



Interim Condensed Consolidated Financial Statements of

DIXIE ENERGY TRUST

For the three and six months ended and as at June 30, 2014

(Unaudited)



DIXIE ENERGY TRUST

Interim Condensed Consolidated Statements of Financial Position
(Expressed in Canadian dollars, unaudited)

	As at	
	June 30, 2014	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	\$ 435,875	\$ 1,564,399
Trade and other receivables	439,409	664,322
Prepaid expenses and deposits	420,848	63,955
	<u>1,296,132</u>	<u>2,292,676</u>
Exploration and evaluation assets (Note 8)	14,628,092	14,490,702
Oil and gas properties (Note 9)	10,974,405	10,135,151
Property, plant and equipment (Note 10)	17,874	-
	<u>26,916,503</u>	<u>26,918,529</u>
Total assets	\$ 26,916,503	\$ 26,918,529
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	1,832,319	989,414
	<u>1,832,319</u>	<u>989,414</u>
Decommissioning liabilities	38,093	34,026
Unit based compensation (Note 5)	1,135,391	1,182,729
Exchangeable shares	8,050,000	8,050,000
	<u>9,223,484</u>	<u>9,266,755</u>
Unitholders' equity		
Unitholders' capital	21,519,140	21,519,140
Accumulated other comprehensive income	931,581	868,176
Deficit	(6,590,021)	(5,724,956)
	<u>15,860,700</u>	<u>16,662,360</u>
Total liabilities and equity	\$ 26,916,503	\$ 26,918,529

Going Concern (Note 1)

The notes are an integral part of these condensed consolidated financial statements.



DIXIE ENERGY TRUST

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars, unaudited)

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Revenues				
Petroleum and natural gas sales, net of royalties (Note 11)	\$ 657,517	\$ 483,639	\$ 1,310,738	\$ 628,897
Expenses				
Operating expenses (recovery)	120,969	(5,106)	318,578	10,732
Evaluation and exploration expenses	-	794,512	-	794,512
Depletion, depreciation and accretion	469,625	140,752	946,380	193,892
General and administrative	622,371	556,796	1,030,144	1,042,834
Unit based compensation (Note 5)	(112,486)	436,849	(47,338)	515,587
	1,100,479	1,923,803	2,247,764	2,557,557
Net loss before other items	(442,962)	(1,440,164)	(937,026)	(1,928,660)
Other items				
Foreign exchange gain (loss)	(4,537)	31,820	71,219	61,107
Interest income	-	7,381	742	9,212
Loss on acquisition of VisionSky Corp.	-	-	-	(580,610)
	(4,537)	39,201	71,961	(510,291)
Net loss	(447,499)	(1,400,963)	(865,065)	(2,438,951)
Other comprehensive income (loss) for the period				
Foreign currency translation gain (loss)	(879,486)	275,677	63,405	281,369
Total comprehensive loss for the period	\$ (1,326,985)	\$ (1,125,286)	\$ (801,660)	\$ (2,157,582)
Net loss per unit, basic and diluted (Note 7)	\$ (0.01)	\$ (0.08)	\$ (0.02)	\$ (0.14)

The notes are an integral part of these condensed consolidated financial statements.

DIXIE ENERGY TRUST

Interim Condensed Consolidated Statements of Changes in Unitholders' Equity
(Expressed in Canadian dollars, unaudited)

	Trust units	Trust unit capital	Accumulated other comprehensive income	Deficit	Unitholders' equity
Balance, December 31, 2012	28,074,999	\$ 7,762,378	\$ 9,784	\$ (1,113,745)	\$ 6,658,417
Issued in exchange for VisionSky shares (Note 6)	2,031,411	1,015,706	-	-	1,015,706
Warrants exercised (Note 5,6)	50,000	40,000	-	-	40,000
Units issued for cash (Note 6)	15,166,980	12,133,584	-	-	12,133,584
Issuance costs (Note 6)	-	(562,909)	-	-	(562,909)
Net loss	-	-	-	(2,438,951)	(2,438,951)
Foreign currency translation gain	-	-	281,369	-	281,369
Balance, June 30, 2013	45,323,390	\$ 20,388,759	\$ 291,153	\$ (3,552,696)	\$ 17,127,216
Balance, December 31, 2013	46,778,390	\$ 21,519,140	\$ 868,176	\$ (5,724,956)	\$ 16,662,360
Net loss	-	-	-	(865,065)	(865,065)
Foreign currency translation gain	-	-	63,405	-	63,405
Balance, June 30, 2014	46,778,390	\$ 21,519,140	\$ 931,581	\$ (6,590,021)	\$ 15,860,700

The notes are an integral part of these condensed consolidated financial statements.

DIXIE ENERGY TRUST

Interim Condensed Consolidated Statement of Cash Flows
(Expressed in Canadian dollars, unaudited)

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Operating activities				
Net loss	\$ (447,499)	\$ (1,400,963)	\$ (865,065)	\$ (2,438,951)
Depletion, depreciation and accretion	469,625	140,752	946,380	193,892
Foreign exchange	-	203,908	-	236,828
Loss on acquisition of VisionSky Corp.	-	-	-	580,610
Decommissioning liabilities	-	2,432	-	2,432
Unit based compensation (Note 5)	(112,486)	436,849	(47,338)	515,587
Changes in non-cash working capital				
Trade and other receivables	(16,144)	(146,314)	227,033	(240,552)
Deferred trust unit issuance costs	-	-	-	13,510
Prepaid expenses and deposits	(6,698)	-	(38,402)	-
Accounts payable and accrued liabilities	21,938	9,479	(167,797)	30,596
Net cash provided by (used in) operating activities	(91,265)	(753,857)	54,811	(1,106,048)
Financing activities				
Issue of units, net of issuance costs	-	11,620,330	-	11,635,502
Net cash provided by financing activities	-	11,620,330	-	11,635,502
Investing activities				
Acquisition of exploration and evaluation assets	(354,186)	(739,792)	(808,206)	(1,841,856)
Acquisition of oil and gas properties	(354,148)	61,479	(1,074,665)	(759,075)
Acquisition of property, plant and equipment	(10,484)	-	(20,469)	-
Cash acquired as part of VisionSky transaction	-	-	-	444,156
Changes in non-cash working capital				
Prepaid expenses and deposits	299,886	(331,181)	(318,428)	(359,144)
Accounts payable and accrued liabilities	141,436	-	1,008,137	-
Net cash used in investing activities	(277,497)	(1,009,494)	(1,213,631)	(2,515,919)
Foreign exchange gain on cash held in foreign currency	21,213	-	30,296	-
Net increase (decrease) in cash and cash equivalents	(368,761)	9,856,979	(1,129,380)	8,013,535
Cash and cash equivalents, beginning of period	783,424	3,186,215	1,564,399	5,029,659
Cash and cash equivalents, end of period	\$ 435,875	\$ 13,043,194	\$ 435,875	\$ 13,043,194
Supplemental non-cash investing activities:				
Trust units issued on acquisition of VisionSky Corp. (Note 6)	-	-	-	1,015,706

The notes are an integral part of these condensed consolidated financial statements.

DIXIE ENERGY TRUST

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
For the three and six months ended and as at June 30, 2014

1. Reporting Entity and Going Concern

a) Reporting Entity

Dixie Energy Trust (the "Trust") is an unincorporated open-ended limited purpose trust established under the laws of the Province of Alberta on June 29, 2012 and is governed by a trust indenture and the laws of the Province of Alberta. The head office, principal address and registered and records office of the Trust is located in Suite 1250, 736 - 6th Avenue SW, Calgary, Alberta.

The Trust operates as a foreign asset trust and its activities are restricted to owning property (other than real property or interests in real property), and it does not carry on business. The beneficiaries of the Trust are the unitholders of the issued and outstanding units of the Trust ("units" or "trust units").

Pursuant to the terms of an Administrative Services Agreement, Olympia Trust Company, the Trustee of the Trust, has delegated much of the responsibility for performing all general and administrative services that are or may be required or advisable, from time to time, for the Trust to Dixie Energy Ltd. ("the Administrator"), a corporation incorporated under the Business Corporations Act (Alberta), (ABCA) on June 28, 2012. The Administrator has entered into a voting agreement, which entitles unitholders of the Trust to elect 100% of the directors of the Administrator. The Administrator is therefore controlled exclusively by the unitholders of the Trust and accordingly consolidated; however, the Administrator is not a legal subsidiary of the Trust. The Administrator performs services pursuant to the Administrative Services Agreement on a cost recovery basis and no additional fees are payable by the Trust to the Administrator.

The Trust, through its subsidiaries holds properties in the United States ("U.S.") and is not subject to the same taxation rules applicable to a Canadian Specified Investment Flow Through ("SIFT") trust. The Trust is an early development-stage entity in the process of exploring its oil and gas properties in the United States and has not yet determined the extent to which these properties contain economically recoverable reserves. Given its early stage of development, the Trust does not currently pay any distributions and has no plans to for the foreseeable future.

b) Going Concern

The Trust's cash and cash equivalents at June 30, 2014 are likely not sufficient to fund its planned operating and investing activities. Based on the initial results of its exploration and evaluation activities, the Trust expects to be able to secure additional financing to fund further expenditures. Until such time that the Trust is successful in securing financing, there is a material uncertainty that may cast significant doubt as to the ability of the Trust to continue as a going concern.

The Trust will be dependent upon equity issuances, debt financing, asset dispositions or entrance into joint arrangements with third parties to fund future activities. The ability of the Trust to continue ongoing operations is also dependent upon the existence of economically

DIXIE ENERGY TRUST

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
For the three and six months ended and as at June 30, 2014

recoverable reserves and the ability of the Trust to complete exploration and development and to realize future profitable production.

Subsequent to June 30, 2014, Dixie entered into short-term loan agreements for an aggregate principal amount of \$13.5 million as discussed in Note 13 of these interim condensed consolidated financial statements. The loan is to provide Dixie with sufficient capital to complete the acquisition of interests in certain oil and gas properties in the Black Warrior Basin in Mississippi for a purchase price of US\$8.0 million subject to purchase price adjustments and undertake certain operational and optimization activities on its oil and gas assets in the Maple Branch prospect and for general corporate purposes. Dixie continues to work to evaluate other long-term financing options to fund future capital and operating activities.

These financial statements have been prepared on a going concern basis. The application of the going concern basis of presentation assumes that the Trust will continue to operate for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. If this assumption were not appropriate, adjustments to these financial statements may be necessary.

2. Basis of Presentation

a) Statement of Compliance

These interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). The CICA Handbook incorporates International Financial Reporting Standards ("IFRS") and publicly accountable enterprises, such as the Trust, are required to apply such standards. These interim condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the presentation of interim condensed consolidated financial statements and International Accounting Standards ("IAS") 34, Interim Financial Reporting, and the accounting policies applied in these interim condensed consolidated financial statements are based on IFRS as issued, outstanding, and effective on June 30, 2014.

Certain disclosures that are normally required to be included in the notes to the annual audited consolidated financial statements have been condensed or omitted. These interim condensed consolidated financial statements should be read in conjunction with the Trust's audited consolidated financial statements and notes thereto for the period ended December 31, 2013.

These interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 26, 2014.

b) Basis of Measurement

The interim condensed consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair

DIXIE ENERGY TRUST

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
For the three and six months ended and as at June 30, 2014

value. Throughout these notes to the interim condensed consolidated financial statements, the Trust and its subsidiaries may be referred to collectively as “Dixie” for purposes of convenience. These interim condensed consolidated financial statements are presented in Canadian dollars, except as otherwise noted.

c) Basis of Consolidation

The Trust has the following significant wholly owned subsidiaries whose financial position and results have been consolidated in the Trust’s consolidated financial statements:

Dixie Energy Holdings (Canada) Ltd.	Alberta	Alberta Corporation
Dixie Energy Holdings (US), Inc.	United States	Delaware Corporation
Dixie Energy (US), Inc.	United States	Delaware Corporation
Dixie Energy Holdings (Wiley Dome), LLC	United States	Delaware Corporation
Dixie Energy Holdings (Maple Branch), LLC	United States	Delaware Corporation
Dixie Energy Holdings (Strong Field), LLC	United States	Delaware Corporation
Dixie Energy Holdings (HWM), LLC	United States	Delaware Corporation
Dixie Energy Holdings (White Castle Dome), LLC	United States	Delaware Corporation
Dixie Energy Holdings (Brooklyn Queens), LLC	United States	Delaware Corporation
Dixie Energy Holdings (Star), LLC	United States	Delaware Corporation
Dixie Energy Holdings (McKinley Gas), LLC	United States	Delaware Corporation

The results of the above subsidiaries, together with the Administrator have been included in the consolidated statements (see Note 1). All of the entities have calendar year ends.

d) Use of Estimates and Judgments

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions and use judgment regarding the reported amounts and presentation of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts and disclosure of revenues and expenses during the applicable reporting period. Such estimates relate primarily to unsettled transactions and events at the reporting date. Actual results ultimately may differ from these judgments and estimates.

The key judgments made in applying accounting policies that have the most significant effect on the amounts recognized in these financial statements are judgments regarding the going concern assessment and the determination of the presence of indicators of impairment.

Information about assumptions and estimation uncertainties that have the most significant risk of resulting in a material adjustment within the next financial year are the estimates of fair value and the recoverable amounts of exploration and evaluation assets and property, plant and equipment, estimates regarding the going concern assessment and as well as estimates regarding the share-based payments. These key judgments and estimates have been applied consistently with the audited consolidated financial statements for the year ended December 31, 2013.

DIXIE ENERGY TRUST

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
For the three and six months ended and as at June 30, 2014

3. Significant Accounting Policies

The same accounting policies and methods of computation are followed in these interim financial statements as compared with the most recent annual audited consolidated financial statements for the year ended December 31, 2013, with the exception of the following additions and/or amendments and new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

a) Oil and Gas Properties

Oil and gas properties are carried at cost, net of accumulated depletion and impairments, and include costs related to drilling development wells, well completions, infrastructure construction, successful exploration and evaluation projects and estimated decommissioning liabilities.

Oil and gas properties are recognized at cost net of accumulated depreciation and impairments. Expenditures incurred to improve the capabilities of oil and gas properties, extend their useful lives or replace significant components are capitalized. Maintenance and repairs are expensed as incurred.

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. Independent reserve engineers review these estimates at least annually.

b) Property, plant and equipment

Property, plant and equipment is composed of non-oil and gas assets and is stated in the balance sheet at cost, less accumulated depreciation and any provision for impairment.

The initial cost of an asset comprises its purchase price or construction cost and any costs directly attributable to bringing the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Property, plant and equipment is depreciated on a straight line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives, as follows:

Improvements to leasehold property	2-10 years (or over the remaining life of the lease if shorter)
Office furniture and fixtures	3 years
Computer and phone systems	2 years
Vehicles	5 years

DIXIE ENERGY TRUST

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
For the three and six months ended and as at June 30, 2014

- c) On January 1, 2014, the Trust adopted new standards with respect to IFRIC 21 - "Levies" which establishes guidelines for the recognition and accounting treatment of a liability relating to a levy imposed by a government, and amendments to "Offsetting Financial Assets and Financial Liabilities" addressed within IAS 32 - "Financial Instruments: Presentation", which provides guidance regarding when it is appropriate and permissible for an entity to disclose offsetting financial assets and financial liabilities on a net basis. The new and amended standards are effective for annual periods beginning on or after January 1, 2014 and have no impact on the Trust's financial statements.
- d) For annual periods commencing on or after January 1, 2018 the Trust will be required to adopt and apply retroactively IFRS 9, "Financial Instruments" as issued by the IASB. IFRS 9 establishes principles for the disclosure of financial assets and financial liabilities that will present information that is useful for the assessment of the amounts, timing and uncertainty of an entity's future cash flows. IFRS 9 is applicable to all items that fall within the scope of IAS 39, "Financial Instruments: Recognition and Measurement". The Trust has not applied this new standard as of June 30, 2014 and intends to adopt IFRS 9 in its financial statements for the annual period beginning January 1, 2018. The Trust is currently evaluating the extent of the impact that adoption will have on the consolidated financial statements.
- e) IFRS 15, "Revenue from Contracts with Customers" is effective for fiscal periods ending on or after December 31, 2017. The Trust intends to adopt IFRS 15 for the annual period beginning on January 1, 2017. The Trust is currently evaluating the impact that the standard will have on its results of operations and financial position.

4. Financial Instruments and Risk Management

The Trust's financial instruments consist of cash and cash equivalents, trade and other receivables and accounts payable and accrued liabilities. Fair values of financial assets and liabilities and discussion of risks associated with financial assets and liabilities are presented as follows:

	June 30, 2014		December 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Fair value through profit and loss				
Cash and cash equivalents	\$ 435,875	\$ 435,875	\$ 1,564,399	\$ 1,564,399
Loans and receivables				
Trade and other receivables	439,409	439,409	664,322	664,322
Financial liabilities				
Accounts payable and accrued liabilities	1,832,319	1,832,319	989,414	989,414

DIXIE ENERGY TRUST

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
For the three and six months ended and as at June 30, 2014

Included in cash and cash equivalents is a US\$100,000 interest bearing term deposit providing security for a letter of credit given to the Mississippi Oil and Gas Board in exchange for granting oil and gas operator status to Dixie in the State of Mississippi.

a) Fair Values

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.

The carrying values of cash and cash equivalents, trade and other receivables and accounts payable and accrued liabilities approximate fair value due to the short-term nature of the instruments. Due to the use of subjective judgments and uncertainties in the determination of fair values, these values should not be interpreted as being realizable in immediate settlement of the financial instruments.

Fair Value Hierarchy

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- iii) Level 3 fair value measurements are those derived from valuation techniques that included inputs for the asset or liability that are not based on observable market data (unobservable inputs).

b) Risk Management

The Trust is exposed to financial risks arising from its financial assets and liabilities, such as:

- i) Credit risk;
- ii) Market risk;
- iii) Liquidity risk; and
- iv) Foreign exchange risk.

DIXIE ENERGY TRUST

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
For the three and six months ended and as at June 30, 2014

c) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for another party by failing to discharge an obligation. The maximum exposure to credit risk is as follows:

	June 30, 2014	December 31, 2013
Cash and cash equivalents	\$ 435,875	\$ 1,564,399
Trade and other receivables	439,409	664,322
Total	<u>\$ 875,284</u>	<u>\$ 2,228,721</u>

(i) Cash and cash equivalents

The Trust limits its exposure to credit risk related to cash and cash equivalents by depositing its excess cash with financial institutions that have investment grade credit ratings.

(ii) Trade and other receivables

All trade and other receivables are subject to normal risk associated with the oil and gas industry. All trade and other receivables are current.

d) Liquidity Risk

Liquidity risk is the risk that the Trust will not be able to meet financial obligations as they become due. The Trust's financial position could be adversely affected if it failed to arrange financing for its capital expenditure programs. The Trust strives to maintain sufficient financial liquidity by forecasting cash flows for current and subsequent years to identify financing requirements on an ongoing basis.

The Trust's cash and cash equivalents at June 30, 2014 are likely not sufficient to fund its planned operating and investing activities. Long-term liquidity risk is higher due to the foreseeable need to raise further cash to fund future investing activities. The Trust's ability to continue as a going concern is dependent upon its ability to fund its present and future capital requirements.

The following are the contractual maturities of liabilities as at June 30, 2014:

	Carrying amount	Contractual cash flows	Less than one year	One - five years	More than five years
Liabilities					
Accounts payable and accrued liabilities	\$ 1,832,319	\$ 1,832,319	\$ 1,832,319	\$ -	\$ -
Decommissioning liabilities	38,093	46,828	-	-	38,093
Total	<u>\$ 1,870,412</u>	<u>\$ 1,879,147</u>	<u>\$ 1,832,319</u>	<u>\$ -</u>	<u>\$ 38,093</u>

DIXIE ENERGY TRUST

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
For the three and six months ended and as at June 30, 2014

e) Foreign Exchange Risk

Foreign exchange risk arises from the changes in foreign exchange rates that may affect the fair value or future cash flows of the Trust's financial assets or liabilities. For the Trust it is the C\$:US\$ exchange rate which presents the most risk as the Trust's operating cash flows are denominated in U.S. dollars. An increase in the value of the Canadian dollar as compared to the U.S. dollar will reduce the net cash flow from the oil and gas operations. Most of the Trust's general and administrative expenses are denominated in Canadian dollars and are therefore not impacted by changes in foreign exchange.

As at June 30, 2014, the Trust did not hold any foreign exchange contracts to mitigate the effects of fluctuating C\$:US\$ exchange rates.

The following financial instruments were denominated in US dollars:

	June 30, 2014		December 31, 2013	
	US\$	C\$	US\$	C\$
Cash and cash equivalents	\$ 361,492	\$ 385,712	\$ 937,398	\$ 997,016
Trade and other receivables	411,817	439,408	623,250	662,889
Prepaid expenses and deposits	316,965	338,202	18,532	19,711
Accounts payable and accrued liabilities	1,646,164	1,756,457	754,048	802,005

The weighted average exchange rate for the six months ended June 30, 2014 was US\$1.00 equal to C\$1.0969 and the exchange rate at June 30, 2014 was US\$1.00 equal to C\$1.0670.

Sensitivity Analysis

All other variables remaining constant, a \$0.01 change in the C\$:US\$ exchange rate would have changed the net loss by approximately \$402 for the three months ended June 30, 2014.

5. Unit Based Compensation

Unit Option Plan

The Trust has a Unit Option Plan that entitles optionholders to acquire trust units. The purpose of the Unit Option Plan is to attract and retain qualified service providers and motivate such persons to put forth maximum efforts for the success of the business of Dixie.

The options are granted at a price equal to the fair value of the trust units at the time of grant. The options have a five-year term and vest as to one-third on the first, second and third anniversary from the grant date. Options granted are not subject to any performance criteria apart from the recipient's continued service with or employment by the Trust. Options are forfeited if the optionee leaves before the vesting date. As at June 30, 2014, 250,000 options were vested.

The fair value associated with the options is expensed in the consolidated statement of loss and comprehensive loss over the vesting period with offsetting entry to unit based compensation liability. The related accumulated liability will be transferred to the Trust's

DIXIE ENERGY TRUST

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
For the three and six months ended and as at June 30, 2014

capital account in unitholders equity when trust units are issued to settle this obligation. The fair value of the unit based compensation liability is recalculated at the end of each reporting period.

The number of options outstanding and exercisable as at June 30, 2014 is summarized on the following table:

Exercise price	Number outstanding	Outstanding		Exercisable	
		Weighted average remaining life in years	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$ 0.50	616,667	3.59	\$ 0.50	250,000	\$ 0.50
	616,667	3.59	\$ 0.50	250,000	\$ 0.50

The number, weighted average exercise price and balance of unit based compensation liability for options granted and outstanding under the Unit Option Plan as at June 30, 2014 are as follows:

	Number of options	Weighted average exercise price	Unit based compensation liability
Balance, December 31, 2013	750,000	\$ 0.50	\$ 290,574
Granted during the period	-	-	-
Forfeited during the period	(133,333)	-	(87,586)
Expensed during the period			62,793
Fair value adjustment			46,335
Balance, June 30, 2014	616,667	\$ 0.50	\$ 312,116

The fair value at June 30, 2014 of the outstanding options was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

Dividend yield	0%
Expected volatility	150%
Risk-free interest rate	1.00 – 1.37%
Forfeiture rate	0%
Expected life (years)	1.6 – 3.6 years
Weighted average fair value of unit options	\$ 0.66

Restricted and Performance Incentive Award Plan

The Trust has a Restricted and Performance Incentive Award Plan that entitles grantees under the plan to receive units or the cash equivalent thereof, at the option of the Trust. The purpose of the Restricted and Performance Incentive Award Plan is to attract and retain qualified service providers and motivate such persons to put forth maximum efforts for the success of the business of Dixie.

DIXIE ENERGY TRUST

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
For the three and six months ended and as at June 30, 2014

The incentive awards granted are payable one-third per year on the first three anniversary dates from the date granted. Incentive awards may be subject to performance provisions at the discretion of the Trust at time of grant. Incentive awards are forfeited if the grantee leaves before the payment date. As at June 30, 2014, 283,334 incentive awards were payable.

The fair value estimate associated with the incentive awards is expensed over the payment period with the offsetting entry to unit based compensation liability. The related accumulated liability will be transferred to the Trust's capital account in unitholders equity if trust units are issued to settle this obligation. The fair value of the unit based compensation liability is recalculated at the end of each reporting period. At June 30, 2014, the fair value was estimated using a unit price of \$0.80.

The following table summarizes the number of restricted and performance incentive awards issued and outstanding and the balance of unit based compensation liability for restricted and performance incentive awards granted and outstanding under the Restricted and Performance Incentive Award Plan as at June 30, 2014:

	Number of incentive awards outstanding	Weighted average remaining life in years	Unit based compensation liability
Balance, December 31, 2013	850,000	2.46	\$ 379,121
Granted during the period	-		-
Forfeited during the period	(166,666)		(133,333)
Expensed during the period			85,991
Fair value adjustment			82,650
Balance, June 30, 2014	<u>683,334</u>	2.46	<u>\$ 414,429</u>

Unit Purchase Warrants

As part of the private placement completed on October 25, 2012 and November 14, 2012, the Trust issued 1,001,700 and 35,000 broker warrants respectively to the underwriter. The broker warrants vested immediately and are exercisable for a period of two years from the date of issue and it entitles the holder to acquire a unit, for \$0.50 per unit.

As part of the acquisition of VisionSky Corp., the Trust issued 1,862,500 trust unit warrants in exchange for 14,900,000 common share purchase warrants to the former shareholders of VisionSky. The trust unit warrants vested immediately and were exercisable for a period seven days after the close of the acquisition transaction. Each warrant entitled the holder to acquire a unit for \$0.80 per unit. Between March 1-7, 2013, 50,000 warrants were exercised and on March 7, 2013, 1,812,500 warrants expired unexercised.

The fair value estimate associated with the unit purchase warrants is expensed in profit or loss over the vesting period with the offsetting entry to unit based compensation liability. The related accumulated liability will be transferred to the Trust's capital account in unitholders equity when trust units are issued to settle this obligation. The fair value of the unit based compensation liability is recalculated at the end of each reporting period.

DIXIE ENERGY TRUST

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
For the three and six months ended and as at June 30, 2014

The following table summarizes the number of unit purchase warrants outstanding and exercisable as at December 31, 2013 and June 30, 2014:

As at December 31, 2013						
Exercise price	Number outstanding	Weighted average remaining life in years	Weighted average exercise price	Number exercisable	Weighted average exercise price	
\$ 0.50	1,001,700	0.82	\$ 0.50	1,001,700	\$ 0.50	
\$ 0.50	35,000	0.87	\$ 0.50	35,000	\$ 0.50	
	1,036,700	0.82	\$ 0.50	1,036,700	\$ 0.50	

As at June 30, 2014						
Exercise price	Number outstanding	Weighted average remaining life in years	Weighted average exercise price	Number exercisable	Weighted average exercise price	
\$ 0.50	1,001,700	0.32	\$ 0.50	1,001,700	\$ 0.50	
\$ 0.50	35,000	0.38	\$ 0.50	35,000	\$ 0.50	
	1,036,700	0.32	\$ 0.50	1,036,700	\$ 0.50	

The number, weighted average exercise price and balance of unit based compensation liability for unit purchase warrants as at June 30, 2014 are as follows:

	Number of warrants	Weighted average exercise price	Unit based compensation liability
Balance, December 31, 2012	1,036,700	\$ 0.50	\$ 358,602
Issued during the period			
VisionSky warrant holders (Feb 28, 2013)	1,862,500	0.80	72
VisionSky warrants exercised during the period	(50,000)	0.80	(2)
VisionSky warrants expired during the period	(1,812,500)	0.80	(70)
Expensed during the period			252,922
Fair value adjustment			(98,490)
Balance, December 31, 2013	1,036,700	\$ 0.50	\$ 513,034
Fair value adjustment			(104,188)
Balance, June 30, 2014	1,036,700	\$ 0.50	\$ 408,846

DIXIE ENERGY TRUST

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
For the three and six months ended and as at June 30, 2014

The fair value at June 30, 2014 of the outstanding warrants was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	<u>June 30, 2014</u>
Dividend yield	0%
Expected volatility	150%
Risk-free interest rate	0.95 – 0.97%
Forfeiture rate	0%
Expected life (years)	0.32 – 0.38 years
Weighted average fair value of unit options	\$ 0.39

The following table summarizes the Trust's unit based compensation expense:

	<u>Three months ended June 30, 2014</u>	<u>Three months ended June 30, 2013</u>	<u>Six months ended June 30, 2014</u>	<u>Six months ended June 30, 2013</u>
Trust unit options expense	\$ (22,628)	\$ 97,919	\$ 21,542	\$ 123,741
Restricted and performance incentive awards expense	(31,140)	128,367	35,308	169,638
Broker and VisionSky warrants expense	(58,718)	210,563	(104,188)	222,208
	<u>\$ (112,486)</u>	<u>\$ 436,849</u>	<u>\$ (47,338)</u>	<u>\$ 515,587</u>

The following tables summarize the Trust's unit based compensation liability:

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Trust unit options liability	\$ 312,116	\$ 290,574
Restricted and performance incentive awards liability	414,429	379,121
Broker and VisionSky warrants liability	408,846	513,034
	<u>\$ 1,135,391</u>	<u>\$ 1,182,729</u>

	<u>Unit based compensation liability</u>
Balance, December 31, 2012	\$ 358,602
Granted during the period	76,737
Exercised during the period	(2)
Expired during the period	(3,649)
Expensed during the period	856,887
Fair value adjustment	(105,846)
Balance, December 31, 2013	<u>\$ 1,182,729</u>
Forfeited during the period	(220,919)
Expensed during the period	148,784
Fair value adjustment	24,797
Balance, June 30, 2014	<u>\$ 1,135,391</u>

DIXIE ENERGY TRUST

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
For the three and six months ended and as at June 30, 2014

6. Unitholders' Capital

a) Authorized

The Trust is authorized to issue an unlimited number of trust units. Each unit represents an equal, undivided beneficial interest in the net assets of the Trust, and all units rank equally and rateably with all other units. Unitholders are entitled to receive non-cumulative distributions from the Trust if, as, and when declared by the Trust.

Trust units are redeemable at any time and from time to time on demand by the Trust unitholders. The redemption price is equal to the lesser of: (i) 90% of the market price of the trust units for the last ten consecutive trading days; and (ii) 100% of the closing market price of the trust units.

The aggregate redemption price payable by the Trust in respect of any trust units tendered for redemption during any month shall be satisfied by way of cash payment on or before the fifth business day after the end of the calendar month following the calendar month in which the trust units were tendered for redemption; provided that trust unitholders shall not be entitled to receive cash upon the redemption of their units if:

- (i) the total amount payable by the Trust in respect of such trust units and all other trust units tendered for redemption in the same calendar month exceeds \$30,000;
- (ii) the normal trading of the outstanding trust units is suspended or halted on any stock exchange on which the trust units are listed for trading or
- (iii) the Trust or any affiliate thereof is, or after such redemption would be, in default under any credit facilities.

If a trust unitholder is not entitled to receive cash upon the redemption of trust units then the redemption price for each trust unit tendered for redemption shall be equal to the fair market value of a trust unit and shall be paid and satisfied by way of a distribution in specie of property of the Trust or by issuing unsecured subordinated promissory notes.

b) Performance Escrow

As a condition to the closing of a brokered private placement on October 25, 2012, the holders of trust units as of that date entered into a performance escrow agreement and deposited 90% of the trust units held as of such date, a total of 11,916,000, with an escrow agent. The escrowed trust units may not be sold, assigned, transferred, redeemed, surrendered or otherwise dealt with in any manner except as provided for by the performance escrow agreement.

The escrowed trust units held pursuant to the performance escrow agreement will be released from escrow as follows:

- i) 15% on the date the Trust Units are listed on the CNSX, TSX Venture Exchange or Toronto Stock Exchange (the "Stage One Release").

DIXIE ENERGY TRUST

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
For the three and six months ended and as at June 30, 2014

- ii) 45% provided that the trust units are listed on the TSX Venture Exchange or Toronto Stock Exchange, if (a) the Trust has achieved a three month average production greater than eight barrels of oil equivalent per day per million "Adjusted Units" (as defined in the performance escrow agreement) or (b) the "Net Asset Value" (as defined in the performance escrow agreement) is greater than \$0.50 per trust unit (the "Stage Two Release").
- iii) 40% provided that the trust units are listed on the TSX Venture Exchange or Toronto Stock Exchange, if (a) the Trust has achieved a six month average production greater than 12 barrels of oil equivalent per day per million "Adjusted Units" (as defined in the performance escrow agreement) or (b) the "Net Asset Value" (as defined in the performance escrow agreement) is greater than \$0.80 per trust unit (the "Stage Three Release").
- iv) 85% provided that the trust units are listed on the TSX Venture Exchange or Toronto Stock Exchange, if the Trust or its subsidiaries completes either: (a) an acquisition from an arms' length party or (b) a subsequent brokered financing of trust units for gross proceeds of more than \$10 million or at a price per trust unit equal to or greater than \$0.50. Upon the occurrence of such event(s) the Stage Two Release and Stage Three Release shall be deemed to have occurred.

If the Trust has not achieved one or more of the above release events prior to October 25, 2015, the performance escrow agent will return the remaining escrowed trust units to the Trust for cancellation.

c) Trust Units Issued and Outstanding

As of December 31, 2012, the Trust's issued and outstanding units totalled 28,074,999.

On February 28, 2013, the Trust completed the acquisition of all of the issued and outstanding shares of VisionSky Corp. by way of a Plan of Arrangement, which included the issuance of 2,031,411 trust units at a deemed price of \$0.50 per trust unit for gross proceeds of \$1,015,706. The Trust incurred costs of \$24,827 related to the issuance of the trust units for net proceeds of \$990,879.

On March 4, 2013, 50,000 trust unit warrants were exercised resulting in the issuance of 50,000 trust units at an issue price of \$0.80 per trust unit for net proceeds of \$40,000.

On June 28, 2013, the Trust completed the first closing of a brokered and non-brokered private placement financing, which included the issuance of 8,148,230 and 7,018,750 trust units respectively at an issue price of \$0.80 per trust unit for gross proceeds of \$6,518,584 and \$5,615,000 respectively. The trust paid commissions of \$391,115 on the brokered portion of the financing and incurred costs of \$146,967 related to the issuance of the trust units for net proceeds of \$11,595,502.

DIXIE ENERGY TRUST

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
For the three and six months ended and as at June 30, 2014

On July 17, 2013, the Trust completed the second closing of a brokered and non-brokered private placement financing, which included the issuance of 211,250 and 1,243,750 trust units respectively at an issue price of \$0.80 per trust unit for gross proceeds of \$169,000 and \$995,000 respectively. The Trust paid commissions of \$10,140 on the brokered portion of the financing and incurred costs of \$23,478 related to the issuance of the trust units for net proceeds of \$1,130,382.

7. Loss Per Unit

	Three months ended June 30, 2014	Six months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2013
Net Loss	\$ (447,499)	\$ (865,065)	\$ (1,400,963)	\$ (2,438,951)
Weighted average number of units	34,862,390	34,862,390	18,573,750	17,728,425
Basic and diluted loss per unit	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>	<u>\$ (0.08)</u>	<u>\$ (0.14)</u>

8. Exploration and Evaluation Assets

Balance, December 31, 2012	\$ 1,535,703
Additions	19,070,007
Transfer to property, plant and equipment	(6,167,940)
Adjustments	(71,758)
Foreign currency translation gain	<u>124,690</u>
Balance, December 31, 2013	14,490,702
Additions	808,206
Transfer to property, plant and equipment	(723,266)
Foreign currency translation gain	<u>52,450</u>
Balance, June 30, 2014	<u>\$ 14,628,092</u>

As at June 30, 2014, exploration and evaluation assets relate to mineral lease rights for undeveloped oil and gas properties in the Maple Branch, Strong, Hamilton & West McKinley, Star, Brooklyn Queens and White Castle prospects and cumulative drilling and completion costs to June 30, 2014 on wells in the Maple Branch prospect.

DIXIE ENERGY TRUST

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
For the three and six months ended and as at June 30, 2014

9. Oil and Gas Properties

	Developed petroleum and natural gas assets	Production facilities and equipment	Capitalized decommission assets	Total
Cost				
Balance, December 31, 2012	\$ -	\$ -	\$ -	\$ -
Additions	5,037,896	184,668	38,177	5,260,741
Transfer from exploration and evaluation assets	5,786,825	363,461	17,654	6,167,940
Adjustments	(242,531)	-	(29,911)	(272,442)
Impairment	(451,031)	-	-	(451,031)
Balance, end of period	10,131,159	548,129	25,920	10,705,208
Accumulated depletion				
Balance, beginning of period	-	-	-	-
Current period provision	(546,548)	(22,661)	(848)	(570,057)
Balance, end of period	(546,548)	(22,661)	(848)	(570,057)
Balance, December 31, 2013	\$ 9,584,611	\$ 525,468	\$ 25,072	\$ 10,135,151
Cost				
Balance, December 31, 2013	10,131,159	548,129	25,920	10,705,208
Additions	320,855	752,520	645	1,074,020
Transfer from exploration and evaluation assets	723,266	-	-	723,266
Foreign currency translation gain	(11,362)	(17,259)	57	(28,564)
Balance, end of period	11,163,918	1,283,390	26,622	12,473,930
Accumulated depletion				
Balance, beginning of period	(546,548)	(22,661)	(848)	(570,057)
Current period provision	(841,583)	(96,747)	(2,007)	(940,337)
Foreign currency translation loss	9,728	1,118	23	10,869
Balance, end of period	(1,378,403)	(118,290)	(2,832)	(1,499,525)
Balance, June 30, 2014	\$ 9,785,515	\$ 1,165,100	\$ 23,790	\$ 10,974,405

For the year ended December 31, 2013, Dixie commissioned an appraisal of certain of its oil and gas assets within the Maple Branch, Brooklyn Queens and White Castle CGUs. The appraisal was prepared as of December 31, 2013 and estimated net present values of the future net cash flows from the oil and gas assets using a discount rate of 10 percent.

The appraisal estimated the future net cash flows from Dixie's two producing wells in the Brooklyn Queens CGU at approximately US\$2.13 million while the wells currently have a net carrying cost of approximately US\$2.56 million. As a result Dixie identified this as an impairment trigger and completed a measurement test for the CGU. The recoverable amount of the CGU is determined based on fair value less cost to sell. The fair value less cost to sell of the CGU was calculated using proved plus probable reserves at a pre-tax discount rate of 10 percent. As a result of the impairment test, the Trust was required to recognize an impairment charge of \$451,031 against its oil and gas assets located in the Brooklyn Queens CGU.

DIXIE ENERGY TRUST

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
For the three and six months ended and as at June 30, 2014

10. Property, Plant and Equipment

	Computer and Phone Systems	Total
Cost		
Balance, December 31, 2013	\$ -	\$ -
Additions	20,469	20,469
Balance, end of period	20,469	20,469
Accumulated depletion		
Balance, beginning of period	-	-
Current period provision	(2,595)	(2,595)
Balance, end of period	(2,595)	(2,595)
Balance, June 30, 2014	\$ 17,874	\$ 17,874

11. Petroleum and Natural Gas Sales

(net of transportation)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Oil sales	\$ 935,898	\$ 701,797	\$ 1,860,570	\$ 897,807
NGL sales	16,066	-	28,593	-
Gas sales	10,230	2,873	18,122	4,416
Royalties	(243,136)	(176,393)	(481,878)	(228,688)
Production taxes	(61,541)	(44,638)	(114,669)	(44,638)
	\$ 657,517	\$ 483,639	\$ 1,310,738	\$ 628,897

12. Related Parties

Administration and Management

During the three and six months ended June 30, 2014, Dixie incurred legal fees from law firms wherein directors of the Administrator and a subsidiary of the Trust are partners in their respective law firms, management compensation expenses, and other general and administrative expenses (including office costs, travel and meals & entertainment costs) that were reimbursed to companies that have directors and officers in common or individuals that are directors and officers of the Administrator.

DIXIE ENERGY TRUST

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
For the three and six months ended and as at June 30, 2014

The following is a summary of Dixie's related party transactions:

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013	Included in payables June 30, 2014	Included in receivables June 30, 2014
Legal fees	\$ 77,549	\$ 178,979	\$ 89,845	\$ 314,499	\$ 51,218	\$ -
Other general and administrative Management compensation	35,538	44,361	96,815	13,105	30,182	-
	226,895	158,907	380,095	12,627	15,600	-

These transactions were in the normal course of business and were measured at the exchange amount, which is the amount of consideration that was established and agreed to by the related parties.

13. Subsequent Events

On July 31, 2014, Dixie announced that Dixie Energy Holdings (US), Inc. ("Dixie US") and Dixie Energy Holdings (Canada) Ltd. ("Dixie Canada") had each entered into a short-term loan agreement, for an aggregate principal amount of \$13.5 million, which loans bear interest at a rate of 15% per annum and each mature and become fully repayable on October 30, 2015 (subject to early repayment, without penalty, at the election of Dixie Canada, at any time during the term of its respective loan and subject to earlier repayment with the consent of lender of Dixie US' loan or at the election of Dixie US at any time on or after the date that is six (6) months from the date of Dixie US' loan). Dixie US paid a facility fee of \$175,000 on its respective loan. The purpose of the loans were to provide Dixie with sufficient capital to complete the acquisition of interests in certain oil and gas properties in the Black Warrior Basin in Mississippi and undertake certain operational and optimization activities on its oil and gas assets in the Maple Branch prospect as disclosed below and for general corporate purposes. Each of the loans were with "related parties" as the lender of the Dixie US loan is owned and controlled by a unit holder of the Trust who has current beneficial ownership and direction over greater than 10% of the outstanding trust units and the loan to Dixie Canada was from a trust to which a director and executive officer of the Administrator and Dixie Canada, is a trustee.

On August 5, 2014, Dixie announced that it had closed an acquisition of interests in certain oil and gas properties in the Black Warrior Basin in Mississippi for a purchase price of US\$8.0 million subject to purchase price adjustments. As part of the acquisition, Dixie assumed operatorship of the wells that are jointly owned by Dixie and its other working interest partners in the Maple Branch prospect.