SECOND QUARTER

FOR THE SIX MONTHS ENDED JUNE 30, 2017

Delphi Energy Corp.
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TSX SYMBOL: DEE

Second Quarter 2017 Highlights

- Produced an average of 9,420 barrels of oil equivalent per day ("boe/d") based on field estimates during the 55 days of the second quarter of 2017 which were not affected by the turnaround of the SemCAMS K3 natural gas processing facility. Production in July averaged 9,730 boe/d;
- Produced 6,484 boe/d in the second quarter of 2017, a twelve percent increase from 5,802 boe/d in the comparative quarter of 2016. Production was curtailed by approximately 2,500 boe/d due to a 36 day long turnaround of SemCAMS K3 natural gas processing facility and a concurrent nine day turnaround of Company's 7-11-60-23W5 compression and dehydration facility ("7-11 Montney facility");
- Montney field and plant condensate yield averaged 81 barrels per million cubic feet of natural gas ("bbls/mmcf") or 70 percent of the total 122 bbls/mmcf of Montney liquids yield;
- Realized an operating netback of $16.44 per barrel of oil equivalent ("boe") before gains on risk management contracts, up from $3.55 per boe for the same period in 2016;
- Closed a $65.0 million financing by way of private placement consisting of $35.0 million of equity priced at $1.27 per common share and $30.0 million of senior secured notes;
- Repaid the Company's senior secured revolving credit facility;
- Generated adjusted funds from operation of $7.0 million in the second quarter, a 69 percent increase over the comparative period in 2016, and net earnings of $4.6 million;
- Drilled four gross (2.5 net) wells and completed five gross (3.2 net) wells on the Company's Bigstone Montney property; and
- Completed the turnaround and upgrade of the 7-11 Montney facility and expansion of the 5-8-59-22W5 compression and dehydration facility (5.8 Montney facility").

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended June 30			Six months ended June 30		
	2017	2016	% Change	**2017**	2016	% Change
Operating (boe conversion – 6:1 basis)						
Production:						
Field condensate (bbls/d)	**1,540**	1,060	45	**1,738**	1,382	26
Ethane (bbls/d)	**5**	6	-	**5**	7	(3)
Propane (bbls/d)	**473**	412	15	**527**	501	5
Butane (bbls/d)	**331**	304	9	**367**	350	5
Pentanes & plant condensate (bbls/d)	**210**	301	(30)	**261**	322	19
Total field condensate and natural gas liquids	**2,559**	2,083	23	**2,898**	2,562	13
Natural gas (mcf/d)	**23,551**	22,311	6	**26,628**	27,219	(2)
Total (boe/d)	**6,484**	5,802	12	**7,336**	7,099	3
Average realized sales prices, before financial instruments						
Field condensate ($/bbl)	**59.74**	46.26	29	**60.39**	43.77	38
Natural gas liquids ($/bbl)	**27.02**	20.16	34	**29.92**	16.53	81
Natural gas ($/mcf)	**4.31**	2.22	94	**4.24**	2.72	56
Netbacks ($/boe)						
Crude oil and natural gas revenues	**34.17**	20.72	65	**34.51**	21.87	58
Marketing revenue	**1.72**	-	-	**0.77**	-	-
Realized gain (loss) on financial instruments	**0.77**	11.51	(93)	**-**	9.32	-
Revenue, after realized financial instruments	**36.66**	32.23	14	**35.28**	31.19	13
Royalties	**(1.49)**	(2.43)	(39)	**(2.48)**	(2.42)	2
Operating expense	**(12.72)**	(7.95)	60	**(10.21)**	(7.88)	30
Transportation expense	**(5.24)**	(6.79)	(23)	**(5.81)**	(6.09)	(4)
Operating netback(1)	**17.21**	15.06	14	**16.78**	14.81	13
General and administrative expenses	**1.69**	2.82	(40)	**2.24**	2.32	(3)
Paid out restricted share units	**-**	0.37	-	**-**	-	-
Interest	**3.63**	4.01	(9)	**3.11**	2.78	12
Cash netback (1)	**11.89**	7.86	51	**11.43**	9.71	18
Financial ($ thousands, except per share)						
Oil and natural gas revenues	**20,162**	10,942	84	**45,833**	28,258	62
Adjusted funds from operations(1)	**7,020**	4,152	69	**15,184**	12,342	23
Per share – basic and diluted	**0.04**	0.03	33	**0.09**	0.08	13
Net earnings (loss)	**4,578**	(18,638)	-	**12,930**	(13,379)	-
Per share – basic and diluted	**0.03**	(0.12)	-	**0.08**	(0.09)	-
Net debt(1)	**90,638**	117,959	(23)	**90,638**	117,959	(23)
Capital expenditures, net of dispositions	**22,610**	(186)	-	**52,861**	11,889	345
Weighted average shares (000s)						
Basic	**164,591**	155,510	6	**160,712**	155,510	3
Diluted	**165,612**	155,510	6	**162,171**	155,510	4

(1) Refer to non-GAPP measures

MESSAGE TO SHAREHOLDERS

Delphi continues to successfully execute its planned 2017 development program at its Bigstone Montney property ahead of schedule as a result of an active drilling program through spring break-up in the second quarter. Through the first six months of 2017, the Company has drilled 8.0 gross (5.1 net) wells compared to 2.0 gross (1.7 net) wells in the first six months of 2016.

Delphi's production capability remains ahead of forecast despite a larger impact than originally expected from the scheduled turnaround of the SemCAMS K3 processing plant. With the five wells completed in the second quarter now on production and currently restricted during their initial frac water clean-up phase, and two wells drilled after the end of the second quarter ready for completions later in August, production is forecast to continue to grow through the second half of 2017, on track with the of the Company's production guidance.

Well results continue to meet or exceed our expectations. Although full production capability has not yet been realized from the new wells, in general, initial condensate yields continue to trend higher than forecast supporting continued attractive returns on capital invested in the current commodity price environment. The new wells continue to deliver strong field netbacks in the current pricing environment, resulting in a recycle ratio of approximately two times, achieving our objective of returning $2.00 for every $1.00 invested.

The Company continues to maintain a significant risk management program with 65 percent of its natural gas hedged through the remainder of 2017 at $4.20 per thousand cubic feet ("mcf") and 42 percent of its field condensate hedged at an average WTI price of CDN$66.67 per barrel ("bbl"). The Company also continues to contract approximately 90 percent of its natural gas production into the Chicago market through firm transportation on the Alliance pipeline.

With an undrawn $80.0 million credit facility, a growing production base focused on increased condensate yields, and superior marketing arrangements with a significant hedge position, Delphi remains well positioned to execute its 2017 drilling plans.

Financial Update

Delphi continued an active development program at its Bigstone Montney property in the second quarter of 2017 drilling four gross (2.5 net) wells, performing completions operations on five gross (3.2 net) wells and completing various infrastructure upgrade and expansion projects. Capital expenditures in the second quarter amounted to $22.6 million of which $21.4 million was for drilling and completion operations.

Production volumes in the second quarter of 2017 were impacted by the planned turnaround of the SemCAMS K3 natural gas processing facility and the concurrent turnaround of Delphi's 7-11 Montney facility which together curtailed production from the Bigstone Montney by about 2,500 boe/d. Based on field estimates, Delphi produced an average of 9,420 boe/d during the 55 days of the second quarter of 2017 which were not affected by the plant turnarounds and an average of 9,730 boe/d during July. For the full second quarter of 2017, including the impact of the turnarounds, production volumes averaged 6,484 boe/d. On a boe basis, production volumes in the second quarter were 40 percent weighted to condensate and natural gas liquids and 60 percent to natural gas.

Delphi's realized prices before hedging gains in the second quarter were $4.31 per mcf for natural gas, $59.74 per bbl for field condensate and $27.02 per bbl for natural gas liquids. Hedging gains in the second quarter increased the realized price of natural gas by $0.15 per mcf and the realized price of field condensate by $1.00 per bbl.

In the second quarter of 2017, Delphi generated revenue of $20.2 million and adjusted funds from operations of $7.0 million, equivalent to $0.04 per basic and diluted share. As at June 30, 2017, Delphi had no debt outstanding under its $80.0 million senior secured revolving credit facility while net debt, comprised of senior secured notes and working capital deficiency, amounted to $90.6 million dollars.

Operating expenses in the first half and second quarter of 2017 were impacted by a number of factors some of which are ongoing and others which were one-time or intermittent. Ongoing factors include a reclassification of certain costs from transportation expense to operating expense, an additional processing tariff commencing on January 1, 2017 and lasting for three years to recover operating costs associated with the SemCAMS K3 natural gas plant turnaround, and loss of processing income through the disposition of a 35 percent interest in certain facilities as part of the industry partner transaction completed in December 2016. Non-recurring or intermittent factors included operating costs associated with turnaround of the Company's 7-11 Montney facility and the costs of handling large amounts of produced frac water from the significant increase of new wells completed in the first half of 2017. The capacity of Delphi's 16-34-59-21W5 water disposal facility (“16-34 water disposal facility”) along with restricted access due to wet weather and road bans forced Delphi to truck water greater distances to third-party facilities for disposal. An upgrade and expansion of Delphi’s 65 percent owned water disposal facility will be completed in the fourth quarter of 2017 and will reduce the costs of trucking and disposal of water at third-party facilities.

Operations Update

Despite wet weather conditions during the second quarter of 2017, Delphi remained active in the field at Bigstone. Following a busy first quarter where the Company drilled four (2.6 net) wells and brought four (2.6 net) wells on production, two rigs continued drilling through spring break-up, rig releasing four (2.5 net) horizontal Montney wells. Average horizontal lateral length for these second quarter wells was 2,858 metres. All four of these wells, plus a fifth that was drilled in the first quarter, were also completed in the second quarter, each with a forty stage fracture stimulation. Over 47 million pounds of sand were used to complete these five wells with sand concentrations ranging 850 to 1,150 pounds per horizontal lateral foot.

Three of these wells, 13-09, 14-09 and 15-09-60-23W5 (all 61.8 percent working interest) are located just to the east of Delphi’s successful western-most drill, 15-08-60-23W5. After short clean-up tests, the wells were all brought on production at the end of June at restricted rates in order to handle continued load water recovery. Initial average production rates over the first 30 days for the three wells were 895 boe/d, 865 boe/d and 756 boe/d respectively, including an estimated plant natural gas liquids yield of 46 bbls/mmcf of sales gas. Field condensate to natural gas yields were 185 bbls/mmcf sales, 213 bbls/mmcf sales and 196 bbls/mmcf sales respectively, placing these three wells in the top five of the richest Delphi Montney wells at Bigstone, behind only 15-8-60-23W5 and 13-21-60-23W5.

The other two completed wells, at the southern portion of the field, at 13-17 and 16-18-59-22W5 (both 65 percent working interest) were tied-in to the Company’s 5-8 Montney facility in late July and brought on production at restricted rates. Although early time, the Company is encouraged about initial field condensate to gas ratios being higher than initial ratios at the direct offset at 12-17-59-22W5, validating design enhancements with Delphi’s third and fourth generation fracs. Initial production performance over the first 30 days of these wells will be reported when available. During the second quarter, Delphi completed an upgrade and expansion of the 5-8 Montney facility bringing capacity of the facility to ten million cubic feet per day (“mmcf/d”) of natural gas with fluid storage of 2,600 bbls.

During the 36 day scheduled turnaround at the SemCAMS K3 natural gas processing plant, Delphi took advantage of this outage by completing the triennial turnaround at its 7-11 Montney facility over a nine day period. With major repair and maintenance now completed at these facilities, Delphi expects related downtimes to be minimal. Based on field estimates, corporate production for the month of July averaged 9,730 boe/d.

Delphi’s amine project at the 7-11 Montney facility to sweeten a portion of its slightly sour Montney production for processing at the 14-28-59-22W5 Bigstone Gas Plant, where the Company owns a 25 percent working interest, has commenced with the submission of regulatory applications and procurement of equipment. Construction is expected to start early in 2018 with start-up planned for the second quarter of 2018.

During second quarter operations, significant flow-back load volumes from fracturing operations that took place on all five wells within approximately one month of each other, caused longer wait times for water disposal as well as having to truck volumes to third party water disposal facilities. In order to reduce costs associated with water disposal, Delphi has begun an expansion of the 16-34 water disposal facility that will double the fluid storage and increase pumping capacity of its 16-34 disposal well. The expansion is expected to be completed early in the fourth quarter of 2017 to help handle the volumes associated with the significant increase in activity.

Both drilling rigs remain active with one currently drilling the first of three horizontal Montney wells from a surface pad located at 13-31-59-23W5, making these the western-most Montney wells drilled by the Company at Bigstone. Completion operations for this pad are expected to commence in November with first production expected later in 2017 or early in 2018. The second rig has finished drilling the 9-21-59-22W5 well (“9-21”) to a total depth of 5,865 metres with a horizontal lateral in the Montney of 2,841 metres. 9-21 was drilled from spud of the well to total depth in a Company record 22.6 days; a full two days faster than the previous record. Completion operations for 9-21 are scheduled to start in August and will be done consecutively with the 13-10-59-23W5 well that finished drilling in early July.

Marketing and Risk Management

The Company has approximately 22 mmcf/d, or 65% of its remainder of 2017 forecast natural gas production, hedged at an average price of CDN$4.20 per million British thermal units (“mmbtu”) and approximately 900 barrels per day (“ bbls/d”) of condensate hedged at an average WTI price of CDN$66.67 per barrel. Delphi has mitigated the persistent widening of the AECO and Station 2 basis differentials by contracting most of its gas into the Chicago market where pricing has materially outperformed local western Canada pricing, even with the incremental transportation costs.

Natural Gas	**Q3 – Q4/17**	**2018**	**2019**
Percent Hedged *	65%	54%	21%
Hedge Price (CDN $/mmbtu)	$4.20	$3.92	$3.89

Crude Oil	**Q3 – Q4/17**	**2018**	**2019**
Percent Hedged *	42%	14%	14%
Hedge Price (WTI CDN $/bbl)	$66.67	$70.00	$70.00

* Based on average 2017 production of 33.5 mmcf/d of natural gas and 2,150 bbls/d of field condensate.

Outlook

The Company continues to forecast absolute and per share growth during 2017, while maintaining balance sheet strength, highlighted by a significant increase in drilling activity over 2016 levels.

Having remained active through spring break-up, the Company is ahead of its planned drilling schedule, with a total of nine (5.7 net) new wells on production and two additional wells scheduled for completion later in August. With a growing production base, significant hedge position in 2017 and 2018 as well as an undrawn credit facility, Delphi remains well positioned to execute its 2017 drilling plans.

Delphi has secured the required firm service transportation for 100 percent of forecasted 2017 natural gas production growth. The contracted Alliance full path service to Chicago with its incremental priority interruptible service handles approximately 90 percent of the current Company's natural gas sales, and together with the existing and incremental 2018 contracted firm TCPL service, will provide the Company with firm service to handle growth plans beyond 2017.

The Company's primary focus remains on creating significant value for its shareholders through its successful development of the Bigstone Montney property, while maintaining an adequate level of financial flexibility given the volatile commodity price environment. Delphi is continuing with its planned 2017 capital program, but will re-assess its contemplated pace of capitalization into the 2017-18 winter program commensurate with the commodity price environment.

The existing Board of Directors welcomes the addition of Mr. Glenn A. Hamilton, Mr. Peter T. Harrison, and Mr. Ian Wild to the Board of Directors, elected at the Annual General Meeting in May. “Glenn, Peter and Ian bring tremendous depth to our Board,” said David J. Reid, President and CEO.

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 2, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Delphi Energy Corp. ("Delphi" or the "Company") is an oil and gas company based in Calgary, Alberta, focused on the exploration, development, and production of crude oil, natural gas and natural gas liquids from properties located in Western Canada. Delphi's operations are concentrated in the Deep Basin of Northwest Alberta. The Company's common shares, senior secured notes, and warrants are listed on the Toronto Stock Exchange ("TSX") under the symbol "DEE", "DEE.NT", and "DEE.WT", respectively. Additional information about Delphi is available on the Canadian Securities Administrators' System for Electronic Distribution and Retrieval (SEDAR) at www.sedar.com and at the Company's website at www.delphienergy.ca.

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. The discussion and analysis have been prepared as of August 1, 2017. The discussion and analysis is a review of the financial position and results of operations of the Company. Its focus is primarily a comparison of the financial performance for the three months and six months ended June 30, 2017 and 2016 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, 2017 and 2016 and the audited consolidated financial statements and accompanying notes for the years ended December 31, 2016 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.

SECOND QUARTER 2017 ACCOMPLISHMENTS

- Completed a $65.0 million private placement consisting of $30.0 million, 10 percent senior secured notes and $35.0 million of equity at $1.27 per common share;

- Drilled four gross (2.5 net) successful wells and completed five gross (3.2 net) wells as part of the Company's capital program in East Bigstone;

- Produced 6,484 barrels of oil equivalent per day ("boe/d") in the second quarter of 2017, a twelve percent increase from 5,802 boe/d in the comparative quarter of 2016 despite having its Montney production shut-in for 36 days due to a planned turnaround at the SemCAMS K3 natural gas processing plant. The shut-in impacted approximately 2,500 boe/d in the quarter;

- Realized an operating netback of $16.44 per boe before gains on risk management contracts, up from $3.55 per boe for the same period in 2016;

- Generated adjusted funds from operations of $7.0 million and net earnings of $4.6 million ($0.03 per diluted share) compared to adjusted funds from operations of $4.2 million and a net loss of $18.6 million ($0.12 per basic share) for the same period in 2016.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended June 30			Six months ended June 30		
	2017	2016	% Change	2017	2016	% Change
Financial ($ thousands, except per share)						
Oil and natural gas revenues	20,162	10,942	84	45,833	28,258	62
Adjusted funds from operations[1]	7,020	4,152	69	15,184	12,342	23
Per share – basic and diluted	0.04	0.03	33	0.09	0.08	13
Net earnings (loss)	4,578	(18,638)	-	12,930	(13,379)	-
Per share – basic and diluted	0.03	(0.12)	-	0.08	(0.09)	-
Net debt[1]	90,638	117,959	(23)	90,638	117,959	(23)
Capital expenditures, net of dispositions	22,610	(186)	-	52,861	11,889	345
Weighted average shares (000s)						
Basic	164,591	155,510	6	160,712	155,510	3
Diluted	165,612	155,510	6	162,171	155,510	4
Operating (boe conversion – 6:1 basis)						
Production:						
Field condensate (bbls/d)	1,540	1,060	45	1,738	1,382	26
Natural gas liquids (bbls/d)	1,019	1,023	-	1,160	1,180	(2)
Natural gas (mcf/d)	23,551	22,311	6	26,628	27,219	(2)
Total (Boe/d)	6,484	5,802	12	7,336	7,099	3
Average realized sales prices, before financial instruments						
Field condensate ($/bbl)	59.74	46.26	29	60.39	43.77	38
Natural gas liquids ($/bbl)	27.02	20.16	34	29.92	16.53	81
Natural gas ($/mcf)	4.31	2.22	94	4.24	2.72	56
Netbacks ($/boe)						
Crude oil and natural gas revenues	34.17	20.72	65	34.51	21.87	58
Marketing income	1.72	-	-	0.77	-	-
Realized gain (loss) on financial instruments	0.77	11.51	(93)	-	9.32	-
Revenue, after realized financial instruments	36.66	32.23	14	35.28	31.19	13
Royalties	(1.49)	(2.43)	(39)	(2.48)	(2.42)	2
Operating expense	(11.93)	(7.95)	50	(10.21)	(7.87)	30
Transportation expense	(6.03)	(6.79)	(11)	(5.81)	(6.09)	(4)
Operating netback[1]	17.21	15.06	14	16.78	14.81	13
General and administrative expenses	1.69	2.82	(40)	2.24	2.32	(3)
Paid out restricted share units	-	0.37	-	-	-	-
Interest	3.63	4.01	(9)	3.11	2.78	12
Cash netback [1]	11.89	7.86	51	11.43	9.71	18

(1) Refer to non–GAAP measures

DRILLING OPERATIONS

	Six Months Ended June 30, 2017	
	Gross	Net
Wells drilled	8.0	5.1
Success rate (%)	100	100

In the first six months of 2017, Delphi drilled eight gross (5.1 net) wells in the Montney formation at Bigstone. In comparison, Delphi drilled two gross (1.7 net) wells in the first six months of 2016 which were also focused on the Bigstone Montney formation.

CAPITAL EXPENDITURES

	Three Months Ended June 30			Six Months Ended June 30		
	2017	2016	% Change	**2017**	2016	% Change
Land	**38**	-	-	**2,126**	-	-
Seismic	**43**	3	1,333	**53**	5	960
Drilling, completions and equipping	**21,423**	69	30,948	**44,938**	11,986	275
Facilities	**668**	(645)	-	**5,001**	3,681	36
Capitalized expenses	**474**	402	18	**825**	809	2
Other	**35**	(15)	-	**35**	(9)	-
Capital invested	**22,681**	(186)	-	**52,978**	16,472	222
Disposition of properties	**(71)**	-	-	**(117)**	(4,583)	(97)
Net capital invested	**22,610**	(186)	-	**52,861**	11,889	345

During the second quarter of 2017, Delphi invested $22.6 million primarily on drilling and completion operations. Delphi drilled four gross (2.5 net) wells and performed completion operations on five gross (3.2 net) wells in its Bigstone area.

In the first six months of 2017, Delphi invested $53.0 million of capital expenditures, of which 85 percent was directed toward the drilling of eight gross (5.1 net) wells and completion of nine gross (5.7 net) wells in its Bigstone area. In addition to drilling and completion operations, Delphi secured a 20 million cubic feet per day (“mmcf/d”) amine processing package and compressor for the amine project. A separator was installed to help with the current configuration of the 7-11 Montney facility and will become part of the amine plant. Commissioning of the amine plant is planned for the first quarter of 2018. A pipeline loop was installed from the 14-10 header to the 7-11 Montney facility to assist with gathering system optimization. The Company also acquired 22.5 net sections of Montney rights in the greater Bigstone area contiguous to the Company’s current Montney lands.

As of June 30, 2017, Delphi has a working interest in a total of 124.5 gross (83.1 net) sections of undeveloped land as part of 165.5 gross (109.6 net) sections of total land prospective for liquids-rich natural gas in the Montney formation, situated at its core area of Bigstone.

PRODUCTION

	Three Months Ended June 30			Six Months Ended June 30		
	2017	2016	% Change	**2017**	2016	% Change
Field condensate (bbls/d)	**1,540**	1,060	45	**1,738**	1,382	26
Ethane (bbls/d)	**5**	6	-	**5**	7	(3)
Propane (bbls/d)	**473**	412	15	**527**	501	5
Butane (bbls/d)	**331**	304	9	**367**	350	5
Pentanes & plant condensate (bbls/d)	**210**	301	(30)	**261**	322	19
Total field condensate and natural gas liquids	**2,559**	2,083	23	**2,898**	2,562	13
Natural gas (mcf/d)	**23,551**	22,311	6	**26,628**	27,219	(2)
Total (boe/d)	**6,484**	5,802	12	**7,336**	7,099	3

Production volumes in the second quarter of 2017 were significantly impacted by the planned turnaround of the SemCAMS K3 natural gas processing facility which lasted for 36 days and the contemporaneous planned turnaround of Delphi's 7-11 Montney facility which lasted for nine days. During the turnaround of the SemCAMS K3 facility, the majority of Delphi's production capability in the Montney formation was shut-in while a portion was rerouted to the SemCAMS KA natural gas processing facility. The amount of production sent to the KA facility was less than anticipated by Delphi due to emission issues at the KA facility caused by the addition of the relatively lower sulphur content natural gas. During the turnaround of the 7-11 Montney facility all of Delphi's Montney production capability was shut-in. Management estimates that the negative impact of shut-in production capacity in the second quarter related to the plant turnaround activity was approximately 2,500 boe/d. Delphi's field production for the month of July 2017, averaged 9,730 boe/d with minimal impact from wells completed in the second quarter.

The production volumes for the second quarter of 2017 averaged 6,484 boe/d, a twelve percent increase over the comparative period in 2016 and a 21 percent decrease from the 8,198 boe/d produced in the first quarter of 2017. Production volumes in the second quarter of 2016 were also impacted by a 30 day shut-in period in the Bigstone Montney due to an unscheduled plant turnaround at the SemCAMS K3 natural gas processing plant.

Production volumes for the six months ended June 30, 2017 averaged 7,336 boe/d, a three percent increase over the comparative period in 2016. Incremental production volumes from the eight gross (5.5 net) wells brought on-stream since the second quarter of 2016 was partially offset by natural declines and the fourth quarter 2016 disposition which included a 35 percent working interest in certain wells in the Bigstone area.

Delphi's production portfolio for the second quarter of 2017 was weighted 24 percent to field condensate, 16 percent to natural gas liquids and 60 percent to natural gas. This compares to a production portfolio for the comparative quarter in 2016 weighted 18 percent to field condensate, 18 percent to natural gas liquids and 64 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.

BUSINESS ENVIRONMENT

Benchmark Prices and Economic Parameters

	Three Months Ended June 30			Six Months Ended June 30		
	2017	2016	% Change	**2017**	2016	% Change
Natural Gas						
NYMEX (US $/mmbtu)	**3.19**	1.95	64	**3.25**	2.00	63
Chicago City Gate (US $/mmbtu)	**3.01**	1.95	54	**3.20**	2.10	52
AECO (CDN $/mcf)	**2.79**	1.40	99	**2.74**	1.61	70
Crude Oil						
West Texas Intermediate (US $/bbl)	**48.24**	45.65	6	**50.04**	39.61	26
Edmonton Light (CDN $/bbl)	**61.95**	54.83	13	**62.92**	47.91	31
Foreign Exchange						
Canadian to U.S. dollar	**0.74**	0.78	(5)	**0.75**	0.75	-
U.S. to Canadian dollar	**1.34**	1.29	4	**1.33**	1.33	-

Natural Gas

Delphi ships the 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 and six months ended June 30, 2017 increased 54 percent and 52 percent, respectively, in comparison to the same periods in 2016. Natural gas storage levels are lower than 2016 as a result of lower North American production and increased Mexican and LNG exports partially offset by lower consumption for power production. This has resulted in stronger demand which has caused natural gas prices to increase in comparison to the same periods in 2016.

Natural Gas Liquids

Natural gas liquids include ethane, propane, butane, pentane and plant condensate and are generally priced off light oil and natural gas prices. Ethane prices are correlated to natural gas prices while propane and butane prices trade at a discount to light oil prices depending on supply/demand conditions. Propane pricing has improved significantly from the first quarter of 2016 due to significant draws through winter. Inventory levels are down from the same period last year. Natural gas liquids pricing has generally been supported by improvements in West Texas Intermediate (“WTI”) in comparison to 2016.

Crude Oil

Global supply and demand fundamentals for crude oil have improved since the first two quarters of 2016. WTI averaged six percent and 26 percent higher in the three and six months ended June 30, 2017, in comparison to the same periods in 2016. The stronger prices are supported by OPEC’s commitment to reduce production for 2017.

Canadian prices experienced a small tightening of basis differential as well as an increase in the Canadian to U.S. dollar exchange rate. Edmonton Light averaged $61.95 per barrel in the second quarter of 2017 and $62.92 per barrel in the first half of 2017, up 13 percent and 31 percent compared to the same periods in 2016, respectively.

Canadian/United States Exchange Rate

The value of the Canadian dollar against its U.S. counterpart averaged U.S. $0.74 for the three months ended June 30, 2017, a four percent decline in comparison to the same period in 2016. The value of the Canadian dollar against its U.S. counterpart averaged U.S $0.75 for the six months ended June 30, 2017, unchanged from the comparative period in 2016. 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.

REALIZED SALES PRICES

	Three Months Ended June 30			Six Months Ended June 30		
	2017	2016	% Change	**2017**	2016	% Change
AECO ($/mcf)	**2.79**	1.40	100	**2.74**	1.62	69
Chicago to AECO differential (Cdn$/mcf)	**1.25**	1.12	12	**1.53**	1.19	29
Heating content and marketing ($/mcf)	**0.27**	(0.30)	-	**(0.03)**	(0.09)	67
Realized price before risk management contracts ($/mcf)	**4.31**	2.22	94	**4.24**	2.72	56
Gain (loss) on financial contracts ($/mcf)	**0.15**	2.47	(94)	**0.02**	1.77	(99)
Realized natural gas price ($/mcf)	**4.46**	4.69	(5)	**4.26**	4.49	(5)
Edmonton Light ($/bbl)	**61.95**	54.83	13	**62.92**	47.91	31
Differential ($/bbl)	**(2.21)**	(8.57)	(74)	**(2.53)**	(4.14)	(39)
Realized price before risk management contracts ($/bbl)	**59.74**	46.26	29	**60.39**	43.77	38
Gain (loss) on financial contracts ($/bbl)	**1.00**	11.00	(91)	**(0.37)**	13.07	-
Realized field condensate price ($/bbl)	**60.74**	57.26	6	**60.02**	56.84	6
Realized natural gas liquids price ($/bbl)	**27.02**	20.16	34	**29.92**	16.53	81
Total realized sales price ($/boe)	**34.94**	32.23	8	**34.50**	31.19	11

For the three and six months ended June 30, 2017, Delphi's combined realized sales price increased eight and eleven percent in comparison to the same periods in 2016, respectively. Benchmark pricing for all commodities have increased in the three and six months ended June 30, 2017 versus the same comparative periods in 2016.

Delphi ships the majority of its natural gas production through the Alliance pipeline system into the Chicago market. This allows Delphi to sell its natural gas into a market where a more balanced supply and demand exist while receiving the benefits of a lower Canadian dollar against its U.S. counterpart as opposed to selling its natural gas in the predominant supply market of Western Canada.

For the three months ended June 30, 2017, Delphi's realized natural gas price before risk management contracts increased 94 percent in comparison to the same period in 2016 due to the increased AECO and Canadian dollar equivalent Chicago City Gate benchmark prices and a premium on the Company's gas for heating content and marketing arrangements. Delphi's realized natural gas price before risk management contracts increased 56 percent in the first six months of 2017 compared to the same period in 2016 due to increased benchmark prices and a lower differential for heating content and marketing arrangements.

Realized field condensate prices before risk management contracts were 29 percent and 38 percent higher in the three and six months ended June 30, 2017, respectively, compared to the same periods in 2016. Edmonton light increased 13 percent and 31 percent in the three and six months ended June 30, 2017 compared to the second quarter and the first half of 2016 as a result of an improvement in the global crude oil supply and demand imbalance. The differentials narrowed in the three and six months ended June 30, 2017 compared to the same periods in 2016 as higher bitumen production resulted in higher demand for condensate.

Delphi's realized natural gas liquids price for the three and six months ended June 30, 2017 increased 34 percent and 81 percent compared to the same periods in 2016 as a result of increased demand for propane, butane and plant condensate.

RISK MANAGEMENT ACTIVITIES

Delphi enters into both financial and physical commodity contracts as part of its risk management program to manage commodity price fluctuations designed to protect cash flows through to simple payout on the drilling and completion portion of its capital program.

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).

Natural Gas Contracts

Time Period	Type of Contract	Quantity Contracted	Average Price ($/unit)		Reference
December 2015 – December 2017	Financial – fixed	5,000 mmbtu/d	$3.55	U.S.	NYMEX
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
April 2017 – October 2018	Financial – fixed	2,500 mmbtu/d	$4.16	Cdn	NYMEX
January 2018 – December 2018	Financial – fixed	3,000 mmbtu/d	$4.01	Cdn	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 2018 – December 2018	Financial – fixed	2,500 mmbtu/d	$4.17	Cdn	NYMEX

Crude Oil Contracts

Time Period	Type of Contract	Quantity Contracted	Price ($/unit)	Reference
January 2017 – December 2017	Crude Oil – financial	300 bbls/d	$60.00 Cdn	WTI
January 2017 – December 2017	Crude Oil – financial	300 bbls/d	$70.00 Cdn	WTI
January 2017 – December 2019	Crude Oil – financial	300 bbls/d	$70.00 Cdn	WTI

Basis Differential Contracts

Delphi ships 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 basis on a portion of its natural gas sales in the Chicago market.

Time Period	Type of Contract	Quantity Contracted	Differential (U.S. $/unit)
January 2017 – December 2017	Chicago – NYMEX differential	7,500 mmbtu/d	$0.005

U.S Forward Exchange contracts

Delphi sells 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
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
January 2017 – December 2017	85.4	1.3476
January 2017 – December 2017	55.0	1.3800

Interest rate swaps

Time Period	**Notional $**	**Fixed Interest Rate**
February 2016 – January 2018	15,000	0.64%

Fair value of Delphi's risk management contracts

The fair value of the financial contracts outstanding as at June 30, 2017 is estimated to be a net asset of $5.0 million. The fair values of these contracts are based on an approximation of the amounts that would have been paid to or received from counterparties to settle the contracts outstanding at the end of the period having regard to forward prices and market values provided by independent sources. Due to the inherent volatility in commodity prices, foreign exchange and interest rates, actual amounts realized may differ from these estimates.

For the three and six months ended June 30, 2017, the change in the fair values of the outstanding financial contracts resulted in unrealized gain on its risk management contracts of $5.1 million and $14.1 million, respectively. The unrealized gain recognized for the three months ended June 30, 2017 is the difference between the fair values of the risk management contracts outstanding as at June 30, 2017 and the fair values as at March 31, 2017. The unrealized gain recognized for the six months ended June 30, 2017 is the difference between the fair values of the risk management contracts outstanding as at June 30, 2017 and the fair values as at December 31, 2016.

For the three and six months ended June 30, 2017, the risk management contracts resulted in a realized gain of $454 thousand and a realized loss of $3 thousand, respectively. During the second quarter of 2017, Delphi unwound an interest rate swap on borrowings through bankers' acceptances in the amount of $30.0 million at a fixed interest rate of 0.63 percent for a gain of $53 thousand.

REVENUE

	Three Months Ended June 30			Six Months Ended June 30		
	2017	2016	% Change	**2017**	2016	% Change
Natural gas	**9,236**	4,517	105	**20,437**	13,493	51
Field condensate	**8,372**	4,464	88	**18,998**	11,015	72
Natural gas liquids	**2,505**	1,877	33	**6,282**	3,549	77
Sulphur	**49**	84	(42)	**116**	201	42
Total	**20,162**	10,942	84	**45,833**	28,258	62

Delphi generated revenue of $20.2 million in the second quarter of 2017, an 84 percent increase over the comparative period in 2016. The increase in revenues is due to a 65 percent increase in the average sales price per boe (excluding gains on financial risk management contracts) in combination with a twelve percent increase in production volumes. For the second quarter of 2017, field condensate and natural gas liquids contributed 54 percent of the total revenues compared to 58 percent in the same period in 2016.

In the first half of 2017, Delphi generated revenue of $45.8 million, a 62 percent increase over the comparative period in 2016. The increase in revenues is due to a 58 percent increase in the average realized sales price per boe (excluding gains on financial risk management contracts) in combination with higher field condensate production. For the first half of 2017, field condensate and natural gas liquids contributed 55 percent of the total revenues compared to 52 percent in the same period in 2016.

MARKETING INCOME

Delphi is committed to transport a certain volume of natural gas through the Alliance pipeline system. As a result of the Bigstone Montney production shut-in due to the planned turnaround at the SemCAMS K3 natural gas processing facility, Delphi purchased third party natural gas in order to fulfill its commitment and mitigate a portion of the unused transportation. As a result of purchasing third party natural gas in Alberta and selling it in Chicago, Delphi realized marketing income of $1.0 million for the three and six months ended June 30, 2017. As a result of this marketing income, Delphi was able to offset 92 percent of the transportation cost associated with the purchased volumes.

ROYALTIES

	Three Months Ended June 30			Six Months Ended June 30		
	2017	2016	% Change	**2017**	2016	% Change
Crown royalties	**974**	797	22	**2,196**	1,457	51
Royalty credits	**(1,170)**	(1,030)	14	**(1,550)**	(1,552)	-
Crown royalties – net	**(196)**	(233)	(16)	**646**	(95)	-
Gross overriding royalties	**1,075**	1,517	(29)	**2,641**	3,225	(18)
Total	**879**	1,284	(32)	**3,287**	3,130	5
Per boe	**1.49**	2.43	(39)	**2.48**	2.42	2

	Three Months Ended June 30			Six Months Ended June 30		
	2017	2016	% Change	**2017**	2016	% Change
Crown rate – net of royalty credits	**(1.0%)**	(2.1%)	52	**1.4%**	(0.3%)	-
Gross overriding rate	**5.3%**	13.8%	(62)	**5.7%**	11.4%	(50)
Average rate	**4.3%**	11.7%	(63)	**7.1%**	11.1%	(36)

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

For the three and six months ended June 30, 2017, royalties totaled $0.9 million and $3.3 million, respectively, compared to $1.3 million and $3.1 million in the same periods in 2016. Crown royalties increased in the three and six months ended June 30, 2017 as a result of higher commodity prices and production volumes in combination with a higher proportion of field condensate production. Royalty credits, the cost of processing the Crown's share of natural gas production, increased 14 percent in the second quarter of 2017 over the comparative period in 2016 and remained unchanged in the first six months of 2017 over the comparative period in 2016. The Crown royalty credits are largely based on the amortization of historical capital and operating costs of gas facilities and do not fluctuate based on commodity prices. The three months ended June 30, 2017 and 2016 include $0.4 million and $0.5 million of additional Crown royalty credits related to prior periods as a result of the Crown's annual review of actual capital and operating costs of gas facilities. Gross overriding royalties decreased in the three and six months of 2017 compared to the same periods in 2016 as production from wells encumbered with a gross overriding royalty decreased due to natural declines.

For the three months ended June 30, 2017, Delphi's average royalty rate was 4.3 percent, down from the 11.7 percent during the comparative period in 2016. The decrease is primarily due to a 63 percent decrease in the average gross overriding royalty rate as additional sales volumes from wells brought on-stream are not encumbered by a gross overriding royalty.

For the six months ended June 30, 2017, Delphi's average royalty rate was 7.1 percent compared to 11.1 percent in the first six months of 2016. The average Crown royalty rate increased due to an improvement in commodity prices. The gross overriding royalty rate decreased 50 percent in the first half of 2017 over the comparative period as additional sales volumes from wells brought on-stream are not encumbered by a gross overriding royalty.

OPERATING EXPENSES

	Three Months Ended June 30			Six Months Ended June 30		
	2017	2016	% Change	**2017**	2016	% Change
Production costs	**7,334**	4,948	48	**13,991**	11,750	19
Processing income	**(296)**	(749)	(60)	**(435)**	(1,566)	(72)
Total	**7,038**	4,199	68	**13,556**	10,184	33
Per boe	**11.93**	7.95	50	**10.21**	7.88	30

Costs associated with the transportation of partially processed production from field dehydration and compression facilities to third party processing facilities are now included in operating expenses rather than transportation expenses. Management believes this classification better reflects the nature of the expenses and provides a clearer presentation of results. Prior period operating and transportation expenses have been reclassified to conform to the current presentation. In the three and six months ended June 30, 2016 and three months ended March 31, 2017, Delphi has reclassified $0.6 million, $1.5 million and $0.5 million, respectively, of expenses that were previously classified as transportation.

Production costs for the three and six months ended June 30, 2017 increased 48 percent and 19 percent in comparison to the same periods in 2016.

Despite the shut-in of Delphi's Montney production during the second quarter of 2017 related to the facility turnarounds, the Company remained active in the field with repairs and maintenance activity. Operating costs associated with turnaround of the 7-11 Montney facility included in production costs for the three and six months ended June 30, 2017 are $0.6 million.

Operating costs associated with turnaround of the SemCAMS K3 natural gas processing facility are being charged out by SemCAMS over a 36 months period which commenced on January 1, 2017. The amount of the turnaround fee, which is based on production throughput, that is included in production costs for the three and six months ended June 30, 2017 are $0.3 million and $0.6 million, respectively.

Six gross (3.8 net) wells were brought on-stream in the first half of 2017 versus two gross (1.5 net) wells in the first half of 2016. Fixed production costs associated with new wells are generally higher than for older wells for about the first year of production.

In the second quarter of 2017, Delphi was unable to truck all of its water to its 65 percent owned disposal facility as the amount of water exceeded the facility's capacity due to the initial high rates of frac water flow back from wells brought on-stream in the first quarter and road bans which restricted access to the facility. As a result, the Company had to truck produced water to third-party water disposal facilities located further away resulting in higher costs for water disposal. Road restrictions during the first and second quarters also increased the cost of water disposal as the Company was not able to haul at full capacity, thus increasing the number of trips required.

Production volumes in the second quarter of 2017 were adversely impacted by 2,500 boe/d. Excluding the costs associated with the 7-11 turnaround and the incremental trucking charges incurred, production expenses per boe would have been $8.22 based on estimated normalized second quarter production volumes of 9,000 boe/d.

Delphi earns processing income on partner 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 decreased 60 percent and 72 percent in the three and six months ended June 30, 2017 as compared to the same periods in 2016, respectively. The decline in processing income is mainly due to the sale of a 35 percent working interest in the 7-11 Montney facility, 5-8 Montney facility and water disposal facility in the fourth quarter of 2016.

TRANSPORTATION EXPENSES

	Three Months Ended June 30			Six Months Ended June 30		
	2017	2016	% Change	**2017**	2016	% Change
Transportation	**3,558**	3,584	(1)	**7,715**	7,861	(2)
Per boe	**6.03**	6.79	(11)	**5.81**	6.09	(5)

Costs associated with the transportation of partially processed production from field dehydration and compression facilities to third party processing facilities are now included in operating expenses rather than transportation expenses. Management believes this classification better reflects the nature of the expenses and provides a clearer presentation of results. Prior period operating and transportation expenses have been reclassified to conform to the current presentation. In the three and six months ended June 30, 2016 and three months ended March 31, 2017, Delphi has reclassified $0.6 million, $1.5 million and $0.5 million, respectively, of expenses that were previously classified as transportation.

For the three and six months ended June 30, 2017, transportation expenses decreased one percent and two percent in comparison to the same periods in 2016. Although Delphi shut-in the majority of its Montney production for 36 days during the second quarter, it managed to fulfill its committed volumes through the Alliance pipeline system by purchasing third party gas in Alberta and delivering it in Chicago. As a result of a premium in the natural gas price in Chicago in comparison to the Alberta benchmark, and a foreign exchange benefit, Delphi recorded $1.0 million in marketing income for the three and six months ended June 30, 2017. The marketing income was able to offset 92 percent of the transportation cost associated with the purchased volumes. Delphi does not expect to purchase and sell such large quantities of third party natural gas in the future.

GENERAL AND ADMINISTRATIVE

	Three Months Ended June 30			Six Months Ended June 30		
	2017	2016	% Change	**2017**	2016	% Change
Gross expenses	**2,366**	2,143	10	**5,510**	4,509	22
Overhead recoveries	**(858)**	(152)	464	**(1,482)**	(478)	210
Salary allocations	**(511)**	(500)	2	**(1,050)**	(1,033)	2
General and administrative expenses	**997**	1,491	(33)	**2,978**	2,998	(1)
Per boe	**1.69**	2.82	(40)	**2.24**	2.32	(3)

General and administrative expenses (after recoveries and allocations) for the three months ended June 30, 2017 were 33 percent lower compared to the same period in 2016. Gross expenses in the second quarter of 2017 are ten percent higher than the comparative period primarily due to higher consulting costs and investor communications. Overhead recoveries increased over the comparative period primarily due to a higher capital program in the second quarter of 2017 compared to the second quarter of 2016.

General and administrative expenses (after recoveries and allocations) for the six months ended June 30, 2017 were comparable to the same period in 2016. Gross expenses in the first half of 2017 are 22 percent higher than the comparative period largely due to employee termination payments and higher consulting costs. Overhead recoveries increased over the comparative period primarily due to a higher capital program in the first half of 2017 compared to the first half of 2016.

SHARE-BASED COMPENSATION

	Three Months Ended June 30			Six Months Ended June 30		
	2017	2016	% Change	**2017**	2016	% Change
Share-based compensation – Options	**392**	261	50	**688**	605	14
Share-based compensation – RSUs	**11**	98	(89)	**(46)**	181	(126)
Capitalized costs	**(141)**	(133)	6	**(226)**	(282)	(20)
Net	**262**	226	16	**416**	504	(17)
Per boe	**0.44**	0.43	2	**0.31**	0.39	(20)

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 increased 50 percent and 14 percent for the three and six months ended June 30, 2017 as compared to the same periods in 2016, respectively. The increase in the expense is primarily due to the granting of 3.4 million options since the second quarter of 2016. The weighted average fair value of the options granted was $0.69 per option.

Share-based compensation expense related to the Company's RSUs decreased in the three and six months ended June 30, 2017 in comparison to the same periods in 2016, 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 in combination with a decrease in the number of outstanding units.

Capitalized share-based compensation increased in the three months ended June 30, 2017 compared to the same period in 2016 as a result of capitalized stock options related to the grant in the first quarter of 2017. Capitalized share-based compensation decreased in the six months ended June 30, 2017 compared to the same period in 2016 due to a decrease in the number of outstanding restricted share units.

FINANCE COSTS

	Three Months Ended June 30			Six Months Ended June 30		
	2017	2016	% Change	**2017**	2016	% Change
Interest	**2,140**	2,118	1	**4,126**	3,590	15
Accretion of decommissioning liabilities	**95**	79	20	**189**	164	15
Finance charges	**391**	194	102	**764**	322	137
Total finance costs	**2,626**	2,391	10	**5,079**	4,076	25
Interest per boe	**3.63**	4.01	(10)	**3.11**	2.78	12
Accretion per boe	**0.16**	0.15	7	**0.14**	0.13	8
Finance charges per boe	**0.66**	0.37	78	**0.58**	0.25	132

Interest charges on Delphi's bank debt and senior secured notes in the three months ended June 30, 2017 are comparable to the same period in 2016. Interest charges on Delphi's bank debt and senior secured notes for the six months ended June 30, 2017 increased 15 percent in comparison to the same period in 2016. In the first six months ended June 30, 2016, Delphi primarily had outstanding bank debt which has a lower interest rate charge compared to Delphi's senior secured notes. The majority of Delphi's debt in the first six months of 2017 was from its outstanding senior secured notes.

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.

The accretion of decommissioning obligations is an expense that relates to the passing of time until the Company estimates it will retire its assets and restore the asset locations to a condition which meets or exceeds environmental standards. Due to the long term nature of certain assets of the Company, this accretion expense is estimated to extend over a term of one to 40 years. The increase in accretion expense in the three and six months ended June 30, 2017 compared to the same periods in 2016 is due to the higher risk free interest rates used to calculate the expense.

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 the face value of $90.0 million over the term of the debt. The increase in financing charges in the three and six months ended June 30, 2017 compared to the same periods in 2016 relates to the higher amortization charge and accretion expense on the senior secured notes compared to the subordinated debt which was outstanding during the second quarter of 2016.

DEPLETION AND DEPRECIATION

	Three Months Ended June 30			Six Months Ended June 30		
	2017	2016	% Change	**2017**	2016	% Change
Depletion and depreciation	**6,222**	6,086	2	**14,164**	14,737	(4)
Depletion and depreciation per boe	**10.55**	11.53	(9)	**10.67**	11.41	(7)

Depletion and depreciation for the three months ended June 30, 2017 increased two percent in comparison to the three months ended June 30, 2016. The increase in the depletion expense is primarily due to higher production volumes. The nine percent decrease in the depletion rate is largely attributable to a lower carrying value of the assets subject to depletion due to an impairment and disposal of assets in the fourth quarter of 2017.

For the six months ended June 30, 2017, depletion and depreciation decreased four percent in comparison to the same period in 2016. The decrease is primarily due to a lower depletion rate due to a lower carrying value of the assets subject to depletion due to an impairment and disposal of assets in the fourth quarter of 2017.

INCOME TAXES

	Three Months Ended June 30			Six Months Ended June 30		
	2017	2016	% Change	**2017**	2016	% Change
Deferred income taxes	**-**	(1,132)	-	**-**	(1,132)	-
Per boe	**-**	(2.14)	-	**-**	(0.87)	-

Due to the continued weak commodity price outlook, Delphi has concluded that it's not probable that the deferred income tax asset will be realized and as a result, it has not been recognized at June 30, 2017. Therefore, no deferred income tax expense was recorded against earnings.

Delphi does not have current income taxes payable and does not expect to pay current income taxes in 2017 as the Company had estimated tax pools available at June 30, 2017 of $349.8 million (December 31, 2016 – $311.0 million).

ADJUSTED FUNDS FROM OPERATIONS

	Three Months Ended June 30			Six Months Ended June 30		
	2017	2016	% Change	**2017**	2016	% Change
Cash flow from operating activities	**950**	1,151	(17)	**10,885**	13,965	(22)
Accretion of bank debt and subordinated debt	**(149)**	90	(266)	**(162)**	658	(125)
Decommissioning expenditures	**1,098**	20	5,390	**2,306**	1,000	131
Change in non-cash working capital	**5,121**	2,891	77	**2,155**	(3,281)	-
Adjusted funds from operations(1)	**7,020**	4,152	69	**15,184**	12,342	23

(1) Refer to non–GAAP measures

Delphi's adjusted funds from operations in the three and six months ended June 30 2017 increased 69 percent and 23 percent in comparison to the same periods in 2016. Higher crude oil and natural gas sales, lower royalties and transportation were offset by a reduction in realized gains on risk management contracts and higher operating expenses and financing costs.

CASH NETBACK AND EARNINGS ANALYSIS

	Three Months Ended June 30			Six Months Ended June 30		
	2017	2016	% Change	**2017**	2016	% Change
Net earnings (loss)	**4,578**	(18,638)	-	**12,930**	(13,379)	-
Per boe	**7.76**	(35.30)	-	**9.74**	(10.36)	-
Per basic share	**0.03**	(0.12)	-	**0.08**	(0.09)	-
Per diluted share	**0.03**	(0.12)	-	**0.08**	(0.09)	-

Delphi recorded net earnings of $4.6 million ($0.03 per basic and diluted share) in the second quarter of 2017, up from the $18.6 million net loss in the second quarter of 2016. The increase in net earnings is primarily due to the increase in funds from operations and an unrealized gain on risk management contracts.

Delphi recorded net earnings of $12.9 million ($0.08 per basic and diluted share) in the first half of 2017, up from the $13.4 million net loss in the first half of 2016. The increase in net earnings is primarily due to the increase in funds from operations and an unrealized gain on risk management contracts, partially offset by lower gains on asset dispositions and a loss on decommissioning expenditures.

	Three Months Ended June 30			Six Months Ended June 30		
Barrels of oil equivalent ($/boe)	**2017**	2016	% Change	**2017**	2016	% Change
Realized sales price	**34.17**	20.72	65	**34.51**	21.87	58
Marketing income	**1.72**	-	-	**0.77**	-	-
Royalties	**1.49**	2.43	(39)	**2.48**	2.42	2
Operating expenses	**11.93**	7.95	50	**10.21**	7.87	30
Transportation	**6.03**	6.79	(11)	**5.81**	6.09	(5)
Operating netback before risk management contracts(1)	**16.44**	3.55	363	**16.78**	5.49	206
Realized gain (loss) on risk management contracts	**0.77**	11.51	(93)	**-**	9.32	(100)
Operating netback (1)	**17.21**	15.06	14	**16.78**	14.81	13
General and administrative expenses	**1.69**	2.82	(40)	**2.24**	2.32	(3)
Paid out restricted share units	**-**	0.37	-	**-**	-	-
Interest	**3.63**	4.01	(9)	**3.11**	2.78	12
Cash netback (1)	**11.89**	7.86	51	**11.43**	9.71	18
Unrealized loss (gain) on risk management contracts	**(8.72)**	33.06	(126)	**(10.58)**	9.91	(207)
Share-based compensation expense	**0.44**	0.06	633	**0.31**	0.24	29
Gain on dispositions	**(0.35)**	(0.04)	775	**(0.42)**	(1.36)	(69)
Exploration and evaluation	**0.01**	-	-	**-**	0.01	-
Loss on decommissioning	**1.39**	0.17	718	**1.00**	0.20	400
Depletion and depreciation	**10.55**	11.53	(9)	**10.67**	11.41	(7)
Accretion and finance charges	**0.82**	0.52	58	**0.72**	0.38	89
Deferred income taxes	**-**	(2.14)	-	**-**	(0.87)	-
Net earnings (loss)	**7.75**	(35.30)	-	**9.73**	(10.21)	-

(1) Refer to non–GAAP measures

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

Delphi's operating netback per boe for the three and six months end June 30, 2017 increased 14 percent and 13 percent, respectively, compared to the same periods in 2016, primarily as a result of stronger commodity benchmark prices. Operating expenses per boe increased as Delphi was active in the field with repairs and maintenance, plant turnarounds and higher trucking charges. Operating expenses also increased due to less processing income as a result of the fourth quarter 2016 disposition of a 35 percent working interest in the 7-11 and 5-8 Montney facilities and its water disposal facility. Transportation per boe decreased and was further mitigated by the purchase and sale of third party gas in order to fulfill the Company's Alliance pipeline commitment, recording $1.72 per boe and $0.77 per boe of marketing income for the three and six months ended June 30, 2017.

The cash netback for the three months ended June 30, 2017 increased 51 percent in comparison to the same period in 2016 as general and administrative expenses, paid out restricted share units and interest per boe decreased. General and administrative expenses per boe decreased primarily due to higher overhead recoveries as Delphi's capital program is significantly higher in the second quarter of 2017 compared to 2016. Interest charges per boe decreased primarily as a result of higher production volumes in the quarter. The Company did not have any cash restricted share units expense in the quarter.

The cash netback for the six months ended June 30, 2017 increased 18 percent in comparison to the same period in 2016 as general and administrative expenses and paid out restricted share units per boe decreased. General and administrative expenses per boe decreased primarily due to higher recoveries. Interest charges per boe increased as a result of the issuance of the senior secured notes in the second quarter of 2016 which increased the overall effective interest rate on outstanding debt. The Company did not have any cash expense related to the outstanding restricted share units in 2017.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

Delphi continuously monitors commodity prices and has an active commodity price risk management program in order to reduce its exposure to fluctuations in commodity prices and protect its future cash flows.

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 continues resulting in a challenging environment for the energy sector. In response to this volatility and to preserve financial flexibility, Delphi took a conservative approach to its capital spending plan until the fourth quarter of 2016 when it entered into a strategic agreement. The agreement consisted of partner equalizations into certain working interests in the Bigstone area for $34.6 million in proceeds and a carry capital program where our partner will contribute $20.0 million for drilling and completion costs. In the first six months of 2017, the Company's net capital expenditures were $52.8 million. On June 7, 2017, through a private placement, Delphi raised $65.0 million in proceeds that were comprised of 27.6 million common shares at a price of $1.27 and $30.0 million of senior secured notes. Delphi used a portion of the proceeds to repay the outstanding senior credit facility.

Sources and Uses of Funds

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Sources:		
Adjusted funds from operations[1]	7,018	15,184
Disposition of properties	71	117
Accretion of bank debt	149	162
Issue of senior secured notes	29,101	29,101
Equity issue	33,839	33,839
Exercise of stock options	882	1,923
Change in non-cash working capital	-	5,580
	71,060	85,906
Uses:		
Cash and cash equivalents	7,053	5,473
Capital expenditures	22,682	52,978
Expenditures on decommissioning	1,098	2,306
Changes in non-cash working capital	8,078	-
	38,911	60,757
Change in bank debt	(32,149)	(25,149)

(1) Refer to non-GAAP measures

Net Debt

	June 30, 2017	December 31, 2016
Bank debt	-	24,987
Senior secured notes [1]	82,795	52,929
Working capital deficiency	7,843	8,029
Net debt[2][3]	90,638	85,945

(1) $90.0 million maturity value
(2) Net debt excludes the $6.2 million in outstanding letters of credit
(3) Refer to non-GAAP measures

As at June 30, 2017, Delphi had $82.8 in senior secured notes and a working capital deficit of $7.8 million for net debt of $90.6 million. As at June 30, 2017, Delphi had $73.8 million (net of outstanding letters of credit) available to be drawn on the senior credit facility.

Senior Credit Facility

In January 2017, Delphi entered into a new $80.0 million senior secured credit facility with a syndicate of Canadian chartered banks, consisting of a $12.5 million operating facility and a $67.5 million revolving facility with a new banking syndicate.

During the second quarter of 2017, Delphi's lenders completed the annual review of the Company's senior credit facility and maintained the $80.0 million borrowing base. The facility is a 364 day committed facility available on a revolving basis until May 29, 2018 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 May 30, 2019.

Interest payable on amounts drawn under the facility is at the prevailing bankers' acceptance or LIBOR 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 debt to earnings before interest, taxes, depreciation and amortization ratio: from a minimum of the bank's prime rate or U.S. base rate plus 1.0 percent to a maximum of the bank's prime rate or U.S. base rate plus 3.0 percent or from a minimum of bankers' acceptances or LIBOR rate plus a stamping fee of 2.0 percent to a maximum of bankers' acceptances rate plus a stamping fee of 4.0 percent.

The new senior credit facility is secured by a $200.0 million demand floating charge debenture and a general security agreement over all assets of the Company.

The Company's senior credit facility is subject to the banks' semi-annual review of the Company's crude oil and natural gas properties. The semi-annual review of the extendible revolving term credit facility will be scheduled during the fourth quarter of 2017. The borrowing base of the facilities will be based on the lenders' evaluation of the Company's petroleum and natural gas reserves at the time and commodity prices. A decrease in the borrowing base could result in a reduction to the credit facility, which may require a repayment to the lenders.

Delphi repaid the outstanding balance on the senior credit facility during the second quarter of 2017 with a portion of the proceeds from the private placement of senior secured notes and equity

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

Financial covenant	**Requirement**	**As at June 30, 2017**
Adjusted working capital ratio	≥ 1.0	2.7
Adjusted bank debt to EBITDA ratio	≤ 3.0	0.2
Adjusted debt to EBITDA ratio	≤ 4.0	2.3

Adjusted working capital ratio (1)	**As at June 30, 2017**
Current assets	34,944
Exclusion of the current fair value of financial instruments	(3,022)
Undrawn portion of senior credit facility	73,779
	105,701
Current liabilities	39,823
Exclusion of the current fair value of financial instruments	(58)
	39,765
Adjusted working capital ratio	2.7

(1) Refer to non-GAAP measures

Adjusted bank debt to EBITDA ratio (1)	**As at June 30, 2017**
Bank debt	-
Outstanding letters of credit	6,221
Adjusted bank debt	6,221
Annualized EBITDA	38,682
Adjusted bank Debt to EBITDA ratio	0.2

(1) Refer to non-GAAP measures

Adjusted debt to EBITDA ratio [1]	**As at June 30, 2017**
Adjusted bank debt	6,221
Senior secured notes	82,795
Adjusted debt	89,016
Annualized EBITDA	38,682
Adjusted debt to EBITDA ratio	2.3

(1) Refer to non-GAAP measures

Delphi was in compliance with all covenants as at June 30, 2017.

Senior Secured Notes

	Senior secured notes	Warrants	Total
Balance as at December 31, 2016	52,929	3,055	55,984
Issue of senior secured notes, net of discount	29,876	-	29,876
Issue costs	(775)	-	(775)
Accretion of discount and amortization of issue costs	765	-	765
Balance as at June 30, 2017	82,795	3,055	85,850

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. On June 7, 2017, Delphi issued an additional $30.0 million of senior secured notes through a private placement. The senior secured notes have a face value of $1,000 each and were issued at a discount to par. 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 during the twelve month period beginning on June 15 of the years indicated 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 of 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 $4.2 million and will be accreted at an effective interest rate of 12.1 percent such that the carrying amount of the senior secured notes will equal the principal amount at maturity. The senior secured notes that were issued with warrants 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 issued on June 7, 2017 were initially recognized at fair value, net of issue costs and subsequently are carried at amortized cost.

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): 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.

Share Capital

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, 2017:

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Weighted Average Common Shares (in thousands)		
Basic	164,591	160,712
Diluted	165,612	162,171
Trading Statistics (1)		
High	1.49	1.74
Low	1.15	1.15
Average daily volume (in thousands)	295,801	457,958

(1) Trading statistics based on closing price

As at August 1, 2017, the Company had 185.4 million common shares outstanding, 9.8 million stock options outstanding, and 14.7 million warrants outstanding. The stock options have an average exercise price of $1.55 per option and the warrants have an exercise price of $1.40 per warrant.

CONTRACTUAL OBLIGATIONS

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 364 day non-revolving term facility if not renewed. The senior secured notes mature in 2021 as discussed in the Liquidity and Capital Resources section.

The future minimum commitments over the next five years ending on June 30 are as follows:

	2017	2018	2019	2020	2021	Thereafter
Gathering, processing and transmission (1)	12,485	24,004	22,182	18,668	1,354	5,755
Office, equipment and software leases	718	516	445	450	457	1,226
Accounts payable and accrued liabilities (2)	39,043	-	-	-	-	-
Decommissioning obligations (3)	596	2,714	237	2,015	803	16,988
Restricted share units	118	-	-	-	-	-
Risk management contracts	28	49	-	-	-	-
Interest payments on senior secured notes	4,500	9,000	9,000	9,000	4,875	-
Bank Debt	-	-	-	-	-	-
Senior secured notes	-	-	-	-	90,000	-
Total	57,488	36,283	31,864	30,133	97,489	23,969

(1) Balances denominated in U.S. dollars have been translated at the June 30, 2017 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

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.

SELECTED INFORMATION

The fourth quarter of 2014 marked the beginning of the rapid, industry wide decline in commodity prices. The effect of which is clearly reflected in the Company's operating results and financial position in subsequent quarters. Delphi continued to focus on the exploitation of its liquids-rich resource at Bigstone in northwest Alberta in order to maximize operating netbacks.

In 2015, 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 had lower operating netbacks relative to the Montney at Bigstone.

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.

In 2016, Delphi's natural gas production 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 continued to be an integral part of the Company's strategy in order to protect cash flows and manage its capital program. During the twelve months ended 2016, Delphi invested $53.8 million, drilling six gross (4.2 net) wells and brought on production six gross (4.5 net) wells and one re-fracture in its Bigstone area. As a result of the major property dispositions in 2015 and the unplanned outage at SemCAMS K3 plant, Delphi's production decreased by 22 percent to 7,392 boe/d in comparison to 2015.

During the second quarter of 2016, Delphi's lenders completed their annual review of the Company's senior credit facilities. As a result, Delphi's senior credit facility was re-determined at $85.0 million, consisting of a $10.0 million operating facility and a $75.0 million revolving facility. 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.

During the fourth quarter of 2016, Delphi entered into the Partner Transaction with an existing working interest industry partner to accelerate the development of Delphi's liquids rich Deep Basin natural gas play at Bigstone. At closing Delphi received proceeds of $54.6 million comprised of $32.7 million including purchase price adjustments, $1.9 million in undeveloped land and $20.0 million related to the carry capital obligation of our partner to fund 50 percent of the combined share of Delphi and its partners' drilling and completion costs.

At the end of the fourth quarter of 2016, Delphi entered into a term sheet with respect to a new $80.0 million senior secured revolving credit facility with a new banking syndicate comprised of Canadian chartered banks. The new senior revolving credit facility was signed in January 2017. The new senior credit facility consists of a $12.5 million operating facility and a $67.5 million revolving facility.

During the first half of 2017, Delphi invested $53.0 million primarily on drilling and completion expenditures. The Company drilled eight gross (5.1 net) wells and performed completion operations on nine gross (5.7 net) wells in its Bigstone area.

During the second quarter of 2017, Delphi's lenders completed the annual review of the Company's senior credit facility and maintained the $80.0 million borrowing base.

The Company closed a private placement financing on June 7, 2017, that was comprised of 27,559,055 common shares issued at a price of $1.27 per common share and 30,000 senior secured notes, each with a principal amount of $1,000 and a 10% coupon, for gross proceeds of $65.0 million. Delphi used a portion of the proceeds to repay the outstanding senior credit facility during the second quarter.

SUMMARY OF QUARTERLY RESULTS

The following table summarizes the Company's financial and operating results over the past eight quarters:

	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sep. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sep. 30, 2015
Production								
Field condensate (bbls/d)	**1,540**	1,940	1,338	1,667	1,060	1,704	1,613	1,198
Natural gas liquids (bbls/d)	**1,019**	1,302	1,125	1,251	1,023	1,336	1,414	1,045
Natural gas (mcf/d)	**23,551**	29,737	27,988	31,923	22,311	32,127	34,719	33,871
Barrels of oil equivalent (boe/d)	**6,484**	8,198	7,127	8,239	5,802	8,395	8,814	7,888
Financial								
Crude oil and natural gas sales	**20,162**	25,671	20,546	20,331	10,942	17,316	18,601	16,234
Adjusted funds from operations(1)	**7,020**	8,166	8,120	9,403	4,152	8,190	13,317	10,070
Per share – basic and diluted	**0.04**	0.05	0.05	0.06	0.03	0.05	0.09	0.06
Net earnings (loss)	**4,578**	8,352	(25,461)	(2,274)	(18,638)	5,259	(23,084)	10,670
Per share – basic and diluted	**0.03**	0.05	(0.16)	(0.01)	(0.12)	0.03	(0.15)	0.07

(1) Refer to non-GAAP measures

CRITICAL ACCOUNTING ESTIMATES

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, 2016 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.

NON GAAP MEASURES

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:

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.

Adjusted funds from operations - cash flow from operating activities before accretion on bank debt and subordinated debt, decommissioning expenditures and changes in non-cash working capital from operating activities. Management uses adjusted 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 adjusted 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.

Adjusted funds from operations per share – adjusted 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, less outstanding letters of credit, and exclude the current portion of the fair value of financial instruments. Current liabilities exclude the current portion of long term debt and the current portion of the fair value of financial instruments. This ratio is used to calculate the Company's compliance with its working capital ratio covenant.

Adjusted bank debt to EBITDA ratio – Adjusted bank debt is defined as amounts outstanding under the senior credit facility, including outstanding letters of credit. EBITDA is calculated based on the terms and definitions set out in the senior credit facility agreement which adjusts net income (loss) for financing costs, certain specific unrealized and non-cash transactions and acquisition and disposition activity. EBITDA is calculated on an annualized basis based on the last two completed quarters. This ratio is used to calculate the Company's compliance with its adjusted bank debt to EBITDA ratio.

Adjusted debt to EBITDA ratio - The calculation of adjusted debt excludes accounts payable and accrued liabilities, decommissioning obligations and the fair value of financial instruments. The calculation includes outstanding letters of credit, the senior credit facility and senior secured notes. EBITDA is calculated as defined above. This ratio is used to calculate the Company's compliance with its adjusted debt to EBITDA ratio.

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

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

Operating netbacks – crude oil and natural gas sales plus realized gains (losses) on financial instruments and marketing income 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 bank debt and senior secured notes, 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.

NEW ACCOUNTING STANDARDS

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 Company is currently reviewing the terms of its sales contracts with customers to determine the impact, if any, that the standard will have on the consolidated financial statements, including enhanced disclosures of the disaggregation of revenue.
>
> 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

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 eight 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 Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The President and Chief Executive Officer 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 April 1, 2017 and ended on June 30, 2017 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.

2017 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, estimated tax pools and expectations regarding current income taxes payable by Delphi in 2017, 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, the availability of capital, 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.

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. This financial outlook is included to provide readers with an understanding of the Company's operations for 2017 and 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 risks, environmental risks, competition from others for scarce resources, the inability to access sufficient capital from internal and external sources, adverse changes in governmental regulation of the oil and gas industry and adverse 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

Production in 2017 prior to and following the turnaround of the SemCAMS K3 natural gas processing plant is ahead of expectation while production during the turnaround was less than anticipated due to unexpected limitations on diverting production to the SemCAMS KA natural gas processing plant. In consideration of the net effect, Delphi is maintaining its guidance for average annual production to be in the range of 9,000 to 9,500 boe/d. Production on a boe basis is expected to be split 40 percent to liquids and 60 percent to natural gas.

ROYALTIES

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. Royalties are not affected by gains or losses realized through the Company's risk management program.

Delphi pays a gross overriding royalty ("GORR") of between ten and twelve percent on 20 of its Montney wells drilled between April 2013 and January 2016. Production from these wells accounted for about 40 percent of total corporate production at the beginning of 2017. As production from these wells decreases due to natural declines and new wells are brought on-stream, the proportion of wells and production subject to the GORR will decrease and serve to reduce the overall corporate royalty rate. In 2017, Delphi does not expect any increases in the Crown royalty rates it is paying in the current commodity price environment.

For the second half of 2017, Delphi expects its royalty rate, after the deduction for royalty credits to average between seven and eight percent of gross revenue, excluding realized and unrealized gains or losses on commodity risk management contracts.

TRANSPORTATION EXPENSES AND OPERATING EXPENSES

Transportation costs in the first half of 2017 were $5.81 per boe which is within the Company's previous annual guidance, adjusted for the reclassification of certain costs from transportation expenses to operating expense, of $5.75 to $6.25. Delphi expects its transportation expense in the second half of 2017 to be approximately $5.60 to $6.10 per boe.

Operating costs per boe in the first half of 2017 were impacted by several factors which are not expected to occur in the second half of 2017, in particular the negative impact on production of the 36 day turnaround of the SemCAMS K3 natural gas processing plant, the $0.6 million cost of the turnaround of the Company's 7-11 Montney facility and the unusually high costs of disposal of frac load water from new wells completed and put on production during spring break up.

Delphi is currently undertaking various projects which are expected to lower operating costs in the future, including installation of a 20 mmcf/d amine plant to be completed by the second quarter of 2018 which will allow the Company to deliver a portion of its Montney production to the sweet Bigstone plant where Delphi owns a 25 percent working interest and avoid third-party processing charges as well as the upgrade and expansion of its 16-34 water disposal facility to be completed during the fourth quarter of 2017.

Operating costs in the second half of 2017 are expected to average between $7.70 and $8.20 per boe which is a slight increase over the Company's previous annual guidance, adjusted for the reclassification of certain costs from transportation expense to operating expense, of $7.50 to $8.00 per boe.

GENERAL & ADMINISTRATIVE AND FINANCE COSTS

Delphi's general and administrative costs per boe in the first half of 2017 were $2.24 however these costs included employee severance and recruiting costs in the first quarter which are not expected to reoccur in the second half of 2017. With other general and administrative costs expected to be relatively stable while production grows, Delphi expects general and administrative costs, net of capitalized amounts, in the second half of 2017 to be approximately $1.50 to $1.75 per boe.

Interest expense in the second half of 2017 is expected to be within the range of our prior annual guidance of approximately $2.40 to $2.75 per boe.

CAPITAL PROGRAM

The Company expects 2017 net capital expenditures to be between $105.0 and $115.0 million to drill, complete and tie-in sixteen to eighteen wells dependent on commodity prices and hence adjusted funds from operations. The ability to drill, complete and tie in wells assumes the availability of equipment and field personnel to undertake the operations.

DELPHI ENERGY CORP.

Condensed Consolidated Statements of Financial Position

(thousands of dollars)	**June 30, 2017**	December 31, 2016
(unaudited)		
Assets		
Current assets		
Cash and cash equivalents	**7,053**	1,580
Accounts receivable	**22,630**	29,804
Prepaid expenses and deposits	**2,239**	1,114
Fair value of financial instruments (Note 5)	**3,022**	144
	34,944	32,642
Fair value of financial instruments (Note 5)	**2,113**	18
Exploration and evaluation (Note 6)	**15,710**	15,748
Property, plant and equipment (Note 7)	**294,997**	255,217
Total assets	**347,764**	303,625
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**39,164**	39,679
Decommissioning obligations	**601**	848
Fair value of financial instruments (Note 5)	**58**	6,608
	39,823	47,135
Bank debt (Note 8)	**-**	24,987
Senior secured notes (Note 9)	**82,795**	52,929
Decommissioning obligations	**22,752**	23,031
Fair value of financial instruments (Note 5)	**49**	2,578
Total liabilities	**145,419**	150,660
Shareholders' equity		
Share capital (Note 10)	**346,834**	310,146
Warrants (Notes 9 and 10)	**3,055**	3,055
Contributed surplus	**19,892**	20,130
Deficit	**(167,436)**	(180,366)
Total shareholders' equity	**202,345**	152,965
Total liabilities and shareholders' equity	**347,764**	303,625

See accompanying notes to the condensed consolidated interim financial statements.

DELPHI ENERGY CORP.

Condensed Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss)

	Three Months Ended June 30		Six Months Ended June 30	
(thousands of dollars, except per share amounts)	**2017**	2016	**2017**	2016
(unaudited)				
Revenues				
Crude oil and natural gas sales	**20,162**	10,942	**45,833**	28,258
Marketing income	**1,016**	-	**1,016**	-
Royalties	**(879)**	(1,284)	**(3,287)**	(3,130)
	20,299	9,658	**43,562**	25,128
Realized gain (loss) on financial instruments (Note 5)	**454**	6,075	**(3)**	12,036
Unrealized gain (loss) on financial instruments (Note 5)	**5,145**	(17,455)	**14,052**	(12,803)
	25,898	(1,722)	**57,611**	24,361
Expenses				
Operating	**7,038**	4,199	**13,556**	10,184
Transportation	**3,558**	3,584	**7,715**	7,861
Exploration and evaluation (Note 6)	**-**	-	**-**	17
General and administrative	**997**	1,491	**2,978**	2,998
Share-based compensation	**262**	226	**416**	504
Gain on dispositions	**(204)**	(19)	**(561)**	(1,761)
Loss on decommissioning	**821**	90	**1,334**	256
Depletion and depreciation (Note 7)	**6,222**	6,086	**14,164**	14,737
	18,694	15,657	**39,602**	34,796
Finance costs	**2,626**	2,391	**5,079**	4,076
Earnings (loss) before income taxes	**4,578**	(19,770)	**12,930**	(14,511)
Income taxes				
Deferred income taxes	**-**	(1,132)	**-**	(1,132)
Earnings (loss) and comprehensive earnings (loss)	**4,578**	(18,638)	**12,930**	(13,379)
Net earnings (loss) per share (Note 10)				
Basic	**0.03**	(0.12)	**0.08**	(0.09)
Diluted	**0.03**	(0.12)	**0.08**	(0.09)

See accompanying notes to the condensed consolidated interim financial statements.

DELPHI ENERGY CORP.

Condensed Consolidated Statements of Changes in Shareholders' Equity

	Six Months Ended June 30	
(thousands of dollars)	**2017**	2016
(unaudited)		
Share capital		
Common shares		
Balance, beginning of period	**310,146**	309,389
Issued for cash	**35,000**	-
Issued on exercise of options	**2,084**	-
Transferred on exercise of options	**765**	-
Share issue costs	**(1,161)**	-
Balance, end of period	**346,834**	309,389
Warrants		
Balance, beginning of period	**3,055**	-
Issued with senior secured notes, net of tax (Note 9)	**-**	3,331
Warrant issue costs	**-**	(272)
Balance, end of period	**3,055**	3,059
Contributed surplus		
Balance, beginning of period	**20,130**	19,361
Share-based compensation	**688**	605
Transferred on exercise of options	**(765)**	-
Repurchase of options	**(161)**	-
Balance, end of period	**19,892**	19,966
Deficit		
Balance, beginning of period	**(180,366)**	(139,252)
Net earnings (loss)	**12,930**	(13,379)
Balance, end of period	**(167,436)**	(152,631)
Total shareholders' equity	**202,345**	179,783

See accompanying notes to the condensed consolidated interim financial statements.

DELPHI ENERGY CORP.

Condensed Consolidated Statements of Cash Flows

	Three Months Ended June 30		Six Months Ended June 30	
(thousands of dollars)	**2017**	2016	**2017**	2016
(unaudited)				
Cash flow from (used in) operating activities				
Net earnings (loss)	**4,578**	(18,638)	**12,930**	(13,379)
Adjustments for:				
Depletion and depreciation	**6,222**	6,086	**14,164**	14,737
Accretion on decommissioning	**93**	79	**188**	164
Share-based compensation	**262**	37	**416**	315
Gain on dispositions	**(204)**	(19)	**(561)**	(1,761)
Exploration and evaluation	**-**	-	**-**	17
Loss on decommissioning	**821**	90	**1,334**	256
Unrealized loss (gain) on financial instruments	**(5,145)**	17,455	**(14,052)**	12,803
Deferred income taxes	**-**	(1,132)	**-**	(1,132)
Accretion of senior notes	**393**	194	**765**	322
Accretion of subordinated debt and bank debt	**149**	(90)	**162**	(658)
Decommissioning expenditures	**(1,098)**	(20)	**(2,306)**	(1,000)
Change in non-cash working capital (Note 11)	**(5,121)**	(2,891)	**(2,155)**	3,281
	950	1,151	**10,885**	13,965
Cash flow from (used in) financing activities				
Issue of common shares, net of issue costs (Note 10)	**33,839**	-	**33,839**	-
Exercise of options	**1,043**	-	**2,084**	-
Repurchase of options	**(161)**	-	**(161)**	-
Increase (decrease) in bank debt	**(32,149)**	(35,371)	**(25,149)**	(32,690)
Repayment of subordinated debt	**-**	(14,210)	**-**	(14,210)
Issue of senior secured notes, net of issue costs (Note 9)	**29,101**	52,149	**29,101**	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)	**207**	738	**207**	738
	31,880	7,497	**39,921**	10,178
Cash flow available for investing activities	**32,830**	8,648	**50,806**	24,143
Cash flow from (used in) investing activities				
Additions to exploration and evaluation	**(2,418)**	(105)	**(2,274)**	(280)
Additions to property, plant and equipment	**(20,263)**	291	**(50,704)**	(16,192)
Disposition of petroleum and natural gas properties	**71**	-	**117**	4,583
Change in non-cash working capital (Note 11)	**(3,167)**	(8,694)	**7,528**	(14,586)
	(25,777)	(8,508)	**(45,333)**	(26,475)
Increase (decrease) in cash and cash equivalents	**7,053**	140	**5,473**	(2,332)
Cash and cash equivalents, beginning of period		-	**1,580**	2,472
Cash and cash equivalents, end of period	**7,053**	140	**7,053**	140
Cash interest paid	**1,942**	1,409	**4,117**	2,772

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 head office of the Company is located at Suite 2300, 333 – 7th Avenue S.W., Calgary, Alberta, T2P 2Z1.

The condensed consolidated interim financial statements as at and for the three and six months ended June 30, 2017 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, 2016.

Certain prior period amounts have been reclassified to conform with the current presentation.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors on August 1, 2017.

(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 are 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, 2016.

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, 2016.

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) Bank debt 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 is measured at level 1 of the fair value hierarchy for disclosure purposes. The senior secured notes have a fair value of $90.9 million based on June 30, 2017 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 rate, 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 multiplied 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 contracted price and the forward interest 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, 2016.

As at June 30, 2017, Delphi had the following risk management contracts outstanding:

Natural Gas Contracts

Time Period	Type of Contract	Quantity Contracted	Average Price ($/unit)		Reference
December 2015 – December 2017	Financial – fixed	5,000 mmbtu/d	$3.55	U.S.	NYMEX
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
April 2017 – October 2018	Financial – fixed	2,500 mmbtu/d	$4.16	Cdn	NYMEX
January 2018 – December 2018	Financial – fixed	3,000 mmbtu/d	$4.01	Cdn	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 2018 – December 2018	Financial – fixed	2,500 mmbtu/d	$4.17	Cdn	NYMEX

Crude Oil Contracts

Time Period	Type of Contract	Quantity Contracted	Price ($/unit)		Reference
January 2017 – December 2017	Crude Oil – financial	300 bbls/d	$60.00	Cdn	WTI
January 2017 – December 2017	Crude Oil – financial	300 bbls/d	$70.00	Cdn	WTI
January 2017 – December 2019	Crude Oil – financial	300 bbls/d	$70.00	Cdn	WTI

Basis Differential Contracts

Time Period	Type of Contract	Quantity Contracted	Differential (U.S. $/unit)
January 2017 – December 2017	Chicago – NYMEX differential	7,500 mmbtu/d	$0.005

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
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
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
February 2016 – January 2018	15,000	0.640%

The fair value of the risk management contracts outstanding as at June 30, 2017 is estimated to be a net asset of $5.0 million (December 31, 2016, net liability of $9.0 million). As at June 30, 2017, 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	3,983	(961)	3,022
Long term asset	2,285	(172)	2,113
Current liability	(154)	96	(58)
Long term liability	(49)	-	(49)
Net asset (liability)	**6,065**	**(1,037)**	**5,028**

For the three and six months ended June 30, 2017, the risk management contracts resulted in a realized gain of $454 thousand and a realized loss of $3 thousand, respectively. During the second quarter of 2017, Delphi unwound an interest rate swap on borrowings through bankers' acceptances in the amount of $30.0 million at a fixed interest rate of 0.63 percent for a gain of $53 thousand.

For the three and six months ended June 30, 2017, Delphi recorded an unrealized gain on its risk management contracts of $5.1 million and $14.1 million, respectively. The unrealized gain recognized for the three months ended June 30, 2017 is the difference between the fair values of the risk management contracts outstanding as at June 30, 2017 and the fair values as at March 31, 2017. The unrealized gain recognized for the six months ended June 30, 2017 is the difference between the fair values of the risk management contracts outstanding as at June 30, 2017 and the fair values as at December 31, 2016.

As at June 30, 2017, if the future strip prices for crude oil were $1.00 per barrel higher with all other variables held constant, the unrealized gain on risk management contracts for the three and six months ended June 30, 2017 would have decreased by $0.3 million. As at June 30, 2017, if the future strip prices for natural gas were $0.10 per gigajoule or $0.10 per million British thermal unit higher with all other variables held constant, the unrealized gain on risk management contracts for the three and six months ended June 30, 2017 would have decreased by $1.6 million.

As at June 30, 2017, if the U.S. to Canadian dollar exchange rate would have been $0.01 higher with all other variables held constant, the unrealized gain on foreign exchange risk management contracts for the three months and six months ended June 30, 2017 would have decreased by $40.0 thousand.

6) EXPLORATION AND EVALUATION ASSETS

	Total
Balance as at December 31, 2015	19,213
Additions	4,998
Expense	(568)
Transfer to oil and gas properties	(1,172)
Dispositions	(6,723)
Balance as at December 31, 2016	15,748
Additions	2,274
Transfer to oil and gas properties	(2,312)
Balance as at June 30, 2017	**15,710**

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 2017, Delphi added $2.3 million of exploration and evaluation expenditures related to developing the Montney formation at Bigstone. During the first half of 2017, $2.3 million of exploration and evaluation assets were transferred to property, plant and equipment following the addition of proved and probable reserves.

7) PROPERTY, PLANT AND EQUIPMENT

Cost	Crude oil and natural gas properties	Production equipment	Other assets	Total
Balance as at December 31, 2015	429,650	59,756	1,080	490,486
Additions	49,989	892	(4)	50,877
Decommissioning obligations	(50)	(366)	-	(416)
Disposition	(45,233)	(16,880)	-	(62,113)
Transfers from exploration and evaluation assets	1,172	-	-	1,172
Balance as at December 31, 2016	435,528	43,402	1,076	480,006
Additions	47,885	3,009	36	50,930
Decommissioning obligations	490	-	-	490
Dispositions	212	-	-	212
Transfers from exploration and evaluation assets	2,312	-	-	2,312
Balance as at June 30, 2017	**486,427**	**46,411**	**1,112**	**533,950**

Accumulated depletion and depreciation	Crude oil and natural gas properties	Production equipment	Other assets	Total
Balance as at December 31, 2015	(165,807)	(26,331)	(747)	(192,885)
Depletion and depreciation	(29,120)	(1,080)	(84)	(30,284)
Dispositions	15,620	3,221	-	18,841
Impairment losses	(17,990)	(2,471)	-	(20,461)
Balance as at December 31, 2016	(197,297)	(26,661)	(831)	(224,789)
Depletion and depreciation	(13,693)	(438)	(33)	(14,164)
Balance as at June 30, 2017	**(210,990)**	**(27,099)**	**(864)**	**(238,953)**

Net book value as at December 31, 2016	238,231	16,741	245	255,217
Net book value as at June 30, 2017	**275,437**	**19,312**	**248**	**294,997**

For the three months ended June 30, 2017, Delphi has included $158.7 million (June 30, 2016: $237.7 million) for future development costs and excluded $1.1 million (June 30, 2016: $1.1 million) for estimated salvage to its costs subject to depletion and depreciation.

For the six months ended June 30, 2017, Delphi capitalized $0.8 million (December 31, 2016: $1.6 million) of general and administrative expenses and $0.2 million (December 31, 2016: $0.3 million) of share-based compensation expense directly related to exploration and development activities.

8) BANK DEBT

	June 30, 2017	December 31, 2016
Senior Credit Facility (1)		
Prime-based loans	-	15,000
Bankers' acceptances, net of discount	-	9,987
Total	-	24,987

(1) As at June 30, 2017, Delphi had outstanding letters of credit of $6.2 million

In January 2017, Delphi entered into a new $80.0 million senior secured credit facility with a syndicate of Canadian chartered banks, consisting of a $12.5 million operating facility and a $67.5 million revolving facility with a new banking syndicate.

During the second quarter of 2017, Delphi's lenders completed the annual review of the Company's senior credit facility and maintained the $80.0 million borrowing base. The facility is a 364 day committed facility available on a revolving basis until May 29, 2018 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 May 30, 2019.

Interest payable on amounts drawn under the facility is at the prevailing bankers' acceptance or LIBOR 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 debt to earnings before interest, taxes, depreciation and amortization ratio: from a minimum of the bank's prime rate or U.S. base rate plus 1.0 percent to a maximum of the bank's prime rate or U.S. base rate plus 3.0 percent or from a minimum of bankers' acceptances or LIBOR rate plus a stamping fee of 2.0 percent to a maximum of bankers' acceptances rate plus a stamping fee of 4.0 percent.

The new senior credit facility is secured by a $200.0 million demand floating charge debenture and a general security agreement over all assets of the Company.

The Company's senior credit facility is subject to the banks' semi-annual review of the Company's crude oil and natural gas properties. The semi-annual review of the extendible revolving term credit facility will be scheduled during the fourth quarter of 2017. The borrowing base of the facilities will be based on the lenders' evaluation of the Company's petroleum and natural gas reserves at the time and commodity prices. A decrease in the borrowing base could result in a reduction to the credit facility, which may require a repayment to the lenders.

Delphi repaid the outstanding balance on the senior credit facility during the second quarter of 2017 with a portion of the proceeds from the private placement of senior secured notes and equity. As at June 30, 2017, Delphi had $73.8 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 covenants:

Financial covenant	**Requirement**	**As at June 30, 2017**
Adjusted working capital ratio	$\geq$ 1.0	2.7
Adjusted bank debt to EBITDA ratio	$\leq$ 3.0	0.2
Adjusted debt to EBITDA ratio	$\leq$ 4.0	2.3

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

Adjusted working capital ratio

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

Adjusted bank debt to EBITDA ratio

Adjusted bank debt is defined as amounts outstanding under the senior credit facility, including outstanding letters of credit.

EBITDA is calculated based on the terms and definitions set out in the senior credit facility agreement which adjusts net income (loss) for financing costs, certain specific unrealized and non-cash transactions and acquisition and disposition activity. EBITDA is calculated on an annualized basis based on the last two completed quarters. EBITDA for the purposes of this calculation as at June 30, 2017 was $38.7 million.

Adjusted debt to EBITDA ratio

The calculation of adjusted debt excludes accounts payable and accrued liabilities, decommissioning obligations and the fair value of financial instruments. The calculation includes outstanding letters of credit, bank debt and senior secured notes.

EBITDA is defined as above.

Delphi was in compliance with all covenants as at June 30, 2017.

9) SENIOR SECURED NOTES

	Senior secured notes	Warrants	**Total**
Balance as at December 31, 2016	52,929	3,055	**55,984**
Issue of senior secured notes, net of discount	29,876	-	**29,876**
Issue costs	(775)	-	**(775)**
Accretion of discount and amortization of issue costs	765	-	**765**
Balance, end of period	82,795	3,055	**85,850**

On June 15, 2016, Delphi issued $60.0 million of 10 percent senior secured notes with attached warrants (see Note 10). The Company issued 60 thousand units with each unit consisting of a $1,000 note and 245 warrants. On June 7, 2017, Delphi issued an additional $30.0 million of senior secured notes through a private placement. The senior secured notes have a face value of $1,000 each and were issued at a discount to par. 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 during the twelve month period beginning on June 15 of the years indicated 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 of 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 $4.2 million and will be accreted at an effective interest rate of 12.1 percent such that the carrying amount of the senior secured notes will equal the principal amount at maturity. The senior secured notes that were issued with warrants 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 issued on June 7, 2017 were initially recognized at fair value, net of issue costs and subsequently are carried at amortized cost.

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): 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, 2017**		December 31, 2016
	Outstanding shares (000's)	**Amount**	Outstanding shares (000's)	Amount
Balance, beginning of period	**155,994**	**310,146**	155,510	309,389
Issued for cash	**27,559**	**35,000**	-	-
Issued on exercise of stock options	**1,829**	**2,084**	484	553
Transferred on exercise of options	**-**	**765**	-	204
Share issue costs	**-**	**(1,161)**	-	-
Balance, end of period	**185,382**	**346,834**	155,994	310,146

On June 7, 2017, through a private placement, Delphi issued 27.6 million common shares at a price of $1.27 per share for gross proceeds of $35.0 million.

During the six months ended June 30, 2017, Delphi granted 3.4 million stock options to employees and directors with a weighted average fair value of $0.69 per option. As at June 30, 2017, 9.8 million stock options were outstanding with a weighted exercise price of $1.55 per option.

As at June 30, 2017, 0.1 million restricted share units were outstanding.

(b) Warrants

As at June 30, 2017, 14.7 million warrants were outstanding.

(c) Net earnings (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	
	2017	2016	**2017**	2016
Weighted average common shares - basic	**164,591**	155,510	**160,712**	155,510
Dilutive effect of share options and warrants outstanding	**1,021**	-	**1,459**	-
Weighted average common shares – diluted	**165,612**	155,510	**162,171**	155,510

For the three and six months ended June 30, 2017, a total of 8.7 million and 8.3 million stock options, respectively, (June 30, 2016: 12.3 million) and 14.7 million warrants (June 30, 2016: 14.7 million) 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	
	2017	2016	**2017**	2016
Source (use) of cash				
Accounts receivable	**6,244**	10,143	**7,174**	8,799
Prepaid expenses and deposits	**(593)**	483	**(1,125)**	388
Outstanding cheques	**-**	(1,713)	**-**	-
Accounts payable and accrued liabilities	**(13,732)**	(19,760)	**(469)**	(19,754)
Total change in non-cash working capital	**(8,081)**	(10,847)	**5,580**	(10,567)
Relating to:				
Operating activities	**(5,121)**	(2,891)	**(2,155)**	3,281
Financing activities	**207**	738	**207**	738
Investing activities	**(3,167)**	(8,694)	**7,528**	(14,586)
	(8,081)	(10,847)	**5,580**	(10,567)

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Independent Businessman

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

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STOCK EXCHANGE LISTING

Toronto Stock Exchange – DEE

TRANSFER AGENT

Computershare Trust Company of Canada

ABBREVIATIONS

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

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