DeeThree Exploration Ltd.

SECOND QUARTER INTERIM REPORT
For the Three and Six Months Ended June 30, 2013

Q2

HIGHLIGHTS: BY THE NUMBERS

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2012	Change	**2013**	2012	Change
(000s, except per share amounts)	*($)*	*($)*	*(%)*	*($)*	*($)*	*(%)*
Financial						
Oil and natural gas revenues	**39,882**	18,437	116	**70,372**	32,714	115
Funds from operations (1)	**22,437**	9,852	128	**39,225**	15,593	152
Per share – basic	**0.29**	0.15	93	**0.52**	0.24	117
Per share – diluted	**0.28**	0.14	100	**0.51**	0.22	132
Cash flow from operating activities	**21,876**	14,696	49	**39,876**	18,760	113
Net income	**6,800**	5,603	21	**6,173**	2,404	157
Per share – basic	**0.09**	0.08	13	**0.08**	0.04	100
Per share – diluted	**0.09**	0.08	13	**0.08**	0.03	167
Capital expenditures (2)	**39,286**	29,699	32	**80,844**	66,414	22
Working capital deficit (3)	**86,338**	50,803	70	**86,338**	50,803	70
Shareholders' equity	**253,336**	185,207	37	**253,336**	185,207	37
(000s)	*(#)*	*(#)*	*(%)*	*(#)*	*(#)*	*(%)*
Share Data						
At period-end	**76,474**	66,986	14	**76,474**	66,986	14
Weighted average – basic	**76,363**	66,986	14	**74,784**	65,153	15
Weighted average – diluted	**79,049**	70,161	13	**77,355**	69,484	11
			(%)			*(%)*
Operating (4)						
Production						
Natural gas *(mcf/d)*	**10,093**	8,687	16	**10,186**	8,672	17
Crude oil *(bbls/d)*	**4,550**	2,091	118	**4,239**	1,704	149
NGLs *(bbls/d)*	**346**	266	30	**317**	274	16
Total *(boe/d)*	**6,578**	3,805	73	**6,254**	3,423	83
Average wellhead prices						
Natural gas *($/mcf)*	**3.79**	2.06	84	**3.61**	2.11	71
Crude oil and NGLs *($/bbl)*	**81.34**	78.67	3	**76.96**	81.42	(5)
Combined average *($/boe)*	**66.62**	53.25	25	**62.17**	52.51	18
Netbacks						
Operating netback *($/boe)*	**40.57**	30.86	31	**38.01**	28.08	35
Funds flow netback *($/boe)*	**37.40**	28.36	32	**34.59**	24.94	39
Gross (net) wells drilled						
Oil *(#)*	**5 (5.0)**	7 (6.8)	-29 (-26)	**12 (11.22)**	15 (13.9)	-20 (-19)
Standing *(#)*	**2 (2.0)**	–	–	**2 (2.0)**	2 (2.0)	–
Dry and abandoned *(#)*	**1 (1.0)**	–	–	**2 (1.97)**	–	–
Total *(#)*	**8 (8.0)**	7 (6.8)	14 (18)	**16 (15.19)**	17 (15.9)	-6 (-4)
Average working interest *(%)*	**100**	97	3	**95**	94	1

(1) Funds from operations and funds from operations per share are not recognized measures under International Financial Reporting Standards (IFRS). Refer to the commentary in the Management's Discussion and Analysis under "Non-IFRS Measurements" for further discussion.
(2) Total capital expenditures, including acquisitions and excluding non-cash transactions. Refer to commentary in the Management's Discussion and Analysis under "Capital Expenditures and Acquisitions" for further information.
(3) Current assets less current liabilities, excluding current derivative financial instruments.
(4) For a description of the boe conversion ratio, refer to the commentary in the Management's Discussion and Analysis under "Other Measurements".

LETTER TO SHAREHOLDERS

We are very pleased to report our financial and operating results for the three and six months ended June 30, 2013.

Third Quarter Highlights

DeeThree delivered another quarter of strong results, including the seventh consecutive quarter of production growth. Highlights of the quarter include the following.

- Record production for the second quarter averaging 6,578 boe/d (74% oil and NGLs and 26% natural gas), an increase of 73% over the same quarter of 2012 and an 11% increase over the first quarter of 2013.
- Record oil and NGL production for the second quarter averaging 4,896 bbls/day representing a 16% or 683 bbl/day increase from the first quarter of 2013 and a 108% increase over the same period last year.
- Increased operating netback to $40.57/boe from $30.86/boe in the same quarter last year and $35.15/boe in the first quarter of 2013, an increase of 31% and 15%, respectively.
- Funds flow from operations increased to $22.4 million, representing a 128% increase from the second quarter of 2012 and a 33% improvement from the first quarter of 2013.
- Funds from operations on a fully diluted per share basis increased to $0.28, up 100% from the same quarter last year and 22% from the first quarter of 2013.
- Invested $39 million in capital expenditures which included the drilling of 8 (8.0 net) wells, achieving 88% success rate.
- Exited the quarter with total net debt of $86.3 million, representing a debt to annualized cash flow ratio of 0.96:1.

Operational Update

Continued drilling success in DeeThree's Alberta Bakken and Belly River light oil resource plays resulted in substantial production growth in the second quarter. Throughout the quarter, we focused on the delineation of the oil resources of our Alberta Bakken and Belly River light oil resource plays and as a result, the well location inventory on these two plays has increased to 500. We also expanded our pipeline and facility infrastructure in order to accommodate anticipated future production increases.

At the end of the first half of 2013, we had realized production volumes from only 11 wells drilled in the period. The third quarter will be the most active in DeeThree's history with an additional 12 - 14 Alberta Bakken and Belly River horizontal wells anticipated to be placed on production during the quarter. Three drilling rigs are currently operating and a fourth drilling rig will commence operations in the coming days.

Alberta Bakken

DeeThree's efforts in the second quarter on its Alberta Bakken light oil resource play were focused primarily in the Ferguson area where we drilled eight 100% working interest wells (six horizontal wells, one vertical delineation well and one water disposal well). The Company is very pleased by the results of an ongoing test of a recently completed well which has averaged 1,550 bbls of oil per day over a six day period. This location offsets a previously announced DeeThree Alberta Bakken well that has produced 61,000 bbls of oil over the last 81 days.

As a result of minor weather delays during the quarter, only four of the six horizontal wells were completed and brought on-stream. The Company's third quarter results will see the benefit of having all six of these wells on-stream. The results of these wells, combined with data acquired from a recent seismic program, once again extending the edge of our Alberta Bakken oil pool by two miles to the east, for a total known length in excess of 14 miles encompassing approximately 60 sections.

We have been very active expanding our infrastructure throughout the eastern side of our land base during the quarter in order to accommodate anticipated production increases. In particular, we completed a significant oil pipeline extension to the east of Highway 4 in order to tie in recently completed eastern step-out oil wells. The 8,000 bbl/day oil battery at Ferguson remains under construction and is now anticipated to be operational in the latter part of August. A number of wells completed during the second quarter were produced as single well batteries awaiting pipeline construction and completion of the new battery, temporarily increasing operating costs in the area. The significant investment in expanding our infrastructure is expected to alleviate these increased costs on a go-forward basis.

We have continued to expand our Alberta Bakken land holdings having recently acquired an additional 15.25 sections of land at Crown land sales that offset eastern step-out oil wells successfully drilled early in the third quarter.

Early in the second quarter, we initiated an enhanced oil recovery pilot project in the Ferguson Bakken field, converting the 8-19-3-16W4 producing oil well (production of 220 boe/day at time of conversion) into a solution gas injection well to help with long term pressure maintenance and ultimately increase oil recovery. Updates on the results of this pilot project will be announced as they become available.

Belly River

DeeThree re-commenced drilling operations on its Brazeau Belly River property in mid-June. Since that time, two wells have been drilled on the farm-in lands with one well being completed to date. The completed well was drilled into the "C" sand and completed with a 19 stage completion. This well produced up the 4 ½" frac string at a stabilized rate of 500 boe/day (85% oil and NGLs) 15 days after completion. The well is currently shut in for pipelining and tie-in operations.

We are also extending our pipeline infrastructure to the farm-in lands in order to tie production into our owned and operated facilities. This infrastructure will allow for accelerated on- stream times on future locations drilled and is expected to lower operating costs in the area.

Outlook

DeeThree is well positioned with a strong balance sheet and its Alberta Bakken and Belly River light oil resource plays to deliver accelerated growth for our investors in terms of production, cash flow and reserves over the remainder of the year. We remain confident that we will achieve our 2013 target exit production rate of 9,600 – 10,000 boe/d (81% crude oil & NGLs).

We are currently finalizing a resource study of our Belly River light oil resource play with our independent reserve evaluators. We look forward to sharing that information in the coming weeks.

On behalf of the Board of Directors,

(signed) "Martin Cheyne"

Martin Cheyne
President & Chief Executive Officer

August 8, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations for DeeThree Exploration Ltd. ("DeeThree" or the "Company") is dated August 8, 2013 and should be read in conjunction with the Company's unaudited interim financial statements and related notes for the three and six months ended June 30, 2013, as well as the Company's audited financial statements and related notes for the years ended December 31, 2012. The interim financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Additional information regarding the Company and factors that could affect its operations and financial results are included in reports on file with Canadian securities regulatory authorities, including the Company's Annual Information Form, and may be accessed through the SEDAR website (www.sedar.com), or at the Company's website (www.deethree.ca). Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, accept as may be required by applicable securities laws. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.

Non-IFRS Measurements

This MD&A contains the terms "funds from operations" and "funds from operations per share", which should not be considered an alternative to or more meaningful than cash flow from operating activities as determined in accordance with IFRS. These terms do not have any standardized meaning as prescribed by IFRS. DeeThree's determination of funds from operations and funds from operations per share 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, if applicable. 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. DeeThree presents funds from operations per share whereby 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 with cash flow from operating activities, which is the most directly comparable measure calculated in accordance with IFRS:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
(000s)	*($)*	*($)*	*($)*	*($)*
Cash flow from operating activities	**21,876**	14,696	**39,876**	18,760
Abandonment and reclamation costs	**18**	74	**85**	108
Changes in non-cash working capital	**543**	(4,918)	**(736)**	(3,275)
Funds from operations	**22,437**	9,852	**39,225**	15,593

During the three and six months ended June 30, 2013, the Company's funds from operations totaled $22,437,000 ($0.29 per basic share and $0.28 per diluted share) and $39,225,000 ($0.52 per basic share and $0.51 per diluted share), compared to $9,852,000 ($0.15 per basic share and $0.14 per diluted share) and $15,593,000 ($0.24 per basic share and $0.22 per diluted share) in the respective period of 2012.

The Company considers corporate netbacks to be a key measure as they demonstrate DeeThree's profitability relative to current commodity prices. Corporate netbacks are comprised of operating, funds flow and net income netbacks. Operating netback is calculated as the average sales price of the Company's commodities, less royalties, operating costs and transportation expenses. Funds flow netback starts with the operating netback and further deducts general and administrative costs and finance expense, and then adds realized gains on financial instruments. To calculate the net income netback, DeeThree takes the funds flow netback and deducts share-based compensation expense as well as depletion and depreciation charges, accretion expense, unrealized gains or losses on financial instruments, any impairment or exploration and evaluation expense and deferred income taxes. No IFRS measure is reasonably comparable to netbacks. See "Netbacks (per unit)" for the netback calculations.

Net debt and working capital (deficit), which represent current assets less current liabilities, excluding current derivative financial instruments, are used to assess efficiency, liquidity and the Company's general financial strength. No IFRS measure is reasonably comparable to net debt or working capital (deficit).

Other Measurements

All financial figures are in Canadian dollars. Where amounts are expressed on a barrel of oil equivalent (boe) basis, natural gas volumes have been converted to oil equivalence at 6,000 cubic feet of gas to 1 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.

Forward-Looking Statements

Certain statements 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 of 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, and expectations regarding the Company's ability to raise capital and to continually add to reserves through acquisitions and development.

With respect to forward-looking statements 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 discussed 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. In addition, test results are not necessarily indicative of long-term performance or of ultimate recovery.

This forward-looking information represents the Company's views as of the date of this MD&A and such information should not be relied upon as representing its views as of any subsequent date. 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. There may be other factors, however, 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.

Description of the Company

DeeThree is a Calgary, Alberta-based resource company actively engaged in crude oil and natural gas exploration, development and production in key areas of the Western Canada Sedimentary Basin. DeeThree commenced operations in 2007 as a private company focused on creating long-term shareholder value through prudent operational and financial management.

DeeThree has created a platform for growth through a sound business strategy that includes low-risk development and exploration as well as strategic acquisitions. The Company has two core operating areas: the Brazeau area of west central Alberta, which is prospective for crude oil, natural gas and natural gas liquids, and the Ferguson area of southern Alberta, which features Bakken oil and shallow natural gas. These two core areas, along with the other non-core areas, have provided the Company with a balanced and diverse production base.

Common shares of DeeThree are listed for trading on the Toronto Stock Exchange under the symbol DTX and on the United States OTCQX under the symbol DTHRF.

In late 2008, DeeThree completed its first significant property acquisition from a major oil and natural gas producer of properties in the Lethbridge area of southern Alberta, which became known as the Ferguson area. Ferguson was the Company's primary focus until late in the first quarter of 2011 when DeeThree closed a transformational acquisition of properties in the Peace River Arch and Brazeau areas. In this acquisition, which closed on March 22, 2011 (effective January 1, 2011), the Company acquired approximately 1,830 boe/d of primarily high-working-interest, operated crude oil, natural gas and NGL production and reserves, of which approximately 40 percent was crude oil and NGLs.

First Quarter 2013 Transactions

On January 18, 2013, the Company executed a purchase and sale agreement with an oil and natural gas company pursuant to which DeeThree acquired interests in producing assets in the Peace River Arch area for consideration of approximately $2,130,000 subject to certain adjustments.

On February 19, 2013, the Company issued 4,420,000 common shares at a price of $6.80 per share for total gross proceeds of $30,056,000 ($28,052,000 net of estimated share issuance costs). The proceeds have been used to conduct development activity at Ferguson and Brazeau.

On March 12, 2013, the Company issued 663,000 common shares at $6.80 per share for total gross proceeds of $4,508,400 ($4,192,000 net of estimated share issuance costs) on the exercise in full of the underwriters' over-allotment option from the February issuance.

Second Quarter 2013 Transactions

In April 2013, the Company increased its existing credit facility to $135,000,000 from $90,000,000. The increase in the credit facility was finalized on April 30, 2013.

On May 6, 2013, DeeThree entered into a commodity swap for 500 bbls/d of crude oil effective June 1, 2013 to December 31, 2013 at a fixed price of CAD $95.03/bbl.

On June 17, 2013, Dee Three entered into a commodity hedge for 1,000 bbls/d of crude oil effective January 1, 2014 to December 31, 2014 with a strike price of USD $97.00/bbl and a floor price of USD $85.00/bbl.

Subsequent Events

On July 10, 2013, DeeThree entered into a commodity hedge for 500 bbls/d of crude oil effective January 1, 2014 to December 31, 2014 with a strike price of CAD $102.01/bbl and a floor price of CAD $92.50/bbl.

On July 25, 2013, DeeThree entered into a deferred put commodity hedge contract for 1,000 bbls/d of crude oil effective August 1, 2013 to December 31, 2013 with a strike price of CAD $104.05/bbl and a premium of $4.05/bbl to a guaranteed floor price of CAD $100.00/bbl.

On July 30, 2013, DeeThree entered into a commodity hedge contract for 500 bbls/d of crude oil effective January 1, 2014 to December 31, 2014 with a strike price of CAD $101.25/bbl and a floor price of CAD $90.00/bbl.

Financial and Operating Results

Sales Volumes

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
Sales				
Natural gas *(mcf/d)*	**10,093**	8,687	**10,186**	8,672
Crude oil *(bbls/d)*	**4,550**	2,091	**4,239**	1,704
NGLs *(bbls/d)*	**346**	266	**317**	274
Total sales *(boe/d)*	**6,578**	3,805	**6,254**	3,423
	(%)	*(%)*	*(%)*	*(%)*
Production Split				
Natural gas	**26**	38	**27**	42
Crude oil	**69**	55	**68**	50
NGLs	**5**	7	**5**	8
Total	**100**	100	**100**	100

For the second quarter of 2013, the Company's production averaged 6,578 boe/d compared to 3,805 boe/d in the same period of 2012 and 5,926 boe/d in the first quarter of 2013. This represents a 73 percent year-over-year and an 11 percent quarter-over-quarter increase, directly attributable to the Company's drilling success. The Company experienced increases to production from bringing new 2013 drills on-stream, which was slightly offset by operational issues on a few wells in our Peace River Arch area during the quarter.

For the first half of 2013, DeeThree's production averaged 6,254 boe/d compared to 3,423 boe/d a year ago, representing an 83 percent increase. During the 2013 six month period, production was comprised of 10,186 mcf/d of natural gas, 4,239 bbls/d of crude oil and 317 bbls/d of NGLs, thereby increasing the Company's crude oil and NGLs production to 73 percent of total corporate production versus 58 percent in the comparable period of 2012.

Revenue

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
(000s)	*($)*	*($)*	*($)*	*($)*
Natural gas	**3,480**	1,625	**6,657**	3,331
Crude oil	**34,752**	15,452	**60,697**	26,047
NGLs and other	**1,650**	1,360	**3,018**	3,336
Total oil and natural gas revenue	**39,882**	18,437	**70,372**	32,714

During the three months ended June 30, 2013, revenue increased by 116 percent to $39,882,000 from $18,437,000 in the comparative period of 2012, and rose by 31 percent from $30,490,000 in the first quarter of 2013. These increases were a result of increased production from the Company's successful drilling program.

For the first half of 2013, revenue totaled $70,372,000 compared to $32,714,000 for the same period of 2012. During the first six months of 2013, total revenue increased 115 percent compared to 2012 primarily as a result of the percent year-over-year increase in sales volumes and an increase in oil production as a percentage of sales.

Commodity Prices and Foreign Exchange

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
	($)	*($)*	*($)*	*($)*
Benchmark Prices				
Natural gas				
NYMEX *(US$/mmbtu)* (1)	**4.09**	2.26	**3.72**	2.52
AECO *(Cdn$/GJ)* (2)	**3.35**	1.80	**3.19**	1.92
Crude oil				
WTI *(US$/bbl)*	**94.22**	93.49	**94.30**	98.21
Edmonton light *(Cdn$/boe)*	**92.53**	84.20	**90.45**	88.34
Average Realized Prices				
Natural gas *($/mcf)*	**3.79**	2.06	**3.61**	2.11
Crude oil *($/bbl)*	**83.92**	81.21	**79.11**	84.01
NGLs *($/bbl)*	**47.29**	58.72	**48.21**	65.39
Combined average *($/boe)*	**66.62**	53.25	**62.17**	52.51
Foreign Exchange				
Cdn$/US$	**1.0234**	1.0102	**1.0161**	1.0057
US$/Cdn$	**0.9772**	0.9899	**0.9841**	0.9943

(1) Mmbtu is the abbreviation for millions of British thermal units. One mcf of natural gas is approximately 1.02 mmbtu.
(2) GJ is the abbreviation for gigajoule. One mcf of natural gas is approximately 1.05 GJ.

The Company's financial results are significantly influenced by fluctuations in commodity prices, including price differentials and foreign exchange rates. The Company seeks to protect itself from fluctuations in prices and exchange rates by maintaining an appropriate hedging strategy. As at the date of this MD&A, DeeThree had eleven crude oil risk management contracts in place (see "Risk Management" below and "Subsequent Events" above for details). Most commodity prices are based on U.S. dollar benchmarks, which result in the Company's realized prices being influenced by the Canadian/U.S. exchange rates. The Company does not sell or transact in foreign currency, but may be affected by foreign currency exchange rate changes related to commodity prices as outlined above. As at the date of this MD&A, DeeThree also had two foreign currency exchange risk management contracts in place to mitigate these risks (see "Risk Management" below for contract details), one of which was entered into during 2011 and one of which was entered into during 2012.

During the three-month period ended June 30, 2013, benchmark natural gas prices in Canada were higher than the same period in 2012. In Canada, the benchmark index is the price set at the AECO hub, a major storage site near the TransCanada Energy pipeline exit point from Alberta at Empress. The benchmark index for United States natural gas prices is the market price as established by the New York Mercantile Exchange at Henry Hub (NYMEX), a major point of natural gas pipeline intersection in Louisiana. NYMEX is linked to AECO through transportation tariffs from the respective hubs to common markets and through foreign exchange rates. AECO prices averaged $3.35/GJ throughout the second quarter of 2013 compared to $1.80/GJ in the second quarter of 2012 and $3.03/GJ in the first quarter of 2013. DeeThree's average realized natural gas price during the three-month period was $3.79/mcf in the second quarter of 2013 versus $2.06/mcf a year earlier and $3.43/mcf in the first quarter of 2013.

Oil prices stayed relatively consistent in the second quarter of 2013 with West Texas Intermediate (WTI) averaging $94.22/bbl compared to $93.49/bbl in the same period of 2012 and $94.37/bbl in the first quarter of 2013. The benchmark for crude oil prices in North America, and widely quoted globally, is WTI delivered to Cushing, Oklahoma, again as determined by the NYMEX. Canadian crude prices are based on refiner postings in Canadian dollars at Edmonton, Alberta and, as with natural gas, are linked to WTI through transportation tariffs to common markets and the foreign exchange rate. The average realized price of DeeThree's crude oil was $83.92/bbl for the second quarter of 2013 compared to $81.21/bbl a year earlier and $73.46/bbl in the first quarter of 2013. Crude oil prices were up overall in 2013, as a result of tightening Canadian crude differentials during the second quarter. The volatility in Canadian crude oil differentials is primarily attributed to increased North American oil production, refinery outages and pipeline infrastructure bottlenecks. DeeThree's realized prices for crude oil production are also affected by different quality adjustments in each of the Company's core operating areas. As the percentage of the Company's total oil production from each of those areas changes, the overall average realized price is affected. During the second quarter of 2013, the change in composition resulted in a smaller price differential from WTI than in the prior quarter and a higher average realized price compared to the benchmark. Information regarding the Company's risk management program can be found in "Business Risks and Risk Mitigation" below.

Royalties

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
	($)	*($)*	*($)*	*($)*
Oil and natural gas revenues *(000s)*	**39,882**	18,437	**70,372**	32,714
Total royalties *(000s)*	**7,615**	3,413	**14,056**	6,150
Total royalties *($/boe)*	**12.72**	9.86	**12.42**	9.87
Percent of revenue *(%)*	**19**	19	**20**	19

The Ferguson property is primarily subject to freehold royalties, which is a sliding-scale royalty determined monthly on a well-by-well basis using a calculation that is based on the New Alberta Crown Royalty 2009 with a cap of 30 percent. 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 and crude oil prices).

The Brazeau property is primarily subject to Crown royalties payable to the provincial government and overriding royalties on oil, natural gas and NGLs production. These types of royalties are also sensitive to production levels and commodity prices; therefore, the Company's royalties will continue to fluctuate with commodity prices, well production rates, production declines of existing wells along with performance and location of new wells drilled.

For the second quarter of 2013, royalties totaled $7,615,000 or 19 percent of revenue compared to $3,413,000 or 19 percent of revenue for the same quarter in 2012 and $6,441,000 or 21 percent of revenue in the first quarter of 2013. The royalty rate is impacted by new production from the Company's wells brought on-stream during the past year, some of which are subject to a freehold royalty based on the New Alberta Crown Royalty 2009, while others qualify for the 5 percent royalty holiday under the Government of Alberta royalty framework.

During the first six months of 2013, royalties totaled $14,056,000 or 20 percent of revenue compared to $6,150,000 or 19 percent of revenue a year ago.

Operating and Transportation Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
(000s except per boe)	*($)*	*($)*	*($)*	*($)*
Operating expenses	**6,430**	3,790	**10,751**	8,078
Transportation expenses	**1,553**	548	**2,537**	993
Total operating and transportation expenses	**7,983**	4,338	**13,288**	9,071
Operating expenses *($/boe)*	**10.74**	10.95	**9.50**	12.97
Transportation expenses *($/boe)*	**2.59**	1.58	**2.24**	1.59
Total operating and transportation expenses *($/boe)*	**13.33**	12.53	**11.74**	14.56

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

Operating expenses for the second quarter of 2013 totaled $6,430,000 or $10.74/boe compared to $3,790,000 or $10.95/boe in the same period of 2012 and $4,321,000 or $8.10/boe in the first quarter of 2013. During the quarter, the Company had several wells in the initial production phase in the Ferguson area temporarily incurring higher operating costs until such time as they were tied into the pipeline causing an increase to operating costs per barrel in the period. The Company is also seeing higher operating costs related to the newly constructed facilities in this area.

Transportation expenses for the three months ended June 30, 2013 were $1,553,000 or $2.59/boe compared to $548,000 or $1.58/boe in the second quarter of 2012 and $984,000 or $1.84/boe in the first quarter of 2013. Transportation expenses reflect NOVA and ATCO transportation costs and fluctuate depending on the proportion of the Company's natural gas that flows 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). Over the past year, the Company has increased production of crude oil and NGLs, and the transportation costs associated with those products consist primarily of pipeline tariffs, terminal charges and trucking (crude oil and NGLs incur a higher cost per boe for transportation than natural gas), leading to the year-over-year increase.

For the six months ended June 30, 2013, the Company incurred operating expenses of $10,751,000 or $9.50/boe compared to $8,078,000 or $12.97/boe in the corresponding 2012 period. Transportation expenses for the first half of 2013 totaled $2,537,000 or $2.24/boe versus $993,000 or $1.59/boe in the same period of last year.

Risk Management

The Company has elected not to use hedge accounting and, accordingly, the fair value of the financial contracts is recorded at each period-end. The fair value may change substantially from period to period depending on commodity and foreign exchange forward strip prices for the financial contracts outstanding at the balance sheet date. The change in fair value from period-end to period-end is reflected in the earnings for that period. As a result, earnings may fluctuate considerably based on the period-ending commodity and foreign exchange forward strip prices.

As at June 30, 2013, the Company had the following crude oil and foreign exchange risk management contracts with a long term mark-to-market asset value of $236,000 and a short term mark-to-market liability value of $362,000:

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
Jan. 1/13 – Dec. 31/13	Crude oil	Collar	250 bbls/d	WTI-NYMEX	US$85.00/bbl (floor) – US$111.00/bbl (cap) (1)
Jan. 1/13 – Dec. 31/13	Crude oil	Collar	250 bbls/d	WTI-NYMEX	US$90.00/bbl (floor) – US$113.25/bbl (cap) (2)
Jan. 1/13 – Dec. 31/13	Crude oil	Collar	250 bbls/d	WTI-NYMEX	US$90.00/bbl (floor) – US$116.25/bbl (cap) (3)
Jan. 1/13 – Dec. 31/13	Crude oil	Collar	250 bbls/d	WTI-NYMEX	US$95.00/bbl (floor) – US$118.00/bbl (cap) (4)
Jan. 1/13 – Dec. 31/13	Crude Oil	Collar	500 bbls/d	WTI-NYMEX	US$90.00/bbl (floor) – US$106.00/bbl (cap) (5)
May 1/13 – Dec 31/13	Crude Oil	Fixed	500 bbls/d	WTI-NYMEX	CAD$97.43/bbl
June 1/13 – Dec 31/13	Crude Oil	Fixed	500 bbls/d	WTI-NYMEX	CAD$95.03/bbl
Jan. 1/14 – Dec. 31/14	Crude Oil	Collar	1,000 bbls/d	WTI-NYMEX	US$85.00/bbl (floor) - US$97.00/bbl (cap)

(1) Unless the monthly WTI price averages over US$111.00/bbl every day for the entire month, in which case the cap becomes US$90.00/bbl.
(2) Unless the monthly WTI price averages over US$113.25/bbl every day for the entire month, in which case the cap becomes US$92.00/bbl.
(3) Unless the monthly WTI price averages over US$116.25/bbl every day for the entire month, in which case the cap becomes US$92.00/bbl.
(4) Unless the monthly WTI price averages over US$118.00/bbl every day for the entire month, in which case the cap becomes US$100.00/bbl.
(5) Unless the monthly WTI price averages over US$106.00/bbl every day for the entire month, in which case the cap becomes US$90.00/bbl.

Period	Currency	Type of Contract	Quantity	Pricing Point (Cdn$/US$)
Jan.1/12 – Dec. 31/13	US$	Average Rate Range Bonus Accumulator	US$700,000	Target – $1.10 Cdn$/US$ + $1,000 bonus/day (1)
June 1/12 – Dec. 31/13	US$	Average Rate Range Bonus Accumulator	US$900,000	Target – $1.0775 Cdn$/US$ + $900 bonus/day (2)

(1) The Company can earn a bonus payout of up to $1,000 per day depending on the period in which the exchange rate remains in the applicable range of equal to or greater than $0.9350 and equal to or less than $1.10.
(2) The Company can earn a bonus payout of up to $900 day depending on the period in which the exchange rate remains in the applicable range of equal to or greater than $0.9300 and equal to or less than $1.0775.

These contracts are considered to be financial instruments and the resulting long term derivative financial asset and short-term derivative liability were recorded on the Company's statement of financial position, with the unrealized gain or loss being recorded on the statement of operations and comprehensive income.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
	($)	*($)*	*($)*	*($)*
Unrealized loss (gain) on financial instruments *(000s)*	**(58)**	(7,066)	**976**	(5,237)
Unrealized loss (gain) on financial instruments *($/boe)*	**(0.10)**	(20.41)	**0.86**	(8.41)

During the three and six months ended June 30, 2013, the Company also realized a gain on these financial instruments as a result of commodity prices and foreign exchanges rates in relation to the contract terms.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
	($)	*($)*	*($)*	*($)*
Realized gain on financial instruments *(000s)*	**(154)**	(430)	**(270)**	(606)
Realized gain on financial instruments *($/boe)*	**(0.26)**	(1.24)	**(0.24)**	(0.97)

G&A Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
(000s except per boe)	*($)*	*($)*	*($)*	*($)*
Gross G&A expense	**1,695**	1,429	**3,809**	3,071
Capitalized G&A (direct)	**(328)**	(288)	**(789)**	(753)
Overhead recoveries	**(150)**	(157)	**(259)**	(280)
G&A expense (net)	**1,217**	984	**2,761**	2,038
G&A expense (net) *($/boe)*	**2.03**	2.84	**2.44**	3.27

Gross G&A expense totaled $1,695,000 for the three-month period ended June 30, 2013 compared to $1,429,000 in the comparable period of 2012 and $2,113,000 in the first quarter of 2013. Net G&A costs were $1,217,000 or $2.03/boe in the second quarter of 2013 compared to $984,000 or $2.84/boe a year earlier and $1,544,000 or $2.89/boe in the first quarter of 2013. When compared to the same quarter of the prior year, gross G&A costs increased on an absolute basis due to increased staffing costs (including salaries, bonuses and office rent) associated with higher activity levels. In the second quarter of 2013, the Company had an average of 21 full-time employees and five consultants versus 13 full-time employees and two consultants in the same period of 2012.

The Company capitalized direct G&A expenses amounting to $328,000 and had overhead recoveries of $150,000 in the second quarter of 2013 versus $288,000 and $157,000, respectively, in the comparative period of 2012, and $461,000 and $108,000, respectively, in the first quarter of 2013. G&A expense per unit of production fell by 29% year-over-year due to the Company's significant production growth.

G&A net expenses for the first six months of 2013 totaled $2,761,000 or $2.44/boe compared to $2,038,000 or $3.27/boe in the same period of 2012. During the six months ended June 30, 2013, the Company capitalized $789,000 in direct costs relating to its exploration and development efforts and $259,000 of overhead recoveries compared to $753,000 and $280,000, respectively, in the same period of 2012.

Share-Based Compensation

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
(000s except per boe)	*($)*	*($)*	*($)*	*($)*
Gross share-based compensation	**928**	856	**1,542**	1,581
Share-based compensation reclassified to operating costs	**(53)**	(31)	**(73)**	(58)
Capitalized share-based compensation	**(347)**	(303)	**(541)**	(584)
Share-based compensation expense (net)	**528**	522	**928**	939
Share-based compensation expense (net) *($/boe)*	**0.88**	1.51	**0.82**	1.51

The Company has a stock option plan, which is described in note 10 to the unaudited interim financial statements for the three and six months ended June 30, 2013. Options granted under the plan have a four-year vesting term and expire five years from the grant date. The fair value of options granted is estimated at the grant date using the Black-Scholes option-pricing model. Share-based compensation expense is a non-cash expense that reflects the amortization over the vesting period of the fair value of stock options granted to the Company's employees, consultants and directors. For those stock options granted to field employees, their portion of the share-based compensation is reclassified to operating expenses to be consistent with the recognition of their salaries on the statement of operations and comprehensive loss.

For the quarter ended June 30, 2013, the Company incurred a net expense of $528,000 or $0.88/boe versus $522,000 or $1.51/boe in the same period of 2012 and $400,000 or $0.75/boe in the first quarter of 2013.

During the first six months of 2013, DeeThree incurred a net expense of $928,000 or $0.82/boe compared to $939,000 or $1.51/boe recorded in the first half of 2012.

Depletion and Depreciation (D&D)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
	($)	*($)*	*($)*	*($)*
D&D provision *(000s)*	**11,260**	6,898	**21,575**	12,850
D&D provision *($/boe)*	**18.81**	19.92	**19.06**	20.62

D&D is computed on a unit-of-production basis. Such expense, on a boe basis, fluctuates from period to period primarily as a result of changes in the underlying proved plus probable reserves base and in the amount of costs subject to D&D, including future development costs. Such costs are segregated and depleted on an area-by-area basis relative to the respective underlying proved plus probable reserves base.

Depreciation is provided on certain field facilities using the straight-line method over a 20-year useful life and on office assets using the declining balance method at rates of 20-30 percent.

The Company's D&D expense for the three months ended June 30, 2013 was $11,260,000 or $18.81/boe compared to $6,898,000 or $19.92/boe in the comparable period of 2012 and $10,315,000 or $19.34/boe in the first quarter of 2013. Depletion and depreciation expense for the second quarter of 2013 increased over the same period of 2012 primarily due to higher production volumes and an increase in the rate per barrel as a result of higher estimated future development costs of the Ferguson and Brazeau properties. The future development costs are a key element of the rate determination.

The year-over-year absolute increase was attributable to the increased value of the proved plus probable reserves added during 2012 and 2013 from the Company's drilling program, increased production related to those assets and related future development costs. However, the year-over-year per unit amounts decreased due to the fact that successful 2012 and 2013 wells were added to the asset base at a lower cost per boe of new reserves than the assets purchased in the March 2011 acquisition, which contributes to a lower D&D rate overall.

For the six months ended June 30, 2013, D&D expense totaled $21,575,000 or $19.06/boe compared to $12,850,000 or $20.62/boe recorded in the same period of 2012.

Exploration and Evaluation (E&E) Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
	($)	*($)*	*($)*	*($)*
E&E expense *(000s)*	**870**	1,388	**5,592**	2,520
E&E expense *($/boe)*	**1.45**	4.01	**4.94**	4.04

Under IFRS, DeeThree accumulates those costs related to E&E assets in one cost pool, pending determination of technical feasibility and commercial viability of the asset. E&E costs are primarily for seismic data, undeveloped land and drilling until the well in question is complete and results have been evaluated. Costs related to wells determined to be uneconomical as well as costs of undeveloped land lease expiries are expensed as they occur.

During the second quarter of 2013, the Company recorded E&E expense of $870,000 or $1.45/boe, which included $6,000 related to lease expiries in several of the Company's areas and $864,000 related to one dry and abandoned well drilled during the period, which was an exploratory step-out well in the Lethbridge area. The Company recorded E&E expense of $1,388,000 or $4.01/boe in the same period of 2012, mostly related to lease expiries, and $4,722,000 or $8.85/boe in the first quarter of 2013 related to lease expiries and unsuccessful well costs.

During the six months ended June 30, 2013, the Company recorded E&E expense of $5,592,000 or $4.94/boe compared to $2,520,000 or $4.04/boe in the comparable period of 2012.

Accretion and Finance Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
(000s except per boe)	*($)*	*($)*	*($)*	*($)*
Accretion expense on decommissioning liabilities	**107**	97	**186**	192
Finance expense	**837**	311	**1,385**	526
Total accretion and finance expenses	**944**	408	**1,571**	718
Accretion expense on decommissioning liabilities *($/boe)*	**0.18**	0.28	**0.16**	0.31
Finance expense *($/boe)*	**1.40**	0.90	**1.22**	0.84
Total accretion and finance expenses *($/boe)*	**1.58**	1.18	**1.38**	1.15

Accretion expense represents the increase in the present value of the Company's decommissioning liabilities. In the second quarter of 2013, the Company recorded accretion expense of $107,000 or $0.18/boe compared to $97,000 or $0.28/boe in the same period of 2012 and $79,000 or $0.15/boe in the first quarter of 2013. The absolute increase is a function of several things: first, the Company reassessed abandonment cost estimates in light of new government directives and made a $3,600,000 adjustment to the decommissioning liability, thereby increasing the accretion base; and second, during the period the Company revised the discount rate used to calculate the liability from 2.25 percent to 2.40 percent based on estimated market interest rates. The underlying liability may increase over time based on new obligations incurred from drilling wells, constructing facilities, acquiring operations, adjusting future estimates of timing or estimated decommissioning costs. The liability can also be reduced as a result of abandonment work actually completed.

During the three months ended June 30, 2013, the Company recorded finance expenses of $837,000 or $1.40/boe compared to $311,000 or $0.90/boe in the same period of 2012 and $548,000 or $1.03/boe in the first quarter of 2013. The Company incurred interest charges and standby fees related to the $135,000,000 credit facility (2012 – $20,000,000), which was drawn to $63,769,000 at the end of the period.

For the 2013 six-month period, the Company recorded accretion expense of $186,000 or $0.16/boe compared to $192,000 or $0.31/boe and finance expenses of $1,385,000 or $1.22/boe compared to $526,000 or $0.84/boe in the comparable period last year.

Income Taxes

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
			($)	*($)*
Deferred income tax expense *(000s)*	**2,877**	2,379	**3,722**	1,867
Deferred income tax expense *($/boe)*	**4.81**	6.87	**3.29**	3.00

During the second quarter of 2013, the Company recorded a deferred income tax expense of $2,877,000 or $4.81/boe compared to an expense of $2,379,000 or $6.87/boe in same period of 2012 and expense of $845,000 or $1.58/boe in the first quarter of 2013. The second quarter expense was primarily related to an increase in the taxable base of the oil and natural gas assets. The movement in the taxable base of oil and natural gas assets is due to the Company's capital spending associated with flow-through shares. As costs are incurred, the Company reverses the flow-through share liability and recognizes the deferred income tax expense at that time. During the three months ended June 30, 2013, the Company spent approximately $3,483,000 in eligible capital expenditures related to the March 2012 issuance of flow-through shares. For the 2013 six month period, the Company recorded a deferred income tax expense of $3,722,000 or $3.29/boe compared to $1,867,000 or $3.00/boe in the same period last year.

DeeThree does not have current income taxes payable and does not expect to pay current income taxes in 2013 as the Company had estimated tax pools available at June 30, 2013 of $315,000,000.

Funds from Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
(000s)	*($)*	*($)*	*($)*	*($)*
Net income	**6,800**	5,603	**6,173**	2,404
Non-cash items:				
D&D	**11,260**	6,898	**21,575**	12,850
Share-based compensation (1)	**581**	553	**1,001**	997
Accretion	**107**	97	**186**	192
Unrealized loss (gain) on financial instruments	**(58)**	(7,066)	**976**	(5,237)
E&E expense	**870**	1,388	**5,592**	2,520
Deferred income tax expense	**2,877**	2,379	**3,722**	1,867
Funds from operations	**22,437**	9,852	**39,225**	15,593

(1) The share-based compensation amount included in the calculation of funds from operations has been adjusted for the non-cash portion related to certain field employees that was reclassified to operating expenses for presentation in the statement of operations and comprehensive income (loss).

During the three months ended June 30, 2013, the Company generated funds from operations totaling $22,437,000 or $0.29 per basic share and $0.28 per diluted share compared to $9,852,000 or $0.15 per basic share and $0.14 per diluted share in the comparative period of 2012 and $16,788,000 or $0.23 per basic and diluted share in the first quarter of 2013. This 128 percent year-over-year increase was primarily due to increased revenue from increased production, which was partially offset by increased royalties and operating costs.

Funds from operations totaled $39,225,000 or $0.52 per basic share and $0.51 per diluted share for the six months ended June 30, 2013 compared to $15,593,000 or $0.24 per basic share and $0.22 per diluted share recorded in the same period of 2012.

Net Income

For the three months ended June 30, 2013, the Company recorded net income of $6,800,000 or $0.09 per basic and diluted share compared to a net income of $5,603,000 or $0.08 per basic and diluted share in the same period of 2012 and net loss of $627,000 or $0.01 per basic and diluted share in the first quarter of 2013. The Company's net income for the quarter was primarily due to an increased average realized price during the period.

The net income for the six months ended June 30, 2013 was $6,173,000 or $0.08 per basic and diluted share versus net income of $2,404,000 or $0.04 per basic share and $0.03 per diluted share in the comparative period of 2012.

Netbacks (per unit)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
	($/boe)	*($/boe)*	*($/boe)*	*($/boe)*
Average sales price	**66.62**	53.25	**62.17**	52.51
Royalties	**(12.72)**	(9.86)	**(12.42)**	(9.87)
Operating	**(10.74)**	(10.95)	**(9.50)**	(12.97)
Transportation	**(2.59)**	(1.58)	**(2.24)**	(1.59)
Operating netback (1)	**40.57**	30.86	**38.01**	28.08
G&A and other expense (excludes non-cash items)	**(2.03)**	(2.84)	**(2.44)**	(3.27)
Realized gain on financial instruments	**0.26**	1.24	**0.24**	0.97
Finance expenses	**(1.40)**	(0.90)	**(1.22)**	(0.84)
Funds flow netback (1)	**37.40**	28.36	**34.59**	24.94
D&D expense	**(18.81)**	(19.92)	**(19.06)**	(20.62)
Accretion	**(0.18)**	(0.28)	**(0.16)**	(0.31)
Share-based compensation	**(0.88)**	(1.51)	**(0.82)**	(1.51)
Unrealized gain (loss) on financial instruments	**0.10**	20.41	**(0.86)**	8.41
E&E expense	**(1.45)**	(4.01)	**(4.94)**	(4.04)
Deferred income tax expense	**(4.81)**	(6.87)	**(3.29)**	(3.00)
Net income netback (1)	**11.37**	16.18	**5.46**	3.87

(1) Non-IFRS measure; refer to the commentary at the beginning of this MD&A. Operating netback, funds flow netback and net loss netback are calculated by dividing operating income, funds flow from operations and net loss by the sales volume in boe for the period then ended. For a description of the boe conversion ratio, refer to "Other Measurements" at the beginning of this MD&A.

The operating netback was $40.57/boe for the three months ended June 30, 2013 compared to $30.86/boe in the same period of 2012 and $35.15/boe in the first quarter of 2013. As compared to the prior year's second quarter, the Company experienced a higher realized average price throughout the three months ended June 30, 2013. The increased average sales price was slightly offset by increased operating costs during the quarter, but the overall netback was 31% higher than the same quarter of last year and 15% higher than the first quarter of 2013.

For the first six months of 2013, DeeThree achieved an operating netback of $38.01/boe compared to $28.08/boe in the same period of 2012, again related to higher pricing but offset by higher royalties and lower average operating expenses.

Investment and Investment Efficiencies

Capital Expenditures and Acquisitions

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
(000s)(excluding decommissioning liabilities and capitalized share-based compensation)	*($)*	*($)*	*($)*	*($)*
Property acquisitions and adjustments	**–**	–	**2,130**	–
Drilling and completions	**29,372**	21,548	**59,896**	51,775
Equipment and facilities	**8,288**	3,664	**12,782**	6,062
Land and lease retention	**303**	4,110	**4,242**	7,598
Geological and geophysical	**999**	84	**999**	206
Capitalized G&A and other	**324**	293	**795**	773
Total capital expenditures	**39,286**	29,699	**80,844**	66,414
Farm-out proceeds	**–**	–	**–**	(1,000)
Total capital expenditures, net of farm-out proceeds	**39,286**	29,699	**80,844**	65,414

During the second quarter of 2013, the Company incurred a total of $39,286,000 (2012 – $29,699,000) in capital expenditures, excluding the non-cash decommissioning liabilities and capitalized share-based compensation. With the Company's focus on drilling in the Ferguson and Brazeau areas, drilling and completion expenditures totaled $29,372,000 in the second quarter of 2013 (2012 – $21,548,000), including the drilling of gross 8 (8.0 net) wells. In the comparative quarter of 2012, the Company drilled 7 gross (6.8 net) wells and incurred significant completion expenditures. For the three months ended June 30, 2013, DeeThree spent $8,288,000 (2012 – $3,664,000) on tie-ins and facilities, which in 2013 consisted primarily of expenditures related to tie-in of the 2013 wells drilled as well as continued construction of two oil battery sites at Ferguson. The Company spent $303,000 in the second quarter of 2013 (2012 – $4,110,000) on Crown land sales and $999,000 on seismic programs (2012 – $84,000). The remaining $324,000 in the second quarter of 2013 (2012 – $293,000) was invested in capitalized G&A and other corporate assets.

During the first six months of 2013, the Company incurred a total of $80,844,000 (2012 – $66,414,000) in capital expenditures, excluding the non-cash decommissioning liabilities and capitalized share-based compensation. During the period, the Company spent $2,130,000 (2012 – $nil) to complete an acquisition for additional working interest in the Peace River Arch area. Drilling and completion expenditures totaled $59,896,000 (2012 – $51,775,000), $12,782,000 (2012 – $6,062,000) was spent on tie-ins and facilities, $4,242,000 (2012 – $7,598,000) on Crown land sales and $999,000 expenses related to seismic programs (2012 – $206,000). The remaining $795,000 spent in the first half of 2013 (2012 – $773,000) was invested in capitalized G&A and other corporate assets. During the first half of 2012, the Company also received $1,000,000 as proceeds from a default on a farm-out agreement entered into during 2011, which was recorded against E&E and partially offset the total capital expenditures for the period. No such payments were received during the first half of 2013.

Drilling Activity

	Exploration		Developed		Total	
	Gross	Net	Gross	Net	Gross	Net
	(#)	*(#)*	*(#)*	*(#)*	*(#)*	*(#)*
Three Months Ended June 30, 2013						
Crude oil and NGLs	**–**	**–**	**5**	**5.0**	**5**	**5.0**
Standing	**–**	**–**	**2**	**2.0**	**2**	**2.0**
Dry and abandoned	**1**	**1.0**	**–**	**–**	**1**	**1.0**
Total wells	**1**	**1.0**	**7**	**7.0**	**8**	**8.0**
Success rate *(%)*		**0**		**100**		**88**
Average working interest *(%)*		**100**		**100**		**100**
Three Months Ended June 30, 2012						
Crude oil and NGLs	1	1.0	6	5.8	7	6.8
Standing	–	–	–	–	–	–
Dry and abandoned	–	–	–	–	–	–
Total wells	1	1.0	6	5.8	7	6.8
Success rate *(%)*		100		100		100
Average working interest *(%)*		100		97		97
Six Months Ended June 30, 2013						
Crude oil and NGLs	**1**	**1**	**11**	**10.22**	**12**	**11.22**
Standing	**–**	**–**	**2**	**2.0**	**2**	**2.0**
Dry and abandoned	**2**	**1.97**	**–**	**–**	**2**	**1.97**
Total wells	**3**	**2.97**	**13**	**12.22**	**16**	**15.19**
Success rate *(%)*		**34**		**100**		**87**
Average working interest *(%)*		**99**		**94**		**95**
Six Months Ended June 30, 2012						
Crude oil and NGLs	2	2.0	13	11.9	15	13.9
Standing	–	–	2	2.0	2	2.0
Dry and abandoned	–	–	–	–	–	–
Total wells	2	2.0	15	13.9	17	15.9
Success rate *(%)*		100		100		100
Average working interest *(%)*		100		93		94

During the second quarter of 2013, DeeThree drilled 7 gross (7.0 net) Bakken wells on its Ferguson property and 1 gross (1.0 net) wells on its Brazeau property with an 88 percent success rate. One of the quarter's wells was an exploratory step-out well in the Lethbridge area and was deemed to be dry and abandoned during the period. During the three months ended June 30, 2012, the Company drilled 7 gross (6.8 net) wells for a 100 percent success rate, including 3 gross (2.8 net) horizontal Belly River wells in the Brazeau area and 4 gross (4.0 net) Bakken wells.

During the first half of 2013, DeeThree drilled 8 gross (8.0 net) Bakken wells on its Ferguson property, 7 gross (6.9 net) on its Brazeau property and 1 gross (0.29 net) non-operated well in the Peace River Arch area with an 87 percent success rate. One of the year's oil wells was abandoned due to a high pressure water zone that was encountered during the drilling process and another was an exploratory step-out well. During the six months ended June 30, 2012, the Company drilled 17 gross (15.9 net) wells for a 100 percent success rate, including 6 gross (5.6 net) horizontal Belly River wells in the Brazeau area, 10 gross (10.0 net) Bakken wells and 1 gross (0.29 net) wells in the Peace River Arch area.

Liquidity and Capital Resources

Working Capital

The following table summarizes the change in working capital during the six months ended June 30, 2013 and the year ended December 31, 2012:

	Six Months Ended June 30, 2013	Year Ended December 31, 2012
(000s)	*($)*	*($)*
Working capital deficit (1) – beginning of period	**(77,586)**	(16,901)
Abandonment and reclamation costs	**(85)**	(108)
Funds from operations	**39,225**	46,088
Issuance of capital stock for cash (net of share issuance costs)	**32,952**	37,088
Capital expenditures	**(78,714)**	(137,296)
Acquisitions	**(2,130)**	(7,457)
Farm-out proceeds	**–**	1,000
Working capital deficit (1) – end of period	**(86,338)**	(77,586)

(1) Current assets less current liabilities, excluding current derivative financial instruments.

DeeThree entered 2013 with a working capital deficit of $77,586,000. During the first half of the year, the Company issued 5,083,000 common shares at a price of $6.80 per common share for total gross proceeds of $34,564,000 ($32,244,000 net of estimated share issuance costs). Also in the first half, the Company issued 310,516 common shares on the exercise of options for total cash proceeds of $708,000. During the six month period, the Company generated funds from operations of $39,225,000 and invested $78,714,000 in capital expenditures and $2,130,000 in acquisitions for total capital spending of $80,844,000. DeeThree exited the second quarter of 2013 with a working capital deficit of $86,338,000.

At June 30, 2013, the Company had a revolving demand credit facility with an authorized borrowing base of $135,000,000 with interest charged at a rate per annum equal to the Canadian prime rate during the period in question, plus the applicable margin, being a range of 0.50 percent to 2.50 percent, as determined by the Company's debt to cash flow ratio. Standby fees associated with this facility are charged based on an applicable margin, being a range of 0.2 percent to 0.45 percent per annum on the undrawn portion of the facility, again based on the Company's debt to cash flow ratio. Under this credit facility, the Corporation is required to maintain a current ratio of not less than 1:1.

As at June 30, 2013, $63,769,000 was drawn against the facility. Collateral for this facility consists of a general security agreement, providing a security interest over all present and subsequently acquired personal property, and a floating charge on all present and subsequently acquired land interests of the Company. The facility is a subject to semi-annual review by the Company's lender, with the next review scheduled for later in the fall of 2013.

DeeThree expects to fund future capital expenditures with its funds from operations and the unused demand credit facility.

Related-Party Transactions and Off-Balance-Sheet Transactions

The Company had the following related-party transactions during the year ended June 30, 2013:

The Company has retained a law firm to provide legal services. The Corporate Secretary of DeeThree is a partner of this firm. During the six month period ended June 30, 2013, the Company incurred $207,000 with the firm (2012 – $215,000), included in general and administrative expenses and share issuance costs, of which $30,000 remained in accounts payable at June 30, 2013 (June 30, 2012 – $32,400). 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 this firm in 2013.

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 unrelated third parties in similar circumstances.

There were no off-balance-sheet transactions entered into during the period nor are there any outstanding as at the date of this MD&A.

Contractual Obligations and Commitments

Years Ended December 31,	2013	2014	2015	2016+	Total
(000s)	*($)*	*($)*	*($)*	*($)*	*($)*
Operating lease – office	320	640	640	160	1,760
Operating lease – equipment	129	72	7	–	208
Exploration expenditures (flow-through)	8,396	–	–	–	8,396
Drilling contracts	2,935	587	–	–	3,522
Bank debt	63,769	–	–	–	63,769
Total	75,549	1,299	647	160	77,655

As at June 30, 2013, the Company had contractual obligations for its office leases totaling approximately $1,760,000 to March 2016. The head office lease obligations are comprised of the lease payments as well as parking and an estimate of occupancy costs of the Company's head office space. The Company also had contractual obligations for several vehicles and equipment totaling approximately $208,000 to March 2015.

In connection with the issuance of flow-through shares by the Company during the first quarter of 2012, DeeThree is required to spend $17,253,450 of eligible exploration expenditures by December 31, 2013. As at June 30, 2013, $13,862,000 of these have been incurred. The remaining $3,391,450 will be incurred during 2013. These expenditures were renounced to shareholders in January 2013 effective December 31, 2012.

In connection with the Company's issuance of flow-through shares during the fourth quarter of 2012, DeeThree is required to spend an additional $5,005,000 of eligible exploration expenditures by December 31, 2013. As at June 30, 2013, $nil of these expenditures had been incurred. These expenditures will be incurred during 2013 and were renounced to shareholders in January 2013 effective December 31, 2012.

DeeThree has one contract for drilling rig services under which the Company is committed to using services totaling $3,522,000 extending into late 2013.

At June 30, 2013, the Company also had the obligation to repay the amount outstanding on the revolving demand credit facility, which was drawn to $63,769,000 at period-end.

During 2012, DeeThree entered into a farm-in agreement with a senior oil and natural gas producer pursuant to which it may earn 100 percent working interest in up to 34 additional sections of Belly River petroleum and natural gas rights directly offsetting DeeThree's Brazeau property. DeeThree is committed to drilling a minimum of three horizontal wells on the farm-in lands, with a continuing rolling option thereafter in return for a 15 percent non-convertible overriding royalty. As of the date of this MD&A, the Company has drilled two of the horizontal wells related to this commitment.

Share Capital

As at August 8, 2013, the Company had 76,499,689 common shares outstanding and 6,627,116 stock options outstanding.

Selected Quarterly Information (1)

Three Months Ended	**June 30, 2013**	March 31, 2013	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012	March 31, 2012	Dec. 31, 2011	Sept .30, 2011
(000s, except per share amounts and production figures)			*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Oil and natural gas revenues	**39,882**	30,490	28,378	24,020	18,437	14,277	11,873	9,440
Funds from operations	**22,437**	16,788	16,231	14,265	9,852	5,741	4,094	3,795
Per share – basic	**0.29**	0.23	0.23	0.21	0.15	0.09	0.06	0.06
Per share – diluted	**0.28**	0.23	0.22	0.20	0.14	0.09	0.06	0.06
Cash flow from operating activities	**21,876**	18,000	30,978	12,555	14,696	4,064	754	8,910
Net income (loss)	**6,800**	(627)	3,483	1,294	5,603	(3,199)	(9,330)	(353)
Per share – basic	**0.09**	(0.01)	0.05	0.02	0.08	(0.05)	(0.15)	(0.01)
Per share – diluted	**0.09**	(0.01)	0.05	0.02	0.08	(0.05)	(0.15)	(0.01)
Total assets	**387,056**	353,574	329,666	292,348	266,649	240,124	213,239	206,885
Capital expenditures (2)	**39,286**	41,558	45,134	33,205	29,699	36,715	20,529	25,009
Working capital deficit (3)	**86,338**	70,174	77,586	69,698	50,803	30,898	16,901	3,356
Shareholders' equity	**253,336**	244,909	212,090	187,308	185,207	178,732	167,568	176,346
Production								
Natural gas *(mcf/d)*	**10,093**	10,279	9,377	8,883	8,687	8,657	7,714	8,167
Crude oil *(bbls/d)*	**4,550**	3,924	3,511	2,953	2,091	1,316	957	597
NGLs *(bbls/d)*	**346**	289	259	259	266	283	161	177
Total *(boe/d)*	**6,578**	5,926	5,333	4,692	3,805	3,042	2,403	2,135

(1) The selected quarterly information was prepared in accordance with the accounting principles described in the notes to the financial statements, except for funds from (used in) operations, which is not prescribed under IFRS.
(2) Total capital expenditures, including acquisitions.
(3) Current assets less current liabilities, excluding current derivative financial instruments.

Factors That Have Caused Variations over the Quarters

For the quarter ended June 30, 2013, the Company achieved an improved operating netback of $40.57/boe, due to a revised production split of 74 percent oil and NGLs, average production of 6,578 boe per day and an average realized price of $66.62/boe. The higher netbacks contributed to the $22,437,000 in funds from operations recorded for the period. Year to date, the Company has incurred $80,844,000 in capital expenditures resulting in 16 gross (15.19 net) wells drilled and several newly constructed facilities completed in our Lethbridge area.

During 2012, the Company was successful with an active drilling program primarily at the Ferguson and Brazeau properties. Capital expenditures of $144,753,000 resulted in 30 gross (28.8 net) wells drilled. This contributed to a 122 percent year-over-year volume increase and a production split of 35 percent natural gas and 65 percent oil and NGLs for the year.

Please refer to "Financial and Operating Results" and other sections 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.

Critical Estimates

The preparation of the Company's interim financial statements requires management to adopt accounting policies that involve the use of significant estimates and assumptions. They are developed based on the best available information and are believed by management to be reasonable under the existing circumstances. New events or additional information may result in the revision of these estimates over time. The following discussion outlines some of the accounting policies and practices that are critical to determining DeeThree's financial results. A summary of the critical estimates and judgements used by DeeThree can be found in note 2 to the audited financial statements for the year ended December 31, 2012.

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 impairment 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 reserves is an ongoing process influenced by current production, continuing development activities and changing economic conditions as reflected in natural gas and crude oil prices. Consequently, the reserves are estimated, and the estimates are subject to variability. To assist with the reserves evaluation process, the Company utilizes independent oil and natural 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.

New Accounting Pronouncements

Effective January 1, 2013, the Company has adopted the revised standards and amendments as disclosed in note 3 of the interim financial statements for the period ended June 30, 2013. The applicability of these standards and amendments were not significant to the Company's interim financial statements.

Controls and Procedures

Disclosure Controls

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management (including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO)) to allow timely decisions regarding required disclosure. DeeThree's CEO and CFO have concluded, based on their evaluation as of the end of the period covered by the Company's interim filings, that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer is made known to them by others within the Company.

Internal Controls over Financial Reporting

Management has assessed the effectiveness of the Company's internal controls over financial reporting as defined by National Instrument (NI) 52-109 – "Certification of Disclosure in Issuers' Annual and Interim Filings". Management concluded that the Company's internal controls over financial reporting were effective as of December 31, 2012. No changes were made to the Company's internal controls over financial reporting during the period ended June 30, 2013 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

It should be noted that while DeeThree's CEO and CFO believe that the Company's internal controls and procedures provide a reasonable level of assurance and are effective, they do not expect that these controls will prevent all errors or fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Business Risks and Risk Mitigation

Overall

DeeThree's exploration and production activities are concentrated in the Western Canada Sedimentary Basin where the industry is very competitive. There are a number of risks facing participants in the oil and natural gas industry, some of which are common to all businesses, while others are specific to the sector. These include risks such as finding and developing oil and natural gas reserves economically, estimating reserves, producing the reserves in commercial quantities, finding a suitable market at attractive commodity prices, financial and liquidity risks, and environmental and safety risks.

DeeThree's future oil and natural gas reserves and production and, therefore, its cash flows, will be highly dependent on the Company's success in exploiting its reserves base and acquiring additional reserves. The Company mitigates the risk of finding and developing economical oil and natural gas reserves by utilizing a team of highly qualified professionals with expertise and experience in these areas. DeeThree attempts to maximize drilling success by exploring areas that have multi-zone horizons, targeting deeper horizons with uphole potential, continuously assessing new acquisition opportunities to complement existing activities and balancing higher-risk exploratory drilling with lower-risk development drilling.

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, operating the project, and by attempting to access sales markets through Company-owned infrastructure or mid-stream operators.

Reserves Estimates

DeeThree has retained an independent engineering consulting firm that assists the Company in evaluating oil and natural gas reserves. Reserve values are based on a number of variable factors and assumptions such as commodity prices, projected production, future production costs and governmental regulation. The reserves and recovery information contained in the independent reserves evaluation is an estimate. The actual production and ultimate reserves from the properties may be greater or less than the estimates prepared by the independent reserves evaluator.

Volatility of Oil and Natural Gas Prices

The Company's operational results and financial condition depend on the prices received for oil and natural gas production. Natural gas prices increased in 2013 from 2012, as have crude oil prices and differentials on Canadian crude oil continue to widen in 2013 relative to 2012 due to pipeline and infrastructure constraints. There are numerous projects proposed to alleviate pipeline bottlenecks into and in the United States, expand refinery capacity and expand or build new pipelines in Canada and the United States to source new markets, many of which are in the regulatory application phase. There can be no assurance that such regulatory approvals will be secured on a timely basis or at all. Oil and natural gas prices are determined by economic and, in some circumstances, political factors. Supply and demand factors, including weather and general economic conditions as well as conditions in other oil and natural gas regions, influence prices. DeeThree is exposed to commodity price risk whereby the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are affected by not only the relationship between the Canadian and United States dollars, but also global economic events that dictate the levels of supply and demand. The Company protects itself from fluctuations in prices by maintaining an appropriate hedging strategy. As at the date of this MD&A, DeeThree has eleven crude oil hedges in place (see "Commodity Prices and Foreign Exchange"). Most commodity prices are based on U.S. dollar benchmarks, which result in the Company's realized prices being influenced by the Canadian/U.S. exchange rates. The Company does not sell or transact in foreign currency, but may be impacted by foreign currency exchange rate changes related to commodity prices as outlined above. At the date of this MD&A, DeeThree had two foreign currency exchange risk management contracts in place.

Counterparty Risk

Credit risk is the risk of a counterparty failing to meet its obligations in accordance with the agreed upon terms. The Company may be exposed to third-party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its commodities and other parties. DeeThree has established credit policies and controls designed to mitigate the risk of default or non-payment with respect to oil and natural gas sales, financial hedging transactions and joint venture participants. The Company makes every effort to sell its commodities to major companies with excellent credit ratings.

Access to Capital

The oil and natural gas industry is a very capital-intensive industry, and in order to fully realize the Company's strategic goals and business plans, DeeThree will rely on equity markets as a source of new capital in addition to bank financing and internally generated cash flow to fund its ongoing capital investments. 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. Internally generated funds will also fluctuate with changing commodity prices. DeeThree currently has a $135,000,000 syndicated facility with two banks. The Company is required to comply with covenants under this facility and in the event it does not comply, access to capital could be restricted or repayment could be required. DeeThree routinely reviews the covenants based on actual and forecast results and has the ability to make changes to development plans to comply with the covenants under the credit facility. DeeThree anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future funds from operations and available bank credit. DeeThree is committed to maintaining a strong balance sheet along with an adaptable capital expenditure program that can be adjusted to capitalize on, or reflect, acquisition opportunities and, if necessary, a tightening of liquidity sources. From its founding to the date of this MD&A, DeeThree has had no defaults or breaches on its bank debt or any of its financial liabilities.

Operational Matters

The operation of oil and natural gas wells involves a number of operating and natural hazards that may result in blowouts, environmental damage and other unexpected or dangerous conditions resulting in damage to DeeThree and possible liability to third parties. DeeThree has established an environmental, health and safety program and has updated its operational emergency response plan and operational safety manual to address these operational issues. DeeThree maintains a comprehensive insurance plan, which includes liability insurance, where available, in amounts consistent with industry standards as well as business interruption insurance for selected facilities, to the extent that such insurance is available, 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.

In addition, DeeThree is also subject to other risks and uncertainties which are described in the Company's Annual Information Form dated March 28, 2013.

Outlook

DeeThree is well positioned with a strong balance sheet and its Alberta Bakken and Belly River light oil resource plays to deliver accelerated growth for our investors in terms of production, cash flow and reserves over the remainder of the year. We remain confident that we will achieve our 2013 target exit production rate of 9,600 – 10,000 boe/d (81% crude oil & NGLs).

STATEMENTS OF FINANCIAL POSITION

(unaudited)

As at	June 30, 2013	December 31, 2012
(000s)	*($)*	*($)*
Assets		
Current assets		
Accounts receivable	**18,338**	18,823
Deposits and prepaid expenses	**1,096**	940
Derivative financial instruments (note 12)	**–**	850
	19,434	20,613
Non-current assets		
Derivative financial instruments (note 12)	**236**	–
Exploration and evaluation assets (note 5)	**36,452**	29,893
Property and equipment (note 6)	**330,934**	279,160
Total assets	**387,056**	329,666
Liabilities		
Current liabilities		
Bank debt (note 7)	**63,769**	63,104
Accounts payable and accrued liabilities	**42,003**	34,245
Derivative financial instruments (note 12)	**362**	–
	106,134	97,349
Non-current liabilities		
Decommissioning liabilities (note 8)	**18,196**	13,982
Flow-through share premium liabilities (note 9)	**1,298**	2,955
Deferred tax liability	**8,092**	3,290
Total liabilities	**133,720**	117,576
Shareholders' equity		
Share capital (note 9)	**265,314**	231,415
Contributed surplus	**6,752**	5,578
Deficit	**(18,730)**	(24,903)
Total shareholders' equity	**253,336**	212,090
Total liabilities and shareholders' equity	**387,056**	329,666

Commitments (note 13)

Subsequent events (note 12)

See accompanying notes to the financial statements.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
(000s, except per share amounts)	*($)*	*($)*	*($)*	*($)*
Revenue				
Oil and natural gas revenues	**39,882**	18,437	**70,372**	32,714
Royalties	**(7,615)**	(3,413)	**(14,056)**	(6,150)
Oil and natural gas revenues, net of royalties	**32,267**	15,024	**56,316**	26,564
Expenses				
Operating and transportation	**7,983**	4,338	**13,288**	9,071
General and administrative	**1,217**	984	**2,761**	2,038
Depletion and depreciation (note 6)	**11,260**	6,898	**21,575**	12,850
Share-based compensation (note 10)	**528**	522	**928**	939
Exploration and evaluation expense (note 5)	**870**	1,388	**5,592**	2,520
	21,858	14,130	**44,144**	27,418
Unrealized loss (gain) on financial instruments	**(58)**	(7,066)	**976**	(5,237)
Realized gain on financial instruments	**(154)**	(430)	**(270)**	(606)
Accretion and finance expenses	**944**	408	**1,571**	718
	22,590	7,042	**46,421**	22,293
Income before income tax	**9,677**	7,982	**9,895**	4,271
Taxes				
Deferred income tax expense	**2,877**	2,379	**3,722**	1,867
Net income and comprehensive income for the period	**6,800**	5,603	**6,173**	2,404
Deficit, beginning of period	**(25,530)**	(35,283)	**(24,903)**	(32,084)
Deficit, end of period	**(18,730)**	(29,680)	**(18,730)**	(29,680)
Net income per share (note 9)				
Basic	**0.09**	0.08	**0.08**	0.04
Diluted	**0.09**	0.08	**0.08**	0.03

See accompanying notes to the financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited)

(000s)	Share Capital ($)	Contributed Surplus ($)	Deficit ($)	Total Equity ($)
Balance – January 1, 2013	**231,415**	**5,578**	**(24,903)**	**212,090**
Common shares issued	**34,564**	**–**	**–**	**34,564**
Share issuance costs	**(2,320)**	**–**	**–**	**(2,320)**
Tax benefit of share issuance costs	**579**	**–**	**–**	**579**
Share-based compensation	**–**	**1,542**	**–**	**1,542**
Exercise of options	**1,076**	**(368)**	**–**	**708**
Net income	**–**	**–**	**6,173**	**6,173**
Balance – June 30, 2013	**265,314**	**6,752**	**(18,730)**	**253,336**
Balance – January 1, 2012	196,901	2,751	(32,084)	167,568
Flow-through shares issued	17,253	–	–	17,253
Share issuance costs	(1,226)	–	–	(1,226)
Tax benefit of share issuance costs	311	–	–	311
Premium on flow-through shares	(2,684)	–	–	(2,684)
Share-based compensation	–	1,581	–	1,581
Net income	–	–	2,404	2,404
Balance – June 30, 2012	210,555	4,332	(29,680)	185,207

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
(000s)	*($)*	*($)*	*($)*	*($)*
Cash flow from (used in):				
Operating activities				
Net income for the period	**6,800**	5,603	**6,173**	2,404
Adjustments for:				
Depletion and depreciation	**11,260**	6,898	**21,575**	12,850
Deferred income tax expense	**2,877**	2,379	**3,722**	1,867
Share-based compensation	**581**	553	**1,001**	997
Accretion (note 8)	**107**	97	**186**	192
Unrealized loss (gain) on financial instruments	**(58)**	(7,066)	**976**	(5,237)
Exploration and evaluation expense	**870**	1,388	**5,592**	2,520
	22,437	9,852	**39,225**	15,593
Abandonment and reclamation costs (note 8)	**(18)**	(74)	**(85)**	(108)
Change in non-cash working capital (note 11)	**(543)**	4,918	**736**	3,275
	21,876	14,696	**39,876**	18,760
Financing activities				
Increase in bank debt	**18,006**	23,616	**665**	28,349
Issuance of share capital	**693**	–	**35,272**	17,253
Share issuance costs	**10**	16	**(2,320)**	(1,226)
Change in non-cash working capital (note 11)	**(16)**	(48)	**–**	50
	18,693	23,584	**33,617**	44,426
Investing activities				
Property and equipment expenditures	**(36,470)**	(28,156)	**(67,335)**	(56,362)
Exploration and evaluation expenditures	**(2,816)**	(1,543)	**(11,379)**	(10,052)
Farm-out proceeds (note 5)	**–**	–	**–**	1,000
Property acquisitions (note 4)	**–**	–	**(2,130)**	–
Changes in non-cash working capital (note 11)	**(1,283)**	(8,581)	**7,351**	2,228
	(40,569)	(38,280)	**(73,493)**	(63,186)
Change in cash and cash equivalents	**–**	–	**–**	–
Cash and cash equivalents – beginning of period	**–**	–	**–**	–
Cash and cash equivalents – end of period	**–**	–	**–**	–

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the period ended June 30, 2013

(Unaudited)

1. Reporting Entity

DeeThree Exploration Ltd. ("DeeThree" or the "Company") is a publicly traded company incorporated under the laws of Alberta. The Company is principally engaged in the exploration for and exploitation, development and production of oil and natural gas, and conducts many of its activities jointly with others. These financial statements reflect only the Company's interests in such activities. DeeThree is registered and domiciled in Canada. Its main office is at Suite 2200, 520 Third Avenue S.W., Calgary, Alberta.

2. Basis of Presentation

(a) Statement of Compliance

These interim financial statements for the three and six months ended June 30, 2013 were prepared in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting".

The interim financial statements have been prepared following the same accounting policies as the annual financial statements for the year ended December 31, 2012, except as discussed in note 3, and should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2012.

The interim financial statements were authorized for issuance by the Board of Directors on August 8, 2013.

3. Significant Accounting Policies

The Company's accounting policies are described in Note 3 to the December 31, 2012 audited annual financial statements. Those accounting policies have been applied consistently to all periods presented in these interim financial statements with the exception of adoption of the following new standards and interpretations effective as of January 1, 2013:

Fair Value Measurement

IFRS 13 *Fair Value Measurement* – establishes a single framework for fair value measurement and disclosures when fair value is required or permitted under IFRS. Adoption of the standard did not require adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013. This standard had no material impact on the Company's financial position or performance.

Joint Arrangements

IFRS 11 *Joint Arrangements* – establishes the accounting principles for parties to a joint arrangement and replaces IAS 31 *Interest in Joint Ventures* and SIC-13 *Jointly Controlled Entities: Non-Monetary Contributions by Venturers*. This standard requires a party to assess its rights and obligations from the arrangement in order to determine whether a joint arrangement represents a joint venture or a joint operation. As at December 31, 2012, the Company proportionately consolidated all its interest in joint arrangements. This standard had no material impact on the Company's financial position or performance.

Offsetting Financial Assets and Financial Liabilities

IFRS 7 Disclosures - *Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS* - These amendments to IFRS 7 introduce new disclosure requirements about the effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. The disclosures will provide users with information that may be useful in evaluating the effect of any netting arrangements in an entity's financial position. The amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2013. Note 12 contains the added disclosures regarding the netting of financial instruments at June 30, 2013.

4. Acquisitions

During the first quarter of 2013, the Company acquired interests in producing oil and natural gas assets principally located in the Peace River Arch area of Alberta for total consideration of $2,130,000. The property acquisition closed on January 18, 2013 and was accounted for as a business combination under IFRS 3 – "Business Combinations". Acquisition costs of $5,000 were charged to general and administrative expense on the statement of income and comprehensive income. Had the acquisition closed January 1, 2013, the Company estimates that its pro forma revenue and net loss for the period would not have been significantly impacted.

(000s)	*($)*
Net assets acquired	
Petroleum and natural gas assets	**1,873**
E&E assets	**474**
Decommissioning liabilities	**(217)**
	2,130
Consideration	
Total cash consideration	**2,130**

5. Exploration and Evaluation Assets

	Six Months Ended June 30, 2013	Year Ended December 31, 2012
(000s)	*($)*	*($)*
Balance – beginning of period	**29,893**	18,631
Additions	**65,937**	115,111
Farm-out proceeds	**–**	(1,000)
Acquisitions through business combinations	**474**	91
Transfers to property and equipment	**(54,260)**	(99,872)
E&E expenses	**(5,465)**	(232)
Lease expiries	**(127)**	(2,836)
Balance – end of period	**36,452**	29,893

During the period ended June 30, 2013, an expense of $127,000 was recorded to recognize lease expiries on undeveloped land that occurred during the period (year ended December 31, 2012 - $2,836,000) and $5,465,000 was recorded to recognize the costs of unsuccessful dry and abandoned wells drilled during the period as well as a previously drilled well that was deemed to be unsuccessful (year ended December 31, 2012 - $232,000 related to unsuccessful preliminary drilling costs).

During the period ended June 30, 2013, approximately $508,000 of directly attributable general and administrative expense and $298,000 of directly attributable share-based compensation expense were capitalized as expenditures on exploration and evaluation assets (year ended December 31, 2012 – $1,123,000 and $693,000, respectively).

6. Property and Equipment

(000s)	Oil and Natural Gas Properties ($)	Office Equipment ($)	Total ($)
Cost or deemed cost			
Balance – January 1, 2012	211,194	253	211,447
Additions	25,476	56	25,532
Acquisitions through business combinations	8,458	–	8,458
Transfers from E&E assets	99,872	–	99,872
Balance – December 31, 2012	345,000	309	345,309
Additions	**17,209**	**7**	**17,216**
Acquisitions through business combinations	**1,873**	**–**	**1,873**
Transfers from E&E assets	**54,260**	**–**	**54,260**
Balance – June 30, 2013	**418,342**	**316**	**418,658**
Accumulated depletion and depreciation			
Balance – January 1, 2012	34,841	44	34,885
Depletion and depreciation for the year	31,212	52	31,264
Balance – December 31, 2012	66,053	96	66,149
Depletion and depreciation for the period	**21,545**	**30**	**21,575**
Balance – June 30, 2013	**87,598**	**126**	**87,724**
Net book value			
December 31, 2012	278,947	213	279,160
June 30, 2013	**330,744**	**190**	**330,934**

(a) Capitalization of General and Administrative and Share-Based Compensation Expenses

During the period ended June 30, 2013, approximately $281,000 of directly attributable general and administrative expense and $243,000 of directly attributable share-based compensation expense were capitalized as expenditures on property and equipment (year ended December 31, 2012 – $516,000 and $372,000, respectively).

(b) Amortization and Impairment Charges

For the period ended June 30, 2013, management determined that no impairment indicators were present and as such, did not perform an impairment test.

(c) Future Development Costs and Salvage Value

During the six months ended June 30, 2013, an estimated $92,474,000 of future development costs associated with proved plus probable undeveloped reserves were included in the calculation of depletion and depreciation expense and an estimated $15,157,000 of salvage value of production equipment was excluded (year ended December 31, 2012 – $158,947,000 and $13,157,000, respectively).

7. Bank Debt

At June 30, 2013, the Company had a revolving demand credit facility with an authorized borrowing base of $135,000,000 with interest charged at a rate per annum equal to the Canadian prime rate during said period plus the applicable margin, being a range of 0.50 percent to 2.50 percent, as determined by the Corporation's debt to cash flow ratio. Standby fees associated with this facility are charged based on an applicable margin, being a range of 0.2 percent to 0.45 percent per annum on the undrawn portion of the facility, again based on the Company's debt to cash flow ratio. Under this credit facility, the Corporation is required to maintain a current ratio of not less than 1:1.

At June 30, 2013, $63,769,000 (December 31, 2012 – $63,104,000) was drawn against the revolving demand credit facility. 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. The borrowing base of the credit facility is subject to review at least semi-annually with the next review to take place in the fall of 2013. 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 subsequently acquired personal property and a floating charge on all present and subsequently acquired land interests of the Company.

8. Decommissioning Liabilities

The Company has estimated the net present value of decommissioning obligations to be $18,196,000 as at June 30, 2013 (December 31, 2012 – $13,982,000) based on an undiscounted total future liability of $22,821,000 (December 31, 2012 – $17,642,000). These payments are expected to be incurred over a period of one to 20 years with the majority of costs to be incurred between 2013 and 2027. At June 30, 2013, a risk-free rate of 2.40 percent (December 31, 2012 – 2.25 percent) and an inflation rate of 2 percent (December 31, 2012 – 2 percent) were used to calculate the net present value of the decommissioning liabilities.

	Six Months Ended June 30, 2013	Year Ended December 31, 2012
(000s)	*($)*	*($)*
Balance – beginning of period	**13,982**	10,363
Liabilities incurred	**732**	1,044
Liabilities acquired	**217**	1,092
Revisions	**3,164**	1,237
Settlements	**(85)**	(108)
Accretion of decommissioning liabilities	**186**	354
Balance – end of period	**18,196**	13,982

9. 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

	Six Months Ended June 30, 2013		Year Ended December 31, 2012	
	Shares	**Amount**	Shares	Amount
	(#)	*($000s)*	*(#)*	*($000s)*
Balance – beginning of period	**71,080,173**	**231,415**	63,152,091	196,901
Common shares issued (i)	**5,083,000**	**34,564**	3,139,500	17,267
Flow-through shares issued (ii)	**–**	**–**	4,604,100	22,258
Premium on flow-through shares (ii)	**–**	**–**	–	(3,454)
Exercise of options (iii)	**310,516**	**1,076**	184,482	584
Share issuance costs	**–**	**(2,320)**	–	(2,854)
Tax benefit of share issuance costs	**–**	**579**	–	713
Balance – end of period	**76,473,689**	**265,314**	71,080,173	231,415

(i) Common Share Issuances

In February 2013, DeeThree issued 4,420,000 common shares at a price of $6.80 per common share for total gross proceeds of $30,056,000 ($28,052,000 net of estimated share issuance costs). In March 2013, DeeThree also issued 663,000 common shares at a price of $6.80 per common share for total gross proceeds of $4,508,400 ($4,192,000 net of estimated share issuance costs) on the exercise in full of the underwriters' over-allotment option from the February issuance.

In October 2012, DeeThree issued 3,139,500 common shares at a price of $5.50 per common share, for total gross proceeds of $17,267,250 ($16,008,500 net of share issuance costs), including 409,500 common shares ($2,252,250) issued on exercise in full of the underwriters' over-allotment option.

(ii) Flow-Through Share Issuances

In October 2012, DeeThree issued 770,000 flow-through shares at a price of $6.50 per flow-through share for total gross proceeds of $5,005,000 ($4,650,000 net of share issuance costs). The implied premium on the flow-through shares of $1.00 per share or $770,000 was initially recorded as a liability on the statement of financial position, and $770,000 remains at June 30, 2013. To date, the Company has incurred $nil of the total $5,005,000 of qualified exploration and development expenditures, with the full amount to be spent by December 31, 2013.

In March 2012, DeeThree issued 3,834,100 flow-through shares at a price of $4.50 per flow-through share for total gross proceeds of $17,253,450 ($16,012,450 net of share issuance costs), including 500,100 flow-through shares ($2,250,450) issued on the exercise in full of the underwriters' over-allotment option. The implied premium on the flow-through shares of $0.70 per share or $2,683,870 was initially recorded as a liability on the statement of financial position and $528,000 remains at June 30, 2013. To date, the Company has incurred $13,862,000 of the total $17,253,450 of qualified exploration and development expenditures and the remainder will be spent by December 31, 2013.

(iii) Exercising of Options

During the six-month period ended June 30, 2013, 310,516 options were exercised at a weighted average price of $2.28 per share for total cash proceeds of $708,000 and previously recognized share-based compensation expense of $368,000.

During 2012, 184,482 options were exercised at a weighted-average price of $2.25 per share for total cash proceeds of $417,000 and previously recognized share-based compensation expense of $167,000.

(c) Per Share Amounts

Per share amounts were calculated on the weighted-average number of shares outstanding. The basic and diluted shares outstanding were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
(000s, except per share amounts)	*($)*	*($)*	*($)*	*($)*
Net income for the period	**6,800**	5,603	**6,173**	2,404
	(#)	*(#)*	*(#)*	*(#)*
Weighted average number of common shares				
– basic	**76,363**	66,986	**74,784**	65,153
– diluted	**79,049**	70,161	**77,355**	69,484
	($)	*($)*	*($)*	*($)*
Net income per weighted average common share				
– basic	**0.09**	0.08	**0.08**	0.04
– diluted	**0.09**	0.08	**0.08**	0.03

10. Share-Based Compensation

The Company has an option program that entitles officers, directors, employees and certain consultants to purchase Company shares. Options are granted based on the five-day volume-weighted average common share price prior to the date of grant, vest 20 percent after six months and then 20 percent on the first, second, third and fourth anniversaries from the grant date and expire five years from the grant date.

The number and weighted-average exercise prices of stock options are as follows:

	Six Months Ended June 30, 2013		Year Ended December 31, 2012	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
	(#)	*($)*	*(#)*	*($)*
Outstanding – January 1	**5,699,632**	**3.19**	4,382,200	2.89
Issued	**1,264,000**	**7.65**	1,565,058	3.93
Exercised	**(310,516)**	**2.28**	(184,482)	2.25
Forfeited	**–**	**–**	(63,144)	3.23
Outstanding – end of period	**6,653,116**	**4.08**	5,699,632	3.19
Exercisable – end of period	**2,891,263**	**3.10**	2,427,430	2.86

Weighted-Average Exercise Price	Options Outstanding	Weighted-Average Contractual Life	Options Exercisable
($)	*(#)*	*(years)*	*(#)*
As at June 30, 2013			
2.00 – 2.99	**2,739,500**	**2.42**	**1,626,500**
3.00 – 3.99	**1,007,858**	**3.59**	**392,440**
4.00 – 4.99	**1,576,758**	**3.07**	**859,323**
5.00 – 5.99	**15,000**	**4.20**	**3,000**
6.00 – 6.99	**120,000**	**4.41**	**10,000**
7.00 – 7.95	**1,194,000**	**4.84**	**–**
	6,653,116	**3.23**	**2,891,263**

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

	Six Months Ended June 30, 2013	Year Ended December 31, 2012
Risk-free interest rate *(%)*	**1.09**	1.22
Expected life (years)	**3.10**	3.10
Expected volatility *(%)*	**67**	77
Expected dividend yield *(%)*	**0**	0
Fair value of options granted during the year ($/share)	**3.44**	1.97

A forfeiture rate of 2 percent for options granted during 2013 (2012 – 1 percent) was used when recording share-based compensation expense. This estimate is adjusted to the actual forfeiture rate. Gross share-based compensation was $928,000 for the quarter ended June 30, 2013 (quarter ended June 30, 2012 – $856,000). Of this amount, $53,000 was reclassified to operating expenses for amounts relating to field employees (quarter ended June 30, 2012 - $31,000) and $347,000 was capitalized (quarter ended June 30, 2012 - $303,000), resulting in total net share-based compensation expense of $528,000 for the period (quarter ended June 30, 2012 - $522,000).

Gross share-based compensation for the six month period ended June 30, 2013 was $1,542,000 (six months ended June 30, 2012 – $1,581,000). Of this amount, $73,000 was reclassified to operating expenses for amounts relating to field employees (six months ended June 30, 2012 - $58,000) and $541,000 was capitalized (six months ended June 30,2012 - $584,000), resulting in total net share-based compensation expense of $928,000 for the period (six months ended June 30, 2012 - $939,000).

11. Supplemented Cash Flow Information

Changes in non-cash working capital are comprised of:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
(000s)	*($)*	*($)*	*($)*	*($)*
Accounts receivable	**(1,822)**	(1,458)	**485**	986
Prepaid expenses and other	**(294)**	(551)	**(156)**	(447)
Accounts payable and accrued liabilities	**274**	(1,702)	**7,758**	5,014
	(1,842)	(3,711)	**8,087**	5,553
Related to operating activities	**(543)**	4,918	**736**	3,275
Related to financing activities	**(16)**	(48)	**–**	50
Related to investing activities	**(1,283)**	(8,581)	**7,351**	2,228
	(1,842)	(3,711)	**8,087**	5,553

12. Determination of Fair Values

A number of the Company's accounting policies and disclosures require the determination of fair value for financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

a) Property and Equipment and E&E Assets

The fair value of property and equipment recognized in a business combination is based on market values. The market value of property and equipment is the estimated amount for which property and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of petroleum and natural gas properties (included in property and equipment) and E&E assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

The market value of other items of property and equipment is based on the quoted market prices for similar items.

(b) Cash and Cash Equivalents, Accounts Receivable, Accounts Payable and Accrued Liabilities

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value of these balances approximated their carrying value at June 30, 2013 due to their short term to maturity.

c) Stock Options

The fair value of stock options is measured using the Black-Scholes option-pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted-average historical volatility adjusted for changes expected due to publicly available information), weighted-average expected life of the instruments (based on historical experience and general option-holder behavior) and the risk-free interest rate (based on Government of Canada bonds).

d) Derivative Financial Instruments

As at June 30, 2013, the Company had the following crude oil and foreign exchange risk management contracts, with a total long term mark-to-market asset of $236,000 and a total short term mark-to-market liability of $362,000:

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
Jan. 1/13 – Dec. 31/13	Crude oil	Collar	250 bbls/d	WTI – NYMEX	US$85.00/bbl (floor) – US$111.00/bbl (cap) (1)
Jan. 1/13 – Dec. 31/13	Crude oil	Collar	250 bbls/d	WTI – NYMEX	US$90.00/bbl (floor) – US$113.25/bbl (cap) (2)
Jan. 1/13 – Dec. 31/13	Crude oil	Collar	250 bbls/d	WTI – NYMEX	US$90.00/bbl (floor) – US$116.25/bbl (cap) (3)
Jan. 1/13 – Dec. 31/13	Crude oil	Collar	250 bbls/d	WTI – NYMEX	US$95.00/bbl (floor) – US$118.00/bbl (cap) (4)
Jan. 1/13 – Dec. 31/13	Crude Oil	Collar	500 bbls/d	WTI – NYMEX	US$90.00/bbl (floor) – US$106.00/bbl (cap) (5)
May 1/13 – Dec 31/13	Crude Oil	Fixed	500 bbls/d	WTI-NYMEX	CAD$97.43/bbl
June 1/13 – Dec 31/13	Crude Oil	Fixed	500 bbls/d	WTI-NYMEX	CAD$95.03/bbl
Jan. 1/14 – Dec. 31/14	Crude Oil	Collar	1,000 bbls/d	WTI-NYMEX	US$85.00/bbl (floor) – US$97.00/bbl (cap)

(1) Unless the monthly WTI price averages over US$111.00/bbl every day for the entire month, in which case the cap becomes US$90.00/bbl.
(2) Unless the monthly WTI price averages over US$113.25/bbl every day for the entire month, in which case the cap becomes US$92.00/bbl.
(3) Unless the monthly WTI price averages over US$116.25/bbl every day for the entire month, in which case the cap becomes US$92.00/bbl.
(4) Unless the monthly WTI price averages over US$118.00/bbl every day for the entire month, in which case the cap becomes US$100.00/bbl.
(5) Unless the monthly WTI price averages over US$106.00/bbl every day for the entire month, in which case the cap becomes US$90.00/bbl.

Period	Currency	Type of Contract	Quantity	Pricing Point (Cdn$/US$)
Jan. 1/12 – Dec. 31/13	US$	Average Rate Range Bonus Accumulator	US$700,000	Target – $1.10 Cdn$/US$ + $1,000 bonus/day (1)
June 1/12 – Dec. 31/13	US$	Average Rate Range Bonus Accumulator	US$900,000	Target – $1.0775 Cdn$/US$ + $900 bonus/day (2)

(1) The Company can earn a bonus payout of up to $1,000 per day depending on the period in which the exchange rate remains in the applicable range of equal to or greater than $0.9350 and equal to or less than $1.10.
(2) The Company can earn a bonus payout of up to $900 per day depending on the period in which the exchange rate remains in the applicable range of equal to or greater than $0.9300 and equal to or less than $1.0775.

Subsequent to June 30, 2013, the Company also entered into these additional hedge contracts:

- On July 10, 2013, DeeThree entered into a commodity hedge for 500 bbls/d of crude oil effective January 1, 2014 to December 31, 2014 with a strike price of CAD $102.01/bbl and a floor price of CAD $92.50/bbl.
- On July 25, 2013, DeeThree entered into a deferred put commodity hedge contract for 1,000 bbls/d of crude oil effective August 1, 2013 to December 31, 2013 with a strike price of CAD $104.05/bbl and a premium of $4.05/bbl to a guaranteed floor price of CAD $100.00/bbl.
- On July 30, 2013, DeeThree entered into a commodity hedge contract for 500 bbls/d of crude oil effective January 1, 2014 to December 31, 2014 with a strike price of CAD $101.25/bbl and a floor price of CAD $90.00/bbl.

DeeThree classifies the fair value of these transactions according to the following hierarchy based on the nature of the observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide continuous pricing information.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The fair value measurement of the derivative financial instruments has a fair value hierarchy of Level 2.

e) Offsetting Financial Assets and Liabilities

Financial assets and liabilities are only offset if the Company has the legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously. The Company offsets derivative assets and liabilities when the counterparty, commodity, currency and timing of settlement are the same. The following table summarizes the gross asset and liability positions of the Company's financial derivatives that are offset on the balance sheet as at June 30, 2013 and December 31, 2012:

	June 30, 2013			December 31, 2012		
(000's)	Asset	Liability	Net	Asset	Liability	Net
Gross amount	236	457	693	917	–	917
Amount offset	–	(819)	(819)	(67)	–	(67)
Net amount	236	(362)	(126)	850	–	850

13. Commitments

Years Ended December 31,	2013	2014	2015	2016+	Total
(000s)	*($)*	*($)*	*($)*	*($)*	*($)*
Operating lease – office	320	640	640	160	1,760
Operating lease – equipment	129	72	7	–	208
Exploration expenditures (flow-through)	8,396	–	–	–	8,396
Drilling contracts	2,935	587	–	–	3,522
Total	11,780	1,299	647	160	13,886

As at June 30, 2013, the Company had contractual obligations for its office leases totaling approximately $1,760,000 to March 2016. The head office lease obligations are comprised of the lease payments as well as parking and an estimate of occupancy costs of the Company's head office space. The Company also had contractual obligations for several vehicles and equipment totaling approximately $208,000 to March 2015.

In connection with the issuance of flow-through shares by the Company during the first quarter of 2012, DeeThree is required to spend $17,253,450 of eligible exploration expenditures by December 31, 2013. As at June 30, 2013, $13,862,000 of these have been incurred. The remaining $3,391,450 will be incurred during 2013. These expenditures were renounced to shareholders in January 2013 effective December 31, 2012.

In connection with the issuance of flow-through shares by the Company during the fourth quarter of 2012, DeeThree is required to spend an additional $5,005,000 of eligible exploration expenditures by December 31, 2013. As at June 30, 2013, $nil of these have been incurred. They will be incurred during 2013 and were renounced to shareholders in January 2013 effective December 31, 2012.

DeeThree has one contract for drilling rig services under which the Company is committed to using services totaling $3,522,000 extending into late 2013.

During 2012, DeeThree entered into a farm-in agreement with a senior oil and natural gas producer pursuant to which it may earn 100 percent working interest in up to 34 additional sections of Belly River petroleum and natural gas rights directly offsetting DeeThree's Brazeau property. DeeThree is committed to drilling a minimum of three horizontal wells on the farm-in lands with a continuing rolling option thereafter in return for a 15 percent non-convertible overriding royalty.

CORPORATE INFORMATION

Board of Directors

Michael Kabanuk
Executive Chairman
DeeThree Exploration Ltd.

Brendan Carrigy
Independent Businessman

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

Kevin Andrus
Portfolio Manager of Energy Investments
GMT Capital Corp.

(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

Trevor Murray
Vice President, Land

Clayton Thatcher
Vice President, Exploration

Casey Paulhus
Controller

Daniel Kenney
Corporate Secretary

Head Office

Suite 2200
520 Third Avenue S.W.
Calgary, Alberta T2P 0R3
Telephone: 403-767-3060
Facsimile: 403-263-9710
Website: www.deethree.ca

Auditors

KPMG LLP
Calgary, Alberta

Banker

National Bank of Canada
Calgary, Alberta

ATB Financial
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

OTCQX
Trading Symbol: DTHRF

Abbreviations

bbls	barrels
boe	barrels of oil equivalent
GJ	gigajoules
/d	per day
mbbls	thousand barrels
mboe	thousand barrels of oil equivalent
mcf	thousand cubic feet
mm	million
mmbtu	million British thermal units
mmcf	million cubic feet
NGLs	natural gas liquids

Conversion of Units

1.0 mcf	=	1.02 mmbtu
1.0 mcf	=	1.05 GJ
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.

2200, 520 – 3rd Ave SW
Calgary, AB T2P 0R3

Phone: 403-767-3060
Fax: 403-263-9710

www.deethree.ca