Q1 2015 INTERIM REPORT

DeeThree Exploration Ltd.

FIRST QUARTER INTERIM REPORT FOR THE THREE MONTHS ENDED MARCH 31, 2015

FINANCIAL AND OPERATING HIGHLIGHTS

Three Months Ended March 31,	2015	2014	Change
(000s, except per share amounts)	*($)*	*($)*	*(%)*
Financial			
Oil and natural gas revenues	**46,077**	65,643	(30)
Funds from operations [(1)]	**27,623**	35,536	(22)
Per share – basic	**0.31**	0.43	(28)
Per share – diluted	**0.30**	0.42	(29)
Cash flow from operating activities	**17,607**	23,607	(25)
Net income	**1,761**	8,682	(80)
Per share – basic	**0.02**	0.11	(82)
Per share – diluted	**0.02**	0.10	(80)
Capital expenditures [(2)]	**37,060**	72,312	(49)
Working capital deficit [(3)]	**180,784**	155,517	16
Shareholders' equity	**466,447**	321,640	45
(000s)	*(#)*	*(#)*	*(%)*
Share Data			
At period-end	**88,974**	82,065	8
Weighted average – basic	**88,974**	81,932	9
Weighted average – diluted	**90,687**	84,741	7
Operating [(4)]			
Production			
Natural gas *(mcf/d)*	**15,103**	12,381	22
Crude oil *(bbls/d)*	**9,188**	6,743	36
NGLs *(bbls/d)*	**591**	565	5
Total *(boe/d)*	**12,296**	9,372	31
Average wellhead prices			
Natural gas *($/mcf)*	**2.84**	6.00	(53)
Crude oil and NGLs *($/bbl)*	**47.96**	89.60	(46)
Combined average *($/boe)*	**41.63**	77.83	(47)
Netbacks			
Operating netback *($/boe)*	**22.00**	47.21	(53)
Funds flow netback *($/boe)*	**24.92**	42.05	(41)
Gross (net) wells drilled			
Gas *(#)*	**– (–)**	1 (1.0)	– (–)
Oil *(#)*	**6 (6.0)**	11 (10.97)	-45 (-45)
Standing *(#)*	**– (–)**	3 (3.0)	– (–)
Dry and abandoned *(#)*	**– (–)**	2 (2.0)	– (–)
Total *(#)*	**6 (6.0)**	17 (16.97)	-65 (-65)
Average working interest *(%)*	**100**	100	–

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

(2) Total capital expenditures, including acquisitions and excluding non-cash transactions. Refer to commentary in the Management's Discussion and Analysis under "Capital Expenditures and Acquisitions" for further information.

(3) Working capital deficit, which is calculated as current 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.

(4) For a description of the boe conversion ratio, refer to the commentary in the Management's Discussion and Analysis under "Other Measurements".

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations for DeeThree Exploration Ltd. ("DeeThree" or "the Company") is dated May 13, 2015 and should be read in conjunction with the Company's unaudited interim financial statements and related notes for the three months ended March 31, 2015, as well as the Company's audited financial statements and related notes for the years ended December 31, 2014 and 2013. All financial information is reported in Canadian dollars, unless otherwise noted.

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

ABOUT DEETHREE EXPLORATION LTD.

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

DeeThree's strategic platform for growth includes low-risk development and exploration as well as strategic acquisitions. The Company has two core operating areas: the Brazeau area of west central Alberta, which is prospective for crude oil, natural gas and natural gas liquids (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 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.

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.

2015 FIRST QUARTER FINANCIAL AND OPERATING HIGHLIGHTS

DeeThree's average production of 12,296 boe/d for the first quarter of 2015 reflects operating results from existing wells in the Ferguson and Brazeau areas as well as results from the Company's reduced Q1 2015 capital program of 6 gross (6.0 net) wells, 1 of which has not yet been completed.

For the quarter ended March 31, 2015, DeeThree realized a combined average sales price of $41.63/boe, a 47 percent decrease over the prior year and a 31 percent decrease over the last quarter of 2014. This was due to decreased market prices for crude oil and natural gas. With average operating costs of $7.37/boe, transportation costs of $3.25/boe and average royalties of 22 percent, DeeThree achieved an operating netback of $22.00/boe, a 53 percent decrease over the prior year.

DeeThree incurred $37.1 million of capital expenditures in Q1 2015, with a capital program that focused on the drilling of 6 gross (6.0 net) wells, with 3 gross (3.0 net) in the Brazeau area and 3 gross (3.0 net) in the Ferguson area.

SUBSEQUENT EVENTS

On April 7, 2015, the Company's Board of Directors unanimously approved the reorganization ("Reorganization") of DeeThree to create two, focused and independent, publicly traded energy companies. One company will be named Boulder Energy Ltd. ("Boulder"), a sustainable growth-focused light-oil company centered around DeeThree's Belly River development in the Pembina-Brazeau area of Alberta, and the other company will be DeeThree renamed as Granite Oil Corp. ("Granite"), a sustainable dividend and growth focused oil company centered around DeeThree's Alberta Bakken enhanced oil recovery ("EOR") project in southern Alberta.

The Reorganization will be implemented through a court-approved Plan of Arrangement, pursuant to which DeeThree shareholders will received one half (0.5) of one common share of Boulder and one third (0.3333) of one common share of Granite in exchange for each DeeThree share held.

Subject to shareholder, Court of Queen's Bench of Alberta and the Toronto Stock Exchange approval and the satisfaction of other conditions precedent, the Reorganization is expected to close on May 15, 2015.

OUTLOOK

On April 7th, 2015 the Company announced its intention to reorganize into two oil-focused Companies; Granite Oil Corp. and Boulder Energy Ltd. The Company's Annual General Meeting will take place on May 14th at 2:00 p.m. whereby DeeThree's shareholders will vote on the proposed Reorganization and the proposed name change of the Company to Granite Oil Corp.

The Company anticipates that its shareholders will vote in favour of the Reorganization and is therefore planning to move forward post May 14th as two separate entities. Based on these assumptions, Granite and Boulder are expected to have the following attributes:

	Granite	Boulder
Reserves - January 1, 2015 (1)		
Proven Developed Producing *(MMboe)*	5.3	10.7
Total Proved *(MMboe)*	10.4	24.9
Total Proven + Probable *(MMboe)*	17	34.7
Current horizontal well inventory	162	400+
Capital Structure		
Opening debt *('000)*	$45,000	$128,000
Credit Facility *('000)*	$115,000	$175,000
Shares O/S *('000)* (2)	30,232	45,348
Dividend	$0.03 per month	nil
Guidance		
2H 2015 Capital Expenditures *('000)*	$20,000	$45,000
2H 2015 Production *(boe/d)*	4,000	8,500
2H 2015 Cash Flow *('000)* (3)	$28,000	$33,000
Exit 2015 Production *(boe/d)*	4,100	9,000
December 31, 2014 Tax Pools *('000)*	$195,000	$295,000

(1) Based on an evaluation by Sproule Associates Limited.
(2) Assuming the cashless exercise of "in the money" vested options at current fair market price of $6.50.
(3) Assuming WTI US$50.00.

FUNDS FROM OPERATIONS [1]

	Three Months Ended March 31,	
	2015	2014
(000s)	*($)*	*($)*
Net income	**1,761**	8,682
Non-cash items:		
Depletion and depreciation (D&D) expense	**21,024**	16,486
Deferred income tax expense	**843**	3,557
Share-based compensation [2]	**693**	537
Accretion	**201**	199
Unrealized loss on financial instruments	**2,762**	4,187
Exploration and evaluation (E&E) expense	**344**	1,888
Abandonment and reclamation costs	**(5)**	–
Funds from operations [1]	**27,623**	35,536

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

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

During the three months ended March 31, 2015, the Company generated funds from operations totalling $27.6 million ($0.31 per basic share and $0.30 per diluted share) compared to $35.5 million ($0.43 per basic share and $0.42 per diluted share) in the comparative period of 2014 and $41.8 million ($0.47 per basic share and $0.46 per diluted share) in the fourth quarter of 2014. The year-over-year and quarter-over-quarter decreases reflect decreased revenue associated with decreased commodity prices, slightly offset by decreased royalties associated with those decreased commodity prices, and by realized gains on the Company's financial hedges.

NET INCOME

For the three months ended March 31, 2015, the Company recorded net income of $1.8 million ($0.02 per basic and diluted share) compared to net income of $8.7 million ($0.11 per basic share and $0.10 per diluted share) in the same period of 2014 and net income of $28.3 million ($0.32 per basic share and $0.31 per diluted share) in the fourth quarter of 2014. The Company's decreased net income for the quarter was primarily due to the decreased operating netback in the period, offset by the realized gains on the Company's financial hedges.

FINANCIAL AND OPERATING RESULTS

SALES VOLUMES

	Three Months Ended March 31,	
	2015	2014
Sales		
Natural gas *(mcf/d)*	**15,103**	12,381
Crude oil *(bbls/d)*	**9,188**	6,743
NGLs *(bbls/d)*	**591**	565
Total sales *(boe/d)*	**12,296**	9,372
		(%)
Production Split		
Natural gas	**20**	22
Crude oil	**75**	72
NGLs	**5**	6
Total	**100**	100

For the first quarter of 2015, the Company's production averaged 12,296 boe/d compared to 9,372 boe/d in the same period of 2014 and 12,842 boe/d in the fourth quarter of 2014. This represents a 31 percent year-over-year increase and a 4 percent quarter-over-quarter decrease. The year over year increase reflects new production from the tie-in of wells drilled throughout 2014 and the first few months of 2015. The quarter over quarter decrease reflects decreased production due to natural declines offset by added production from the Company's reduced capital program of 6 gross (6.0 net) wells drilled in the period, 1 of which has not yet been completed. The Company's production for the quarter was also affected by ongoing TransCanada gas pipeline constraints and the Company has taken steps to try to mitigate the impact of this going forward.

REVENUE

	Three Months Ended March 31,	
	2015	2014
(000s)	*($)*	*($)*
Natural gas	**3,864**	6,688
Crude oil	**40,938**	55,533
NGLs and other	**1,275**	3,422
Total oil and natural gas revenue	**46,077**	65,643

During the three months ended March 31, 2015, revenue decreased by 30 percent to $46.1 million from $65.6 million in the comparative period of 2014. The year-over-year decrease was mainly the result of reduced crude oil market prices and the resulting decrease in the corporate average price per boe, offset by increased production and a higher percentage of oil and NGLs (80 percent versus 78 percent). When compared to the fourth quarter of 2014, revenue decreased 34 percent from $70.0 million due to slightly lower production and a reduction in corporate average price per boe, driven by the decrease in crude oil market prices. Pricing is discussed in further detail in "Commodity Prices and Foreign Exchange" below.

COMMODITY PRICES AND FOREIGN EXCHANGE

	Three Months Ended March 31,	
	2015	2014
	($)	*($)*
Benchmark Prices		
Natural gas		
NYMEX *(US$/mmbtu)* [(1)]	**2.98**	4.90
AECO *(Cdn$/GJ)* [(2)]	**2.60**	5.42
Crude oil		
WTI *(US$/bbl)*	**48.63**	98.68
Edmonton Light (MSW) *(Cdn$/boe)*	**51.79**	99.79
Differential – MSW/WTI *(US$/bbl)*	**(6.80)**	(8.25)
Hardisty Bow River *(Cdn$/boe)*	**52.32**	93.89
Differential – Bow River/WTI *(US$/bbl)*	**(14.22)**	(22.62)
Average Realized Prices		
Natural gas *($/mcf)*	**2.84**	6.00
Crude oil *($/bbl)*	**49.50**	91.51
NGLs *($/bbl)*	**23.88**	66.88
Combined average *($/boe)*	**41.63**	77.83
Foreign Exchange		
Cdn$/US$	**1.24**	1.10
US$/Cdn$	**0.81**	0.91

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

CRUDE OIL PRICING

The average realized price of DeeThree's crude oil was $49.50/bbl for the first quarter of 2015 compared to $91.51/bbl for the first quarter of 2014, and $72.11/bbl in the fourth quarter of 2014. DeeThree's realized oil price decreased by 46 percent from the prior year's first quarter and by 31 percent from the fourth quarter of 2014, due to a combination of a decrease in the US$ WTI benchmark oil price, offset by the change in differentials and a weakened Canadian dollar.

NATURAL GAS PRICING

DeeThree receives a premium to AECO gas index price due to the heat content of its sales gas. DeeThree's average realized natural gas price was $2.84/mcf for the first quarter of 2015 versus $6.00/mcf in the first quarter of 2014 and $3.84/mcf in the fourth quarter of 2014. The Company's realized gas price decreased by 53 percent from the same period of 2014 and 26 percent from the fourth quarter of 2014, driven by a 52 percent decrease in the AECO gas index price from the same period of 2014 and 24 percent from the fourth quarter of 2014.

ROYALTIES

	Three Months Ended March 31,	
	2015	2014
	($)	*($)*
Oil and natural gas revenues *(000s)*	**46,077**	65,643
Total royalties *(000s)*	**9,971**	15,810
Total royalties *($/boe)*	**9.01**	18.75
Percent of revenue *(%)*	**22**	24

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 first quarter of 2015, royalties totalled $10.0 million or 22 percent of revenue compared to $15.8 million or 24 percent of revenue for the same quarter in 2014 and $16.3 million or 23 percent of revenue in the fourth quarter of 2014. The year-over-year royalty rate decrease was mainly due to lower commodity prices offset by higher production. The quarter over quarter royalty rate decrease was due to decreased production and decreased commodity prices.

OPERATING AND TRANSPORTATION EXPENSES

	Three Months Ended March 31,	
	2015	2014
(000s except per boe)	*($)*	*($)*
Operating expenses	**8,154**	8,586
Transportation expenses	**3,599**	1,425
Total operating and transportation expenses	**11,753**	10,011
Operating expenses *($/boe)*	**7.37**	10.18
Transportation expenses *($/boe)*	**3.25**	1.69
Total operating and transportation expenses *($/boe)*	**10.62**	11.87

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

Operating expenses for the first quarter of 2015 totalled $8.2 million or $7.37/boe compared to $8.6 million or $10.18/boe in the same period of 2014 and $8.8 million or $7.45/boe in the fourth quarter of 2014. The year-over year decrease was driven by the Company ceasing to have any wells on extended flow-back until being tied into the pipeline (which had contributed to higher operating costs in Q1 2014).

Transportation expenses for the three months ended March 31, 2015 were $3.6 million or $3.25/boe compared to $1.4 million or $1.69/boe in the first quarter of 2014 and $3.5 million or $2.97/boe in the fourth quarter of 2014. 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. In particular, the Company saw a large increase in the cost per barrel for clean oil trucking costs during the fourth quarter of 2014 which has continued and increased even further in early 2015.

RISK MANAGEMENT

DeeThree maintains a risk management program to reduce the volatility of revenues and to increase the certainty of funds from operations. DeeThree considers all of its risk management contracts to be effective economic hedges of the underlying business transactions. As at March 31, 2015, the Company had the following crude oil, foreign exchange and interest rate risk management contracts with a total mark-to-market asset of $20.5 million, $20.0 million of which is short-term and $0.5 million of which is long-term (December 31, 2014 – asset of $23.3 million):

CRUDE OIL CONTRACTS

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
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	Fixed	500 bbls/d	WTI-NYMEX	Cdn$99.00/bbl
Jan.1/15 – Dec.31/15	Crude Oil	Fixed	500 bbls/d	WTI-NYMEX	Cdn$99.39/bbl
Jan.1/15 – Dec.31/15	Crude Oil	Fixed	500 bbls/d	WTI-NYMEX	Cdn$100.00/bbl
March 1/15 – June 30/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	Cdn$72.92/bbl
Jan.1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	Cdn$78.00/bbl

FOREIGN EXCHANGE CONTRACT

Period	Currency	Type of Contract	Quantity	Pricing Point (Cdn$/US$)
Jan. 1/15 – Dec. 31/15	US$	Average Rate Range Forward	US$1,300,000	Trigger – 1.1300 Cdn$/US$ Floor – 1.100 Cdn$/US$ Ceiling – 1.1110 Cdn$/US$

INTEREST RATE CONTRACT

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

Subsequent to March 31, 2015, DeeThree entered into the following crude oil risk management contracts:

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
May 1/15 – Dec. 31/15	Crude Oil	Fixed	1,000 bbls/d	WTI-NYMEX	US$60.25/bbl
Jan.1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US$62.75/bbl
Jan.1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US$63.60/bbl

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. The majority of the unrealized and realized gains and losses, as well as the financial instrument asset, relates to the crude oil contracts.

	Three Months Ended March 31,	
	2015	2014
	($)	*($)*
Unrealized loss on financial instruments *(000s)*	**2,762**	4,187
Unrealized loss on financial instruments *($/boe)*	**2.50**	4.96

	Three Months Ended March 31,	
	2015	2014
	($)	*($)*
Realized loss (gain) on financial instruments *(000s)*	**(6,916)**	1,598
Realized loss (gain) on financial instruments *($/boe)*	**(6.25)**	1.89

During the first quarter of 2015, the Company recorded an unrealized loss on financial instruments of $2.8 million and a realized gain of $6.9 million. The unrealized loss resulted from the mark-to-market of financial risk management contracts at the period end. These non-cash unrealized derivative losses are generated by the change over the reporting period in the mark-to-market valuation of DeeThree's risk management contracts. The realized gain represents actual cash settlements under the respective commodity, foreign exchange and interest rate contracts in the period.

In the same period of the prior year, the Company recorded an unrealized loss of $4.2 million and a realized loss of $1.6 million and in the previous quarter, an unrealized gain of $22.6 million and a realized gain of $4.7 million.

G&A EXPENSE

	Three Months Ended March 31,	
	2015	2014
(000s except per boe)	*($)*	*($)*
Gross G&A expense	**2,967**	2,654
Capitalized G&A (direct)	**(480)**	(583)
Overhead recoveries	**(119)**	(199)
G&A expense (net)	**2,368**	1,872
G&A expense (net) *($/boe)*	**2.14**	2.22

Gross G&A expense totalled $3.0 million for the three-month period ended March 31, 2015 compared to $2.7 million in the comparable period of 2014 and $3.9 million in the fourth quarter of 2014. Net G&A costs were $2.4 million or $2.14/boe in the first quarter of 2015 compared to $1.9 million or $2.22/boe a year earlier and $2.9 million or $2.45/boe in the fourth 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, bonuses and office rent) required to manage DeeThree's growing business. In the first quarter of 2015, the Company had an average of 37 full-time employees and three consultants versus 27 full-time employees and seven consultants in the same period of 2014. Additionally, $0.2 million in bad debt expense was recognized during the first quarter of 2015, compared to $nil in the same period in 2014.

Net G&A expense also increased due to the transaction costs, such as legal and accounting fees, incurred related to the Reorganization explained in the Subsequent Events section of this MD&A. Net G&A expense, normalized for these transaction costs is calculated as follows:

	Three Months Ended March 31,	
	2015	2014
(000s except per boe)	*($)*	*($)*
G&A expense (net)	**2,368**	1,872
Reorganization transaction costs	**(374)**	–
Normalized G&A (net)	**1,994**	1,872
Normalized G&A (net) *($/boe)*	**1.80**	2.22

The Company capitalized direct G&A expenses amounting to $0.5 million and had overhead recoveries of $0.1 million in the first quarter of 2015 versus $0.6 million and $0.2 million, respectively, in the comparative period of 2014, and $0.9 million and $0.2 million, respectively, in the fourth quarter of 2014.

SHARE-BASED COMPENSATION

	Three Months Ended March 31,	
	2015	2014
(000s except per boe)	*($)*	*($)*
Gross share-based compensation	**1,177**	839
Share-based compensation reclassified to operating costs	**(41)**	(67)
Capitalized share-based compensation	**(484)**	(301)
Share-based compensation expense (net)	**652**	471
Share-based compensation expense (net) *($/boe)*	**0.59**	0.56

The Company has a stock option plan, described in note 10 to the interim financial statements for the period ended March 31, 2015. Options granted under the plan have a four-year vesting term and expire five years from the grant date, with the fair value of options granted estimated at the grant date using the Black-Scholes option-pricing model. At March 31, 2015, the Company had 7,670,828 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 March 31, 2015, the Company incurred a net expense of $0.7 million or $0.59/boe versus $0.5 million or $0.56/boe in the same period of 2014 and $0.7 million or $0.63/boe in the fourth quarter of 2014. The year-over-year absolute increase was directly attributable to increased staffing.

DEPLETION AND DEPRECIATION (D&D)

	Three Months Ended March 31,	
	2015	2014
	($)	*($)*
Depletion and depreciation expense *(000s)*	**21,024**	16,486
Depletion and depreciation expense *($/boe)*	**19.00**	19.55

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), a straight-line method for trucks and trailers (3 years) and a declining-balance method on corporate assets (20 to 30 percent). Assets in the E&E phase are not amortized.

For the three months ended March 31, 2015, the Company recorded D&D expense of $21 million or $19.00/boe compared to $16.5 million or $19.55/boe in the same period of 2014 and $23.8 million or $20.14/boe in the fourth quarter of 2014. The absolute increase in D&D expense quarter over quarter is related to the 31 percent increase in production volumes slightly offset by lower costs related to finding and developing reserves.

EXPLORATION AND EVALUATION (E&E) EXPENSE

	Three Months Ended March 31,	
	2015	2014
	($)	*($)*
E&E expense *(000s)*	**344**	1,888
E&E expense *($/boe)*	**0.31**	2.24

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

During the first quarter of 2015, the Company recorded E&E expense of $0.3 million or $0.31/boe, all of which related to lease expiries in two of the Company's areas. This compares to $1.9 million or $2.24/boe in the same period of 2014, which included $0.06 million of lease expiries in one of the Company's areas and $1.8 million related to two vertical strat test wells drilled during the period, and $0.9 million or $0.73/boe in the fourth quarter of 2014 including $0.2 million of lease expiries in several of the Company's areas, $0.7 related to the write-off of preliminary drilling costs, and a $0.2 million dollar recovery related to a dry and abandoned well that was written off during the third quarter of 2014.

ACCRETION AND FINANCE EXPENSES

	Three Months Ended March 31,	
	2015	2014
(000s except per boe)	*($)*	*($)*
Accretion expense on decommissioning liabilities	**201**	199
Finance expense	**1,314**	882
Total accretion and finance expenses	**1,515**	1,081
Accretion expense on decommissioning liabilities *($/boe)*	**0.18**	0.24
Finance expense *($/boe)*	**1.19**	1.05
Total accretion and finance expenses *($/boe)*	**1.37**	1.29

Accretion expense represents the increase in the present value of the Company's decommissioning liabilities. In the first quarter of 2015, the Company recorded accretion expense of $0.2 million or $0.18/boe compared to $0.2 million or $0.24/boe in the same period of 2014 and $0.2 million or $0.19/boe in the fourth quarter of 2014. The absolute increase is primarily due to the decommissioning liabilities added for the 2014 and 2015 wells drilled as well as the upward change in estimate resulting from the review and update of the interest rate made during the first quarter of 2015.

During the three months ended March 31, 2015, interest and finance expenses increased to $1.3 million or $1.19/boe from $0.9 million or $1.05/boe in the same period of 2014 and $1.4 million or $1.19/boe in the fourth quarter of 2014. The Company incurred interest charges and standby fees related to the $310 million credit facility, which was drawn to $171.7 million at March 31, 2015 (March 31, 2014 – $108.2 million and December 31, 2014 – $139.2 million).

INCOME TAXES

	Three Months Ended March 31,	
	2015	2014
	($)	*($)*
Deferred income tax expense *(000s)*	**843**	3,557
Deferred income tax expense *($/boe)*	**0.76**	4.22

During the first quarter of 2015, the Company recorded a deferred income tax expense of $0.8 million or $0.76/boe compared to $3.6 million or $4.22/boe in same period of 2014 and $10.3 million or $8.71/boe in the fourth quarter of 2014. The first quarter expense was primarily related to an increase in the taxable base of the oil and natural gas assets, driven by capital spending during the period.

DeeThree does not have current income taxes payable and does not expect to pay current income taxes in 2015 as the Company had estimated tax pools available at March 31, 2015 of $508 million (December 31, 2014 – $499 million).

NETBACKS (PER UNIT) [2]

	Three Months Ended March 31,	
	2015	2014
	($/boe)	*($/boe)*
Average sales price	**41.63**	77.83
Royalties	**(9.01)**	(18.75)
Operating	**(7.37)**	(10.18)
Transportation	**(3.25)**	(1.69)
Operating netback [1]	**22.00**	47.21
G&A and other expense (excludes non-cash items)	**(2.14)**	(2.22)
Realized gain (loss) on financial instruments	**6.25**	(1.89)
Finance expense	**(1.19)**	(1.05)
Funds flow netback [1]	**24.92**	42.05
D&D expense	**(19.00)**	(19.55)
Accretion	**(0.18)**	(0.24)
Share-based compensation	**(0.59)**	(0.56)
Unrealized loss on financial instruments	**(2.50)**	(4.96)
E&E expense	**(0.31)**	(2.24)
Deferred income tax expense	**(0.76)**	(4.22)
Net income netback [1]	**1.58**	10.28

(1) Non-GAAP measure; refer to the commentary below. Operating netback, funds flow netback and net income 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.

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

The operating netback was $22.00/boe for the three months ended March 31, 2015 compared to $47.21/boe in the same period of 2014 and $35.01/boe in the fourth quarter of 2014. As compared to the prior year's first quarter, the Company experienced a lower realized average price throughout the three months ended March 31, 2015 due to a decrease in WTI prices, as well as lower royalties and operating expenses than a year earlier. As compared to the last quarter of 2014, the Company realized a lower average price due to a decrease in WTI prices, contributing to the decrease in operating netback quarter-over-quarter.

INVESTMENT AND INVESTMENT EFFICIENCIES

CAPITAL EXPENDITURES AND ACQUISITIONS

(excluding decommissioning liabilities and capitalized share-based compensation)

	Three Months Ended March 31,	
	2015	2014
(0000s)	*($)*	*($)*
Property acquisitions and adjustments	**–**	110
Drilling and completions		
Completion of prior-period drilled wells	**3,166**	2,680
Current-period drilling and completion	**24,132**	54,604
Future drilling and work-overs	**880**	2,046
	28,178	59,330
Equipment and facilities		
Tie-in of prior-period drilled wells	**683**	1,045
Tie-in of current-period drilled wells	**1,009**	4,346
Facilities, pipelines and work-overs	**3,492**	5,161
Other equipment	**850**	–
	6,034	10,552
Land and lease retention	**2,367**	739
Geological and geophysical	**–**	996
Capitalized G&A and other	**481**	585
Total capital expenditures	**37,060**	72,312
Total wells drilled (#)	**6 (6.0)**	17 (16.97)

During the first quarter of 2015, the Company incurred a total of $37.1 million (first quarter 2014 – $72.3 million) in capital expenditures, excluding non-cash decommissioning liabilities and capitalized share-based compensation. During the period, $nil was spent to complete several minor acquisitions (first quarter 2014 – $0.1 million). Drilling and completion expenditures totalled $28.2 million in the first quarter of 2015 (first quarter 2014 – $59.3 million), $6.0 million was spent on tie-ins and facilities (first quarter 2014 – $10.6 million), $2.4 million on land sales (first quarter 2014 – $0.7 million) and $nil related to seismic programs (first quarter 2014 – $1.0 million). The remaining $0.5 million in the first quarter of 2015 (first quarter 2014 – $0.6 million) was invested in capitalized G&A and other corporate assets.

DRILLING ACTIVITY

	Exploration		Development		Total	
	Gross	Net	Gross	Net	Gross	Net
	(#)	*(#)*	*(#)*	*(#)*	*(#)*	*(#)*
Three Months Ended March 31, 2015						
Crude oil	**–**	**–**	**6.0**	**6.0**	**6.0**	**6.0**
Total wells	**–**	**–**	**6.0**	**6.0**	**6.0**	**6.0**
Success rate (%)		**–**		**100**		**100**
Average working interest (%)		**–**		**100**		**100**
Three Months Ended March 31, 2014						
Gas	–	–	1.0	1.00	1.0	1.00
Crude oil	–	–	14.0	13.97	14.0	13.97
Dry and abandoned	2.0	2.00	–	–	2.0	2.00
Total wells	2.0	2.00	15.0	14.97	17	16.97
Success rate (%)		0		100		88
Average working interest (%)		100		100		100

During the first quarter of 2015, DeeThree drilled a total of 6 gross (6.0 net) crude oil development wells with a 100 percent success rate. During the three months ended March 31, 2014, the Company drilled 15 gross (14.97 net) development wells, 1 gross (1.00 net) development gas well and 14 gross (13.97 net) wells which were targeting crude oil. During that same period, the Company also drilled 2 gross (2.0 net) exploratory wells, both of which were determined to be dry and abandoned.

DRILLING ACTIVITY BY AREA

	Brazeau	Ferguson	Peace River Arch	Total
Three Months Ended March 31, 2015				
Crude oil	**3 (3.0)**	**3 (3.0)**	**– (–)**	**6 (6.0)**
Total wells	**3 (3.0)**	**3 (3.0)**	**– (–)**	**6 (6.0)**
Success rate (%)	**100**	**100**	**–**	**100**
Average working interest (%)	**100**	**100**	**–**	**100**
Three Months Ended March 31, 2014				
Gas	1 (1.0)	– (–)	– (–)	1 (1.0)
Crude oil	10 (9.97)	4 (4.0)	– (–)	14 (13.97)
Dry and abandoned	– (–)	2 (2.0)	– (–)	2 (2.0)
Total wells	11 (10.97)	6 (6.0)	– (–)	17 (16.97)
Success rate *(%)*	100	67	–	88
Average working interest *(%)*	100	100	–	100

During the first quarter of 2015, DeeThree drilled a total of 6 gross (6.0 net) wells, including 3 gross (3.0 net) wells on its Brazeau property with a 100 percent success rate and 3 gross (3.0 net) Bakken wells on its Ferguson property with a 100 percent success rate. During the three months ended March 31, 2014, the Company drilled 17 gross (16.97 net) wells for an 88 percent success rate, including 11 gross (10.97 net) wells on its Brazeau property and 6 gross (6.0 net) wells on its Ferguson property.

LIQUIDITY AND FINANCIAL RESOURCES

WORKING CAPITAL [1]

The following table summarizes the change in working capital during the three months ended March 31, 2015 and the year ended December 31, 2014:

	Three Months Ended March 31, 2015	Year Ended December 31, 2014
(000s)	*($)*	*($)*
Working capital deficit [1] – beginning of period	**(171,347)**	(119,787)
Funds from operations	**27,623**	173,179
Capital expenditures	**(37,060)**	(273,950)
Acquisitions	**–**	(22,599)
Issuance of capital stock for cash (net of share issuance costs)	**–**	71,810
Working capital deficit [1] – end of period	**(180,784)**	(171,347)

(1) 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 2015 with a working capital deficit of $171.3 million. During the first three months, the Company generated funds from operations of $27.6 million and invested $37.1 million in capital expenditures. The Company did not issue any common shares during the period. DeeThree exited the quarter with a working capital deficit of $180.8 million.

The Company may utilize any 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 $310 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 March 31, 2015, the Company's Syndicated Facility had an authorized borrowing base of $310 million, including a $280 million extendible revolving facility and a $30 million operating facility. At the period end, the facility was drawn to approximately $171.7 million with $138.3 million of unused borrowing capacity.

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 March 31, 2015, the Company was 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 percent to bank prime plus 3.5 percent 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 percent to 0.875 percent 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.

As outlined earlier in the Subsequent Events section, the Company anticipates that the Reorganization will be approved by the shareholders on May 14, 2015 and will create two new companies, Boulder Energy Ltd. and Granite Oil Corp. During the second half of 2015, Boulder expects to spend $45 million on its capital program and Granite expects to spend $20 million on its capital program, both focused on further exploration and development of the Brazeau and Ferguson properties, respectively. Each company expects to fund future capital expenditures with funds from operations and unused credit facilities.

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,	2015	2016	2017	Total
(000s)	*($)*	*($)*	*($)*	*($)*
Operating lease – office	480	160	–	640
Operating lease – equipment	29	–	–	29
Exploration expenditures (flow-through)	577	–	–	577
Total	1,086	160	–	1,246

As at March 31, 2015, the Company had contractual obligations for its office leases totalling approximately $0.6 million to March 2016. The head office lease obligations are comprised of the lease payments 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 $0.03 million to October 2015.

In connection with the Company's issuance of flow-through shares during the second quarter of 2014, DeeThree is required to incur $10.0 million of eligible exploration expenditures. As at March 31, 2015, $9.4 million of these expenditures have been incurred, with the remaining $0.6 million to be incurred by December 31, 2015. The expenditures were renounced to shareholders in January 2015, effective December 31, 2014.

SHARE CAPITAL

As at May 13, 2015, the Company had the following equity securities outstanding:

Common shares outstanding	89,439,561
Stock options outstanding	7,105,866

Selected Quarterly Information [1]

Three Months Ended	**March 31, 2015**	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013
(000s, except per share amounts and production figures)				*($)*	*($)*	*($)*	*($)*	*($)*
Oil and natural gas revenues	**46,077**	69,957	87,188	80,560	65,643	51,865	55,754	39,882
Funds from operations	**27,623**	41,773	52,720	43,167	35,536	24,660	29,410	22,437
Per share – basic	**0.31**	0.47	0.59	0.51	0.43	0.32	0.38	0.29
Per share – diluted	**0.30**	0.46	0.57	0.49	0.42	0.31	0.37	0.28
Cash flow from operating activities	**17,607**	54,239	62,290	44,103	23,607	25,499	32,073	21,876
Net income	**1,761**	28,312	21,106	18,133	8,682	3,305	8,570	6,800
Per share – basic	**0.02**	0.32	0.24	0.21	0.11	0.04	0.11	0.09
Per share – diluted	**0.02**	0.31	0.23	0.21	0.10	0.04	0.11	0.09
Total assets	**752,643**	743,202	686,496	626,620	564,393	497,280	457,679	387,056
Capital expenditures [2]	**37,060**	64,964	84,985	74,288	72,312	56,072	74,969	39,286
Working capital deficit [3]	**180,784**	171,347	148,329	116,064	155,517	119,787	131,295	86,338
Shareholders' equity	**466,447**	463,509	433,613	410,944	321,640	311,070	263,800	253,336
Production								
Natural gas *(mcf/d)*	**15,103**	16,510	13,395	12,967	12,381	10,251	8,910	10,093
Crude oil *(bbls/d)*	**9,188**	9,275	9,322	8,033	6,743	6,547	5,765	4,550
NGLs *(bbls/d)*	**591**	815	739	550	565	369	323	346
Total *(boe/d)*	**12,296**	12,842	12,294	10,744	9,372	8,625	7,573	6,578

(1) The selected quarterly information was prepared in accordance with the accounting principles described in the notes to the financial statements, except for funds from operations, which is not prescribed under IFRS (see "Non-GAAP Measurements" below).

(2) Total capital expenditures, including acquisitions.

(3) 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.

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 and into 2015 due to pipeline and infrastructure constraints. There are numerous projects proposed to alleviate pipeline bottlenecks into and in the United States, expand refinery capacity and expand or build new pipelines in Canada and the United States to source new markets, many of which are in the regulatory application phase. There can be no assurance that such regulatory approvals will be secured on a timely basis or at all. 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 nine crude oil hedges (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 causing 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 its 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 one foreign currency exchange risk management contract and one interest rate swap risk management contract in place.

CHANGES IN INCOME TAX LEGISLATION

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

ENVIRONMENTAL CONCERNS

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

PROJECT RISKS

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

In addition, DeeThree is also subject to other risks and uncertainties which are described in the Company's Annual Information Form (AIF) dated March 25, 2015.

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, 2014 and 2013.

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 the interim period ended March 31, 2015 requires that DeeThree disclose in the interim MD&A any changes in the Company's internal control over financial reporting that occurred during the period that have materially affected, or are reasonably likely to materially affect, DeeThree's internal control over financial reporting. DeeThree confirms that no such changes were made to its internal controls over financial reporting during the three months ended March 31, 2015.

FUTURE ACCOUNTING POLICY CHANGES

In July 2014, IFRS 9 Financial Instruments was issued as a complete standard, including the requirements previously issued related to classification and measurement of financial assets and liabilities, and additional amendments to introduce a new expected loss impairment model for financial assets, including credit losses. Retrospective application of this standard with certain exemptions is effective for fiscal years beginning on or after January 1, 2018, with earlier application permitted. The full impact of the standard on the Company's financial statements will not be known until the project is complete.

In December 2014, the IASB issued narrow-focus amendments to IAS 1 Presentation of Financial Statements to clarify existing requirements related to materiality, order of notes, subtotals, accounting policies and disaggregation. Retrospective application of this standard is effective for fiscal years beginning on or after January 1, 2016, with earlier application permitted. The adoption of this amended standard is not expected to have a material impact on the Company's disclosure.

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. It replaces existing revenue recognition guidance and provides a single, principles based five-step model to be applied to all contracts with customers. Retrospective application of this standard is currently effective for fiscal years beginning on or after January 1, 2017, with earlier application permitted; however, the IASB has proposed to defer to January 1, 2018. The Company is currently assessing the impact of this standard.

NON-GAAP MEASUREMENTS

FUNDS FROM OPERATIONS

This MD&A contains the terms "funds from operations" and "funds from operations per share", which should not be considered an alternative to or more meaningful than cash flow from (used in) operating activities as determined in accordance with IFRS. These terms do not have any standardized meaning under IFRS. DeeThree's determination of funds from operations and funds from operations per share may not be comparable to that reported by other companies. Management uses funds from operations to analyze operating performance and leverage, and considers funds from operations to be a key measure as it demonstrates the Company's ability to generate cash necessary to fund future capital investments and to repay debt, if applicable. Funds from operations is calculated using cash flow from operating activities as presented in the statement of cash flows, before changes in non-cash working capital. DeeThree presents funds from operations per share whereby per share amounts are calculated using weighted-average shares outstanding, consistent with the calculation of earnings per share.

The following table reconciles funds from operations with cash flow from operating activities, which is the most directly comparable measure calculated in accordance with IFRS:

	Three Months Ended March 31,	
	2015	2014
(000s)	*($)*	*($)*
Cash flow from operating activities	**17,607**	23,607
Changes in non-cash working capital	**10,016**	11,929
Funds from operations	**27,623**	35,536

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

NET DEBT AND WORKING CAPITAL DEFICIT

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

OTHER MEASUREMENTS

All financial figures are in Canadian dollars. Where amounts are expressed on a barrel of oil equivalent (boe) basis, natural gas volumes have been converted to oil equivalence at 6,000 cubic feet of gas to 1 barrel of oil. This conversion ratio of 6:1 is based on an energy-equivalent conversion for the individual products, primarily applicable at the burner tip, and does not represent a value equivalency at the wellhead. Such disclosure of boe may be misleading, particularly if used in isolation. Readers should be aware that historical results are not necessarily indicative of future performance.

FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain statements in this MD&A may constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement.

In particular, this MD&A contains forward-looking statements pertaining to the following: the Reorganization, 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.

In respect of the forward-looking statements and information concerning the anticipated completion of the proposed Reorganization, the anticipated timing for completion of the Reorganization and the completion of the related credit facilities, DeeThree has provided them in reliance on certain assumptions that it believe are reasonable at this time, including assumptions as to the time required to prepare and mail shareholder meeting materials, including the required management information circular; the ability of the parties to receive, in a timely manner, the necessary regulatory, court, shareholder and other third party approvals; and the ability of the parties to satisfy, in a timely manner, the other conditions to the closing of the Reorganization. These dates may change for a number of reasons, including unforeseen delays in preparing meeting material; inability to secure necessary shareholder, regulatory, court or other third party approvals in the time assumed or the need for additional time to satisfy the other conditions to the completion of the Reorganization. Accordingly, readers should not place undue reliance on the forward-looking statements and information contained in this news release concerning these times.

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

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors discussed in this MD&A, such as: volatility in the market prices for natural gas and crude oil; uncertainties associated with estimating reserves; geological, technical, drilling and processing problems; liabilities and risks, including environmental liabilities and risks inherent in natural gas and crude oil operations; incorrect assessments of the value of acquisitions; and competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel. In addition, test results are not necessarily indicative of long-term performance or of ultimate recovery.

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

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

STATEMENTS OF FINANCIAL POSITION

(Unaudited)

As at	**March 31, 2015**	December 31, 2014
(000s)	*($)*	*($)*
Assets		
Current assets		
Accounts receivable	**23,416**	29,524
Deposits and prepaid expenses	**1,218**	682
Derivative financial instruments (note 12)	**20,031**	23,270
	44,665	53,476
Non-current assets		
Derivative financial instruments (note 12)	**477**	–
Exploration and evaluation assets (note 5)	**64,821**	62,784
Property and equipment (note 6)	**642,680**	626,942
Total assets	**752,643**	743,202
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**33,758**	62,319
	33,758	62,319
Non-current liabilities		
Bank debt (note 7)	**171,660**	139,234
Decommissioning liabilities (note 8)	**35,958**	34,165
Flow-through share premium liabilities (note 9)	**95**	95
Deferred tax liability	**44,725**	43,880
Total liabilities	**286,196**	279,693
Shareholders' equity		
Share capital (note 9)	**381,540**	381,540
Contributed surplus	**13,768**	12,591
Retained earnings	**71,139**	69,378
Total shareholders' equity	**466,447**	463,509
Total liabilities and shareholders' equity	**752,643**	743,202

Commitments (note 13)

Subsequent events (notes 12, 14)

See accompanying notes to the interim financial statements.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

Three Months Ended March 31,	**2015**	2014
(000s, except per share amounts)	*($)*	*($)*
Revenue		
Oil and natural gas revenues	**46,077**	65,643
Royalties	**(9,971)**	(15,810)
Oil and natural gas revenues, net of royalties	**36,106**	49,833
Expenses		
Operating and transportation	**11,753**	10,011
General and administrative	**2,368**	1,872
Depletion and depreciation (note 6)	**21,024**	16,486
Share-based compensation (note 10)	**652**	471
Exploration and evaluation expense (note 5)	**344**	1,888
	36,141	30,728
Unrealized loss on financial instruments	**2,762**	4,187
Realized loss (gain) on financial instruments	**(6,916)**	1,598
Accretion and finance expenses	**1,515**	1,081
	33,502	37,594
Income before income tax	**2,604**	12,239
Taxes		
Deferred income tax expense	**843**	3,557
Net income and comprehensive income for the period	**1,761**	8,682
Retained earnings (deficit), beginning of the period	**69,378**	(6,855)
Retained earnings, end of the period	**71,139**	1,827
Net income per share (note 9)		
Basic	**0.02**	0.11
Diluted	**0.02**	0.10

See accompanying notes to the interim financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total Equity
(000s)	*($)*	*($)*	*($)*	*($)*
Balance – January 1, 2015	**381,540**	**12,591**	**69,378**	**463,509**
Share-based compensation	**–**	**1,177**	**–**	**1,177**
Net income	**–**	**–**	**1,761**	**1,761**
Balance – March 31, 2015	**381,540**	**13,768**	**71,139**	**466,447**
Balance – January 1, 2014	309,323	8,602	(6,855)	311,070
Share issuance costs	(14)	–	–	(14)
Tax benefit of share issuance costs	3	–	–	3
Share-based compensation	–	839	–	839
Exercise of options	1,437	(377)	–	1,060
Net income	–	–	8,682	8,682
Balance – March 31, 2014	310,749	9,064	1,827	321,640

See accompanying notes to the interim financial statements.

STATEMENTS OF CASH FLOWS

(Unaudited)

Three Months Ended March 31,	2015	2014
(000s)	*($)*	*($)*
Cash flow from (used in):		
Operating activities		
Net income for the period	**1,761**	8,682
Adjustments for:		
Depletion and depreciation expense (note 6)	**21,024**	16,486
Deferred income tax expense	**843**	3,557
Share-based compensation (note 10)	**693**	537
Accretion (note 8)	**201**	199
Unrealized loss on financial instruments	**2,762**	4,187
Exploration and evaluation expense (note 5)	**344**	1,888
Abandonment and reclamation costs (note 8)	**(5)**	–
	27,623	35,536
Change in non-cash working capital (note 11)	**(10,016)**	(11,929)
	17,607	23,607
Financing activities		
Increase in bank debt	**32,426**	19,798
Issuance of share capital	**–**	1,060
Share issuance costs	**–**	(14)
	32,426	20,844
Investing activities		
Property and equipment expenditures	**(34,825)**	(69,712)
Exploration and evaluation expenditures	**(2,235)**	(2,490)
Property acquisitions (note 4)	**–**	(110)
Changes in non-cash working capital (note 11)	**(12,973)**	27,861
	(50,033)	(44,451)
Change in cash and cash equivalents	**–**	–
Cash and cash equivalents – beginning of period	**–**	–
Cash and cash equivalents – end of period	**–**	–

See accompanying notes to the interim financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the period ended March 31, 2015

(Unaudited)

01 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. At March 31, 2015, the Company has a wholly owned subsidiary, Boulder Energy Ltd.

02 BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

These financial statements for the three months ended March 31, 2015 were prepared in accordance with International Financial Reporting Standards and interpretations (collectively referred to as IFRS) and Accounting Standard 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board (IASB).

The interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2014.

The financial statements were authorized for issuance by the Board of Directors on May 13, 2015.

03 SIGNIFICANT ACCOUNTING POLICIES

(a) CURRENT ACCOUNTING POLICIES

The Company's accounting policies are described in Note 3 to the December 31, 2014 audited annual financial statements. Those accounting policies have been applied consistently to all periods presented in these interim financial statements.

(b) FUTURE ACCOUNTING POLICY CHANGES

In July 2014, IFRS 9 Financial Instruments was issued as a complete standard, including the requirements previously issued related to classification and measurement of financial assets and liabilities, and additional amendments to introduce a new expected loss impairment model for financial assets, including credit losses. Retrospective application of this standard with certain exemptions is effective for fiscal years beginning on or after January 1, 2018, with earlier application permitted. The full impact of the standard on the Company's financial statements is currently being assessed by the Company.

In December 2014, the IASB issued narrow-focus amendments to IAS 1 Presentation of Financial Statements to clarify existing requirements related to materiality, order of notes, subtotals, accounting policies and disaggregation. Retrospective application of this standard is effective for fiscal years beginning on or after January 1, 2016, with earlier application permitted. The adoption of this amended standard is not expected to have a material impact on the Company's disclosure.

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. It replaces existing revenue recognition guidance and provides a single, principles based five-step model to be applied to all contracts with customers. Retrospective application of this standard is currently effective for fiscal years beginning on or after January 1, 2017, with earlier application permitted; however, the IASB has proposed to defer to January 1, 2018. The Company is currently assessing the impact of this standard.

04 ACQUISITIONS

During the three-month period ended March 31, 2015, the Company did not complete any transactions to acquire interests in producing oil and natural gas assets. During the comparable period of 2014, the Company completed minor acquisitions for consideration of $0.1 million.

05 EXPLORATION AND EVALUATION ASSETS

(000s)	**Three Months Ended March 31, 2015** ($)	Year Ended December 31, 2014 ($)
Balance – beginning of period	**62,784**	45,611
Additions	**2,915**	23,454
Acquisitions through business combinations	**–**	6,746
Transfers to property and equipment	**(534)**	(3,709)
E&E expenses	**–**	(8,570)
Lease expiries	**(344)**	(748)
Balance – end of period	**64,821**	62,784

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

During the period ended March 31, 2015, the Company incurred $0.3 million related to lease expiries on undeveloped land (year ended December 31, 2014 - $0.7 million) and did not incur any costs related to the drilling of unsuccessful wells (year ended December 31, 2014 – $8.6 million on three vertical stratigraphic test wells in Ferguson and one well in the Peace River Arch area that was determined to be unsuccessful).

During the period ended March 31, 2015, approximately $0.1 million of directly attributable general and administrative expense and $0.1 million of directly attributable share-based compensation expense were capitalized as expenditures on exploration and evaluation assets (year ended December 31, 2014 – $0.6 million and $0.5 million, respectively).

06 PROPERTY AND EQUIPMENT

($000s)	Oil and Natural Gas Properties	Office Equipment	Total
Cost			
Balance – January 1, 2014	545,805	418	546,223
Additions	257,943	56	257,999
Acquisitions	17,268	–	17,268
Transfers from E&E assets	3,709	–	3,709
Balance – December 31, 2014	**824,725**	**474**	**825,199**
Additions	**36,227**	**1**	**36,228**
Transfers from E&E assets	**534**	**–**	**534**
Balance – March 31, 2015	**861,486**	**475**	**861,961**
Accumulated depletion and depreciation			
Balance – January 1, 2014	117,305	153	117,458
Depletion and depreciation for the year	80,730	69	80,799
Balance – December 31, 2014	**198,035**	**222**	**198,257**
Depletion and depreciation for the period	**21,008**	**16**	**21,024**
Balance – March 31, 2015	**219,043**	**238**	**219,281**
Net book value			
December 31, 2014	626,690	252	626,942
March 31, 2015	**642,443**	**237**	**642,680**

(a) CAPITALIZATION OF GENERAL AND ADMINISTRATIVE AND SHARE-BASED COMPENSATION EXPENSES

During the period ended March 31, 2015, 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 property and equipment (year ended December 31, 2014 – $1.7 million and $1.5 million, respectively).

(b) AMORTIZATION AND IMPAIRMENT CHARGES

For the period ended March 31, 2015, management determined that no impairment indicators were present and as such, did not perform an impairment test.

(c) FUTURE DEVELOPMENT COSTS AND SALVAGE VALUE

During the three months ended March 31, 2015, an estimated $382.5 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, 2014 – $388.1 million and $21.7 million, respectively).

07 BANK DEBT

At March 31, 2015, the Company had a committed term syndicated credit facility (the "Syndicated Facility") with an authorized borrowing base of $310 million, including a $280 million extendible revolving facility and a $30 million operating facility. At March 31, 2015, $171.7 million was drawn against this facility (December 31, 2014 – $139.2 million).

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 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 March 31, 2015, 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.

Borrowings under the Syndicated Facility are available on a fully revolving basis until May 28, 2015 (which was extended from the original term of 364 days from April 30, 2014 to April 29, 2015 due to the reorganization as explained in Note 14), 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 March 31, 2015.

The Syndicated Facility bears interest on a grid system which ranges from bank prime plus 1.0 percent to bank prime plus 3.5 percent 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 percent to 0.875 percent 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.

08 DECOMMISSIONING LIABILITIES

The Company has estimated the net present value of decommissioning obligations to be $36.0 million as at March 31, 2015 (December 31, 2014 – $34.2 million) based on an undiscounted total future liability of $48.0 million (December 31, 2014 – $47.1 million). These payments are expected to be incurred over a period of two to 20 years with the majority of costs to be incurred between 2016 and 2026. At March 31, 2015, a risk-free rate of 2.25 percent (December 31, 2014 – 2.5 percent) and an inflation rate of 2 percent (December 31, 2014 – 2 percent) were used to calculate the net present value of the decommissioning liabilities. The $1.2 million of revisions is related to a change in the risk-free rate used in the calculation.

	Three Months Ended March 31, 2015	Year Ended December 31, 2014
(000s)	*($)*	*($)*
Balance – beginning of period	**34,165**	26,291
Liabilities incurred	**382**	2,722
Liabilities acquired	**–**	1,415
Revisions	**1,215**	2,904
Settlements	**(5)**	(17)
Accretion of decommissioning liabilities	**201**	850
Balance – end of period	**35,958**	34,165

09 SHARE CAPITAL

(a) AUTHORIZED

Unlimited number of common voting shares, no par value.

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

(b) ISSUED – COMMON SHARES

	Three Months Ended March 31, 2015		Year Ended December 31, 2014	
	Shares	Amount	Shares	Amount
	(#)	*($000s)*	*(#)*	*($000s)*
Balance – beginning of period	**88,974,460**	**381,540**	81,560,316	309,323
Common shares issued (i)	–	–	5,714,200	63,428
Flow-through shares issued (ii)	–	–	752,000	10,002
Premium on flow-through shares (ii)	–	–	–	(1,654)
Exercise of options (iii)	–	–	947,944	3,479
Share issuance costs	–	–	–	(4,048)
Tax benefit of share issuance costs	–	–	–	1,010
Balance – end of period	**88,974,460**	**381,540**	88,974,460	381,540

(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.

(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 $10.0 million ($9.4 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 $0.1 million remains at March 31, 2015 (December 31, 2014 – $0.01 million). To date, the Company has incurred $9.4 million of the total $10.0 million of qualifying exploration expenditures, with the entire amount required to be spent by December 31, 2015.

(iii) EXERCISING OF OPTIONS

During the three months ended March 31, 2015, there were no options exercised.

During 2014, 947,944 options were exercised at a weighted-average price of $2.56 per share for total cash proceeds of $2.4 million and previously recognized share-based compensation expense of $1.1 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 March 31,	**2015**	2014
(000s, except per share amounts)	*($)*	*($)*
Net income for the period	**1,761**	8,682
	(#)	*(#)*
Weighted-average number of common shares		
– basic	**88,974**	81,932
– diluted	**90,687**	84,741
	($)	*($)*
Net income per weighted average common share		
– basic	**0.02**	0.11
– diluted	**0.02**	0.10

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:

	Three Months Ended March 31, 2015		Year Ended December 31, 2014	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
	(#)	*($)*	*(#)*	*($)*
Outstanding – January 1	**7,676,328**	**5.94**	6,524,272	4.21
Issued	**–**	**–**	2,165,000	9.77
Exercised	**–**	**–**	(947,944)	2.56
Forfeited	**(5,500)**	**2.66**	(65,000)	9.25
Outstanding – end of period	**7,670,828**	**5.94**	7,676,328	5.94
Exercisable – end of period	**4,305,637**	**4.54**	3,916,972	4.39

Weighted-Average Exercise Price	Options Outstanding	Weighted-Average Contractual Life	Options Exercisable
($)	*(#)*	*(years)*	*(#)*
As at March 31, 2015			
2.00 – 2.99	**1,818,750**	**1.06**	**1,554,750**
3.00 – 3.99	**962,820**	**1.84**	**754,452**
4.00 – 4.99	**1,376,158**	**1.35**	**1,013,135**
5.00 – 5.99	**9,000**	**2.45**	**3,000**
6.00 – 6.99	**100,000**	**2.69**	**52,000**
7.00 – 7.99	**1,154,100**	**3.09**	**450,300**
8.00 – 8.99	**90,000**	**3.63**	**36,000**
9.00 – 9.99	**1,335,000**	**3.98**	**277,000**
10.00 – 10.99	**635,000**	**4.27**	**127,000**
11.00 – 11.84	**190,000**	**4.23**	**38,000**
	7,670,828	**2.42**	**4,305,637**

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

	Three Months Ended March 31, 2015	Year Ended December 31, 2014
Risk-free interest rate *(%)*	–	1.28
Expected life *(years)*	–	3.10
Expected volatility *(%)*	–	49
Expected dividend yield *(%)*	–	0
Fair value of options granted during the year *($/option)*	–	3.36

A forfeiture rate of 2 percent for options granted during 2014 was used when recording share-based compensation expense. This estimate is adjusted to the actual forfeiture rate. Gross share-based compensation was $1.2 million for the quarter ended March 31, 2015 (year ended December 31, 2014 - $5.0 million). Of this amount, $0.04 million was reclassified to operating expense for the amount related to field employees (year ended December 31, 2014 – $0.2 million) and $0.5 million was capitalized (year ended December 31, 2014 – $1.9 million), resulting in total net share-based compensation expense of $0.7 million for the period (year ended December 31, 2014 – $2.9 million).

11 SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital are comprised of:

Three Months Ended March 31,	**2015**	2014
(000s)	*($)*	*($)*
Accounts receivable	**6,108**	(11,420)
Deposits and prepaid expenses	**(536)**	(556)
Accounts payable and accrued liabilities	**(28,561)**	27,908
	(22,989)	15,932
Related to operating activities	**(10,016)**	(11,929)
Related to investing activities	**(12,973)**	27,861
	(22,989)	15,932

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 March 31, 2015 due to their short term to maturity.

(c) STOCK OPTIONS

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

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

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide continuous pricing information.

- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations are derived from inputs that are not based on observable market data.

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

(d) DERIVATIVE FINANCIAL INSTRUMENTS

As at March 31, 2015, the Company had the following crude oil, natural gas, foreign exchange and interest rate risk management contracts, with a total mark-to-market asset of $20.5 million, $20.0 million of which is short-term and $0.5 million of which is long-term (December 31, 2014 – asset of $23.3 million):

CRUDE OIL CONTRACTS

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
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	Fixed	500 bbls/d	WTI-NYMEX	Cdn$99.00/bbl
Jan.1/15 – Dec.31/15	Crude Oil	Fixed	500 bbls/d	WTI-NYMEX	Cdn$99.39/bbl
Jan.1/15 – Dec.31/15	Crude Oil	Fixed	500 bbls/d	WTI-NYMEX	Cdn$100.00/bbl
March 1/15 – June 30/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	Cdn$72.92/bbl
Jan.1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	Cdn$78.00/bbl

FOREIGN EXCHANGE CONTRACT

Period	Currency	Type of Contract	Quantity	Pricing Point (Cdn$/US$)
Jan. 1/15 – Dec. 31/15	US$	Average Rate Range Forward	US$1,300,000	Trigger – 1.1300 Cdn$/US$ Floor – 1.100 Cdn$/US$ Ceiling – 1.1110 Cdn$/US$

INTEREST RATE CONTRACT

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

Subsequent to March 31, 2015, DeeThree entered into the following crude oil risk management contracts:

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
May 1/15 – Dec. 31/15	Crude Oil	Fixed	1,000 bbls/d	WTI-NYMEX	US$60.25/bbl
Jan.1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US$62.75/bbl
Jan.1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US$63.60/bbl

13 COMMITMENTS

Years Ended December 31,	2015	2016	2017	Total
(000s)	*($)*	*($)*	*($)*	*($)*
Operating lease – office	480	160	–	640
Operating lease – equipment	29	–	–	29
Exploration expenditures (flow-through)	577	–	–	577
Total	1,086	160	–	1,246

As at March 31, 2015, the Company had contractual obligations for its office leases totalling approximately $0.6 million to March 2016. The head office lease obligations are comprised of the lease payments 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 $0.03 million to October 2015.

In connection with the Company's issuance of flow-through shares during the second quarter of 2014, DeeThree is required to incur $10.0 million of eligible exploration expenditures. As at March 31, 2015, $9.4 million of these expenditures have been incurred, with the remaining $0.6 million to be incurred by December 31, 2015. The expenditures were renounced to shareholders in January 2015, effective December 31, 2014.

14 SUBSEQUENT EVENTS

On April 7, 2015, the Company's Board of Directors unanimously approved the proposed reorganization ("Reorganization") of DeeThree to create two, focused and independent, publicly traded energy companies. One company will be named Boulder Energy Ltd. ("Boulder"), a sustainable growth-focused light-oil company centered around DeeThree's Belly River development in the Pembina-Brazeau area of Alberta, and the other company will be DeeThree renamed as Granite Oil Corp. ("Granite"), a sustainable dividend and growth focused oil company centered around DeeThree's Alberta Bakken enhanced oil recovery ("EOR") project in southern Alberta.

The Reorganization will be implemented through a court-approved Plan of Arrangement, pursuant to which DeeThree shareholders will receive one half (0.5) of one common share of Boulder and one third (0.3333) of one common share of Granite in exchange for each DeeThree share held.

Subject to shareholder, Court of Queen's Bench of Alberta and the Toronto Stock Exchange approval and the satisfaction of other conditions precedent, the Reorganization is expected to close on May 15, 2015.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Michael Kabanuk
Executive Chairman
DeeThree Exploration Ltd.

Brendan Carrigy
Independent Businessman

Martin Cheyne
President & Chief Executive Officer
DeeThree Exploration Ltd.

Henry Hamm [1][2][3][4]
Independent Businessman

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

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

Kevin Andrus [1][2][3][4]
Portfolio Manager of
Energy Investments
GMT Capital Corp.

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

OFFICERS

Martin Cheyne
President & Chief Executive Officer

Gail Hannon
Chief Financial Officer

Trevor Murray
Vice President, Land

Clayton Thatcher
Vice President, Exploration

Jonathan Fleming
Vice President, Capital Markets

Casey Paulhus
Controller

Daniel Kenney
Corporate Secretary

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Calgary, Alberta

BANKERS

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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

DLA Piper (Canada) 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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