DeeThree Exploration Ltd.

Q1

FIRST QUARTER 2014 INTERIM REPORT

For the Three Months Ended March 31, 2014

Highlights: By The Numbers

Three Months Ended March 31,	**2014**	2013	Change
(000s, except per share amounts)	*($)*	*($)*	*(%)*
Financial			
Oil and natural gas revenues	**65,643**	30,490	115
Funds from operations [(1)]	**35,536**	16,788	112
Per share – basic	**0.43**	0.23	87
Per share – diluted	**0.42**	0.23	83
Cash flow from operating activities	**23,607**	18,000	31
Net income (loss)	**8,682**	(627)	1,485
Per share – basic	**0.11**	(0.01)	1,200
Per share – diluted	**0.10**	(0.01)	1,100
Capital expenditures [(2)]	**72,312**	41,558	74
Working capital deficit [(3)]	**155,517**	70,174	122
Shareholders' equity	**321,640**	244,909	31
(000s)	*(#)*	*(#)*	*(%)*
Share Data			
At period-end	**82,065**	76,168	8
Weighted average – basic	**81,932**	73,188	12
Weighted average – diluted	**84,741**	73,188	16
			(%)
Operating [(4)]			
Production			
Natural gas *(mcf/d)*	**12,381**	10,279	20
Crude oil *(bbls/d)*	**6,743**	3,924	72
NGLs *(bbls/d)*	**565**	289	96
Total *(boe/d)*	**9,372**	5,926	58
Average wellhead prices			
Natural gas *($/mcf)*	**6.00**	3.43	75
Crude oil and NGLs *($/bbl)*	**89.60**	71.81	25
Combined average *($/boe)*	**77.83**	57.17	36
Netbacks			
Operating netback *($/boe)*	**47.21**	35.15	34
Funds flow netback *($/boe)*	**42.05**	31.45	34
Gross (net) wells drilled			
Gas *(#)*	**1 (1.0)**	– (–)	– (–)
Oil *(#)*	**11 (10.97)**	7 (6.22)	57 (76)
Standing *(#)*	**3 (3.0)**	– (–)	– (–)
Dry and abandoned *(#)*	**2 (2.0)**	1 (0.97)	100 (106)
Total *(#)*	**17 (16.97)**	8 (7.19)	113 (136)
Average working interest *(%)*	**100**	90	11

(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-GAAP 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) Working capital deficit, which is calculated as current assets less current liabilities, excluding current derivative financial instruments, is not a recognized measure under IFRS. Please refer to the commentary under "Non-GAAP Measurements" for further discussion.

(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 first quarter of 2014. Our financial and operational accomplishments for the period include:

- Record production for the tenth consecutive quarter averaging 9,372 boe/d, up 58% from the first quarter of 2013 and 9% from the fourth quarter of 2013.
- Funds flow from operations grew to $35.5 million, representing a 112% increase over the first quarter of 2013 and a 44% improvement over the fourth quarter of 2013.
- Funds from operations per share increased to $0.42 fully diluted from $0.23 in the same quarter last year and $0.31 in the final quarter of 2013, an increase of 83% and 35% respectively.
- Increased operating netbacks to $47.21/boe from $35.15/boe in the first quarter of 2013 and $37.38 in the final quarter of 2013.
- Invested $72.3 million in our capital program, including the drilling of 17 (16.97 net) wells, including 14 (13.97 net) horizontal development wells, 1 (1.0 net) horizontal gas injection well and 2 (2.0 net) vertical exploration wells.
- Exited the quarter with total net debt of $155.5 million representing a debt to annualized cash flow ratio of 1.09:1.
- Subsequent to the quarter end, the Company finalized its amended and restated syndicated credit facility with a syndicate of five Canadian chartered banks in the amount of $235 million, which replaces the previous $165 million demand credit facility.
- On May 5, 2014, DeeThree entered into an agreement, on a bought deal basis, to raise $67 million (net of share issue expenses) through the issuance of 5.4 million common and 752,000 flow through shares at $11.10 and $13.30 per share respectively. The Company has also granted the underwriters an over-allotment option to increase the size of the offering by an additional 450,000 common shares. Closing of the offering is anticipated to occur on May 27, 2014.

OPERATIONAL UPDATE

The Company was very active throughout the first quarter of 2014 achieving exit production in excess of 11,500 boe/d.

The Company currently has two rigs drilling Alberta Bakken horizontal wells in the Ferguson area of southern Alberta where spring breakup conditions have little effect on its operations. Two rigs are scheduled to commence drilling in Brazeau by late June.

Current production is in excess of 11,000 boe/d with two Alberta Bakken wells and one Belly River well awaiting completion in the coming weeks. With approximately 28 gross wells to drill throughout the remainder of 2014, the Company is well positioned and will be reviewing its guidance in the near future.

BELLY RIVER

In Brazeau the Company continues to improve results, applying extended reach technology and larger fracture stimulations in executing the most successful drilling program to date. We achieved a 100% drilling success rate and have finished testing 8 gross (7.97 net) wells to date with an average final test rate of 820 bbls/d of oil and 750 mcf/d of gas as follows:

Location	Days tested	Final Oil Test Rate (bbl/d)	Final Gas Test Rate (mmcf/d)
1	10.0	488	0.86
2	9.0	1,617	1.19
3	7.0	1,083	0.51
4	7.0	1,051	1.30
5	6.5	968	1.14
6	6.0	670	0.47
7	4.5	498	0.39
8	3.0	181	0.15

The program continued to test a combination of down-spacing potential and extensions in three different previously tested Belly River sand intervals. In addition, we drilled our first horizontal in the Basal Belly River A sand interval and are anticipating completing this well in the coming weeks.

In order to handle the large increase in production volumes a field compressor and oil transfer facility was commissioned in early May. The facility has the capacity to transfer up to 6,000 bbls/d of oil to the Company's central main battery.

BAKKEN

Throughout the first quarter, the Company drilled four 100% working interest Alberta Bakken horizontal wells including three infill producers and a third gas injector for its gas re-injection enhanced oil recovery ("EOR") scheme. The three infill producers successfully tested down spacing in different areas of the pool with an average final test rate of 595 bbls/d of oil and 235 mcf/d of gas. In addition we drilled two 100% working interest vertical exploration test wells.

Location	Days tested	Final Oil Test Rate (bbl/d)	Final Gas Test Rate (mmcf/d)
1	11.0	555	0.195
2	6.5	270	0.177
3	6.0	960	0.335

The Company's gas re-injection EOR scheme has continued to exceed expectations. The pilot, consisting of one central gas injector and ten producing wells, was started in July of 2013. With more history and positive responses from the producing wells, the pilot continues to demonstrate the potential to significantly increase ultimate recoveries. As a result, we are expanding the gas reinjection pipeline infrastructure and ordered a built for purpose gas injection compressor which will increase injection capacity to 4 mmcf/d. By the end of the second quarter the Company is expecting to be re-injecting a significant portion of its Alberta Bakken gas in three different injectors strategically located throughout the pool.

DeeThree has recently acquired more than 70 sections of additional lands in the Ferguson area prospective for the Alberta Bakken. In addition to acquired Crown land, the Company executed an agreement with a senior producer to earn a 100% working interest in up to 34.5 contiguous sections (22,080 acres) of land located directly on trend with our existing Alberta Bakken production. The land is strategic to the Company and its future plans as it was the majority block of remaining available land between our original Alberta Bakken discovery well and the existing pool that has now been delineated to exceed 70 sections. The land block complements the Company's existing crown and farm in lands giving it a 100% working interest in a contiguous land base of approximately 200 sections of Alberta Bakken rights stretching 30 miles between production in what it currently defines as its primary Alberta Bakken development and exploration fairway. As a result of these recent additions, the Company is now planning to drill up to four Alberta Bakken exploration wells throughout the remainder of 2014 with the potential to materially increase the size of its Alberta Bakken resource.

PEACE RIVER ARCH

DeeThree has identified several development and exploration prospects in the Charlie Lake, Doig and Montney formations on its land position in the Peace River Arch. We will drill one 100% working interest Montney horizontal well offsetting an existing vertical oil producer that will also test a Charlie Lake oil exploration prospect.

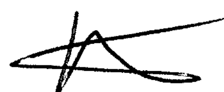
OUTLOOK

As a result of the Company's successful drilling program, its recent success in securing additional lands along with pending projects furthering the development and efficiency of its core production, DeeThree's Board of Directors has approved an increase to our capital budget for 2014 to $270 million from $230 million. DeeThree is on target to reach its previously announced 2014 production guidance averaging 11,500 – 11,700 boe/d and an exit production target of 13,000 – 13,500 boe/d. No production volumes have been attributed to the exploration prospects. In addition, the Company will continue to evaluate strategic land acquisitions in order to further consolidate its core areas.

With the increase to our credit facility and the pending closing of the equity financing described in the highlights above, our balance sheet is strong and will allow us to execute our program and to continue to build our key growth properties throughout the remainder of 2014. DeeThree continues to invest with the goal of creating long term value and activity remains focused in its two core areas where the Company owns and controls the vast majority of the land and associated infrastructure. Overall, 2014 is shaping up to be another exciting year for DeeThree.

We would like to express our appreciation for your continued support as we move forward in executing our plan for 2014 and beyond.

On behalf of the Board of Directors,



Martin Cheyne
President & Chief Executive Officer

May 15, 2014

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 May 14, 2014 and should be read in conjunction with the Company's unaudited interim financial statements and related notes for the three months ended March 31, 2014, as well as the Company's audited financial statements and related notes for the years ended December 31, 2013 and 2012. All financial information is reported in Canadian dollars, unless otherwise noted.

This MD&A contains additional generally accepted accounting principles (GAAP) measures, non-GAAP measures and forward-looking statements. Readers are cautioned that the MD&A should be read in conjunction with the Company's disclosure under "Non-GAAP Measures" and "Forward-looking Information and Statements" included at the end of this MD&A.

ABOUT DEETHREE EXPLORATION LTD.

DeeThree is a Canadian company actively engaged in crude oil and natural gas exploration, development and production in key areas of the Western Canada Sedimentary Basin and headquartered in Calgary, Alberta. DeeThree is focused on creating long-term shareholder value through a successful drilling program, growth-oriented field operations and prudent financial management.

DeeThree has created a platform for growth through a sound business strategy that includes low-risk development and higher-risk 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 (NGLs), and the Ferguson area of southern Alberta, which features Bakken oil and shallow natural gas. These two core areas have provided the Company with a balanced and diverse production base. The Company's experienced technical teams have a solid understanding of the assets and DeeThree has a proven track record of quarter-over-quarter organic growth.

DeeThree commenced operations in 2007 as a private company focused on development and production of natural gas in southern Alberta. In late 2008, DeeThree completed its first significant acquisition from a major oil and natural gas producer comprised 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 Brazeau and Peace River Arch areas. Since 2012, the Company has been successful in exploration and development activities in the Brazeau and Ferguson areas and continues to achieve growth in production and reserves, as well as superior returns for its shareholders.

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**.

2014 FIRST QUARTER FINANCIAL AND OPERATING HIGHLIGHTS

DeeThree's average production of 9,372 boe/d for the first quarter of 2014 reflects good operating performance from existing wells in the Ferguson and Brazeau areas as well as results from new wells drilled during the quarter.

For the quarter ended March 31, 2014, DeeThree realized a combined average sales price of $77.83/boe, a 36 percent increase over the prior year and a 19 percent increase over the last quarter of 2013. This was partially due to increased market prices for crude oil and natural gas and also partially related to the increase in crude oil as a percentage of total production. With average operating costs of $10.18/boe, average transportation costs of $1.69/boe and average royalties of 24 percent, DeeThree achieved an operating netback of $47.21/boe, a 34 percent increase over the prior year.

DeeThree incurred $72.3 million of capital expenditures in Q1 2014, with a capital program that focused on the drilling of 17 gross (16.97 net) wells, with 11 gross (10.97 net) in the Brazeau area and 6 gross (6.0 net) in the Ferguson area.

Funds from Operations [1]

Three Months Ended March 31,	**2014**	2013
(000s)	*($)*	*($)*
Net income (loss)	**8,682**	(627)
Non-cash items:		
Depletion and depreciation (D&D) expense	**16,486**	10,315
Deferred income tax expense	**3,557**	845
Share-based compensation [2]	**537**	420
Accretion	**199**	79
Unrealized loss on financial instruments	**4,187**	1,034
Exploration and evaluation (E&E) expense	**1,888**	4,722
Funds from operations [1]	**35,536**	16,788

(1) Funds from operations and funds from operations per share are not recognized measures under IFRS. Refer to the commentary in the Management's Discussion and Analysis under "Non-GAAP Measurements" for further discussion.

(2) The share-based compensation amount included in the calculation of funds from operations was 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 March 31, 2014, the Company generated funds from operations totalling $35.5 million ($0.43 per basic share and $0.42 per diluted share) compared to $16.8 million ($0.23 per basic and diluted share) in the comparative period of 2013 and $24.7 million ($0.32 per basic share and $0.31 per diluted share) in the fourth quarter of 2013. The year-over-year and quarter-over-quarter increases reflect increased revenue associated with higher crude oil and NGLs production as well as increased commodity prices, offset by increased royalties associated with those increased commodity prices, as well as higher operating and transportation costs.

Net Income (Loss)

For the three months ended March 31, 2014, the Company recorded net income of $8.7 million ($0.11 per basic share and $0.10 per diluted share) compared to a net loss of $627,000 ($0.01 per basic and diluted share) in the same period of 2013 and net income of $3.3 million ($0.04 per basic and diluted share) in the fourth quarter of 2013. The Company's increased net income for the quarter was primarily due to the increased operating netback in the period.

SUBSEQUENT EVENTS

Subsequent to the quarter end, the Company entered into a new $235 million committed credit facility with a syndicate of five financial institutions, led by National Bank of Canada, which replaces the existing $165 million demand credit facility. See "Liquidity and Financial Resources" section below for further details.

Also subsequent to the quarter end, the Company entered into an agreement, on a bought deal basis, with a syndicate of underwriters to purchase 5,410,000 common shares of the Company at a price of $11.10 per Common Share and 752,000 common shares issued on a flow-through basis at a price of $13.30 per Flow-Through Common Share for aggregate gross proceeds of approximately $70 million pursuant to a short form prospectus (the "Offering"). The Company has also granted the underwriters an over-allotment option to increase the size of the Offering by purchasing from treasury up to an additional 450,000 Common Shares on the same terms, exercisable in whole or in part at any time prior to 30 days after the closing of the Offering. If the over-allotment option is exercised in full, the aggregate size of the Offering, would be approximately $75 million. Closing of the Offering is anticipated to occur on or about May 27, 2014 (the "Closing Date") and is subject to the receipt of applicable regulatory approvals, including approval of the Toronto Stock Exchange.

OUTLOOK

As a result of the Company's successful drilling program, its recent success in securing additional lands along with pending projects furthering the development and efficiency of its core production, DeeThree's Board of Directors has approved an increase to the capital budget for 2014 to $270 million from $230 million. DeeThree is on target to reach its previously announced 2014 production guidance averaging 11,500 – 11,700 boe/d and an exit production target of 13,000 – 13,500 boe/d. No production volumes have been attributed to the exploration prospects. In addition, the Company will continue to evaluate strategic land acquisitions in order to further consolidate its core areas.

With the increase to the credit facility and the pending closing of the equity financing described in the Subsequent Events above, the Company's balance sheet is strong and will allow DeeThree to execute its drilling program and to continue to build its key growth properties throughout the remainder of 2014. DeeThree continues to invest with the goal of creating long term value and activity remains focused in its two core areas where the Company owns and controls the vast majority of the land and associated infrastructure.

FINANCIAL AND OPERATING RESULTS

Sales Volumes

Three Months Ended March 31,	**2014**	2013
Sales		
Natural gas *(mcf/d)*	**12,381**	10,279
Crude oil *(bbls/d)*	**6,743**	3,924
NGLs *(bbls/d)*	**565**	289
Total sales *(boe/d)*	**9,372**	5,926
	(%)	(%)
Production Split		
Natural gas	**22**	29
Crude oil	**72**	66
NGLs	**6**	5
Total	**100**	100

For the first quarter of 2014, the Company's production averaged 9,372 boe/d compared to 5,926 boe/d in the same period of 2013 and 8,625 boe/d in the fourth quarter of 2013. This represents a 58 percent year-over-year increase and reflects new production from the tie-in of wells drilled throughout 2013 and the first few months of 2014. After a slower than anticipated start to the year, the Company had tied in the majority of the Q1 drills by March to achieve production of approximately 11,000 boe/d in that month and contribute to 9 percent quarter-over-quarter growth.

Revenue

Three Months Ended March 31,	**2014**	2013
(000s)	*($)*	*($)*
Natural gas	**6,688**	3,177
Crude oil	**55,533**	25,945
NGLs and other	**3,422**	1,368
Total oil and natural gas revenue	**65,643**	30,490

During the three months ended March 31, 2014, revenue increased by 115 percent to $65.6 million from $30.5 million in the comparative period of 2013. The year-over-year increase was a result of increased production, a shift to a higher percentage of oil and NGLs (78 percent versus 71 percent), improved crude oil market prices and the resulting increase in the corporate average price per boe. When compared to the fourth quarter of 2013, revenue increased 26 percent from $51.9 million due to increased production, improved commodity prices and an increased corporate average price per boe. Pricing is discussed in further detail in "Commodity Prices and Foreign Exchange" below.

Commodity Prices and Foreign Exchange

Three Months Ended March 31,	**2014**	2013
	($)	*($)*
Benchmark Prices		
Natural gas		
NYMEX *(US$/mmbtu)* (1)	**4.90**	3.35
AECO *(Cdn$/GJ)* (2)	**5.42**	3.03
Crude oil		
WTI *(US$/bbl)*	**98.68**	94.37
Edmonton Light (MSW) *(Cdn$/boe)*	**99.79**	88.37
Differential – MSW/WTI *(US$/bbl)*	**(8.25)**	(6.95)
Hardisty Bow River *(Cdn$/boe)*	**93.89**	73.98
Differential – Bow River/WTI *(US$/bbl)*	**(22.62)**	(30.70)
Average Realized Prices		
Natural gas *($/mcf)*	**6.00**	3.43
Crude oil *($/bbl)*	**91.51**	73.46
NGLs *($/bbl)*	**66.88**	49.33
Combined average *($/boe)*	**77.83**	57.17
Foreign Exchange		
Cdn$/US$	**1.10**	1.01
US$/Cdn$	**0.91**	0.99

(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.

Prices for Canadian crude oil increased in 2014 from 2013 although differentials on Canadian crude oil remained volatile as a result of higher North American crude oil production, refinery outages, and constrained takeaway and infrastructure capacity. Certain pipeline and infrastructure projects and additional crude oil rail capacity are scheduled to come on-stream in 2014, and are expected to alleviate certain bottlenecks which have exacerbated Canadian crude oil differentials. It is expected that crude oil differentials will remain volatile throughout 2014 until additional infrastructure capacity is available to meet growing North American production. Natural gas prices increased in the first quarter of 2014, with NYMEX Henry Hub and AECO monthly (AECO) prices both substantially higher than 2013 levels. Demand for natural gas in the United States is expected to increase due to the commencement of liquefied natural gas exports, increased natural gas power generation, increased usage from the transportation and industrial sectors, and higher gas exports to Mexico and eastern Canada. Ongoing commodity price volatility may affect DeeThree's funds from operations and rates of return on capital programs. As continued volatility is expected in 2014, DeeThree will take steps to mitigate these risks and protect its financial position.

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 refinery 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. During the first quarter of 2014, approximately half of DeeThree's oil production was priced relative to Hardisty Bow River oil prices, while the other half was priced relative to Edmonton Light (MSW) oil prices, compared to two-thirds and one-third, respectively, in the same period of the prior year and in the last quarter of 2013.

Since May 2013, the Company has been moving a portion of its crude oil out of the Ferguson area via rail cars. The Company has been able to attract better pricing on these volumes and will continue to explore options to move its crude oil by rail as long as the market conditions are favourable to do so.

In the first quarter of 2014, WTI increased by 5 percent year-over year while DeeThree's realized oil price increased by 25 percent when compared to the prior year. The Company's average realized oil price also increased 18 percent when compared to the fourth quarter of 2013, partially due to the change in crude oil production composition (50 percent of the Company's crude oil is now being sold at the higher Edmonton Light price versus 33 percent in the first and fourth quarters of 2013) and partially attributable to narrowing differentials for both Bow River prices (US$22.62/boe versus US$31.07/boe) and Edmonton Light prices (US$8.25/boe versus US$14.93/boe). Additionally, the value of the Canadian dollar weakened in comparison to the US dollar from an average of Cdn$/US$1.01 in 2013 to Cdn$/US$1.10 in 2014, which increased the Canadian dollar price that the Company ultimately received for its oil. The average realized price of DeeThree's crude oil was $91.51/bbl for the first quarter of 2014 compared to $73.46/bbl a year earlier and $77.62/bbl in the fourth quarter of 2013.

During the three-month period ended March 31, 2014, benchmark natural gas prices in Canada increased over the same period in 2013 as natural gas inventories decreased throughout the year due to increased residential and industrial demand from a cold winter. AECO prices averaged $5.42/GJ throughout the first quarter of 2014 compared to $3.03/GJ in the first quarter of 2013 and $3.35/GJ in the fourth quarter of 2013. DeeThree's average realized natural gas price during the three-month period was $6.00/mcf in the first quarter of 2014 versus $3.43/mcf a year earlier and $4.00/mcf in the fourth quarter of 2013, reflecting increased demand drawing on previously high storage levels.

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 six crude oil hedges and three natural gas hedges (refer to "Risk Management" below for contract details). Most commodity prices are based on US dollar benchmarks, which result in the Company's realized prices being influenced by the Canadian/US 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 had one foreign currency exchange risk management contract in place to mitigate these risks (see "Risk Management" below for contract details).

Royalties

Three Months Ended March 31,	**2014**	2013
	($)	*($)*
Oil and natural gas revenues *(000s)*	**65,643**	30,490
Total royalties *(000s)*	**15,810**	6,441
Total royalties *($/boe)*	**18.75**	12.08
Percent of revenue *(%)*	**24**	21

The Ferguson property is primarily subject to freehold royalties, which work on a sliding-scale determined monthly on a well-by-well basis using a calculation based on the new royalty regulation implemented in 2009 ("New Alberta Crown Royalty 2009") with a cap of 30 percent. The sliding scale provides varying rates 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). This area is also subject to freehold mineral taxes (which are included as royalties for financial reporting purposes) and overriding royalties related to farm-in arrangements. As the Company drills more successful oil wells in this area and production increases, an increase in royalties is to be expected.

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 first quarter of 2014, royalties totalled $15.8 million or 24 percent of revenue compared to $6.4 million or 21 percent of revenue for the same quarter in 2013 and $12.9 million or 25 percent of revenue in the fourth quarter of 2013. The year-over-year royalty rate increase was due to new production from the Company's wells brought on-stream during the past year, most of which are subject to a freehold royalty based on the New Alberta Crown Royalty 2009, while only some qualify for the 5 percent royalty holiday under the Government of Alberta's royalty framework.

Operating and Transportation Expenses

Three Months Ended March 31,	**2014**	2013
(000s except per boe)	*($)*	*($)*
Operating expenses	**8,586**	4,321
Transportation expenses	**1,425**	984
Total operating and transportation expenses	**10,011**	5,305
Operating expenses *($/boe)*	**10.18**	8.10
Transportation expenses *($/boe)*	**1.69**	1.84
Total operating and transportation expenses *($/boe)*	**11.87**	9.94

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 first quarter of 2014 totalled $8.6 million or $10.18/boe compared to $4.3 million or $8.10/boe in the same period of 2013 and $8.0 million or $10.03/boe in the fourth quarter of 2013. During the last nine months of 2013 and the first quarter of 2014, the Company had several new wells in the initial production phase in Ferguson incurring higher operating costs until they were pipeline-connected, increasing operating costs per barrel in those periods.

Transportation expenses for the three months ended March 31, 2014 were $1.4 million or $1.69/boe compared to $984,000 or $1.84/boe in the first quarter of 2013 and $1.4 million or $1.75/boe in the fourth 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 being slightly more expensive) as well as the proportion of Company volumes on ATCO versus NOVA (ATCO being 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). When the Company experiences pipeline capacity constraints, it must use alternative means of transportation to move production volumes to market.

Risk Management

DeeThree maintains a risk management program to reduce the volatility of revenues and to increase the certainty of funds from operations. DeeThree considers all of its risk management contracts to be effective economic hedges of the underlying business transactions. As at March 31, 2014, the Company had the following crude oil, natural gas, foreign exchange and interest rate risk management contracts with a total mark-to-market liability of $6.4 million (December 31, 2013 – liability of $2.2 million):

Crude Oil Contracts

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
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)
Jan. 1/14 – Dec. 31/14	Crude Oil	Collar	500 bbls/d	WTI-NYMEX	Cdn$92.50/bbl (floor) – Cdn$102.01/bbl (cap)
Jan. 1/14 – Dec. 31/14	Crude Oil	Collar	500 bbls/d	WTI-NYMEX	Cdn$90.00/bbl (floor) – Cdn$101.25/bbl (cap)
Jan. 1/14 – Dec. 31/14	Crude Oil	Collar	1,000 bbls/d	WTI-NYMEX	Cdn$90.00/bbl (floor) – Cdn$107.85/bbl (cap)
Mar. 1/14 – Dec. 31/14	Crude Oil	Swap	500 bbls/d	WTI-NYMEX	Cdn$105.20
Mar. 1/14 – Dec. 31/14	Crude Oil	Swap	500 bbls/d	WTI-NYMEX	Cdn$106.00

Natural Gas Contracts

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
Feb. 1/14 – Dec. 31/14	Natural Gas	Swap	2,000 GJ/day	AECO	Cdn$3.975/GJ
Mar. 1/14 – Dec. 31/14	Natural Gas	Swap	1,000 GJ/day	AECO	Cdn$4.310/GJ
Apr. 1/14 – Oct. 31/14	Natural Gas	Swap	2,500 GJ/day	AECO	Cdn$4.110/GJ

Foreign Exchange Contract

Period	Currency	Type of Contract	Quantity	Pricing Point (Cdn$/US$)
Sept. 1/13 – Dec. 31/14	US$	Average Rate Range Bonus Accumulator	US$2,500,000	Target – $1.0825 Cdn$/US$ + $1,500 bonus/day [1]

[1] The Company can earn a bonus payout of up to $1,500 per day depending on the period in which the exchange rate remains in the applicable range of less than 1.0825.

Interest Rate Contract

Term	Amount	Fixed Rate	Index
Feb. 18 /14 – Feb. 18/16	Cdn$40 million	1.44%	CDOR

Gains and losses on risk management contracts are composed both of unrealized gains or losses that represent the change in the mark-to-market position of those contracts throughout the period and of realized gains and losses representing the portion of the contracts that have settled in cash during the period. The Company has elected not to use hedge accounting for its current risk management contracts.

Three Months Ended March 31,	**2014**	2013
	($)	*($)*
Unrealized loss on financial instruments *(000s)*	**4,187**	1,034
Unrealized loss on financial instruments *($/boe)*	**4.96**	1.94

Three Months Ended March 31,	**2014**	2013
	($)	*($)*
Realized loss (gain) on financial instruments *(000s)*	**1,598**	(116)
Realized loss (gain) on financial instruments *($/boe)*	**1.89**	(0.22)

During the first quarter of 2014, the Company recorded an unrealized loss on financial instruments of $4.2 million and a realized loss of $1.6 million. The unrealized loss resulted from the mark-to-market of financial risk management contracts at the period end. These non-cash unrealized derivative losses are generated by the change over the reporting period in the mark-to-market valuation of DeeThree's risk management contracts. The realized loss represents actual cash settlements under the respective commodity, foreign exchange and interest rate contracts in the period.

In the same period of the prior year, the Company recorded an unrealized loss of $1.0 million and a realized gain of $116,000 and in the previous quarter, an unrealized gain of $524,000 and a realized loss of $548,000.

G&A Expense

Three Months Ended March 31,	**2014**	2013
(000s except per boe)	*($)*	*($)*
Gross G&A expense	**2,654**	2,113
Capitalized G&A (direct)	**(583)**	(461)
Overhead recoveries	**(199)**	(108)
G&A expense (net)	**1,872**	1,544
G&A expense (net) *($/boe)*	**2.22**	2.89

Gross G&A expense totalled $2.7 million for the three-month period ended March 31, 2014 compared to $2.1 million in the comparable period of 2013 and $3.3 million in the fourth quarter of 2013. Net G&A costs were $1.9 million or $2.22/boe in the first quarter of 2014 compared to $1.5 million or $2.89/boe a year earlier and $2.2 million or $2.81/boe in the fourth 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) required to manage DeeThree's growing business. In the first quarter of 2014, the Company had an average of 27 full-time employees and seven consultants versus 21 full-time employees and six consultants in the same period of 2013.

The Company capitalized direct G&A expenses amounting to $583,000 and had overhead recoveries of $199,000 in the first quarter of 2014 versus $461,000 and $108,000, respectively, in the comparative period of 2013, and $848,000 and $225,000, respectively, in the fourth quarter of 2013.

Share-Based Compensation

Three Months Ended March 31,	**2014**	2013
(000s except per boe)	*($)*	*($)*
Gross share-based compensation	**839**	614
Share-based compensation reclassified to operating costs	**(67)**	(20)
Capitalized share-based compensation	**(301)**	(194)
Share-based compensation expense (net)	**471**	400
Share-based compensation expense (net) *($/boe)*	**0.56**	0.75

The Company has a stock option plan, which is described in note 9 to the interim financial statements for the period ended March 31, 2014. Options granted under the plan have a four-year vesting term and expire five years from the grant date, with the fair value of options granted estimated at the grant date using the Black-Scholes option-pricing model. At March 31, 2014, the Company had 6,059,114 options outstanding under this plan.

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, in order to be consistent with the recognition of their salaries on the statement of operations and comprehensive income (loss).

For the quarter ended March 31, 2014, the Company incurred a net expense of $471,000 or $0.56/boe versus $400,000 or $0.75/boe in the same period of 2013 and $530,000 or $0.67/boe in the fourth quarter of 2013. The year-over-year absolute increase was directly attributable to increased staffing.

Depletion and Depreciation (D&D)

Three Months Ended March 31,	2014	2013
	($)	($)
D&D expense *(000s)*	**16,486**	10,315
D&D expense *($/boe)*	**19.55**	19.34

DeeThree records D&D expense on its property and equipment over the individual useful lives of the assets, employing the unit-of-production method using proved plus probable reserves and associated estimated future development capital required for its oil and natural gas assets, a straight-line method for field facilities (20-year useful life) and a declining-balance method on corporate assets (20 to 30 percent). Assets in the E&E phase are not amortized.

For the three months ended March 31, 2014, the Company recorded D&D expense of $16.5 million or $19.55/boe compared to $10.3 million or $19.34/boe in the same period of 2013 and $16.0 million or $20.15/boe in the fourth quarter of 2013. The absolute increase in D&D expense quarter over quarter is related to the 58 percent increase in production volumes slightly offset by lower costs related to finding and developing reserves.

Exploration and Evaluation (E&E) Expense

Three Months Ended March 31,	2014	2013
	($)	($)
E&E expense *(000s)*	**1,888**	4,722
E&E expense *($/boe)*	**2.24**	8.85

Under IFRS, DeeThree accumulates costs related to E&E assets in one 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 first quarter of 2014, the Company recorded E&E expense of $1.9 million or $2.24/boe, which included $58,000 related to lease expiries in one of the Company's areas and $1.8 million related to two vertical strat test wells drilled during the period. This compares to $4.7 million or $8.85/boe in the same period of 2013, which included $121,000 of lease expiries in several of the Company's areas and $4.6 million related to dry and abandoned wells, and $3.2 million or $3.98/boe in the fourth quarter of 2013 including $32,000 of lease expiries, $528,000 for the write-off of preliminary drilling costs and $2.6 million related to a dry and abandoned well.

Accretion and Finance Expenses

Three Months Ended March 31,	2014	2013
(000s except per boe)	($)	($)
Accretion expense on decommissioning liabilities	**199**	79
Finance expense	**882**	548
Total accretion and finance expenses	**1,081**	627
Accretion expense on decommissioning liabilities *($/boe)*	**0.24**	0.15
Finance expense *($/boe)*	**1.05**	1.03
Total accretion and finance expenses *($/boe)*	**1.29**	1.18

Accretion expense represents the increase in the present value of the Company's decommissioning liabilities. In the first quarter of 2014, the Company recorded accretion expense of $199,000 or $0.24/boe compared to $79,000 or $0.15/boe in the same period of 2013 and $188,000 or $0.24/boe in the fourth quarter of 2013. The absolute increase is primarily due to the decommissioning liabilities added for the 2013 and 2014 wells drilled as well as the upward change in estimate resulting from the review and update of several key assumptions made during the fourth quarter of 2013.

During the three months ended March 31, 2014, interest and finance expenses increased to $882,000 or $1.05/boe from $548,000 or $1.03/boe in the same period of 2013 and $942,000 or $1.19/boe in the fourth quarter of 2013. The Company incurred interest charges and standby fees related to the $165 million credit facility, which was drawn to $108.2 million at the end of the quarter (March 31, 2013 – $45.8 million and December 31, 2013 - $88.4 million).

Income Taxes

Three Months Ended March 31,	**2014**	2013
	($)	*($)*
Deferred income tax expense *(000s)*	**3,557**	845
Deferred income tax expense *($/boe)*	**4.22**	1.58

During the first quarter of 2014, the Company recorded a deferred income tax expense of $3.6 million or $4.22/boe compared to $845,000 or $1.58/boe in same period of 2013 and $2.0 million or $2.49/boe in the fourth quarter of 2013. The first quarter expense was primarily related to an increase in the taxable base of the oil and natural gas assets, driven by capital spending during the period as well as the impact of 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 March 31, 2014, the Company spent approximately $3.2 million in eligible capital expenditures related to the December 2013 issuance of flow-through shares.

DeeThree does not have current income taxes payable and does not expect to pay current income taxes in 2014 as the Company had estimated tax pools available at March 31, 2014 of $420 million (December 31, 2013 – $386 million).

Netbacks (per unit) [2]

Three Months Ended March 31,	**2014**	2013
	($/boe)	*($/boe)*
Average sales price	**77.83**	57.17
Royalties	**(18.75)**	(12.08)
Operating	**(10.18)**	(8.10)
Transportation	**(1.69)**	(1.84)
Operating netback [1]	**47.21**	35.15
G&A and other expense (excludes non-cash items)	**(2.22)**	(2.89)
Realized gain (loss) on financial instruments	**(1.89)**	0.22
Finance expense	**(1.05)**	(1.03)
Funds flow netback [1]	**42.05**	31.45
D&D expense	**(19.55)**	(19.34)
Accretion	**(0.24)**	(0.15)
Share-based compensation	**(0.56)**	(0.75)
Unrealized loss on financial instruments	**(4.96)**	(1.94)
E&E expense	**(2.24)**	(8.85)
Deferred income tax expense	**(4.22)**	(1.58)
Net income (loss) netback [1]	**10.28**	(1.16)

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

The operating netback was $47.21/boe for the three months ended March 31, 2014 compared to $35.15/boe in the same period of 2013 and $37.38/boe in the fourth quarter of 2013. As compared to the prior year's first quarter, the Company experienced a higher realized average price throughout the three months ended March 31, 2014 but also higher royalties and operating expenses than a year earlier. As compared to the last quarter of 2013, the Company also realized a higher average price due to an increase in WTI prices compounded by narrowing differentials, contributing to the increase in operating netback quarter-over-quarter.

INVESTMENT AND INVESTMENT EFFICIENCIES

Capital Expenditures and Acquisitions

Three Months Ended March 31,	**2014**	2013
(000s) (excluding decommissioning liabilities and capitalized share-based compensation)	*($)*	*($)*
Property acquisitions and adjustments	**110**	2,130
Drilling and completions	**59,330**	30,524
Equipment and facilities	**10,552**	4,494
Land and lease retention	**739**	3,939
Geological and geophysical	**996**	–
Capitalized G&A and other	**585**	471
Total capital expenditures	**72,312**	41,558

During the first quarter of 2014, the Company incurred a total of $72.3 million (first quarter 2013 - $41.6 million) in capital expenditures, excluding non-cash decommissioning liabilities and capitalized share-based compensation. Drilling and completion expenditures totalled $59.3 million for the three-month period (first quarter 2013 - $30.5 million), including i) $2.7 million to finish wells drilled during the fourth quarter of 2013, ii) $47.4 million to drill and complete 14 gross (13.97 net) current-quarter wells and iii) $9.2 million to drill 3 gross (3.0 net) additional wells that were not yet completed at the quarter end. In the comparative quarter of 2013, the Company drilled 8 gross (7.19 net) wells and incurred significant completion expenditures. For the three months ended March 31, 2014, DeeThree spent $10.6 million (first quarter 2013 - $4.5 million) on equipment and facilities, including $4.4 million for 2014 tie-ins and $6.2 million on facilities. The Company spent $739,000 in the first quarter of 2014 (first quarter 2013 - $3.9 million) on Crown land sales and $996,000 million (first quarter 2013 - $nil) related to seismic programs. The remaining $585,000 in the first quarter of 2014 (first quarter 2013 - $471,000) was invested in capitalized G&A and other corporate assets.

Drilling Activity

	Exploration		Development		Total	
	Gross	Net	Gross	Net	Gross	Net
	(#)	*(#)*	*(#)*	*(#)*	*(#)*	*(#)*
Three Months Ended March 31, 2014						
Gas	**–**	**–**	**1.0**	**1.00**	**1.0**	**1.00**
Crude oil	**–**	**–**	**14.0**	**13.97**	**14.0**	**13.97**
Dry and abandoned	**2.0**	**2.00**	**–**	**–**	**2.0**	**2.00**
Total wells	**2.0**	**2.00**	**15.0**	**14.97**	**17**	**16.97**
Success rate ***(%)***		**0**		**100**		**88**
Average working interest ***(%)***		**100**		**100**		**100**
Three Months Ended March 31, 2013						
Crude oil	1.0	1.00	6.0	5.22	7.0	6.22
Dry and abandoned	1.0	0.97	–	–	1.0	0.97
Total wells	2.0	1.97	6.0	5.22	8.0	7.19
Success rate *(%)*		50		100		88
Average working interest *(%)*		99		87		90

During the first quarter of 2014, DeeThree drilled 11 gross (10.97 net) wells on its Brazeau property and 6 gross (6.0 net) Bakken wells on its Ferguson property with an 88 percent success rate. The two wells that were determined to be dry and abandoned in the period were vertical strat test wells drilled outside of the core Ferguson area. During the three months ended March 31, 2013, the Company drilled 8 gross (7.19 net) wells for an 88 percent success rate, including 6 gross (5.9 net) horizontal Belly River wells in the Brazeau area, 1 gross (1.0 net) Bakken wells in the Ferguson area and 1.0 net (0.29 net) non-operated well in the Peace River Arch area.

LIQUIDITY AND FINANCIAL RESOURCES

Working Capital Deficit [1]

The following table summarizes the change in working capital during the three months ended March 31, 2014 and the year ended December 31, 2013:

	Three Months Ended March 31, 2014	Year Ended December 31, 2013
(000s)	*($)*	*($)*
Working capital deficit [1] – beginning of period	**(119,787)**	(77,586)
Funds from operations	**35,536**	93,295
Capital expenditures	**(72,202)**	(200,191)
Acquisitions	**(110)**	(11,694)
Issuance of capital stock for cash (net of share issuance costs)	**1,046**	76,822
Abandonment and reclamation costs	**–**	(433)
Working capital deficit [1] – end of period	**(155,517)**	(119,787)

(1) Working capital deficit, which is calculated as current assets less current liabilities, excluding current derivative financial instruments, is not a recognized measure under IFRS. Please refer to the commentary under "Non-GAAP Measurements" for further discussion.

DeeThree entered 2014 with a working capital deficit of $119.8 million. During the first three months, the Company generated funds from operations of $35.5 million and invested $72.2 million in capital expenditures and $110,000 in acquisitions for total capital spending of $72.3 million. The Company also issued common shares on the exercise of options for total cash proceeds of $1.0 million. DeeThree exited the quarter with a working capital deficit of $155.5 million.

The Company may utilize any one of the following strategies to address its working capital deficiency and to fund its capital program: (i) issue new shares; (ii) issue new debt securities; (iii) amend, revise, renew or extend the terms of the existing $165 million credit facility (the "Credit Facility"); (iv) enter into new agreements establishing new credit facilities; and (v) adjust its capital spending.

At March 31, 2014, the Company had a revolving demand credit facility with an authorized borrowing base of $165 million, with approximately $108.2 million drawn and $56.8 million of unused borrowing capacity. Under the credit facility, the Company is required to maintain a current ratio of not less than 1:1. The current ratio is calculated as current assets (excluding derivative financial instruments) plus any undrawn availability in the credit facility versus current liabilities (excluding derivative financial instruments and any amounts outstanding in the credit facility). At March 31, 2014, DeeThree was in compliance with the current ratio requirement.

Subsequent to the quarter end, on May 2, 2014, the Company entered into an agreement with a syndicate of financial institutions, led by National Bank of Canada, to establish a new committed term credit facility (the "New Facility") to replace the existing demand loan Credit Facility in place as at March 31, 2014. The current commitment under the New Credit Facility is $235 million, including a $215 million extendible revolving facility and a $20 million operating facility.

The New Facility is available for a revolving period of 364 days plus a one year term-out, which is extendible annually, subject to syndicate approval. Repayments of principal are not required provided that the borrowings under the New Facility do not exceed the authorized borrowing amount and the Company is in compliance with covenants, representations and warranties. Covenants include reporting requirements, permitted indebtedness, permitted hedging and other standard business operating covenants. There are no financial covenants under the New Facility. The authorized borrowing amount is subject to interim reviews by the financial institutions. Security is provided for by a floating charge demand debenture over all assets in the amount of $1.0 billion.

The New Facility bears interest on a grid system which ranges from bank prime plus 1.0% to 3.5% depending on the Company's total net debt to cash flow ratio as defined by the lender, ranging from less than 1:1 to greater than 3:1. The New Facility provides that advances may be made by way of prime rate loans, U.S. Base Rate loans, London InterBank Offered Rate ("LIBOR") loans, bankers' acceptances or letters of credit. A standby fee of 0.500% to 0.875% is charged on the undrawn portion of the New Facility, also calculated depending on the Company's total net debt to cash flow ratio, as defined by the lender.

During 2014, DeeThree plans to invest approximately $270 million on its capital program, which is focused on further exploration and development of the Ferguson and Brazeau properties and consists of a planned 46 gross wells. DeeThree expects to fund future capital expenditures with its funds from operations and the unused demand credit facility. The Company remains committed to maintaining financial flexibility, the prudent use of debt and a strong balance sheet, giving it the ability to take advantage of opportunities as they arise.

RELATED-PARTY TRANSACTIONS AND OFF-BALANCE-SHEET TRANSACTIONS

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,	2014	2015	2016	Total
(000s)	($)	($)	($)	($)
Operating lease – office	480	640	160	1,280
Operating lease – equipment	82	28	–	110
Exploration expenditures (flow-through)	1,833	–	–	1,833
Bank debt	108,202	–	–	108,202
Total	110,597	668	160	111,425

As at March 31, 2014, the Company had contractual obligations for its office leases totalling approximately $1.3 million 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 totalling approximately $110,000 to October 2015.

In connection with the Company's issuance of flow-through shares during the fourth quarter of 2013, DeeThree was required to spend $5 million of eligible exploration expenditures by December 31, 2014. As at March 31, 2014, $3.2 million of these expenditures had been incurred. The remaining $1.8 million of these expenditures will be incurred during 2014 and were renounced to shareholders in January 2014 effective December 31, 2013.

At March 31, 2014, the Company also had the obligation to repay the amount outstanding on the revolving demand credit facility, which was drawn to $108.2 million at period-end.

SHARE CAPITAL

As at May 14, 2014, the Company had the following equity securities outstanding:

Common shares outstanding	82,230,575
Stock options outstanding	7,129,073

SELECTED QUARTERLY INFORMATION [1]

Three Months Ended	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012
(000s, except per share amounts and production figures)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Oil and natural gas revenues	**65,643**	51,865	55,754	39,882	30,490	28,378	24,020	18,437
Funds from operations	**35,536**	24,660	29,410	22,437	16,788	16,231	14,265	9,852
Per share – basic	**0.43**	0.32	0.38	0.29	0.23	0.23	0.21	0.15
Per share – diluted	**0.42**	0.31	0.37	0.28	0.23	0.22	0.20	0.14
Cash flow from operating activities	**23,607**	25,499	32,073	21,876	18,000	30,978	12,555	14,696
Net income (loss)	**8,682**	3,305	8,570	6,800	(627)	3,483	1,294	5,603
Per share – basic	**0.11**	0.04	0.11	0.09	(0.01)	0.05	0.02	0.08
Per share – diluted	**0.10**	0.04	0.11	0.09	(0.01)	0.05	0.02	0.08
Total assets	**564,393**	497,280	457,679	387,056	353,574	329,666	292,348	266,649
Capital expenditures [2]	**72,312**	56,072	74,969	39,286	41,558	45,134	33,205	29,699
Working capital deficit [3]	**155,517**	119,787	131,295	86,338	70,174	77,586	69,698	50,803
Shareholders' equity	**321,640**	311,070	263,800	253,336	244,909	212,090	187,308	185,207
Production								
Natural gas *(mcf/d)*	**12,381**	10,251	8,910	10,093	10,279	9,377	8,883	8,687
Crude oil *(bbls/d)*	**6,743**	6,547	5,765	4,550	3,924	3,511	2,953	2,091
NGLs *(bbls/d)*	**565**	369	323	346	289	259	259	266
Total *(boe/d)*	**9,372**	8,625	7,573	6,578	5,926	5,333	4,692	3,805

[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 operations, which is not prescribed under IFRS (see "Non-GAAP Measurements" below).
[2] Total capital expenditures, including acquisitions and excluding non-cash transactions.
[3] Working capital deficit, which is calculated as current assets less current liabilities, excluding current derivative financial instruments, is not a recognized measure under IFRS. Please refer to the commentary under "Non-GAAP Measurements" for further discussion.

BUSINESS RISKS AND RISK MITIGATION

The DeeThree management team conducts focused strategic planning and has identified the key risks, uncertainties and opportunities associated with Company's business that can affect its financial results. They include, but are not limited to:

Reserves and Resource Estimates

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 reserve 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 opportunities, including 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 oil and natural gas reserves may not be economically produced at prevailing prices. DeeThree minimizes this risk by generating exploration prospects internally, targeting high-quality projects, operating the project, and by attempting to access sales markets through Company-owned infrastructure or mid-stream operators.

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. Differentials on Canadian crude oil showed significant volatility throughout 2013 due to pipeline and infrastructure constraints, which is expected to continue in 2014. 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. Any movement in oil and natural gas prices will have an effect on DeeThree's ability to conduct its capital expenditure program. 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 oil 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 and may enter into oil and natural gas risk management contracts. If the Company engages in activities to manage its commodity price exposure, it may forego the benefits it would otherwise experience if commodity prices were to increase. In addition, commodity derivatives contracts activities could expose DeeThree to losses. To the extent that DeeThree engages in risk management activities related to commodity prices, it will be subject to credit risks associated with the counterparties with which it contracts. As at the date of this MD&A, DeeThree has six crude oil hedges and three natural gas hedges in place (refer to "Risk Management" above for details).

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 may become liable for damages arising from such events against which it cannot insure or against which it may elect not to insure because of high premiums or other reasons. DeeThree operates in accordance with all applicable environmental legislation and strives to maintain compliance with such regulations. DeeThree's mandate includes ongoing development of procedures, standards and systems to allow DeeThree staff to make the best decisions possible and ensuring those decisions are in compliance with the Company's environmental, health and safety policies.

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 that are beyond the Company's control, such as general economic and market conditions. Internally generated funds will also fluctuate with changing commodity prices. As at March 31, 2014, DeeThree had a $165 million syndicated facility with two banks. Subsequent to quarter end, and as of the date of this MD&A, DeeThree currently has a $235 million syndicated facility with five banks. The Company is required to comply with several non-financial covenants under this facility and in the event it does not comply, access to capital could be restricted or repayment could be required. 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.

Counterparty Risk

DeeThree assumes customer credit risk associated with oil and gas sales, financial hedging transactions and joint venture participants. In the event that DeeThree's counterparties default on payments to DeeThree, cash flows will be impacted. 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.

Variations in Interest Rates and Foreign Exchange Rates

Variations in interest rates could result in an increase in the amount DeeThree pays to service debt. World oil prices are quoted in US dollars and the price received by Canadian producers is therefore affected by the Canadian/US dollar exchange rate, which may fluctuate over time. A material increase in the value of the Canadian dollar would, other variables remaining constant, negatively impact DeeThree's net production revenue. Volatility in interest rates and the Canadian dollar may affect future cash flow from operations and reduce funds available for capital expenditures. DeeThree may initiate certain derivative contracts to attempt to mitigate these risks. To the extent DeeThree engages in risk management activities related to foreign exchange rates, it will be subject to credit risk associated with counterparties with which it contracts. At the date of this MD&A, DeeThree has one foreign currency exchange risk management contract and one interest rate swap risk management contract in place.

Changes in Income Tax Legislation

In the future, income tax laws or other laws may be changed or interpreted in a manner that adversely affects DeeThree or its shareholders. Tax authorities having jurisdiction over DeeThree or its shareholders may disagree with how DeeThree calculates its income for tax purposes to the detriment of DeeThree and its shareholders.

Environmental Concerns

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. A breach of such legislation may result in the imposition of fines or issuance of clean-up orders in respect of DeeThree or its working interests. Such legislation may be changed to impose higher standards and potentially more costly obligations to DeeThree. DeeThree focuses on conducting transparent, safe and responsible operations in the communities in which its people live and work.

Project Risks

DeeThree's ability to execute projects and market oil and natural gas depends on numerous factors beyond its control, including: availability of processing capacity, availability and proximity of pipeline capacity, availability of storage capacity, supply of and demand for oil and natural gas, availability of alternative fuel sources, effects of inclement weather, availability of drilling and related equipment, unexpected cost increases, accidental events, change in regulations, and availability and productivity of skilled labour. Because of these factors, DeeThree could be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it produces.

In addition, DeeThree is also subject to other risks and uncertainties which are described in the Company's Annual Information Form (AIF) dated March 24, 2014.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's 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 circumstances. New events or additional information may result in the revision of these estimates over time. DeeThree's financial and operating results incorporate certain estimates, including:

- Estimated revenues, royalties and operating expenses on production as at a specific reporting date but for which actual revenues and costs have not yet been received;
- Estimated capital expenditures on projects that are in progress;
- Estimated D&D charges that are based on estimates of oil and gas reserves that DeeThree expects to recover in the future;
- Estimated fair values of financial instruments that are subject to fluctuation depending on underlying commodity prices, foreign exchange rates and interest rates, volatility curves and the risk of non-performance;
- Estimated value of decommissioning liabilities that depend on estimates of future costs and timing of expenditures;
- Estimated future recoverable value of PP&E and any associated impairment charges or recoveries; and
- Estimated compensation expense under DeeThree's share-based compensation plan.

DeeThree has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Further, past estimates are reviewed and compared to actual results, and actual results are compared to budget in order to make more informed decisions on future estimates. For further information on certain estimates inherent in the financial statements, refer to Note 2 in the audited financial statements for the years ended December 31, 2013 and 2012.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting is a process designed to provide reasonable assurance that all the assets are safeguarded and transactions are appropriately authorized, and to facilitate the preparation of relevant, reliable and timely information. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

DeeThree is required to comply with National Instrument 52-109 – "Certification of Disclosure in Issuers' Annual and Interim Filings" and management has assessed the effectiveness of the Company's internal control over financial reporting as defined by this instrument. The assessment was based on the framework in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The certification of interim filings for interim period ended March 31, 2014 requires that DeeThree disclose in the interim MD&A any changes in the Company's internal control over financial reporting that occurred during the period that have materially affected, or are reasonably likely to materially affect, DeeThree's internal control over financial reporting. DeeThree confirms that no such changes were made to its internal controls over financial reporting during the three months ended March 31, 2014.

CHANGES IN ACCOUNTING POLICIES

As of January 1, 2014, the Company adopted several new IFRS standards and amendments in accordance with the transitional provisions of each standard. A brief description of each new or amended standard and its impact on the Company's financial statements follows below:

- Amendments to International Accounting Standard (IAS) 36 "Impairment of Assets" reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The amendments must be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. These amendments have been applied by the Company on January 1, 2014 and have not had any material impact on the financial statements. The adoption will only impact its disclosures in the notes to the financial statements in periods when an impairment loss or impairment reversal is recognized.
- Amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" clarify that an entity currently has a legally enforceable right to off-set if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. These amendments are to be applied retrospectively. The Company has adopted the amendments to IAS 32 in its financial statements for the annual period beginning January 1, 2014 and have not had any material impact on the financial statements.
- IFRIC 21 "Levies," which was developed by the IFRS Interpretations Committee, clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that no liability should be recognized before the specified minimum threshold to trigger that levy is reached. IFRIC 21 must be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. The Company has adopted IFRIC 21 in its financial statements for the annual period beginning January 1, 2014 and there has been no impact on the financial statements.

FUTURE ACCOUNTING POLICY CHANGES

The IASB has undertaken a three-phase project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9 "Financial Instruments." In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. In November 2013, the IASB issued the third phase of IFRS 9, which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporting issuers to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting. The Company does not employ hedge accounting for its current risk management contracts. The new standard removes the January 1, 2015 effective date of IFRS 9. The new mandatory effective date will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized; however, in its February 2014 meeting, the IASB tentatively decided that IFRS 9 would be mandatorily effective for annual periods beginning on or after January 1, 2018. The full impact of the standard on the Company's financial statements will not be known until the project is complete.

In December 2013, the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. It uses this process to make amendments to IFRS that are non-urgent but deemed necessary. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014; earlier application is permitted, in which case the related consequential amendments to other IFRS would also apply. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2015. The impact of adopting the amendments has not yet been determined.

NON-GAAP MEASUREMENTS

Funds from Operations

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 (used in) operating activities as determined in accordance with IFRS. These terms do not have any standardized meaning under 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 March 31,	**2014**	2013
(000s)	*($)*	*($)*
Cash flow from operating activities	**23,607**	18,000
Changes in non-cash working capital	**11,929**	(1,212)
Funds from operations	**35,536**	16,788

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 (loss) 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, finance expense and realized losses on financial instruments, and then adds finance income as well as realized gains on financial instruments. To calculate the net income (loss) netback, DeeThree takes the funds flow netback and deducts share-based compensation expense as well as depletion and depreciation expense, 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

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 boe may be misleading, particularly if used in isolation. Readers should be aware that historical results are not necessarily indicative of future performance.

FORWARD-LOOKING INFORMATION AND 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.

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, except as may be required by applicable securities laws. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.

Statements of Financial Position

(Unaudited)

As at	**March 31, 2014**	December 31, 2013
(000s)	*($)*	*($)*
Assets		
Current assets		
Accounts receivable	**33,728**	22,308
Deposits and prepaid expenses	**1,152**	596
	34,880	22,904
Non-current assets		
Exploration and evaluation assets *(note 4)*	**46,275**	45,611
Property and equipment *(note 5)*	**483,238**	428,765
Total assets	**564,393**	497,280
Liabilities		
Current liabilities		
Bank debt *(note 6)*	**108,202**	88,404
Accounts payable and accrued liabilities	**82,195**	54,287
Derivative financial instruments *(note 11)*	**6,411**	2,224
	196,808	144,915
Non-current liabilities		
Decommissioning liabilities *(note 7)*	**27,389**	26,291
Flow-through share premium liabilities *(note 8)*	**256**	699
Deferred tax liability	**18,300**	14,305
Total liabilities	**242,753**	186,210
Shareholders' equity		
Share capital *(note 8)*	**310,749**	309,323
Contributed surplus	**9,064**	8,602
Retained earnings (deficit)	**1,827**	(6,855)
Total shareholders' equity	**321,640**	311,070
Total liabilities and shareholders' equity	**564,393**	497,280

Commitments *(note 12)*

Subsequent events *(notes 6, 13)*

See accompanying notes to the financial statements.

Statements of Operations and Comprehensive Income (Loss)

(Unaudited)

Three Months Ended March 31,	**2014**	2013
(000s, except per share amounts)	*($)*	*($)*
Revenue		
Oil and natural gas revenues	**65,643**	30,490
Royalties	**(15,810)**	(6,441)
Oil and natural gas revenues, net of royalties	**49,833**	24,049
Expenses		
Operating and transportation	**10,011**	5,305
General and administrative	**1,872**	1,544
Depletion and depreciation *(note 5)*	**16,486**	10,315
Share-based compensation *(note 9)*	**471**	400
Exploration and evaluation expense *(note 4)*	**1,888**	4,722
	30,728	22,286
Unrealized loss on financial instruments	**4,187**	1,034
Realized loss (gain) on financial instruments	**1,598**	(116)
Accretion and finance expenses	**1,081**	627
	37,594	23,831
Income before income tax	**12,239**	218
Taxes		
Deferred income tax expense	**3,557**	845
Net income (loss) and comprehensive income (loss) for the period	**8,682**	(627)
Deficit, beginning of the period	**(6,855)**	(24,903)
Retained earnings (deficit), end of the period	**1,827**	(25,530)
Net income (loss) per share *(note 8)*		
Basic	**0.11**	(0.01)
Diluted	**0.10**	(0.01)

See accompanying notes to the financial statements.

Statements of Changes in Shareholders' Equity

(Unaudited)

	Share Capital	Contributed Surplus	Deficit	Total Equity
(000s)	*($)*	*($)*	*($)*	*($)*
Balance – January 1, 2014	**309,323**	**8,602**	**(6,855)**	**311,070**
Share issuance costs	**(14)**	**–**	**–**	**(14)**
Tax benefit of share issuance costs	**3**	**–**	**–**	**3**
Share-based compensation	**–**	**839**	**–**	**839**
Exercise of options	**1,437**	**(377)**	**–**	**1,060**
Net income	**–**	**–**	**8,682**	**8,682**
Balance – March 31, 2014	**310,749**	**9,064**	**1,827**	**321,640**
Balance – January 1, 2013	231,415	5,578	(24,903)	212,090
Common shares issued	34,564	–	–	34,564
Share issuance costs	(2,330)	–	–	(2,330)
Tax benefit of share issuance costs	583	–	–	583
Share-based compensation	–	614	–	614
Exercise of options	19	(4)	–	15
Net loss	–	–	(627)	(627)
Balance – March 31, 2013	264,251	6,188	(25,530)	244,909

See accompanying notes to the financial statements.

Statements of Cash Flows

(Unaudited)

Three Months Ended March 31,	**2014**	2013
(000s)	*($)*	*($)*
Cash flow from (used in):		
Operating activities		
Net income (loss) for the period	**8,682**	(627)
Adjustments for:		
Depletion and depreciation expense	**16,486**	10,315
Deferred income tax expense	**3,557**	845
Share-based compensation	**537**	420
Accretion *(note 7)*	**199**	79
Unrealized loss on financial instruments	**4,187**	1,034
Exploration and evaluation expense	**1,888**	4,722
	35,536	16,788
Change in non-cash working capital *(note 10)*	**(11,929)**	1,212
	23,607	18,000
Financing activities		
Increase (decrease) in bank debt	**19,798**	(17,341)
Issuance of share capital	**1,060**	34,579
Share issuance costs	**(14)**	(2,330)
Change in non-cash working capital *(note 10)*	**–**	16
	20,844	14,924
Investing activities		
Property and equipment expenditures	**(69,712)**	(30,865)
Exploration and evaluation expenditures	**(2,490)**	(8,563)
Property acquisitions *(note 5)*	**(110)**	(2,130)
Changes in non-cash working capital *(note 10)*	**27,861**	8,634
	(44,451)	(32,924)
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 March 31, 2014

(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 months ended March 31, 2014 were prepared in accordance with International Financial Reporting Standards and interpretations (collectively referred to as IFRS) and Accounting Standard 34 “Interim Financial Reporting” as issued by the International Accounting Standards Board (IASB).

The interim financial statements should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2013.

The financial statements were authorized for issuance by the Board of Directors on May 14, 2014.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Current accounting policies

The Company’s accounting policies are described in Note 3 to the December 31, 2013 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, 2014:

In May 2013, the International Accounting Standards Board (IASB) issued amendments to International Accounting Standard (IAS) 36 “Impairment of Assets” which reduces the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The amendments must be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. These amendments have been applied by the Company on January 1, 2014 and have not had any material impact on the financial statements. The adoption will only impact its disclosures in the notes to the financial statements in periods when an impairment loss or impairment reversal is recognized.

In December 2011 the IASB published amendments to IAS 32 “Offsetting Financial Assets and Financial Liabilities”. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. These amendments are to be applied retrospectively. The amendments to IAS 32 clarify that an entity currently has a legally enforceable right to off-set if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. The Company has adopted the amendments to IAS 32 in its financial statements for the annual period beginning January 1, 2014 and there has been no material impact.

In May 2013, the IASB issued IFRIC 21 “Levies,” which was developed by the IFRS Interpretations Committee. IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that no liability should be recognized before the specified minimum threshold to trigger that levy is reached. IFRIC 21 must be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. The Company has adopted IFRIC 21 in its financial statements for the annual period beginning January 1, 2014 and there has been no material impact.

(b) Future accounting policy changes

The IASB has undertaken a three-phase project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9 "Financial Instruments." In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. In November 2013, the IASB issued the third phase of IFRS 9, which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporting issuers to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting. The Company does not employ hedge accounting for its current risk management contracts. The new standard removes the January 1, 2015 effective date of IFRS 9. The new mandatory effective date will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized; however, in its February 2014 meeting, the IASB tentatively decided that IFRS 9 would be mandatorily effective for annual periods beginning on or after January 1, 2018. The full impact of the standard on the Company's financial statements will not be known until the project is complete.

In December 2013, the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. It uses this process to make amendments to IFRS that are non-urgent but deemed necessary. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014; earlier application is permitted, in which case the related consequential amendments to other IFRS would also apply. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2015. The impact of adopting the amendments has not yet been determined.

4. EXPLORATION AND EVALUATION ASSETS

	Three Months Ended March 31, 2014	Year Ended December 31, 2013
(000s)	*($)*	*($)*
Balance – beginning of period	**45,611**	29,893
Additions	**4,333**	33,164
Acquisitions through business combinations	**–**	901
Transfers to property and equipment	**(1,781)**	(9,471)
E&E expenses	**(1,830)**	(8,594)
Lease expiries	**(58)**	(282)
Balance – end of period	**46,275**	45,611

E&E assets consist of the Company's exploration projects that are pending the determination of proved or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the period and acquisitions represent E&E assets included in business combinations during the period.

During the period ended March 31, 2014, the Company incurred $1.8 million to drill two vertical strat test wells in Ferguson (year ended December 31, 2013 – $8.6 million on three D&A wells and preliminary drill costs) and $58,000 related to lease expiries on undeveloped land (year ended December 31, 2013 - $282,000).

During the period ended March 31, 2014, approximately $215,000 of directly attributable general and administrative expense and $62,000 of directly attributable share-based compensation expense were capitalized as expenditures on exploration and evaluation assets (year ended December 31, 2013 – $1.2 million and $665,000, respectively).

5. PROPERTY AND EQUIPMENT

	Oil and Natural Gas Properties	Office Equipment	Total
(000s)	*($)*	*($)*	*($)*
Cost or deemed cost			
Balance – January 1, 2013	345,000	309	345,309
Additions	179,132	109	179,241
Acquisitions	12,202	–	12,202
Transfers from E&E assets	9,471	–	9,471
Balance – December 31, 2013	**545,805**	**418**	**546,223**
Additions	**69,066**	**2**	**69,068**
Acquisitions	**110**	**–**	**110**
Transfers from E&E assets	**1,781**	**–**	**1,781**
Balance – March 31, 2014	**616,762**	**420**	**617,182**
Accumulated depletion and depreciation			
Balance – January 1, 2013	66,053	96	66,149
Depletion and depreciation for the year	51,252	57	51,309
Balance – December 31, 2013	**117,305**	**153**	**117,458**
Depletion and depreciation for the period	**16,469**	**17**	**16,486**
Balance – March 31, 2014	**133,774**	**170**	**133,944**
Net book value			
December 31, 2013	428,500	265	428,765
March 31, 2014	**482,988**	**250**	**483,238**

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

During the period ended March 31, 2014, approximately $368,000 of directly attributable general and administrative expense and $239,000 of directly attributable share-based compensation expense were capitalized as expenditures on property and equipment (year ended December 31, 2013 – $805,000 and $710,000, respectively).

(b) Amortization and Impairment Charges

For the period ended March 31, 2014, 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 three months ended March 31, 2014, an estimated $365.2 million of future development costs associated with proved plus probable undeveloped reserves were included in the calculation of depletion and depreciation expense and an estimated $20.2 million of salvage value of production equipment was excluded (year ended December 31, 2013 – $328.5 million and $16.4 million, respectively).

6. BANK DEBT

At March 31, 2014, the Company had a revolving demand credit facility with an authorized borrowing base of $165 million ("Credit Facility") 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. DeeThree has entered into an interest rate swap in an effort to manage the associated interest rate risk (see Note 11). Standby fees associated with the 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 the credit facility, the Corporation is required to maintain a current ratio of not less than 1:1. The current ratio is calculated as current assets (excluding derivative financial instruments) plus any undrawn availability in the Credit Facility vs. current liabilities (excluding derivative financial instruments and any amounts outstanding in the Credit Facility). At March 31, 2014, the Company was in compliance with the current ratio requirement.

At March 31, 2014, $108.2 million (December 31, 2013 – $88.4 million) 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. 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.

Subsequent to the quarter end, on May 2, 2014, the Company entered into an agreement with a syndicate of financial institutions, led by National Bank of Canada, to establish a new committed term credit facility (the "New Facility") to replace the existing demand loan Credit Facility in place as at March 31, 2014. The current commitment under the New Credit Facility is $235 million, including a $215 million extendible revolving facility and a $20 million operating facility.

The New Facility is available for a revolving period of 364 days plus a one year term-out, which is extendible annually, subject to syndicate approval. Repayments of principal are not required provided that the borrowings under the New Facility do not exceed the authorized borrowing amount and the Company is in compliance with covenants, representations and warranties. Covenants include reporting requirements, permitted indebtedness, permitted hedging and other standard business operating covenants. There are no financial covenants under the New Facility. The authorized borrowing amount is subject to interim reviews by the financial institutions. Security is provided for by a floating charge demand debenture over all assets in the amount of $1.0 billion.

The New Facility bears interest on a grid system which ranges from bank prime plus 1.0% to 3.5% depending on the Company's total net debt to cash flow ratio as defined by the lender, ranging from less than 1:1 to greater than 3:1. The New Facility provides that advances may be made by way of prime rate loans, U.S. Base Rate loans, London InterBank Offered Rate ("LIBOR") loans, bankers' acceptances or letters of credit. A standby fee of 0.500% to 0.875% is charged on the undrawn portion of the New Facility, also calculated depending on the Company's total net debt to cash flow ratio, as defined by the lender.

7. DECOMMISSIONING LIABILITIES

The Company has estimated the net present value of decommissioning obligations to be $27.4 million as at March 31, 2014 (December 31, 2013 – $26.3 million) based on an undiscounted total future liability of $40 million (December 31, 2013 – $34 million). These payments are expected to be incurred over a period of two to 20 years with the majority of costs to be incurred between 2016 and 2026. At March 31, 2014, a risk-free rate of 3 percent (December 31, 2013 – 3 percent) and an inflation rate of 2 percent (December 31, 2013 – 2 percent) were used to calculate the net present value of the decommissioning liabilities.

	Three Months Ended March 31, 2014	Year Ended December 31, 2013
(000s)	*($)*	*($)*
Balance – beginning of period	**26,291**	13,982
Liabilities incurred	**899**	2,164
Liabilities acquired	**–**	1,409
Revisions	**–**	8,672
Settlements	**–**	(433)
Accretion of decommissioning liabilities	**199**	497
Balance – end of period	**27,389**	26,291

8. 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

	Three Months Ended March 31, 2014		Year Ended December 31, 2013	
	Shares	Amount	Shares	Amount
	(#)	*($000s)*	*(#)*	*($000s)*
Balance – beginning of period	**81,560,316**	**309,323**	71,080,173	231,415
Common shares issued [(i)]	–	–	9,453,000	74,986
Flow-through shares issued [(ii)]	–	–	465,900	5,008
Premium on flow-through shares [(ii)]	–	–	–	(699)
Exercise of options [(iii)]	**505,158**	**1,437**	561,243	2,203
Share issuance costs	–	**(14)**	–	(4,786)
Tax benefit of share issuance costs	–	**3**	–	1,196
Balance – end of period	**82,065,474**	**310,749**	81,560,316	309,323

(i) Common Share Issuances

In December 2013, DeeThree issued 3,800,000 common shares at a price of $9.25 per share for total gross proceeds of $35.2 million ($33.2 million net of estimated share issuance costs). Subsequent to the original issuance, DeeThree also issued 570,000 common shares at a price of $9.25 per share for total gross proceeds of $5.3 million ($5 million net of estimated share issue costs) on the exercise in full of the underwriters' over-allotment option.

In February 2013, the Company issued 4,420,000 common shares at a price of $6.80 per share for total gross proceeds of $30.1 million ($28.1 million net of estimated share issuance costs). In March 2013, the Company issued 663,000 common shares at a price of $6.80 per share for total gross proceeds of $4.5 million ($4.2 million net of estimated share issuance costs) on the exercise in full of the underwriters' over-allotment option from the February issuance.

(ii) Flow-Through Share Issuances

In December 2013, DeeThree issued 465,900 flow-through shares at a price of $10.75 per share for total gross proceeds of $5 million ($4.8 million net of estimated share issue costs). The implied premium on the flow-through shares of $1.50 per share or $699,000 was initially recorded as a liability on the statement of financial position and $256,000 remains at March 31, 2014. To date, the Company has incurred $3.2 million of the total $5 million of qualifying exploration and development expenditures, with the remaining amount to be spent by December 31, 2014.

(iii) Exercising of Options

During the three months ended March 31, 2014, 505,158 options were exercised at a weighted-average price of $2.10 per share for total cash proceeds of $1.1 million and previously recognized share-based compensation expense of $377,000.

During 2013, 561,243 options were exercised at a weighted-average price of $2.875 per share for total cash proceeds of $1.6 million and previously recognized share-based compensation expense of $589,000.

(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 March 31,	**2014**	2013
(000s, except per share amounts)	*($)*	*($)*
Net income (loss) for the period	**8,682**	(627)
	(#)	*(#)*
Weighted-average number of common shares		
– basic	**81,932**	73,188
– diluted	**84,741**	73,188
	($)	*($)*
Net income (loss) per weighted average common share		
– basic	**0.11**	(0.01)
– diluted	**0.10**	(0.01)

9. 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:

	Three Months Ended March 31, 2014		Year Ended December 31, 2013	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
	(#)	*($)*	*(#)*	*($)*
Outstanding – January 1	**6,524,272**	**4.21**	5,699,632	3.19
Issued	**40,000**	**8.79**	1,414,000	7.83
Exercised	**(505,158)**	**2.10**	(561,243)	2.87
Forfeited	**–**	**–**	(28,117)	6.67
Outstanding – end of period	**6,059,114**	**4.42**	6,524,272	4.21
Exercisable – end of period	**3,039,146**	**3.64**	3,528,136	3.37

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

Weighted-Average Exercise Price	Options Outstanding	Weighted-Average Contractual Life	Options Exercisable
($)	*(#)*	*(years)*	*(#)*
As at March 31, 2014			
2.00 – 2.99	**2,140,342**	**1.93**	**1,420,342**
3.00 – 3.99	**992,414**	**2.84**	**575,681**
4.00 – 4.99	**1,439,358**	**2.35**	**755,523**
5.00 – 5.99	**9,000**	**3.45**	**–**
6.00 – 6.99	**120,000**	**3.66**	**48,000**
7.00 – 7.99	**1,168,000**	**4.09**	**229,600**
8.00 – 8.99	**90,000**	**4.63**	**10,000**
9.00 – 9.56	**100,000**	**4.57**	**–**
	6,059,114	**2.72**	**3,039,146**

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

	Three Months Ended March 31, 2014	Year Ended December 31, 2013
Risk-free interest rate *(%)*	**1.22**	1.13
Expected life *(years)*	**3.10**	3.10
Expected volatility *(%)*	**50**	66
Expected dividend yield *(%)*	**0**	0
Fair value of options granted during the year *($/option)*	**3.09**	3.45

A forfeiture rate of 2 percent for options granted during the first quarter of 2014 (2013 – 2 percent) was used when recording share-based compensation expense. This estimate is adjusted to the actual forfeiture rate. Gross share-based compensation was $839,000 for the quarter ended March 31, 2014 (year ended December 31, 2013 - $3.6 million). Of this amount, $67,000 was reclassified to operating expense for the amount related to field employees (year ended December 31, 2013 – $188,000) and $301,000 was capitalized (year ended December 31, 2013 – $1.4 million), resulting in total net share-based compensation expense of $471,000 for the period (2013 – $2.1 million).

10. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital are comprised of:

Three Months Ended March 31,	**2014**	2013
(000s)	*($)*	*($)*
Accounts receivable	**(11,420)**	2,307
Prepaid expenses and other	**(556)**	138
Accounts payable and accrued liabilities	**27,908**	7,484
Abandonment and reclamation costs	**–**	(67)
	15,932	9,862
Related to operating activities	**(11,929)**	1,212
Related to financing activities	**–**	16
Related to investing activities	**27,861**	8,634
	15,932	9,862

11. 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 March 31, 2014 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 behaviour) and the risk-free interest rate (based on Government of Canada bonds).

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 are derived from inputs that are not based on observable market data.

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities included in the statement of financial position approximate fair value due to the short-term nature of those instruments. The fair value measurement of the derivative financial instruments has a fair value hierarchy of Level 2.

(d) Derivative financial instruments

As at March 31, 2014, the Company had the following crude oil, natural gas, foreign exchange and interest rate risk management contracts, with a total mark-to-market liability of $6.4 million (December 31, 2013 – liability of $2.2 million):

Crude Oil Contracts

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
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)
Jan. 1/14 – Dec. 31/14	Crude Oil	Collar	500 bbls/d	WTI-NYMEX	Cdn$92.50/bbl (floor) – Cdn$102.01/bbl (cap)
Jan. 1/14 – Dec. 31/14	Crude Oil	Collar	500 bbls/d	WTI-NYMEX	Cdn$90.00/bbl (floor) – Cdn$101.25/bbl (cap)
Jan. 1/14 – Dec. 31/14	Crude Oil	Collar	1,000 bbls/d	WTI-NYMEX	Cdn$90.00/bbl (floor) – Cdn$107.85/bbl (cap)
Mar. 1/14 – Dec. 31/14	Crude Oil	Swap	500 bbls/d	WTI-NYMEX	Cdn$105.20
Mar. 1/14 – Dec. 31/14	Crude Oil	Swap	500 bbls/d	WTI-NYMEX	Cdn$106.00

Natural Gas Contracts

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
Feb. 1/14 – Dec. 31/14	Natural Gas	Swap	2,000 GJ/day	AECO	Cdn$3.975/GJ
Mar. 1/14 – Dec. 31/14	Natural Gas	Swap	1,000 GJ/day	AECO	Cdn$4.310/GJ
Apr. 1/14 – Oct. 31/14	Natural Gas	Swap	2,500 GJ/day	AECO	Cdn$4.110/GJ

Foreign Currency Contract

Period	Currency	Type of Contract	Quantity	Pricing Point (Cdn$/US$)
Sept. 1/13 – Dec. 31/14	US$	Average Rate Range Bonus Accumulator	US$2,500,000	Target – $1.0825 Cdn$/US$ + $1,500 bonus/day (1)

(1) The Company can earn a bonus payout of up to $1,500 per day depending on the period in which the exchange rate remains in the applicable range of less than 1.0825.

Interest Rate Contract

Term	Amount	Fixed Rate	Index
Feb. 18 /14 – Feb. 18/16	Cdn$40 million	1.44%	CDOR

12. COMMITMENTS

Years Ended December 31,	2014	2015	2016	Total
(000s)	*($)*	*($)*	*($)*	*($)*
Operating lease – office	480	640	160	1,280
Operating lease – equipment	82	28	–	110
Exploration expenditures (flow-through)	1,833	–	–	1,833
Total	2,395	668	160	3,223

As at March 31, 2014, the Company had contractual obligations for its office leases totalling approximately $1.3 million 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 totalling approximately $110,000 to October 2015.

In connection with the Company's issuance of flow-through shares during the fourth quarter of 2013, DeeThree was required to spend $5 million of eligible exploration expenditures by December 31, 2014. As at March 31, 2014, $3.2 million of these expenditures have been incurred. The remaining $1.8 million of expenditures will be incurred during 2014 and were renounced to shareholders in January 2014 effective December 31, 2013.

13. SUBSEQUENT EVENTS

Subsequent to the quarter end, the Company entered into an agreement, on a bought deal basis, with a syndicate of underwriters to purchase 5,410,000 common shares of the Company at a price of $11.10 per Common Share and 752,000 common shares issued on a flow-through basis at a price of $13.30 per Flow-Through Common Share for aggregate gross proceeds of approximately $70 million pursuant to a short form prospectus (the "Offering").

The Company has also granted the underwriters an over-allotment option to increase the size of the Offering by purchasing from treasury up to an additional 450,000 Common Shares on the same terms, exercisable in whole or in part at any time prior to 30 days after the closing of the Offering. If the over-allotment option is exercised in full, the aggregate size of the Offering, would be approximately $75 million.

Closing of the Offering is anticipated to occur on or about May 27, 2014 (the "Closing Date") and is subject to the receipt of applicable regulatory approvals, including approval of the Toronto Stock Exchange.

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][4]
Independent Businessman

Dennis Nerland [1][2][3]
Partner
Shea Nerland Calnan LLP

Brad Porter [1][2][3][4]
Independent Businessman

Kevin Andrus [4]
Portfolio Manager of
Energy Investments
GMT Capital Corp.

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

Officers

Martin Cheyne
President & Chief Executive Officer

Gail Hannon
Chief Financial Officer

Trevor Murray
Vice President, Land

Clayton Thatcher
Vice President, Exploration

Jonathan Fleming
Vice President, Capital Markets

Casey Paulhus
Controller

Daniel Kenney
Corporate Secretary

Head Office

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Auditors

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Calgary, Alberta

Bankers

National Bank of Canada
Calgary, Alberta

ATB Financial
Calgary, Alberta

The Bank of Nova Scotia
Calgary, Alberta

The Toronto-Dominion Bank
Calgary, Alberta

Union Bank, Canada Branch
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

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