4.4**	**2.45**	**9,000**	**2.45**
2.89	**530,000**	**4.9**	**2.89**	**–**	**–**
	1,885,000	**4.2**	**2.26**	**489,500**	**1.97**

7. SHARE CAPITAL (CONTINUED)

(f) Options Outstanding (continued)

The fair value of the common share purchase options granted was estimated as at the date of grant using the Black-Scholes option pricing model and the following weighted average assumptions:

As at	**September 30, 2010**	December 31, 2009
Risk-free interest rate *(%)*	**2.33**	1.28
Expected life *(years)*	**5.0**	4.7
Expected volatility *(%)*	**126**	70
Expected dividend yield *(%)*	**–**	–
Fair value of options granted during the period *($/share)*	**2.51**	1.02

Compensation expense for options granted is based on the estimated fair value at the time of the grant and is amortized to expense over the options' vesting period. As a result, the Company has recognized $513,000 (2009 – $189,000) for non-cash stock-based compensation expense, of which $197,000 (2009 – $85,000) was capitalized to the full cost pool with a corresponding increase to contributed surplus of $513,000 (2009 – $189,000).

(g) 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.

The current credit facility has no financial ratio covenants; 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, 2009.

8. CHANGES IN NON-CASH WORKING CAPITAL

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
(000s)	*($)*	*($)*	*($)*	*($)*
Accounts receivable	**(93)**	204	**83**	682
Prepaid expenses and other	**99**	20	**32**	(60)
Accounts payable and accrued liabilities	**300**	(427)	**(232)**	244
	306	(203)	**(117)**	866

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
(000s)	*($)*	*($)*	*($)*	*($)*
Operating	**225**	(90)	**91**	426
Financing	**15**	49	**66**	20
Investing	**66**	(162)	**(274)**	420
	306	(203)	**(117)**	866

9. FINANCIAL INSTRUMENTS

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

(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, but also global economic events that dictate the levels of supply and demand.

As at September 30, 2010, the Company had the following fixed price physical contracts:

Daily Quantity	Term of Contract	Fixed Price (AECO)
700 GJ/d	Apr. 1, 2010 – Oct. 31, 2010	$4.67/GJ
700 GJ/d	Apr. 1, 2010 – Oct. 31, 2010	$4.48/GJ
700 GJ/d	Apr. 1, 2010 – Dec. 31, 2010	$4.485/GJ

(ii) Credit Risk

The majority of the Company's accounts receivables related to its sales revenues are primarily with one customer. These receivables are subject to normal industry credit risks. With respect to counterparties for the sale of the Company's commodities, DeeThree partially mitigates associated credit risk by limiting transactions to credit-worthy counterparties.

10. RELATED PARTIES

The following summarizes the Company's related party transactions as at September 30, 2010:

The Company has retained a law firm to provide legal services. The Corporate Secretary of DeeThree is a partner of this firm. During the period ended September 30, 2010, the Company incurred $229,000 in costs with the firm (2009 – $187,000), which have been included in G&A expenses and share issue costs, and $49,000 (2009 – $nil) remained in accounts payable at September 30, 2010. Services provided related to advice and counsel primarily in the areas of general legal, corporate governance and banking matters. The Company expects to continue using the services of this firm throughout the balance of 2010.

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 by the Company during the second quarter of 2009, the Company is required to spend $1,727,000 of eligible exploration expenditures by December 31, 2010. As at September 30, 2010, all eligible exploration expenditures had been incurred. These expenditures were renounced to shareholders in January 2010 effective December 31, 2009.

In connection with the issuance of flow-through shares by the Company during the fourth quarter of 2009, the Company is required to spend $5,000,000 of eligible exploration expenditures by December 31, 2010. As at September 30, 2010, all eligible exploration expenditures had been incurred. These expenditures were renounced to shareholders in January 2010 effective December 31, 2009.

In connection with the issuance of flow-through shares by the Company during the first quarter of 2010, the Company is required to spend $3,462,000 of eligible exploration expenditures by December 31, 2011. As at September 30, 2010, approximately $2,470,000 of eligible exploration expenditures had been incurred. These expenditures will be renounced to shareholders in 2011 effective December 31, 2010.

11. COMMITMENTS (CONTINUED)

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 (ten wells per year). In addition, DeeThree has committed to shooting four townships of seismic data over the same period (one township in year one, two townships in year two and one township in year three). As at September 30, 2010, the Company drilled 12 wells, thereby satisfying the second year drilling commitment. Subsequent to September 30, 2010, the Company commenced shooting the remaining 20 sections of 3-D seismic data, which is expected to be completed by November 15, 2010, thereby satisfying the second year seismic commitment. On April 13, 2010, the Company executed a two-year extension to its amended lease agreement, which is part of a lease issuance, seismic and drilling commitment agreement. This extension involves a commitment to drill an additional 20 wells over the two-year period (ten wells per year) into the Mississippian horizon and expires on November 13, 2013.

During the second quarter of 2010, the Company entered into a long-term operating lease for its current office premises, which expires December 31, 2013 at an annual cost of approximately $230,000.

12. SUBSEQUENT EVENT

On October 28, 2010, the Company announced that it entered into a “best efforts” offering for a private placement of 3,296,703 flow-through shares at a price of $4.55 per share for gross proceeds of $15,000,000. This offering is expected to close on or before November 18, 2010.

CORPORATE INFORMATION

Board of Directors

Michael Kabanuk
Executive Chairman
DeeThree Exploration Ltd.

Brendan Carrigy
Vice President, Exploration
DeeThree Exploration Ltd.

Martin Cheyne
President & Chief Executive Officer
DeeThree Exploration Ltd.

Henry Hamm (1)(2)(3)
Independent Businessman

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

Brad Porter (1)(2)(3)
Independent Businessman

(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

Trevor Murray
Vice President, Land

Daniel Kenney
Corporate Secretary

Head Office

Suite 700
520 Fifth Avenue S.W.
Calgary, Alberta T2P 3R7
Telephone: (403) 760-3060
Facsimile: (403) 263-9710
Website: www.deethree.ca

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

Toronto Stock Exchange
Trading Symbol: DTX

Abbreviations

bbls	barrels
boe	barrels of oil equivalent
GJ	gigajoules
/d	per day
mcf	thousand cubic feet
mm	million
mmbtu	million British thermal units
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

Natural gas is equated to oil on the basis of 6 mcf : 1 bbl

DeeThree
Exploration Ltd.