FIRST QUARTER

DELPHI ENERGY CORP.

FOR THE THREE MONTHS ENDED MARCH 31, 2016

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TSX SYMBOL: DEE

First Quarter 2016 Highlights

- Generated funds from operations of $8.2 million and realized net earnings of $5.3 million;
- Successfully drilled two gross (1.7 net) wells as part of the Company's capital program and completed, tied-in and brought on production two gross (1.5 net) Montney wells in East Bigstone;
- Produced an average of 8,395 barrels of equivalent per day ("boe/d"), a 24 percent decrease from 11,002 boe/d in Q1 2015 as a result of the 2,600 boe/d of dispositions completed in the second half of 2015;
- Increased production from the Montney in East Bigstone by six percent to 7,363 boe/d compared to the fourth quarter of 2015 and 2 percent from the comparative first quarter of 2015;
- Increased Montney natural gas liquids ("NGL") and field condensate yields to 106 barrels per million cubic feet ("bbls/mmcf") in the first quarter of 2016 compared to 95 bbls/mmcf in the first quarter of 2015. Field and plant condensate yield was 72 bbls/mmcf or 68 percent of the total 106 bbls/mmcf;
- Achieved a 19 percent reduction in operating costs to $6.74 per boe in the first quarter of 2016 compared to the same period in 2015. The Montney operating costs continue to trend downward achieving a record low $6.04 per boe in the first quarter of 2016;
- Achieved realized gas prices of $3.08 per mcf, prior to realized risk management gains, as a result of 88 percent of the Company's natural gas sales now being shipped on the Alliance pipeline and sold into the Chicago market. Including realized risk management gains, the Company realized $4.35 per mcf in the first quarter 2016;
- Realized gains of $6.0 million from commodity price risk management contracts; and
- At March 31, 2016, Delphi's risk management contracts had a mark to market value of $23.1 million, up from $18.5 million at December 31, 2015.

Financial Highlights ($ thousands except per unit amounts)

	Three Months Ended March 31		
	2016	2015	% Change
Crude oil and natural gas sales	**17,316**	22,650	(24)
Realized sales price per boe	**30.47**	27.44	11
Funds from operations	**8,190**	10,781	(24)
Per boe	**10.72**	10.88	(1)
Per share – Basic and diluted	**0.05**	0.07	(29)
Net earnings	**5,259**	1,995	164
Per boe	**6.89**	2.02	241
Per share – Basic and diluted	**0.03**	0.01	200
Capital invested	**16,658**	17,269	(4)
Disposition of properties	**(4,583)**	-	100
Net capital invested	**12,075**	17,269	(30)

	March 31, 2016	December 31, 2015	% Change
Net debt [(1)]	**126,415**	121,664	4
Total assets	**365,723**	360,842	1
Shares outstanding (000's)			
Basic	**155,510**	155,510	-
Diluted	**169,901**	169,951	-

(1) *Defined as the sum of long term and subordinated debt plus (minus) the working capital deficit (surplus) excluding the current portion of the fair value of the financial instruments.*

Operational Highlights

Production	Three Months Ended March 31 2016	2015	% Change
Field condensate (bbls/d)	**1,700**	1,592	7
Natural gas liquids (bbls/d)	**1,335**	1,698	(21)
Crude oil (bbls/d)	**5**	8	(38)
Total crude oil and natural gas liquids (bbls/d)	**3,040**	3,298	(8)
Natural gas (mcf/d)	**32,127**	46,223	(30)
Total (boe/d)	**8,395**	11,002	(24)

MESSAGE TO SHAREHOLDERS

Delphi is pleased to report the operating and financial results of the first quarter of 2016 representing the first full quarter subsequent to the significant dispositions in the second half of 2015 and the first full quarter of transporting almost all of its natural gas on the Alliance pipeline to Chicago, avoiding the congested Alberta market and lower realized prices.

The commodity price environment continued to be very challenging with West Texas Intermediate ("WTI") crude oil prices averaging US $33.58 per barrel during the first quarter of 2016, down 31 percent from the comparative quarter of the previous year. NYMEX natural gas prices averaged US $2.04 per mmbtu in the first quarter, down 28 percent from the comparative quarter of 2015.

The Company continues to successfully navigate this lower commodity price environment with a conservative approach to capital spending, with expenditures funded from cash flow generated while improving new well productivity, reducing capital costs and lowering operating costs. All contributing to a sustainable economic business. The Company generated a field operating netback of $14.62 per boe in the first quarter of 2016 while adding new reserves and production at lower well costs than in 2015, which for Montney proved producing reserves, the finding and development costs were $10.12 per boe.

Production volumes in the first quarter of 2016 averaged 8,395 boe/d. Production volumes decreased approximately 2,600 boe/d or 24 percent from the comparative quarter of 2015 due to the disposition of the Company's Wapiti assets in the third quarter of 2015 and the disposition of its Greater Hythe assets in the fourth quarter of 2015. As planned, Montney production at the Company's Bigstone property in the first quarter of 2016 was maintained relatively flat to the comparative quarter of 2015, averaging 7,363 boe/d and representing 88 percent of the Company's production.

Delphi's field condensate weighting as a percentage of first quarter of 2016 production volumes increased to 20 percent, up 39 percent, from 14 percent in the comparative quarter of 2015. The Company`s Montney natural gas liquids and field condensate yields increased to 106 barrels per million cubic feet in the first quarter of 2016, up from 95 bbls/mmcf in the first quarter of 2015. Field and plant condensate yield averaged 72 bbls/mmcf or 68 percent of the total 106 bbls/mmcf.

Delphi's commodity price risk management program continues to be an integral part of its financial strategy to protect funds from operations during periods of price volatility. Despite the drop in crude oil prices, the Company received $56.55 per barrel for its condensate production in the first quarter of 2016, including a realized risk management gain of $14.34 per barrel for maturing contracts in the period. Delphi's realized natural gas price for the first quarter of 2016 was $4.35 per mcf, an increase of 28 percent from the comparative period of 2015. The Company's realized natural gas price was positively influenced by its risk management program as well and includes a gain of $1.27 per mcf for maturing contracts in the period.

Funds from operations in the first quarter of 2016 were $8.2 million or $0.05 per basic and diluted share, compared to $10.8 million or $0.07 per basic and diluted share in the comparative quarter of 2015. The decrease in funds from operations in the first quarter of 2016 as compared to the same quarter in 2015 is due to lower production volumes. Delphi's cash netback was lower by one percent, relative to the comparative quarter, at $10.72 per boe. The average realized price per boe was up eleven percent due to natural gas sales into the Chicago market and realized risk management gains on both natural gas and field condensate. A reduction in operating costs is largely as a result of the major property dispositions completed during 2015. An increase in transportation costs is due to the shipping of the Company's natural gas production through the Alliance pipeline to Chicago, effective December 1, 2015.

During the first quarter of 2016, Delphi invested $16.7 million primarily on drilling and completions. Delphi drilled two gross (1.7 net) wells and performed completion operations on two gross (1.5 net) wells in its Bigstone area. The Company also completed the installation of a compressor at its 7-11 Montney facility and fuel gas pipelines to deliver higher quality fuel gas to the Montney facilities. In the first quarter, Delphi received proceeds of $4.6 million in exchange for a gross overriding royalty on two gross wells completed during the quarter as part of its latest five well gross overriding royalty arrangement.

At March 31, 2016, the Company had $94.3 million outstanding in the form of bankers` acceptances and $2.0 million drawn under Canadian-based prime loans, $14.1 million outstanding under its subordinated credit facility and a working capital deficit of $16.0 million for net debt of $126.4 million and was in compliance with all covenants of the credit facilities. The Company reduced its net debt by 30 percent to $126.4 million at March 31, 2016 from $180.7 million one year earlier as a result of the dispositions successfully completed during 2015. Delphi's lenders (National Bank of Canada, Bank of Nova Scotia and Alberta Treasury Branches) are in the process of completing their annual review of the Company's senior credit facility and are expected to have it completed by May 25, 2016.

Operations Update

In the first quarter of 2016, Delphi drilled two gross (1.7 net) horizontal Montney wells at Bigstone. The Company also completed and brought on production 2 gross (1.5 net) horizontal Montney wells.

The first well brought on production during the quarter was the 14-27-60-23W5 ("14-27") well (0.88 net). 14-27 was drilled in the fourth quarter of 2015 and completed in early January, utilizing a 37 stage slickwater frac design. This was just the third well to utilize a slickwater only completion by Delphi at Bigstone. Initial production results are very encouraging with IP90 rates of 1,280 boe/d and a field condensate to gas ratio ("CGR") over the same time period of 97 bbls/mmcf sales.

Delphi has recently brought on production the 13-21-60-23W5 ("13-21") well (0.66 net), the western most Montney well drilled and completed with slickwater fracs by the Company to date. The 13-21 well was fraced over 37 stages with the largest slickwater frac for Delphi Montney wells to date. Slickwater frac volumes per metre of horizontal length were increased by 19 percent and proppant pumped per metre of horizontal length was increased by 15 percent over the previous frac at 14-27. Over the first 30 days of production, being restricted to flowing up the tubing only, the well averaged 1,204 boe/d with a field condensate to gas ratio of 252 bbls/mmcf sales, which is 79 percent higher than Delphi's next highest field condensate to gas ratio from its horizontal Montney wells. The closest offset to 13-21 is approximately 800 metres to the east at 15-21-60-23W5 ("15-21"), which came on production in February of 2014. The average field condensate to gas ratio over the first 30 days of production for 15-21 was 130 bbls/mmcf sales and had a total rate of 1,293 boe/d over the same time period.

Delphi has continued to innovate drilling and completion techniques to drive costs lower, improving year over year capital efficiencies. Despite the increasing size of the fracs used to complete the most recent wells, drilling and completion costs for the last three wells averaged $7.0 million, a 15 percent reduction from the average costs for wells drilled in 2015 of $8.3 million and a 33 percent reduction from the average costs for wells drilled in 2014 of $10.4 million.

Innovation of the Company's frac design continues to deliver encouraging results. With higher field condensate yields Delphi will be increasing its drilling activity to the west of the current development trend at Bigstone. Additionally, tighter inter-well spacing is being evaluated to distances as low as 200 metres from the current approximate 400 metres. Industry activity offsetting Delphi's 13-21 well to the west of its current development trends and to the south, offsetting the Company's 12-17-59-22W5 well, all indicate higher condensate yields are being achieved. The XTO 13-13-59-23W5 well reported a condensate yield of 259 bbls/mmcf from publicly available data. Delphi's results combined with these reported industry successes indicate the area of opportunity to realize increased field condensate yields could be much larger than just the immediate offsets to the 13-21 well.

		Q1 2016	2015	2014
Net Montney Wells Drilled		1.7	5.2	7.6
Average Measured Depth	(metres)	5,779	5,655	5,591
Average Horizontal Length	(metres)	2,823	2,733	2,674
Average Drilling Days per Well (Spud to TD)		27	30	31
Average Drilling Cost	($000's)	4,000	4,604	4,927
Average Drilling Cost per Horizontal Metre	($/metre)	1,417	1,685	1,843
Net Montney Wells Completed		1.5	5.2	7.7
Average Number of Stages per Well		37	37	30
Average Proppant Pumped per Well	(tonnes)	3,442	2,979	2,024
Average Proppant per Horizontal Metre	(t/m)	1.22	1.09	0.77
Average Completion Cost	($000's)	3,261	4,214	5,334

The following table has been updated to reflect new well production data since it was previously released and continues to illustrate the significant impact the slickwater fracturing technique has had on well performance at Bigstone in comparison to smaller conventional frac methods.

Initial Production (IP) Rate Well Performance [1]											
Well[2]		HZ Length (metres)	Number of Fracs	IP30 Total Sales (boe/d)	IP30 FCond Rate (bbls/d)	IP30 Total NGL Yield (bbl/mmcf)	IP90 Total Sales (boe/d)	IP180 Total Sales (boe/d)	IP270 Total Sales (boe/d)	IP365 Total Sales (boe/d)	IP 2yr Total Sales (boe/d)
Conventional Fracs (original completion technique)											
16-30	#1	2,760	20	1,099	273	104	798	558	454	395	
05-02	#2	3,005	20	969	170	80	683	479	407	352	253
14-23	#3	2,238	20	1,570	223	70	939	635	532	445	294
Slickwater Fracs (new completion technique)											
15-10	#4	1,424	20	991	194	86	842	660	559	482	330
12-17	S.BS Expl[3]	1,848	26	865	199	102	719	554	470	415	
Type Well		2,400 – 3,000	30 - 40	1,629	449	119	1,306	1,083	943	843	614
10-27	#5	2,407	30	1,815	582	133	1,667	1,364	1,173	1,019	688
16-23	#6	2,809	30	1,781	465	108	1,502	1,235	1,068	964	708
15-24	#7	2,328	30	1,387	454	136	1,221	1,059	944	853	615
15-30	#8	3,014	30	2,076	566	113	1,837	1,517	1,324	1,164	795
15-21	#9	2,886	30	1,293	499	170	1,053	875	769	689	491
13-30	#10	2,593	30	2,075	655	136	1,750	1,457	1,268	1,119	**732**
02-01	#11	2,807	30	634	209	142	498	422	367	329	
02-07	#12	2,702	30	1,116	327	126	940	750	647	570	
08-21	#13	2,692	30	978	280	123	870	712	607	529	
16-15	#14	2,949	30	1,503	298	91	1,217	1,017	861	749	
03-26	#15	2,601	30	1,053	330	134	755	592	506	447	
13-23	#16	2,161	30	1,556	400	111	1,282	966	820	717	
16-27	#17	2,883	40	1,659	413	108	1,296	1,045	890	761	
12-27	#18	2,662	30	1,670	593	154	1,337	1,102	935	818	
16-24	#19	2,802	40	1,182	410	150	929	757			
13-24	#20	2,716	40	1,526	469	132	1,172	948			
14-30	#21	2,729	37	1,840	505	118	1,407	**1,112**			
14-24[4]	#22	2,602	37	1,119	435	172	976				
14-27[4]	#23	2,887	37	1,414	572	180	**1,280**				
13-21[4]	#24	2,781	37	1,204	662	291					
15-23	#25	2,865	waiting on completion								
Average Wells #5 through #24				1,444	456	141	**1,210**	**996**	870	766	**672**

(1) Average production calculated on operating days, excludes non-producing days. Includes estimated NGL gas plant recoveries. All production numbers represent sales volumes.

(2) Wells numbered chronologically.

(3) Initial exploration well on Delphi's South Bigstone lands.

(4) Initial production restricted to tubing flow only.

The Company continues to pursue opportunities to reduce operating costs. Delphi estimates $6.5 million in reduced operating costs in 2016 over 2015, as the more efficient Montney production replaces higher cost properties disposed of in 2015. A new fuel gas pipeline accessing higher quality fuel gas has been installed and the 7-11 compression and dehydration facility has been expanded with an owned compressor replacing two existing rental compressors resulting in reduced maintenance and rental costs as well as increased throughput capacity. In addition, with the disposition of the lower netback properties, the Company has reduced its staff from 36 to 24 (33 percent), resulting in expected general and administrative savings of $2.0 - $2.5 million.

Addressing and optimizing the Company's overall cost structure continues to be a primary focus to maximize profitability. Reduced capital costs and lower operating costs combined with a superior asset has enabled the Company to continue to deploy capital to its Montney play and continue to provide a high return on investment. Targeting reductions of 30 percent for capital costs, operating costs and general and administrative costs will enable the company to grow and profit in the current environment.

Alberta Royalty Review

The Government of Alberta recently announced additional details of the new Modernized Royalty Framework to be implemented for new wells drilled in 2017. Upon initial review of the new framework, the Company believes the intent of the new royalty framework, one being to maintain internal rates of returns for a company's investment opportunities, is generally consistent with Delphi's Montney prospects at Bigstone under current strip pricing assumptions.

Risk Management

On December 1, 2015, Delphi began delivering the majority of its natural gas production on its Alliance pipeline firm capacity into the Chicago market rather than the AECO market. Well in advance of commencement of these deliveries, the Company continued execution of its successful risk management strategy to protect its revenue stream into the Chicago market through NYMEX, Chicago basis and Cdn/US foreign exchange rate contracts. As a result, the Company is protected through the remainder of 2016 with approximately 74 percent of its natural gas production hedged at an average price of Cdn. $4.43 per mcf (excluding transportation costs). For 2017, the Company has approximately 50 percent of its natural gas production contracted at an average price of Cdn $4.20 per mcf (excluding transportation costs). Delphi also has approximately 43 percent of its condensate volumes contracted at a floor price of $76.49 per barrel. The table below summarizes the Company's current commodity price risk management contracts for 2016 and future years.

Natural Gas (Cdn)	Apr – Dec 2016	2017
Volume (mmcf/d)	2.4	2.4
% Hedged (1)	7%	7%
Hedge Price (Cdn $/mcf) (2)	$3.89	$3.96
Strip Price (Cdn $/mcf)	$1.91	$2.71

Natural Gas (US)	Apr – Dec 2016	2017	2018	2019
Volume (mmbtu/d)	23.5	17.1	5.0	2.0
% Hedged (1)	67%	49%	14%	6%
Hedge Price (US $/mmbtu)	$3.50	$3.19	$2.79	$2.81
Strip Price (US $/mmbtu)	$2.43	$2.97	$2.99	$3.00
% Hedged in Cdn $ (3)	100%	100%	99%	100%
Hedge Price (Cdn $/mmbtu) (4)	$4.50	$4.23	$3.70	$4.02

Crude Oil	Apr – Dec 2016	2017
Volume (bbls/d)	800	300
% Hedged (1)	43%	16%
Floor Price (WTI Cdn $/bbl)	$78.50	$60.00
Ceiling Price (WTI Cdn $/bbl) (5)	$85.00	$60.00
Strip Price (WTI Cdn $/bbl)	$58.62	$60.95

(1) Percent hedged is based on expected 2016 average natural gas production of approximately 35 mmcf/d and 1,850 bbls/d of condensate and C5+.
(2) Before deduction of transportation costs to ship production to AECO on the TCPL pipeline
(3) Percent of US $ hedge value locked in with Cdn/US FX hedges
(4) Before deduction of transportation costs to ship production to Chicago on the Alliance pipeline
(5) 400 bbls/d have upside to a ceiling price of $85.00 per barrel at a deferred cost of $4.02 per barrel

2016 Guidance

Delphi's 2016 guidance incorporates a NYMEX natural gas price of US $2.00 per mmbtu and a WTI price of US $38.00 per barrel. The Company expects to drill 4-5 gross wells during the year. In the current environment, quarterly production will be managed in the context of the Company's Alliance Pipeline commitments and risk management position. The table below summarizes the Company's current guidance for 2016.

	2016 Guidance
Average Annual Production (boe/d)	8,300 – 8,800
Exit Production Rate (boe/d)	8,500 – 9,500
NYMEX Natural Gas Price (US $ per mmbtu)	$2.00
WTI Oil Price (US $ per bbl)	$38.00
Natural Gas Liquids Price (Cdn $ per bbl)	$16.50
Foreign Exchange Rate (US/Cdn)	1.35
Well Count	4.0 – 5.0
Net Capital Program ($ million)	$33.0 – $38.0
Funds from Operations ("FFO") ($ million)	$32.0 – $37.0
Net Debt at December 31 ($ million)	$121.0 - $126.0
Net Debt / Q4 FFO (annualized)	3.0 – 3.5

Outlook

Delphi continues to navigate this very challenging low commodity price environment with a singular focus on its core Bigstone Montney asset. This focused effort is successfully improving foundational cash generating efficiencies that will be more fully recognized as the rate of capitalization and production growth accelerates into the recovery phase of this commodity price cycle.

The Company continues to manage its production volumes in the context of its risk management program, contracted processing and transportation arrangements. Economic returns on the new capital deployed remain attractive as a result of the improving cash generating efficiencies from superior Chicago-based natural gas pricing, increased condensate yields, lower cost structures and a successful long term risk management program. Despite the significant drop in commodity prices over the past twelve months the Company's cash netbacks have remained relatively constant, providing a predictable cash flow source for re-investment without increasing debt levels. Favorable recycle ratios in excess of 1.4 times continue to be generated as a result of the strong realized netbacks combined with efficient 2015 Montney proved producing finding and development costs of $10.12 per boe. Drilling and completion costs in the first quarter were down a further 18 percent from the 2015 averages.

Continued innovation of our well design, driving costs lower, while maintaining full ownership and control of our infrastructure are both paramount in our continued effort towards top decile capital and cash generating efficiencies. Generating margin growth trumps production growth in the current environment. Delphi expects to spend less than its cash flow generated through the first half of 2016, while remaining relatively flat to its 2015 exit rate of 8,300 boe/d. The Company's significant risk management position through 2016 and 2017, protects both the equity account and the balance sheet, while contributing to a meaningful capital program of four to five wells in 2016. Delphi's significant drilling inventory is immediately accessible to deliver production growth into a strengthening commodity price environment.

On behalf of the Board of Directors and all the employees of Delphi, we would like to thank our shareholders for their continued support.

On behalf of the Board,

David J. Reid,
President and Chief Executive Officer
May 10, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

(All tabular amounts are stated in thousands of dollars, except per unit amounts)

Management's discussion and analysis ("MD&A") 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 position and results of operations of the Company. Its focus is primarily a comparison of the financial performance for the three months ended March 31, 2016 and 2015 and should be read in conjunction with the unaudited condensed consolidated interim financial statements and accompanying notes for the three months ended March 31, 2016 and 2015 and the audited consolidated financial statements and accompanying notes for the years ended December 31, 2015 and 2014 and the related MD&A. The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. The reporting currency is the Canadian dollar. The discussion and analysis has been prepared as of May 10, 2016.

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 to the Canadian Securities Administrators' National Instrument 51-101 when boes are disclosed. Boes may be misleading, particularly if used in isolation.

Management uses certain measures that are not recognized under IFRS to help evaluate the performance of the Company. The following are terms and definitions contained within this MD&A that are not recognized measures under IFRS:

Funds from operations - cash flow from operating activities before accretion on long term and subordinated debt, decommissioning expenditures and changes in non-cash working capital from operating activities. 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. 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 (loss) or other measures of financial performance calculated in accordance with IFRS.

Funds from operations per share - funds from operations divided by the number of common shares outstanding calculated using weighted average shares outstanding consistent with the calculation of earnings (loss) per share.

Adjusted working capital ratio – current assets include the undrawn portion of the senior credit facility and exclude the current portion of the fair value of financial instruments. Current liabilities exclude the current portion of long term debt and the current portion of the fair value of financial instruments. This ratio is used to calculate the Company's compliance with its working capital ratio covenant.

Net debt to equity ratio - net debt is defined as long term debt and subordinated debt plus (minus) the working capital deficit (surplus) excluding the current portion of the fair value of financial instruments. Equity is equivalent to shareholders' equity. This ratio is used to calculate the Company's compliance with its net debt to equity ratio covenant.

Net debt to funds from operations ratio - net debt is defined as long term debt and subordinated debt plus (minus) the working capital deficit (surplus) excluding the current portion of the fair value of financial instruments. Funds from operations is defined as cash flow from operating activities before accretion of long term and subordinated debt, decommissioning expenditures and changes in non-cash working capital from operating activities. Delphi's most recently completed quarter's funds from operations is annualized (multiplied by four) for the calculation of this ratio. This ratio is used by the Company to manage its capital structure.

Total debt – the sum of long term debt and subordinated debt. This amount is used in management's calculation of net debt.

Net debt – the sum of total debt plus (minus) the working capital deficit (surplus) excluding the current portion of the fair value of the financial instruments. Net debt is used by management to monitor the remaining availability under its credit facilities.

Management considers netbacks as an important measure of the cash generating capability of the produced volumes. Netbacks are generally discussed and presented on a per boe basis.

Operating netbacks – crude oil and natural gas sales plus realized gains (losses) on financial instruments less royalties, operating and transportation costs. Management considers operating netbacks per boe an important measure of profitability relative to current commodity prices and costs of production.

Cash netbacks - operating netbacks less interest on total debt, general and administrative costs and cash costs related to the Company's restricted share units. Management considers cash netbacks per boe an important measure as it demonstrates the cash realized on each unit of production to be reinvested in future capital investment or repay debt.

DELPHI'S OPERATIONS

What is the nature of Delphi's business and where are its operations?

Delphi is a publicly-traded company with its corporate office in Calgary, Alberta, Canada. Delphi is engaged in the exploration for, development and production of crude oil and natural gas from properties and assets located in Western Canada in which it holds an interest. The Company's operations are concentrated in the Deep Basin of Northwest Alberta. The Company's core area in the Deep Basin is located at Bigstone, producing in excess of 95 percent of the Company's production.

FIRST QUARTER 2016 ACCOMPLISHMENTS

What were the highlights of Delphi's operational and financial results for the first quarter of 2016?

In the first quarter of 2016, the Company achieved the following:

- Generated funds from operations of $8.2 million and realized net earnings of $5.3 million;
- Successfully drilled two gross (1.7 net) wells as part of the Company's capital program and completed, tied-in and brought on production two gross (1.5 net) Montney wells in East Bigstone;
- Produced an average of 8,395 barrels of equivalent per day ("boe/d"), a 24 percent decrease from 11,002 boe/d in Q1 2015 as a result of the 2,600 boe/d of dispositions completed in the second half of 2015;
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- Increased Montney natural gas liquids ("NGL") and field condensate yields to 106 barrels per million cubic feet ("bbls/mmcf") in the first quarter of 2016 compared to 95 bbls/mmcf in the first quarter of 2015. Field and plant condensate yield was 72 bbls/mmcf or 68 percent of the total 106 bbls/mmcf;
- Achieved a 19 percent reduction in operating costs to $6.74 per boe in the first quarter of 2016 compared to the same period in 2015. The Montney operating costs continue to trend downward achieving a record low $6.04 per boe in the first quarter of 2016;
- Achieved realized gas prices of $3.08 per mcf, prior to realized risk management gains, as a result of 88 percent of the Company's natural gas sales now being shipped on the Alliance pipeline and sold into the Chicago market. Including realized risk management gains, the Company realized $4.35 per mcf in the first quarter 2016;
- Realized gains of $6.0 million from commodity price risk management contracts; and
- At March 31, 2016, Delphi's risk management contracts had a mark to market value of $23.1 million, up from $18.5 million at December 31, 2015.

Funds from operations in the first quarter of 2016 were $8.2 million or $0.05 per basic and diluted share, compared to $10.8 million or $0.07 per basic and diluted share in the comparative quarter of 2015. The decrease in funds from operations in the first quarter of 2016 as compared to the same quarter in 2015 is primarily due to lower sales volumes as a result of the disposition of the Company's Wapiti and Hythe cash-generating units ("CGU") during the third and fourth quarters of 2015 and lower realized sales prices for field condensate and natural gas liquids. During the first quarter of 2016, Delphi recognized $6.0 million in realized gains on its financial risk management contracts.

FIRST QUARTER 2016 OPERATIONAL AND FINANCIAL RESULTS

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Funds

	Three Months Ended March 31, 2016
Sources:	
Cash and cash equivalents	**2,472**
Funds from operations	**8,190**
Disposition of properties	**4,583**
Change in non-cash working capital	**280**
	15,525
Uses:	
Capital expenditures	**16,658**
Accretion of subordinated and long term debt	**568**
Expenditures on decommissioning	**980**
	18,206
Change in long term and subordinated debt	**2,681**

Net Debt

What is liquidity risk and how does the Company manage this risk?

As an oil and gas business, Delphi has a declining asset base and therefore relies on oil and gas property development and acquisitions to replace produced reserves. Future oil and natural gas production and growth in reserves are highly dependent on the success of exploiting the Company's existing asset base and/or acquiring additional lands or reserves. To the extent Delphi is successful or unsuccessful in these operations, cash flow could be increased or reduced.

Liquidity risk is the risk that Delphi will not be able to meet its financial obligations as they become due. The Company's financial liabilities arise through the cost of operations and the capital program in order to maintain or increase production and develop reserves, the acquisition of crude oil and natural gas assets, financial instrument contracts and borrowings under the Company's credit facilities.

Delphi actively manages its liquidity through daily, short term and long term cash, debt and equity management strategies. Such strategies encompass, among other factors: having adequate sources of financing available through its bank credit facilities, forecasting future cash generated from operations based on reasonable production and pricing assumptions, monitoring economic risk management opportunities and maintaining sufficient cash flows for compliance with financial debt covenants.

Delphi generally relies on operating cash flows and its credit facilities to fund ongoing capital requirements and provide liquidity. Future liquidity depends primarily on cash flow generated from operations, existing credit facilities and the ability to access debt and equity markets. From time to time, the Company accesses capital markets to meet its additional financing needs and to maintain flexibility in funding its capital expenditures program. There can be no assurance that future debt financings, equity financings or cash generated from operations will be available or sufficient to meet these or other corporate requirements. If debt or equity financing is available, there is no assurance that it will be on terms acceptable to Delphi.

Delphi's results are affected by external market and risk factors, such as fluctuations in the prices of crude oil and natural gas, movements in foreign currency exchange rates and inflationary (deflationary) pressures on service costs. Volatility in crude oil and natural gas prices has resulted in a challenging environment for the energy sector over the past year and a half. In response to this volatility and to preserve financial flexibility, Delphi took a conservative approach to its capital spending plans in 2015 and the first quarter of 2016. In addition, Delphi disposed of two major properties, its Wapiti and Hythe cash generating units ("CGU"), for net proceeds of $60.2 million in 2015. The proceeds from the dispositions were applied against the Company's senior and subordinated credit facilities. Delphi continuously monitors commodity prices and has an active commodity price risk management program in order to reduce its exposure to fluctuations in commodity prices and protect its future cash flows.

How much debt was outstanding on March 31, 2016?

At March 31, 2016, the Company had $94.3 million outstanding in the form of bankers' acceptances, $2.0 million drawn under Canadian-based prime loans, $14.1 million in subordinated debt and a working capital deficit of $16.0 million for net debt of $126.4 million.

What are the Company's credit facilities and related covenants and when is the next scheduled review of the borrowing base?

The Company's senior extendible revolving term credit facility with a syndicate of Canadian chartered banks is subject to the banks' semi-annual review of the Company's crude oil and natural gas properties. The facility is a 364 day committed facility available on a revolving basis until May 25, 2016 at which time it may be extended at the lenders' option. If the revolving period is not extended, the undrawn portion of the facility will be cancelled and the amount outstanding will convert to a 365 day non-revolving term facility. The amounts outstanding under the non-revolving facility would be required to be repaid at the end of the non-revolving term being May 25, 2017. The non-extension provisions are applicable to the lenders on an individual basis.

Interest payable on amounts drawn under the facility is at the prevailing bankers' acceptance rates plus stamping fees, lenders' prime rate or U.S. base rate plus the applicable margins, depending on the form of borrowing by the Company. The applicable margins and stamping fees are based on a sliding scale pricing grid tied to the Company's trailing net debt to annualized quarterly funds from operations ratio: from a minimum of the bank's prime rate or U.S. base rate plus 1.00 percent to a maximum of the bank's prime rate or U.S. base rate plus 3.00 percent or from a minimum of bankers' acceptances rate plus a stamping fee of 2.00 percent to a maximum of bankers' acceptances rate plus a stamping fee of 4.00 percent.

The syndicated credit facility is secured by a $300.0 million demand floating charge debenture and a general security agreement over all assets of the Company.

The annual review of the Company's $132.5 million extendible revolving term credit facility is currently underway and is expected to be completed by May 25, 2016. The borrowing base of the facilities will be based on the lenders' evaluation of the Company's petroleum and natural gas reserves at the time and commodity prices. A decrease in the borrowing base could result in a reduction to the credit facility, which may require a repayment to the lenders.

In addition to the syndicated credit facility, the Company has a $14.0 million subordinated demand credit facility with a Canadian energy and resource lender.

The debt is secured by the Company's assets and subordinate to the Company's senior credit facility. The subordinated debt has a maturity date of June 30, 2016. At maturity, the Company expects to repay the subordinated debt through an equivalent or similar replacement facility.

The subordinated debt has an annual coupon rate of 10.5 percent with interest payable monthly. A deferred fee of 1.5 percent of the facility is due upon maturity.

The subordinated debt is presented net of financing costs and is accreted using the effective interest rate method such that the carrying amount of the subordinated debt will be equal to the principal amount plus the 1.5 percent deferred fee at maturity.

The senior credit facility and the subordinated demand credit facility are subject to the following financial covenants:

Financial covenant (1)	Requirement	As at March 31, 2016	Facility subject to financial covenant
Adjusted working capital ratio	≥ 1.0 : 1.0	1.1	Senior, Subordinated
Net debt to equity ratio	< 1.0 : 1.0	0.7	Subordinated

(1) The financial covenant calculations refer to measures that are non-IFRS. Please see the definitions of non-IFRS measures at the beginning of this MD&A.

Delphi's calculation of its adjusted working capital ratio and net debt are as follows:

Adjusted working capital ratio	As at March 31, 2016
Current assets	39,307
Exclusion of the current fair value of financial instruments	(19,341)
Undrawn portion of senior credit facility	36,195
	56,161
Current liabilities	50,337
Exclusion of the current fair value of financial instruments	(261)
	50,076
Adjusted working capital ratio	1.1

Net debt	As at March 31, 2016
Long term debt	96,305
Subordinated debt	14,082
Current liabilities	50,337
Exclusion of the current portion of subordinated debt	(14,082)
Current assets	(39,307)
Exclusion of the net current fair value of financial instruments	19,080
Net debt	126,415

Share Capital

How many common shares and stock options are currently outstanding?

As at May 10, 2016, the Company had 155.5 million common shares outstanding and 14.4 million stock options outstanding. The stock options have an average exercise price of $1.71 per option.

What has been the market activity in the Company's common shares?

The common shares of Delphi trade on the TSX under the symbol DEE. The following table summarizes outstanding share data for the three months ended March 31, 2016:

	Three Months Ended March 31, 2016
Weighted Average Common Shares (in thousands)	
Basic	**155,510**
Diluted	**155,510**
Trading Statistics [1]	
High	**1.10**
Low	**0.68**
Average daily volume (in thousands)	**228,117**

(1) Trading statistics based on closing price.

BUSINESS ENVIRONMENT

What external factors of the business environment did the Company have to contend with in the first quarter of 2016?

The table below outlines the changes in the various benchmark commodity prices and economic parameters which affect the prices received for the Company's production.

Benchmark Prices and Economic Parameters

	Three Months Ended March 31		
	2016	2015	% Change
Natural Gas			
NYMEX (US $/mmbtu)	**2.04**	2.82	(28)
Chicago City Gate (US $/mmbtu)	**2.25**	3.45	(35)
AECO (CDN $/mcf)	**1.83**	2.75	(33)
Crude Oil			
West Texas Intermediate (US $/bbl)	**33.58**	48.57	(31)
Edmonton Light (CDN $/bbl)	**40.85**	51.61	(21)
Foreign Exchange			
Canadian to U.S. dollar	**0.73**	0.81	(10)
U.S. to Canadian dollar	**1.38**	1.24	(11)

Natural Gas

Commencing December 1, 2015, Delphi began shipping the majority of its natural gas production through the Alliance pipeline system into the Chicago market.

The Chicago City Gate benchmark natural gas price has decreased 35 percent in the three months ended March 31, 2016, in comparison to the same period in 2015. Natural gas storage levels continue to be at high levels at the end of the heating season due to high production levels of natural gas coupled with insufficient demand, particularly due to a mild winter in North America. This has created a supply/demand imbalance which has caused the price for natural gas to decrease in comparison to the same period in 2015.

Natural Gas Liquids

Natural gas liquids include ethane, propane, butane, pentane and plant condensate and are generally priced off light oil and natural gas prices. Ethane prices are correlated to natural gas prices while propane and butane prices trade at a discount to light oil prices depending on supply/demand conditions. Due to an oversupply of propane and ethane in North America, the price for propane and ethane in 2015 and so far in 2016, has decreased significantly compared to 2014. Demand for condensate in Alberta, as a diluent for transporting heavy oil, results in benchmark condensate prices at Edmonton generally trading at a premium to Canadian light oil prices.

Crude Oil

Global supply/demand fundamentals for crude oil continue to be in a net oversupply position. This imbalance has caused a significant decrease in the West Texas Intermediate ("WTI") index for crude oil. WTI averaged 31 percent lower in the three months ended March 31, 2016, in comparison to the same period in 2015.

Canadian prices experienced a narrowing basis differential as well as a decline in the Canadian to U.S. dollar exchange rate. Edmonton Light averaged $40.85 per barrel in the first quarter of 2016, down 21 percent compared to the same period in 2015.

Canadian/United States Exchange Rate

The value of the Canadian dollar against its U.S. counterpart averaged $0.73 for the three months ended March 31, 2016, a 10 percent decrease in comparison to the same period in 2015. As a producer of crude oil, a decline in the Canadian dollar has a positive effect on the price received for production.

DRILLING OPERATIONS

How active was Delphi in its drilling program in the first quarter of 2016?

Due to the continued weakness in commodity prices, Delphi is continuing to take a conservative approach to its capital spending plans. In the first quarter of 2016, Delphi drilled two gross (1.7 net) wells which were focused on the Bigstone Montney formation. In comparison, Delphi drilled two gross (1.7 net) wells in the first quarter of 2015 which were also focused on the Bigstone Montney formation.

	Three Months Ended March 31, 2016	
	Gross	**Net**
Liquids-rich natural gas	**2.0**	**1.7**
Success rate (%)	**100**	**100**

CAPITAL INVESTED

How much capital was invested by the Company in the first quarter of 2016 and where were the capital expenditures incurred?

During the first quarter of 2016, Delphi invested $16.7 million primarily on drilling and completions. Delphi drilled two gross (1.7 net) wells and performed completion operations on two gross (1.5 net) wells in its Bigstone area. In addition to drilling and completion operations, Delphi installed a compressor at the Company's 7-11 Montney facility and an additional fuel gas pipeline in the Bigstone area. The installation of the compressor at the 7-11 has eliminated the rental cost of two compressors and the fuel gas pipeline will deliver higher quality fuel gas to be consumed at the Company's Montney facilities which is expected to reduce maintenance costs.

In the first quarter of 2016, Delphi received proceeds of $4.6 million in exchange for a gross overriding royalty on the two gross wells completed during the quarter as part of its latest five well gross overriding royalty arrangement.

As of March 31, 2016, Delphi has a working interest in a total of 101.5 gross (86.8 net) sections of undeveloped land as part of 138.5 gross (117.0 net) sections of total land prospective for liquids-rich natural gas in the Montney formation, situated at its core area of Bigstone.

	Three Months Ended March 31		
	2016	2015	% Change
Land	**-**	36	-
Seismic	**2**	10	(80)
Drilling, completions and equipping	**11,917**	14,006	(15)
Facilities	**4,326**	2,555	69
Capitalized expenses	**407**	662	(39)
Other	**6**	-	-
Capital invested	**16,658**	17,269	(4)
Disposition of properties	**(4,583)**	-	-
Net capital invested	**12,075**	17,269	(30)

PRODUCTION

What factors contributed to the production volumes?

Production volumes in the first quarter of 2016 averaged 8,395 boe/d, a 24 percent decrease over the comparative quarter in 2015 and five percent decrease from the fourth quarter of 2015. Production volumes in the first quarter of 2016 compared to the same quarter of 2015 decreased primarily due to the disposition of the Company's Wapiti and Hythe CGUs during the third and fourth quarters of 2015. Production volumes in the first quarter of 2016 compared to the fourth quarter of 2015 only decreased five percent as natural declines and the loss of volumes related to the Company's Hythe disposition, effective December 1, 2015, were partially offset by the two gross (1.5 net) wells that were brought on production during the quarter.

Delphi's production portfolio for the first quarter of 2016 was weighted 20 percent to field condensate, 16 percent to natural gas liquids and 64 percent to natural gas. This compares to a production portfolio for the comparative quarter in 2015 weighted 15 percent to field condensate, 15 percent to natural gas liquids and 70 percent to natural gas.

For the three months ended March 31, 2016, field condensate as a percentage of total crude oil and natural gas liquids was 56 percent compared to 48 percent in the comparative quarter.

	Three Months Ended March 31		
	2016	2015	% Change
Field condensate (bbls/d)	**1,700**	1,592	7
Natural gas liquids (bbls/d)	**1,335**	1,698	(21)
Crude oil (bbls/d)	**5**	8	(38)
Total crude oil and natural gas liquids	**3,040**	3,298	(8)
Natural gas (mcf/d)	**32,127**	46,223	(30)
Total (boe/d)	**8,395**	11,002	(24)

REALIZED SALES PRICES

What sales prices were realized by the Company for each of its products?

For the three months ended March 31, 2016, Delphi's combined realized sales price increased eleven percent in comparison to the same period in 2015. The increase is primarily due to receiving a Chicago City Gate benchmark price for the majority of the Company's natural gas production in the first quarter of 2016 compared to receiving a predominantly AECO based benchmark price for the majority of its natural gas production in the first quarter of 2015. On December 1, 2015, Delphi commenced transporting the majority of its natural gas volumes under its Alliance pipeline full path firm service agreement. This allows Delphi to sell its gas into a market where a more balanced supply and demand exist while receiving the benefits of a lower Canadian dollar against its U.S. counterpart as opposed to selling its natural gas in the predominant supply market of Western Canada.

Realized natural gas prices in the first quarter of 2016 increased 28 percent compared to the same period in 2015. The increase is primarily due to the Canadian dollar equivalent Chicago City Gate benchmark price compared to the AECO benchmark price differential as well as an increase in realized gains on financial commodity risk management contracts.

Realized crude oil and field condensate prices were 14 percent lower in the first quarter of 2016 compared to the same period in 2015. Over the same comparative period, Edmonton light decreased 21 percent as a result of the global crude oil supply/demand imbalance and Delphi's gain on risk management contracts decreased by five percent. The decreases in the benchmark price and realized gains of financial risk management contracts were partially offset by an improved quality differential.

Delphi's realized natural gas liquids price for the three months ended March 31, 2016 decreased 39 percent compared to the same period in 2015. The decrease is a result of weakening commodity prices for all natural gas liquids, primarily in the realized sales price for propane, butane, plant condensate and pentanes.

	Three Months Ended March 31		
	2016	2015	% Change
AECO ($/mcf)	**1.83**	2.75	(33)
Chicago to AECO differential (Cdn$/mcf)	**1.26**	-	-
Heating content and marketing ($/mcf)	**(0.01)**	(0.01)	-
Realized price before risk management contracts ($/mcf)	**3.08**	2.74	12
Gain (loss) on physical contracts ($/mcf)	**-**	0.10	-
Gain (loss) on financial contracts ($/mcf)	**1.27**	0.56	127
Realized natural gas price ($/mcf)	**4.35**	3.40	28
Edmonton Light ($/bbl)	**40.85**	51.61	(21)
Quality differential ($/bbl)	**1.36**	(1.02)	-
Realized price before risk management contracts ($/bbl)	**42.21**	50.59	(17)
Gain (loss) on financial contracts ($/bbl)	**14.34**	15.05	(5)
Realized oil and field condensate price ($/bbl)	**56.55**	65.64	(14)
Realized natural gas liquids price ($/bbl)	**13.77**	22.40	(39)
Total realized sales price ($/boe)	**30.47**	27.44	11

RISK MANAGEMENT ACTIVITIES

What is Delphi's risk management strategy over the sales price it receives for its production and what contracts are in place to mitigate the risk of price volatility?

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.

With respect to financial contracts, which are derivative financial instruments, management has elected not to use hedge accounting and consequently records the fair value of its natural gas and crude oil financial contracts on the statement of financial position at each reporting period with the change in the fair value being classified as unrealized gains and losses in the consolidated statement of earnings (loss).

A summary of the Company's financial commodity price risk management contracts are as follows:

Natural Gas and Crude Oil Contracts

Time Period	Type of Contract	Average Quantity Contracted	Average Price ($/unit)		Reference
December 2015 – December 2016	Natural Gas – fixed	5,000 mmbtu/d	$3.45	U.S.	NYMEX
December 2015 – December 2016	Natural Gas – fixed	5,000 mmbtu/d	$3.57	U.S.	NYMEX
December 2015 – December 2017	Natural Gas – fixed	5,000 mmbtu/d	$3.55	U.S.	NYMEX
January 2016 – September 2016	Natural Gas – fixed	2,400 mmbtu/d	$2.815	U.S.	Chicago
January 2016 – December 2016	Natural Gas – fixed	2,500 GJ/d	$3.69	Cdn	AECO
January 2016 – December 2016	Natural Gas – fixed	5,000 mmbtu/d	$3.86	U.S.	NYMEX
March 2016 – September 2016	Natural Gas – fixed	2,850 mmbtu/d	$2.718	U.S.	Chicago
January 2017 – December 2017	Natural Gas – fixed	2,500 mmbtu/d	$3.86	U.S.	NYMEX
January 2017 – December 2017	Natural Gas – fixed	2,500 GJ/d	$3.75	Cdn	AECO
January 2017 – December 2017	Natural Gas – fixed	4,500 mmbtu/d	$4.02	Cdn	NYMEX
January 2017 – December 2017	Natural Gas – fixed	2,096 mmbtu/d	$2.95	U.S.	NYMEX
January 2017 – December 2018	Natural Gas – fixed	3,000 mmbtu/d	$2.77	U.S.	NYMEX
January 2018 – December 2019	Natural Gas – fixed	2,000 mmbtu/d	$4.02	Cdn	NYMEX
January 2016 – December 2016	Crude Oil – fixed	200 bbls/d	$78.46	Cdn	WTI
January 2016 – December 2016	Crude Oil – fixed	200 bbls/d	$78.35	Cdn	WTI
January 2016 – December 2016 (1)	Crude Oil – collar (1)	400 bbls/d	$78.60 - $85.00	Cdn	WTI
April 2016 – May 2016	Crude Oil – fixed	549 bbls/d	$50.59	Cdn	WTI
January 2017 – December 2017	Crude Oil – fixed	300 bbls/d	$60.00	Cdn	WTI

(1) The collar has a deferred cost of $4.02 per barrel.

Basis Differential Contracts

Commencing December 1, 2015, Delphi began shipping the majority of its natural gas production through the Alliance pipeline system into the Chicago market. As a result, the Company has entered into Chicago – NYMEX basis differential contracts in order to fix the Chicago price on a portion of its production.

Time Period	Type of Contract	Quantity Contracted	Differential (U.S. $/unit)
December 2015 – December 2016	Chicago – NYMEX differential	2,500 mmbtu/d	$0.010
December 2015 – December 2016	Chicago – NYMEX differential	5,000 mmbtu/d	$0.020
December 2015 – December 2016	Chicago – NYMEX differential	5,000 mmbtu/d	$0.010
December 2015 – December 2016	Chicago – NYMEX differential	2,500 mmbtu/d	$0.010
January 2016 – December 2016	Chicago – NYMEX differential	2,500 mmbtu/d	$0.025
January 2016 – December 2016	Chicago – NYMEX differential	2,500 mmbtu/d	$0.020

What has the Company done to mitigate the effects of foreign exchange rate fluctuations?

Effective December 1, 2015, Delphi is selling the majority of its natural gas in the Chicago market in U.S. dollars. In order to mitigate the U.S. to Canadian dollar fluctuation, Delphi has entered into the following U.S. dollar forward exchange contracts:

Time Period	Average Notional U.S. $	Average Exchange Rate (U.S.$ to Cdn$)
May 2015 – December 2018	250.0	1.2574
June 2015 – December 2016	250.0	1.1965
December 2015 – December 2016	200.0	1.2520
December 2015 – December 2016	275.0	1.2520
December 2015 – December 2016	200.0	1.2500
December 2015 – November 2017	200.0	1.2500
January 2016 – December 2017	200.0	1.3050
January 2016 – December 2017	200.0	1.3075
January 2016 – December 2017	300.0	1.3005
February 2016 – December 2016	431.8	1.4047
January 2017 – December 2017	85.4	1.3476
January 2017 – December 2017	55.0	1.3800

What has the Company done to protect itself against an increase in interest rates?

Delphi has entered into the following interest rate swap transactions on borrowings through bankers' acceptances:

Time Period	Notional $	Fixed Interest Rate
May 2015 to April 2017	30,000	0.875%
February 2016 to January 2018	30,000	0.63%
February 2016 to January 2018	15,000	0.64%

What is the fair value of Delphi's risk management contracts?

The fair value of the financial contracts outstanding as at March 31, 2016 is estimated to be an asset of approximately $23.1 million. The fair values of these contracts are based on an approximation of the amounts that would have been paid to or received from counterparties to settle the contracts outstanding at the end of the period having regard to forward prices and market values provided by independent sources. Due to the inherent volatility in commodity prices, foreign exchange and interest rates, actual amounts realized may differ from these estimates.

For the three months ended March 31, 2016, the change in the fair values of the outstanding derivative commodity contracts resulted in an unrealized gain on its risk management contracts of $4.7 million. The unrealized gain recognized for the three months ended March 31, 2016 is the difference between the fair values of the risk management contracts outstanding as at March 31, 2016 and the fair values as at December 31, 2015.

The Company accounts for Canadian dollar physical sales contracts, which were entered into and continue to be held for the purpose of delivery of production, in accordance with its expected sale requirements as executory contracts on an accrual basis rather than as non-financial derivatives.

REVENUE

How do revenues in the first quarter of 2016 compare to 2015 and what factors contributed to the change?

On December 1, 2015, Delphi commenced transporting the majority of its natural gas volumes under its Alliance pipeline full path firm service agreement, allowing Delphi to sell its gas into the Chicago market where higher demand exists while receiving the benefits of a lower Canadian dollar against its U.S. counterpart.

Revenues decreased in the first quarter of 2016 compared to 2015 as a result of a decrease in crude oil and natural gas liquids prices in combination with lower production volumes. Field condensate and natural gas liquids contributed approximately 47 percent of total revenues in the first quarters of 2016 and 2015.

	Three Months Ended March 31, 2016		
	2016	2015	% Change
Natural gas	**8,977**	11,378	(21)
Natural gas physical contract gains	**-**	410	-
Field condensate	**6,531**	7,260	(10)
Natural gas liquids	**1,673**	3,424	(51)
Crude oil	**18**	25	(28)
Sulphur	**117**	153	(24)
Total	**17,316**	22,650	(24)

ROYALTIES

What were royalty costs in the first quarter of 2016?

For the first quarter of 2016, royalties totaled $1.8 million compared to $1.3 million in the same period in 2015, an increase of 37 percent as a result of a reduction in Crown royalty credits. Crown royalties decreased as a result of lower commodity prices and lower production volumes. Crown royalties are based on Canadian benchmark prices which has allowed Delphi to benefit from a higher Chicago based price for its natural gas while paying royalties on a lower AECO based price. Royalty credits, the cost of processing the Crown's share of natural gas production, decreased in the first quarter of 2016 in comparison to the same period in 2015, primarily due a restriction of allowable royalty credits as Crown royalty credits are limited to Crown royalties paid at a facility level. The Crown royalty credits are largely based on the amortization of historical capital and operating costs and do not fluctuate based on commodity prices but are restricted to Crown royalties paid.

Royalty credits in the first quarter of 2015 included a credit of approximately $0.7 million related to 2014. Excluding this credit in the first quarter of 2015 would result in Crown royalties-net actually being slightly lower in the first quarter of 2016 versus the comparative quarter of 2015.

In the first quarter of 2016, gross overriding royalties decreased eleven percent in comparison to the same period in 2015. The decrease is primarily due to lower commodity prices.

	Three Months Ended March 31		
	2016	2015	% Change
Crown royalties	**660**	1,570	(58)
Royalty credits	**(522)**	(2,142)	(76)
Crown royalties – net	**138**	(572)	-
Gross overriding royalties	**1,708**	1,917	(11)
Total	**1,846**	1,345	37
Per boe	**2.42**	1.36	78

What were the average royalty rates paid on production in the first quarter of 2016?

In the first quarter of 2016, the average royalty rate increased to 10.7 percent from the six percent average royalty rate of the comparative period in 2015. The increase is due to higher Crown and gross overriding royalty rates. In the first quarter of 2015, Delphi received additional Crown royalty credits related to the Company's Montney facilities which primarily related to 2014. The gross overriding royalty rate increased 14 percent as additional sales volumes are encumbered with a gross overriding royalty.

	Three Months Ended March 31		
	2016	2015	% Change
Crown rate – net of royalty credits	**0.8%**	(2.6%)	-
Gross overriding rate	**9.9%**	8.6%	15
Average rate	**10.7%**	6.0%	78

The royalty rate calculations above exclude gains or losses on risk management activities from revenue as the denominator.

OPERATING EXPENSES

How do operating expenses in the first quarter of 2016 compare to 2015?

Production costs for the three months ended March 31, 2016 decreased 37 percent in comparison to the same period in 2015. Production costs have decreased primarily as a result of the disposition of the Company's Wapiti and Hythe CGUs in the third and fourth quarters of 2015, respectively. In addition, trucking expenses related to hauling produced water from the Montney facility have decreased as the Company commissioned its own water disposal facility during the fourth quarter of 2015.

Delphi earns processing income for third party production volumes going through facilities owned by the Company. The processing income represents a reduction of the Company's costs to operate these facilities and hence is deducted in determining operating expenses. Processing income indicates the Company has excess capacity at its facilities which it can access to handle growth in its production volumes. Processing income decreased nine percent in the three months ended March 31, 2016 compared to the same period in 2015 due to the disposition of the Company's Wapiti and Hythe CGUs which included working interests in facilities that earned processing income. This decrease is partially offset by higher production volumes being processed at the Company's Montney facility due to the completion of additional Montney wells and water disposal income associated with the water facility commissioned in the fourth quarter of 2015.

	Three Months Ended March 31		
	2016	2015	% Change
Production costs	**5,966**	9,121	(35)
Processing income	**(818)**	(894)	(9)
Total	**5,148**	8,227	(37)
Per boe	**6.74**	8.31	(19)

TRANSPORTATION EXPENSES

What factors contributed to the change in transportation costs in the first quarter of 2016?

Transportation expenses increased 52 percent in the first quarter of 2016 compared to the first quarter of 2015, primarily due to higher gas transportation fees as the Company commenced its full path firm service with the Alliance pipeline system on December 1, 2015, allowing Delphi to sell its natural gas into the Chicago market. The incremental cost for shipping into the Chicago market is more than offset by the $1.26 per mcf increase in the realized sales price for the Company's natural gas relative to AECO prices. The increase in gas transportation fees was partially offset by reduced field condensate trucking charges as a result of reduced waiting times at the terminals.

	Three Months Ended March 31		
	2016	2015	% Change
Total	**5,114**	3,372	52
Per boe	**6.69**	3.41	96

GENERAL AND ADMINISTRATIVE

How do general and administrative costs in the first quarter of 2016 compare to 2015?

General and administrative expenses (after recoveries and allocations) for the three months ended March 31, 2016 were 19 percent higher compared to the same period in 2015. The increase in general and administrative expenses is due to lower overhead recoveries as a result of a reduced capital program and lower salary allocations due to lower personnel costs. Gross expenses in the first quarter of 2016 decreased eight percent compared to the same period in 2015 due to lower personnel costs of $0.6 million. This cost reduction was partially offset by a change in foreign exchange gains (losses) of $0.4 million as the Canadian dollar has strengthened against its U.S. counterpart since the fourth quarter of 2015.

Delphi is committed to delivering strong growth and believes a strong team is paramount to achieve this goal.

	Three Months Ended March 31		
	2016	2015	% Change
Gross expenses	**2,366**	2,581	(8)
Overhead recoveries	**(326)**	(420)	(22)
Salary allocations	**(533)**	(893)	(40)
General and administrative expenses	**1,507**	1,267	19
Per boe	**1.97**	1.28	54

SHARE-BASED COMPENSATION

What is share-based compensation expense?

Share-based compensation expense is the amortization over the vesting period of the fair value of stock options and restricted share units ("RSUs") granted to employees, directors and key consultants of the Company. The fair value of RSUs is based on the Company's closing share price on the last business day immediately preceding the vesting date or the Company's closing share price on the last business day immediately preceding the statement of financial position date. The fair value of all options granted is estimated at the date of grant using the Black-Scholes option pricing model.

Share-based compensation expense related to the Company's option plan decreased 47 percent for the three months ended March 31, 2016 as compared to the same period in 2015. The decrease in the expense is due to a larger portion of options vesting in their final year. Delphi's options are expensed on a graded basis over their vesting period causing the majority of the expense to be recognized in the earlier years of the vesting period.

Share-based compensation expense related to the Company's RSUs decreased in the three months ended March 31, 2016 in comparison to the same period in 2015. The decrease in the expense from the comparative period is due to a lower closing share price used to calculate the fair value of the restricted units vested during the period, in combination with a decrease in the number of outstanding units.

Capitalized share-based compensation decreased in the three months ended March 31, 2016 in comparison to the same period in 2015 as a result of a decrease in options and RSUs that have vested during the periods.

	Three Months Ended March 31		
	2016	2015	% Change
Share-based compensation – Options	**344**	648	(47)
Share-based compensation – RSUs	**83**	125	(34)
Capitalized costs	**(149)**	(287)	(48)
Net	**278**	486	(43)
Per boe	**0.36**	0.49	(27)

FINANCE COSTS

How do the costs of borrowing compare against the comparative period?

During the first quarter of 2016, interest charges on the Company's senior and subordinated facility decreased 32 percent over the comparative period in 2015. The decrease was due to a lower average debt balance as proceeds from dispositions in 2015 were applied against outstanding indebtedness.

The bankers' acceptances outstanding at March 31, 2016 have terms ranging from 62 to 92 days and a weighted average effective interest rate of 4.4 percent over the terms.

Accretion and finance charges are non-cash and are comprised of accretion expense on the Company's decommissioning obligations and the accretion of the Company's subordinated debt.

The accretion of decommissioning obligations is an expense that 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 one to 46 years. The decrease in accretion expense is due to a lower decommissioning obligation as at March 31, 2016 compared to the same period in 2015 in combination with lower risk free interest rates used to calculate the expense. The decommissioning obligation decreased as a result of the disposition of the Company's Wapiti and Hythe CGUs in the third and fourth quarters of 2015.

The finance charge associated with the Company's subordinated debt is based on the effective interest rate method in order to amortize the prepaid finance fees and to accrete the subordinated debt balance to its face value of $14.0 million plus a deferred fee of 1.5 percent.

	Three Months Ended March 31		
	2016	2015	% Change
Interest	**1,472**	2,178	(32)
Accretion	**85**	239	(64)
Finance charges	**128**	123	4
Total finance costs	**1,685**	2,540	(34)
Interest per boe	**1.93**	2.20	(12)
Accretion per boe	**0.11**	0.24	(54)
Finance charges per boe	**0.17**	0.12	42

DEPLETION, DEPRECIATION AND IMPAIRMENT

Has the Company's depletion and depreciation rate and expense changed in the first quarter of 2016 compared to 2015?

Depletion and depreciation in the first quarter of 2016 decreased 18 percent compared to the same period in 2015 due to lower production volumes partially offset by a higher overall depletion rate. The depletion rate has increased primarily as a result of a decrease in the reserve base used in the calculation.

	Three Months Ended March 31		
	2016	2015	% Change
Depletion and depreciation	**8,651**	10,609	(18)
Depletion and depreciation per boe	**11.32**	10.71	6

INCOME TAXES

What was the impact on deferred income taxes as a result of the earnings for the period?

Due to the continued weak commodity price outlook, Delphi has not recognized its deferred income tax asset. As a result, no deferred income tax expense was recorded in the first quarter against net earnings.

	Three Months Ended March 31		
	2016	2015	% Change
Deferred income taxes	**-**	734	-
Per boe	**-**	0.74	-

FUNDS FROM OPERATIONS

What are funds from operations and why is it a key performance measure?

Funds from operations is a non-IFRS measure that has been defined by the Company and is used as a measure to analyze performance. Delphi considers funds from operations 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 is calculated as cash flow from operating activities before accretion on long term and subordinated debt, decommissioning expenditures and changes in non-cash working capital.

How do cash flow from operating activities and funds from operations in the first quarter of 2016 compare to 2015?

Delphi's cash flow from operating activities in the three months ended March 31, 2016 is comparable to the cash flow from operating activities for the three months ended March 31, 2015. Delphi's funds from operations in the three months ended March 31, 2016 have decreased 24 percent compared to the same period in 2015. The decrease is primarily due to lower crude oil and natural gas sales in combination with higher transportation and general and administrative expenses partially offset by lower royalties, operating expenses and finance costs.

	Three Months Ended March 31		
	2016	2015	% Change
Cash flow from operating activities	**12,814**	12,180	5
Accretion of subordinated and long term debt	**568**	232	145
Decommissioning expenditures	**980**	322	204
Change in non-cash working capital	**(6,172)**	(1,953)	216
Funds from operations	**8,190**	10,781	(24)

CASH NETBACK AND EARNINGS ANALYSIS

What factors contributed to the earnings in the first quarter of 2016?

Delphi recorded net earnings of $5.3 million in the first quarter of 2016, up from the $2.0 million of net earnings recorded in the first quarter of 2015. The increase in earnings is due to lower expenses and higher gains on risk management contracts, partially offset by lower crude oil and natural gas sales.

	Three Months Ended March 31		
	2016	2015	% Change
Net earnings	**5,259**	1,995	164
Per boe	**6.89**	2.02	241
Per basic share	**0.03**	0.01	200
Per diluted share	**0.03**	0.01	200

How do Delphi's netbacks achieved in the first quarter of 2016 compare to 2015?

Delphi continues to focus its drilling on liquids-rich natural gas plays in order to mitigate low natural gas prices and to strengthen its operating and cash netback per boe.

For the first quarter of 2016, Delphi's operating netback per boe increased two percent compared to the first quarter of 2015 despite the continued weakening in commodity benchmark prices. Delphi's marketing arrangement, which commenced December 1, 2015, to ship the majority of its natural gas into the Chicago market improved the realized sales price it received for its natural gas which has positively impacted Delphi's overall realized price per boe. Royalties per boe increased due to less Crown royalty credits and additional wells being encumbered with a gross overriding royalty. Operating expenses per boe have decreased as the majority of the Company's production comes from the more efficient Montney play in Bigstone as the Company disposed of its Wapiti and Hythe CGUs during the third and fourth quarters of 2015, respectively. Transportation expense per boe increased, reflecting the higher cost of shipping Delphi's natural gas volumes down the Alliance pipeline into the Chicago market.

Delphi's cash netback for the first quarter of 2016 decreased one percent in comparison to the first quarter of 2015 due to lower interest charges per boe partially offset by higher general and administrative expenses per boe. General and administrative charges per boe increased despite lower personnel costs as a result of lower overhead recoveries and allocations to operating expense. Interest charges per boe decreased as a result of a lower average debt balance.

	Three Months Ended March 31		
	2016	2015	% Change
Barrels of oil equivalent ($/boe)			
Realized sales price	**30.47**	27.44	11
Royalties	**2.42**	1.36	78
Operating expenses	**6.74**	8.31	(19)
Transportation	**6.69**	3.41	96
Operating netback	**14.62**	14.36	2
General and administrative expenses	**1.97**	1.28	54
Interest	**1.93**	2.20	(12)
Cash netback	**10.72**	10.88	(1)
Unrealized gain on commodity risk contracts	**(6.09)**	(3.75)	62
Share-based compensation expense	**0.36**	0.49	(27)
Gain on dispositions	**(2.28)**	-	-
Exploration and evaluation	**0.02**	-	-
Loss on decommissioning	**0.22**	0.31	(29)
Depletion, depreciation and impairment	**11.32**	10.71	6
Accretion and finance charges	**0.28**	0.36	(22)
Deferred income taxes	**-**	0.74	-
Net earnings	**6.89**	2.02	241

SELECTED INFORMATION

Over the past two years, how has Delphi performed and what significant factors contributed to the results?

Over the past two years, the changes in revenue and funds from operations from quarter to quarter primarily reflect the change in production volumes, product mix and the volatility of commodity prices.

Delphi's focus over the past eight quarters has been to exploit its liquids-rich resource at Bigstone in northwest Alberta in order to maximize operating netbacks. In 2014, Delphi drilled eight gross (7.6 net) wells and completed important infrastructure in the Bigstone area. Delphi expanded its 100 percent owned compression and dehydration facility located in East Bigstone and completed pipeline connections to deliver its Montney natural gas and natural gas liquids production from its two East Bigstone facilities to the SemCams K3 processing facility. As a result of the Company's success in developing the Montney play at Bigstone, Delphi achieved record production of 12,035 boe/d in the fourth quarter of 2014. During the third quarter of 2014, the Company disposed of certain interests from its Hythe property for net proceeds of $15.8 million, after closing adjustments. The proceeds of the disposition were used to partially fund an acquisition of Montney rights at East Bigstone for $8.8 million and an acquisition of approximately 430 boe/d (87 percent natural gas) of shallower Cretaceous production, 26.3 gross (19.3 net) sections of undeveloped land for Cretaceous production and a sweet natural gas processing plant in West Bigstone for $8.9 million.

During the first quarter of 2014, the Company's senior lenders completed their annual review of the syndicated credit facility resulting in a $30.0 million increase in the borrowing base to $170.0 million. The semi-annual review of the Company's senior extendible revolving term credit facility was conducted during the fourth quarter of 2014 resulting in an additional $20.0 million increase in the borrowing base to $190.0 million. During the fourth quarter of 2014, the Company extended the maturity date of its $20.0 million subordinated debt from December 31, 2014 to June 30, 2016.

In 2015, record production levels for natural gas and crude oil have created a supply/demand imbalance which significantly negatively impacted commodity prices. In 2015, Delphi experienced a 22 percent decrease in its realized sales price per boe as a result of the decline in the price for all commodities. In 2015, Delphi monetized risk management contracts for a realized gain of $9.9 million, which had a positive impact on the realized sales price of $2.85 per boe. With the reduced commodity prices, Delphi realized savings on royalties and focused on reducing operating and transportation expenses. In order to mitigate the depressed commodity environment and to maintain financial flexibility, Delphi disposed of two major properties, its Wapiti CGU and Greater Hythe assets, and a minor property in British Columbia and sold a gross overriding

royalty on three gross wells completed during the year. Delphi received net proceeds of $67.6 million for the dispositions of which the majority was used to repay bank indebtedness and the remaining was directed toward the capital program. The property dispositions in 2015 were lower netback properties relative to the Montney at Bigstone.

In 2015, Delphi invested $57.5 million of capital expenditures, drilling six gross (5.3 net) wells, completing pipeline tie-ins and investing in a water disposal facility. The water disposal facility will allow Delphi to save on water trucking and disposal costs, further improving the netback of the Company's Montney production.

In 2015, Delphi was exposed to pipeline restrictions due to maintenance and mandated inspections on the TransCanada pipeline system. Although the curtailments were mitigated as much as possible, sales volumes and the Company's realized sales prices were negatively impacted by these restrictions. On December 1, 2015, Delphi commenced transporting most of its natural gas volumes under its Alliance firm service agreement, minimizing the exposure to ongoing curtailments on the TransCanada system. As a result of the major property dispositions, the pipeline restrictions and the reduced capital program in 2015, Delphi's production decreased by ten percent in 2015 to 9,469 boe/d in comparison to 2014.

During the third quarter of 2015, the Company's senior extendible revolving credit facility was re-determined giving effect to the disposition of the Company's Wapiti CGU, resulting in a $175.0 million credit facility with borrowings in excess of $140.0 million subject to the consent of the lenders. During the fourth quarter of 2015, Delphi's lenders' completed their semi-annual review of the Company's senior credit facilities. The review primarily incorporated the disposition of the Company's Greater Hythe assets, Delphi's risk management program, the success of the development of the Company's Montney assets and the lenders' view of future commodity prices. As a result, Delphi's senior credit facility was reduced to $132.5 million, consisting of a $15.0 million operating facility and a $117.5 million revolving facility.

So far in 2016, Delphi is managing a conservative capital program as commodity benchmark prices continue to weaken. Delphi's natural gas production has benefited from a higher Chicago City Gate benchmark price and a weak Canadian dollar relative to its U.S. counterpart as compared to a lower AECO benchmark price. Delphi's commodity risk management program continues to be an integral part of the Company's strategy in order to protect cash flows and manage its capital program. During the first quarter of 2016, Delphi drilled two gross (1.7 net) wells and performed completion operations on two gross (1.5 net) wells in its Bigstone area. During the quarter, Delphi sold a gross overriding royalty on two wells completed during the quarter for proceeds of $4.6 million.

Natural gas prices over the past two years have generally reflected the cyclical nature of demand. Higher prices are usually realized in the winter months, reflecting demand for heating, with lower prices through the summer months as production is placed in storage for the upcoming heating season demand. Due to the continued supply/demand imbalance, natural gas prices continue to weaken. The average Chicago City Gate benchmark price for the fourth quarter of 2015 was U.S. $2.47 per mmbtu compared to an average in the first quarter of 2016 of U.S. $2.25 per mmbtu.

The fundamental supply/demand equation for crude oil continues to be at an imbalance as global supply exceeds global demand. Global production has been increasing since the second quarter of 2014 and the benchmark price has been decreasing since a peak in July of 2014. The average WTI price was U.S. $92.92 per barrel in 2014 versus U.S. $48.76 per barrel in 2015. In the first quarter of 2016, the average WTI price was $ U.S. $33.58 per barrel.

Net earnings (loss) of the Company is primarily driven by the difference between the cash netback realized per boe of production versus the Company's depletion and depreciation rate, unrealized losses on commodity risk management contracts and other non-cash charges.

The following table sets forth certain information of the Company for the past eight consecutive quarters outlining this performance:

	Mar. 31, 2016	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sep. 30, 2014	Jun. 30, 2014
Production								
Oil and field condensate (bbls/d)	**1,704**	1,613	1,198	1,455	1,600	1,692	1,396	1,583
Natural gas liquids (bbls/d)	**1,336**	1,414	1,045	1,582	1,698	2,020	1,356	1,807
Natural gas (mcf/d)	**32,127**	34,719	33,871	43,035	46,223	49,939	40,251	42,040
Barrels of oil equivalent (boe/d)	**8,395**	8,814	7,888	10,210	11,002	12,035	9,461	10,397
Financial								
Crude oil and natural gas sales	**17,316**	18,601	16,234	22,790	22,650	35,534	35,117	44,173
Funds from operations	**8,190**	13,317	10,070	8,725	10,781	15,869	14,221	14,660
Per share – basic	**0.05**	0.09	0.06	0.06	0.07	0.10	0.09	0.09
Per share – diluted	**0.05**	0.09	0.06	0.06	0.07	0.10	0.09	0.09
Net earnings (loss)	**5,259**	(23,084)	10,670	(32,106)	1,995	(25,588)	12,163	5,439
Per share – basic	**0.03**	(0.15)	0.07	(0.21)	0.01	(0.16)	0.08	0.04
Per share – diluted	**0.03**	(0.15)	0.07	(0.21)	0.01	(0.16)	0.08	0.03

CONTRACTUAL OBLIGATIONS

Does the Company have any contractual obligations as of March 31, 2016 that will require funding in future years?

The Company is committed to future minimum payments for natural gas transmission and processing and operating leases on compression equipment. The Company also has a lease for office space in Calgary, Alberta. As noted above, the senior credit facility is based on a revolving term which is reviewed annually and converts to a 365 day non-revolving term facility if not renewed.

The future minimum commitments over the next five years ending on December 31 are as follows:

	2016	2017	2018	2019	2020	Thereafter
Gathering, processing and transmission (1)	14,155	22,150	23,886	24,133	20,320	7,036
Office, equipment and software leases	935	991	-	-	-	-
Outstanding cheques	1,713	-	-	-	-	-
Accounts payable and accrued liabilities (2)	33,351	-	-	-	-	-
Decommissioning obligations (3)	569	374	3,440	354	2,214	17,374
Restricted share units	361	69	-	-	-	-
Risk management contracts	261	47	108	-	-	-
Interest payments on subordinated debt	368	-	-	-	-	-
Long term debt	-	97,000	-	-	-	-
Subordinated debt	14,210	-	-	-	-	-
Total	65,923	120,631	27,434	24,487	22,534	24,410

(1) Balances denominated in U.S. dollars have been translated at the March 31, 2016 exchange rate.
(2) Excludes the current portion of the restricted share units as they are disclosed separately on this table.
(3) Amounts represent the inflated, discounted future abandonment and reclamation expenditures anticipated to be incurred over the life of the Company's properties.

GUARANTEES AND OFF-BALANCE SHEET ARRANGEMENTS

Does Delphi have any outstanding guarantees on behalf of third parties or any off-balance sheet arrangements which could lead to liabilities in the future?

Delphi has not entered into any guarantees or off-balance sheet arrangements. Certain lease agreements entered into in the normal course of operations could be considered off-balance sheet arrangements; however, all leases which are considered operating leases are charged to operating expenses or general and administrative expenses on a monthly basis according to the lease.

CRITICAL ACCOUNTING ESTIMATES

In preparing the Company's consolidated financial statements, is Delphi required to make estimates or assumptions about future events?

The reader is advised that the critical accounting estimates, judgments, policies and practices as described in the Company's Management's Discussion and Analysis for the year ended December 31, 2015 continue to be critical in determining Delphi's financial results.

The condensed consolidated interim financial statements have been prepared in conformity with IAS 34, Interim Financial Reporting, which requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, shareholders' equity, revenue and expenses. Actual results may differ from these estimates.

NEW ACCOUNTING STANDARDS

Did the Company adopt any new standards and are there any future accounting standards which the Company will have to comply with in the future?

On January 1, 2016, Delphi adopted the amendments to IFRS 11, "Joint Arrangements," issued by the International Accounting Standards Board. The amendments require business combination accounting to be applied to the acquisition of interests in a joint operation that constitute a business. The adoption of this amendment has not had a material impact on the Company's consolidated financial statements.

The following are future accounting standards and amendments to current standards:

> The IASB has issued IFRS 15, "Revenue from Contracts with Customers", which contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The standard has a current effective date of January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.
>
> The IASB has issued IFRS 9, "Financial Instruments", which is the result of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The standard has an effective date of January 1, 2018. The Company is currently evaluating the impact of adopting this standard.
>
> The IASB has issued IFRS 16, "Leases", which replaces the previous leases standard, IAS 17, "Leases.". The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. The standard is effective from January 1, 2019. Early adoption is permitted but only if the Company also applies IFRS 15, "Revenue from Contracts with Customers." Delphi does not expect to early adopt the new standard and the extent of the impact of adoption of the standard has not yet been determined.

CORPORATE GOVERNANCE

Overview

The shareholders' interests are a critical factor in the operations and management of Delphi. The Company is committed to maintaining the highest level of investor confidence in the Company through the application of its corporate policies and procedures. Delphi's Board of Directors consists of six independent directors and one officer of the Company who meet regularly to discuss matters of strategy and execution of the business plan. See Delphi's Management Information Circular

and Annual Information Form for a listing of committees that oversee specific aspects of the Company's operating and financial strategy.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management, including its President and Chief Executive Officer and Senior Vice President, Finance and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The President and Chief Executive Officer and Senior Vice President, Finance and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles applicable to the Company. The Company's internal controls over financial reporting is based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework).

The Company is required to disclose any change in the Company's internal control over financial reporting that occurred during the period beginning on January 1, 2016 and ended on March 31, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. No material changes in the Company's internal control over financial reporting were identified during such period that has materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

2016 OUTLOOK AND FORWARD-LOOKING INFORMATION

This management discussion and analysis contains forward-looking statements and forward-looking information within the meaning of applicable Canadian securities laws. These statements relate to future events or the Company's future performance and are based upon the Company's internal assumptions and expectations. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of any of the words "expect", "anticipate", "continue", "estimate", "may", "will", "should", "believe", "intends", "forecast", "plans", "guidance", "budget" and similar expressions.

More particularly and without limitation, this management discussion and analysis contains forward-looking statements and information relating to petroleum and natural gas production estimates and weighting, projected crude oil and natural gas prices, future exchange rates, expectations as to royalty rates, expectations as to transportation and operating costs, expectations as to general and administrative costs and interest expense, expectations as to capital expenditures and net debt, planned capital spending, future liquidity and Delphi's ability to fund ongoing capital requirements through operating cash flows and its credit facilities, supply and demand fundamentals for oil and gas commodities, timing and success of development and exploitation activities, cash availability for the financing of capital expenditures, access to third-party infrastructure, treatment under governmental regulatory regimes and tax laws and future environmental regulations.

Furthermore, statements relating to "reserves" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions that the reserves described can be profitable in the future.

The forward-looking statements and information contained in this management discussion and analysis are based on certain key expectations and assumptions made by Delphi. The following are certain material assumptions on which the forward-looking statements and information contained in this management discussion and analysis are based: the stability of the global and national economic environment, the stability of and commercial acceptability of tax, royalty and regulatory regimes applicable to Delphi, exploitation and development activities being consistent with management's expectations, production levels of Delphi being consistent with management's expectations, the absence of significant project delays, the stability of oil and gas prices, the absence of significant fluctuations in foreign exchange rates and interest rates, the stability of costs of oil and gas development and production in Western Canada, including operating costs, the timing and size of development plans and capital expenditures, availability of third party infrastructure for transportation, processing or marketing of oil and natural gas volumes, prices and availability of oilfield services and equipment being consistent with management's expectations, the availability of, and competition for, among other things, pipeline capacity, skilled personnel and drilling and related services and equipment, results of development and exploitation activities that are consistent with management's expectations, weather affecting Delphi's ability to develop and produce as expected, contracted parties providing goods and services on the agreed timeframes, Delphi's ability to manage environmental risks and hazards and the cost of complying with environmental regulations, the accuracy of operating cost estimates, the accurate estimation of oil and gas reserves, future exploitation, development and production results and Delphi's ability to market oil and natural gas successfully to current and new customers. Additionally, estimates as to expected average annual production rates

assume that no unexpected outages occur in the infrastructure that the Company relies on to produce its wells, that existing wells continue to meet production expectations and any future wells scheduled to come on in the coming year meet timing and production expectations.

Commodity prices used in the determination of forecast revenues are based upon general economic conditions, commodity supply and demand forecasts and publicly available price forecasts. The Company continually monitors its forecast assumptions to ensure the stakeholders are informed of material variances from previously communicated expectations.

Financial outlook information contained in this management discussion and analysis about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. Readers are cautioned that such financial outlook information contained in this management discussion and analysis should not be used for purposes other than for which it is disclosed.

Although the Company believes that the expectations reflected in such forward-looking statements and information are reasonable, it can give no assurance that such expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent known and unknown risks and uncertainties. Delphi's actual results, performance or achievements 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, or if any of them do so, what benefits Delphi will derive therefrom. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the oil and gas industry in general such as operational risks in development, exploration and production, delays or changes in plans with respect to exploration or development projects or capital expenditures, the uncertainty of estimates and projections relating to production rates, costs and expenses, commodity price and exchange rate fluctuations, marketing and transportation, environmental risks, competition from others for scarce resources, the ability to access sufficient capital from internal and external sources, changes in governmental regulation of the oil and gas industry and changes in tax, royalty and environmental legislation. Additional information on these and other factors that could affect the Company's operations or financial results are included in the Company's most recent Annual Information Form and other reports on file with the applicable securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

Readers are cautioned that the foregoing list of factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A for the purpose of providing the readers with the Company's expectations for the coming year. The forward-looking statements and information may not be appropriate for other purposes. Delphi undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws. The forward-looking statements contained in this management discussion and analysis are expressly qualified in their entirety by this cautionary statement.

PRODUCTION

What are the Company's production expectations for 2016?

The Company's average annual production in 2016 will be dependent upon the number of wells drilled, funded by cash flow, resulting in production between 8,300 and 8,800 boe/d. The production is expected to be split 32 percent to liquids and 68 percent to natural gas.

REVENUES

What does the Company project for crude oil and natural gas prices and the Canadian/United States exchange rate in 2016?

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 Canadian Alberta Energy Company interconnect with the TransCanada Alberta system ("AECO"). Natural gas prices are primarily influenced by North American, rather than global, supplies of natural gas versus domestic demand for winter heating and the generation of electricity for summer cooling requirements. Over the past seven years, multi-stage hydraulic fracturing technology has unlocked significant natural gas resource potential in numerous shale basins in North America which are capable of initially producing at very high rates of natural gas before declining and producing for a long time. The United States has significantly

grown its supply of dry gas to meet domestic demand over that same period of time further influencing the dynamics of the natural gas markets.

So far in 2016, natural gas storage levels continue to increase creating a greater supply/demand imbalance. As a result of the high natural gas inventory storage levels and strong natural gas production rates, the average price for NYMEX in the first quarter of 2016 has been U.S. $2.04 per million British thermal units ("mmbtu"). Consequently, Delphi is managing its forecast for NYMEX natural gas prices to average between U.S. $1.75 and $2.25 per mmbtu for the year.

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 Canadian/United States ("Cdn/US") dollar exchange rate. The fundamental supply/demand equation for crude oil is imbalanced as global supply exceeds global demand. Global production has been increasing since the second quarter of 2014, primarily due to previously shut-in production from certain countries that are part of the Organization of the Petroleum Exporting Countries ("OPEC") coming back online and a significant increase in production by non-OPEC countries, particularly, the United Sates. Global demand is impacted by a slowing economy in China and increased energy efficiency in developed nations.

Due to this imbalance in supply and demand for crude oil, Delphi is currently managing its capital program based on an average WTI price for 2016 of U.S. $35.00 to U.S. $40.00 per barrel.

Canadian/United States Exchange Rate

Both crude oil and natural gas prices in Canada are premised on the U.S. dollar price for each product adjusted for the Cdn/US dollar exchange rate and quality and transportation differentials. The strength or weakness of the Canadian dollar versus the U.S. dollar will largely reflect the global demand for raw materials, particularly metals, minerals and crude oil. The global financial markets tolerance for risk and its need for financial security in the form of holding U.S dollars will also have an effect on the value of the Canadian dollar against the U.S. dollar.

In 2014 and into 2015, the Canadian dollar weakened relative to the U.S. dollar. The exchange rate is influenced by many variables which will continue to result in volatility. Delphi has assumed that the Canadian dollar will average $0.70 to $0.75 Cdn. to U.S. dollar.

ROYALTIES

What average royalty rate does Delphi expect to pay in 2016?

The Company pays royalties to provincial governments, individuals and companies that own surface and/or mineral rights and Companies that have been granted an overriding royalty. These payments take the form of Crown, freehold and overriding royalties. Crown royalty rates for crude oil and natural gas are generally calculated on a sliding scale based on commodity prices and production rates whereas freehold and overriding royalty rates are generally a fixed percentage of revenue less the cost to deliver the product to market. Crown royalty rates can change due to price fluctuations or changes in production volumes on a well by well basis subject to minimum and maximum rates. For natural gas liquids, Crown royalty rates are a fixed percentage of revenue with the rate varying according to the nature of the product. Crown royalty credits are received from the Crown and represent the fee earned by the owners of natural gas processing infrastructure to process the Crown's royalty share of natural gas. Freehold royalties are paid on freehold lands and overriding royalties are generally payable on lands where the Company has earned an interest in the lands through a farm-in, whether the lands are Crown or freehold. Crown royalties are also influenced by royalty incentives provided by the provincial governments to stimulate drilling activity by the industry. Delphi expects the royalty regime in Alberta to remain stable throughout 2016. Royalties are not affected by gains or losses realized through the Company's risk management program.

For 2016, Delphi expects its royalty rate, after the deduction for royalty credits to average between ten and twelve percent of gross revenue, excluding realized and unrealized gains or losses on commodity risk management contracts.

TRANSPORTATION EXPENSES AND OPERATING COSTS

Will Delphi be able to further reduce its costs of production in 2016?

Transportation expenses are costs incurred by the Company to transport its production volumes from the wellhead to the point of sales. In Alberta, transportation expense is influenced by market conditions and availability of existing pipeline capacity. In British Columbia, infrastructure is owned by Spectra Energy Corp. that enables natural gas producers to avoid

facility construction in exchange for regulated gathering, processing and transmission fees. These charges are included in transportation expenses.

Delphi expects its transportation expenses to be approximately $6.50 to $7.00 per boe in 2016. Transportation expenses are subject to the availability of pipeline capacity on an interruptible basis in areas of significant production growth by industry. Delphi does not anticipate having any issues moving its production to sales.

The costs of production may be more than expected in periods of very high industry activity causing considerable competition and rising prices for general oilfield services and equipment. With the growth in Montney production as a percentage of total production, operating costs are expected to increase due to sour gas processing through non-operated facilities. Operating costs in 2016 are expected to average between $6.75 and $7.25 per boe.

GENERAL & ADMINISTRATIVE AND FINANCE COSTS

What are the Company's overhead costs for personnel and financing?

In 2016, Delphi anticipates its general and administrative costs, net of capitalized amounts, to be approximately $1.60 to $1.80 per boe, lower than 2015.

Interest costs will be dependent on market rates and credit spreads for the oil and gas sector and will be a function of the general economic conditions in Canada. If the economy is viewed as growing too fast, which may result in inflation, interest rates may be increased to slow down the pace of growth in the economy. Interest costs may also increase if funds from operations are less than expected and long term debt is used to fund a larger portion of the capital program than originally anticipated. The Company expects the Canadian prime rate to remain stable in 2016. Interest expense is expected to be approximately $1.75 to $2.00 per boe in 2016.

CAPITAL PROGRAM AND NET DEBT LEVELS

What are the Company's forecast capital expenditures and net debt levels for 2016?

The Company expects 2016 net capital expenditures to be between $33.0 and $38.0 million to drill, complete and tie-in four to five wells dependent on commodity prices and hence funds from operations. The ability to drill, complete and tie in wells assumes the availability of equipment and field personnel to undertake the operations. Historically, Delphi executes a winter capital program in excess of first quarter funds flow followed by at least one quarter of minimal activity prior to returning to the field with an active summer/fall program.

The Company is targeting net debt at December 31, 2016 to be between $120.0 and $125.0 million.

ADDITIONAL INFORMATION

Where is additional information about Delphi available?

Additional information about Delphi Energy is available on the Canadian Securities Administrators' System for Electronic Distribution and Retrieval (SEDAR) at www.sedar.com, at the Company's website at www.delphienergy.ca or by contacting the Company at Delphi Energy Corp. Suite 300, 500 – 4th Avenue S.W., Calgary, Alberta, T2P 2V6 or by e-mail at info@delphienergy.ca.

DELPHI ENERGY CORP.

Condensed Consolidated Statements of Financial Position

(thousands of dollars)	**March 31, 2016**	December 31, 2015
(unaudited)		
Assets		
Current assets		
Cash and cash equivalents	**-**	2,472
Accounts receivable	**17,153**	15,809
Prepaid expenses and deposits	**2,813**	2,718
Fair value of financial instruments (Note 5)	**19,341**	18,877
	39,307	39,876
Fair value of financial instruments (Note 5)	**4,187**	4,152
Exploration and evaluation (Note 6)	**19,371**	19,213
Property, plant and equipment (Note 7)	**302,858**	297,601
Total assets	**365,723**	360,842
Liabilities		
Current liabilities		
Outstanding cheques	**1,713**	-
Accounts payable and accrued liabilities	**33,712**	33,639
Decommissioning obligations	**569**	878
Fair value of financial instruments (Note 5)	**261**	3,008
Subordinated debt (Note 8)	**14,082**	13,954
	50,337	51,479
Restricted share units	**69**	53
Long term debt (Note 8)	**96,305**	94,192
Decommissioning obligations	**23,756**	24,059
Fair value of financial instruments (Note 5)	**155**	1,561
Total liabilities	**170,622**	171,344
Shareholders' equity		
Share capital (Note 9)	**309,389**	309,389
Contributed surplus	**19,705**	19,361
Deficit	**(133,993)**	(139,252)
Total shareholders' equity	**195,101**	189,498
Total liabilities and shareholders' equity	**365,723**	360,842

Subsequent event (Note 5)

See accompanying notes to the condensed consolidated interim financial statements.

DELPHI ENERGY CORP.

Condensed Consolidated Statements of Earnings and Comprehensive Income
For the three months ended March 31,

(thousands of dollars, except per share amounts)	**2016**	2015
(unaudited)		
Revenues		
Crude oil and natural gas sales	**17,316**	22,650
Royalties	**(1,846)**	(1,345)
	15,470	21,305
Realized gain on financial instruments (Note 5)	**5,961**	4,520
Unrealized gain on financial instruments (Note 5)	**4,652**	3,714
	26,083	29,539
Expenses		
Operating	**5,148**	8,227
Transportation	**5,114**	3,372
Exploration and evaluation (Note 6)	**17**	-
General and administrative	**1,507**	1,267
Share-based compensation	**278**	486
Gain on dispositions (Note 7)	**(1,742)**	-
Loss on decommissioning	**166**	309
Depletion, depreciation and impairment (Note 7)	**8,651**	10,609
	19,139	24,270
Finance costs	**1,685**	2,540
Earnings before income taxes	**5,259**	2,729
Income taxes		
Deferred income taxes	**-**	734
Net earnings and comprehensive income	**5,259**	1,995
Net earnings per share (Note 9)		
Basic	**0.03**	0.01
Diluted	**0.03**	0.01

See accompanying notes to the condensed consolidated interim financial statements.

DELPHI ENERGY CORP.

Condensed Consolidated Statements of Changes in Shareholders' Equity
For the three months ended March 31,

(thousands of dollars)	**2016**	2015
(unaudited)		
Share capital		
Common shares		
Balance, beginning of period	**309,389**	309,342
Issued on exercise of options	**-**	-
Transferred on exercise of options	**-**	-
Balance, end of period	**309,389**	309,342
Contributed surplus		
Balance, beginning of period	**19,361**	17,609
Share-based compensation	**344**	648
Transferred on exercise of options	**-**	-
Balance, end of period	**19,705**	18,257
Deficit		
Balance, beginning of period	**(139,252)**	(96,727)
Net earnings	**5,259**	1,995
Balance, end of period	**(133,993)**	(94,732)
Total shareholders' equity	**195,101**	232,867

See accompanying notes to the condensed consolidated interim financial statements.

DELPHI ENERGY CORP.

Condensed Consolidated Statements of Cash Flows
For the three months ended March 31,

(thousands of dollars)	**2016**	2015
(unaudited)		
Cash flow from (used in) operating activities		
Net earnings	**5,259**	1,995
Adjustments for:		
Depletion, depreciation and impairment	**8,651**	10,609
Accretion and finance charges	**213**	362
Share-based compensation	**278**	486
Gain on dispositions	**(1,742)**	-
Exploration and evaluation	**17**	-
Loss on decommissioning	**166**	309
Unrealized gain on financial instruments	**(4,652)**	(3,714)
Deferred income taxes	**-**	734
Accretion of subordinated debt and long term debt	**(568)**	(232)
Decommissioning expenditures	**(980)**	(322)
Change in non-cash working capital (Note 10)	**6,172**	1,953
	12,814	12,180
Cash flow from (used in) financing activities		
Increase in long term debt	**2,681**	4,529
	2,681	4,529
Cash flow available for investing activities	**15,495**	16,709
Cash flow from (used in) investing activities		
Additions to exploration and evaluation	**(175)**	(172)
Additions to property, plant and equipment	**(16,483)**	(17,097)
Disposition of property, plant and equipment	**4,583**	-
Change in non-cash working capital (Note 10)	**(5,892)**	(2,570)
	(17,967)	(19,839)
Increase (decrease) in cash and cash equivalents	**(2,472)**	(3,130)
Cash and cash equivalents, beginning of period	**2,472**	3,130
Cash and cash equivalents, end of period	**-**	-
Cash interest paid	**1,363**	2,902

See accompanying notes to the condensed consolidated interim financial statements.

1) STRUCTURE OF DELPHI

Delphi Energy Corp. ("Delphi" or "the Company") is a publicly-traded company engaged in the exploration for, development and production of crude oil and natural gas from properties and assets located in Western Canada in which it holds an interest. The Company's operations are primarily concentrated in the Deep Basin of Northwest Alberta. The Company's core area in the Deep Basin is located at Bigstone, producing in excess of 95 percent of the Company's production. The registered office of the Company is located at Suite 300, 500 – 4th Avenue S.W., Calgary, Alberta, T2P 2V6.

The condensed consolidated interim financial statements as at and for the three months ended March 31, 2016 comprise the accounts of the Company, its wholly-owned subsidiary and a partnership.

2) BASIS OF PRESENTATION

(a) Statement of compliance and authorization

These condensed consolidated interim financial statements are unaudited and prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board, and do not include all of the information and disclosures normally provided in annual financial statements and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2015.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors on May 10, 2016.

(b) Basis of measurement and functional currency

The condensed consolidated interim financial statements have been prepared on a going concern basis, using historical costs, except for derivative financial instruments and liabilities for cash-settled share-based payment arrangements which are measured at fair value. The financial statements are presented in Canadian dollars, the Company's functional currency and rounded to the nearest thousand (unless stated otherwise).

(c) Use of estimates and judgments

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts in the condensed consolidated interim financial statements and accompanying notes. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be material. Actual results may differ from these estimates. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In preparing these condensed consolidated interim financial statements, the critical judgments that management has made in the process of applying Delphi's accounting policies and that have the most significant effect on the amounts recognized were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2015.

3) SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended December 31, 2015, with the exception of the following:

On January 1, 2016, Delphi adopted the amendments to IFRS 11, "Joint Arrangements," issued by the International Accounting Standards Board. The amendments require business combination accounting to be applied to the acquisition of interests in a joint operation that constitute a business. The adoption of this amendment has not had a material impact on the Company's consolidated financial statements.

4) DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. IFRS establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described as follows:

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

Level 2 – Valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods:

(a) Cash and cash equivalents, accounts receivable, outstanding cheques and accounts payable and accrued liabilities:

The fair value of cash and cash equivalents, accounts receivable, outstanding cheques and accounts payable and accrued liabilities approximate their carrying value due to their short term to maturity.

(b) Subordinated debt and long term debt:

The fair value disclosure of the Company's subordinated debt is measured at level 2 of the fair value hierarchy for disclosure purposes. The subordinated debt has a fair value of $15.0 million based on future cash flows associated with the facility discounted at current market rates of interest. In the case of long term debt, the fair value approximates its carrying value as it bears interest at floating rates and the applicable margin is indicative of the Company's current credit premium.

(c) Restricted share units:

The restricted share unit liability is measured at level 2 of the fair value hierarchy. The fair value is based on the Company's closing share price on the last business day immediately preceding the date of the consolidated statement of financial position.

(d) Derivatives:

Delphi's interest, foreign exchange, basis differential and commodity contracts are measured at level 2 of the fair value hierarchy. The fair value of commodity contracts is determined by discounting the remaining contracted petroleum and natural gas volumes by the difference between the contracted price and published forward price curves as at the consolidated financial position date. The fair value of interest rate swap contracts is determined by discounting the net future cash flows based on the fixed and variable rates associated with the notional amounts.

5) FINANCIAL RISK MANAGEMENT

The Company is exposed to market, credit and liquidity risks from its use of financial instruments. There have not been any changes to the Company's exposure to each of the above risks and the Company's policies and processes for measuring and managing these risks since December 31, 2015.

As at March 31, 2016, Delphi had the following risk management contracts outstanding:

Natural Gas Contracts

Time Period	Type of Contract	Average Quantity Contracted	Average Price ($/unit)		Reference
December 2015 – December 2016	Financial – fixed	5,000 mmbtu/d	$3.45	U.S.	NYMEX
December 2015 – December 2016	Financial – fixed	5,000 mmbtu/d	$3.57	U.S.	NYMEX
December 2015 – December 2017	Financial – fixed	5,000 mmbtu/d	$3.55	U.S.	NYMEX
January 2016 – September 2016	Financial – fixed	2,400 mmbtu/d	$2.815	U.S.	Chicago
January 2016 – December 2016	Financial – fixed	2,500 GJ/d	$3.69	Cdn	AECO
January 2016 – December 2016	Financial – fixed	5,000 mmbtu/d	$3.86	U.S.	NYMEX
March 2016 – September 2016	Financial – fixed	2,850 mmbtu/d	$2.718	U.S.	Chicago
January 2017 – December 2017	Financial – fixed	2,500 mmbtu/d	$3.86	U.S.	NYMEX
January 2017 – December 2017	Financial – fixed	2,500 GJ/d	$3.75	Cdn	AECO
January 2017 – December 2017	Financial – fixed	4,500 mmbtu/d	$4.02	Cdn	NYMEX
January 2017 – December 2018	Financial – fixed	3,000 mmbtu/d	$2.77	U.S.	NYMEX
January 2018 – December 2019	Financial – fixed	2,000 mmbtu/d	$4.02	Cdn	NYMEX

Subsequent to March 31, 2016, Delphi entered into a contract to sell 2,096 mmbtu/d from January 1, 2017 to December 1, 2017 at a fixed price of U.S. $2.95 per mmbtu.

Crude Oil Contracts

Time Period	Type of Contract	Quantity Contracted	Price ($/unit)		Reference
January 2016 – December 2016	Crude Oil – financial	200 bbls/d	$78.46	Cdn	WTI
January 2016 – December 2016	Crude Oil – financial	200 bbls/d	$78.35	Cdn	WTI
January 2016 – December 2016 (1)	Crude Oil – collar (1)	400 bbls/d	$78.60 - $85.00	Cdn	WTI
April 2016	Crude Oil – financial	600 bbls/d	$51.57	Cdn	WTI

(1) The collar has a deferred cost of $4.02 per barrel.

Subsequent to March 31, 2016, Delphi entered into the following crude oil commodity risk management contracts:

Time Period	Type of Contract	Quantity Contracted	Price ($/unit)		Reference
May 2016	Crude Oil – financial	500 bbls/d	$49.45	Cdn	WTI
January 2017 – December 2017	Crude Oil – financial	300 bbls/d	$60.00	Cdn	WTI

Basis Differential Contracts

Time Period	Type of Contract	Quantity Contracted	Differential (U.S. $/unit)
December 2015 – December 2016	Chicago – NYMEX differential	2,500 mmbtu/d	$0.010
December 2015 – December 2016	Chicago – NYMEX differential	5,000 mmbtu/d	$0.020
December 2015 – December 2016	Chicago – NYMEX differential	5,000 mmbtu/d	$0.010
December 2015 – December 2016	Chicago – NYMEX differential	2,500 mmbtu/d	$0.010
January 2016 – December 2016	Chicago – NYMEX differential	2,500 mmbtu/d	$0.025
January 2016 – December 2016	Chicago – NYMEX differential	2,500 mmbtu/d	$0.020

U.S. Dollar Forward Exchange Contracts

Time Period	Average Notional U.S. $	Average Exchange Rate (U.S.$ to Cdn$)
May 2015 – December 2018	250.0	1.2574
June 2015 – December 2016	250.0	1.1965
December 2015 – December 2016	200.0	1.2520
December 2015 – December 2016	275.0	1.2520
December 2015 – December 2016	200.0	1.2500
December 2015 – November 2017	200.0	1.2500
January 2016 – December 2017	200.0	1.3050
January 2016 – December 2017	200.0	1.3075
January 2016 – December 2017	300.0	1.3005
February 2016 – December 2016	431.8	1.4047
January 2017 – December 2017	85.4	1.3476
January 2017 – December 2017	55.0	1.3800

Interest Rate Swap

Time Period	Notional $	Fixed Interest Rate
May 2015 – May 2017	30,000	0.875%
February 2016 – January 2018	30,000	0.63%
February 2016 – January 2018	15,000	0.64%

The fair value of the risk management contracts outstanding as at March 31, 2016 is estimated to be a net asset of $23.1 million (December 31, 2015, net asset of $18.5 million). As at March 31, 2016 the following derivative financial assets and financial liabilities were offset on the consolidated statement of financial position:

	Gross Amounts of Recognized Financial Assets (Liabilities)	Gross Amounts of Recognized Financial Assets (Liabilities) Offset	Net Amounts of Financial Assets (Liabilities) Recognized
Risk management contracts			
Current asset	19,475	(134)	19,341
Long term asset	4,365	(178)	4,187
Current liability	(713)	452	(261)
Long term liability	(309)	154	(155)
Net asset (liability)	**22,818**	**294**	**23,112**

For the three months ended March 31, 2016, the risk management contracts resulted in realized gains of $6.0 million.

For the three months ended March 31, 2016, Delphi recorded an unrealized gain on its risk management contracts of $4.7 million. The unrealized gain recognized for the three months ended March 31, 2016 is the difference between the fair values of the risk management contracts outstanding as at March 31, 2016 and the fair values as at December 31, 2015.

As at March 31, 2016, if the future strip prices for crude oil were $1.00 per barrel higher with all other variables held constant, the unrealized gain on risk management contracts for the three months ended March 31, 2016 would have decreased by $0.3 million. As at March 31, 2016, if the future strip prices for natural gas were $0.10 per gigajoule or $0.10 per million British thermal unit higher with all other variables held constant, the unrealized gain on risk management contracts for the three months ended March 31, 2016 would have decreased by $2.7 million.

As at March 31, 2016, if the U.S. to Canadian dollar exchange rate would have been $0.01 higher with all other variables held constant, the unrealized gain on risk management contracts for the three months ended March 31, 2016 would have decreased by $0.2 million.

6) EXPLORATION AND EVALUATION ASSETS

	Total
Balance as at December 31, 2014	18,609
Additions	635
Dispositions	(31)
Balance as at December 31, 2015	19,213
Additions	175
Expense	(17)
Balance as at March 31, 2016	**19,371**

Exploration and evaluation assets consist of the Company's exploration projects which are pending the determination of proved and probable reserves.

During the first three months of 2016, Delphi added $0.2 million of exploration and evaluation expenditures related to developing the Montney formation at Bigstone. In the first quarter of 2016, Delphi expensed $17 thousand of exploration and evaluation assets due to the expiry of a certain lease in the Company's Bigstone area.

7) PROPERTY, PLANT AND EQUIPMENT

Cost	Crude oil and natural gas properties	Production equipment	Other assets	Total
Balance as at December 31, 2014	693,902	73,383	1,036	768,321
Additions	55,397	1,732	44	57,173
Decommissioning obligations	75	(991)	-	(916)
Dispositions	(319,724)	(14,368)	-	(334,092)
Balance as at December 31, 2015	429,650	59,756	1,080	490,486
Additions	16,626	-	7	16,633
Decommissioning obligations	117	-	-	117
Dispositions	(2,842)	-	-	(2,842)
Balance as at March 31, 2016	**443,551**	**59,756**	**1,087**	**504,394**

Accumulated depletion and depreciation	Crude oil and natural gas properties	Production equipment	Other assets	Total
Balance as at December 31, 2014	(331,596)	(17,778)	(630)	(350,004)
Depletion and depreciation	(38,399)	(1,580)	(117)	(40,096)
Dispositions	249,903	273	-	250,176
Impairment losses	(45,715)	(7,246)	-	(52,961)
Balance as at December 31, 2015	(165,807)	(26,331)	(747)	(192,885)
Depletion and depreciation	(8,293)	(332)	(26)	(8,651)
Balance as at March 31, 2016	**(174,100)**	**(26,663)**	**(773)**	**(201,536)**
Net book value as at March 31, 2016	**269,451**	**33,093**	**314**	**302,858**
Net book value as at December 31, 2015	263,843	33,425	333	297,601

For the three months ended March 31, 2016, Delphi has included $237.7 million (March 31, 2015: $380.1 million) for future development costs and excluded $1.1 million (March 31, 2015: $2.1 million) for estimated salvage to its costs subject to depletion and depreciation.

For the three months ended March 31, 2016, Delphi capitalized $0.4 million (December 31, 2015: $2.2 million) of general and administrative expenses and $150.0 thousand (December 31, 2015: $0.7 million) of share-based compensation expense directly related to exploration and development activities.

During the first quarter of 2016, Delphi received proceeds of $4.6 million in exchange for a gross overriding royalty on two gross wells completed during the quarter. A gain of $1.7 million was recorded on the granting of the gross overriding royalty.

8) LONG TERM DEBT AND SUBORDINATED DEBT

	March 31, 2016	December 31, 2015
Senior Credit Facility (1)		
Prime-based loans	**2,000**	-
Bankers' acceptances, net of discount	**94,305**	94,192
	96,305	94,192
Subordinated debt, net of finance costs	**14,082**	13,954
Total	**110,387**	108,146

(1) As at March 31, 2016, the Company had outstanding letters of credit totaling $6.0 million.

The Company's senior extendible revolving term credit facility with a syndicate of Canadian chartered banks is subject to the banks' semi-annual review of the Company's crude oil and natural gas properties. The facility is a 364 day committed facility available on a revolving basis until May 25, 2016 at which time it may be extended at the lenders' option. If the revolving period is not extended, the undrawn portion of the facility will be cancelled and the amount outstanding will convert to a 365 day non-revolving term facility. The amounts outstanding under the non-revolving facility would be required to be repaid at the end of the non-revolving term being May 25, 2017. The non-extension provisions are applicable to the lenders on an individual basis.

Interest payable on amounts drawn under the facility is at the prevailing bankers' acceptance rates plus stamping fees, lenders' prime rate or U.S. base rate plus the applicable margins, depending on the form of borrowing by the Company. The applicable margins and stamping fees are based on a sliding scale pricing grid tied to the Company's trailing net debt to annualized quarterly funds from operations ratio: from a minimum of the bank's prime rate or U.S. base rate plus 1.00 percent to a maximum of the bank's prime rate or U.S. base rate plus 3.00 percent or from a minimum of bankers' acceptances rate plus a stamping fee of 2.00 percent to a maximum of bankers' acceptances rate plus a stamping fee of 4.00 percent.

The syndicated credit facility is secured by a $300.0 million demand floating charge debenture and a general security agreement over all assets of the Company.

The annual review of the Company's $132.5 million extendible revolving term credit facility is currently underway and is expected to be completed by May 25, 2016. The borrowing base of the facilities will be based on the lenders' evaluation of the Company's petroleum and natural gas reserves at the time and commodity prices. A decrease in the borrowing base could result in a reduction to the credit facility, which may require a repayment to the lenders.

In addition to the syndicated credit facility, the Company has a $14.0 million subordinated demand credit facility with a Canadian energy and resource lender.

The debt is secured by the Company's assets and subordinate to the Company's senior credit facility. The subordinated debt has a maturity date of June 30, 2016. At maturity, the Company expects to repay the subordinated debt through an equivalent or similar replacement facility.

The subordinated debt has an annual coupon rate of 10.5 percent with interest payable monthly. A deferred fee of 1.5 percent of the facility is due upon maturity.

The subordinated debt is presented net of financing costs and is accreted using the effective interest rate method such that the carrying amount of the subordinated debt will be equal to the principal amount plus the 1.5 percent deferred fee at maturity.

The senior credit facility and the subordinated demand credit facility are subject to the following financial covenants:

Financial covenant	**Requirement**	**As at March 31, 2016**	**Facility subject to financial covenant**
Adjusted working capital ratio	≥ 1.0 : 1.0	1.1	Senior, Subordinated
Net debt to equity ratio	< 1.0 : 1.0	0.7	Subordinated

For the purpose of the financial covenants, the following definitions are applicable:

Adjusted working capital ratio

Current assets include the undrawn portion of the senior credit facility and exclude the current portion of the fair value of financial instruments. Current liabilities exclude the current portion of long term debt and the current portion of the fair value of financial instruments.

Net debt to equity ratio

Net debt is defined as long term debt and subordinated debt plus (minus) the working capital deficit (surplus) excluding the current portion of the fair value of financial instruments. Equity is equivalent to shareholders' equity.

9) SHARE CAPITAL

Delphi is authorized to issue an unlimited number of common shares. All shares are issued as fully paid and non-assessable and have no par value. The holders of common shares are entitled to receive dividends as declared by the Company and are also entitled to one vote per share.

(a) Issued and outstanding		**March 31, 2016**	December 31, 2015	
	Outstanding shares (000's)	**Amount**	Outstanding shares (000's)	Amount
Balance, beginning of period	**155,510**	**309,389**	155,477	309,342
Issued on exercise of stock options	**-**	**-**	33	35
Transferred on exercise of options	**-**	**-**	-	12
Balance, end of period	**155,510**	**309,389**	155,510	309,389

As at March 31, 2016, 14.4 million stock options were outstanding with a weighted exercise price of $1.71 per option.

As at March 31, 2016, 547 thousand restricted share units were outstanding.

(b) Net earnings per share

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

	Three Months Ended March 31	
	2016	2015
Weighted average common shares - basic	**155,510**	155,477
Dilutive effect of share options outstanding	**-**	237
Weighted average common shares - diluted	**155,510**	155,714

For the three months ended March 31, 2016, a total of 14.4 million stock options (March 31, 2015: 12.5 million) were excluded from the calculation as they were anti-dilutive.

10) SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital are comprised of the following:

	Three Months Ended March 31	
	2016	2015
Source (use) of cash		
Accounts receivable	**(1,344)**	4,850
Prepaid expenses and deposits	**(95)**	154
Outstanding cheques	**1,713**	4,401
Accounts payable and accrued liabilities	**6**	(10,022)
Total change in non-cash working capital	**280**	(617)
Relating to:		
Operating activities	**6,172**	1,953
Investing activities	**(5,892)**	(2,570)
	280	(617)

DIRECTORS

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

Harry S. Campbell, Q.C. (3)
Chairman
Burnet, Duckworth & Palmer LLP

Robert A. Lehodey, Q.C. (2) (3)
Partner
Osler, Hoskin & Harcourt LLP

Stephen Mulherin (1)
Partner
Polar Capital Corporation

Andrew E. Osis (1) (3)
Independent Businessman

David Sandmeyer (2)
Director
Freehold Royalties Ltd.

Lamont C. Tolley (1) (2)
Independent Businessman

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

AUDITORS

KPMG LLP

LEGAL COUNSEL

Osler, Hoskin & Harcourt LLP

OFFICERS

David J. Reid
President and Chief Executive Officer

Hugo H. Batteke
Vice President Operations

Michael K. Galvin
Vice President Land

Rod A. Hume
Senior Vice President Engineering

Brian P. Kohlhammer
Senior Vice President Finance and Chief Financial Officer

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BANKERS

National Bank of Canada
The Bank of Nova Scotia
Alberta Treasury Branches

INDEPENDENT ENGINEERS

GLJ Petroleum Consultants Ltd.

STOCK EXCHANGE LISTING

Toronto Stock Exchange – DEE

TRANSFER AGENT

Computershare Trust Company of Canada

ABBREVIATIONS

bbls .... barrels
bbls/d .... barrels per day
mbbls .... thousand barrels
mcf .... thousand cubic feet
mcf/d .... thousand cubic feet per day
mmcf .... million cubic feet
mmcf/d .... million cubic feet per day
NGL .... natural gas liquids
bcf .... billion cubic feet
boe .... barrels of oil equivalent (6 mcf:1 bbl)
boe/d .... barrels of oil equivalent per day
mmboe .... million barrels of oil equivalent

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