DELPHI ENERGY CORP.

SECOND QUARTER

FOR THE SIX MONTHS ENDED JUNE 30, 2016

TSX SYMBOL: DEE

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Second Quarter 2016 Highlights

- On a comparative basis, excluding approximately 2,600 boe/d of dispositions completed in the second half of 2015, production capability for the second quarter of 2016 increased five percent to 8,200 boe/d, up from 7,810 boe/d in the second quarter of 2015. Production volumes were affected by the temporary curtailment of approximately 2,400 boe/d as a result of an unscheduled outage for repairs at the SemCAMS K3 gas processing plant for 30 days during the quarter and as a result averaged 5,802 boe/d;

- Increased Bigstone Montney production capability to approximately 7,500 boe/d in the second quarter of 2016, a 15 percent increase from the second quarter of 2015. Field condensate production capability has increased 20 percent over the same comparative periods;

- Increased Montney field condensate and natural gas liquids ("NGL") yield by 20 percent to 113 barrels per million cubic feet ("bbls/mmcf") in the second quarter of 2016 compared to 94 bbls/mmcf in the second quarter of 2015. Field and plant condensate yield was 67 bbls/mmcf or 59 percent of the total 113 bbls/mmcf;

- Incurred minimal capital in the second quarter of 2016 due to spring break-up. Two gross (1.7 net) wells were drilled and two gross (1.5 net) Bigstone Montney wells were completed in the first quarter of the year for total first half net capital of $11.9 million;

- Generated funds from operations of $4.2 million in the second quarter of 2016 and $12.3 million during the first six months of 2016, funding the first half net capital program from internally generated funds from operations;

- Reduced Bigstone Montney operating costs per boe in the second quarter of 2016 by twelve percent to $5.87 per boe, down from $6.69 per boe in the second quarter of 2015;

- Realized gains of $6.1 million from risk management contracts in the second quarter of 2016 and the Company remains well hedged for future years, with hedged natural gas volumes of 63 percent, 32 percent and 23 percent for 2017, 2018 and 2019, respectively, at an average price of Cdn $4.02 per mcf;

- Closed a $60.0 million public offering of ten percent Collateralized Exchange Listed Notes ("Senior Secured Notes") to term out, for a period of five years, approximately 50 percent of the Company's total debt; and

- Redetermined the Company's revolving credit facility with its syndicate of lenders at $85.0 million with approximately $60.8 million outstanding (excluding letters of credit) at the end of the second quarter.

Operational Highlights

	Three Months Ended June 30			Six Months Ended June 30		
Production	**2016**	2015	% Change	**2016**	2015	% Change
Field condensate (bbls/d)	**1,055**	1,369	(23)	**1,377**	1,480	(7)
Natural gas liquids (bbls/d)	**1,023**	1,582	(35)	**1,180**	1,640	(28)
Crude oil (bbls/d)	**5**	86	(94)	**5**	47	(89)
Total crude oil and natural gas liquids	**2,083**	3,037	(31)	**2,562**	3,167	(19)
Natural gas (mcf/d)	**22,311**	43,035	(48)	**27,219**	44,619	(39)
Total (boe/d)	**5,802**	10,210	(43)	**7,099**	10,604	(33)

Financial Highlights ($ thousands except per unit amounts)

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	% Change	**2016**	2015	% Change
Crude oil and natural gas sales	**10,942**	22,790	(52)	**28,258**	45,440	(38)
Realized sales price per boe	**32.23**	28.89	12	**31.19**	28.14	11
Funds from operations	**4,152**	8,725	(52)	**12,342**	19,506	(37)
Per boe	**7.86**	9.39	(16)	**9.56**	10.17	(6)
Per share – Basic	**0.03**	0.06	(50)	**0.08**	0.13	(38)
Per share – Diluted	**0.03**	0.06	(50)	**0.08**	0.12	(33)
Net loss	**(18,638)**	(32,106)	(42)	**(13,379)**	(30,111)	(56)
Per boe	**(35.30)**	(34.56)	(2)	**(10.36)**	(15.68)	(34)
Per share – Basic	**(0.12)**	(0.21)	(43)	**(0.09)**	(0.19)	(53)
Per share – Diluted	**(0.12)**	(0.21)	(43)	**(0.09)**	(0.19)	(53)
Capital invested	**(186)**	3,047	(106)	**16,472**	20,316	(19)
Disposition of properties	**-**	(469)	-	**(4,583)**	(469)	(877)
Deposit on assets held for sale	**-**	(10,000)	-	**-**	(10,000)	-
Total net capital invested	**(186)**	(7,422)	(97)	**11,889**	9,847	21

	June 30, 2016	December 31, 2015	% Change
Net debt [1]	**117,959**	121,664	(3)
Total assets	**331,777**	360,842	(8)
Shares outstanding (000's)			
Basic	**155,510**	155,510	-
Diluted	**182,497**	169,951	7

[1] *Defined as the sum of bank debt, senior secured notes and subordinated debt plus (minus) the working capital deficit (surplus) excluding the current portion of the fair value of the financial instruments. The senior secured notes are included in net debt at their carrying value of $52.2 million from the statement of financial position versus the amount of notes outstanding of $60.0 million.*

MESSAGE TO SHAREHOLDERS

The commodity price environment continued to be very challenging with West Texas Intermediate ("WTI") crude oil prices averaging US $45.65 per barrel during the second quarter of 2016, down 21 percent from the comparative quarter of the previous year. NYMEX natural gas prices averaged US $1.95 per mmbtu in the second quarter, down 29 percent from the comparative quarter of 2015.

The Company continues to successfully navigate this commodity price environment with net capital spending for the first half of the year funded from internally generated funds from operations, improving new well productivity, reducing capital costs and lower operating costs. The Company generated a field operating netback of $15.06 per boe in the second quarter of 2016, up six percent from the comparative quarter of 2015. The improvement in the field operating netback was due to lower operating costs and increased realized gains from risk management contracts which more than offset lower benchmark pricing, negative marketing arrangements during a period of temporary curtailment of production, higher royalty costs due to a non-recurring gross overriding royalty payment and the incurrence of fixed transportation costs due to the Company's Alliance transportation commitment.

Production volumes for the second quarter of 2016 averaged 5,802 boe/d as a result of the unscheduled outage of the SemCAMS K3 natural gas processing plant for 30 days, causing the Bigstone Montney production to be shut-in for that time period, resulting in a loss of production of approximately 2,400 boe/d. The Hythe and Wapiti dispositions undertaken in the second half of 2015 resulted in reduced production of 2,600 boe/d versus the comparative period of 2015. Once the Bigstone Montney was placed back on-stream late in the second quarter, the Company's production averaged approximately 8,500 boe/d for the month of July, up from the 2015 exit production rate of approximately 8,300 boe/d.

Efforts to re-route the Company's Bigstone Montney production to the SemCAMS KA natural gas processing facility during the unscheduled outage of the SemCAMS K3 natural gas processing facility were unsuccessful due to delays in regulatory approval to reactivate an existing suspended pipeline connecting Delphi's Bigstone Montney production to the SemCAMS KA facility. One segment of the pipeline received approval in three days while the second segment of the same pipeline took 30 days to receive approval to reactivate. By that time, Delphi was able to flow its Montney production back to the SemCAMS K3 facility.

Bigstone Montney production in July 2016 averaged approximately 7,500 boe/d, up 13 percent from the second quarter of 2015, on total capital expenditures of approximately $41.9 million ($28.1 million net of GORR disposition proceeds) to bring on-stream 5.0 net horizontal Montney wells.

Delphi's field condensate weighting as a percentage of second quarter of 2016 production volumes increased to 18 percent, up 38 percent, from 13 percent in the comparative quarter of 2015. The Company`s Montney field condensate and natural gas liquids yield was 113 bbls/mmcf in the second quarter of 2016, up from 94 bbls/mmcf in the second quarter of 2015. Field and plant condensate yield averaged 67 bbls/mmcf or 59 percent of the total 113 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 $57.26 per barrel for its condensate production in the second quarter of 2016, including a realized risk management gain of $11.00 per barrel for maturing contracts in the period. Delphi's realized natural gas price for the second quarter of 2016 was $4.69 per mcf, an increase of 35 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 realized gain of $2.47 per mcf for maturing contracts in the period. The benefit of the realized gains from the risk management program, on a per boe basis, was positively influenced by the lower volumes due to the temporary curtailment of production in the second quarter.

Funds from operations in the second quarter of 2016 were $4.2 million or $0.03 per basic and diluted share, compared to $8.7 million or $0.06 per basic and diluted share in the comparative quarter of 2015. Funds from operations in the second quarter of 2016 was significantly affected by the temporary curtailment of Delphi's Bigstone Montney production as a result of the unscheduled SemCAMS K3 natural gas processing plant outage for 30 days in the quarter and by lower benchmark commodity prices for both crude oil and natural gas.

During the second quarter of 2016, Delphi had a net capital expenditures credit of $0.2 million as a result of actual to estimate adjustments during the quarter. During the first six months of 2016, Delphi invested $16.5 million of capital expenditures primarily on drilling and completions. Delphi drilled two gross (1.7 net) wells and performed completion activities 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 is delivering higher quality fuel gas that is consumed at the Company's Montney facilities, which is reducing maintenance on the facilities included in operating costs. In the first half of 2016, Delphi received proceeds of $4.6 million in exchange for a gross overriding royalty on the two gross wells completed during the first quarter of 2016, as part of its latest five well gross overriding royalty arrangement.

During the second quarter of 2016, the Company's lenders completed their annual borrowing base review. Delphi's senior credit facility was redetermined at $85.0 million, consisting of a $10.0 million operating facility and a $75.0 million revolving facility. At June 30, 2016, on its senior credit facility, the Company had $59.7 million outstanding in the form of bankers` acceptances, $1.1 million drawn under Canadian-based prime loans and a working capital deficit of $4.9 million. The Company was in compliance with all covenants of the credit facilities.

In conjunction with the redetermination of the senior credit facility, Delphi issued $60.0 million of ten percent senior secured notes on June 15, 2016 to term out, for a period of five years, approximately 50 percent of the Company's total debt. The proceeds from the senior secured notes, net of transaction costs, were applied against its senior and subordinated credit facilities. The carrying value of the senior secured notes at June 30, 2016 on the statement of financial position was $52.2 million. As a result, the Company had net debt outstanding at June 30, 2016 of $118.0 million. For accounting purposes, over the five year term of the senior secured notes, the carrying value will accrete up to the $60.0 million amount due upon maturity.

Operations Update

In July, Delphi completed the second well of the 2016 capital program at 15-23-60-23W5 (“15-23”) (100 percent working interest). 15-23 was drilled in the first quarter of 2016 to a total depth of 5,867 metres in 28 days with a horizontal lateral in the Montney of 2,865 metres. The completion consisted of a 37 stage slickwater frac design. After fracturing operations, 15-23 was flowed on clean-up for five days recovering approximately ten percent of the initial load frac water. Over the last 24 hours prior to running production tubing, the well flowed on clean-up at an average rate of 6.2 mmcf/d of raw gas and 1,008 barrels per day (“bbls/d”) of field condensate (188 bbls/mmcf of sales gas). Total sales production for the 15-23 well over this 24 hour period was approximately 2,117 boe/d, including an estimated plant natural gas liquids (“NGL”) yield of 40 bbls/mmcf of sales gas. 15-23 was brought on production at the end of July. Initial average production rates over the first 30 days will be reported once the data is available. Capital costs continue to improve with drilling and completion capital for the 15-23 well estimated at $7.0 million. This compares to average drilling and completion costs of $10.4 million in 2014 and $8.3 million in 2015.

The Company recently reached total drilling depth on its third well of the 2016 capital program at 14-11-60-23W5 (“14-11”) (75 percent working interest). The well was drilled to a total depth of 5,927 metres in 30 days with a horizontal lateral in the Montney of 2,846 metres. A 42 stage completion is planned with sand concentrations being 14 percent higher than any other Delphi Montney well to date.

The fourth well of the 2016 program is planned for 16-9-60-23W5 (“16-9”) (82.5 percent working interest) and is expected to spud by the end of August. 16-9 follows recent success at the western edge of the Company’s current Montney development at Bigstone. The 13-21-60-23W5 (“13-21”) well was drilled and completed in the first quarter of 2016 and was brought on production in early March. The wells initial average production over the first 90 producing days (“IP90”) was 1,077 boe/d with a field condensate ratio of 194 bbls/mmcf of sales gas. The closest Delphi horizontal Montney well to the 13-21 is approximately 800 metres to the east at 15-21-60-23W5 (“15-21”). Over the first 90 days on production, the 15-21 well averaged 1,053 boe/d with a field condensate to gas yield of 110 bbls/mmcf of sales gas. The 13-21 field condensate yield is 75 percent higher than the 15-21 well. 13-21 is the fourth well to utilize Delphi’s third generation frac design and the Company continues to learn and evolve its completion techniques to access the rich, high quality hydrocarbon content of the Montney at Bigstone.

The combination of moving the Bigstone Montney development to the west along with Delphi’s third generation frac design has seen a marked improvement on field condensate to gas rate yields. The four wells utilizing the Company’s third generation frac techniques, with production history of at least 90 days, have seen an average increase in field condensate yields, compared to the offset wells, of 36 percent on IP30 and 22 percent on IP90.

Delphi recently received Class 1B regulatory approval for its water disposal well at 16-34-59-21W5. Recent maintenance on the well has improved injectivity and the Company plans on using the well for disposal of completion fluids on its next operation. Due to the increased capacity, Delphi is also considering the economic potential of accepting third party volumes for disposal.

In addition to the Company’s 100 percent owned compression and dehydration capacity of 65 mmcf/d at the two East Bigstone facilities, the Company is finalizing its evaluation to utilize its approximate 35 mmcf/d of owned sweet gas processing capacity in the greater Bigstone area. Coincident with the Company’s plans to pursue richer Montney production to the west, the production also becomes less sour and even turns sweet into the West Bigstone area. Sweetening of marginally sour Montney production would allow for processing at both the Bigstone West gas plant located at 14-28-59-22W5 where the Company owns a 25 percent working interest and at Delphi’s 100 percent owned and operated Negus gas plant at 11-3-60-25W5.

Marketing and Risk Management

On December 1, 2015, Delphi began delivering approximately 90 percent of its natural gas production on its Alliance full path firm service capacity into the Chicago 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 81 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 63 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)	Jul – Dec 2016	2017
Volume (mmcf/d)	2.4	2.4
% Hedged [(1)]	8%	8%
Hedge Price (Cdn $/mcf) [(2)]	$3.89	$3.96
Strip Price (Cdn $/mcf)	$2.56	$2.84

Natural Gas (US)	Jul – Dec 2016	2017	2018	2019
Volume (mmbtu/d)	22.6	17.1	10.0	7.0
% Hedged [(1)]	73%	55%	32%	23%
Hedge Price (US $/mmbtu)	$3.50	$3.19	$2.87	$2.92
Strip Price (US $/mmbtu)	$2.81	$3.07	$2.98	$2.99
% Hedged in Cdn $ [(3)]	100%	100%	100%	100%
Hedge Price (Cdn $/mmbtu) [(4)]	$4.49	$4.24	$3.77	$3.89

Crude Oil	Jul – 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)	$58.45	$62.66

(1) Percent hedged is based on expected 2016 average natural gas production of approximately 31 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 has provided guidance for the second half of 2016 and updated its full year guidance for 2016.

The Company will have a more active second half of 2016 with net capital expenditures of $21.0 to $26.0 million compared to $11.9 million in the first half of 2016 and the ability to increase the drilling program in the fourth quarter and expectations of a larger drilling program in 2017. Production performance of the 26 producing Montney wells continues to meet or exceed expectations, with the most recent wells outperforming condensate yield and field netback expectations. Average and exit rate production volumes as well as cash flow expectations have been revised upward for the second half of 2016. The mid-point of exit production of 9,500 boe/d reflects growth of 14 percent compared to exit production of 2015 on net capital funded from internally generated cash flow.

Full year guidance has been updated to incorporate lower benchmark prices in the first half of the year, the temporary curtailment of its Bigstone Montney production in the second quarter and the $3.7 of million transaction costs incurred as part of the issuance of the ten percent five year senior secured notes The table below summarizes the Company's current guidance for 2016.

	2H 2016 Guidance	2016 Full Year Guidance
Average Production (boe/d)	8,500 - 9,000	7,700 – 8,000
Exit Production Rate (boe/d)	9,000 – 10,000	9,000 – 10,000
NYMEX Natural Gas Price (US $ per mmbtu)	$2.75 - $3.00	$2.35 - $2.55
WTI Oil Price (US $ per bbl)	$40.00 - $45.00	$40.00 - $43.00
Natural Gas Liquids Price (Cdn $ per bbl)	$18.00 - $20.00	$17.00 - $19.00
Foreign Exchange Rate (US/Cdn)	1.30 – 1.35	1.30 – 1.35
Well Count	2.0 – 3.0	4.0 – 5.0
Net Capital Program ($ million)	$21.0 - $26.0	$33.0 – $38.0
Funds from Operations ("FFO") ($ million)	$19.0 - $22.0	$31.0 – $34.0
Total Debt at December 31 ($ million) (1)	$126.0 - $131.0	$126.0 - $131.0
Total Debt / Q4 FFO (annualized)	3.1 – 3.4	3.1 – 3.4
Bank Debt / Q4 FFO (annualized)	1.7 – 1.9	1.7 – 1.9

(1) Net debt includes the 5 year senior secured notes at $60 million, not the carrying value per the statement of financial position.

Outlook

The Company continues to manage its production growth in the context of its cash generating capability. Economic returns on the new capital deployed remain very 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. Through this commodity price environment the Company's cash netbacks have remained relatively stable, 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 half of 2016 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 continues to trump production growth in the current environment. The Company's significant risk management position through 2016 to 2018 protects both the equity account and the balance sheet, while contributing to a meaningful capital program and growth in 2016. Delphi's significant drilling inventory is immediately accessible to deliver production growth into a less volatile commodity price environment.

Delphi continues to navigate this commodity price environment with a focus of protecting the equity value of its significant Bigstone Montney asset. The Company has invested approximately $300 million capturing 140 gross Montney sections, constructing 65 mmcf/d of 100 percent owned infrastructure and drilling 26 gross wells over the past four years. The Company has also managed its capital structure over the past four years without dilution to its equity holders and reduced its total debt by 30 percent over the past twelve months. Through this early stage of innovation and economic optimization of the project, in this part of the commodity price cycle, it is important to note the Company has consumed only a small fraction of the significant drilling inventory identified on the 140 gross sections.

This focused effort in protecting shareholder value will be more fully recognized as the rate of capitalization and production growth accelerates through 2017 and 2018. The Company continues to pursue its strategic relationships and opportunities to further accelerate these future drilling and infrastructure plans within its Bigstone Montney core asset.

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
August 9, 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 and six months ended June 30, 2016 and 2015 and should be read in conjunction with the unaudited condensed consolidated interim financial statements and accompanying notes for the three and six months ended June 30, 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 August 9, 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 bank debt, senior secured notes and subordinated 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 funds from operations ratio - net debt is defined as total 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 to calculate the Company's compliance with its net debt to funds from operations ratio covenant.

Total debt – the sum of bank debt, senior secured notes 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.

Interest coverage ratio – funds from operations plus interest charges divided by interest plus financing charges.

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 primarily concentrated in the Deep Basin of North West Alberta, from which in excess of 95 percent of the Company's production is obtained. The Company's core area in the Deep Basin is located at Bigstone.

SECOND QUARTER 2016 HIGHLIGHTS

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

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

- On a comparative basis, excluding approximately 2,600 barrels of oil equivalent per day ("boe/d") of dispositions completed in the second half of 2015, production capability for the second quarter of 2016 increased five percent to 8,200 boe/d, up from 7,810 boe/d in the second quarter of 2015. Production volumes were affected by the temporary curtailment of approximately 2,400 boe/d as a result of an unscheduled outage for repairs at the SemCAMS K3 gas processing plant for 30 days during the quarter and as a result averaged 5,802 boe/d;

- Increased Bigstone Montney production capability to approximately 7,500 boe/d in the second quarter of 2016, a 15 percent increase from the second quarter of 2015. Field condensate production capability has increased 20 percent over the same comparative periods;

- Increased Montney natural gas liquids ("NGL") and field condensate yields to 113 barrels per million cubic feet ("bbls/mmcf") in the second quarter of 2016 compared to 94 bbls/mmcf in the second quarter of 2015. Field and plant condensate yield was 67 bbls/mmcf or 59 percent of the total 113 bbls/mmcf;

- Incurred minimal capital in the second quarter of 2016 due to spring break-up resulting in two gross (1.7 net) wells being drilled and two gross (1.5 net) Bigstone Montney wells being completed in the first half of the year for total net capital of $11.9 million;

- Generated funds from operations of $4.2 million in the second quarter of 2016 and $12.3 million during the first six months of 2016, funding the first half net capital program from internally generated funds from operations;

- Reduced Bigstone Montney operating costs per boe in the second quarter of 2016 by twelve percent to $5.87 per boe, down from $6.69 per boe in the second quarter of 2015;

- Realized gains of $6.1 million from risk management contracts in the second quarter of 2016;

- Closed a $60.0 million public offering of 10 percent Collateralized Exchange Listed Notes ("Senior Secured Notes") to term out, for a period of five years, approximately 50 percent of the Company's total debt; and

- Redetermined the Company's revolving credit facility with its syndicate of lenders at $85.0 million with approximately $60.8 million outstanding (excluding letters of credit) at the end of the second quarter.

Funds from operations in the second quarter of 2016 were $4.2 million or $0.03 per basic and diluted share, compared to $8.7 million or $0.06 per basic and diluted share in the comparative quarter of 2015. The decrease in funds from operations in the second quarter of 2016 as compared to the same quarter in 2015 is primarily due to lower production volumes as a result of unscheduled SemCAMS K3 gas processing plant outage in the second quarter of 2016 and lower benchmark commodity prices for both crude oil and natural gas affecting the Company's field condensate, natural gas and natural gas liquids pricing.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Funds

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Sources:		
Cash and cash equivalents	**-**	**2,332**
Funds from operations	**4,152**	**12,342**
Disposition of properties	**-**	**4,583**
Capital expenditures	**186**	**-**
Issue of senior secured notes	**55,537**	**55,537**
Warrants issued with senior secured notes	**4,463**	**4,463**
	64,338	**79,257**
Uses:		
Cash and cash equivalents	**140**	**-**
Capital expenditures	**-**	**16,472**
Repayment of subordinated debt	**14,210**	**14,210**
Accretion of subordinated debt and senior credit facility	**90**	**658**
Expenditures on decommissioning	**20**	**1,000**
Issue costs of senior secured notes	**3,660**	**3,660**
Changes in non-cash working capital	**10,847**	**10,567**
	28,967	**46,567**
Change in bank debt	**35,371**	**32,690**

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, funds from operations 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 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 or equity financings, or cash generated from operations will be available or sufficient to meet these requirements or other corporate requirements or, if debt or equity financing is available, 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. In response to this volatility and to preserve financial flexibility, Delphi has taken a conservative approach to its capital spending plans in 2015 and the

first half of 2016. Delphi will continue to monitor commodity prices and service cost reductions in order to manage its 2016 capital program. In addition, Delphi 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 June 30, 2016?

At June 30, 2016, the Company had $59.7 million outstanding in the form of bankers' acceptances, $1.1 million drawn under Canadian-based prime loans, $52.2 million in senior secured notes and a working capital deficit of $4.9 million for net debt of $118.0 million.

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

Senior Credit Facility

During the second quarter of 2016, Delphi's lenders completed their annual review of the Company's senior credit facilities. The review of the borrowing base of the facility incorporated Delphi's risk management program, success of the development of the Company's Montney assets and the lenders' view of future commodity prices. As a result of low commodity prices, Delphi's senior credit facility was redetermined at $85.0 million, consisting of a $10.0 million operating facility and a $75.0 million revolving facility. The maturity date was extended to October 1, 2017. In conjunction with the redetermination of the borrowing facility, Delphi issued $60.0 million of senior secured notes on June 15, 2016 and applied the proceeds from the senior secured notes issue against its senior and subordinated credit facilities.

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 September 30, 2017 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 would be required to be repaid at the end of the non-revolving term being October 1, 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 next semi-annual review of the Company's $85.0 million extendible revolving term credit facility will be conducted in the fourth quarter of 2016. The borrowing base of the facilities will be based on the lender's evaluation of the Company's petroleum and natural gas reserves at the time and their commodity price outlook. The review of the borrowing base could result in a reduction to the credit facility, which may require repayment to the lenders.

Senior Secured Notes

On June 15, 2016, Delphi issued $60.0 million of 10 percent senior secured notes with attached warrants. The Company issued 60 thousand units with each unit consisting of a $1,000 note and 245 warrants. The senior secured notes mature on July 15, 2021. Interest is payable quarterly to the holders of record on the immediately preceding April 1, July 1, October 1 and January 1. The senior secured notes are redeemable at the Company's option, in whole or part, commencing June 15, 2018 at the following specified redemption prices (expressed as a percentage of the principal amount): 2018 at 107.50 percent, 2019 at 105.00 percent and 2020 and thereafter at 100.00 percent. Prior to June 15, 2018, Delphi has the option to redeem up to 50 percent the senior secured notes at a redemption price of 110.00 percent plus accrued interest with an amount of cash not greater than the net cash proceeds of certain equity offerings.

The senior secured notes are secured on a second-priority basis by substantially all of the Company's assets and are subordinate to indebtedness under the senior credit facility.

The senior secured notes are presented net of debt issue costs of $3.4 million and will be accreted at an effective interest rate of 12.8 percent such that the carrying amount of the senior secured notes will equal the principal amount of $60.0 million at maturity. The senior secured notes were initially recognized at fair value based on similar debt securities without

the warrant feature, net of debt issue costs and subsequently are carried at amortized cost. The principal amount of the senior secured notes less the initial fair value has been allocated to the warrants.

Subordinated Debt

On June 15, 2016, the subordinated debt balance of $14.2 million was repaid with a portion of the proceeds from the senior secured notes.

Covenants

The senior credit facility is subject to the following financial covenant:

Financial covenant [1]	**Requirement**	**As at June 30, 2016**
Adjusted working capital ratio	≥ 1.0 : 1.0	**1.9**

[1] The financial covenant calculation refers 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 is as follows:

Adjusted working capital ratio	**As at June 30, 2016**
Current assets	**14,784**
Exclusion of the current fair value of financial instruments	**(5,304)**
Undrawn portion of senior credit facility	**18,204**
	27,684
Current liabilities	**14,484**
Exclusion of the current fair value of financial instruments	**(104)**
	14,380
Adjusted working capital ratio	**1.9**

The senior secured notes have no financial covenants but have an incurrence covenant in place that limits the Company's ability to among other things (subject to certain exceptions, limitations and qualifications); to make certain restricted payments and investments; incur additional debt; create liens; restrict dividends or other payments; consolidate, merge, sell, or otherwise dispose of all or substantially all of its assets and enter into certain transactions with affiliates.

The senior secured notes contain an incurrence covenant for an interest coverage ratio. The requirement is an interest coverage ratio of not less than 2.0 to 1.0 determined on a 12 month rolling basis.

Interest coverage ratio	Twelve Months Ended June 30, 2016	Year Ended December 31, 2015
Funds from operations	35,729	42,893
Interest charges	6,668	7,519
	42,397	50,412
Interest charges	6,668	7,519
Financing charges	579	507
	7,247	8,026
Interest coverage ratio	5.9	6.3

Share Capital

How many common shares, stock options and warrants are currently outstanding?

As at August 9, 2016, the Company had 155.5 million common shares outstanding, 12.3 million share options and 14.7 million warrants outstanding. The share options have an average exercise price of $1.58 per option and the warrants have an exercise price of $1.40 per warrant.

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 and six months ended June 30, 2016:

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Weighted Average Common Shares (in thousands)		
Basic	**155,510**	**155,510**
Diluted	**155,510**	**155,510**
Trading Statistics [(1)]		
High	**1.25**	**1.25**
Low	**0.93**	**0.68**
Average daily volume	**301,811**	**265,549**

(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 second 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 June 30			Six Months Ended June 30		
	2016	2015	% Change	**2016**	2015	% Change
Natural Gas						
NYMEX (US $/mmbtu)	**1.95**	2.74	(29)	**2.00**	2.78	(28)
Chicago City Gate (US $/mmbtu)	**1.95**	2.68	(27)	**2.10**	3.06	(31)
AECO (CDN $/mcf)	**1.40**	2.66	(47)	**1.61**	2.70	(40)
Crude Oil						
West Texas Intermediate (US $/bbl)	**45.65**	57.96	(21)	**39.61**	53.29	(26)
Edmonton Light (CDN $/bbl)	**54.83**	67.68	(19)	**47.91**	59.68	(20)
Foreign Exchange						
Canadian to U.S. dollar	**0.78**	0.81	(4)	**0.75**	0.81	(7)
U.S. to Canadian dollar	**1.29**	1.23	5	**1.33**	1.24	7

Natural Gas

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

The Chicago City Gate benchmark natural gas price for the three months ended June 30, 2016 decreased 27 percent in comparison to the same period in 2015. For the six months ended June 30, 2016, the Chicago City Gate benchmark natural gas price decreased 31 percent in comparison to the same period in 2015.

Natural gas storage levels have increased in comparison to the prior year and the five year average, due to continued strong production levels of natural gas coupled with insufficient demand for the incremental natural gas production volumes from a warmer than normal winter creating a supply/demand imbalance. This imbalance has caused the price for natural gas to decrease in the first six months of 2016 in comparison to the same periods for 2015.

Natural Gas Liquids

Natural gas liquids include ethane, propane, butane, pentanes 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 the first six months of 2016, have 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

West Texas Intermediate ("WTI") averaged U.S. $45.65 per barrel in the second quarter of 2016, a decrease of 21 percent in comparison to the same period in 2015. WTI averaged U.S. $39.61 per barrel for the six months ended June 30, 2016, a decrease of 26 percent 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 $54.83 per barrel in the second quarter of 2016, down 19 percent compared to the same period in 2015. For the six months ended June 30, 2016, Edmonton Light averaged $47.91 per barrel, down 20 percent compared to the same period in 2015.

In the second quarter of 2016, the average WTI and Canadian benchmark prices improved from the first quarter of 2016 due to significant supply disruptions and strong demand. Although the benchmark prices strengthened, crude oil prices remained lower than 2015 due to a net continuing oversupply position.

Canadian/United States Exchange Rate

The value of the Canadian dollar against its U.S. counterpart averaged $0.78 for the three months ended June 30, 2016 and $0.75 for the six months ended June 30, 2016, a four percent and seven percent decrease in comparison to the same periods in 2015, respectively. As a producer of crude oil and natural gas sold in the United States, 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 second quarter of 2016?

Due to the significant decline in crude oil prices, which is a reference price for the Company's field condensate production, and a weak natural gas price, Delphi has managed its first half 2016 net capital spending plans within internally generated funds from operations. In the second quarter of 2016, Delphi had minimal field activity with no wells being drilled. In the first six months of 2016, the Company drilled two gross (1.7 net) wells and completed two gross (1.5 net) wells which were focused on the Bigstone Montney formation.

	Six Months Ended June 30, 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 second quarter of 2016 and where were the capital expenditures incurred?

During the second quarter of 2016, Delphi had a net capital expenditures credit of $0.2 million as a result of actual to estimate adjustments during the quarter.

During the first six months of 2016, Delphi invested $16.5 million of capital expenditures primarily on drilling and completions. Delphi drilled two gross (1.7 net) wells and performed completion activities 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 facility has eliminated the rental cost of two compressors and the fuel gas pipeline is delivering higher quality fuel gas that is consumed at the Company's Montney facilities which has reduced maintenance on the facilities included in operating costs.

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

As of June 30, 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 (117.1 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 June 30			Six Months Ended June 30		
	2016	2015	% Change	**2016**	2015	% Change
Land	**-**	(67)	-	**-**	(31)	-
Seismic	**3**	(11)	(127)	**5**	(1)	(600)
Drilling, completions and equipping	**69**	2,370	(97)	**11,986**	16,376	(27)
Facilities	**(645)**	(113)	(471)	**3,681**	2,442	51
Capitalized expenses	**402**	848	(53)	**809**	1,510	(46)
Other	**(15)**	20	(175)	**(9)**	20	(145)
Capital invested	**(186)**	3,047	(106)	**16,472**	20,316	(19)
Disposition of properties	**-**	(469)	-	**(4,583)**	(469)	(877)
Deposit on assets held for sale	**-**	(10,000)	-	**-**	(10,000)	-
Net capital invested	**(186)**	(7,422)	(97)	**11,889**	9,847	21

PRODUCTION

What factors contributed to the production volumes?

The production volumes for the second quarter of 2016 averaged 5,802 boe/d, a 43 percent decrease over the comparative quarter in 2015. The lower production for the quarter is a result of the unscheduled outage of the SemCAMS K3 natural gas processing plant for 30 days, causing the Bigstone Montney production to be shut-in for that period during the second quarter as well as the Hythe and Wapiti dispositions undertaken in the second half of 2015. Each event resulted in a loss of production of approximately 2,400 boe/d and 2,600 boe/d, respectively. Once the Bigstone Montney was placed back on-stream late in the second quarter, the Company's production averaged approximately 8,500 boe/d for the month of July with Bigstone Montney averaging approximately 7,500 boe/d.

Efforts to re-route the Company's Bigstone Montney production to the SemCAMS KA natural gas processing facility during the unscheduled outage of the SemCAMS K3 natural gas processing facility were unsuccessful due to delays in regulatory approval to reactivate an existing suspended pipeline connecting Delphi's Bigstone Montney production to the SemCAMS KA facility. One segment of the pipeline received approval in three days while the second segment of the same pipeline took 30 days to receive approval to reactivate. By that time, Delphi was able to flow its Montney production back to the SemCAMS K3 facility.

Production volumes for the first half of 2016 averaged 7,099 boe/d, a decrease of 33 percent over the comparative period in 2015. Similar to the reduced production in the second quarter, the SemCAMS K3 outage and 2015 dispositions account for the decrease in production. During the first quarter of 2016, Delphi brought two gross (1.5 net) wells on production. One

well (0.87 net), which was drilled in the fourth quarter of 2015, was brought on production earlier in the first quarter and the second well (0.66 net) was brought on production in the latter part of the first quarter.

Delphi's production portfolio for the second quarter of 2016 was weighted 18 percent to field condensate, 18 percent to natural gas liquids and 64 percent to natural gas. This compares to a production portfolio for the comparative quarter in 2015 weighted 13 percent to field condensate, 16 percent to natural gas liquids, one percent to crude oil and 70 percent to natural gas. The growth in field condensate and natural gas liquids is a reflection of the liquids-rich nature of production from the Montney formation at Bigstone.

For the three months ended June 30, 2016, field condensate as a percentage of total crude oil and natural gas liquids was 51 percent compared to 45 percent in the comparative quarter of 2015. For the first six months of 2016, field condensate as a percentage of total crude oil and natural gas liquids was 54 percent compared to 47 percent in the comparative period in 2015.

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	% Change	**2016**	2015	% Change
Field condensate (bbls/d)	**1,055**	1,369	(23)	**1,377**	1,480	(7)
Natural gas liquids (bbls/d)	**1,023**	1,582	(35)	**1,180**	1,640	(28)
Crude oil (bbls/d)	**5**	86	(94)	**5**	47	(89)
Total crude oil and natural gas liquids	**2,083**	3,037	(31)	**2,562**	3,167	(19)
Natural gas (mcf/d)	**22,311**	43,035	(48)	**27,219**	44,619	(39)
Total (boe/d)	**5,802**	10,210	(43)	**7,099**	10,604	(33)

REALIZED SALES PRICES

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

For the three and six months ended June 30, 2016, Delphi's combined realized sales price increased 12 percent and 11 percent in comparison to the same periods in 2015, respectively. The increase is primarily a result of realized gains on financial risk management contracts partially offset by a reduction in natural gas and crude oil prices. Effective December 1, 2015, Delphi commenced transporting the majority of its natural gas volumes to the Chicago supply/demand market under its Alliance pipeline full path service agreement. This allows Delphi to sell its natural gas into a market where a more balanced supply and demand exist while also receiving the benefits of a lower Canadian dollar against its U.S. counterpart.

For the three months ended June 30, 2016, Delphi's realized natural gas price before risk management contracts decreased 17 percent in comparison to the same period in 2015. While in the second quarter of 2015 Delphi sold its natural gas production at AECO pricing, in 2016 the majority of the Company's natural gas production is being sold into the Chicago market. For the second quarter of 2016, the delivery of natural gas into the Chicago market offset 89 percent of a decrease in the AECO price as compared to the same period of 2015. The second quarter of 2016 AECO benchmark price declined by 47 percent due to a supply/demand imbalance resulting from a warm winter across North America, reducing heating demand. The uplift for Chicago pricing was partially offset by marketing arrangements for deliveries of Montney production to Chicago. As a result of the SemCAMS K3 plant being down in the second quarter of 2016, Delphi was required to fulfill its marketing commitments at Chicago by purchasing third party gas. This resulted in a $0.30 per mcf heat content and marketing differential for the three months ended June 30, 2016. For the six months ended June 30, 2016, the heat content and marketing differential as a result of purchasing third party gas was $0.09 per mcf with the Company`s realized natural gas price before risk management contracts being unchanged from the comparative period of 2015. With the Company's Montney production back on-stream, Delphi can fulfill its Alliance transportation commitment from production, eliminating the negative price adjustment received in the second quarter of 2016 on a go forward basis.

Realized crude oil and field condensate prices before risk management contracts were 33 percent and 27 percent lower in the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015. Edmonton light decreased 19 percent and 20 percent in the three and six months ended June 30, 2016 compared to the second quarter and the first half of 2015 as a result of the global crude oil supply/demand imbalance. The quality differential widened in the second quarter and first half of 2016 compared to 2015 as lower bitumen production resulted in lower demand for condensate. These declines were partially offset by the gains on risk management contracts. For the three and six months ended June 30, 2016, the realized gains on risk management contract were 36 percent and 12 percent higher than the same periods in 2015, respectively.

Delphi's realized natural gas liquids price for the three months ended June 30, 2016 increased by eight percent compared to the same period in 2015 as a result of increased demand for propane, butane and plant condensate. The realized natural gas liquids price for the six months ended June 30, 2016 is 20 percent lower than the comparable period in 2015 due to weakening commodity prices for ethane, butane and plant condensate offset by a price increase for propane.

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	% Change	**2016**	2015	% Change
AECO ($/mcf)	**1.40**	2.66	(47)	**1.62**	2.70	(40)
Chicago to AECO differential (Cdn$/mcf)	**1.12**	-	-	**1.19**	-	-
Heating content and marketing ($/mcf)	**(0.30)**	0.03	(1,067)	**(0.09)**	0.02	(550)
Realized price before risk management contracts ($/mcf)	**2.22**	2.69	(17)	**2.72**	2.72	-
Gain (loss) on physical contracts ($/mcf)	**-**	0.03	-	**-**	0.06	-
Gain (loss) on financial contracts ($/mcf)	**2.47**	0.76	225	**1.77**	0.66	168
Realized natural gas price ($/mcf)	**4.69**	3.48	35	**4.49**	3.44	31
Edmonton Light ($/bbl)	**54.83**	67.68	(19)	**47.91**	59.68	(20)
Quality differential ($/bbl)	**(8.57)**	1.72	(598)	**(4.14)**	(0.08)	5,075
Realized price before risk management contracts ($/bbl)	**46.26**	69.40	(33)	**43.77**	59.60	(27)
Gain (loss) on financial contracts ($/bbl)	**11.00**	8.08	36	**13.07**	11.71	12
Realized oil and field condensate price ($/bbl)	**57.26**	77.48	(26)	**56.84**	71.31	(20)
Realized natural gas liquids price ($/bbl)	**20.16**	18.62	8	**16.53**	20.57	(20)
Total realized sales price ($/boe)	**32.23**	28.89	12	**31.19**	28.14	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 and physical 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	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 2017	Financial – fixed	2,096 mmbtu/d	$2.95	U.S.	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
January 2018 – December 2019	Financial – fixed	5,000 mmbtu/d	$3.84	Cdn	NYMEX
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	Crude Oil – collar [1]	400 bbls/d	$78.60 - $85.00	Cdn	WTI
September 2016	Crude Oil – financial	400 bbls/d	$58.25	Cdn	WTI
October 2016 – December 2016	Crude Oil – financial	200 bbls/d	$59.90	Cdn	WTI
January 2017 – December 2017	Crude Oil – financial	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 as entered into the following interest rate swap transactions on borrowing through bankers' acceptances:

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%

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

The fair value of the financial contracts outstanding as at June 30, 2016 is estimated to be an asset of approximately $5.7 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, actual amounts realized may differ from these estimates.

For the three and six months ended June 30, 2016, the change in the fair values of the outstanding derivative commodity contracts resulted in an unrealized loss on its risk management contracts of $17.5 million and $12.8 million, respectively. The unrealized loss recognized for the three months ended June 30, 2016 is the difference between the fair values of the risk management contracts outstanding as at June 30, 2016 and the fair values as at March 31, 2016. The unrealized loss recognized for the six months ended June 30, 2016 is the difference between the fair values of the risk management contracts outstanding as at June 30, 2016 and the fair values as at December 31, 2015.

For the three and six months ended June 30, 2016, the risk management contracts resulted in realized gains of $6.1 million and $12.0 million, respectively.

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 second 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 natural gas into the Chicago market where higher demand exists while receiving the benefits of a lower Canadian dollar against its U.S. counterpart.

Delphi generated revenue of $10.9 million in the second quarter of 2016, a 52 percent decrease over the comparative period in 2015. The decrease in revenues is due to a 43 percent decrease in production volumes (temporary curtailment) and a 15 percent decrease in the average realized sales price per boe (excluding gains on financial risk management contracts), stemming from a 29 percent decrease in NYMEX natural gas pricing and a 21 percent decrease in WTI. For the second quarter of 2016, field condensate and natural gas liquids contributed 58 percent of the total revenues compared to 49 percent in the same period in 2015.

In the first half of 2016, Delphi generated revenue of $28.3 million, a 38 percent decrease over the comparative period in 2015. The decrease in revenues is due to a 33 percent decrease in production volumes (temporary curtailment) and a seven percent decrease in the average realized sales price per boe (excluding gains on financial risk management contracts). For the first half of 2016, field condensate and natural gas liquids contributed 51 percent of the total revenues compared to 48 percent in the same period in 2015.

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	% Change	**2016**	2015	% Change
Natural gas	**4,517**	10,523	(57)	**13,493**	21,901	(38)
Natural gas physical contract gains (loss)	**-**	106	-	**-**	516	-
Field condensate	**4,442**	8,468	(48)	**10,974**	15,728	(30)
Natural gas liquids	**1,877**	2,681	(30)	**3,549**	6,104	(42)
Crude oil	**22**	725	(97)	**41**	750	(95)
Sulphur	**84**	287	(71)	**201**	441	(54)
Total	**10,942**	22,790	(52)	**28,258**	45,440	(38)

ROYALTIES

What were royalty costs in the second quarter of 2016?

For the second quarter of 2016, royalties totaled $1.3 million compared to $1.7 million in the same period in 2015. Crown royalties decreased by 48 percent as a result of lower commodity prices. Crown royalties in this low price environment are being offset by Crown royalty credits. Crown royalty credits are lower in the second quarter of 2016 compared to the second quarter of 2015 due to the dispositions undertaken in the second half of 2015 and lower natural gas prices. The second quarter of 2016 also includes a Crown royalty credit related to 2015 of approximately $0.5 million.

In the second quarter of 2016, gross overriding royalties decreased 20 percent in comparison to the same period in 2015. The gross overriding royalty decrease is primarily due to lower commodity prices. During the second quarter a non-recurring gross overriding royalty payment of $0.4 million was recorded which related to prior periods.

For the first six months ended June 30, 2016 and 2015, total royalties were $3.1 million. Crown royalties decreased as a result of lower commodity prices, as well as a reduction in gas Crown royalties due to the disposition of producing gas properties in the second half of 2015. Crown royalty credits decreased in the first half of 2016 compared to the first half of 2015 as a result of the disposition of producing gas properties in the second half of 2015. The first six months of 2016 also includes a Crown royalty credit related to 2015 of approximately $0.5 million.

Gross overriding royalties in the six months ended June 30, 2016 decreased 16 percent from the comparative period in 2015. The decrease is primarily due to lower commodity prices partially offset by a non-recurring gross overriding royalty payment of $0.4 million made in the second quarter of 2016 relating to prior periods.

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	% Change	**2016**	2015	% Change
Crown royalties	**797**	1,520	(48)	**1,457**	3,090	(53)
Royalty credits	**(1,030)**	(1,700)	(39)	**(1,552)**	(3,842)	(60)
Crown royalties – net	**(233)**	(180)	(29)	**(95)**	(752)	(87)
Gross overriding royalties	**1,517**	1,901	(20)	**3,225**	3,818	(16)
Total	**1,284**	1,721	(25)	**3,130**	3,066	2
Per boe	**2.43**	1.85	31	**2.42**	1.60	51

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

For the three months ended June 30, 2016, the average royalty rate increased to 11.7 percent, up from the 7.6 percent in the comparative period in 2015. The increase in the average royalty rate is primarily due to an increased average gross overriding royalty rate associated with Montney production at Bigstone. For the six months ended June 30, 2016, the average royalty rate increased to 11.1 percent, up from 6.8 percent in the comparative period in 2015. The reason for increase in the average royalty rate is the same as in the second quarter as Crown royalties are offset by royalty credits in the current pricing environment. After adjusting for the non-recurring gross overriding royalty payment of $0.4 million, the gross overriding royalty rate is in line with expectations of approximately 10 percent.

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	% Change	**2016**	2015	% Change
Crown rate – net of royalty credits	**(2.1%)**	(0.8%)	(163)	**(0.3%)**	(1.7%)	(82)
Gross overriding rate	**13.8%**	8.4%	64	**11.4%**	8.5%	34
Average rate	**11.7%**	7.6%	54	**11.1%**	6.8%	63

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 second quarter of 2016 compare to 2015?

Production costs for the three months ended June 30, 2016 declined by 54 percent in comparison to the same period in 2015. The Company's costs are primarily lower due to the Wapiti and Hythe property dispositions undertaken in the second half of 2015. Further reductions include lower trucking expenses related to hauling water at Bigstone since commissioning its 100 percent owned water disposal facility in the fourth quarter of 2015 and lower equipment rentals with the installation of an owned compressor at its 7-11 Montney facility in the first quarter of 2016. As a result of the unscheduled outage at the SemCAMS K3 processing facility, the Company incurred lower processing fees in the second quarter due to Montney production being shut-in for 30 days. Production costs for the first half of 2016 have decreased 45 percent over the comparative period in 2015. The cost reductions are primarily due to the Wapiti and Hythe property dispositions undertaken in the second half of 2015 but also include lower trucking costs related to hauling produced water at Bigstone, lower equipment rentals and a reduction in processing fees during the unscheduled outage at the SemCAMS K3 natural gas processing facility. In the second quarter of 2016, Bigstone Montney operating costs, which includes variable cost savings due to shut-in production, were $5.87 per boe, a reduction of twelve percent from the second quarter of 2015.

Delphi earns processing income on third party production volumes going through facilities it owns. 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 23 percent and 16 percent in the three and six months ended June 30, 2016 as compared to the same periods in 2015, respectively. This decline in processing income is primarily a result of the Wapiti and Hythe dispositions undertaken in the second half of 2015 which included working interests in facilities that earned processing income. This decrease was partially offset by increases in water disposal and road use income and growth in partner production being processed through the Company's Montney facilities.

Operating costs per boe for the second quarter and first six months of 2016 continue to be in line with forecast expectations.

	Three Month Ended June 30			Six Months Ended June 30		
	2016	2015	% Change	**2016**	2015	% Change
Production costs	**4,327**	9,431	(54)	**10,292**	18,552	(45)
Processing income	**(749)**	(976)	(23)	**(1,566)**	(1,870)	(16)
Total	**3,578**	8,455	(58)	**8,726**	16,682	(48)
Per boe	**6.78**	9.10	(26)	**6.75**	8.69	(22)

TRANSPORTATION EXPENSES

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

For the three months ended June 30, 2016, transportation expenses increased 23 percent as compared to the same period in 2015. The increase is due to higher gas transportation fees as the Company commenced its full path firm service with the Alliance pipeline system on December 1, 2015. This increase in costs was partially offset by a reduction in trucking charges as a result of renegotiated trucking rates and reduced waiting times at the terminals and a reduction in gas gathering fees.

For the six months ended June 30, 2016, the increase in transportation expenses is due to higher gas transportation fees to ship the Company's natural gas production down the Alliance pipeline to the Chicago market which were partially offset by a reduction in trucking charges and a reduction in gas gathering fees.

Transportation costs per boe for the second quarter and first six months of 2016 are higher due to the lower production from the outage at the SemCAMS K3 facility and the Company's decision not to mitigate firm transportation commitments during the outage due to expectations that the re-route option to SemCAMS KA facility would reduce the length of the downtime. Higher transportation costs, effective December 1, 2015, are offset by the premium over AECO earned on the Company's realized natural gas price by delivering into the United States and receiving Chicago pricing.

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	% Change	**2016**	2015	% Change
Total	**4,205**	3,431	23	**9,319**	6,803	37
Per boe	**7.96**	3.69	116	**7.21**	3.54	104

GENERAL AND ADMINISTRATIVE

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

General and administrative expenses (after recoveries and allocations) for the three months ended June 30, 2016 were nine percent lower compared to the same period in 2015. Gross expenses in the second quarter of 2016 are 21 percent lower than the comparative period primarily due to lower personnel costs partially offset by foreign exchange losses. Overhead recoveries decreased 34 percent over the comparative period primarily due to the lower capital program in the second quarter of 2016 compared to the second quarter of 2015. Salary allocations decreased 40 percent in the second quarter of 2016 as a result of lower personnel costs.

General and administrative expenses (after recoveries and allocations) for the six months ended June 30, 2016 were three percent higher compared to the same period in 2015. Gross expenses in the first half of 2016 are 15 percent lower than the comparative period primarily due to lower personnel costs partially offset by foreign exchange losses. Overhead recoveries decreased 27 percent over the comparative period primarily due to the lower capital program in 2016 compared to 2015. Salary allocations decreased 40 percent in 2016 as a result of lower personnel costs.

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	% Change	**2016**	2015	% Change
Gross expenses	**2,143**	2,699	(21)	**4,509**	5,279	(15)
Overhead recoveries	**(152)**	(232)	(34)	**(478)**	(652)	(27)
Salary allocations	**(500)**	(833)	(40)	**(1,033)**	(1,726)	(40)
General and administrative expenses	**1,491**	1,634	(9)	**2,998**	2,901	3
Per boe	**2.82**	1.76	60	**2.32**	1.51	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 49 percent and 48 percent for the three and six months ended June 30, 2016 as compared to the same periods in 2015, respectively. The decrease in the expense is due to a larger portion of options having vested in prior periods. Delphi's options are expensed on a graded basis over their vesting period causing the majority of expense to be recognized in the earlier years of the vesting period.

Share-based compensation expense related to the Company's RSUs decreased 39 percent and 37 percent in the three and six months ended June 30, 2016 in comparison to the same periods in 2015, respectively. The decrease in the expense from the comparative periods is due to a lower closing share price used to calculate the fair value of the restricted units vested during the periods and the fair value of restricted share units paid out, in combination with a decrease in the number of outstanding units. Capitalized share-based compensation decreased 54 percent and 51 percent in the three and six months ended June 30, 2016 in comparison to the same periods in 2015, primarily as a result of a decrease in options and RSU's that have vested during the current year periods.

During the six months ended June 30, 2016, 232 thousand restricted share units vested resulting in a cash expense, net of capitalization, of $0.2 million.

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	% Change	**2016**	2015	% Change
Share-based compensation – Options	**261**	516	(49)	**605**	1,164	(48)
Share-based compensation – RSUs	**98**	161	(39)	**181**	286	(37)
Capitalized costs	**(133)**	(287)	(54)	**(282)**	(574)	(51)
Net	**226**	390	(42)	**504**	876	(42)
Per boe	**0.43**	0.42	2	**0.39**	0.46	(15)

FINANCE COSTS

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

Interest charges decreased six percent and 19 percent in the three and six months ended June 30, 2016, respectively, in comparison to the same periods in 2015 as a result of a lower average debt balance as proceeds from dispositions in 2015 were applied against outstanding indebtedness. In the second quarter of 2016, interest costs include $0.3 million of extension fees incurred during the annual borrowing base redetermination.

The bankers' acceptances outstanding at June 30, 2016 have terms ranging from 30 to 91 days and a weighted average effective interest rate of 4.4 percent over the term.

Accretion and finance charges are non-cash and comprised of accretion expense on the Company's decommissioning obligations and the accretion of the Company's senior secured notes and 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 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 lower decommissioning obligation as at June 30, 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 senior secured notes is based on the effective interest rate method in order to amortize the transaction costs related to the issue and to accrete the senior secured notes to its face value of $60.0 million over the term of the debt.

The issuance of the senior secured notes in the second quarter of 2016 to term out a portion of the Company's long term debt is expected to result in higher interest costs due to the notes paying an annual interest rate of 10 percent.

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	% Change	**2016**	2015	% Change
Interest	**2,118**	2,263	(6)	**3,590**	4,441	(19)
Accretion	**79**	231	(66)	**164**	470	(65)
Finance charges	**194**	127	53	**322**	250	29
Total finance costs	**2,391**	2,621	(9)	**4,076**	5,161	(21)
Interest per boe	**4.01**	2.44	64	**2.78**	2.31	20
Accretion per boe	**0.15**	0.25	(40)	**0.13**	0.24	(46)
Finance charges per boe	**0.37**	0.14	164	**0.25**	0.13	92

DEPLETION, DEPRECIATION AND IMPAIRMENT

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

Depletion and depreciation for the three and six months ended June 30, 2016 decreased 54 percent and 38 percent, respectively, compared to the same periods in 2015 as a result of lower production volumes and a lower depletion rate, despite a decrease in the reserve base used in the calculation.

The Company determined that there were no indicators of impairment at June 30, 2016. Delphi recorded an impairment in the second quarter of 2015 of $19.1 million relating to its Hythe, Miscellaneous Alberta and British Columbia CGUs.

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	% Change	**2016**	2015	% Change
Depletion and depreciation	**6,086**	13,229	(54)	**14,737**	23,838	(38)
Impairment loss	**-**	19,070	-	**-**	19,070	-
Depletion and depreciation per boe	**11.53**	14.24	(19)	**11.41**	12.42	(8)
Impairment loss per boe	**-**	20.52	-	**-**	9.94	-

INCOME TAXES

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

Delphi recorded a deferred income tax recovery of $1.1 million for the three months and six months ended June 30, 2016, respectively, compared to a deferred income tax recovery of $4.0 million and $3.2 million for the three months and six months ended June 30, 2015, respectively. The deferred income tax recovery in 2016 is a result of the differences between accounting and tax bases of the Company's warrant issue. Due to a continued low commodity price outlook, Delphi has not recognized its deferred income tax asset.

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	% Change	**2016**	2015	% Change
Deferred income taxes	**(1,132)**	(3,978)	(72)	**(1,132)**	(3,244)	(65)
Per boe	**(2.14)**	(4.28)	(50)	**(0.87)**	(1.69)	(49)

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 second quarter of 2016 compare to 2015?

Delphi's cash flow from operating activities in the three and six months ended June 30, 2016 have decreased 77 percent and 19 percent, respectively, compared to the same periods in 2015. Similarly, Delphi's funds from operations in the three and six months ended June 30, 2016 have decreased 52 percent and 37 percent, respectively, compared to the same periods in 2015.

The decrease in cash flow from operations and funds from operations in the second quarter of 2016 from the second quarter of 2015 is primarily due to a decrease in crude oil and natural gas sales as a result of lower benchmark pricing in combination with higher transportation expenses despite curtailed volumes partially offset by lower cash costs including operating expenses, financing and general and administrative costs and higher realized gains on risk management contracts. The decrease in cash flow from operations and funds from operations in the first half of 2016 as compared to the first half of 2015 is primarily due to lower crude oil and natural gas sales as a result of lower benchmark pricing and higher transportation expenses partially offset by lower operating expenses, higher realized gains on risk management contracts and lower interest charges.

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	% Change	**2016**	2015	% Change
Cash flow from operating activities	**1,151**	4,975	(77)	**13,965**	17,155	(19)
Accretion of subordinated and long term debt	**90**	(462)	-	**658**	(230)	-
Decommissioning expenditures	**20**	-	-	**1,000**	322	211
Change in non-cash working capital	**2,891**	4,212	(31)	**(3,281)**	2,259	(245)
Funds from operations	**4,152**	8,725	(52)	**12,342**	19,506	(37)

CASH NETBACK AND LOSS ANALYSIS

What factors contributed to the loss in the second quarter of 2016?

Delphi had an $18.6 million loss in the second quarter of 2016, compared to a net loss of $32.1 million in the second quarter of 2015. The decrease in the net loss is primarily due to lower operating expenses, gain on disposition and lower depletion, depreciation and impairment charges as a result of an impairment recorded in the second quarter of 2015 partially offset by a higher unrealized loss on risk management contracts, higher transportation expenses and a lower deferred income tax recovery. The Company incurred an unrealized loss on financial instruments of $17.5 million in the second quarter, the primary contributor to the net loss in the quarter.

In the first half of 2016, Delphi had a $13.4 million loss compared to a loss of $30.1 million in the second quarter of 2015. The decrease in loss is primarily due higher realized gains on risk management contracts, lower operating expenses, a gain on dispositions and lower depletion, depreciation and impairment charges, partially offset by higher unrealized losses on risk management contracts, higher transportation expenses and a lower deferred income tax recovery.

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	% Change	**2016**	2015	% Change
Net loss	**(18,638)**	(32,106)	(42)	**(13,379)**	(30,111)	(56)
Per boe	**(35.30)**	(34.56)	(2)	**(10.36)**	(15.68)	(34)
Per basic share	**(0.12)**	(0.21)	(43)	**(0.09)**	(0.19)	(53)
Per diluted share	**(0.12)**	(0.21)	(43)	**(0.09)**	(0.19)	(53)

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

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

Delphi's operating netback per boe for the three and six months end June 30, 2016 increased six and three percent, respectively, compared to the same periods in 2015 despite a continued weakening in commodity benchmark prices, a non-recurring gross overriding royalty payment and while absorbing fixed operating and transportation costs as a result of temporarily curtailed volumes. Delphi was not able to fully realize the uplift from the marketing arrangement which commenced in December 1, 2015, to ship the Company's natural gas into the Chicago market as a result of the downtime at the SemCAMS K3 gas plant. The lower commodity prices received by Delphi were more than offset by the realized gains on risk management contracts which had a positive impact on the 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 a 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 system into the Chicago market.

For the second quarter of 2016, Delphi's cash netback per boe decreased 16 percent compared to the second quarter of 2015 due to higher general and administrative and interest expenses per boe. General and administrative expenses were higher on a per boe basis due to lower production volumes resulting from the curtailment of Montney production. Interest expense was lower on an absolute basis despite additional bank extension fees but higher on a boe basis due to temporarily curtailed volumes and bank extension fees in the second quarter. This was partially offset by a lower RSU payout as a result of a lower share price used to calculate the payout and fewer RSU units.

For the first half of 2016, Delphi's cash netback per boe decreased six percent compared to the first half of 2015. The decrease in the cash netback is primarily due to higher general and administrative and interest expenses per boe partially offset by a lower RSU payout per boe.

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	% Change	**2016**	2015	% Change
Barrels of oil equivalent ($/boe)						
Realized sales price	**32.23**	28.89	12	**31.19**	28.14	11
Royalties	**2.43**	1.85	31	**2.42**	1.60	51
Operating expenses	**6.78**	9.10	(26)	**6.75**	8.69	(22)
Transportation	**7.96**	3.69	116	**7.21**	3.54	104
Operating netback	**15.06**	14.25	6	**14.81**	14.31	3
General and administrative expenses	**2.82**	1.76	60	**2.32**	1.51	54
Paid out restricted share units	**0.37**	0.66	(44)	**0.15**	0.32	(53)
Interest	**4.01**	2.44	64	**2.78**	2.31	20
Cash netback	**7.86**	9.39	(16)	**9.56**	10.17	(6)
Unrealized loss on commodity risk contracts	**33.06**	9.43	251	**9.91**	2.63	277
Share-based compensation expense	**0.06**	(0.24)	(129)	**0.24**	0.14	71
(Gain) loss on dispositions	**(0.04)**	3.89	(101)	**(1.36)**	1.88	(172)
Exploration and evaluation	**-**	-	-	**0.01**	-	-
Loss on decommissioning	**0.17**	-	-	**0.20**	0.16	25
Depletion, depreciation and impairment	**11.53**	34.76	(67)	**11.41**	22.36	(49)
Accretion and finance charges	**0.52**	0.39	33	**0.38**	0.37	3
Deferred income taxes	**(2.14)**	(4.28)	(50)	**(0.87)**	(1.69)	(49)
Net earnings (loss)	**(35.30)**	(34.56)	(2)	**(10.36)**	(15.68)	(34)

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 in North America and crude oil globally 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 reduces 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 average 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 has managed its capital program within internally generated funds from operations as commodity benchmark prices continue to be low and volatile. 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 half 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 first quarter, Delphi sold a gross overriding royalty on two wells completed during the quarter for proceeds of $4.6 million.

During the second quarter of 2016, Delphi's lenders completed their annual review of the Company's senior credit facilities. The review of the borrowing base of the facility incorporated Delphi's risk management program, 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 redetermined at $85.0 million, consisting of a $10.0 million operating facility and a $75.0 million revolving facility. The maturity date was extended to October 1, 2017. In conjunction with the redetermination of the borrowing facility, Delphi issued $60.0 million of senior secured notes on June 15, 2016. Delphi applied the proceeds from the senior secured notes issue against its senior credit facility and repaid the subordinated debt balance of $14.2 million on June 15, 2016.

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 as a result of a warmer than normal winter, natural gas prices continue to remain weak. The average Chicago City Gate benchmark price for 2015 was U.S. $2.85 per mmbtu compared to an average in the first half of 2016 of U.S. $2.10 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 half of 2016, the average WTI price was U.S. $39.61 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:

	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sep. 30, 2014
Production								
Oil and field condensate (bbls/d)	**1,060**	1,704	1,613	1,198	1,455	1,600	1,692	1,396
Natural gas liquids (bbls/d)	**1,023**	1,336	1,414	1,045	1,582	1,698	2,020	1,356
Natural gas (mcf/d)	**22,311**	32,127	34,719	33,871	43,035	46,223	49,939	40,251
Barrels of oil equivalent (boe/d)	**5,802**	8,395	8,814	7,888	10,210	11,002	12,035	9,461
Financial								
Crude oil and natural gas sales	**10,942**	17,316	18,601	16,234	22,790	22,650	35,534	35,117
Funds from operations	**4,152**	8,190	13,317	10,070	8,725	10,781	15,869	14,221
Per share – basic	**0.03**	0.05	0.09	0.06	0.06	0.07	0.10	0.09
Per share – diluted	**0.03**	0.05	0.09	0.06	0.06	0.07	0.10	0.09
Net earnings (loss)	**(18,638)**	5,259	(23,084)	10,670	(32,106)	1,995	(25,588)	12,163
Per share – basic	**(0.12)**	0.03	(0.15)	0.07	(0.21)	0.01	(0.16)	0.08
Per share – diluted	**(0.12)**	0.03	(0.15)	0.07	(0.21)	0.01	(0.16)	0.08

CONTRACTUAL OBLIGATIONS

Does the Company have any contractual obligations as of June 30, 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)]	**8,588**	19,926	21,666	21,912	18,470	7,036
Office, equipment and software leases	**653**	991	-	-	-	-
Accounts payable and accrued liabilities [(2)]	**13,591**	-	-	-	-	-
Decommissioning obligations [(3)]	**221**	408	3,461	373	2,218	17,793
Restricted share units	**161**	86	-	-	-	-
Risk management contracts	**109**	(34)	98	-	-	-
Interest payments on senior secured notes	**3,000**	6,000	6,000	6,000	6,000	3,250
Long term debt	**-**	61,100	-	-	-	-
Senior secured notes	**-**	-	-	-	-	60,000
Total	**26,323**	88,477	31,225	28,285	26,688	88,079

(1) Balances denominated in U.S. dollars have been translated at the June 30, 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 five 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 June 30, 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 7,700 and 8,000 boe/d. The production is expected to be split 35 percent to liquids and 65 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 half of 2016 has been U.S. $2.00 per million British thermal units ("mmbtu"). With recent strengthening in US natural gas prices, Delphi is managing its forecast for NYMEX natural gas prices to average between U.S. $2.35 and $2.55 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. $40.00 to U.S. $43.00 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 $0.74 to $0.77 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 $6.50 and $7.00 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 $1.75 to $2.00 per boe.

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. With the issuance of the 10 percent senior secured notes, to term out approximately 50 percent of Delphi's long term debt, interest costs are expected to increase slightly. Interest expense is now expected to be approximately $2.50 to $2.75 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 $126.0 and $131.0 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, on 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)	**June 30, 2016**	December 31, 2015
(unaudited)		
Assets		
Current assets		
Cash and cash equivalents	**140**	2,472
Accounts receivable	**7,010**	15,809
Prepaid expenses and deposits	**2,330**	2,718
Fair value of financial instruments (Note 5)	**5,304**	18,877
	14,784	39,876
Fair value of financial instruments (Note 5)	**976**	4,152
Exploration and evaluation (Note 6)	**18,885**	19,213
Property, plant and equipment (Note 7)	**297,132**	297,601
Total assets	**331,777**	360,842
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**13,752**	33,639
Decommissioning obligations	**628**	878
Fair value of financial instruments (Note 5)	**104**	3,008
Subordinated debt (Note 8)	**-**	13,954
	14,484	51,479
Restricted share units	**86**	53
Bank debt (Note 8)	**60,844**	94,192
Senior secured notes (Note 9)	**52,215**	-
Decommissioning obligations	**23,846**	24,059
Fair value of financial instruments (Note 5)	**519**	1,561
Total liabilities	**151,994**	171,344
Shareholders' equity		
Share capital (Note 10)	**309,389**	309,389
Warrants (Note 10)	**3,059**	-
Contributed surplus	**19,966**	19,361
Deficit	**(152,631)**	(139,252)
Total shareholders' equity	**179,783**	189,498
Total liabilities and shareholders' equity	**331,777**	360,842

Subsequent event (Note 5)

See accompanying notes to the condensed consolidated interim financial statements.

DELPHI ENERGY CORP.

Condensed Consolidated Statements of Loss and Comprehensive Loss
For the three and six months ended June 30,

	Three Months Ended June 30		Six Months Ended June 30	
(thousands of dollars, except per share amounts)	**2016**	2015	**2016**	2015
(unaudited)				
Revenues				
Crude oil and natural gas sales	**10,942**	22,790	**28,258**	45,440
Royalties	**(1,284)**	(1,721)	**(3,130)**	(3,066)
	9,658	21,069	**25,128**	42,374
Realized gain on financial instruments (Note 5)	**6,075**	4,055	**12,036**	8,575
Unrealized loss on financial instruments (Note 5)	**(17,455)**	(8,764)	**(12,803)**	(5,050)
	(1,722)	16,360	**24,361**	45,899
Expenses				
Operating	**3,578**	8,455	**8,726**	16,682
Transportation	**4,205**	3,431	**9,319**	6,803
Exploration and evaluation (Note 6)	**-**	-	**17**	-
General and administrative	**1,491**	1,634	**2,998**	2,901
Share-based compensation	**226**	390	**504**	876
(Gain) loss on dispositions	**(19)**	3,614	**(1,761)**	3,614
Loss on decommissioning	**90**	-	**256**	309
Depletion, depreciation and impairment (Note 7)	**6,086**	32,299	**14,737**	42,908
	15,657	49,823	**34,796**	74,093
Finance costs	**2,391**	2,621	**4,076**	5,161
Loss before income taxes	**(19,770)**	(36,084)	**(14,511)**	(33,355)
Income taxes				
Deferred income taxes	**(1,132)**	(3,978)	**(1,132)**	(3,244)
Loss and comprehensive loss	**(18,638)**	(32,106)	**(13,379)**	(30,111)

Net loss per share (Note 10)				
Basic	**(0.12)**	(0.21)	**(0.09)**	(0.19)
Diluted	**(0.12)**	(0.21)	**(0.09)**	(0.19)

See accompanying notes to the condensed consolidated interim financial statements.

DELPHI ENERGY CORP.

Condensed Consolidated Statements of Changes in Shareholders' Equity
For the six months ended June 30,

(thousands of dollars)	Six Months Ended June 30, 2016	2015
(unaudited)		
Share capital		
Common shares		
Balance, beginning of period	**309,389**	309,342
Issued on exercise of options	**-**	35
Transferred on exercise of options	**-**	12
Balance, end of period	**309,389**	309,389
Warrants		
Balance, beginning of period	**-**	-
Issued with senior secured notes, net of tax (Note 10)	**3,331**	-
Warrant issue costs	**(272)**	-
Balance, end of period	**3,059**	-
Contributed surplus		
Balance, beginning of period	**19,361**	17,609
Share-based compensation	**605**	1,164
Transferred on exercise of options	**-**	(12)
Balance, end of period	**19,966**	18,761
Deficit		
Balance, beginning of period	**(139,252)**	(96,727)
Net loss	**(13,379)**	(30,111)
Balance, end of period	**(152,631)**	(126,838)
Total shareholders' equity	**179,783**	201,312

See accompanying notes to the condensed consolidated interim financial statements.

DELPHI ENERGY CORP.

Condensed Consolidated Statements of Cash Flows
For the three and six months ended June 30,

	Three Months Ended June 30		Six Months Ended June 30	
(thousands of dollars)	**2016**	2015	**2016**	2015
(unaudited)				
Cash flow from (used in) operating activities				
Net earnings	**(18,638)**	(32,106)	**(13,379)**	(30,111)
Adjustments for:				
Depletion, depreciation and impairment	**6,086**	32,299	**14,737**	42,908
Accretion and finance charges	**273**	358	**486**	720
Share-based compensation	**37**	(226)	**315**	260
(Gain) loss on dispositions	**(19)**	3,614	**(1,761)**	3,614
Exploration and evaluation	**-**	-	**17**	-
Loss on decommissioning	**90**	-	**256**	309
Unrealized loss on financial instruments	**17,455**	8,764	**12,803**	5,050
Deferred income taxes	**(1,132)**	(3,978)	**(1,132)**	(3,244)
Accretion of subordinated debt and senior credit facility	**(90)**	462	**(658)**	230
Decommissioning expenditures	**(20)**	-	**(1,000)**	(322)
Change in non-cash working capital (Note 11)	**(2,891)**	(4,212)	**3,281**	(2,259)
	1,151	4,975	**13,965**	17,155
Cash flow from (used in) financing activities				
Exercise of options	**-**	35	**-**	35
Increase (decrease) in senior credit facility	**(35,371)**	11,019	**(32,690)**	15,548
Repayment of subordinated debt	**(14,210)**	-	**(14,210)**	-
Issue of senior secured notes, net of issue costs (Note 9)	**52,149**	-	**52,149**	-
Warrants issued with senior secured notes, net of issue costs (Note 10)	**4,191**	-	**4,191**	-
Change in non-cash working capital (Note 11)	**738**	-	**738**	-
	7,497	11,054	**10,178**	15,583
Cash flow available for investing activities	**8,648**	16,029	**24,143**	32,738
Cash flow from (used in) investing activities				
Additions to exploration and evaluation	**(105)**	(162)	**(280)**	(334)
Additions to property, plant and equipment	**291**	(2,885)	**(16,192)**	(19,982)
Disposition of petroleum and natural gas properties	**-**	469	**4,583**	469
Deposit on assets held for sale	**-**	10,000	**-**	10,000
Change in non-cash working capital (Note 11)	**(8,694)**	(11,450)	**(14,586)**	(14,020)
	(8,508)	(4,028)	**(26,475)**	(23,867)
Increase (decrease) in cash and cash equivalents	**140**	12,001	**(2,332)**	8,871
Cash and cash equivalents, beginning of period	**-**	-	**2,472**	3,130
Cash and cash equivalents, end of period	**140**	12,001	**140**	12,001
Cash interest paid	**1,409**	1,719	**2,772**	4,621

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 North West 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 and six months ended June 30, 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 August 9, 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 amended standards or standards adopted with the effective date of January 1, 2016:

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 and accounts payable and accrued liabilities:

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

(b) Long term debt:

The long term debt consists of a senior credit facility and senior secured notes. The fair value disclosure of the Company’s senior credit facility approximates its carrying value as it bears interest at floating rates and the applicable margin is indicative of the Company’s current credit premium. In the case of the senior secured notes, the fair value disclosure is measured at level 1 of the fair value hierarchy for disclosure purposes. The senior secured notes have a fair value of $62.4 million based on June 30, 2016 trading values.

(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 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 June 30, 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 2017	Financial – fixed	2,096 mmbtu/d	$2.95	U.S.	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

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	Crude Oil – collar (1)	400 bbls/d	$78.60 - $85.00	Cdn	WTI
January 2017 – December 2017	Crude Oil – financial	300 bbls/d	$60.00	Cdn	WTI

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

Subsequent to June 30, 2016, Delphi entered into the following commodity risk management contracts:

Time Period	Type of Contract	Quantity Contracted	Price ($/unit)		Reference
September 2016	Crude Oil – financial	400 bbls/d	$58.25	Cdn	WTI
October 2016 – December 2016	Crude Oil – financial	200 bbls/d	$59.90	Cdn	WTI
January 2018 – December 2019	Natural Gas – financial	5,000 mmbtu/d	$3.84	Cdn	NYMEX

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 June 30, 2016 is estimated to be a net asset of $5.7 million (December 31, 2015, net asset of $18.5 million). As at June 30, 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	6,538	(1,234)	5,304
Long term asset	1,804	(828)	976
Current liability	(509)	405	(104)
Long term liability	(640)	121	(519)
Net asset (liability)	**7,193**	**(1,536)**	**5,657**

For the three and six months ended June 30, 2016, the risk management contracts resulted in realized gains of $6.1 million and $12.0 million, respectively.

For the three and six months ended June 30, 2016, Delphi recorded an unrealized loss on its risk management contracts of $17.5 million and $12.8 million, respectively. The unrealized loss recognized for the three months ended June 30, 2016 is the difference between the fair values of the risk management contracts outstanding as at June 30, 2016 and the fair values as at March 31, 2016. The unrealized loss recognized for the six months ended June 30, 2016 is the difference between the fair values of the risk management contracts outstanding as at June 30, 2016 and the fair values as at December 31, 2015.

As at June 30, 2016, if the future strip prices for crude oil were $1.00 per barrel higher with all other variables held constant, the unrealized loss on risk management contracts for the three and six months ended June 30, 2016 would have increased by $0.3 million. As at June 30, 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 loss on risk management contracts for the three and six months ended June 30, 2016 would have increased by $2.5 million.

As at June 30, 2016, if the U.S. to Canadian dollar exchange rate would have been $0.01 higher with all other variables held constant, the unrealized loss on risk management contracts for the three months and six months ended June 30, 2016 would have decreased the net loss by $1.0 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	280
Expense	(17)
Transfer to oil and gas properties	(591)
Balance as at June 30, 2016	**18,885**

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

During the first six months of 2016, Delphi added $0.3 million of exploration and evaluation expenditures related to developing the Montney formation at Bigstone. During the first half of 2016, $0.6 million of exploration and evaluation assets were transferred to property, plant and equipment following the addition of proved and probable reserves. During the first six months, 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	16,391	-	(9)	16,382
Decommissioning obligations	117	-	-	117
Dispositions	(2,822)	-	-	(2,822)
Transfer from exploration and evaluation assets	591	-	-	591
Balance as at June 30, 2016	**443,927**	**59,756**	**1,071**	**504,754**

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	(14,025)	(665)	(47)	(14,737)
Balance as at June 30, 2016	**(179,832)**	**(26,996)**	**(794)**	**(207,622)**

Net book value as at June 30, 2016	**264,095**	**32,760**	**277**	**297,132**
Net book value as at December 31, 2015	263,843	33,425	333	297,601

For the three months ended June 30, 2016, Delphi has included $237.7 million (June 30, 2015: $380.1 million) for future development costs and excluded $1.1 million (June 30, 2015: $2.1 million) for estimated salvage to its costs subject to depletion and depreciation.

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 on disposition of $1.7 million was recorded on the granting of the gross overriding royalties.

For the six months ended June 30, 2016, Delphi capitalized $0.7 million (December 31, 2015: $2.2 million) of general and administrative expenses and $0.3 million (December 31, 2015: $0.7 million) of share-based compensation expense directly related to exploration and development activities.

8) BANK DEBT AND SUBORDINATED DEBT

	June 30, 2016	December 31, 2015
Senior Credit Facility [1]		
Prime-based loans	**1,100**	-
Bankers' acceptances, net of discount	**59,744**	94,192
Total	**60,844**	94,192

(1) As at June 30, 2016, the Company had outstanding letters of credit totaling $6.0 million.

Senior Credit Facility

During the second quarter of 2016, Delphi's lenders completed their semi-annual review of the Company's senior credit facilities. The review of the borrowing base of the facility incorporated Delphi's risk management program, 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 redetermined at $85.0 million, consisting of a $10.0 million operating facility and a $75.0 million revolving facility. The maturity date was extended to October 1, 2017. In conjunction with the redetermination of the borrowing facility, Delphi issued $60.0 million of 10 percent senior secured notes on June 15, 2016 which mature on July 15, 2021. Delphi has applied the proceeds from the senior secured notes issue against its senior and subordinated credit facilities.

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 September 30, 2017 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 would be required to be repaid at the end of the non-revolving term being October 1, 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 next semi-annual review of the Company's $85.0 million extendible revolving term credit facility will be conducted in the fourth quarter of 2016. The borrowing base of the facilities will be based on the lender's evaluation of the Company's petroleum and natural gas reserves at the time and commodity prices. The review of the borrowing base could result in a reduction to the credit facility, which may require repayment to the lenders.

As at June 30, 2016, Delphi had $17.9 million (net of outstanding letters of credit) available to be drawn on the senior credit facility.

The senior credit facility is subject to the following financial covenant:

Financial covenant	Requirement	As at June 30, 2016
Adjusted working capital ratio	≥ 1.0 : 1.0	1.9

For the purpose of the financial covenant, the following definition is 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.

Subordinated Debt

On June 15, 2016, the subordinated debt balance of $14.2 million was repaid with a portion of the proceeds from the senior secured notes.

9) SENIOR SECURED NOTES

	Senior Secured Notes	Warrants	**Total**
Issue of senior secured notes with warrants	55,537	4,463	**60,000**
Issue costs	(3,388)	(272)	**(3,660)**
Accretion of discount and amortization of issue costs	66	-	**66**
Deferred income tax effect	-	(1,132)	**(1,132)**
Balance, end of period	52,215	3,059	**55,274**

On June 15, 2016, Delphi issued $60.0 million of 10 percent senior secured notes with attached warrants (Note 10). The Company issued 60 thousand units with each unit consisting of a $1,000 note and 245 warrants. The senior secured notes mature on July 15, 2021. Interest is payable quarterly to the holders of record on the immediately preceding April 1, July 1, October 1 and January 1. The senior secured notes are redeemable at the Company's option, in whole or part, commencing June 15, 2018 at the following specified redemption prices (expressed as a percentage of the principal amount): 2018 at 107.50 percent, 2019 at 105.00 percent and 2020 and thereafter at 100.00 percent. Prior to June 15, 2018, Delphi has the option to redeem up to 50 percent the senior secured notes at a redemption price of 110.00 percent plus accrued interest with an amount of cash not greater than the net cash proceeds of certain equity offerings.

The senior secured notes are secured on a second-priority basis by substantially all of the Company's assets and are subordinate to indebtedness under the senior credit facility.

The senior secured notes are presented net of debt issue costs of $3.4 million and will be accreted at an effective interest rate of 12.8 percent such that the carrying amount of the senior secured notes will equal the principal amount at maturity. The senior secured notes were initially recognized at fair value based on similar debt securities without the warrant feature, net of debt issue costs and subsequently are carried at amortized cost. The principal amount of the senior secured notes less the initial fair value has been allocated to the warrants.

The senior secured notes have no financial covenants but have an incurrence covenant in place that limits the Company's ability to among other things (subject to certain exceptions, limitations and qualifications): to make certain restricted payments and investments; incur additional debt; create liens; restrict dividends or other payments; consolidate, merge sell, or otherwise dispose of all or substantially all of its assets; and enter into certain transactions with affiliates.

10) 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		**June 30, 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 June 30, 2016, 12.3 million stock options were outstanding with a weighted exercise price of $1.58 per option.

During the six months ended June 30, 2016, 232 thousand restricted share units vested resulting in a cash expense, net of capitalization, of $0.2 million (June 30, 2015 $0.6 million). As at June 30, 2016, 314 thousand restricted share units were outstanding.

(b) Warrants

		June 30, 2016
	Outstanding warrants (000's)	**Amount**
Balance, beginning of period	**-**	**-**
Issued with senior secured notes	**14,700**	**4,463**
Deferred income tax effect	**-**	**(1,132)**
Warrants issue costs	**-**	**(272)**
Balance, end of period	**14,700**	**3,059**

On June 15, 2016, the Company issued $60.0 million of senior secured notes with attached warrants. As part of the senior secured notes offering, 14.7 million warrants were issued based on 60 thousand units and 245 warrants with each unit. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of $1.40. The warrants are exercisable at any time prior to July 15, 2021. Delphi incurred $0.3 million in issuance costs. A fair value of $4.5 million has been attributed to the warrants and was determined based on the senior secured notes principal value of $60.0 million less the fair value attributed to the senior secured notes (Note 8). The average remaining life of the warrants is 5.04 years.

(c) Net loss per share

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

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Weighted average common shares - basic	**155,510**	155,508	**155,510**	155,493
Dilutive effect of share options and warrants outstanding	**-**	-	**-**	-
Weighted average common shares – diluted	**155,510**	155,508	**155,510**	155,493

For the three months ended June 30, 2016, a total of 12.3 million stock options (June 30, 2015: 12.2 million) and 14.7 million warrants (June 30, 2015 nil) were excluded from the calculation as they were anti-dilutive. For the six months ended June 30, 2016, a total of 12.3 million stock options (June 30, 2015: 12.2 million) and 14.7 million warrants (June 30, 2015 nil) were excluded from the calculation as they were anti-dilutive.

11) SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
Source (use) of cash				
Accounts receivable	**10,143**	111	**8,799**	4,961
Prepaid expenses and deposits	**483**	(720)	**388**	(566)
Outstanding cheques	**(1,713)**	(4,401)	**-**	-
Accounts payable and accrued liabilities	**(19,760)**	(10,652)	**(19,754)**	(20,674)
Total change in non-cash working capital	**(10,847)**	(15,662)	**(10,567)**	(16,279)
Relating to:				
Operating activities	**(2,891)**	(4,212)	**3,281**	(2,259)
Financing activities	**738**	-	**738**	-
Investing activities	**(8,694)**	(11,450)	**(14,586)**	(14,020)
	(10,847)	(15,662)	**(10,567)**	(16,279)

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

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

TRANSFER AGENT

Computershare Trust Company of Canada

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

CORPORATE OFFICE

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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

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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