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**First Quarter 2004** For the three months ended March 31, 2004

DEE – TSX-V

### First Quarter 2004 Financial Highlights

- Cash flow increased 65% to \$2.6 million for the first quarter of 2004 (\$0.10/share) compared to \$1.6 million (\$0.08/share) in 2003.
- Earnings were \$0.9 million (\$0.04 per share) compared to \$0.6 million (\$0.03 per share) for the same period in 2003, resulting in our highest quarterly earnings on record.
- Operating costs of \$8.64 for the first quarter of 2004, a 15% decrease over operating costs of \$10.15 in the fourth quarter of 2003 due to on-going optimization programs.
- Royalty and tax benefits of \$0.5 million recognized in the first quarter of 2004.

### First Quarter 2004 Operational Highlights

- Average production increased 131% to 1,364 boe/d, from production in the first quarter of 2003, a result of acquisition and development volume additions offset by natural declines.
- Current production levels are approximately 1,700 boe/d with an additional 100-125 boe/d expected to be brought on-stream before the end of May 2004.
- Successful exploration program in Berland River resulted in a Wabamun discovery, which has been flow tested at 10 million cubic feet per day of raw gas.
- Completed development work on the 2003/2004 winter program at Fontas, which resulted in the drilling of nine gross wells (1.8 net) in the first quarter of 2004. In addition, extensive facility, compression and pipelining work were also completed at Fontas in the first quarter of 2004.

### Financial Results and Share Information

	Three Months Ended March 31	
	2004	2003
<b>Financial Highlights (1) (\$000s except per boe and per share amounts)</b>		
Gross petroleum and natural gas sales	<b>\$4,817</b>	\$2,549
Per boe	<b>38.80</b>	47.98
Cash flow from operations	<b>2,572</b>	1,560
Per boe	<b>20.71</b>	29.35
Per share – Basic & Diluted	<b>0.10</b>	0.08
Earnings (loss)	<b>939</b>	568
Per boe	<b>7.56</b>	10.68
Per share – Basic & Diluted	<b>0.04</b>	0.03
Capital expenditures	<b>5,136</b>	6,603
Debt, net	<b>13,095</b>	2,573
Total assets	<b>54,410</b>	26,152
<b>Shares outstanding (000s)</b>		
Basic	<b>25,326</b>	20,068
Diluted	<b>27,083</b>	20,068

(1) Amounts for 2003 are restated. Refer to Note 2 to the financial statements.

## **Message to our Shareholders**

We are pleased to report on an active and successful first quarter 2004 building momentum from an active second half of 2003. Delphi is well positioned for an excellent remainder of 2004 executing on a program of exploration and development opportunities.

### **An Active First Quarter 2004**

The first quarter of 2004 saw record financial results with cash flow of \$2.6 million (\$0.10 per share) for the Company resulting from an active capital program, positive results in improving operating efficiencies, and strong commodity prices. The Company spent approximately \$5.1 million on an active capital program, which included the drilling of 11 gross wells and several significant facility related projects. Two of the eleven wells were exploratory wells targeting Devonian prospects at depths of 4,000 meters. Production capability increased to approximately 1,700 boe/d by the end of the quarter, although production volumes for the quarter were curtailed as a result of facility projects in the Fontas area requiring significant plant and equipment downtime.

The exploration program has yielded significant results during the first quarter. The Berland River 10-22 well was successfully completed in the Wabamun Formation during the first quarter and flow tested at rates up to 10 million cubic feet per day of raw gas. It is anticipated that the 10-22 well will be pipeline connected and on production during the third quarter 2004. Delphi earned an eight percent interest in the well. Associated with the 10-22 discovery, the Company also earned a 10 percent working interest in 3,200 acres of land and an additional eight percent working interest in 1,280 acres of land. Several up-hole zones including the Cadomin and Gething Formations also appeared prospective on the 10-22 logs. A follow-up well is planned to test potential natural gas reserves within these shallower Cretaceous aged sandstone reservoirs where offsetting analog wells are producing up to 15 million cubic feet per day. Further drilling of up to an additional 6 wells may be required to develop the shallow targets. A second well, which commenced drilling in January 2004 targeting the Devonian Nisku Formation was also cased and is awaiting further completion work after spring break-up. A third location has been identified and licensed in Valhalla targeting the Devonian Wabamun Formation and operations will begin after spring break-up.

In the first quarter of 2004, Delphi spent approximately \$2.9 million in capital projects in the Fontas area, which included the drilling of nine wells. Drilling activity in the area for the 2003/2004 winter season included both development and exploration wells. This drilling activity was spread across the Fontas area to increase current production and set up future development locations for the 2004/2005 winter season. The Company recently participated in further development work in the Fontas area, which included the addition of booster field compression, pipelining projects, and recompletions.

### **Outlook**

As part of Delphi's growth strategy, the capital program for the next two quarters will shift from the north west Alberta properties to those in east central Alberta. Activity will focus on recompletion and workovers of existing wells, as well as upgrading existing battery and water handling facilities. The Company expects to drill 8 to 10 wells over the summer and fall months in east central Alberta focusing on shallow natural gas targets and infill drilling of existing oil pools.

In addition to the activity in east central Alberta, exploration drilling is expected to resume with the drilling of the Valhalla 10-25 well during the second quarter, targeting a Devonian Wabamun feature at 4,000 meters.

For the remainder of 2004, Delphi anticipates spending approximately \$10.0 million on its capital programs funded primarily by internally generated cash flow. Our estimated 2004 cash flow of \$12.5 million (\$0.50 per share) is based on \$6.00 per GJ natural gas prices and West Texas Intermediate reference crude oil prices of US\$29.00 per bbl. During the first quarter of 2004, these prices have been exceeded and our production growth plans are on track.

The Company continues to build momentum from a successful 2003, executing on a growth plan focused on development projects, complimented with an active successful high impact exploration program. Strategic acquisitions and joint venture arrangements will continue to play an integral part of Delphi's growth strategy.

On behalf of the Board,

**David J. Reid**

President and Chief Executive Officer

April 15, 2004

## Management's Discussion and Analysis

The following is Management's Discussion and Analysis ("MD&A") of Delphi Energy Corp.'s ("Delphi" or the "Company") operating and financial results for the three months ended March 31, 2004 to 2003. This discussion and analysis should be read in conjunction with the unaudited financial statements for the three months ended March 31, 2004 in this interim report and the audited consolidated financial statements and MD&A for the year ended December 31, 2003 in our annual report all of which have been prepared in accordance with Canadian generally accepted accounting principles. All comparisons refer to the first quarter 2004 compared with the first quarter 2003, unless otherwise indicated. The date of this MD&A is April 29, 2004. Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### NON-GAAP MEASURES

MD&A contains the term "cash flow from operations", which should not be considered an alternative to, or more meaningful than, "cash flow from operating activities" as determined in accordance with Canadian generally accepted accounting principles ("GAAP") as an indicator of the Company's performance. Delphi's determination of cash flow from operations may not be comparable to that reported by other companies. The reconciliation between net earnings and cash flow from operations can be found in the consolidated statements of cash flows. The Company also presents cash flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of earnings per share.

Production information and reserves are reported in units of barrels of oil equivalent ("boe"). Disclosure provided in respect of boe units may be misleading particularly if used in isolation. Where amounts are stated on a boe basis, gas volumes have been converted to barrels of oil equivalent at a ratio of 6,000 cubic feet of gas to a barrel of oil equivalent. This conversion ratio is based upon an energy equivalent method primarily applicable at the burner tip and does not represent value equivalence at the wellhead.

### FORWARD-LOOKING INFORMATION

The MD&A contains forward-looking or outlook information with respect to Delphi. Forward-looking statements may include estimates, plans, expectations, opinions, forecasts, projections, guidance or other statements that are not statements of fact. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. These statements are subject to certain risks and uncertainties and may be based on assumptions that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements. These statements speak only as of the date of this MD&A.

### Production

	Three Months Ended March 31		Change (%)
	2004	2003	
Natural gas (mcf/d)	5,308	3,382	57
Crude oil (bbl/d)	434	5	8,580
Natural gas liquids (bbl/d)	45	22	105
Total (boe/d)	1,364	590	131

In the first quarter of 2004 total production increased 131% from the first quarter of 2003, primarily a result of corporate and property acquisitions closed throughout 2003. Production for the three months ended March 31, 2004 was comprised of 65% natural gas and 35% crude oil and natural gas liquids, and was spread evenly between the Company's two core regions of North West Alberta and East Central Alberta.

Natural gas production increases of 1,926 mcf/d during the first quarter of 2004 compared to the same period of 2003, were attributable 23% to new additions from the development program in Fontas completed during the first quarter of 2004, with the remainder comprised of acquisition additions both at Fontas and in East Central Alberta.

In the first quarter crude oil and liquids production increased 452 bbl/d when compared to the same period last year. This increase was due to the effect of corporate acquisitions during 2003.

Total production in the first quarter of 2004 was relatively unchanged from production reported in the fourth quarter of 2003, due to an extensive plant turnaround and major facility work performed at Fontas during this time period. Delphi's previously announced annual production forecast for 2004 had incorporated these anticipated operating interruptions and remains unchanged. Total production for the full year of 2004 is expected to average approximately 2,200 boe/d. Factors influencing the estimated average production for 2004 include drilling success and the time required to bring new or re-completed wells on-stream.

## Commodity Pricing

### Benchmark Prices

	As At March 31		Change (%)
	2004	2003	
Natural gas (AECO \$/GJ)	<b>\$6.07</b>	\$7.78	(22)
Crude oil (U.S. WTI \$/bbl)	<b>35.76</b>	31.04	15
U.S./Canadian dollar exchange rate	<b>0.759</b>	0.663	14

### Average Sales Prices

	Three Months Ended March 31		Change (%)
	2004	2003	
Natural gas (\$/mcf)	<b>\$6.61</b>	\$8.03	(18)
Crude oil (\$/bbl)	<b>37.49</b>	43.65	(14)
Natural gas liquids (\$/bbl)	<b>34.94</b>	43.54	(20)
Total (\$/boe)	<b>38.80</b>	47.98	(19)

During the first quarter of 2004 natural gas prices were lower than those realized for the same period in 2003. Natural gas pricing tends to be volatile, a result of periodic imbalances between supply and demand which affects inventory levels. Other factors that affect natural gas pricing include weather conditions, particularly in the Eastern United States, pipeline delivery capacity and the availability of other less expensive sources of energy. Natural gas prices for 2004 remained strong due to cold weather in eastern North America in the first months of the year, which has resulted in strong storage withdrawals combined with already lower winter storage levels. These lower storage levels combined with demand for storage re-injection is forecast to support prices through the summer and fall of 2004.

During the first quarter of 2004 the average price of West Texas Intermediate crude oil ("WTI") in Canadian dollars was lower compared with the same period of 2003 due to the increased value of the Canadian dollar against the U.S. dollar during the first quarter of 2004. WTI increased throughout the first quarter of 2004, compared to the first quarter of 2003 in which WTI was relatively unchanged, primarily due to negative perceptions of supply versus demand. Many factors could affect crude oil prices for the remainder of 2004 not the least of which are, uncertainty around the world, OPEC's actual production levels and their planned production cuts to keep prices in the range of U.S. \$24 to \$28 per bbl and perceptions of supply and demand.

The Company enters into financial instruments to reduce commodity price volatility, increase cash flow stability and protect acquisition economics.

At March 31, 2004 the Company had the following physical gas sales contracts outstanding:

Year	Time Period	Commodity	Type of Contract	Quantity Contracted	Price
2004	March 2004	Natural Gas	Fixed price	2,000 GJ/d	\$7.00 fixed
2004	April 2004 – October 2004	Natural Gas	Fixed price	1,000 GJ/d	\$5.19 fixed

## Revenue

(\$000s)	Three Months Ended March 31		Change (%)
	2004	2003	
Natural gas	<b>\$3,192</b>	\$2,445	31
Crude oil	<b>1,482</b>	19	7,700
Natural gas liquids	<b>144</b>	85	69
Total	<b>4,818</b>	2,549	89

Quarter-over-quarter total revenues increased entirely as a result of increased production, offset by a 19% decrease in average prices in the first quarter of 2004. Of the increase in total revenue, 33% is attributable to natural gas, and 65% is attributable to crude oil. Crude oil revenue growth for the first quarter of 2004 over the same period in 2003, was the result of acquisitions.

## Royalties

(\$000s except per boe amounts)	Three Months Ended March 31		Change (%)
	2004	2003	
Crown, before royalty rebates	<b>\$713</b>	\$620	15
Royalty Credits:			
Alberta royalty tax credit	<b>(41)</b>	(6)	583
Gas Cost Allowance	<b>(250)</b>	-	100
Net crown royalties	<b>422</b>	614	(31)
Freehold and gross overriding	<b>149</b>	14	964
Total royalties	<b>571</b>	628	(9)
Per boe	<b>\$4.60</b>	\$11.82	(61)
Percent of total revenue	<b>11.9%</b>	24.6%	(52)

Delphi pays royalties to the provincial government, freeholders, which can be individuals or companies, and other oil and gas operators, who own surface or mineral rights. The Company also receives Gas Cost Allowance ("GCA"), for eligible capital expenditures during the year and Alberta Royalty Tax Credit ("ARTC") tax rebates received from the Alberta government for eligible crown royalties paid in the year. Royalty rates are calculated on a sliding scale based on commodity prices and individual well production rates. As prices increase or as there is an increase in higher producing wells royalty rates also increase. While crown royalties before royalty credits increased 15% in the first three months of 2004 over 2003, as a percentage of revenue crown royalties decreased from 24.3 % to 14.7% primarily a result of lower natural gas pricing in 2004. Net crown royalty expense decreased 31%, for the first three months of 2004 compared to 2003, primarily a result of increased GCA rebates for current and prior periods resulting from increased capital spending on gas facilities in North West Alberta. Freehold and gross overriding royalties increased in the first quarter of 2004 due to acquisitions of properties with higher encumbrances.

Delphi is estimating the royalty rate for Company production to average between 17 and 20 percent of revenue. Royalty rates can vary according to a number of factors including the difference of reference prices compared to wellhead prices, royalty holiday status of wells, individual well production and proportionate types of royalties.

### Operating Expenses

(\$000s except per boe amounts)	Three Months Ended March 31		Change (%)
	2004	2003	
Total operating costs	<b>\$1,072</b>	\$284	277
Per boe	<b>8.64</b>	5.35	61
Percent of total revenue	<b>22%</b>	11%	100

Operating expenses increased \$0.8 million in the three months ended March 31, 2004 compared to the same period in 2003. A primary factor for the increase in costs was the 131% increase in volumes in the first quarter of 2004 over the same period in 2003. On a per boe basis annual operating costs have increased 61% from the first quarter in 2003 to the first quarter of 2004, primarily a result of the acquisition of higher operating cost oil properties in the second half of 2003. Operating costs for natural gas properties, which represent 39% of total operating costs, decreased seven percent on a boe basis quarter over quarter. The remaining 61% of operating costs are from oil properties, of which heavy oil properties account for 11% on an expense basis and 22% on a boe basis.

Total operating costs, on a per unit basis, are expected to decrease as more production volumes are added and the Company continues to create operating synergies in its core areas of operation.

### General and Administrative

(\$000s except per boe amounts)	Three Months Ended March 31		Change (%)
	2004	2003	
General and administrative costs	<b>\$623</b>	\$134	365
Overhead recoveries	<b>(67)</b>	-	100
Salary reallocations	<b>(157)</b>	(52)	202
Net	<b>399</b>	82	387
Per boe	<b>3.21</b>	1.54	108

The increase in general and administrative costs ("G&A") for the first quarter of 2004 compared to the same period in 2003 is primarily due to additional staff and higher office rent and public company expenses required as a result of the increased size of the Company's operations and its increased asset base. In January 2004, the Company adopted the new accounting policy with respect to the Stock Based Compensation regulations. This new policy resulted in a non-cash expense of \$102 thousand, offset by a recovery of \$124 thousand relating to cancelled options, charged to G&A. Overhead recoveries recorded in the first quarter of 2004 are primarily due to the acquisition of operated areas throughout 2003.

The Company's G&A forecast is unchanged for 2004, which is estimated to be approximately \$2.00 per boe. This estimate includes higher reserve evaluation costs due to the adoption of National Instrument 51-101 and non-cash costs associated with the adoption of the amended Stock Based Compensation regulations.

## Interest

(\$000s except per boe amounts)	Three Months Ended March 31		Change (%)
	2004	2003	
Financing	\$146	\$6	2,333
Other	13	(11)	218
Total Interest	159	(5)	3,280
Per boe	1.28	(0.09)	1,522

Interest expense was higher in the first quarter of 2004 compared to the same period a year ago, a result of increased average debt balances offset slightly by lower interest rates. Bank debt has increased \$11.0 million from March 31, 2003 to March 31, 2004, a result of an accelerated winter exploration and development program in North West Alberta, combined with multiple acquisitions during 2003.

## Depletion, Depreciation and Asset Retirement Obligation (“DD&A”)<sup>(1)</sup>

(\$000s except per boe amounts)	Three Months Ended March 31		Change (%)
	2004	2003	
Depletion and depreciation	\$1,535	\$889	73
Accretion expense	64	9	611
Total	1,599	898	78
Per boe	12.87	16.89	(24)

(1) 2003 amounts as restated. Refer to Note 2 in the financial statements.

The depletion and depreciation rate per boe decreased in the first quarter of 2004, compared to the same period in 2003, primarily as a result of lower cost proved reserve additions in the last half of 2003. Depletion and depreciation expense increased \$646 thousand in the first quarter of 2004 compared to 2003, primarily due to increased production levels and a larger capital base in 2004.

Effective January 1, 2004 the Company retroactively adopted the recommendations of the Canadian Institute of Chartered Accountants (“CICA”) section 3110, “Asset Retirement Obligations” (“ARO”). The standard requires companies to recognize the liability associated with future abandonment and reclamation costs in the financial statements at the time when the liability is incurred. Asset retirement obligations are initially measured at fair value in each period and are subsequently adjusted for the accretion of discount and any changes to the underlying cash flows. The asset retirement cost is capitalized as part of property, plant and equipment and amortized to income consistent with the depletion and depreciation of the underlying asset. Upon adoption of CICA section 3110 effective January 1, 2004 the Company adjusted its future abandonment and reclamation costs retroactively. The effect of the adoption of the ARO standard has resulted in an increase to net property, plant and equipment of \$1.5 million, an increase to goodwill of \$1.5 million, an increase to the asset retirement obligation of \$2.4 million, a decrease to the future tax liability of \$337 thousand and a reduction to the deficit of \$863 thousand. During the first quarter of 2004 the net increase in asset retirement obligations was \$112 thousand dollars.

Effective January 1, 2004 the Company adopted Accounting Guideline 16, “Oil and Gas Accounting – Full Cost” (“AcG-16”), which replaces Accounting Guideline 5, “Full Cost Accounting in the Oil and Gas Industry”. AcG-16 modifies how the ceiling test is performed and is consistent with CICA section 3063, “Impairment of Long-lived Assets”. The new standards prescribe the recognition of impairment only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and measures the impairment amount as the difference between the carrying amount and the fair value. This approach incorporates risks and uncertainties in the expected future cash flows, which are discounted using a risk free rate. The adoption of AcG-16 had no effect on the Company’s financial results. At March 31, 2004 in accordance with stated accounting policies, Delphi has performed a ceiling test using the January 1, 2004 commodity prices of \$5.40/mcf for natural gas and \$27.89/bbl for crude oil, results in a ceiling test surplus.

## Income Taxes

(\$000s)	Three Months Ended March 31		Change (%)
	2004	2003	
Current	<b>\$23</b>	\$-	100
Future (recovery)	<b>56</b>	94	(40)
Total income taxes	<b>79</b>	94	(16)

Future taxes were lower in the first quarter of 2004 compared with the same period of 2003 as a result of a tax rate reduction substantively enacted in the first quarter of 2004. This tax rate reduction resulted in a \$254 thousand non-recurring benefit in the first quarter of 2004. Current taxes for the three months ended March 31, 2004 are Federal Large Corporations Tax ("LCT"). As at December 31, 2003 the Company had over \$30 million in tax pools available for use and will not likely be cash-taxable in 2004.

## Net Income

The Company's net earnings for the first quarter of 2004 were \$939 thousand or \$0.04 per share on a diluted basis, versus \$568 thousand or \$0.03 per share for the same period in 2003. Earnings in the first quarter were positively affected by higher volumes, royalty rebates and lower effective tax rates. These increases were offset by weaker commodity prices and higher expenses.

## Netback Analysis

Barrels of oil equivalent (\$/boe)	Three Months Ended March 31		Change (%)
	2004	2003	
Sales price after hedging	<b>\$38.80</b>	\$47.98	(19)
Royalties	<b>4.60</b>	11.82	(61)
Operating expenses	<b>8.64</b>	5.35	61
Operating netback	<b>25.56</b>	30.81	(17)
G&A	<b>3.21</b>	1.54	108
Interest	<b>1.28</b>	(0.09)	1522
Current income taxes	<b>0.18</b>	-	100
Cash netback	<b>20.89</b>	29.36	29
Depletion and depreciation	<b>12.36</b>	16.73	(26)
Accretion expense	<b>0.51</b>	0.16	219
Future income taxes	<b>0.45</b>	1.78	(75)
Net Income	<b>7.57</b>	10.69	(29)

## Liquidity and Capital Resources

### Capitalization and Debt

As at (\$000s except share amounts)	<b>March 2004</b>
Common shares outstanding	<b>25,326,426</b>
Share price (end of period)	<b>\$1.81</b>
Market value of common shares	<b>45,840</b>
Debt including working capital deficit	<b>13,095</b>
Total capitalization	<b>58,935</b>
Debt as a % of capitalization	<b>22%</b>

### Liquidity

At March 31, 2004 the Company had \$12.6 million outstanding on its credit facility and a working capital deficit of \$0.5 million, totaling \$13.1 million of total net debt. As at March 31, 2004 the Company had accounts receivable of \$3.8 million consisting of \$1.5 million of revenue receivable, \$1.2 million of joint venture receivables and \$0.5 million of tax rebates. Included in the Company's \$5.0 million of accounts payable is \$1.7 million of operating payables, \$1.6 million of capital payables and \$1.0 million of joint venture payables. The Company has a \$21 million operating credit facility consisting of a \$16 million demand revolving operating facility and a \$5 million acquisition and development credit facility.

### Operating Activities

Cash flow from operating activities was \$2.6 million or \$0.10 per share in the first quarter of 2004, compared to \$1.6 million or \$0.08 per share for the same period a year ago. The increase in cash from operating activities in the first quarter of 2004 is primarily due to increased production volumes and lower royalties offset by decreased commodity pricing.

### Financing Activities

During the first quarter of 2004 cash generated from financing activities amounted to \$3.8 million, comprised of an increase to bank debt of \$3.6 million and proceeds on the exercise of options totaling \$0.2 million. Cash generated from financing activities in the first quarter of 2003 totaled \$3.3 million of which \$1.6 million was from increased bank debt and \$1.7 million was from proceeds from a private placement of 3,600,000 special warrants at a price of \$0.50 per warrant, for total proceeds of \$1.7 million, net of underwriting fees.

### Investing Activities

Cash used in investing activities amounted to \$2.7 million in the first quarter of 2004 compared with \$6.3 million in the first quarter of 2003. Cash invested in the first quarter of 2004 was comprised of \$5.1 million of capital expenditures, with the remainder due to changes in non-cash working capital.

### Drilling Results

Three Months Ended March 31	2004		2003	
	Gross	Net	Gross	Net
Natural gas wells	<b>8.0</b>	<b>1.4</b>	2.0	0.4
Oil wells	-	-	-	-
Dry holes	<b>3.0</b>	<b>0.6</b>	-	-
Total wells	<b>11.0</b>	<b>2.0</b>	2.0	0.4
Success rate (%)	<b>73%</b>	<b>70%</b>	100%	100%

## Capital Invested

(\$000s)	Three Months Ended March 31		Change (%)
	2004	2003	
Land	\$356	\$213	67
Seismic	4	3	33
Drilling and completions	1,555	1,207	29
Equipping and facilities	3,033	2,112	44
Property acquisitions	-	3,098	(100)
Capitalized expenses	154	-	100
Other	34	(30)	213
Total cash capital invested	5,136	6,603	(22)
Asset retirement obligation	48	-	100
Total capital invested	5,184	6,603	(21)

During the first quarter of 2004 the majority of Delphi's capital expenditures were directed towards exploration for and development of natural gas. Seventy three percent of the Company's first quarter capital expenditures was directed towards its core region of North West Alberta, where the Company spent \$3.8 million. In Fontas \$1.0 million was spent on development drilling, which resulted in nine wells being drilled, three of which were brought on stream by the end of the first quarter, increasing monthly production in the area by 15%. The Company spent a further \$1.7 million in the Fontas area on compression and facility upgrades to maintain and expand production capacity. In keeping with the strategy of balancing our low risk opportunities with certain high risk/high reward opportunities, Delphi participated in two deep exploratory wells in the Berland River area in the first quarter of 2004. The first of these wells was a successful Wabamun well with test rates of approximately 10 million cubic feet per day of raw gas, 8% net to Delphi. The Company expects this well to be tied-in and on production sometime in the summer of 2004. The second well is drilled and is being evaluated.

## Outstanding Share Data

The common shares of Delphi trade on the TSX Venture Exchange under the symbol DEE.V. The following table summarizes the common shares issued during 2004 and 2003.

	Number of Shares/Warrants
<b>Class A common shares:</b>	
Balance, December 31, 2002	18,231,920
Issued for cash pursuant to a private placement	1,836,000
Issued to DT shareholders with respect to the reverse take over of Rise	20,067,920
Common shares of Rise at date of acquisition	2,861,714
Issue of common shares with respect to the acquisition of Murias	358,000
Issue of common shares with respect to the acquisition of Fish Creek	540,540
Issue of common shares with respect to asset acquisitions	153,554
Issue of flow through common shares for cash	1,136,364
Exercise of stock options for cash	100,000
Balance, December 31, 2003	25,218,092
Exercise of stock options for cash	108,334
<b>Balance, March 31, 2004</b>	<b>25,326,426</b>

As at		<b>March 31, 2004</b>	December 31, 2003
(\$000s except per share amounts)			
Share price	High	<b>\$2.10</b>	\$1.90
	Low	<b>1.66</b>	1.32
	Close at end of period	<b>1.81</b>	1.75
Weighted average number of common shares outstanding			
	Basic	<b>25,263</b>	19,456
	Diluted	<b>25,680</b>	19,456
Number of common shares outstanding at end of period		<b>25,326</b>	20,068
Number of stock options outstanding at end of period		<b>1,611</b>	1,852

# DELPHI ENERGY CORP.

## Balance Sheets

	March 31 2004	December 31 2003
<b>Assets</b>	(unaudited)	(restated)
Current assets:		
Accounts receivable	\$ 3,756,519	\$ 4,610,458
Prepaid expenses	806,046	658,807
	<b>4,562,565</b>	5,269,265
Property, plant and equipment (Note 1,2,3)	<b>47,612,494</b>	43,963,309
Goodwill (Note 2)	<b>2,234,996</b>	2,234,996
	<b>54,410,055</b>	51,467,570
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	<b>5,020,574</b>	6,951,227
Bank indebtedness (Note 4)	<b>12,636,620</b>	9,005,620
	<b>17,657,194</b>	15,956,847
Future income taxes (Note 2)	<b>3,726,241</b>	3,670,000
Asset retirement obligations (Note 1,2)	<b>3,300,563</b>	3,188,762
Shareholders' equity:		
Share capital (Note 5)	<b>30,033,190</b>	29,802,427
Contributed surplus (Note 1,5)	<b>572,546</b>	-
Deficit (Note 2)	<b>(879,679)</b>	(1,150,466)
	<b>29,726,057</b>	28,651,961
	<b>54,410,055</b>	51,467,570

# DELPHI ENERGY CORP.

Statements of Earnings and Deficit (unaudited)

	Three Months Ended March 31	
	2004	2003
Revenue:		(restated)
Petroleum and natural gas sales	\$ 4,817,735	\$ 2,548,917
Royalties (net of Alberta Royalty Tax Credit)	(571,539)	(628,236)
	<b>4,246,196</b>	1,920,681
Expenses:		
Operating	1,072,113	284,097
General and administrative	398,647	81,959
Interest (income)	158,796	(4,911)
Depletion and depreciation	1,534,770	888,916
Accretion (Note 1,2)	63,775	8,703
	<b>3,228,101</b>	1,258,764
Earnings before taxes	<b>1,018,095</b>	661,917
Taxes:		
Current taxes	22,781	-
Future income taxes (Note 2,6)	56,241	94,317
	<b>79,022</b>	94,317
Net earnings (Note 2)	<b>939,073</b>	567,600
Deficit, beginning of period	(1,150,466)	(3,290,471)
Stock-based compensation – retroactive adoption (Note 1)	(668,286)	-
Deficit, end of period	<b>(879,679)</b>	(2,722,871)
Earnings per share:		
Basic and diluted	<b>0.04</b>	0.03
Weighted average number of common shares outstanding		
Basic	<b>25,263,111</b>	19,455,920
Diluted	<b>25,680,302</b>	19,455,920

# DELPHI ENERGY CORP.

Statements of Cash Flows (unaudited)

	Three Months Ended March 31	
	2004	2003
Cash provided by (used in):		(restated)
Operations:		
Net earnings	\$ 939,073	\$ 567,600
Add non-cash items:		
Share options expensed	(21,962)	-
Depletion and depreciation	1,534,770	888,916
Accretion	63,775	8,703
Future income taxes	56,241	94,317
Funds from operations	2,571,897	1,559,535
Change in non-cash working capital (Note 7)	(3,640,477)	(165,699)
	(1,068,580)	1,393,837
Financing:		
Issue of shares, net of share issue costs	156,985	1,718,231
Increase in bank indebtedness	3,631,000	1,590,095
	3,787,985	3,308,326
Investing:		
Property, plant and equipment additions	(5,135,929)	(6,603,392)
Change in non-cash working capital (Note 7)	2,416,524	306,126
	(2,719,405)	(6,297,266)
Decrease in cash	-	(1,595,103)
Cash, beginning of period	-	1,595,103
Cash, end of period	-	-

# DELPHI ENERGY CORP.

## Notes to Financial Statements

Three months ended March 31, 2004 (unaudited)

The interim financial statements of Delphi Energy Corp. ("Delphi" or the "Company") have been prepared by management in accordance with accounting principles generally accepted in Canada. The interim financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2003, except as noted below. Certain prior years' amounts have been reclassified to conform with current presentation. The interim financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in the Company's annual report for the year ended December 31, 2003.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results may differ from these estimates.

### Note 1: CHANGE IN ACCOUNTING POLICIES

#### (a) Stock-based compensation:

Effective January 1, 2004 the Company adopted the Canadian Institute of Chartered Accountants ("CICA") section 3870, "Stock-based Compensation and Other Stock-based Payments", retroactively without restatement of prior periods. The Company is required to record a compensation expense for all options granted over the vesting period based on the option's fair value. The compensation expense is included in the Company's general and administrative expenses. This change resulted in a decrease to the deficit of \$668,286 and an increase to contributed surplus of the same amount.

#### (b) Asset Retirement Obligation

Effective January 1, 2004 the Company retroactively adopted the recommendations of CICA Section 3110, "Asset Retirement Obligations" ("ARO"). The standard requires companies to recognize the liability associated with future abandonment and reclamation costs in the financial statements at the time when the liability is incurred. Asset retirement obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes to the estimated underlying cash flows. The asset retirement cost is capitalized as part of property, plant and equipment and amortized to income consistent with the depletion and depreciation of the underlying asset. Note 2 discloses the effect of the adoption of this section.

#### (c) Property, Plant and Equipment – Oil and Gas

Effective January 1, 2004 the Company adopted Accounting Guideline 16, "Oil and Gas Accounting – Full Cost" ("AcG-16"), which replaces Accounting Guideline 5, "Full Cost Accounting in the Oil and Gas Industry". AcG-16 modifies how the ceiling test is performed and is consistent with CICA section 3063, "Impairment of Long-lived Assets". The new standards prescribe the recognition of impairment only if the carrying amount of a long-lived asset is not recoverable from its estimated undiscounted future cash flows. The impairment amount is the difference between the carrying amount and the estimated fair value of the asset. This approach incorporates risks and uncertainties in the expected future cash flows, which are discounted using a risk free rate. The adoption of AcG-16 had no effect on the Company's financial results.

## Note 2: ASSET RETIREMENT OBLIGATIONS

The Company retroactively adopted the new recommendations on the recognition of the obligations to retire long-lived tangible assets. This change was effective January 1, 2004, with the revisions being applied retroactively. The effects were as follows:

Balance Sheet - As at December 31, 2003	As Reported	Change	As Restated
<b>Assets</b>			
Petroleum and natural gas properties	\$ 53,106,167	\$ 1,668,193	\$ 54,774,360
Accumulated depletion and depreciation	(10,637,608)	(173,443)	(10,811,051)
Net book value	42,468,559	1,494,750	43,963,309
Goodwill	783,500	1,451,496	2,234,996
<b>Liabilities and shareholders' equity</b>			
Asset retirement obligations	-	3,188,762	3,188,762
Future abandonment and restoration costs	768,109	(768,109)	-
Future income taxes	4,007,233	(337,233)	3,670,000
Deficit	(2,013,292)	862,826	(1,150,466)

Statement of Earnings Three months ended March 31, 2003	As Reported	Change	As Restated
Depletion and depreciation	\$ 879,648	\$ 9,268	\$ 888,916
Accretion expense	-	8,703	8,703
Net earnings	585,571	(17,971)	567,600

At March 31, 2004 the estimated total undiscounted amount required to settle the asset retirement obligations ("ARO") was \$4.8 million. These obligations are to be settled based on the economic lives of the underlying assets, which currently extend 16 years into the future. This amount has been discounted using a credit adjusted risk free interest rate of 8%.

### Changes to Asset Retirement Obligation

Three months ended March 31	2004
Asset retirement obligation at beginning of period	\$ 3,188,762
Liabilities incurred during the period	48,026
Liabilities settled during period	-
Accretion expense	63,775
Asset retirement obligation at March 31, 2004	3,300,563

**Note 3: PROPERTY, PLANT AND EQUIPMENT**

	Cost	Accumulated Depletion And Depreciation	Net book Value
<b>March 31, 2004</b>			
Petroleum and natural gas properties	\$ 47,240,518	\$ 11,158,486	\$ 36,082,032
Production equipment	10,654,404	801,770	9,852,634
Asset retirement obligation	1,716,218	228,980	1,487,238
Furniture, fixtures and office equipment	347,175	156,585	190,590
	<b>59,958,315</b>	<b>12,345,821</b>	<b>47,612,494</b>
<b>December 31, 2003</b>			
Petroleum and natural gas properties	42,921,945	9,925,289	32,996,656
Production equipment	9,871,430	571,737	9,299,693
Asset retirement obligation	1,668,192	173,442	1,494,750
Furniture, fixtures and office equipment	312,792	140,582	172,210
	<b>54,774,359</b>	<b>10,811,050</b>	<b>43,963,309</b>

As at March 31, 2004, unproved properties with capitalized costs of \$6.3 million were not subject to depletion.

During the three months ended March 31, 2004, the Company capitalized \$153,453 (2003 - \$nil), of general and administrative costs directly related to exploration and development activities.

The Company performed a ceiling test calculation at March 31, 2004 to assess the recoverable value of the property, plant and equipment and other assets. The oil and gas future process are based on January 1, 2004 commodity price forecast of our independent reserve evaluators. These prices have been adjusted for commodity price differentials specific to the Company. The following table summarizes the benchmark prices used in the ceiling test calculation. Based on these assumptions, the undiscounted value of future net revenues from the Company's proved reserves exceeded the carrying value of property, plant and equipment and other assets at March 31, 2004.

	WTI (\$US/bbl)	Currency exchange rate \$US/\$Cdn.	Edmonton reference price (\$Cdn/bbl)	AECO-C spot price (\$Cdn/mmbtu)
2004	\$34.25	\$0.75	\$44.75	\$6.65
2005	29.00	0.75	37.75	5.55
2006	27.00	0.75	35.25	5.20
2007	25.00	0.75	32.50	5.00
2008	25.00	0.75	32.50	5.00
2009	25.00	0.75	32.50	5.00
2010	25.50	0.75	33.00	5.10
2011	25.75	0.75	33.50	5.20
2012	26.25	0.75	34.00	5.25
2013	26.50	0.75	34.50	5.35
2014	27.00	0.75	35.00	5.45
Escalate thereafter at:	1.5%/yr		1.5%/yr	1.5%/yr

#### **Note 4: BANK INDEBTEDNESS**

At March 31, 2004 the Company had drawn \$12.6 on its banking facility. The Company has a financing commitment with a Canadian chartered bank for a revolving reducing demand loan credit facility and a non-revolving development demand loan. As at March 31, 2004 the credit facility limit is \$21 million and reduces \$0.7 million monthly beginning April 1, 2004. The facility bears interest at bank prime rate plus 0.25% payable monthly and is secured by a \$35.0 million demand floating charge debenture and a general security agreement. The borrowing base is subject to a semi-annual review by the lender.

#### **Note 5: SHARE CAPITAL**

##### **(a) Authorized:**

An unlimited number of voting common shares.

An unlimited number of preferred shares issuable in series.

(b) Issued:

Common shares/warrants:

	Number of Shares/warrants	Amount
Class A common shares:		
Balance, December 31, 2003	25,218,092	\$ 29,752,596
Stock-based compensation – adoption		73,779
Share issue costs		(100)
Exercised – options	108,334	157,084
<b>Balance, March 31, 2004</b>	<b>25,326,426</b>	<b>29,983,359</b>
Warrants:		
<b>Outstanding as at December 31, 2003 and March 31, 2004</b>	<b>146,250</b>	<b>49,831</b>
<b>Balance, March 31, 2004</b>		<b>30,033,190</b>

(c) Stock Options

The Company has established a stock option plan (the “Plan”) under which it has granted options to acquire common shares to certain officers, directors and employees. The Plan provides for the granting of up to ten percent of the issued and outstanding common shares of the Company. Options issued under the Plan have a term of five years to expiry and vest equally over a three year period starting on the date of the grant. The exercise price of each option equals the market price of the Company’s common shares on the date of the grant. As of March 31, 2004 there were 2,302,800 common shares reserved for issuance to eligible participants of the Plan.

On March 31, 2004, options for 1,610,500 common shares were outstanding with an exercise price between \$0.99 and \$1.75, and a weighted-average remaining contractual life of 3.85 years.

The following table sets forth a reconciliation of the Plan activity to March 31, 2004.

	Number of options	Weighted average exercise price
Balance, December 31, 2003	1,851,750	\$ 1.38
Granted	50,000	1.75
Cancelled	(182,916)	1.45
Exercised	(108,334)	1.45
<b>Balance, March 31, 2004</b>	<b>1,610,500</b>	<b>1.38</b>

As at March 31, 2004, 564,525 options under the Plan had vested.

**(d) Stock Based Compensation**

The Company has calculated its stock based compensation expense using the Black-Scholes option pricing model to estimate the fair value of stock options issued at the date of the grant. The weighted average fair market value of options granted in the first quarter of 2004 and the assumptions used in their determination are as follows:

Three Months Ended March 31		2004
Weighted average fair value per option	\$	0.83
Risk-free interest rate (%)		3.5
Volatility (%)		50
Expected life (years)		5

As described in Note 1, the Company adopted the fair value based method of accounting for stock-based compensation for its stock option plan retroactively without restating prior periods. Retained earnings at January 1, 2004, was decreased by \$668,286 with an increase to contributed surplus of the same amount. Beginning January 1, 2004, stock-based compensation is being recognized in earnings and included in general and administrative expenses.

**(e) Contributed Surplus**

Three Months Ended March 31		2004
Contributed surplus at beginning of period	\$	-
Stock-based compensation adoption		668,286
Options exercised		28,596
Options cancelled		(124,336)
Contributed surplus at March 31, 2004		572,546

**(f) Flow-Through Share Expenditures**

Pursuant to the December 18, 2003 flow-through share offering, the Company renounced \$2.5 million of qualifying expenditures effective December 31, 2003. Of the total qualifying expenditures renounced, approximately \$1.5 million remains to be expended before December 18, 2004.

**Note 6: INCOME TAXES**

On March 31, 2004 Bill 27 Alberta Corporate Tax Amendment Act was substantively enacted and a non-recurring benefit of \$254 thousand was recorded in the first quarter of 2004. There was no similar tax rate adjustment to the first quarter of 2003.

**Note 7: CASH FLOWS – CHANGE IN NON-CASH WORKING CAPITAL**

Three Months Ended March 31	2004	2003
<b>(a) Change in non-cash working capital was as follows</b>		
Decrease (increase) in non-cash working capital		
Accounts receivable	\$ 853,939	\$ (657,383)
Prepaid expenses	(147,239)	(74,945)
Accounts payable and accrued liabilities	(1,930,653)	872,755
Change in non-cash working capital	(1,223,953)	140,427
Relating to:		
Investing activities	2,416,524	306,126
Operating activities	(3,640,477)	(165,699)
Total non-cash working capital	(1,223,953)	140,427
<b>(b) Other cash flow information:</b>		
Taxes paid	6,628	-
Interest paid	145,424	1,745

**Note 8: FINANCIAL INSTRUMENTS****(a) Commodity Price Risk Management**

The Company has a price risk management program whereby the commodity price associated with a portion of its future production is fixed. The Company sells forward a portion of its future production through a combination of fixed price sale contracts with customers and commodity swap agreements with financial counterparties. The forward and futures contracts are subject to market risk from fluctuating commodity prices and exchange rates; gains and losses on the contracts are offset by changes in the value of the Company's production and recognized in income in the same period and category as the hedged item.

At March 31, 2004 the Company had the following physical gas sales contracts outstanding:

Year	Time Period	Commodity	Type of Contract	Quantity Contracted	Price
2004	March 2004	Natural Gas	Fixed price	2,000 GJ/d	\$7.00 fixed
2004	April 2004 – October 2004	Natural Gas	Fixed price	1,000 GJ/d	\$5.19 fixed

## Corporate Information

### DIRECTORS

David J. Reid  
President and Chief Executive Officer  
Delphi Energy Corp.

Tony Angelidis  
Senior Vice President Exploration  
Delphi Energy Corp.

Harry S. Campbell, Q.C. <sup>(2)</sup>  
Partner  
Burnet, Duckworth & Palmer LLP

Henry R. Lawrie <sup>(1)</sup>  
Former Chief Accountant  
Alberta Securities Commission

Robert A. Lehodey <sup>(1) (2)</sup>  
Partner  
Bennett Jones LLP

Lamont C. Tolley <sup>(1)</sup>  
Independent Businessman

(1) Member of the Audit and Reserves Committee  
(2) Member of the Compensation Committee

### OFFICERS

David J. Reid  
President and Chief Executive Officer

Tony Angelidis  
Senior Vice President Exploration

Frank M. Lowe  
Vice President Production

Tim L. Malo  
Vice President Land and Corporate Secretary

Brenda F. Mawhinney  
Vice President Finance and Chief Financial Officer

### CORPORATE OFFICE

1500, 444 – 5 Avenue S.W.  
Calgary, Alberta  
T2P 2T8  
Telephone: (403) 265-6171  
Facsimile: (403) 265-6207  
Email: [info@delphienergy.ca](mailto:info@delphienergy.ca)  
Website: [www.delphienergy.ca](http://www.delphienergy.ca)

### AUDITORS

KPMG LLP

### BANKERS

National Bank of Canada

### LEGAL COUNSEL

Bennett Jones LLP

### INDEPENDENT ENGINEERS

Gilbert Laustsen Jung Associates Ltd.

### TRANSFER AGENT

CIBC Mellon Trust Company

### STOCK EXCHANGE LISTING

TSX Venture Exchange  
Stock Symbol: DEE

**SCHEDULE "B"**  
**SUPPLEMENTARY INFORMATION**  
**DELPHI ENERGY CORP.**

**1. Analysis of expenses and capital additions**

<b>Petroleum and Natural Gas Properties</b>	<b>Three Months Ended March 31, 2004 (\$ thousands)</b>
Land acquisitions	356
Geological & geophysical	4
Drilling and completions	1,555
Equipping and Facilities	3,033
Capitalized expenses	154
Other	34
Net acquisitions	5,136
Asset retirement	48
Net capital	\$ 5,184

A summary of expenses for the quarter ended March 31, 2004 is included in the financial statements which are attached.

**2. Related party transactions**

As at March 31, 2004 there are no related party transactions.

**3. Summary of securities issued and options granted during the period is outlined below:**

	Number of options		Weighted average exercise price
Balance, December 31, 2003	1,851,750	\$	1.38
<b>Granted</b>	50,000		1.75
<b>Cancelled</b>	(182,916)		1.45
<b>Exercised</b>	(108,334)		1.45
<b>Balance, March 31, 2004</b>	<b>1,610,500</b>		<b>1.38</b>

**4. Securities outstanding as at March 31, 2004**

A summary of securities outstanding as at the end of the reporting period is included as a note in the financial statements.

**5. List of Directors and Officers as at March 31, 2004**

David J. Reid - Director and Officer - Calgary, AB  
 Tony Angelidis – Director and Officer - Calgary , AB  
 Robert A. Lehodey – Director - Calgary AB  
 Harry S. Campbell – Director - Calgary, AB  
 Lamont C. Tolley – Director - Calgary, AB  
 Henry R. Lawrie – Director - Calgary, AB  
 Brenda Mawhinney – Officer – Calgary, AB  
 Tim Malo – Officer – Calgary, AB

**BCSC**

**QUARTERLY AND YEAR END REPORT**

**British Columbia Securities Commission**

**BC FORM 51-901F**

**SCHEDULE "C"**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**DELPHI ENERGY CORP.**

The Corporation's Management Discussion and Analysis relating to the financial statements for the three months ended March 31, 2004, which are set out in the Corporation's first quarter 2004 interim report, under the heading "Management Discussion and Analysis", are incorporated herein by reference and form an integral part of this form.