



## THIRD QUARTER 2014 INTERIM REPORT

For the Three and Nine Months Ended September 30, 2014

# Highlights: By The Numbers

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
<i>(000s, except per share amounts)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(%)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(%)</i>
<b>Financial</b>						
Oil and natural gas revenues	<b>87,188</b>	55,754	56	<b>233,391</b>	126,126	85
Funds from operations <sup>(1)</sup>	<b>52,720</b>	29,410	79	<b>131,423</b>	68,635	91
Per share – basic	<b>0.59</b>	0.38	55	<b>1.54</b>	0.91	69
Per share – diluted	<b>0.57</b>	0.37	54	<b>1.49</b>	0.88	69
Cash flow from operating activities	<b>62,290</b>	32,073	94	<b>130,000</b>	71,949	81
Net income	<b>21,106</b>	8,570	146	<b>47,921</b>	14,743	225
Per share – basic	<b>0.24</b>	0.11	118	<b>0.56</b>	0.20	180
Per share – diluted	<b>0.23</b>	0.11	109	<b>0.54</b>	0.19	184
Capital expenditures <sup>(2)</sup>	<b>84,985</b>	74,969	13	<b>231,585</b>	155,813	49
Working capital deficit <sup>(3)</sup>	<b>148,329</b>	131,295	13	<b>148,329</b>	131,295	13
Shareholders' equity	<b>433,613</b>	263,800	64	<b>433,613</b>	263,800	64
<i>(000s)</i>	<i>(#)</i>	<i>(#)</i>	<i>(%)</i>	<i>(#)</i>	<i>(#)</i>	<i>(%)</i>
<b>Share Data</b>						
At period-end	<b>88,832</b>	76,690	16	<b>88,832</b>	76,690	16
Weighted average – basic	<b>88,832</b>	76,550	16	<b>85,151</b>	75,379	13
Weighted average – diluted	<b>91,958</b>	79,608	16	<b>88,160</b>	78,105	13
<b>Operating <sup>(4)</sup></b>						
<b>Production</b>						
Natural gas ( <i>mcf/d</i> )	<b>13,395</b>	8,910	50	<b>12,918</b>	9,756	32
Crude oil ( <i>bbls/d</i> )	<b>9,322</b>	5,765	62	<b>8,043</b>	4,753	69
NGLs ( <i>bbls/d</i> )	<b>739</b>	323	129	<b>619</b>	319	94
Total ( <i>boe/d</i> )	<b>12,294</b>	7,573	62	<b>10,814</b>	6,698	61
<b>Average wellhead prices</b>						
Natural gas ( <i>\$/mcf</i> )	<b>4.39</b>	2.33	88	<b>5.11</b>	3.22	59
Crude oil and NGLs ( <i>\$/bbl</i> )	<b>88.32</b>	96.08	(8)	<b>91.05</b>	84.69	8
Combined average ( <i>\$/boe</i> )	<b>77.09</b>	80.03	(4)	<b>79.05</b>	68.97	15
<b>Netbacks</b>						
Operating netback ( <i>\$/boe</i> )	<b>49.50</b>	48.11	3	<b>49.21</b>	41.86	18
Funds flow netback ( <i>\$/boe</i> )	<b>46.57</b>	42.11	11	<b>44.47</b>	37.45	19
<b>Gross (net) wells drilled</b>						
Gas (#)	–	–	–	<b>1 (1.00)</b>	–	–
Oil (#)	<b>11 (10.97)</b>	12 (11.97)	(8) (-8)	<b>35 (34.93)</b>	26 (25.19)	35 (39)
Dry and abandoned (#)	<b>1 (1.00)</b>	–	–	<b>3 (3.00)</b>	2 (1.97)	50 (52)
Total (#)	<b>12 (11.97)</b>	12 (11.97)	–	<b>39 (38.93)</b>	28 (27.16)	39 (43)
Average working interest (%)	<b>100</b>	100	–	<b>100</b>	97	3

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> Working capital deficit, which is calculated as current liabilities (excluding derivative financial instruments) and bank debt less current assets (excluding derivative financial instruments), is not a recognized measure under IFRS. Please refer to the commentary under "Non-GAAP Measurements" for further discussion.

<sup>(4)</sup> 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

DeeThree is pleased to announce its financial and operational results for the three and nine months ended September 30, 2014. This quarter represents the twelfth consecutive quarter of production growth for the Company.

## COMPANY HIGHLIGHTS:

- Achieved average record production of 12,294 boe/d (82% oil and NGLs and 18% natural gas), up 4,721 boe/d or 62% from the same quarter of last year and 1,550 boe/d or 14% from the second quarter of 2014.
- Increased average oil and NGL production to 10,061 bbls/day, an improvement of 65% or 6,088 bbls/day over the same quarter of 2013 and 17% or 1,478 bbls/day increase over the second quarter of 2014.
- Decreased operating costs in the third quarter of 2014 to \$9.63/boe, an 8% decrease from \$10.46/boe in the same period last year and a 12% decrease from \$11.00/boe in the second quarter of 2014.
- Generated funds flow from operations of \$52.7 million, an increase of \$23.3 million or 79% over the same quarter last year and \$9.6 million or a 22% increase over the previous quarter of 2014.
- Increased funds from operations on a fully diluted per share basis of \$0.57, a 54% increase over the same quarter of 2013 and 16% over the second quarter of 2014.
- At quarter end, the Company was drawn \$107.5 million on an available \$235 million credit facility. Subsequent to quarter end the credit facility was increased to \$310 million with the Company's existing syndicate of banks.
- Exited the quarter with total net debt of \$148.3 million, representing a debt to annualized cash flow ratio of 0.70:1.

## OPERATIONAL UPDATE

The Company's record third quarter production was driven by strong drilling results. In addition to record production, DeeThree also achieved major milestones in the development of its Brazeau Belly River property and Alberta Bakken property.

Major facility and pipeline projects were completed in our Brazeau Belly River property that significantly increased capacity available for future growth. We also took delivery, installed and brought on-stream a built-for-purpose gas injection compressor that has expanded its natural gas injection enhanced oil recovery ("EOR") project in its Alberta Bakken property beyond the pilot phase.

With our ongoing exploration program, the Company drilled a successful seven mile step out to its existing Alberta Bakken pool, significantly expanding its drilling inventory and the pool's ultimate resource potential.

Capital spending totaled \$85 million in the third quarter, with \$56.5 million on drilling & completions, \$14.6 million on major facility expansions, \$4.4 million on tie-ins, \$8.9 million on minor acquisitions and land and \$0.6 million on capitalized G&A and other assets.

## BELLY RIVER

Production averaged 6,884 boe/d in the third quarter of 2014, up 15% quarter over quarter. Throughout the third quarter, the Company drilled 7 gross (6.97 net) wells with a 100% success rate, all of which are on stream.

Accelerated growth is projected for our Belly River property as the play continues to evolve and move to a lower risk, development profile. DeeThree remains very active on its Belly River property with three rigs currently in operation.

During the third quarter of 2014, we acquired an additional 12,000 net acres in Brazeau whereby we identified an additional 40 horizontal drilling locations, bringing the total inventory to approximately 440 drilling locations and our land base to a total of 116,800 net acres.

Wells drilled in 2014 continue to outperform previous drilled wells, as demonstrated in the table below and outlined in the Company's updated presentation (located on DeeThree's website at [www.deethree.ca](http://www.deethree.ca)).

	Completion Date	IP 30 (boe/d)	IP 60 (boe/d)	IP 90 (boe/d)	Current
Well #1	24-Jan-14	586	517	461	133
Well #2	2-Feb-14	205	197	183	75
Well #3	1-Feb-14	528	383	364	220
Well #4	20-Feb-14	1,083	804	693	232
Well #5	25-Feb-14	645	444	396	175
Well #6	22-Feb-14	815	619	523	159
Well #7	19-Mar-14	403	350	328	284
Well #8	21-Mar-14	1,257	920	701	183
Well #9	24-Mar-14	968	801	690	358
Well #10	15-Jun-14	365	279	248	147
Well #11	10-May-14	950	742	629	294
Well #12	29-Jun-14	666	524	433	315
Well #13	7-Jul-14	692	634	538	525
Well #14	23-Jul-14	275	227	N/A	93
Well #15	3-Aug-14	878	886	N/A	1,165
Well #16	6-Aug-14	973	881	N/A	646
Well #17	30-Aug-14	1,249	N/A	N/A	613

Note: Based on production days.

Based on these results and in anticipation of further production gains, DeeThree continues to expand its 100% owned infrastructure. During the quarter, we expanded our oil and gas processing capacity at the central pipeline-connected battery to 12,000 bbls/d from 8,000 bbls/d previously.

## **ALBERTA BAKKEN**

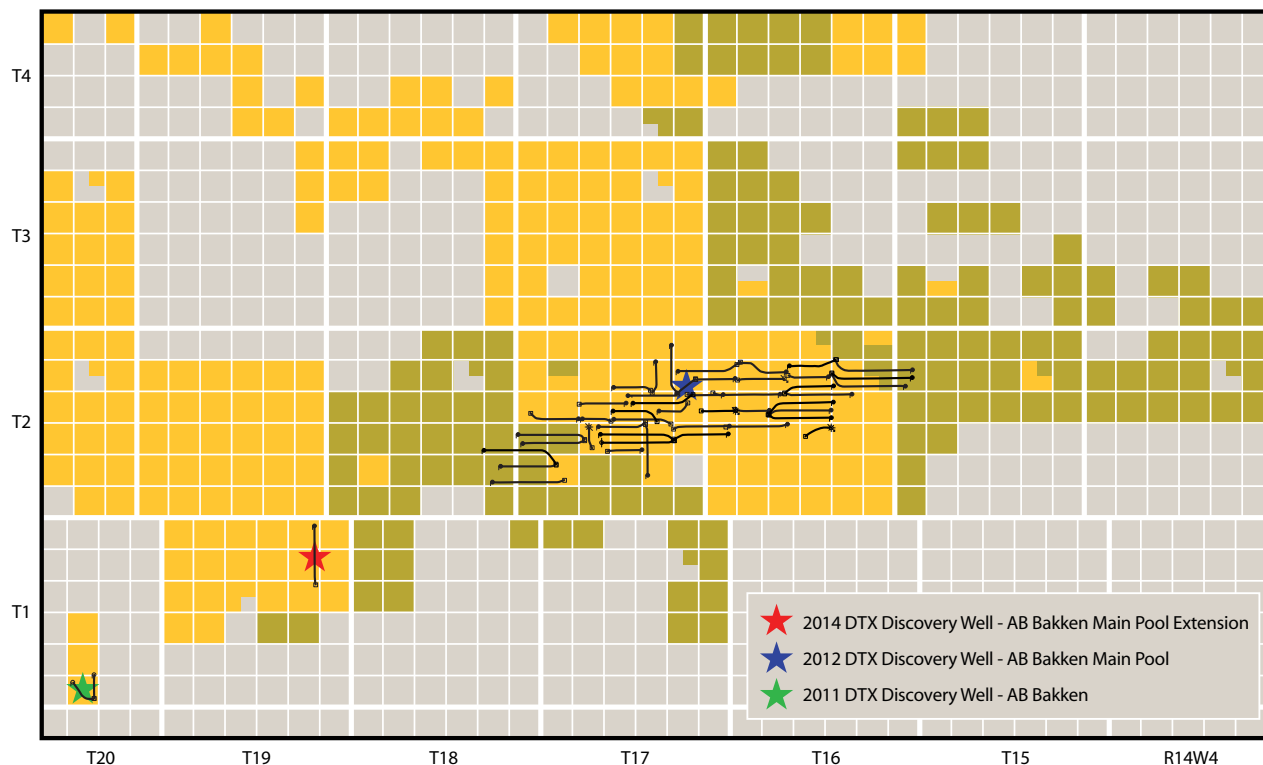
Production averaged 4,879 boe/d in the third quarter of 2014, up 19% quarter over quarter due to continued strong results in our core development area. The Company drilled 4 gross (4.0 net) horizontal wells throughout the quarter, all of which are on stream.

The team is committed to enhancing oil recoveries and profitability on this long life oil resource. Effective July 31, 2012 the Company's independent reserve engineering firm, Sproule Associates Limited, evaluated the discovered and undiscovered oil resources of the Company's Bakken Alberta property. The Company has since delineated most of the resource identified in this evaluation with its ongoing drilling program.

With significant long term upside available by increasing ultimate oil recovery, we implemented a natural gas injection EOR pilot project over some of the original wells on the property. As a result of the outcome of the EOR pilot project, the Company has expanded the scope of the EOR project by the addition of two injectors and the installation of high pressure gas injection pipelines throughout the pool for future injectors. A built-for-purpose high pressure gas injection compressor designed to re-inject most of the produced gas from the pool was also brought on-stream in September. We are currently waiting for regulatory approval for a fourth gas injector well and have undertaken an independent reservoir study to help optimize the effectiveness of the EOR scheme.

DeeThree recently acquired a 100% working interest in up to 34.5 contiguous sections (22,080 acres) of land located to the west, directly on trend and between its existing Alberta Bakken production and the previous discovery wells. The land is strategic to the Company and its future plans as it was the last remaining block of land available between the Company's original Alberta Bakken discovery well from 2012 and the existing core oil pool that has now been demonstrated to exceed 70 sections.

The Company drilled a discovery well on these recently acquired lands in the third quarter of 2014, testing a five meter thick pay section identified in a vertical strat test well. This well was a seven mile step out from DeeThree's existing Alberta Bakken production. The horizontal well was successfully drilled and 1,400 meters of Bakken pay was successfully fracture stimulated, placing 155 tonnes of sand over 16 stages using an energized water based system. After stimulation the well was flowed/swabbed for cleanup for approximately nine days with a final average rate of approximately 70 bbls/d of 34 API sweet reservoir oil and 75 mscf/d of natural gas. The Company is excited by this sweet light oil discovery making it successful in its first step in significantly expanding its prospective lands for Bakken oil production. We intend to modify well lengths, frac size and well placement in future to optimize results from the large "oil in place" resource. This discovery well is anticipated to substantially increase the resource potential of the Company's Alberta Bakken property, with a number of new drilling locations having been identified. The Company's productive Alberta Bakken oil fairway now stretches approximately 30 miles and consists of a contiguous 100% working interest land base. The near term development plan will be focused on the lands between the discovery well and the core development area to the East and will benefit from the initial 5% Crown royalty holiday. We plan to drill additional wells in the near future on the Alberta Bakken property to rapidly bring these lands in to development.



## RISK MANAGEMENT

DeeThree has 4,000 bbls/d of crude oil hedged in the current quarter and for the remainder of 2014 and 2,000 bbls/day of crude oil hedged for calendar 2015.

## OUTLOOK

As we near the end of 2014, the Company is pleased with the results achieved to date. The Company is expecting to average approximately 13,000 boe/d in the fourth quarter of 2014 and will meet or exceed our previously announced exit guidance of 13,000 – 13,500 boe/d. Total capital expenditures for the year are estimated to be \$290 - \$295 million. This includes approximately \$30 million on acquisitions and land and approximately \$27 million on facilities, including investing in the Bakken secondary recovery initiative and additional capacity for future production growth. These expenditures were not contemplated in the Company's original 2014 budget and will benefit the Company for years to come.

We are well positioned to execute our long term plans with extensive drilling inventory and newly expanded infrastructure with ample productive capacity. DeeThree anticipates continued commodity price volatility moving into 2015 and will carefully manage capital expenditures to maintain prudent debt levels and a strong balance sheet.

On behalf of the Board or Directors,

Martin Cheyne  
President & Chief Executive Officer

November 5, 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 November 5, 2014 and should be read in conjunction with the Company's unaudited interim financial statements and related notes for the three and nine months ended September 30, 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. DeeThree is focused on creating long-term shareholder value through a successful drilling program, growth-oriented field operations and prudent financial management.

DeeThree's strategic platform for growth 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 features 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 team has a proven track record of driving quarter-over-quarter organic growth with these assets.

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.

DeeThree is headquartered in Calgary, Alberta and the 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**.

## FINANCIAL AND OPERATING HIGHLIGHTS

### 2014 Third Quarter Highlights

DeeThree's average production of 12,294 boe/d for the third quarter of 2014 reflects strong operating performance from existing wells in the Ferguson and Brazeau areas as well as production from new wells drilled during 2014 to date.

For the quarter ended September 30, 2014, DeeThree realized a combined average sales price of \$77.09/boe, a 4 percent decrease over the prior year and a 6 percent decrease over the second quarter of this year. This was primarily due to decreased market prices for crude oil. With average operating costs of \$9.63/boe, transportation costs of \$1.95/boe and average royalties of 21 percent, DeeThree achieved an operating netback of \$49.50/boe, a 3 percent increase over the prior year.

DeeThree incurred \$85.0 million of capital expenditures in Q3 2014, with a capital program that focused on the drilling of 12 gross (11.97 net) wells, with 5 gross (5.0 net) in the Ferguson area and 7 gross (6.97 net) in the Brazeau area. The capital program also included approximately \$6.1 million of minor acquisitions, \$2.8 million on land and \$19.0 million related to existing facility upgrades as well as facility and pipeline construction to handle the Company's growing production.

Subsequent to the quarter end, in October 2014, the Company's credit facility (the "Syndicated Facility") was increased from \$235 million to \$310 million with the existing syndicate of banks. See "Liquidity and Financial Resources" section below for further details.

Also subsequent to the quarter end, the Company executed two purchase and sale agreements with two different oil and natural gas companies pursuant to which DeeThree acquired interests in producing assets in the Brazeau Belly River area for consideration of approximately \$6.5 million and \$5.5 million, respectively, subject to certain adjustments. Both transactions are expected to close during the fourth quarter.

### 2014 Second Quarter Highlights

DeeThree's average production of 10,744 boe/d for the second 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 2014 to date.

For the quarter ended June 30, 2014, DeeThree realized a combined average sales price of \$82.39/boe, a 24 percent increase over the prior year and a 6 percent increase over the first quarter of this year. 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 \$11.00/boe, transportation costs of \$1.92/boe and average royalties of 23 percent, DeeThree achieved an operating netback of \$50.64/boe, a 25 percent increase over the prior year.

DeeThree incurred \$74.3 million of capital expenditures in Q2 2014, with a capital program that focused on the drilling of 10 gross (10.0 net) wells, with 7 gross (7.0 net) in the Ferguson area, 2 gross (2.0 net) in the Brazeau area and 1 gross (1.0 net) in the Peace River Arch area. The capital program also included approximately \$5.1 million of minor acquisitions, \$2.3 million on land and \$10.5 million related to existing facility upgrades as well as facility and pipeline construction to handle the Company's growing production.

During the second quarter of the year, 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 replaced the existing \$165 million demand credit facility. Due to the terms of the Syndicated Facility, the Company's bank debt is now classified as a long-term liability instead of a current liability. See "Liquidity and Financial Resources" section below for further details.

In May 2014, the Company issued 5,714,200 common shares (including 304,200 common shares issued in connection with the partial exercise of the underwriters' over-allotment option) 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 \$73.4 million (\$69.5 million net of estimated share issuance costs).

## 2014 First Quarter 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 prices and also partially related to the increase in crude oil as a percentage of total production. With average operating costs of \$10.18/boe, 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 <sup>(1)</sup>

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
(000s)	(\$)	(\$)	(\$)	(\$)
Net income	<b>21,106</b>	8,570	<b>47,921</b>	14,743
Non-cash items:				
Depletion and depreciation (D&D) expense	<b>21,776</b>	13,750	<b>57,014</b>	35,325
Deferred income tax expense	<b>8,235</b>	3,557	<b>18,046</b>	7,279
Share-based compensation <sup>(2)</sup>	<b>953</b>	664	<b>2,284</b>	1,665
Accretion	<b>213</b>	123	<b>621</b>	309
Unrealized loss (gain) on financial instruments	<b>(6,062)</b>	2,622	<b>(2,922)</b>	3,598
Exploration and evaluation (E&E) expense	<b>6,499</b>	124	<b>8,459</b>	5,716
Funds from operations <sup>(1)</sup>	<b>52,720</b>	29,410	<b>131,423</b>	68,635

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

During the three months ended September 30, 2014, the Company generated funds from operations totalling \$52.7 million (\$0.59 per basic share and \$0.57 per diluted share) compared to \$29.4 million (\$0.38 per basic share and \$0.37 per diluted share) in the comparative period of 2013 and \$43.2 million (\$0.51 per basic share and \$0.49 per diluted share) in the second quarter of 2014. The year-over-year and quarter-over-quarter increases reflect increased revenue associated with higher crude oil and NGLs production compounded by decreased royalties associated with decreased commodity prices, as well as lower operating and transportation costs.

Funds from operations totalled \$131.4 million (\$1.54 per basic share and \$1.49 per diluted share) for the nine months ended September 30, 2014 compared to \$68.6 million (\$0.91 per basic share and \$0.88 per diluted share) recorded in the same period of 2013.

## Net Income

For the three months ended September 30, 2014, the Company recorded net income of \$21.1 million (\$0.24 per basic share and \$0.23 per diluted share) compared to a net income of \$8.6 million (\$0.11 per basic and diluted share) in the same period of 2013 and net income of \$18.1 million (\$0.21 per basic share and diluted share) in the second quarter of 2014. The Company's increased net income for the quarter was primarily due to increased production in the period, compounded by lower royalties, operating and transportation costs.

The net income for the nine months ended September 30, 2014 was \$47.9 million (\$0.56 per basic share and \$0.54 per diluted share) compared to net income of \$14.7 million (\$0.20 per basic share and \$0.19 per diluted share) in the comparative period of 2013.



## FINANCIAL AND OPERATING RESULTS

### Sales Volumes

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
<b>Sales</b>				
Natural gas (mcf/d)	13,395	8,910	12,918	9,756
Crude oil (bbls/d)	9,322	5,765	8,043	4,753
NGLs (bbls/d)	739	323	619	319
Total sales (boe/d)	12,294	7,573	10,814	6,698
	(%)	(%)	(%)	(%)
<b>Production Split</b>				
Natural gas	18	20	20	24
Crude oil	76	76	74	71
NGLs	6	4	6	5
Total	100	100	100	100

For the third quarter of 2014, the Company's production averaged 12,294 boe/d compared to 7,573 boe/d in the same period of 2013 and 10,744 boe/d in the second quarter of 2014. This represents a 62 percent year-over-year and a 14 percent quarter-over-quarter increase and reflects new production from the tie-in of wells drilled during 2014.

For the first nine months of 2014, DeeThree's production averaged 10,814 boe/d compared to 6,698 boe/d a year ago, representing an 61 percent increase. During the 2014 nine month period, production was comprised of 12,918 mcf/d of gas, 8,043 bbls/d of crude oil and 619 bbls/d of NGLs, thereby increasing the Company's crude oil and NGL production to 80 percent of total corporate production versus 76 percent in the comparable period of 2013.

### Revenue

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
(000s)	(\$)	(\$)	(\$)	(\$)
Natural gas	5,408	1,913	18,014	8,570
Crude oil	78,558	52,111	205,996	112,808
NGLs and other	3,222	1,730	9,381	4,748
Total oil and natural gas revenue	87,188	55,754	233,391	126,126

During the three months ended September 30, 2014, revenue increased by 56 percent to \$87.2 million from \$55.8 million in the comparative period of 2013. The year-over-year increase was a result of increased production and a shift to a higher percentage of oil and NGLs (82 percent versus 80 percent). When compared to the second quarter of 2014, revenue increased 8 percent from \$80.6 million due to increased production.

For the first nine months of 2014, revenue totalled \$233.4 million compared to \$126.1 million for the same period of 2013. During the nine month period ended September 30, 2014, total revenue increased 85 percent compared to the same period of 2013 primarily as a result of the increase in sales volumes as well as higher crude oil market prices year to date.

Pricing for both the three and nine month periods ended September 30, 2014 is discussed in further detail in "Commodity Prices and Foreign Exchange" on the following page.

## Commodity Prices and Foreign Exchange

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
	(\$)	(\$)	(\$)	(\$)
<b>Benchmark Prices</b>				
Crude oil				
WTI (US\$/bbl)	<b>97.17</b>	105.83	<b>99.61</b>	98.14
Edmonton Light (MSW) (Cdn\$/boe)	<b>97.03</b>	104.82	<b>100.79</b>	95.24
Differential – MSW/WTI (US\$/bbl)	<b>(7.93)</b>	(4.72)	<b>(7.44)</b>	(5.11)
Hardisty Bow River (Cdn\$/boe)	<b>94.68</b>	88.08	<b>96.38</b>	81.03
Differential – Bow River/WTI (US\$/bbl)	<b>(19.68)</b>	(16.39)	<b>(20.71)</b>	(21.67)
Natural gas				
NYMEX (US\$/mmbtu) <sup>(1)</sup>	<b>4.07</b>	3.60	<b>4.51</b>	3.68
AECO (Cdn\$/GJ) <sup>(2)</sup>	<b>3.81</b>	2.31	<b>4.56</b>	2.89
<b>Average Realized Prices</b>				
Crude oil (\$/bbl)	<b>91.60</b>	98.26	<b>93.82</b>	86.94
Natural gas (\$/mcf)	<b>4.39</b>	2.33	<b>5.11</b>	3.22
NGLs (\$/bbl)	<b>46.95</b>	57.21	<b>55.02</b>	51.28
Combined average (\$/boe)	<b>77.09</b>	80.03	<b>79.05</b>	68.97
<b>Foreign Exchange</b>				
Cdn\$/US\$	<b>1.0893</b>	1.0385	<b>1.1059</b>	1.0236
US\$/Cdn\$	<b>0.9180</b>	0.9630	<b>0.9042</b>	0.9770

<sup>(1)</sup> Mmbtu is the abbreviation for millions of British thermal units. One mcf of natural gas is approximately 1.02 mmbtu.

<sup>(2)</sup> GJ is the abbreviation for gigajoule. One mcf of natural gas is approximately 1.05 GJ.

### Crude Oil Pricing

From a differentials perspective, the Company's crude oil can be most closely referenced to the Hardisty Bow River and the Edmonton Light (MSW) benchmarks. During the third quarter of 2014, approximately 40 percent of DeeThree's oil production was priced relative to Hardisty Bow River oil prices, while 56 percent 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 but relatively consistent with the second quarter of 2014. Differentials remained relatively consistent for both Bow River prices (US\$19.68/boe versus US\$16.39/boe in Q3 2013 and US\$19.84/boe in Q2 2014) and Edmonton Light prices (US\$7.93/boe versus US\$4.72/boe in Q3 2013 and US\$6.14/boe in Q2 2014). The average realized price of DeeThree's crude oil was \$91.60/bbl for the third quarter of 2014 compared to \$98.26/bbl a year earlier and \$98.35/bbl in the second quarter of 2014. DeeThree's realized oil price decreased by 7 percent when compared to the prior year and 7 percent when compared to the second quarter of 2014, due to a combination of a decrease in the US\$ WTI benchmark oil price and depreciation of the Canadian dollar.

For the nine months ended September 30, 2014, the Company's average realized crude oil price was \$93.82/bbl compared to \$86.94/bbl in the same period of 2013, an 8 percent increase driven by higher year-to-date benchmark prices and a weakened Canadian dollar.

### Natural Gas Pricing

DeeThree receives a premium to the AECO gas index price due to the heat content of its gas sales. DeeThree's average realized natural gas price was \$4.39/mcf in the third quarter of 2014 versus \$2.33/mcf a year earlier and \$5.02/mcf in the second quarter of 2014. The Company's realized gas price increased 88 percent over the same period of 2013 and decreased 14 percent over the second quarter of 2014, driven by a 65 percent increase and 14 percent decrease in the AECO gas index price, respectively.

For the nine months ended September 30, 2014, the Company's average realized price for natural gas increased 59 percent to \$5.11/mcf compared to \$3.22/mcf in the same period of 2013, driven by a 58 percent increase in the AECO gas index price.

## Price Risk & Mitigation

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. For example, in the first half of the year, the Company was moving a portion of its crude oil out of the Ferguson area via rail cars. The Company was able to attract better pricing on those volumes and will continue to explore options to move its crude oil by rail when market conditions are favorable to do so.

The Company's financial results are significantly influenced by fluctuations in commodity prices, including price differentials and foreign exchange rates. As a means of managing commodity price volatility and its impact on cash flows, 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 ten crude oil hedges and three natural gas hedges (refer to "Risk Management" below for 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 two foreign currency exchange risk management contracts in place to mitigate these risks (see "Risk Management" below for contract details).

## Royalties

	Three Months Ended Sept. 30,		Nine Months Ended Sept.30,	
	2014	2013	2014	2013
	(\$)	(\$)	(\$)	(\$)
Oil and natural gas revenues (000s)	<b>87,188</b>	55,754	<b>233,391</b>	126,126
Total royalties (000s)	<b>18,110</b>	13,435	<b>52,336</b>	27,491
Total royalties (\$/boe)	<b>16.01</b>	19.28	<b>17.73</b>	15.03
Percent of revenue (%)	<b>21</b>	24	<b>22</b>	22

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.

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 third quarter of 2014, royalties totalled \$18.1 million or 21 percent of revenue compared to \$13.4 million or 24 percent of revenue for the same quarter in 2013 and \$18.4 million or 23 percent of revenue in the second quarter of 2014. The year-over-year royalty rate decrease was due to new production from the Company's wells brought on-stream during the past few quarters, some of which qualify for the 5 percent royalty holiday under the Government of Alberta's royalty framework.

During the first nine months of 2014, royalties totalled \$52.3 million or 22 percent of revenue compared to \$27.5 million or 22 percent of revenue a year ago.

## Operating and Transportation Expenses

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
<i>(000s except per boe)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Operating expenses	<b>10,890</b>	7,285	<b>30,234</b>	18,036
Transportation expenses	<b>2,210</b>	1,520	<b>5,509</b>	4,057
Total operating and transportation expenses	<b>13,100</b>	8,805	<b>35,743</b>	22,093
Operating expenses <i>(\$/boe)</i>	<b>9.63</b>	10.46	<b>10.24</b>	9.86
Transportation expenses <i>(\$/boe)</i>	<b>1.95</b>	2.18	<b>1.87</b>	2.22
Total operating and transportation expenses <i>(\$/boe)</i>	<b>11.58</b>	12.64	<b>12.11</b>	12.08

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 third quarter of 2014 totalled \$10.9 million or \$9.63/boe compared to \$7.3 million or \$10.46/boe in the same period of 2013 and \$10.8 million or \$11.00/boe in the second quarter of 2014. The year-over year decrease was driven by the fact that the Company no longer has any wells on extended flow-back until being tied into the pipeline, which had contributed to higher operating costs for the past few quarters.

Transportation expenses for the three months ended September 30, 2014 were \$2.2 million or \$1.95/boe compared to \$1.5 million or \$2.18/boe in the third quarter of 2013 and \$1.9 million or \$1.92/boe in the second quarter of 2014. 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.

For the nine months ended September 30, 2014, the Company incurred operating expenses of \$30.2 million or \$10.24/boe compared to \$18.0 million or \$9.86/boe in the corresponding 2013 period. Transportation expenses for the first nine months of 2014 totalled \$5.5 million or \$1.87/boe versus \$4.1 million or \$2.22/boe in the same period of last year.

## 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. The Company had the following crude oil, natural gas, foreign exchange and interest rate risk management contracts with a short-term mark-to-market asset of \$0.6 million and a long-term mark-to-market asset of \$0.1 million for a total of \$0.7 million at September 30, 2014 (June 30, 2014 – liability of \$5.3 million and 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
Jan. 1/15 – Dec. 31/15	Crude Oil	Collar	500 bbls/d	WTI-NYMEX	US\$85.00/bbl (floor) - US\$100.80/bbl (cap)
Jan. 1/15 – Dec. 31/15	Crude Oil	Swap	500 bbls/d	WTI-NYMEX	Cdn\$99.00
Jan. 1/15 – Dec. 31/15	Crude Oil	Swap	500 bbls/d	WTI-NYMEX	Cdn\$99.39
Jan. 1/15 – Dec. 31/15	Crude Oil	Swap	500 bbls/d	WTI-NYMEX	Cdn\$100.00

### 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 <sup>(1)</sup>
Jan 1/15 – Dec. 31/15	US\$	Average Rate Range Forward	US\$1,300,000	Trigger – 1.1300 Floor – 1.1000 Ceiling – 1.1110 <sup>(2)</sup>

<sup>(1)</sup> 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.

<sup>(2)</sup> If the monthly average is greater than the trigger level, the Company will receive 1.1110, otherwise where the monthly average is between 1.1000 and 1.1300, no settlement will occur.

### 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 Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
	(\$)	(\$)	(\$)	(\$)
Unrealized loss (gain) on financial instruments (000s)	<b>(6,062)</b>	2,622	<b>(2,922)</b>	3,598
Unrealized loss (gain) on financial instruments (\$/boe)	<b>(5.36)</b>	3.76	<b>(0.99)</b>	1.97

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
	(\$)	(\$)	(\$)	(\$)
Realized loss on financial instruments (000s)	<b>674</b>	1,948	<b>5,087</b>	1,678
Realized loss on financial instruments (\$/boe)	<b>0.60</b>	2.80	<b>1.72</b>	0.92

During the third quarter of 2014, the Company recorded an unrealized gain on financial instruments of \$6.1 million and a realized loss of \$0.7 million. In the same period of the prior year, the Company recorded an unrealized loss of \$2.6 million and a realized loss of \$1.9 million and in the previous quarter, an unrealized gain of \$1.0 million and a realized loss of \$2.8 million. The unrealized gain 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.

For the nine months ended September 30, 2014, the Company recorded an unrealized gain of \$2.9 million and a realized loss of \$5.1 million compared to an unrealized loss of \$3.6 million and a realized loss of \$1.7 million, respectively, in the same period of 2013.

## General and Administrative (G&A)

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
<i>(000s except per boe)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Gross G&A expense	<b>2,209</b>	2,058	<b>7,420</b>	5,868
Capitalized G&A (direct)	<b>(434)</b>	(375)	<b>(1,434)</b>	(1,164)
Overhead recoveries	<b>(175)</b>	(166)	<b>(572)</b>	(426)
G&A expense (net)	<b>1,600</b>	1,517	<b>5,414</b>	4,278
G&A expense (net) <i>(\$/boe)</i>	<b>1.41</b>	2.18	<b>1.83</b>	2.34

Gross G&A expense totalled \$2.2 million for the three-month period ended September 30, 2014 compared to \$2.1 million in the comparable period of 2013 and \$2.6 million in the second quarter of 2014. Net G&A costs were \$1.6 million or \$1.41/boe in the third quarter of 2014 compared to \$1.5 million or \$2.18/boe a year earlier and \$1.9 million or \$1.99/boe in the second quarter of 2014. 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, consulting and office rent) required to manage DeeThree's growing business. In the third quarter of 2014, the Company had an average of 36 full-time employees and three consultants versus 24 full-time employees and five consultants in the same period of 2013.

The Company capitalized direct G&A expenses amounting to \$0.4 million and had overhead recoveries of \$0.2 million in the third quarter of 2014 versus \$0.4 million and \$0.2 million, respectively, in the comparative period of 2013, and \$0.4 million and \$0.2 million, respectively, in the second quarter of 2014.

Net G&A expenses for the first nine months of 2014 totalled \$5.4 million or \$1.83/boe compared to \$4.3 million or \$2.34/boe in the same period of 2013. During the nine months ended September 30, 2014, the Company capitalized \$1.4 million in direct costs related to its exploration and development efforts and \$0.6 million of overhead recoveries compared to \$1.2 million and \$0.4 million, respectively, in the same period of 2013.

## Share-Based Compensation

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
<i>(000s except per boe)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Gross share-based compensation	<b>1,563</b>	1,123	<b>3,690</b>	2,665
Share-based compensation reclassified to operating costs	<b>(53)</b>	(72)	<b>(124)</b>	(145)
Capitalized share-based compensation	<b>(610)</b>	(459)	<b>(1,406)</b>	(1,000)
Share-based compensation expense (net)	<b>900</b>	592	<b>2,160</b>	1,520
Share-based compensation expense (net) <i>(\$/boe)</i>	<b>0.80</b>	0.85	<b>0.73</b>	0.83

The Company has a stock option plan, which is described in note 10 to the interim financial statements for the three and nine months ended September 30, 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 September 30, 2014, the Company had 7,818,328 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.

For the quarter ended September 30, 2014, the Company incurred net share-based compensation expense of \$0.9 million or \$0.80/boe versus \$0.6 million or \$0.85/boe in the same period of 2013 and \$0.8 million or \$0.81/boe in the second quarter of 2014. The year-over-year absolute increase was directly attributable to grants issued during the year and the resulting share-based compensation from those issuances.

During the first nine months of 2014, DeeThree incurred net share-based compensation expense of \$2.2 million or \$0.73/boe compared to \$1.5 million or \$0.83/boe recorded in the first nine months of 2013.

## Depletion and Depreciation (D&D)

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
	(\$)	(\$)	(\$)	(\$)
Depletion and depreciation expense (000s)	<b>21,776</b>	13,750	<b>57,014</b>	35,325
Depletion and depreciation expense (\$/boe)	<b>19.25</b>	19.74	<b>19.31</b>	19.32

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 September 30, 2014, the Company recorded D&D expense of \$21.8 million or \$19.25/boe compared to \$13.8 million or \$19.74/boe in the same period of 2013 and \$18.8 million or \$19.18/boe in the second quarter of 2014. The absolute increase in D&D expense year over year is related to the 62 percent and 14 percent, respectively, increase in production volumes slightly offset by lower costs related to finding and developing reserves. The Company expects the D&D expense per barrel to fall within the \$18/boe to \$20/boe range going forward.

For the nine months ended September 30, 2014, D&D expense was \$57.0 million or \$19.31/boe compared to \$35.3 million or \$19.32/boe in the same period of 2013.

## Exploration and Evaluation (E&E)

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
	(\$)	(\$)	(\$)	(\$)
Exploration and evaluation expense (000s)	<b>6,499</b>	124	<b>8,459</b>	5,716
Exploration and evaluation expense (\$/boe)	<b>5.75</b>	0.18	<b>2.87</b>	3.13

DeeThree accumulates costs related to its 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 third quarter of 2014, the Company recorded E&E expense of \$6.5 million or \$5.75/boe, which included \$0.3 million of lease expiries in several of the Company's areas, \$1.0 million for one exploratory well in Ferguson and \$5.2 million for a previously drilled well in the Peace River Arch area that was deemed to be uneconomic at this time. This compares to \$0.1 million or \$0.18/boe in the same period of 2013 and \$72,000 or \$0.07/boe in the second quarter of 2014, which related to lease expiries.

During the nine months ended September 30, 2014, the Company recorded E&E expense of \$8.5 million or \$2.87/boe compared to \$5.7 million or \$3.13/boe in the comparable period of 2013.

## Accretion and Finance Expenses

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
(000s except per boe)	(\$)	(\$)	(\$)	(\$)
Accretion expense on decommissioning liabilities	<b>213</b>	123	<b>621</b>	309
Finance expense	<b>1,037</b>	711	<b>3,512</b>	2,096
Total accretion and finance expenses	<b>1,250</b>	834	<b>4,133</b>	2,405
Accretion expense on decommissioning liabilities (\$/boe)	<b>0.19</b>	0.18	<b>0.21</b>	0.17
Finance expense (\$/boe)	<b>0.92</b>	1.02	<b>1.19</b>	1.15
Total accretion and finance expenses (\$/boe)	<b>1.11</b>	1.20	<b>1.40</b>	1.32



Accretion expense represents the increase in the present value of the Company's decommissioning liabilities. In the third quarter of 2014, the Company recorded accretion expense of \$0.2 million or \$0.19/boe compared to \$0.1 million or \$0.18/boe in the same period of 2013 and \$0.2 million or \$0.21/boe in the second quarter of 2014.

During the three months ended September 30, 2014, the company recorded interest and finance expenses of \$1.0 million or \$0.92/boe compared to \$0.7 million or \$1.02/boe in the same period of 2013 and \$1.6 million or \$1.63/boe in the previous quarter. The Company incurred interest charges and standby fees related to the \$235 million credit facility, which was drawn to \$107.5 million at the end of the quarter (September 30, 2013 – \$91.5 million and June 30, 2014 - \$86.2 million).

For the first nine months of 2014, the Company recorded accretion expense of \$0.6 million or \$0.21/boe compared to \$0.3 million or \$0.17/boe in the comparable period of 2013. The Company also recorded finance expense of \$3.5 million or \$1.19/boe compared to \$2.1 million or \$1.15/boe compared to the same period of the prior year.

## Income Taxes

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
	(\$)	(\$)	(\$)	(\$)
Deferred income tax expense (000s)	<b>8,235</b>	3,557	<b>18,046</b>	7,279
Deferred income tax expense (\$/boe)	<b>7.28</b>	5.11	<b>6.11</b>	3.98

During the third quarter of 2014, the Company recorded a deferred income tax expense of \$8.2 million or \$7.28/boe compared to \$3.6 million or \$5.11/boe in same period of 2013 and \$6.3 million or \$6.40/boe in the second quarter of 2014. The third quarter expense was primarily related to positive net income in the period as well as 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 September 30, 2014, the Company spent approximately \$6.5 million in eligible exploration expenditures related to the December 2013 issuance of flow-through shares.

During the nine months ended September 30, 2014, the Company recorded a deferred income tax expense of \$18.0 million or \$6.11/boe compared to \$7.3 million or \$3.98/boe in the same period of 2013. During the first nine months of 2014, the Company spent approximately \$9.7 million in eligible exploration expenditures related to the December 2013 and May 2014 issuances 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 September 30, 2014 of \$480 million (December 31, 2013 – \$386 million).

## Netbacks (per unit) <sup>(2)</sup>

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
	(\$/boe)	(\$/boe)	(\$/boe)	(\$/boe)
Average sales price	<b>77.09</b>	80.03	<b>79.05</b>	68.97
Royalties	<b>(16.01)</b>	(19.28)	<b>(17.73)</b>	(15.03)
Operating	<b>(9.63)</b>	(10.46)	<b>(10.24)</b>	(9.86)
Transportation	<b>(1.95)</b>	(2.18)	<b>(1.87)</b>	(2.22)
Operating netback <sup>(1)</sup>	<b>49.50</b>	48.11	<b>49.21</b>	41.86
G&A and other expense (excludes non-cash items)	<b>(1.41)</b>	(2.18)	<b>(1.83)</b>	(2.34)
Realized loss on financial instruments	<b>(0.60)</b>	(2.80)	<b>(1.72)</b>	(0.92)
Finance expense	<b>(0.92)</b>	(1.02)	<b>(1.19)</b>	(1.15)
Funds flow netback <sup>(1)</sup>	<b>46.57</b>	42.11	<b>44.47</b>	37.45
D&D expense	<b>(19.25)</b>	(19.74)	<b>(19.31)</b>	(19.32)
Accretion	<b>(0.19)</b>	(0.18)	<b>(0.21)</b>	(0.17)
Share-based compensation	<b>(0.80)</b>	(0.85)	<b>(0.73)</b>	(0.83)
Unrealized gain (loss) on financial instruments	<b>5.36</b>	(3.76)	<b>0.99</b>	(1.97)
E&E expense	<b>(5.75)</b>	(0.18)	<b>(2.87)</b>	(3.13)
Deferred income tax expense	<b>(7.28)</b>	(5.11)	<b>(6.11)</b>	(3.98)
Net income netback <sup>(1)</sup>	<b>18.66</b>	12.29	<b>16.23</b>	8.05

<sup>(1)</sup> 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. For a description of the boe conversion ratio, refer to "Other Measurements" below.

<sup>(2)</sup> For a description of the boe conversion ratio, refer to "Other Measurements" below.

The operating netback was \$49.50/boe for the three months ended September 30, 2014 compared to \$48.11/boe in the same period of 2013 and \$50.64/boe in the second quarter of 2014. As compared to the prior year's third quarter, the Company experienced a lower realized average sales price throughout the three months ended September 30, 2014 but also lower royalties and operating expenses, contributing to a slightly higher operating netback. As compared to the second quarter of 2014, the Company also realized a lower average price due to a decrease in WTI prices, contributing to the slight decrease in operating netback quarter-over-quarter.

For the first nine months of 2014, DeeThree achieved an operating netback of \$49.21/boe compared to \$41.86/boe in the same period of 2013, due to higher year-to-date pricing but offset by higher royalties and operating expenses.

## INVESTMENT AND INVESTMENT EFFICIENCIES

### Capital Expenditures and Acquisitions

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
<i>(000s) (excluding decommissioning liabilities and capitalized share-based compensation)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Property acquisitions and adjustments	<b>6,106</b>	4,336	<b>11,321</b>	6,466
Drilling and completions				
Completion for prior period drills	<b>5,698</b>	8,192	<b>2,479</b>	1,751
Current period drilling & completion	<b>48,799</b>	43,919	<b>162,364</b>	109,591
Future drills and work overs	<b>2,007</b>	1,198	<b>2,707</b>	1,863
	<b>56,504</b>	53,309	<b>167,550</b>	113,205
Equipment and facilities				
Tie-in of prior period drills	<b>2,145</b>	4,799	<b>698</b>	1,374
Tie-in of current period drills	<b>2,277</b>	2,291	<b>13,164</b>	10,424
Facilities, pipelines and work overs	<b>14,621</b>	5,379	<b>30,311</b>	13,453
	<b>19,043</b>	12,469	<b>44,173</b>	25,251
Land and lease retention	<b>2,827</b>	4,474	<b>5,901</b>	8,716
Geological and geophysical	<b>60</b>	–	<b>1,172</b>	999
Capitalized G&A and other	<b>445</b>	381	<b>1,468</b>	1,176
Total capital expenditures	<b>84,985</b>	74,969	<b>231,585</b>	155,813
Total wells drilled (#)	<b>12 (11.97)</b>	12 (11.97)	<b>39 (38.93)</b>	28 (27.16)

During the third quarter of 2014, the Company incurred a total of \$85.0 million (third quarter 2013 - \$75.0 million) in capital expenditures, excluding non-cash decommissioning liabilities and capitalized share-based compensation. During the period, \$6.1 million was spent to complete several minor acquisitions (2013 - \$4.3 million). Drilling and completion expenditures totalled \$56.5 million in the third quarter of 2014 (third quarter 2013 - \$53.3 million), \$19.0 million was spent on tie-ins and facilities (third quarter 2013 - \$12.5 million), \$2.8 million on land sales (third quarter 2013 - \$4.5 million) and \$60,000 related to seismic programs (third quarter 2013 - \$nil). The remaining \$0.4 million in the third quarter of 2014 (third quarter 2013 - \$0.4 million) was invested in capitalized G&A and other corporate assets.

During the first nine months of 2014, the Company incurred a total of \$231.6 million (2013 - \$155.8 million) in capital expenditures, excluding the non-cash decommissioning liabilities and capitalized share-based compensation. During the period, the Company spent \$11.3 million to complete several minor acquisitions (2013 - \$6.5 million). Drilling and completion expenditures totalled \$167.6 million (2013 - \$113.2 million), \$44.2 million was spent on tie-ins and facilities (2013 - \$25.3 million), \$5.9 million on land sales (2013 - \$8.7 million) and \$1.2 million related to seismic programs (2013 - \$1.0 million). The remaining \$1.5 million spent in the first nine months of 2014 (2013 - \$1.2 million) was invested in capitalized G&A and other corporate assets.

## Drilling Activity

	Exploration		Development		Total	
	Gross	Net	Gross	Net	Gross	Net
	(#)	(#)	(#)	(#)	(#)	(#)
<b>Three Months Ended September 30, 2014</b>						
<b>Crude oil</b>	<b>2</b>	<b>2.00</b>	<b>9</b>	<b>8.97</b>	<b>11</b>	<b>10.97</b>
<b>Dry and abandoned</b>	<b>1</b>	<b>1.00</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>1.00</b>
<b>Total wells</b>	<b>3</b>	<b>3.00</b>	<b>9</b>	<b>8.97</b>	<b>12</b>	<b>11.97</b>
<b>Success rate (%)</b>		<b>67</b>		<b>100</b>		<b>92</b>
<b>Average working interest (%)</b>		<b>100</b>		<b>100</b>		<b>100</b>
Three Months Ended September 30, 2013						
Crude oil	1	1.00	11	10.97	12	11.97
Total wells	1	1.00	11	10.97	12	11.97
Success rate (%)		100		100		100
Average working interest (%)		100		100		100
<b>Nine Months Ended September 30, 2014</b>						
<b>Gas</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>1.00</b>	<b>1</b>	<b>1.00</b>
<b>Crude oil</b>	<b>2</b>	<b>2.00</b>	<b>33</b>	<b>32.93</b>	<b>35</b>	<b>34.93</b>
<b>Dry and abandoned</b>	<b>3</b>	<b>3.00</b>	<b>–</b>	<b>–</b>	<b>3</b>	<b>3.00</b>
<b>Total wells</b>	<b>5</b>	<b>5.00</b>	<b>34</b>	<b>33.93</b>	<b>39</b>	<b>38.93</b>
<b>Success rate (%)</b>		<b>40</b>		<b>100</b>		<b>92</b>
<b>Average working interest (%)</b>		<b>100</b>		<b>100</b>		<b>100</b>
Nine Months Ended September 30, 2013						
Crude oil	2	2.00	24	23.19	26	25.19
Dry and abandoned	2	1.97	–	–	2	1.97
Total wells	4	3.97	24	23.19	28	27.16
Success rate (%)		50		100		93
Average working interest (%)		99		97		97

During the third quarter of 2014, DeeThree drilled a total of 9 gross (8.97 net) crude oil development wells with a 100 percent success rate. The Company also drilled 3 gross (3.00 net) exploratory wells, 2 of which were successful exploratory crude oil wells and one of which was a dry and abandoned well. During the three months ended September 30, 2013, the Company drilled 11 gross (10.97 net) development wells, all of which were targeting crude oil. In that quarter, the Company also drilled 1 gross (1.00 net) exploratory step-out well.

During the first nine months of 2014, DeeThree drilled 39 gross (38.93 net) wells in total, including 33 gross (32.93 net) development wells targeting crude oil, 1 gross (1.00 net) development well targeting gas and 5 gross (5.00 net) exploration wells, three of which are vertical strat test wells outside the core Ferguson area which were deemed to be dry and abandoned in the period, and 2 of which were crude oil wells. During the nine months ended September 30, 2013, the Company drilled a total of 28 gross (27.16 net) wells, including 24 gross (23.19 net) development wells targeting crude oil, and 4 gross (3.97 net) exploration wells, of which 2 gross (2.00 net) successfully targeted oil and 2 gross (2.00 net) which were dry and abandoned.

## Drilling Activity by Area

	Brazeau	Ferguson	Peace River Arch	Total
	(#)	(#)	(#)	(#)
<b>Three Months Ended September 30, 2014</b>				
Crude oil	7 (6.97)	4 (4.00)	– (–)	11 (10.97)
Dry and abandoned	– (–)	1 (1.00)	– (–)	1 (1.00)
<b>Total wells</b>	<b>7 (6.97)</b>	<b>5 (5.00)</b>	<b>– (–)</b>	<b>12 (11.97)</b>
Success rate (%)	100	80	0	92
Average working interest (%)	100	100	0	100
Three Months Ended September 30, 2013				
Crude oil	4 (3.97)	8 (8.00)	– (–)	12 (11.97)
Dry and abandoned	– (–)	– (–)	– (–)	– (–)
<b>Total wells</b>	<b>4 (3.97)</b>	<b>8 (8.00)</b>	<b>– (–)</b>	<b>12 (11.97)</b>
Success rate (%)	100	100	0	100
Average working interest (%)	99	100	0	100
<b>Nine Months Ended September 30, 2014</b>				
Gas	1 (1.00)	– (–)	– (–)	1 (1.00)
Crude oil	19 (18.93)	15 (15.00)	1 (1.00)	35 (34.93)
Dry and abandoned	– (–)	3 (3.00)	– (–)	3 (3.00)
<b>Total wells</b>	<b>20 (19.93)</b>	<b>18 (18.00)</b>	<b>1 (1.00)</b>	<b>39 (38.93)</b>
Success rate (%)	100	83	100	92
Average working interest (%)	100	100	100	100
Nine Months Ended September 30, 2013				
Crude oil	10 (9.90)	15 (15.00)	1 (0.29)	26 (25.19)
Dry and abandoned	1 (0.97)	1 (1.00)	– (–)	2 (1.97)
<b>Total wells</b>	<b>11 (10.87)</b>	<b>16 (16.00)</b>	<b>1 (0.29)</b>	<b>28 (27.16)</b>
Success rate (%)	91	94	100	93
Average working interest (%)	99	100	29	97

During the third quarter of 2014, DeeThree drilled a total of 12 gross (11.97 net) wells, including 7 gross (6.97 net) wells on its Brazeau property with a 100 percent success rate and 5 gross (5.00 net) Bakken wells on its Ferguson property with an 80 percent success rate. During the three months ended September 30, 2013, the Company drilled 12 gross (11.97 net) wells for an 100 percent success rate, including 4 gross (3.97 net) horizontal Belly River wells in the Brazeau area, and 8 gross (8.00 net) Bakken wells in the Ferguson area.

During the first nine months of 2014, DeeThree drilled 39 gross (38.93 net) wells in total, including 20 gross (19.93 net) wells on its Brazeau property, 18 gross (18.00 net) Bakken wells on its Ferguson property and 1 gross (1.00 net) well in the Peace River Arch area with a 92 percent success rate. During the nine months ended September 30, 2013, the Company drilled 28 gross (27.16 net) wells for an 93 percent success rate, including 11 gross (10.87 net) horizontal Belly River wells in the Brazeau area, 16 gross (16.00 net) Bakken wells in the Ferguson area and 1 gross (0.29 net) non-operated well in the Peace River Arch area.

## LIQUIDITY AND FINANCIAL RESOURCES

### Working Capital <sup>(1)</sup>

The following table summarizes the change in working capital during the nine months ended September 30, 2014 and the year ended December 31, 2013:

	Nine Months Ended September 30, 2014	Year Ended December 31, 2013
<i>(000s)</i>	<i>(\$)</i>	<i>(\$)</i>
Working capital deficit <sup>(1)</sup> – beginning of period	<b>(119,787)</b>	(77,586)
Funds from operations	<b>131,423</b>	93,295
Capital expenditures	<b>(220,264)</b>	(200,191)
Acquisitions	<b>(11,321)</b>	(11,694)
Issuance of capital stock for cash (net of share issuance costs)	<b>71,620</b>	76,822
Abandonment and reclamation costs	–	(433)
Working capital deficit <sup>(1)</sup> – end of period	<b>(148,329)</b>	(119,787)

<sup>(1)</sup> Working capital deficit, which is calculated as current liabilities (excluding derivative financial instruments) and bank debt less current assets (excluding 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 nine months, the Company generated funds from operations of \$131.4 million and invested \$220.3 million in capital expenditures and \$11.3 million in acquisitions for total capital spending of \$231.6 million. In the second quarter of 2014, the Company issued 5,714,200 common shares at a price of \$11.10 per share for total gross proceeds of \$63.4 million (\$60.0 million net of estimated share issuance costs), including 304,200 common shares issued pursuant to the partial exercise of the over-allotment and 752,000 flow-through shares at a price of \$13.30 per share for total gross proceeds of \$10 million (\$9.5 million net of estimated share issuance costs). The Company also issued common shares on the exercise of options for total cash proceeds of \$2.1 million. DeeThree exited the quarter with a working capital deficit of \$148.3 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 \$235 million committed term syndicated credit facility (the “Syndicated Facility”); (iv) enter into new agreements establishing new credit facilities; and (v) adjust its capital spending.

At September 30 2014, the Company’s Syndicated Facility had an authorized borrowing base of \$235 million, including a \$215 million extendible revolving facility and a \$20 million operating facility. At the period end, the facility was drawn to approximately \$107.5 million with \$127.5 million of unused borrowing capacity.

Subsequent to the quarter end, in October 2014, the Company increased the Syndicated Facility to an authorized borrowing base of \$310 million, including \$280 million extendible revolving facility and a \$30 million operating facility.

The Syndicated 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 Syndicated Facility do not exceed the authorized borrowing amount and the Company is in compliance with covenants, representations and warranties. As at September 30, 2014, the Company is in compliance with all covenants. Covenants include reporting requirements, permitted indebtedness, permitted hedging and other standard business operating covenants. There are no financial covenants under the Syndicated Facility. The authorized borrowing amount is subject to interim reviews by the financial institutions and the next semi-annual review of the Syndicated Facility is scheduled for the spring of 2015. Security is provided for by a floating charge demand debenture over all assets in the amount of \$1.0 billion.

The Syndicated Facility bears interest on a grid system which ranges from bank prime plus 1.0% to bank prime plus 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 Syndicated 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 Syndicated 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 a total of approximately \$295 million on its capital program, which will consist of a planned 47 gross wells and has been focused on further exploration and development of the Ferguson and Brazeau properties. 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	160	640	160	960
Operating lease – equipment	13	28	–	41
Exploration expenditures (flow-through)	–	5,272	–	5,272
<b>Total</b>	<b>173</b>	<b>5,940</b>	<b>160</b>	<b>6,273</b>

As at September 30, 2014, the Company had contractual obligations for its office leases totalling approximately \$1.0 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 \$41,000 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 \$5.0 million of eligible exploration expenditures by December 31, 2014. As at September 30, 2014, all of these expenditures had been incurred and the commitment has been fulfilled.

In connection with the Company's issuance of flow-through shares during the second quarter of 2014, DeeThree is required to spend \$10.0 million of eligible exploration expenditures by December 31, 2015. As at September 30, 2014, \$4.7 million of these expenditures had been incurred, with the remaining \$5.3 million to be incurred by December 31, 2015. These expenditures will be renounced to shareholders in January 2015 effective December 31, 2014.

## SHARE CAPITAL

As at November 5, 2014, the Company had the following equity securities outstanding:

Common shares outstanding	88,839,460
Stock options outstanding	7,811,328

## SELECTED QUARTERLY INFORMATION <sup>(1)</sup>

Three Months Ended	Sept. 30, 2014	June 30, 2014	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013	Dec. 31, 2012
<i>(000s, except per share amounts and production figures)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Oil and natural gas revenues	<b>87,188</b>	80,560	65,643	51,865	55,754	39,882	30,490	28,378
Funds from operations	<b>52,720</b>	43,167	35,536	24,660	29,410	22,437	16,788	16,231
Per share – basic	<b>0.59</b>	0.51	0.43	0.32	0.38	0.29	0.23	0.23
Per share – diluted	<b>0.57</b>	0.49	0.42	0.31	0.37	0.28	0.23	0.22
Cash flow from operating activities	<b>62,290</b>	44,103	23,607	25,499	32,073	21,876	18,000	30,978
Net income (loss)	<b>21,106</b>	18,133	8,682	3,305	8,570	6,800	(627)	3,483
Per share – basic	<b>0.24</b>	0.21	0.11	0.04	0.11	0.09	(0.01)	0.05
Per share – diluted	<b>0.23</b>	0.21	0.10	0.04	0.11	0.09	(0.01)	0.05
Total assets	<b>686,496</b>	626,620	564,393	497,280	457,679	387,056	353,574	329,666
Capital expenditures <sup>(2)</sup>	<b>84,985</b>	74,288	72,312	56,072	74,969	39,286	41,558	45,134
Working capital deficit <sup>(3)</sup>	<b>148,329</b>	116,064	155,517	119,787	131,295	86,338	70,174	77,586
Shareholders' equity	<b>433,613</b>	410,944	321,640	311,070	263,800	253,336	244,909	212,090
Production								
Natural gas (mcf/d)	<b>13,395</b>	12,967	12,381	10,251	8,910	10,093	10,279	9,377
Crude oil (bbls/d)	<b>9,322</b>	8,033	6,743	6,547	5,765	4,550	3,924	3,511
NGLs (bbls/d)	<b>739</b>	550	565	369	323	346	289	259
Total (boe/d)	<b>12,294</b>	10,744	9,372	8,625	7,573	6,578	5,926	5,333

<sup>(1)</sup> 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).

<sup>(2)</sup> Total capital expenditures, including acquisitions.

<sup>(3)</sup> Working capital deficit, which is calculated as current liabilities (excluding derivative financial instruments) and bank debt less current assets (excluding derivative financial instruments), is not a recognized measure under IFRS. Please refer to the commentary under "Non-GAAP Measurements" for further discussion.

## OUTLOOK

As we near the end of 2014, the Company is pleased with the results achieved to date. The Company is expecting to average approximately 13,000 boe/d in the fourth quarter of 2014 and will meet or exceed our previously announced exit guidance of 13,000-13,500 boe/d. Total capital expenditures for the year are estimated to be \$290 - \$295 million. This includes approximately \$30 million on acquisitions and land and approximately \$27 million on facilities, including investing in the Bakken secondary recovery initiative and additional capacity for future production growth. These expenditures were not contemplated in the Company's original 2014 budget and will benefit the Company for years to come.

The Company is well positioned to execute its long term plans with extensive drilling inventory and newly expanded infrastructure with ample productive capacity. DeeThree anticipates continued commodity price volatility moving into 2015 and will carefully manage capital expenditures to maintain prudent debt levels and a strong balance sheet.



## **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 2014 due to pipeline and infrastructure constraints and global changes in supply and demand for crude oil. 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 ten 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. DeeThree currently has a \$310 million syndicated facility with five banks. The Company is required to comply with covenants under this facility and in the event it does not comply, access to capital could be restricted or repayment could be required. DeeThree routinely reviews the covenants based on actual and forecast results and has the ability to make changes to development plans to comply with the covenants under the credit facility. DeeThree anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future funds from operations and available bank credit. DeeThree is committed to maintaining a strong balance sheet along with an adaptable capital expenditure program that can be adjusted to capitalize on, or reflect, acquisition opportunities and, if necessary, a tightening of liquidity sources. From its founding to the date of this MD&A, DeeThree has had no defaults or breaches on its bank debt or any of its financial liabilities.

## **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 two foreign currency exchange risk management contracts 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 September 30, 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 and nine months ended September 30, 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 Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
<i>(000s)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Cash flow from operating activities	<b>62,290</b>	32,073	<b>130,000</b>	71,949
Changes in non-cash working capital	<b>(9,570)</b>	(2,663)	<b>1,423</b>	(3,314)
Funds from operations	<b>52,720</b>	29,410	<b>131,423</b>	68,635

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 and finance expense, 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 charges, accretion expense, unrealized gains or losses on financial instruments, any impairment or exploration and evaluation expense and deferred income taxes. No IFRS measure is reasonably comparable to netbacks. See “Netbacks (per unit)” for the netback calculations.

### Net Debt and Working Capital Deficit

Net debt and working capital deficit, which represent current liabilities (excluding derivative financial instruments) and bank debt less current assets, 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](http://www.sedar.com)), or at the Company's website ([www.deethree.ca](http://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	September 30, 2014	December 31, 2013
<i>(000s)</i>	<i>(\$)</i>	<i>(\$)</i>
<b>Assets</b>		
<b>Current assets</b>		
Accounts receivable	38,343	22,308
Deposits and prepaid expenses	1,069	596
Derivative financial asset <i>(note 12)</i>	569	–
	<b>39,981</b>	22,904
<b>Non-current assets</b>		
Derivative financial asset <i>(note 12)</i>	130	–
Exploration and evaluation assets <i>(note 5)</i>	59,716	45,611
Property and equipment <i>(note 6)</i>	586,669	428,765
<b>Total assets</b>	<b>686,496</b>	497,280
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank debt <i>(note 7)</i>	–	88,404
Accounts payable and accrued liabilities	80,250	54,287
Derivative financial instruments <i>(note 12)</i>	–	2,224
	<b>80,250</b>	144,915
<b>Non-current liabilities</b>		
Bank debt <i>(note 7)</i>	107,491	–
Decommissioning liabilities <i>(note 8)</i>	31,404	26,291
Flow-through share premium liabilities <i>(note 9)</i>	872	699
Deferred tax liability	32,866	14,305
<b>Total liabilities</b>	<b>252,883</b>	186,210
<b>Shareholders' equity</b>		
Share capital <i>(note 9)</i>	381,095	309,323
Contributed surplus	11,452	8,602
Retained earnings (deficit)	41,066	(6,855)
<b>Total shareholders' equity</b>	<b>433,613</b>	311,070
<b>Total liabilities and shareholders' equity</b>	<b>686,496</b>	497,280

**Commitments** *(note 13)*

**Subsequent Events** *(notes 7, 14)*

See accompanying notes to the interim financial statements.

# Statements of Operations and Comprehensive Income

(Unaudited)

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
<i>(000s, except per share amounts)</i>	(\$)	(\$)	(\$)	(\$)
<b>Revenue</b>				
Oil and natural gas revenues	<b>87,188</b>	55,754	<b>233,391</b>	126,126
Royalties	<b>(18,110)</b>	(13,435)	<b>(52,336)</b>	(27,491)
Oil and natural gas revenues, net of royalties	<b>69,078</b>	42,319	<b>181,055</b>	98,635
<b>Expenses</b>				
Operating and transportation	<b>13,100</b>	8,805	<b>35,743</b>	22,093
General and administrative	<b>1,600</b>	1,517	<b>5,414</b>	4,278
Depletion and depreciation <i>(note 6)</i>	<b>21,776</b>	13,750	<b>57,014</b>	35,325
Share-based compensation <i>(note 10)</i>	<b>900</b>	592	<b>2,160</b>	1,520
Exploration and evaluation expense <i>(note 5)</i>	<b>6,499</b>	124	<b>8,459</b>	5,716
	<b>43,875</b>	24,788	<b>108,790</b>	68,932
Unrealized loss (gain) on financial instruments	<b>(6,062)</b>	2,622	<b>(2,922)</b>	3,598
Realized loss on financial instruments	<b>674</b>	1,948	<b>5,087</b>	1,678
Accretion and finance expenses	<b>1,250</b>	834	<b>4,133</b>	2,405
	<b>39,737</b>	30,192	<b>115,088</b>	76,613
Income before income tax	<b>29,341</b>	12,127	<b>65,967</b>	22,022
<b>Taxes</b>				
Deferred income tax expense	<b>8,235</b>	3,557	<b>18,046</b>	7,279
<b>Net income and comprehensive income for the period</b>	<b>21,106</b>	8,570	<b>47,921</b>	14,743
<b>Retained earnings (deficit), beginning of the period</b>	<b>19,960</b>	(18,730)	<b>(6,855)</b>	(24,903)
<b>Retained earnings (deficit), end of the period</b>	<b>41,066</b>	(10,160)	<b>41,066</b>	(10,160)
Net income per share <i>(note 9)</i>				
Basic	<b>0.24</b>	0.11	<b>0.56</b>	0.20
Diluted	<b>0.23</b>	0.11	<b>0.54</b>	0.19

See accompanying notes to the interim financial statements.



# Statements of Changes in Shareholders' Equity

(Unaudited)

	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total Equity
<i>(000s)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
<b>Balance – January 1, 2014</b>	<b>309,323</b>	<b>8,602</b>	<b>(6,855)</b>	<b>311,070</b>
Common shares issued	63,428	–	–	63,428
Flow-through shares issued	10,002	–	–	10,002
Premium on flow-through shares	(1,654)	–	–	(1,654)
Share issuance costs	(3,862)	–	–	(3,862)
Tax benefit of share issuance costs	963	–	–	963
Share-based compensation	–	3,693	–	3,693
Exercise of options	2,895	(843)	–	2,052
Net income	–	–	47,921	47,921
<b>Balance – September 30, 2014</b>	<b>381,095</b>	<b>11,452</b>	<b>41,066</b>	<b>433,613</b>
Balance – January 1, 2013	231,415	5,578	(24,903)	212,090
Common shares issued	34,564	–	–	34,564
Share issuance costs	(2,322)	–	–	(2,322)
Tax benefit of share issuance costs	578	–	–	578
Share-based compensation	–	2,665	–	2,665
Exercise of options	2,025	(543)	–	1,482
Net income	–	–	14,743	14,743
Balance – September 30, 2013	266,260	7,700	(10,160)	263,800

See accompanying notes to the interim financial statements.

# Statements of Cash Flows

(Unaudited)

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
(000s)	(\$)	(\$)	(\$)	(\$)
<b>Cash flow from (used in):</b>				
<b>Operating activities</b>				
Net income for the period	21,106	8,570	47,921	14,743
Adjustments for:				
Depletion and depreciation expense (note 6)	21,776	13,750	57,014	35,325
Deferred income tax expense	8,235	3,557	18,046	7,279
Share-based compensation (note 10)	953	664	2,284	1,665
Accretion (note 8)	213	123	621	309
Unrealized loss (gain) on financial instruments	(6,062)	2,622	(2,922)	3,598
Exploration and evaluation expense (note 5)	6,499	124	8,459	5,716
	52,720	29,410	131,423	68,635
Change in non-cash working capital (note 11)	9,570	2,663	(1,423)	3,314
	62,290	32,073	130,000	71,949
<b>Financing activities</b>				
Change in bank debt	21,337	27,755	19,087	28,420
Issuance of share capital	–	773	75,482	36,045
Share issuance costs	–	(2)	(3,862)	(2,322)
Change in non-cash working capital (note 11)	(16)	–	–	–
	21,321	28,526	90,707	62,143
<b>Investing activities</b>				
Property and equipment expenditures	(67,439)	(65,504)	(203,383)	(132,839)
Exploration and evaluation expenditures	(11,440)	(5,129)	(16,881)	(16,508)
Property acquisitions (note 4)	(6,106)	(4,336)	(11,321)	(6,466)
Changes in non-cash working capital (note 11)	1,374	14,370	10,878	21,721
	(83,611)	(60,599)	(220,707)	(134,092)
<b>Change in cash and cash equivalents</b>	–	–	–	–
<b>Cash and cash equivalents – beginning of period</b>	–	–	–	–
<b>Cash and cash equivalents – end of period</b>	–	–	–	–

See accompanying notes to the interim financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

As at and for the period ended September 30, 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 and nine months ended September 30, 2014 were prepared in accordance with International 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 November 5, 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 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. ACQUISITIONS

During the nine-month period ended September 30, 2014, the Company completed several minor transactions to acquire interests in producing oil and natural gas assets principally located in the Brazeau Belly River area of Alberta for total consideration of \$11.3 million. Had the acquisitions closed on January 1, 2014, the Company estimates that its pro forma revenue and net income for the period would not have been significantly affected.

<i>(000s)</i>	<i>(\$)</i>
<b>Net assets acquired</b>	
Petroleum and natural gas assets	6,512
E&E assets	5,335
Decommissioning liabilities	(526)
	<b>11,321</b>
<b>Consideration</b>	
Total cash consideration	11,321

## 5. EXPLORATION AND EVALUATION ASSETS

<i>(000s)</i>	<b>Nine Months Ended September 30, 2014</b> <i>(\$)</i>	Year Ended December 31, 2013 <i>(\$)</i>
Balance – beginning of period	<b>45,611</b>	29,893
Additions	<b>19,243</b>	33,164
Acquisitions through business combinations	<b>5,335</b>	901
Transfers to property and equipment	<b>(2,014)</b>	(9,471)
E&E expenses	<b>(7,957)</b>	(8,594)
Lease expiries	<b>(502)</b>	(282)
Balance – end of period	<b>59,716</b>	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 nine months ended September 30, 2014, the Company incurred \$8.0 million to drill three vertical strat test wells in Ferguson and one well in the Peace River Arch area that was determined to be unsuccessful (year ended December 31, 2013 – \$8.6 million on three D&A wells and preliminary drill costs) and \$0.5 million related to lease expiries on undeveloped land (year ended December 31, 2013 - \$0.3 million).

During the nine months ended September 30, 2014, approximately \$0.4 million of directly attributable general and administrative expense and \$0.3 million 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 \$0.7 million, respectively).

## 6. PROPERTY AND EQUIPMENT

	Oil and Natural Gas Properties	Office Equipment	Total
(000s)	(\$)	(\$)	(\$)
<b>Cost or deemed cost</b>			
Balance – January 1, 2013	345,000	309	345,309
Acquisitions	12,202	–	12,202
Additions	179,132	109	179,241
Transfers from E&E assets	9,471	–	9,471
Balance – December 31, 2013	<b>545,805</b>	<b>418</b>	<b>546,223</b>
Additions	<b>206,358</b>	<b>34</b>	<b>206,392</b>
Acquisitions	<b>6,512</b>	–	<b>6,512</b>
Transfers from E&E assets	<b>2,014</b>	–	<b>2,014</b>
<b>Balance –September 30, 2014</b>	<b>760,689</b>	<b>452</b>	<b>761,141</b>
<b>Accumulated depletion and depreciation</b>			
Balance – January 1, 2013	66,053	96	66,149
Depletion and depreciation for the year	51,252	57	51,309
Balance – December 31, 2013	<b>117,305</b>	<b>153</b>	<b>117,458</b>
Depletion and depreciation for the period	<b>56,962</b>	<b>52</b>	<b>57,014</b>
<b>Balance – September 30, 2014</b>	<b>174,267</b>	<b>205</b>	<b>174,472</b>
<b>Net book value</b>			
December 31, 2013	428,500	265	428,765
<b>September 30, 2014</b>	<b>586,422</b>	<b>247</b>	<b>586,669</b>

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

During the nine months ended September 30, 2014, approximately \$1.0 million of directly attributable general and administrative expense and \$1.1 million of directly attributable share-based compensation expense were capitalized as expenditures on property and equipment (year ended December 31, 2013 – \$0.8 million and \$0.7 million, respectively).

### (b) Amortization and Impairment Charges

For the period ended September 30, 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 nine months ended September 30, 2014, an estimated \$351.2 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 \$21.7 million of salvage value of production equipment was excluded (year ended December 31, 2013 – \$328.5 million and \$16.4 million, respectively).

## 7. BANK DEBT

At September 30, 2014, the Company had a committed term syndicated credit facility (the “Syndicated Facility”) with an authorized borrowing base of \$235 million, including a \$215 million extendible revolving facility and a \$20 million operating facility. At September 30, 2014, \$107.5 million was drawn against this facility (December 31, 2013 – \$88.4 million drawn on a revolving demand credit facility with an authorized borrowing base of \$165 million).

Subsequent to the quarter end, in October 2014, the Company increased the Syndicated Facility to an authorized borrowing base of \$310 million, including \$280 million extendible revolving facility and a \$30 million operating facility.

The Syndicated 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 Syndicated Facility do not exceed the authorized borrowing amount and the Company is in compliance with covenants, representations and warranties. As at September 30, 2014, the Company is in compliance with all covenants. Covenants include reporting requirements, permitted indebtedness, permitted hedging and other standard business operating covenants. There are no financial covenants under the Syndicated Facility. The authorized borrowing amount is subject to interim reviews by the financial institutions and the next semi-annual review of the Syndicated Facility is scheduled for the spring of 2015. Security is provided for by a floating charge demand debenture over all assets in the amount of \$1.0 billion.

The borrowings under the Syndicated Facility are available on a fully revolving basis for a period of 364 days until April 29, 2015, at which time the Company can request approval by the lenders for an extension of an additional 364 days or convert the outstanding indebtedness to a one-year term loan with full repayment due at April 29, 2016. As a result of these terms, the bank debt is classified as a long-term liability on the statement of financial position at September 30, 2014.

The Syndicated Facility bears interest on a grid system which ranges from bank prime plus 1.0% to bank prime plus 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 Syndicated 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 Syndicated Facility, also calculated depending on the Company’s total net debt to cash flow ratio, as defined by the lender.

## 8. DECOMMISSIONING LIABILITIES

The Company has estimated the net present value of decommissioning obligations to be \$31.4 million as at September 30, 2014 (December 31, 2013 – \$26.3 million) based on an undiscounted total future liability of \$44.1 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 September 30, 2014, a risk-free rate of 2.75 percent (December 31, 2013 – 3.00 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.

	Nine Months Ended September 30, 2014	Year Ended December 31, 2013
<i>(000s)</i>	<i>(\$)</i>	<i>(\$)</i>
Balance – beginning of period	26,291	13,982
Liabilities incurred	2,263	2,164
Liabilities acquired	526	1,409
Revisions	1,703	8,672
Settlements	–	(433)
Accretion of decommissioning liabilities	621	497
Balance – end of period	31,404	26,291

## 9. SHARE CAPITAL

### (a) Authorized

Unlimited number of common voting shares, no par value.

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

### (b) Issued – Common Shares

	Nine Months Ended September 30, 2014		Year Ended December 31, 2013	
	Shares	Amount	Shares	Amount
	(#)	(\$000s)	(#)	(\$000s)
Balance – beginning of period	<b>81,560,316</b>	<b>309,323</b>	71,080,173	231,415
Common shares issued (i)	<b>5,714,200</b>	<b>63,428</b>	9,453,000	74,986
Flow-through shares issued (ii)	<b>752,000</b>	<b>10,002</b>	465,900	5,008
Premium on flow-through shares (ii)	–	<b>(1,654)</b>	–	(699)
Exercise of options (iii)	<b>805,944</b>	<b>2,895</b>	561,243	2,203
Share issuance costs	–	<b>(3,862)</b>	–	(4,786)
Tax benefit of share issuance costs	–	<b>963</b>	–	1,196
Balance – end of period	<b>88,832,460</b>	<b>381,095</b>	81,560,316	309,323

#### (i) Common Share Issuances

In May 2014, DeeThree issued 5,714,200 common shares at a price of \$11.10 per share for total gross proceeds of \$63.4 million (\$60.0 million net of estimated share issuance costs), including 304,200 common shares issued pursuant to the partial exercise of the over-allotment.

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 May 2014, DeeThree issued 752,000 flow-through shares at a price of \$13.30 per share for total gross proceeds of \$10 million (\$9.5 million net of estimated share issuance costs). The implied premium on the flow-through shares of \$2.20 per share or \$1.7 million was recorded as a liability on the statement of financial position and \$0.9 million remains at September 30, 2014. To date, the Company has incurred \$4.7 million of the total \$10 million of qualifying exploration expenditures, with the entire amount to be spent by December 31, 2015.

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 \$0.7 million was initially recorded as a liability on the statement of financial position and \$nil remains at September 30, 2014. To date, the Company has incurred all of qualifying exploration expenditures and the commitment has been fulfilled.

(iii) Exercising of Options

During the nine months ended September 30, 2014, 805,944 options were exercised at a weighted-average price of \$2.55 per share for total cash proceeds of \$2.1 million and previously recognized share-based compensation expense of \$0.8 million.

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 \$0.6 million.

**(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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<i>(000s, except per share amounts)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Net income for the period	<b>21,106</b>	8,570	<b>47,921</b>	14,743
	<i>(#)</i>	<i>(#)</i>	<i>(#)</i>	<i>(#)</i>
Weighted-average number of common shares				
– basic	<b>88,832</b>	76,550	<b>85,151</b>	75,379
– diluted	<b>91,958</b>	79,608	<b>88,160</b>	78,105
	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Net income per weighted average common share				
– basic	<b>0.24</b>	0.11	<b>0.56</b>	0.20
– diluted	<b>0.23</b>	0.11	<b>0.54</b>	0.19

**10. SHARE-BASED COMPENSATION**

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

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

	Nine Months Ended September 30, 2014		Year Ended December 31, 2013	
	Options	Weighted- Average Exercise Price	Options	Weighted- Average Exercise Price
	<i>(#)</i>	<i>(\$)</i>	<i>(#)</i>	<i>(\$)</i>
Outstanding – January 1	<b>6,524,272</b>	<b>4.21</b>	5,699,632	3.19
Issued	<b>2,165,000</b>	<b>9.77</b>	1,414,000	7.83
Exercised	<b>(805,944)</b>	<b>2.55</b>	(561,243)	2.87
Forfeited	<b>(65,000)</b>	<b>9.25</b>	(28,117)	6.67
Outstanding – end of period	<b>7,818,328</b>	<b>5.88</b>	6,524,272	4.21
Exercisable – end of period	<b>3,493,972</b>	<b>3.97</b>	3,528,136	3.37



Weighted-Average Exercise Price	Options Outstanding	Weighted- Average Contractual Life	Options Exercisable
(\$)	(#)	(years)	(#)
As at September 30, 2014			
2.00 – 2.99	1,957,250	1.52	1,425,250
3.00 – 3.99	971,820	2.34	568,087
4.00 – 4.99	1,376,158	1.85	981,335
5.00 – 5.99	9,000	2.95	3,000
6.00 – 6.99	100,000	3.19	28,000
7.00 – 7.99	1,154,100	3.59	450,300
8.00 – 8.99	90,000	4.13	28,000
9.00 – 9.99	1,335,000	4.48	10,000
10.00 – 10.99	635,000	4.77	0
11.00 – 11.74	190,000	4.72	0
	<b>7,818,328</b>	<b>2.89</b>	<b>3,493,972</b>

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:

	Nine Months Ended September 30, 2014	Year Ended December 31, 2013
Risk-free interest rate (%)	1.28	1.13
Expected life (years)	3.10	3.10
Expected volatility (%)	49	66
Expected dividend yield (%)	0	0
Fair value of options granted during the year (\$/option)	3.36	3.45

A forfeiture rate of 2 percent for options granted during the first nine months 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 \$3.7 million for the period ended September 30, 2014 (year ended December 31, 2013 - \$3.6 million). Of this amount, \$0.1 million was reclassified to operating expense for the amount related to field employees (year ended December 31, 2013 – \$0.2 million) and \$1.4 million was capitalized (year ended December 31, 2013 – \$1.4 million), resulting in total net share-based compensation expense of \$2.2 million for the period (2013 – \$2.1 million).

## 11. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital are comprised of:

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
(000s)	(\$)	(\$)	(\$)	(\$)
Accounts receivable	443	(5,971)	(16,035)	(5,486)
Prepaid expenses and other	415	(159)	(473)	(315)
Accounts payable and accrued liabilities	10,070	23,332	25,963	31,090
	<b>10,928</b>	17,202	<b>9,455</b>	25,289
Related to operating activities	9,570	2,832	(1,423)	3,568
Related to financing activities	(16)	–	–	–
Related to investing activities	1,374	14,370	10,878	21,721
	<b>10,928</b>	17,202	<b>9,455</b>	25,289

## 12. DETERMINATION OF FAIR VALUES

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

### (a) Property and Equipment and E&E Assets

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

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

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

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value of these balances approximated their carrying value at September 30, 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 fair value measurement of the derivative financial instruments has a fair value hierarchy of Level 2.

### (d) Derivative financial instruments

As at September 30, 2014, the Company had the following crude oil, natural gas, foreign exchange and interest rate risk management contracts, with a short term mark-to-market asset of \$0.6 million and a long term mark-to-market asset of \$0.1 million for a total mark-to-market asset of \$0.7 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
Jan. 1/15 – Dec. 31/15	Crude Oil	Collar	500 bbls/d	WTI-NYMEX	Cdn\$85.00/bbl (floor) - Cdn\$100.80/bbl (cap)
Jan. 1/15 – Dec. 31/15	Crude Oil	Swap	500 bbls/d	WTI-NYMEX	Cdn\$99.00
Jan. 1/15 – Dec. 31/15	Crude Oil	Swap	500 bbls/d	WTI-NYMEX	Cdn\$99.39
Jan. 1/15 – Dec. 31/15	Crude Oil	Swap	500 bbls/d	WTI-NYMEX	Cdn\$100.00

### 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 <sup>(1)</sup>
Jan 1/15 – Dec. 31/15	US\$	Average Rate Range Forward	US\$1,300,000	Trigger – 1.1300 Floor – 1.1000 Ceiling – 1.1110 <sup>(2)</sup>

<sup>(1)</sup> 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.

<sup>(2)</sup> If the monthly average is greater than the trigger level, the Company will receive 1.1110, otherwise where the monthly average is between 1.1000 and 1.1300, no settlement will occur.

### Interest Rate Contract

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

### 13. COMMITMENTS

Years Ended December 31,	2014	2015	2016	Total
(000s)	(\$)	(\$)	(\$)	(\$)
Operating lease – office	160	640	160	960
Operating lease – equipment	13	28	–	41
Exploration expenditures (flow-through)	–	5,272	–	5,272
Total	173	5,940	160	6,273

As at September 30, 2014, the Company had contractual obligations for its office leases totalling approximately \$1.0 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 \$41,000 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 \$5.0 million of eligible exploration expenditures by December 31, 2014. As at September 30, 2014, all of these expenditures have been incurred.

In connection with the Company's issuance of flow-through shares during the second quarter of 2014, DeeThree is required to spend \$10.0 million of eligible exploration expenditures. As at September 30, 2014, \$4.7 million of these expenditures have been incurred, with the remaining \$5.3 million to be spent by December 31, 2015. The expenditures will be renounced to shareholders in January 2015, effective December 31, 2014.

### 14. SUBSEQUENT EVENTS

Subsequent to the quarter end, the Company executed two purchase and sale agreements with two different oil and natural gas companies pursuant to which DeeThree acquired interests in producing assets in the Brazeau Belly River area for consideration of approximately \$6.5 million and \$5.5 million, respectively, subject to certain adjustments. Both transactions are expected to close during the fourth quarter.

# 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 <sup>(1)(2)(3)(4)</sup>  
Independent Businessman

Dennis Nerland <sup>(1)(2)(3)</sup>  
Partner  
Shea Nerland Calnan LLP

Brad Porter <sup>(1)(2)(3)(4)</sup>  
Independent Businessman

Kevin Andrus <sup>(4)</sup>  
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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520 Third Avenue S.W.  
Calgary, Alberta T2P 0R3  
Telephone: 403-767-3060  
Facsimile: 403-263-9710  
Website: [www.deethree.ca](http://www.deethree.ca)

## Auditors

KPMG LLP  
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

Computershare Trust Company of Canada  
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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