

second quarter 2006

six months ended June 30, 2006



1500, 444 - 5 Avenue SW, Calgary, Alberta T2P 2T8
Telephone: [403] 265-6171 Facsimile: [403] 265-6207

Email: info@delphienergy.ca
Website: www.delphienergy.ca
TSX Symbol: DEE



Second Quarter 2006 Highlights

- Increased production by 39 percent to 5,834 barrels of oil equivalent per day (boe/d) from 4,192 boe/d in the second quarter of 2005 and by 16 percent from 5,011 boe/d in the first quarter of 2006.
- Increased funds from operations by 82 percent to \$14.5 million (\$0.26 per share) compared to \$7.9 million (\$0.16 per share) in 2005 and up 17 percent from \$12.4 million in the first quarter of 2006.
- Achieved net earnings of \$4.8 million (\$0.09 per share) compared to \$1.0 million (\$0.02 per share) for the second quarter of 2005.
- Increased cash netbacks to \$27.22 per boe, an improvement of 31 percent compared to the same quarter in the prior year.
- Maintained operating costs at \$8.07 per boe, lower than \$8.41 per boe in the second quarter of 2005 and virtually unchanged from \$8.09 per boe in the first quarter of 2006 despite significant inflationary pressures.
- Delphi and its joint venture partner brought on production from the Bigfoot area of North East British Columbia.
- Completed drilling operations on a 4,900 metre Leduc exploration well at Tower Creek, Alberta in record drilling time and under budget.
- Closed a private placement of 5.2 million flow-through common shares for gross proceeds of \$25.0 million and received proceeds on the disposition of several non-core properties for \$15.7 million.

Operational Highlights

	Three Months Ended June 30			Six Months Ended June 30		
	2006	2005	% Change	2006	2005	% Change
Production						
Natural gas (mcf/d)	28,797	19,961	44	26,260	18,429	42
Crude oil (bbls/d)	531	591	(10)	537	652	(18)
Natural gas liquids (bbls/d)	503	274	84	510	217	135
Total (boe/d)	5,834	4,192	39	5,424	3,941	38

Financial Highlights (\$000s except per boe and per share amounts)

Petroleum and natural gas sales	25,865	17,335	49	49,674	31,313	59
Per boe	48.72	45.45	7	50.60	43.91	15
Funds from operations	14,452	7,935	82	26,832	13,893	93
Per boe	27.22	20.80	31	27.34	19.49	40
Per share – Basic	0.26	0.16	63	0.48	0.28	71
Per share – Diluted	0.26	0.16	63	0.48	0.28	71
Net earnings	4,768	1,003	375	5,955	(940)	-
Per boe	8.97	2.63	241	6.08	(1.30)	-
Per share – Basic	0.09	0.02	350	0.11	(0.02)	-
Per share – Diluted	0.08	0.02	300	0.11	(0.02)	-
Capital invested	44,313	7,095	525	125,342	67,131	87

	June 30 2006	December 31 2005	% Change
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Debt plus working capital	119,875	61,020	96
Total assets	339,224	244,666	39

MESSAGE TO SHAREHOLDERS

Delphi has achieved consistent growth on all key metrics since going public in June 2003, culminating in record average production of 5,834 barrels of oil equivalent per day during the second quarter of 2006.

Delphi continues to be excited about the growth opportunities within the Company. Exploration success at Tower Creek and Brazeau in Alberta and Bullmoose in British Columbia along with development drilling success at Bigfoot in North East British Columbia and Bigstone in North West Alberta are examples of the Company's grassroots growth strategies at work. Delphi is evaluating alternatives to access approximately 800 to 1,000 boe/d of behind pipe capability anticipated to come on-stream late in 2006 or early in 2007.

The Company also continues to focus on increasing base production volumes by addressing infrastructure constraints and unscheduled downtime on both owned and third-party facilities. Currently, Delphi has approximately 400 to 500 boe/d of restricted production volumes.

OPERATIONS

Bigstone, North West Alberta

In the Bigstone area of North West Alberta, Delphi drilled two gas wells (0.2 net) in the second quarter of 2006 that are in the process of being completed and tied into existing infrastructure. Initial production from these wells is anticipated during the third quarter. In addition, five gas wells (2.5 net) and one oil well (0.6 net) from previous drilling programs were brought on-line through the infrastructure expansion completed at the end of the first quarter. This expansion included eight kilometres of new natural gas pipelines and a significant expansion of a field compression facility, which will allow Delphi to develop the majority of the remaining undeveloped land base in the Bigstone field with minimal infrastructure cost. Delphi was also successful in acquiring an additional 1,280 net acres adjacent to our current land base and immediately offsetting several recent discoveries.

A drilling rig has been contracted for the summer drilling program and the first well was spud in July. The summer program has been focused on delineating the recent light oil discovery (47° API) and deeper Cretaceous gas sands proven productive during last winter's program. Delphi is in the process of licensing six locations and the results of this program will assist in prioritizing the 30 locations currently identified.

Valhalla, Alberta

As previously announced, Delphi's exploration discovery in the Wabamun formation at 13-21 was placed on-stream in the second quarter at a restricted gross production rate of one million cubic feet per day. While capable of much higher rates, the well is currently restricted to approximately 25 percent of tested capability due to third party pipeline capacity constraints. Efforts are proceeding to alleviate these constraints by the fourth quarter of 2006. Delphi has an 18 percent working interest in the 13-21 well.

Bigfoot, North East British Columbia

In April, Delphi began to record its first production from Bigfoot in North East British Columbia. The Bigfoot core area is part of a farm-in agreement with a senior producer signed in November 2005. The agreement offers Delphi the opportunity to earn a working interest in 200 sections of land and creates an area of mutual interest covering an additional 200 sections. The earned lands are expected to offer the Company 30 locations per year for at least five to 10 years. Production from Bigfoot commenced sooner than expected as a result of the early completion and commissioning of major infrastructure constructed during the 2005/06 winter drilling season. During the second quarter, Delphi drilled seven gas wells (3.5 net) and initiated production from 10 gas wells (5.0 net), including wells drilled in the second quarter and existing productive wellbores. Since coming online in mid-April, second quarter production in the Bigfoot area averaged 775 boe/d net to Delphi. At the end of the second quarter, eight gas wells (4.0 net) were in various stages of completion or tie-in and three wells (1.5 net) remained to be drilled to complete the earning commitment. Eight of these wells (4.0 net) are anticipated to be tied in during the third quarter and the remaining will be tied in during the upcoming winter program. The winter program is expected to conclude the earning commitments on the northern half of the joint venture lands ("Area 1"). At the conclusion of this program, Delphi will have earned a 50 percent working interest in 21 wells and 75,000 gross acres fully covered with 3D seismic, 30 kilometres of a 12-inch natural gas transmission pipeline to transport the natural gas from the Bigfoot area to an existing processing facility in the Greater Sierra area owned and operated by the joint venture partner, and a 54 kilometre all-season road providing access to the undeveloped lands.

Delphi has also completed the acquisition of 3D seismic over 65,000 gross acres in the southern half of the joint venture lands ("Area 2"). The data has been processed and is of high quality. Preliminary mapping suggests Area 2 is equally as prospective as Area 1. Delphi has until August 31, 2006 to further evaluate the seismic data and elect whether or not to participate in the development of Area 2.

Helmet / Windflower / Peggo, North East British Columbia

In the Helmet and Windflower area of North East British Columbia, Delphi finalized the tie-in and initiated production from seven gas wells (3.4 net). Five of these wells were drilled in the first quarter of 2006 and two were from previous drilling programs.

At Peggo, Delphi entered into multiple agreements that resulted in an increase in the Company's undeveloped land position by 2,900 net acres, the acquisition of a 100 percent working interest in 13 kilometres of a sour gas transmission pipeline and a 50 percent interest in a 30 mmcf/d processing facility.

EXPLORATION DRILLING

Tower Creek, Alberta

Delphi's 4,900 metre Tower Creek Leduc well in North West Alberta has been completed and production testing continued into early August. After an acid stimulation, the 95 metre open-hole section was production tested at a restricted rate of 15 mmcf/d with a flowing tubing pressure of approximately 3,800 psi. There was no indication of formation water during testing and the well is currently shut-in to obtain pressure data for further analysis regarding deliverability and reserves. Delphi participated in the drilling of this well at 21.67 percent and has earned a 20.17 percent interest in the wellbore and surrounding acreage. Tie-in options are being finalized and production is anticipated to commence late in 2006 or early in 2007. Initial production rates are anticipated to be in excess of the test rates.

Delphi plans to participate in a second deep seismically defined exploration test in this area targeting high pressure sweet gas from the highly fractured Wabamun formation. Under the terms of the agreement, Delphi has the option to participate for 18.6 percent in the drilling of the well to earn 15.3 percent in the wellbore and surrounding acreage. Upon completion of earning, Delphi will have an interest in more than 12,000 acres in the Tower Creek area.

Brazeau, Alberta

On the Company's deep exploration well in the Brazeau, Alberta area, three of the six potentially productive intervals have been tested, resulting in one oil and two gas completions. The wellbore has been configured to produce two of the tested intervals, one gas and one oil. The third interval that was tested will remain suspended for the near term. Tie-in operations are ongoing and initial production is anticipated in the third quarter of 2006 at 60 boe/d net to Delphi.

Delphi has a 27 percent interest in the well and the surrounding 2,560 acres of undeveloped land. Multiple offset locations have been identified and additional drilling is anticipated prior to year end.

Bullmoose, British Columbia

Delphi also participated at 3.25 percent in a successful well in the Bullmoose region of North East British Columbia. The Bullmoose well tested a Triassic interval at rates of up to 27 mmcf/d gross raw gas. The well is expected to be tied-in during the fourth quarter and initially produce at 60 boe/d net to Delphi.

PRODUCTION

Production during the second quarter of 2006 averaged approximately 5,834 boe/d, a 16 percent increase over the 5,011 boe/d averaged in the first quarter of 2006 and a 39 percent increase over the comparative quarter in 2005. As previously reported, production during the second quarter was negatively affected by approximately 300 boe/d as a result of facility interruptions at Bigstone and processing constraints in the Grande Prairie area.

DISPOSITION OF NON-CORE ASSETS

In line with the stated objectives of focusing the Company's efforts in areas of high working interests and maximizing shareholder value, Delphi initiated the divestment of several non-core assets during the second quarter of 2006.

On May 31, 2006, Delphi closed the disposition of non-core, non-operated assets in North West Alberta for total proceeds of \$12.1 million. The assets produced approximately 50 boe/d net to Delphi and included 10,800 net acres of undeveloped land.

Delphi had also initiated a process through the public marketplace to divest its East Central Alberta assets, which contributed 625 boe/d in the first half of 2006. Two of the properties garnered bids exceeding expectations and the Company has proceeded with the divestiture of these assets. Delphi closed the disposition of one of the assets in the second quarter and the disposition of the other property is scheduled to close in the third quarter. These assets produced approximately 100 boe/d net to Delphi and total proceeds will be approximately \$4.0 million. Delphi plans to retain the remaining properties and maximize their value through exploitation or a future divestiture.

FINANCIAL REVIEW

Funds from operations for the second quarter of 2006 were \$14.5 million (\$0.26 per share), an increase of 82 percent over the prior year and an increase of 17 percent from \$12.4 million in the first quarter of 2006. Cash flow netbacks were \$27.22 per boe, an increase of 31 percent compared to the second quarter of 2005 and virtually unchanged from the first

quarter of 2006. Maintaining the cash flow netback despite significantly lower natural gas prices in the second quarter resulted primarily from Delphi's risk management program and a significant reduction in royalty costs as the Company received a gas cost allowance credit offsetting Crown royalties for capital incurred on natural gas infrastructure in the prior year. Delphi's field cost structure remained stable through the second quarter of 2006. Net earnings for the second quarter of 2006 were \$4.8 million (\$0.09 per share) compared to \$1.0 million (\$0.02 per share) in the same quarter of 2005. During the quarter, Delphi closed a private placement of 5,209,000 flow-through common shares for gross proceeds of \$25 million. .

Delphi invested \$44.3 million into its capital program in the second quarter of 2006, incurring 64 percent of the expenditures at Bigfoot. The capital program was funded by cash flow from operations, bank debt and the disposition of non-core properties. During the quarter, the Company received proceeds on the disposition of several non-core properties of \$15.7 million, representing production of approximately 150 boe/d. The proceeds were used to pay down bank debt. The Company expects to fund its remaining 2006 capital program through cash flow from operations.

At June 30, 2006, outstanding bank debt was \$90.0 million with a working capital deficiency of \$29.9 million, including accrued liabilities of \$16.7 million, for a total debt plus working capital deficiency of \$119.9 million. The Company's lenders have finalized their annual credit review based upon the December 31, 2005 engineering report, with the revolving facility increased to \$115.0 million and becoming a 364 day committed revolving facility with a one-year term out provision. With the majority of the Company's capital expenditure commitment at Bigfoot incurred by the end of the second quarter, the Company's development facility was reduced from \$30.0 million to \$10.0 million. Based on annualized second quarter cash flow, Delphi's debt to cash flow ratio at June 30, 2006 is 2.1:1. As was the case in 2005, the Company's debt to cash flow ratio peaked at the end of the first quarter and is expected to continue to decrease throughout the remainder of the year as the capital program going forward is less than projected cash flow.

The Company maintains an active risk management program as an integral part of its overall financial strategy to mitigate cash flow volatility resulting from fluctuating commodity prices. As additional natural gas volumes have been brought on-stream, the Company has executed additional physical natural gas forward contracts for the summer contract period of 2006, the winter contract period of 2006/2007 and has begun entering into forward contracts for the summer of 2007 and winter 2007/2008. Delphi's risk management program consists of both fixed price contracts as well as costless collars, which provide both downside protection and the opportunity to share in the upside if market prices move above the floor price. Approximately 40 percent of production is hedged at a floor price of Cdn. \$8.73 per thousand cubic feet for the summer contract period of 2006 and at a floor price of Cdn. \$9.84 per thousand cubic feet for the winter contract period of 2006/2007.

OUTLOOK

The capital program for the second half of 2006 is anticipated to be \$20 million to \$30 million, largely dependent on the natural gas price environment through the remainder of the year. The current weakness in natural gas prices is viewed as short term by the Company and has been partially mitigated by hedging approximately 40 percent of natural gas production at an average floor price of approximately Cdn. \$9.10 per thousand cubic feet for the remainder of 2006. This near-term natural gas price weakness and volatility presents a challenging environment with the continued inflated cost of both drilling and oilfield services. The Company is preparing for a significant increase in activity for the 2006/07 winter program in anticipation of a sustained recovery of natural gas prices.

Delphi's production guidance for 2006 remains unchanged at approximately 6,000 boe/d, weighted 82 percent towards natural gas.

The Company remains focused on creating shareholder value through its development and exploration programs on its high quality assets concentrated in North West Alberta and North East British Columbia. Delphi is well positioned for long-term sustainable growth with an inventory of drilling opportunities in excess of five years.

On behalf of the Board,

David J. Reid,
President and Chief Executive Officer
August 8, 2006

Management's Discussion and Analysis

(all tabular amounts are expressed in thousands of CDN dollars, except per unit amounts)

The following discussion and analysis has been prepared by management and reviewed and approved by the Board of Directors of Delphi Energy Corp ("Delphi" or the "Company"). The discussion and analysis is a review of the financial results of the Company based upon accounting principles generally accepted in Canada. Its focus is primarily a comparison of the financial performance for the three and six months ended June 30, 2006 and 2005 and should be read in conjunction with the unaudited financial statements and accompanying notes included in this report and the audited financial statements and accompanying notes for the year-ended December 31, 2005 included in the Company's 2005 Annual Report. The discussion and analysis has been prepared as of August 8, 2006.

Basis of Presentation. For the purpose of reporting production information, reserves and calculating unit prices and costs, natural gas volumes have been converted to a barrel of oil equivalent (boe) using six thousand cubic feet equal to one barrel. A boe conversion ratio of 6:1 is based upon an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. This conversion conforms with the Canadian Securities Administrators' National Instrument 51-101 when boes are disclosed. Boes may be misleading, particularly if used in isolation.

NON GAAP Measures. The MD&A contains the terms "funds from operations", "funds from operations per share" and "netbacks" which are not recognized measures under Canadian generally accepted accounting principles. The Company uses these measures to help evaluate its performance. Management considers netbacks an important measure as it demonstrates its profitability relative to current commodity prices. Management uses funds from operations to analyze performance and considers it a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future capital investments and to repay debt. Funds from operations has been defined by the Company as net earnings plus the addback of non-cash items (depletion, depreciation and accretion, stock-based compensation, future income taxes and unrealized (gain)/loss on risk management activities) and excludes the change in non-cash working capital related to operating activities and expenditures on site restoration and reclamation. The Company also presents funds from operations per share whereby amounts per share are calculated using weighted average shares outstanding consistent with the calculation of earnings per share. Delphi's determination of funds from operations may not be comparable to that reported by other companies nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with Canadian GAAP. Throughout this discussion, the term cash flow may be used to describe funds from operations.

Forward-Looking Statements. Certain information regarding Delphi Energy Corp. set forth in this document, including management's assessment of the Company's future plans and operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the Company's control, including the effects of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other oil and gas companies, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from both internal and external sources. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements, and accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur.

Production

	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2006	2005	% Change	2006	2005	% Change
Natural gas (mcf/d)	28,797	19,961	44	26,260	18,429	42
Crude oil (bbl/d)	531	591	(10)	537	652	(18)
Natural gas liquids (bbl/d)	503	274	84	510	217	135
Total (boe/d)	5,834	4,192	39	5,424	3,941	38

Production for the three months ended June 30, 2006 ("the Quarter") averaged 5,834 boe/d representing an increase of 39 percent over the comparative period primarily due to successful drilling programs at Bigstone, Alberta ("Bigstone") and in the Bigfoot area in North East British Columbia ("Bigfoot"). Production increased 16 percent over the first quarter of 2006 as production from Bigfoot was brought on-stream ahead of schedule. Production during the Quarter was negatively affected by approximately 300 boe/d as a result of facility interruptions at Bigstone and processing constraints in the Grande Prairie area. The Company's production portfolio for the Quarter was weighted 82 percent to natural gas, 9 percent to crude oil and 9 percent to natural gas liquids.

Crude oil production was 10 percent lower during the Quarter as compared to the same period in 2005. Delphi has elected to retain the majority of the East Central Assets which despite higher than average corporate operating costs per boe, generate greater netbacks in the current oil price environment with minimal capital investment.

Natural gas liquids (NGL) production, primarily condensate, has increased significantly as a result of the high yield of liquids associated with increased natural gas production at Bigstone, Alberta.

Commodity Prices and Risk Management

Benchmark Prices

	Three Months Ended			Six Months Ended		
	2006	2005	% Change	2006	2005	% Change
Natural gas						
NYMEX (US \$/mmbtu)	6.50	6.76	(4)	7.96	6.53	22
AECO (CDN \$/mcf)	6.05	7.35	(18)	6.76	7.11	(5)
Crude oil						
West Texas Intermediate (US \$/bbl)	70.45	53.17	32	67.05	51.51	30
Edmonton Light (CDN \$/bbl)	77.55	65.79	18	73.90	63.73	16
Foreign exchange rate						
Canadian to US dollar	1.12	1.24	(10)	1.14	1.24	(8)
US to Canadian dollar	0.89	0.80	11	0.88	0.81	9

Natural Gas

United States natural gas prices are commonly referenced to the New York Mercantile Exchange Henry Hub in Louisiana (NYMEX) while Canadian natural gas prices are typically referenced to the AECO Hub in Alberta. Natural gas prices are influenced more by North American supply and demand than global fundamentals. During the Quarter AECO natural gas prices continued their downward trend from the first quarter and decreased 18 percent from the comparative period and 19 percent from the first quarter of 2006. Natural gas prices have been driven lower by the large amount of gas in storage as a result of the warm winter and the fear that if injection rates continue at the current pace storage may become full by September or October and producers would be forced to curtail production. At the time of writing this MD&A, a heat wave had spread across North America including the top natural gas consuming regions in Canada and the United States resulting in a withdrawal of natural gas from storage for the production of electricity, very uncharacteristic for this time of year. Delphi expects prices to remain volatile throughout 2006 and as such, extended its price protection strategy during the quarter to protect the Company's capital program, however, Delphi believes the long term fundamentals for natural gas prices are strong particularly when considering the 2007 forward strip price and beyond.

Crude Oil

West Texas Intermediate at Cushing, Oklahoma (WTI) is the benchmark reference for North American crude oil prices. Canadian crude oil prices are based upon postings, primarily at Edmonton, Alberta, and represent the WTI price adjusted for quality and transportation differentials as well as the US/CDN dollar exchange rate. Crude oil prices continued to show sustained strength during the Quarter primarily due to geopolitical unrest in major oil producing countries in the Middle East.

The prices received for crude oil are related to the price of crude oil in world markets. Prices for heavy oil and other lesser quality crudes trade at a discount or differential to light crude oil due to the additional processing costs. Consistent with the historical trend of heavy oil differentials narrowing during the summer months, the differential decreased from \$28.41 in first quarter of 2006 to \$15.90 during the Quarter thereby increasing the average price received by Delphi.

Risk Management Activities

Delphi enters into both financial and physical commodity contracts as part of its risk management program to manage commodity price fluctuations designed to ensure sufficient cash is generated to fund its capital program particularly when commodity prices are extremely volatile.

The Company has chosen to mark-to-market its outstanding financial fixed price contracts and record any unrealized gain or loss. The estimated fair value of unrealized derivative instruments is reported on the balance sheet with any change in the unrealized positions charged to earnings. The fair values of these instruments are based on an approximation of the amounts that would have been paid to or received from counterparties to settle the instruments outstanding at the end of the period with reference to forward prices and market values provided by independent sources. The Company incurred an unrealized non-cash gain on risk management activities for the six months ended June 30, 2006 of \$0.6 million related to financial contracts. During the six months ended June 30, 2006, Delphi recorded a realized loss on financial commodity contracts of \$0.2 million. Delphi no longer has any outstanding financial contracts and has entered into physical contracts to reduce the volatility in earnings.

The Company has fixed the price applicable to future production through the following contracts:

Time Period	Commodity	Type of Contract	Quantity Contracted	Canadian Price (CDN\$/GJ)
April 2006 – October 2006	Natural Gas	Physical	2,000 GJ/d	\$9.50 floor/\$10.90 ceiling
April 2006 – October 2006	Natural Gas	Physical	2,000 GJ/d	\$9.19 fixed
April 2006 – October 2006	Natural Gas	Physical	2,000 GJ/d	\$10.50 floor/\$11.15 ceiling
April 2006 – October 2006	Natural Gas	Physical	1,000 GJ/d	\$8.32 fixed
April 2006 – October 2006	Natural Gas	Physical	2,000 GJ/d	\$8.00 floor/\$8.60 ceiling
May 2006 – October 2006	Natural Gas	Physical	4,000 GJ/d	\$6.25 fixed
November 2006 – March 2007	Natural Gas	Physical	4,000 GJ/d	\$8.75 floor/\$10.00 ceiling
November 2006 – March 2007	Natural Gas	Physical	2,000 GJ/d	\$10.00 fixed
November 2006 – March 2007	Natural Gas	Physical	4,000 GJ/d	\$9.50 floor/\$10.65 ceiling
November 2006 – March 2007	Natural Gas	Physical	2,000 GJ/d	\$9.50 floor/\$11.35 ceiling
April 2007 – October 2007	Natural Gas	Physical	4,000 GJ/d	\$8.00 floor/\$8.92 ceiling
April 2007 – October 2007	Natural Gas	Physical	3,000 GJ/d	\$8.75 floor/\$9.55 ceiling
November 2007 – April 2008	Natural Gas	Physical	3,000 GJ/d	\$9.00 floor/\$9.98 ceiling ⁽¹⁾

⁽¹⁾ Contract entered into subsequent to quarter end.

The contract price on physical contracts is recognized in earnings in the same period as the production revenue.

Realized Sales Prices

	Three Months Ended June 30			Six Months Ended June 30		
	2006	2005	% Change	2006	2005	% Change
Natural gas (\$/mcf)	7.59	7.90	(4)	8.29	7.50	11
Gain/(loss) on financial contracts (\$/mcf)	-	(0.10)	-	(0.04)	0.06	-
Realized gas price (\$/mcf)	7.59	7.80	(3)	8.25	7.56	9
Crude oil (\$/bbl)	60.84	45.10	35	52.14	41.42	26
Loss on financial contracts (\$/bbl)	-	(6.98)	-	-	(4.94)	-
Realized oil price (\$/bbl)	60.84	38.12	60	52.14	36.48	43
Natural gas liquids (\$/bbl)	66.15	45.15	47	58.20	45.60	28
Total realized sales price (\$/boe)	48.72	45.45	7	50.60	43.91	15

The Company continues to receive higher than the AECO spot price on natural gas sales due to the high heating content of natural gas production and the sale of approximately 18 percent of the Company's production being priced at Chicago from sales on the Alliance Pipeline for the three and six months ended June 30, 2006. During the three and six months ended June 30, 2006, Delphi also benefited from its risk management program in which the Company fixed the price on a portion of its natural gas production at amounts significantly higher than the AECO spot price. The risk management program increased the average price received during the Quarter by approximately \$1.17 per mcf and \$0.88 per mcf year to date in excess of the AECO spot price. The increase in the average oil price received by Delphi during the three and six months ended June 30, 2006, is consistent with the upward trend of the benchmark WTI and the narrowing of the differential, offset by the strengthening of the Canadian dollar. Delphi's oil production is predominantly a medium grade oil therefore the Company's average price fluctuates with the quality differential. Realized natural gas liquids prices have increased due to the increase in the price received for condensate, the primary component of the Company's natural gas liquids production.

Revenue

	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2006	2005	% Change	2006	2005	% Change
Natural gas	19,897	14,346	39	39,419	25,007	58
Crude oil	2,940	2,425	21	5,068	4,887	4
Natural gas liquids	3,028	1,125	169	5,372	1,790	200
Realized loss on financial contracts	-	(561)	-	(185)	(371)	50
Total	25,865	17,335	49	49,674	31,313	59

The increase in revenue over the comparative period is attributable to increased production volumes and an increase in the realized price received. For the Quarter, 65 percent of the increase in total revenue is attributable to natural gas sales revenue which increased 39 percent over the comparative quarter in 2005. Revenue increased nine percent over the first quarter of 2006 due to a 16 percent increase in production volumes offset by an eight percent decrease in the realized sales price. Revenue for the six months ended June 30, 2006 increased 59 percent over the comparative period due to a 38 percent increase in production volumes and a 15 percent increase in the average realized price received.

Royalties

	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2006	2005	% Change	2006	2005	% Change
Crown	4,278	3,677	16	9,656	6,240	55
Freehold and gross overriding	251	289	(13)	453	595	(24)
Total	4,529	3,966	14	10,109	6,835	48
Royalty credits	(1,335)	(448)	198	(1,851)	(858)	116
Net	3,194	3,518	(9)	8,258	5,977	38
Per boe	6.02	9.22	(35)	8.41	8.38	-
Percent of total revenue	12.3	20.3		16.6	19.1	

The Company pays royalties to provincial governments (Crown), freeholders, which can be individuals or companies, and other oil and gas operators, who own surface or mineral rights. Crown royalty rates are calculated on a sliding scale based on commodity prices and individual well production rates. Royalty rates can change due to price fluctuations or changes in production volumes on a well by well basis subject to a minimum and maximum rate restriction ascribed by the Crown. During the Quarter, royalties as a percentage of revenue decreased to 12 percent due to Delphi realizing approximately \$3.0 million in hedging gains on which royalties are not paid. In Alberta, Delphi pays royalties based on the provincial reference price resulting in Delphi not paying royalties on the incremental \$3.0 million in hedging gains. Excluding the \$3.0 million in incremental revenue from the hedging gains and the royalty credits, Delphi's royalties as a percentage of revenue, on a normalized basis, during the Quarter were approximately 20 percent which is consistent with the comparative period. Delphi is expecting royalties as a percentage of revenue to average between 20 – 22 percent for the remainder of 2006.

Royalty credits for the three and six month period ended June 30, 2006 are higher than the comparative periods due to the acquisition of the Bigstone property and capital being spent on natural gas infrastructure which has resulted in an increase to the Gas Cost Allowance (GCA) credit. The GCA is a deduction from Alberta Crown royalties to compensate the Company for the cost of gathering, processing and compression facilities to process the Crown royalty portion of production. During the Quarter, Delphi received from the Crown a GCA adjustment relating to 2005 in the amount of \$0.4 million. The Company receives the Alberta Royalty Tax Credit (ARTC), a tax rebate from the Alberta government for eligible crown royalties paid in the year subject to a maximum of \$0.5 million in 2006. Prospectively, Delphi expects total quarterly royalty credits to be approximately \$0.7 million.

Operating Expenses

	Three Months Ended June 30			Six Months Ended June 30		
	2006	2005	% Change	2006	2005	% Change
Total	4,282	3,209	33	7,932	5,852	36
Per boe	8.07	8.41	(4)	8.08	8.21	(2)

Operating expenses on a per boe basis for the three and six month period ended June 30, 2006, decreased four percent and two percent over the comparative period despite an environment which faces strong inflationary pressures. Operating costs on a per boe basis are consistent with the prior quarter. With continued natural gas production increases from Bigstone and operating areas in North East British Columbia, Delphi was expecting operating costs to trend downwards throughout the year and average approximately \$7.50 for the year; however, due to the aforementioned inflationary pressures experienced among the majority of industry participants, Delphi is now expecting operating costs to average \$7.50 to \$8.00 for the year.

Transportation Expenses

	Three Months Ended June 30			Six Months Ended June 30		
	2006	2005	% Change	2006	2005	% Change
Total	1,779	1,285	38	3,095	2,252	37
Per boe	3.35	3.37	(1)	3.15	3.16	-

On a per boe basis, transportation costs for the three and six months ended June 30, 2006 are consistent with the comparative periods. The Company expects a marginal increase in transportation costs on a per boe basis for the remainder of the year. Transportation costs on a per boe basis have increased approximately 15 percent from the first quarter of 2006 due to production from the Bigfoot area being brought on stream.

In British Columbia, infrastructure is owned by Duke Energy that enables natural gas producers to avoid facility construction in exchange for regulated gathering, processing and transmission fees. This all-in charge is included in transportation expenses.

During the Quarter, approximately 30 percent of the Company's natural gas production from the Bigstone area was shipped on the Alliance Pipeline and sold in Chicago. The costs of transmission from the field to Chicago are included in transportation expenses.

General and Administrative

	Three Months Ended June 30			Six Months Ended June 30		
	2006	2005	% Change	2006	2005	% Change
General and administrative costs	1,412	976	45	3,041	2,204	38
Overhead recoveries	(343)	(123)	179	(743)	(255)	191
Salary allocations	(421)	(288)	46	(1,217)	(649)	88
Net	648	565	15	1,081	1,300	(17)
Per boe	1.22	1.49	(18)	1.10	1.81	(39)

On a per boe basis, general and administrative (G&A) costs for the three and six months ended June 30, 2006 decreased 18 percent and 39 percent over the comparative periods in 2005. On a gross basis G&A has increased 45 percent and 38 percent commensurate with increased staffing and activity levels. In order for the Company to have continued success it is paramount that Delphi retain its current staff and have the ability to continue to attract highly qualified professionals as needed. As anticipated, G&A per boe has decreased as additional production has been tied in with a minimal amount of increased personnel costs. Delphi added to its strong technical team with the addition of a senior geologist and senior geophysicist during the first quarter of 2006. Management anticipates G&A expense to average between \$1.20 and \$1.30 per boe for the remainder of the year.

For the three and six months ended June 30, 2006, salary allocations have increased by 46 percent and 88 percent due to increased technical staff efforts toward the Company's exploration and development program. Overhead recoveries have increased over the comparative periods due to higher capital spending.

Stock-based Compensation

	Three Months Ended June 30			Six Months Ended June 30		
	2006	2005	% Change	2006	2005	% Change
Total	311	408	(24)	1,859	983	89
Per boe	0.59	1.07	(45)	1.89	1.38	37

Stock-based compensation expense is the amortization over the vesting period of the fair value of stock options granted to employees, directors and key consultants of the Company. The fair value of all options granted is estimated at the date of grant using the Black-Scholes option pricing model. The non-cash compensation expense for the six month period ended June 30, 2006 increased 89 percent due to options being granted to staff to facilitate the growth of the Company and to retain current staff in today's competitive environment. Delphi believes providing an employee with stock options is an effective way to align the employees' goals with the shareholders and retain key employees. In the current competitive environment, Delphi has been able to retain all key employees and add additional strength to the team which is a testament to both the option plan and the commitment of the Delphi team. Pursuant to Delphi's option plan, one-third of the options granted vest immediately resulting in higher initial compensation expense. During the Quarter, Delphi capitalized \$0.3 million of stock based compensation associated with exploration and development activities.

Interest

	Three Months Ended June 30			Six Months Ended June 30		
	2006	2005	% Change	2006	2005	% Change
Total	1,587	794	100	2,476	1,930	28
Per boe	2.99	2.08	44	2.52	2.71	(7)

Interest expense increased to \$1.6 million in the Quarter from \$0.8 million in 2005 due to an increase in short term interest rates and higher debt balances as a result of an active winter drilling program. Interest expense on a gross and per boe basis increased from the first quarter of 2006 due to a higher debt balance.

Depletion, Depreciation and Accretion

	Three Months Ended June 30			Six Months Ended June 30		
	2006	2005	% Change	2006	2005	% Change
Depletion and depreciation	10,500	6,626	58	19,292	11,924	62
Accretion expense	154	131	18	303	226	34
Total	10,654	6,757	58	19,595	12,150	61
Per boe	20.07	17.71	13	19.96	17.04	17

Depletion, depreciation, and accretion per boe increased 13 percent and 17 percent, respectively, for the three and six months ended June 30, 2006. This increase is attributable to higher cost proved reserve additions through drilling and acquisitions, which is a trend throughout the industry. Throughout 2006, Delphi invested a significant amount of capital towards field infrastructure, allocated to depletable costs on a reasonable basis, which does not immediately increase proven reserves but is critical to current operations and future development plans. The increase in total depletion and depreciation versus the comparative periods is a result of increased production levels and a higher per boe depletion rate.

Accretion expense of asset retirement obligations relates to the passing of time until the Company estimates it will retire its assets and restore the asset locations to a condition which meets or exceeds environmental standards. Due to the long term nature of certain assets of the Company, this accretion expense is estimated to extend over a term of three to 20 years. The Company uses a credit adjusted risk-free rate of eight percent for the purpose of calculating the fair value of its asset retirement obligations and hence the accretion expense. The accretion expense for the three and six months ended June 30, 2006 increased 18 percent and 34 percent over the comparative periods. The increase is due to the active winter drilling program in 2006.

Taxes

	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2006	2005	% Change	2006	2005	% Change
Capital	(77)	29	-	-	109	-
Future (recovery)	(1,281)	1,009	-	68	255	(73)
Total	(1,358)	1,038	-	68	364	(81)

Delphi recognized a recovery of current tax in the Quarter of \$0.1 million due to the Federal government eliminating the Federal Large Corporations Tax (LCT). The three and six months ended June 30, 2006 include a recovery of \$2.5 million relating to a reduction in future federal and provincial income tax rates enacted during the Quarter.

Funds from Operations

	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2006	2005	% Change	2006	2005	% Change
Net earnings (loss)	4,768	1,003	375	5,955	(940)	-
Non-cash items						
Depletion, depreciation and accretion	10,654	6,757	58	19,595	12,150	61
Unrealized loss/(gain) on risk management activities	-	(1,242)	-	(645)	1,445	-
Stock-based compensation expense	311	408	(24)	1,859	983	89
Future income taxes	(1,281)	1,009	-	68	255	(73)
Funds from operations	14,452	7,935	82	26,832	13,893	93

For the three and six months ended June 30, 2006 funds from operations were \$14.5 million (\$0.26 per basic share) and \$26.8 million (\$0.48 per basic share) compared to \$7.9 million (\$0.16 per basic share) and \$13.9 million (\$0.28 per basic share). The increase in funds from operations per share is a function of higher realized commodity prices and increased production volumes illustrating Delphi's commitment to maximizing shareholder value by making accretive acquisitions and successfully executing the capital program.

Net Earnings

For the three and six months ended June 30, 2006, Delphi recorded net earnings of \$4.8 million and \$6.0 million. Earnings were adversely affected by non-cash items such as depletion, depreciation, accretion and stock-based compensation and positively affected by future income taxes in the Quarter.

Netback Analysis

	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2006	2005	% Change	2006	2005	% Change
Barrels of oil equivalent (\$/boe)						
Realized sales price	48.72	45.45	7	50.60	43.91	15
Royalties, net of ARTC	6.02	9.22	(35)	8.41	8.38	-
Operating expenses	8.07	8.41	(4)	8.08	8.21	(2)
Transportation	3.35	3.37	(1)	3.15	3.16	-
Operating netback	31.28	24.45	28	30.96	24.16	28
G&A	1.22	1.49	(18)	1.10	1.81	(39)
Interest	2.99	2.08	44	2.52	2.71	(7)
Current taxes	(0.15)	0.08	-	-	0.15	-
Cash netback	27.22	20.80	31	27.34	19.49	40
Unrealized (gain)/loss on financial contracts	-	(3.26)	-	(0.66)	2.02	-
Stock-based compensation expense	0.59	1.07	(45)	1.89	1.38	37
Depletion, depreciation and accretion	20.07	17.71	13	19.96	17.04	17
Future income taxes (recovery)	(2.41)	2.65	-	0.07	0.35	(80)
Net earnings (loss)	8.97	2.63	241	6.08	(1.30)	-

During the Quarter cash netbacks increased 31 percent from the comparable period and decreased a marginal 1 percent from the first quarter of 2006. Approximately 80 percent of Delphi's production is natural gas and therefore Delphi's netbacks are primarily driven by the price received for natural gas. Delphi has an active risk management program to mitigate some of the volatility in commodity prices.

Drilling Results

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	Gross	Net	Gross	Net
Natural gas wells	11.0	3.9	38.0	15.7
Oil wells	-	-	1.0	0.6
Dry holes	-	-	8.0	2.1
Total wells	11.0	3.9	47.0	18.4
Success rate (%)	100	100	83	89

Capital Invested

	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2006	2005	% Change	2006	2005	% Change
Land	2,832	(48)	-	2,953	135	2,087
Seismic	3,629	82	-	10,050	60	-
Drilling and completions	20,016	1,522	1,215	68,697	7,277	844
Equipping and facilities	16,255	5,251	210	41,337	7,729	435
Property and corporate acquisition	1,188	23	5,065	1,188	51,273	(98)
Capitalized expenses	375	259	45	1,087	596	82
Other	18	6	200	30	61	(51)
Capital invested	44,313	7,095	525	125,342	67,131	87
Asset retirement costs	129	-	-	368	1,398	(74)
Total capital invested	44,442	7,095	526	125,710	68,529	83

Delphi's second quarter capital program continued to be focused in North East British Columbia and North West Alberta with 64 percent of the expenditures spent at Bigfoot. In Bigfoot, Delphi drilled seven wells (3.5 net) and initiated production from ten wells (5.0 net) which includes the wells drilled in the first and second quarter of 2006 and standing wells drilled in the partner's previous drilling program. Delphi completed the acquisition of the 3D seismic over the 65,000 gross acres of the southern half of the joint venture lands.

In Bigstone, Delphi continued its low-risk exploitation program drilling two (0.2 net) gas wells which are in the process of being completed and tied-in to existing infrastructure. Delphi successfully acquired two sections of land (1,280 acres) at a Crown land sales adjacent to the Company's current land base and immediately offsetting several recent discoveries.

Liquidity and Capital Resources

Funding

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Sources:		
Funds from operations	14,452	26,832
Issue of shares	88	305
Issue of flow through shares	25,003	25,003
Property dispositions	15,720	15,720
Change in non-cash working capital	-	11,200
	55,263	79,060
Uses:		
Share issue costs	1,659	1,677
Capital expenditures	44,313	125,342
Expenditures on site restoration and reclamation	265	341
Change in non-cash working capital	36,726	-
	82,963	127,360
Increase in bank debt	27,700	48,300

For the period ended June 30, 2006, Delphi funded its capital program through a combination of cash flow, debt, property dispositions and the issuance of flow-through common shares.

Share Capital

At June 30, 2006, the Company had 60.7 million common shares outstanding (December 31, 2005 – 55.3 million). The common shares of Delphi trade on the TSX under the symbol DEE. The following table summarizes outstanding share data for the three and six months ended June 30, 2006.

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Weighted Average Common Shares		
Basic	55,457	55,397
Diluted	56,267	56,234
Trading Statistics		
High	\$ 5.58	\$ 5.82
Low	\$ 3.78	\$ 3.78
Average daily, volume	112,056	111,902

¹⁾ Trading statistics based on closing price.

As at August 8, 2006, the Company had 60.7 million common shares outstanding and 4.1 million stock options outstanding.

Bank Debt plus Working Capital Deficit

At June 30, 2006, the Company had \$90.0 million outstanding on its credit facility and a working capital deficit of \$29.9 million, for total debt plus working capital deficit of \$119.9 million, down \$9.0 million from the prior quarter. The Company's anticipated funds from operations and the sale of non-core assets are expected to be sufficient to meet the current working capital deficit. Delphi anticipates spending slightly less than funds from operations on capital expenditures for the remainder of the year.

The capital intensive nature of the industry will generally result in the Company having a working capital deficit. The Company's lenders have finalized their annual credit review based upon the December 31, 2005 engineering report, with the revolving facility increased to \$115.0 million and becoming a 364 day committed revolving facility with a one year term out provision. With the majority of the Company's capital expenditure commitment at Bigfoot incurred by the end of the second quarter, the Company's development facility was reduced from \$30.0 million to \$10.0 million.

Financial Strategy

Based on annualized second quarter cash flow, Delphi's debt to cash flow ratio at June 30, 2006 is 2.1:1. As was the case in 2005, the Company's debt to cash flow ratio peaked at the end of the first quarter and is expected to continue to decrease throughout the remainder of the year as the capital program going forward is less than projected cash flow.

The Company maintains an active risk management program as an integral part of its overall financial strategy to mitigate cash flow volatility resulting from fluctuating commodity prices. As additional natural gas volumes have been brought on-stream, the Company has executed additional physical natural gas forward contracts for the summer contract period of 2006, the winter contract period of 2006/2007 and has begun entering into forward contracts for the summer of 2007 and winter 2007/2008. Delphi's risk management program consists of both fixed price contracts as well as costless collars, which provide both downside protection and the opportunity to share in the upside if market prices move above the floor price. Approximately 40 percent of production is hedged at a minimum floor price of Cdn. \$8.73 per million cubic feet for the summer contract period of 2006 and at a minimum floor price of Cdn. \$9.84 per million cubic feet for the winter contract period of 2006/2007.

Selected Quarterly Information

The following table sets forth certain information of the Company for the past eight consecutive quarters.

	Jun. 30 2006	Mar. 31 2006	Dec. 31 2005	Sept. 30 2005	Jun. 30 2005	Mar. 31 2005	Dec. 31 2004	Sept. 30 2004
Production								
Oil and NGLs (bbl/d)	1,034	1,062	1,028	889	865	872	903	857
Natural gas (mcf/d)	28,797	23,695	22,909	19,580	19,961	16,880	6,849	5,353
Barrels of oil equivalent (boe/d)	5,834	5,011	4,846	4,152	4,192	3,685	2,045	1,749
Financial								
(\$000s, except as noted)								
Petroleum and natural gas revenue	25,865	23,809	28,961	20,606	17,335	13,978	7,459	6,233
Funds from operations	14,452	12,380	16,118	10,199	7,937	5,958	2,748	3,557
Per share - basic & diluted	0.26	0.22	0.31	0.20	0.16	0.12	0.09	0.14
Net earnings (loss)	4,768	1,187	6,425	1,190	1,004	(1,942)	(679)	854
Per share - Basic	0.09	0.02	0.13	0.02	0.02	(0.04)	(0.02)	0.03
Per share - Diluted	0.08	0.02	0.12	0.02	0.02	(0.04)	(0.02)	0.03
Capital invested	44,313	81,029	29,056	16,280	7,096	60,036	62,417	11,160
Per unit information								
Natural gas (\$/mcf)	7.59	8.54	11.69	9.30	7.80	7.28	7.02	6.25
Oil and natural gas liquids (\$/bbl)	63.43	46.79	45.70	47.15	40.35	37.16	37.57	40.03
Oil equivalent (\$/boe)	48.72	52.79	64.94	53.95	45.45	42.13	39.66	38.73
Operating netback (\$/boe)	31.28	30.55	39.18	31.17	24.45	23.83	20.92	23.66

Contractual Obligations

The Company is committed, under contracts of varying lengths, for the utilization of gathering, processing and pipeline capacity on a major natural gas processing and gathering system in North East British Columbia. The future minimum commitments are as follows:

2006	\$	2,233
2007		3,969
2008		3,619
2009		3,294
2010		1,752
2011 – 2016		8,759

On November 23, 2005, the Company announced a farm-in agreement with a major producer to jointly develop a natural gas resource play in the Bigfoot area of North East British Columbia, an opportunity distinct from the Bigstone property in North West Alberta. The Company will pay 90 percent of the capital expenditures up to \$81.0 million to earn a 50 percent working interest on 118 sections (75,520 acres) from the partner. Pursuant to the agreement, the Company has provided the partner with a \$10.0 million deposit towards these expenditures. As at June 30, 2006, Delphi had incurred \$70.2 million relating to this commitment.

The Company's lease rental commitment on office premises from 2006 through 2008 is \$0.1 million per annum.

As at June 30, 2006, the Company had incurred the necessary qualifying exploration expenditures to satisfy the terms of the flow through shares issued in 2005. Although the Company believes it has incurred the necessary qualifying expenditures, these amounts may be subject to audit and subsequent interpretation by the Canada Revenue Agency. The Company has an obligation to incur qualifying exploration expenditures of \$25.0 million by December 31, 2007 to satisfy the terms of the flow-through common shares issued during 2006.

Guarantees and Off-balance Sheet Arrangements

Delphi has not entered into any off-balance sheet arrangements or guarantees.

Business Conditions and Risk

The business of exploration, development and acquisition of oil and gas reserves involves a number of uncertainties and as a result the Company is exposed to certain business risks inherent in the oil and gas industry which affect results. These business risks can generally be grouped into two major areas: operations, including environmental, and financial.

Operationally, the Company faces risks associated with finding, developing and producing oil and gas reserves. The Company attempts to control operating risks by maintaining a disciplined approach to implementation of the exploration and development program. Exploration risks are managed by hiring experienced technical staff and by concentrating the exploration activity on specific core regions where the Company has experience and expertise. The Company also attempts to operate associated projects where its level of ownership is sufficient. Operational control allows the Company to manage costs, timing and sales of production.

Estimates of economically recoverable reserves and the future net cash flow they will generate are based on a number of factors and assumptions, such as commodity prices, projected production and future capital and operating costs. All of these estimates may vary from actual results. The Company has its reserves evaluated annually by an independent engineering firm and reviews their findings with the Audit Committee of the Board of Directors.

Environmental risks are also associated with field operations. The Company has health and safety programs and procedures and an environmental standards policy. These policies and procedures are designed to protect and maintain the environment with respect to all Company operations. The Company performs an annual third party audit of the safety and environmental policies designed to ensure compliance. Delphi also carries environmental liability, property, drilling and general liability insurance.

The Company is also exposed to financial risks in the form of commodity prices, interest rates, the Canadian to U.S. dollar exchange rate and inflation. Delphi manages commodity price risks by focusing its capital program on areas that are expected to generate attractive rates of return even at substantially lower commodity prices than the industry is currently receiving. The Company also conducts a commodity price risk management program designed to mitigate large downward movements in commodity prices.

See the Company's 2005 Annual Information Form (AIF) for a further listing of risks.

Critical Accounting Estimates

Delphi's financial statements have been prepared in accordance with Canadian general accepted accounting principles. Certain accounting policies require management to make decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Delphi's management review their estimates frequently; however, the emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. Delphi attempts to mitigate this risk by employing individuals with the appropriate skill set and knowledge to make reasonable estimates; developing internal reporting systems; and comparing past estimates to actual results.

The Company's financial and operating results include estimates of the following:

- Depletion, depreciation and accretion based on estimates of oil and gas reserves;
- Estimated revenues, operating expenses and royalties for which actual revenues and costs have not been received;
- Estimated capital expenditures on projects that are in progress;
- Estimated fair value of derivative contracts; and
- Estimated value of the asset retirement obligation including estimates of future costs and the timing of the costs.

Corporate Governance

The shareholders' interests are a critical factor in the operation and management of Delphi. The Company is committed to maintaining the highest level of investor confidence in the Company through the development of its corporate governance policies. Delphi's board consists of five independent directors and two officers of the Company who meet regularly to discuss matters of strategy and execution of the business plan. See Delphi's AIF for listing of committees who oversee specific aspects of the Company's operating and financial strategy.

Beginning in 2005, the Company is required to issue a "Modified Certification of Annual Filings during Transition Period" (Modified Certification) in accordance with Multilateral Instrument 52-109, Certification of Disclosures in Issuers' Annual and Interim Filings. The Modified Certification requires certifying officers to state that they are responsible for establishing and maintaining disclosure controls and procedures and as such have designed such procedures and evaluated their effectiveness as of the end of the period covered by the annual filings. Management believes the disclosure controls and procedures provide a reasonable level of assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified and the controls and procedures are designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the issuer's management, including its chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. The Company notes that while it believes the disclosure controls and procedures provide a reasonable level of assurance that they are effective, it does not expect that the disclosure controls and procedures or internal controls over financial reporting will prevent all errors and fraud. A control system is designed to provide reasonable, not absolute, assurance that the objectives of the control system are met.

SEDAR Filing

Additional information about Delphi is available on the Canadian Securities Administrators' System for Electronic Distribution and Retrieval (SEDAR) at www.sedar.com and at the Company's website at www.delphienergy.ca.

DELPHI ENERGY CORP.

Consolidated Balance Sheets (unaudited)

(CDN\$ thousands)	June 30 2006	December 31 2005
Assets		
Current assets:		
Accounts receivable	21,396	17,907
Prepaid expenses and deposits (Note 8)	11,097	11,170
	32,493	29,077
Property, plant and equipment (Note 3)	294,631	203,489
Goodwill	12,100	12,100
Total assets	339,224	244,666
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	62,368	47,752
Risk management liability	-	645
Bank debt (Note 4)	-	41,700
	62,368	90,097
Long term debt (Note 4)	90,000	-
Future income taxes	22,820	14,292
Asset retirement obligations (Note 5)	7,724	7,394
Total liabilities	182,912	111,783
Shareholders' equity		
Share capital (Note 6)	139,141	123,692
Contributed surplus (Note 6)	4,405	2,380
Retained earnings	12,766	6,811
Total shareholders' equity	156,312	132,883
Total liabilities and shareholders' equity	339,224	244,666

Contractual obligations and commitments (Note 8)

See accompanying notes to the consolidated financial statements.

Approved by the Board,

("Signed")
Henry R. Lawrie
Director

("Signed")
Lamont C. Tolley
Director

DELPHI ENERGY CORP.

Consolidated Statements of Earnings and Retained Earnings (unaudited)
For the three and six months ended June 30

(CDN\$ thousands, except per unit amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Revenue:				
Petroleum and natural gas sales	25,865	17,896	49,859	31,684
Realized loss on risk management activities	-	(561)	(185)	(371)
	25,865	17,335	49,674	31,313
Royalties (net of Alberta royalty tax credit)	(3,194)	(3,518)	(8,258)	(5,977)
Unrealized gain/(loss) on risk management activities	-	1,242	645	(1,445)
	22,671	15,059	42,061	23,891
Expenses:				
Operating	4,282	3,209	7,932	5,852
Transportation	1,779	1,285	3,095	2,252
General and administrative	648	565	1,081	1,300
Stock-based compensation (Note 6)	311	408	1,859	983
Interest	1,587	794	2,476	1,930
Depletion, depreciation and accretion	10,654	6,757	19,595	12,150
	19,261	13,018	36,038	24,467
Earnings before taxes	3,410	2,041	6,023	(576)
Taxes:				
Capital	(77)	29	-	109
Future	(1,281)	1,009	68	255
	(1,358)	1,038	68	364
Net earnings (loss)	4,768	1,003	5,955	(940)
Retained earnings, beginning of period	7,998	(1,809)	6,811	134
Retained earnings, end of period	12,766	(806)	12,766	(806)
Net earnings (loss) per share (Note 6)				
Basic	0.09	0.02	0.11	(0.02)
Diluted	0.08	0.02	0.11	(0.02)

See accompanying notes to the consolidated financial statements.

DELPHI ENERGY CORP.

Consolidated Statements of Cash Flows (unaudited)
For the three and six months ended June 30

(CDN\$ thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Cash flow from operating activities				
Operations:				
Net earnings (loss)	4,768	1,003	5,955	(940)
Add non cash items:				
Depletion, depreciation and accretion	10,654	6,757	19,595	12,150
Stock-based compensation	311	408	1,859	983
Unrealized loss/(gain) on risk management activities	-	(1,242)	(645)	1,445
Future taxes	(1,281)	1,009	68	255
Expenditures on site restoration and reclamation	(265)	-	(341)	-
Change in non-cash working capital (Note 9)	17,282	3,621	17,353	(630)
	31,469	11,556	43,844	13,263
Cash flow from financing activities				
Issue of common shares, net of issue costs	87	111	286	11,382
Issue of flow-through common shares, net of issue costs	23,345	-	23,345	-
Decrease in mezzanine debt	-	-	-	(10,000)
Increase in bank debt	27,700	(5,000)	48,300	13,500
	51,132	(4,889)	71,931	14,882
Cash flow used in investing activities				
Capital expenditures	(44,313)	(7,073)	(125,342)	(15,859)
Acquisition of petroleum and natural gas properties	-	(22)	-	(51,272)
Proceeds on the disposition of properties	15,720	-	15,720	5,863
Change in non-cash working capital (Note 9)	(54,008)	244	(6,153)	1,231
	(82,601)	(6,851)	(115,775)	(60,037)
Decrease in cash and cash equivalents	-	(184)	-	(31,892)
Cash and cash equivalents, beginning of period	-	184	-	31,892
Cash and cash equivalents, end of period	-	-	-	-
Interest paid	1,309	600	2,036	1,813
Taxes paid	220	135	220	155

See accompanying notes to the consolidated financial statements.

DELPHI ENERGY CORP.

Notes to Consolidated Financial Statements

As at and for the periods ended June 30, 2006 and 2005 (unaudited)

(all tabular amounts are expressed in thousands of CDN dollars, except per unit amounts)

NOTE 1: DESCRIPTION OF BUSINESS

Delphi Energy Corp. (the "Company" or "Delphi") is incorporated under the Business Corporations Act (Alberta) and is a public company listed on the Toronto Stock Exchange. Delphi is primarily engaged in the exploration for and development and production of natural gas properties located in North West Alberta and North East British Columbia and crude oil properties in East Central Alberta.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim consolidated financial statements of Delphi have been prepared by management in accordance with accounting principles generally accepted in Canada and following the same accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2005. The disclosures provided below are incremental to those included with the annual financial statements. The interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's Annual Report for the year ended December 31, 2005.

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 3: PROPERTY, PLANT AND EQUIPMENT

As at June 30, 2006	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	\$ 305,466	\$ 53,646	\$ 251,820
Production equipment	53,891	11,398	42,493
Furniture, fixtures and office equipment	631	313	318
	\$ 359,988	\$ 65,357	\$ 294,631

As at December 31, 2005

Petroleum and natural gas properties	\$ 203,264	\$ 38,035	\$ 165,229
Production equipment	45,763	7,744	38,019
Furniture, fixtures and office equipment	527	286	241
	\$ 249,554	\$ 46,065	\$ 203,489

As at June 30, 2006, costs in the amount of \$42.1 million (December 31, 2005 - \$18.9 million) representing unproved properties were excluded from the depletion calculation and estimated future development costs of \$5.3 million (December 31, 2005 - \$9.6 million) have been included in costs subject to depletion. All costs of unproved properties have been capitalized. Ultimate recoverability of these costs will be dependent upon finding proved oil and natural gas reserves. The Company performed a separate impairment review of assets excluded from the ceiling test and determined that no impairment has occurred.

The Company capitalized \$1.1 million (June 30, 2005 - \$0.6 million) of general and administrative costs directly related to exploration and development activities.

On February 1, 2005, the Company acquired producing natural gas and natural gas liquids properties with associated facilities and undeveloped land for cash consideration of \$51.3 million. The Company paid for the acquisition with cash and increased bank debt.

NOTE 4: BANK DEBT

As of June 30, 2006, the Company's lenders finalized their annual credit review based upon the December 31, 2005 engineering report, with the revolving facility increased to \$115.0 million and becoming a 364 day committed revolving facility with a one year term out provision. The current structure of the lending facility is such that amounts outstanding are recognized as a long-term liability. The previous lending agreement was a demand facility and accordingly was classified as a current liability. The credit facility bears interest based on a sliding scale tied to the Company's trailing debt to cash flow: from a minimum of the bank's prime rate to a maximum of the bank's prime rate plus 1.0%.

In addition to the revolving term facility, the Company has a \$10.0 million development facility with its lenders to fund the Bigfoot joint venture. The pricing grid on the development facility is 0.25% higher than the revolving term facility.

The two facilities are secured by a \$150.0 million demand floating charge debenture and a general security agreement over all assets of the Company.

NOTE 5: ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations result from working interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations, over the next three to twenty years, is approximately \$16.0 million. A credit-adjusted risk-free rate of 8.0% and an inflation rate of 2.5% were used to calculate the estimated fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below.

	June 30 2006	December 31 2005
Balance, beginning of period	\$ 7,394	\$ 5,012
Liabilities incurred	402	950
Liabilities sold	(34)	(250)
Liabilities acquired	-	1,604
Liabilities settled	(341)	(613)
Change in estimate	-	165
Accretion expense	303	526
Balance, end of period	\$ 7,724	\$ 7,394

NOTE 6: SHARE CAPITAL

(a) Authorized:

An unlimited number of voting common shares.

An unlimited number of preferred shares issuable in series.

(b) Common shares issued:

	June 30, 2006		December 31, 2005	
	Outstanding shares (000's)	Amount	Outstanding shares (000's)	Amount
Balance, beginning of period	55,254	\$ 123,692	47,704	\$ 87,944
Issue of flow-through common shares	5,209	25,003	4,686	26,004
Issue of common shares	-	-	2,500	14,000
Exercise of stock options	200	305	364	643
Allocated from contributed surplus	-	145	-	323
Share issue costs	-	(1,677)	-	(2,741)
Future tax effect of share issue costs	-	513	-	921
Tax benefit renounced to shareholders	-	(8,840)	-	(3,402)
Balance, end of period	60,663	\$ 139,141	55,254	\$ 123,692

On March 31, 2005, the Company issued 2.7 million flow-through common shares at a price of \$4.40 per share for gross proceeds of \$12.0 million.

On December 13, 2005, the Company issued 1.96 million flow-through common shares at a price of \$7.15 per share for gross proceeds of \$14.0 million.

On December 29, 2005, the Company issued 2.5 million common shares at a price of \$5.60 per share for gross proceeds of \$14.0 million.

On June 29, 2006, the Company issued 5.2 million flow-through common shares at a price of \$4.80 per share for gross proceeds of \$25.0 million.

(c) Stock options:

The Company has established a stock option plan (Plan) under which it has granted options to acquire common shares to certain officers, directors, employees and key consultants. The Plan provides for the granting of options equal 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 over a two-year period starting on the date of the grant. The exercise price of each option equals the closing market price of the Company's common shares immediately preceding the date of the grant. As at June 30, 2006 there were 4.1 million options to purchase shares outstanding.

The following table summarizes the changes in the number of options outstanding and the weighted average share prices.

	June 30, 2006		December 31, 2005	
	Outstanding options (000's)	Weighted average exercise price	Outstanding options (000's)	Weighted average exercise price
Balance, beginning of period	2,629	\$ 2.37	1,895	\$ 1.59
Granted	1,695	4.60	1,165	3.43
Exercised	(200)	1.53	(364)	1.77
Cancelled	-	-	(67)	1.85
Balance, end of period	4,124	3.37	2,629	2.37
Exercisable at end of period	2,476	\$ 2.78	1,755	\$ 1.90

The following table summarizes information about the stock options outstanding and exercisable at June 30, 2006.

Range of exercise price	Options outstanding			Options exercisable	
	Outstanding Options (000's)	Weighted average exercise price	Weighted average remaining term	Exercisable (000's)	Weighted average exercise price
\$0.99	343	\$ 0.99	1.7	343	\$ 0.99
\$1.45 - 1.61	694	1.46	2.0	694	1.46
\$1.75 - 1.90	27	1.80	3.1	14	1.80
\$2.66	200	2.66	3.4	133	2.66
\$3.25 - \$3.77	1,165	3.43	3.7	727	3.42
\$4.44 - \$4.70	1,555	4.66	4.7	519	4.66
\$5.11 - \$5.39	140	5.31	4.6	46	5.31
Total	4,124	\$ 3.37	3.6	2,476	\$ 2.78

(d) Stock-based compensation:

The Company accounts for its stock-based compensation using the fair value method for all stock options granted since January 1, 2002. For the six month period ended June 30, 2006, Delphi recorded non-cash compensation expense of \$1.9 million. The Company capitalized \$0.3 million (June 30, 2005 - \$nil) of stock based compensation directly related to exploration and development activities.

During the six month period ended June 30, 2006 the Company granted 1.7 million options. The fair values of all options granted during the period are estimated at the date of grant using the Black-Scholes option pricing model. The weighted average fair value of options granted during the period was \$2.18 per share (2005 - \$1.61). The assumptions used in the Black-Scholes model to determine fair value were as follows:

Period ended June 30	2006	2005
Risk free interest rate (%)	5.0	4.5
Expected life (years)	5.0	5.0
Expected volatility (%)	45.0	48.0

(e) Contributed surplus:

The following table outlines the changes in the contributed surplus balance:

	June 30 2006	December 31 2005
Balance, beginning of period	\$ 2,380	\$ 1,072
Stock-based compensation costs	2,170	1,631
Reclassification to common shares on exercise	(145)	(323)
Balance, end of period	\$ 4,405	\$ 2,380

(f) Earnings (loss) per share:

Net earnings per share has been based on the following weighted average common shares:

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Basic	55,457	50,540	55,397	49,164
Diluted	56,267	50,864	56,234	49,487

The reconciling item between the basic and diluted weighted average common shares outstanding is stock options.

NOTE 7: FINANCIAL INSTRUMENTS

(a) Fair value of financial instruments:

The Company's exposure under its financial instruments is limited to financial assets and liabilities, all of which are included in these financial statements. The fair values of financial assets and liabilities that are included in the balance sheet approximate their carrying amounts.

(b) Credit risk:

Substantially all of the Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. With respect to counterparties to financial instruments, the Company partially mitigates associated credit risk by limiting transactions to counterparties with investment grade credit ratings.

(c) Foreign currency exchange risk:

The Company is exposed to foreign currency fluctuations as crude oil and natural gas prices are referenced to U.S. dollar denominated prices.

(d) Interest rate risk:

The Company is exposed to interest rate risk to the extent that bank debt is at a floating rate of interest.

(e) 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 and enters into a combination of fixed price sale contracts with customers and commodity swap agreements with financial counterparties. The forward contracts are subject to market risk from fluctuating commodity prices and exchange rates. The contract price on physical contracts is recognized in earnings in the same period as the production revenue.

As at June 30, 2006, the Company has fixed the price applicable to future production through the following contracts:

Time Period	Commodity	Type of Contract	Quantity Contracted	Canadian Price (CDN\$/GJ)
April 2006 – October 2006	Natural Gas	Physical	2,000 GJ/d	\$9.50 floor/\$10.90 ceiling
April 2006 – October 2006	Natural Gas	Physical	2,000 GJ/d	\$9.19 fixed
April 2006 – October 2006	Natural Gas	Physical	2,000 GJ/d	\$10.50 floor/\$11.15 ceiling
April 2006 – October 2006	Natural Gas	Physical	1,000 GJ/d	\$8.32 fixed
April 2006 – October 2006	Natural Gas	Physical	2,000 GJ/d	\$8.00 floor/\$8.60 ceiling
April 2006 – October 2006	Natural Gas	Physical	4,000 GJ/d	\$6.25 fixed
November 2006 – March 2007	Natural Gas	Physical	2,000 GJ/d	\$10.00 fixed
November 2006 – March 2007	Natural Gas	Physical	4,000 GJ/d	\$9.50 floor/\$10.65 ceiling
November 2006 – March 2007	Natural Gas	Physical	2,000 GJ/d	\$9.50 floor/\$11.35 ceiling
November 2006 – March 2007	Natural Gas	Physical	4,000 GJ/d	\$8.75 floor/\$10.00 ceiling
April 2007 – October 2007	Natural Gas	Physical	4,000 GJ/d	\$8.00 floor/\$8.92 ceiling
April 2007 – October 2007	Natural Gas	Physical	3,000 GJ/d	\$8.75 floor/\$9.55 ceiling

NOTE 8: CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Company is committed, under contracts of varying lengths, for the utilization of gathering, processing and pipeline capacity on a major natural gas processing and gathering system in North East British Columbia. The future minimum commitments are as follows:

2006	\$ 2,233
2007	3,969
2008	3,619
2009	3,294
2010	1,752
2011 – 2016	8,759

On November 23, 2005, the Company announced a farm-in agreement with a major producer to jointly develop a natural gas resource play in the Bigfoot area of North East British Columbia. The Company will pay 90 percent of the capital expenditures up to \$81.0 million to earn a 50 percent working interest on 118 sections (75,520 acres) from the partner. Pursuant to the agreement, the Company has provided the partner with a \$10.0 million deposit towards these expenditures. As at June 30, 2006, Delphi has incurred \$70.2 million relating to this commitment.

The Company's lease rental commitment on office premises from 2006 through 2008 is \$0.1 million per annum.

NOTE 9: CHANGES IN NON-CASH WORKING CAPITAL ITEMS

For the period ended June 30	2006	2005
Change in working capital item:		
Accounts receivable	\$ (3,489)	\$ (5,548)
Prepaid expenses and deposits	73	34
Accounts payable and accrued liabilities	14,616	6,115
Total change in non-cash working capital	\$ 11,200	\$ 601
Relating to:		
Operating activities	17,353	(630)
Financing activities	-	
Investing activities	(6,153)	1,231
	\$ 11,200	\$ 601

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. ⁽²⁾
Partner
Burnet, Duckworth & Palmer LLP

Henry R. Lawrie ⁽¹⁾
Independent Businessman

Robert A. Lehodey, Q.C. ⁽²⁾
Partner
Osler, Hoskin & Harcourt LLP

Andrew E. Osis ⁽¹⁾
Independent Businessman

Lamont C. Tolley ⁽¹⁾
Independent Businessman

(1) Member of the Audit and Reserves Committee

(2) Member of the Corporate Governance
and Compensation Committee

OFFICERS

David J. Reid
President and Chief Executive Officer

Tony Angelidis
Senior Vice President Exploration

Rod A. Hume
Vice President Engineering

Michael S. Kaluza
Chief Operating Officer

Brian P. Kohlhammer
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
Website: www.delphienergy.ca

AUDITORS

KPMG LLP

BANKERS

National Bank of Canada
The Bank of Nova Scotia

LEGAL COUNSEL

Osler, Hoskin & Harcourt LLP

INDEPENDENT ENGINEERS

GLJ Petroleum Consultants Ltd.

TRANSFER AGENT

Olympia Trust Company

STOCK EXCHANGE LISTING

Toronto Stock Exchange – DEE