MANAGEMENT'S REPORT

The financial statements of Delphi Energy Corp. were prepared by management in accordance with International Financial Reporting Standards.

Management has designed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of financial statements for reporting purposes. Timely release of financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. Such estimates are based on careful judgments made by management. External auditors appointed by the shareholders have conducted an independent examination of the Company's accounting records in order to express their opinion on the financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial and internal control. The Board exercises this responsibility through its Audit Committee. The Audit Committee, which consists of non-management members, has met with the external auditors and management in order to determine that management has fulfilled its responsibilities in the preparation of the financial statements. The Audit Committee has reported its findings to the Board of Directors who have approved the financial statements.

Signed 'David J. Reid'

David J. Reid
President and Chief Executive Officer

Signed 'Mark D. Behrman'

Mark D. Behrman
CFO

March 13, 2019
Calgary, Canada

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Delphi Energy Corp.

Opinion

We have audited the consolidated financial statements of Delphi Energy Corp. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017
- the consolidated statements of earnings (loss) and comprehensive income (loss) for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

– the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is Kimberly J. Payne.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 12, 2019

DELPHI ENERGY CORP.

Consolidated Statements of Financial Position

(thousands of dollars)	**December 31 2018**	December 31 2017
Assets		
Current assets		
Cash and cash equivalents	**3,705**	708
Accounts receivable (Note 6)	**30,979**	47,854
Prepaid expenses and deposits	**926**	780
Fair value of financial instruments (Note 4)	**23,784**	1,043
	59,394	50,385
Fair value of financial instruments (Note 4)	**4,002**	896
Exploration and evaluation (Note 7)	**9,488**	12,755
Property, plant and equipment (Note 8)	**346,035**	345,486
Total assets	**418,919**	409,522
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	**49,505**	73,325
Fair value of financial instruments (Note 4)	**810**	1,073
Provisions (Note 12)	**1,032**	1,051
	51,347	75,449
Long term debt (Note 10)	**66,742**	26,878
Senior secured notes (Note 11)	**100,099**	83,642
Fair value of financial instruments (Note 4)	**350**	-
Provisions (Note 12)	**28,342**	26,324
Total liabilities	**246,880**	212,293
Shareholders' equity		
Share capital (Note 14)	**347,011**	347,011
Warrants (Note 14)	**3,055**	3,055
Contributed surplus	**21,803**	20,627
Deficit	**(199,830)**	(173,464)
Total shareholders' equity	**172,039**	197,229
Total liabilities and shareholders' equity	**418,919**	409,522

Commitments (Note 18)

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Directors:

(signed) "Ian G. Wild"
Ian G. Wild
Director

(signed) "Lamont C. Tolley"
Lamont C. Tolley
Director

DELPHI ENERGY CORP.

Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss)
For the years ended December 31, 2018 and 2017

(thousands of dollars, except per share amounts)	**2018**	2017
Revenues		
Crude oil and natural gas sales (Note 19)	**127,254**	101,836
Marketing revenue	**7,435**	6,312
Royalties	**(7,436)**	(7,215)
	127,253	100,933
Realized gain (loss) on financial instruments (Note 4)	**(12,371)**	3,080
Unrealized gain on financial instruments (Note 4)	**25,760**	9,890
	140,642	113,903
Expenses		
Operating	**29,897**	29,426
Transportation	**17,335**	17,379
Marketing	**2,411**	4,549
Exploration and evaluation (Note 7)	**47**	-
General and administrative	**5,749**	6,369
Share-based compensation (Note 14)	**846**	985
Loss (gain) on property dispositions and derecognition (Note 8)	**61**	(2,578)
Loss on decommissioning	**49**	1,851
Unutilized take-or-pay commitment (Note 12)	**-**	1,504
Depletion, depreciation and impairment (Note 8)	**96,052**	35,854
	152,447	95,339
Finance costs (Note 15)	**14,561**	11,662
Earnings (loss) before income taxes	**(26,366)**	6,902
Income taxes		
Deferred income taxes recovery (Note 13)	**-**	-
Net earnings (loss) and comprehensive income (loss)	**(26,366)**	6,902
Net earnings (loss) per share (Note 14)		
Basic and diluted	**(0.14)**	0.04

See accompanying notes to the consolidated financial statements.

DELPHI ENERGY CORP.

Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2018 and 2017

(thousands of dollars)	**2018**	2017
Share capital		
Common shares		
Balance, beginning of year	**347,011**	310,146
Issued on exercise of options	**-**	2,245
Transferred on exercise of options	**-**	822
Private placement	**-**	35,000
Share issue costs	**-**	(1,202)
Balance, end of year	**347,011**	347,011
Warrants		
Balance, beginning and end of year	**3,055**	3,055
Contributed surplus		
Balance, beginning of year	**20,627**	20,130
Share-based compensation	**1,176**	1,481
Transferred on exercise of options	**-**	(822)
Repurchased options	**-**	(162)
Balance, end of year	**21,803**	20,627
Deficit		
Balance, beginning of year	**(173,464)**	(180,366)
Net earnings (loss)	**(26,366)**	6,902
Balance, end of year	**(199,830)**	(173,464)
Total shareholders' equity	**172,039**	197,229

See accompanying notes to the consolidated financial statements.

DELPHI ENERGY CORP.

Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017

(thousands of dollars)	**2018**	2017
Cash flow from (used in) operating activities		
Net earnings (loss)	**(26,366)**	6,902
Adjustments for:		
Depletion, depreciation and impairment	**96,052**	35,854
Accretion and finance charges	**2,346**	2,042
Share-based compensation	**846**	985
Gain (loss) on property dispositions and derecognition	**61**	(2,578)
Exploration and evaluation	**47**	-
Loss on decommissioning	**49**	1,851
Unutilized take-or-pay commitment	**-**	1,504
Unrealized gain on financial instruments	**(25,760)**	(9,890)
Settlement of unutilized take-or-pay commitment	**(660)**	-
Decommissioning expenditures	**(229)**	(3,167)
Change in non-cash working capital (Note 20)	**7,742**	(2,459)
	54,128	31,044
Cash flow from (used in) financing activities		
Issue of common shares, net of issue costs	**-**	33,798
Exercise of options	**-**	2,245
Repurchase of stock options	**-**	(162)
Borrowings of senior credit facility	**39,864**	1,878
Issue of senior secured notes, net of issue costs (Note 11)	**14,672**	29,066
Change in non-cash working capital (Note 20)	**-**	48
	54,536	66,873
Cash flow available for investing activities	**108,664**	97,917
Cash flow from (used in) investing activities		
Additions to exploration and evaluation	**(492)**	(3,548)
Dispositions of exploration and evaluation	**115**	-
Additions to property, plant and equipment	**(90,499)**	(115,339)
Disposition of property, plant and equipment (Note 8)	**42**	2,445
Acquisition of petroleum and natural gas properties	**-**	(850)
Change in non-cash working capital (Note 20)	**(14,833)**	18,503
	(105,667)	(98,789)
Increase (decrease) in cash and cash equivalents	**2,997**	(872)
Cash and cash equivalents, beginning of year	**708**	1,580
Cash and cash equivalents, end of year	**3,705**	708
Cash interest paid	**12,729**	9,279

See accompanying notes to the consolidated 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 concentrated in the Deep Basin of Northwest Alberta, from which in excess of 95 percent of the Company's production is obtained. The head office of the Company is located at Suite 2300, 333 – 7th Avenue S.W., Calgary, Alberta, T2P 2Z1.

The consolidated financial statements as at and for the year ended December 31, 2018 comprise the accounts of the Company, its wholly-owned subsidiary and a partnership.

2) BASIS OF PRESENTATION

(a) Statement of compliance and authorization

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). Certain comparatives have been reclassified to conform to current year's presentation.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 12, 2019.

(b) Basis of measurement and functional currency

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

(c) Use of estimates and judgments

The preparation of the consolidated 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 consolidated financial statements and accompanying notes. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated 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.

The following are 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 in these consolidated financial statements:

i) Identification of a cash generating unit ("CGU")

Delphi's assets are aggregated into CGUs for the purpose of calculating impairment based on their ability to generate largely independent cash inflows. CGUs have been determined based on similar geological structure, geographical proximity, production profiles and infrastructure of its assets. By nature, these assumptions are subject to management's judgment and may impact the carrying value of the Company's assets in future periods. The Company's CGUs could change in the future as a result of development, acquisition or disposition activity.

ii) Assessment of indicators of impairment

The Company assesses its oil and gas properties, including exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable. Determining if there are facts and circumstances present that indicate that the carrying values of the assets may not be recoverable requires management's judgment and analysis of the facts and circumstances.

For oil and gas properties, management considers changes in assumptions relating to future commodity prices, future costs and significant revisions of estimated recoverable reserves when assessing if indicators of impairment are present. For exploration and evaluation assets, particularly undeveloped land, Delphi considers the expiration date of the leases, management's intention and ability to develop the land and if possible, current market prices. The above does not represent an exhaustive list but rather the most significant factors taken into consideration when assessing the presence of indicators of impairment. An impairment test is performed if it is determined that indicators of impairment are present.

The following are key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities within the next financial year:

i) Depreciation and depletion

Management estimates the useful lives of production equipment and other assets based on the period during which the assets are expected to be available for use. For crude oil and natural gas properties, the estimated useful lives are based on proved and probable reserves as determined annually by the Company's independent engineers and internal estimates on a quarterly basis determined in accordance with National Instrument 51-101 ("NI 51-101") and the Canadian Oil and Gas Evaluation Handbook ("COGEH").

Calculations for the depletion of crude oil and natural gas properties are based on total capitalized costs plus estimated future development costs of proved and probable reserves less the estimated salvage value of production equipment and facilities after the proved and probable reserves are fully produced.

ii) Recoverability of property, plant and equipment and exploration and evaluation

Management applies judgment in assessing the existence of indicators of impairment and impairment recovery based on various internal and external factors. The assessment of any impairment of property, plant and equipment is dependent upon estimates of recoverable amount that take into account factors such as reserves, economic and market conditions, discount rates, timing of cash flows, the useful lives of assets and their related salvage values. In determining whether oil and gas properties are impaired, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less costs to sell and value in use.

In estimating the recoverable amount of a CGU, the following information is incorporated:

- the net present value, using pre-tax discount rates, of expected future cash flows based on proved and probable reserves as estimated by the Company's independent engineers; and

- the fair value of undeveloped land based on estimates provided by Delphi's independent land evaluator.

Key inputs used in the determination of cash flows from oil and gas reserves include the following:

- Reserves - Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward commodity price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being adjusted.

- Oil and gas prices - Forward price estimates of oil and natural gas prices are used in the cash flow model. Commodity prices fluctuate widely due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.

- Discount rate – Estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Changes in the general economic environment could result in significant changes to this estimate.

iii) Decommissioning obligations

Provisions for decommissioning obligations associated with the Company's drilling operations are based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and timing of cash outflows may differ from estimates because of changes in laws and regulations, public expectations, prices, discovery and analysis of site conditions, changes in clean up technology and changes in discount rates.

iv) Share-based compensation

The fair value of stock options granted is measured using a Black-Scholes option pricing model. Measurement inputs such as the expected volatility, expected life of the options and a forfeiture rate require management judgment and estimates. The Company estimates volatility based on weighted average historical traded daily volatility. The expected life of the options is estimated by using an average life for awards based on historical plan records. Management also makes an estimate of the number of options that will be forfeited based on historical information. The estimated forfeiture rate is adjusted to reflect actual forfeitures. Dividends are not taken into consideration as the Company does not expect to pay dividends.

v) Deferred income taxes

Deferred income tax assets and liabilities are recognized for the estimated tax consequences between amounts included in the financial statements and their tax base using substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of the reversal of temporary differences and accordingly affect the amount of the deferred income tax asset or liability calculated at a point in time. These differences could materially impact earnings (loss).

Estimates of recoverable quantities of proved and probable oil and natural gas reserves have an effect on a number of the items referred to above, in particular, the valuation of property, plant and equipment and the calculation of depletion and depreciation. There are numerous uncertainties inherent in estimating oil and natural gas reserves. Estimating reserves is very complex, requiring many judgments based on commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in these factors could have a material impact on the estimated reserves. These estimates may change, having either a negative or positive effect on the consolidated statement of earnings (loss) as further information becomes available and as the economic environment changes.

(d) Significant accounting policies, new and future accounting standards

The significant accounting policies applied by the Company in preparing these consolidated financial statements are detailed in note 21 followed by new and future accounting standards in note 22.

3) 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 is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2018 and December 31, 2017, the fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximated their carrying value due to their short term to maturity.

(b) Property, plant and equipment and exploration and evaluation assets:

The fair value of property, plant and equipment recognized in a business combination is based on market values. The market value of property, plant and equipment is the estimated amount for which property, plant and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests are estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally and internally prepared reserve reports. The risk adjusted discount rate is specific to the asset with reference to general market conditions. The market value of exploration and evaluation assets are estimated with reference to the market values of current arm's length transactions in comparable locations.

(c) Bank debt and senior secured notes:

The fair value 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. The senior secured notes have a fair value of $93.5 million based on December 31, 2018 trading values.

(d) Derivatives:

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

4) FINANCIAL RISK MANAGEMENT

The Company is exposed to market, credit and liquidity risks. This note provides information about the Company's exposure to each of the below risks and the Company's policies and processes for measuring and managing risk. Risk management policies are ultimately established by the Board of Directors and implemented and monitored by senior management.

(a) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's net earnings (loss) or the value of the Company's financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimizing returns.

Commodity price risk

Commodity price risk is the risk that the future cash flows will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can materially impact cash flows and the Company's borrowing base limit. Commodity prices for crude oil and natural gas are impacted not only by world economic events that dictate the levels of supply and demand but also the relationship between the Canadian and United States ("U.S.") dollar, as outlined below. The Company has a commodity price risk management program in place whereby the commodity price associated with a portion of its future production is fixed. The Company sells forward a portion of its future production by entering into derivative financial contracts with financial institutions. The Company generally enters into commodity contracts to a range of 40 – 70 percent of current production volumes when considered appropriate.

As at December 31, 2018, Delphi had entered into the following commodity price risk management contracts:

Natural Gas Contracts

Time Period	Type of Contract	Quantity Contracted	Price ($/unit)	Reference
January 2018 – December 2019	Financial - Swap	2,000 mmbtu/d	$4.018 Cdn	NYMEX
January 2018 – December 2019	Financial - Swap	5,000 mmbtu/d	$3.840 Cdn	NYMEX
January 2019 – June 2019	Financial - Swap	2,500 mmbtu/d	$3.8975 Cdn.	NYMEX
January 2019 – June 2019	Financial - Swap	2,500 mmbtu/d	$3.945 Cdn.	NYMEX
January 2019 – December 2019	Financial - Swap	3,000 mmbtu/d	$3.550 Cdn.	NYMEX
January 2019 – December 2019	Financial - Swap	5,000 mmbtu/d	$3.710 Cdn.	NYMEX
January 2020 – March 2020	Financial - Swap	5,000 mmbtu/d	$3.750 Cdn.	NYMEX
January 2020 – June 2020	Financial - Swap	5,000 mmbtu/d	$3.480 Cdn.	NYMEX

Propane Contracts

Time Period	Type of Contract	Quantity Contracted	Price ($/U.S. gallon)	Reference
January 2019 – December 2019	Financial - Swap	200 bbls/d	$0.800 U.S.	Conway
January 2019 – December 2019	Financial - Swap	200 bbls/d	$0.793 U.S.	Conway
January 2020 – December 2020	Financial - Swap	100 bbls/d	$0.770 U.S.	Conway

Crude Oil Contracts

Time Period	Type of Contract	Quantity Contracted	Price ($/unit)	Reference
January 2017 – December 2019	Financial - Swap	300 bbls/d	$70.00 Cdn	WTI
January 2019 – June 2019	Financial - Swap	400 bbls/d	$74.80 Cdn	WTI
January 2019 – June 2019	Financial - Swap	250 bbls/d	$95.20 Cdn	WTI
January 2019 – June 2019	Financial - Swap	250 bbls/d	$95.30 Cdn	WTI
January 2019 – December 2019	Financial - Swap	300 bbls/d	$56.20 U.S.	WTI
January 2019 – December 2019	Financial - Swap	1,000 bbls/d	$90.00 Cdn	WTI
January 2019 – December 2020	Financial - Swap	250 bbls/d	$90.00 Cdn	WTI
January 2019 – December 2020	Financial - Swap	250 bbls/d	$90.10 Cdn	WTI
July 2019 – December 2019	Financial - Swap	200 bbls/d	$92.63 Cdn	WTI
July 2019 – December 2019	Financial - Swap	200 bbls/d	$92.65 Cdn	WTI
July 2019 – December 2019	Financial - Swap	400 bbls/d	$89.90 Cdn	WTI

Basis Differential Contracts

Delphi ships approximately 60 percent 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)
April 2018 – March 2019	Financial - Swap	4,000 mmbtu/d	($0.235)
January 2019 – March 2019	Financial - Swap	3,000 mmbtu/d	($0.110)
January 2019 – March 2019	Financial - Swap	3,000 mmbtu/d	($0.105)
January 2019 – December 2019	Financial - Swap	2,500 mmbtu/d	($0.195)
January 2019 – December 2019	Financial - Swap	2,500 mmbtu/d	($0.190)
January 2019 – December 2019	Financial - Swap	4,000 mmbtu/d	($0.1275)
April 2019 – October 2019	Financial - Swap	7,000 mmbtu/d	($0.400)
April 2019 – October 2019	Financial - Swap	3,000 mmbtu/d	($0.390)
November 2019 – March 2020	Financial - Swap	7,000 mmbtu/d	($0.135)
November 2019 – March 2020	Financial - Swap	3,000 mmbtu/d	($0.120)

As at December 31, 2018, if the future strip prices for crude oil were $1.00 per barrel higher with all other variables held constant, the fair value of the oil risk management contracts and net earnings would decrease by $1.3 million. As at December 31, 2018, if the future strip prices for natural gas were $0.10 per gigajoule or million British thermal unit higher with all other variables held constant, the fair value of the natural gas risk management contracts and net earnings would decrease by $1.7 million. As at December 31, 2018, if the future strip prices for propane were $0.10 per gallon higher with all other variables held constant, the fair value of the propane risk management contracts and net earnings would decrease by $1.0 million.

Currency risk

Although the majority of the Company's petroleum and natural gas sales in 2018 were denominated in Canadian dollars, commodity prices are largely denominated in U.S. dollars and as a result the prices that Canadian producers receive are influenced by the relationship between the Canadian and U.S. dollar. An increase in the value of the Canadian dollar as compared to the U.S. dollar will reduce the prices received by the Company for its crude oil and natural gas sales.

Delphi ships approximately 60 percent of its natural gas production through the Alliance pipeline system into the Chicago market. Delphi's realized natural gas price is largely based on the Chicago index, increasing the foreign currency exchange risk on the Company's revenues, transportation expenses and financial instruments that are denominated in U.S. dollars.

At December 31, 2018, the Company had $2.7 million in U.S. dollars included in cash and cash equivalents on the consolidated statement of financial position.

The Company had the following foreign exchange rate swaps in place as at December 31, 2018:

U.S. Dollar Forward Exchange Contracts

Time Period	**Average Notional U.S. $**	**Average Exchange Rate (U.S.$ to Cdn$)**
January 2019 – December 2019	500.0	1.2860
January 2019 – December 2019	115.0	1.2965
January 2019 – December 2019	400.0	1.3000
January 2019 – December 2019	200.0	1.3305
January 2020 – December 2020	250.0	1.2920
January 2020 – December 2020	300.0	1.3210

As at December 31, 2018, if the U.S. to Canadian dollar exchange rate would have been $0.01 higher, the fair value of Delphi's foreign exchange forward contracts would have decreased and the net loss would have increased by $0.2 million.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Delphi is exposed to interest rate risk as the interest charged on its senior credit facility is at a floating rate and consequently changes in market interest rates will have an effect on the Company's cash flow.

During 2018, had the interest rate charged on the Company's senior credit facility been one percent higher, the net earnings would have decreased by $0.6 million.

Offsetting financial assets and financial liabilities

Delphi's risk management contracts are subject to master netting agreements that create the legal right to settle on a net basis. The following derivative financial assets and financial liabilities were offset on the consolidated statement of financial position:

		2018			2017	
As at December 31,	Financial Assets	Financial Liabilities	**Net Financial Assets (Liabilities)**	Financial Assets	Financial Liabilities	Net Financial Assets (Liabilities)
Risk management contracts						
Current asset	25,965	(2,181)	**23,784**	2,521	(1,478)	1,043
Current liability	-	(810)	**(810)**	691	(1,764)	(1,073)
Long term asset	4,565	(563)	**4,002**	947	(51)	896
Long term liability	-	(350)	**(350)**	-	-	-
Net asset	30,530	(3,904)	**26,626**	1,704	(838)	866

The fair value of the Company's risk management contracts as at December 31, 2018 is estimated to be a net asset of $26.6 million (December 31, 2017, net asset of $0.9 million) with the change in fair value of $25.8 million included in unrealized gain on financial instruments in the consolidated statement of earnings (loss). For the twelve months ended December 31, 2018, Delphi's risk management contracts resulted in realized losses of $12.4 million.

(b) Credit risk

Credit risk represents the risk of financial loss to the Company if customers or counterparties to a financial instrument fail to meet their contractual obligations and arise principally from the Company's receivables from joint interest partners, crude oil and natural gas marketers and financial intermediaries.

All of the Company's accounts receivable are with customers and joint interest partners in the oil and gas industry and are subject to normal industry credit risks. Receivables from joint interest partners are typically collected within one to three months of the joint venture bill being issued. The Company attempts to mitigate the risk related to joint interest receivables by obtaining partner pre-approval of significant capital expenditures prior to expenditure. However, partners are exposed to various crude oil and natural gas industry and market risks that could result in non-collection. In addition, further risk exists with joint interest partners as disagreements occasionally arise that increase the potential for non-collection.

Receivables from crude oil and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers. Delphi sells the majority of its production to three major purchasers and is therefore exposed to concentration risk. The Company historically has not experienced any collection issues with large purchasers.

The Company does not typically obtain collateral from crude oil and natural gas marketers or joint interest partners, however, the Company does have the ability to request pre-payment of certain major capital expenditures and withhold production from joint interest partners in the event of non-payment.

With respect to counterparties to financial commodity contracts, the Company partially mitigates associated credit risk by limiting transactions to counterparties with investment grade credit ratings.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. As at December 31, 2018, the Company's receivables included $9.2 million of receivables from crude oil and natural gas marketers which has been collected subsequent to December 31, 2018. As at December 31, 2018, $3.1 million (December 31, 2017: $3.6 million) of the Company's receivables are past due, primarily from joint interest partners. Although the accounts from joint interest partners are past due, they are still deemed collectible. As at December 31, 2018, the Company has a provision for uncollectible accounts of $0.1 million.

Delphi's accounts receivables are aged as follows:

	December 31, 2018	December 31, 2017
Current (less than 90 days)	**27,882**	44,251
Past due (more than 90 days)	**3,097**	3,603
Total	**30,979**	47,854

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities that are settled by cash 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.

The Company generates a certain level of cash flow from operations which is used to partially fund operating, investing and capital activities. Delphi attempts to match its payment cycle with the collection of petroleum and natural gas revenues on the 25th of each month. In addition, the Company has a 364 day revolving credit facility in the amount of $105.0 million with a syndicate of Canadian chartered banks with a one year term-out provision (see note 10). The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

The expected timing of cash flows relating to financial liabilities as at December 31, 2018 is as follows:

Financial liabilities	Carrying amount	< 1 Year	1 – 2 Years	3 – 5 Years	Thereafter
Accounts payable and accrued liabilities	49,505	49,505	-	-	-
Risk management contracts	1,160	810	350	-	-
Unutilized take-or-pay commitment	867	672	225	-	-
Bank debt (1)	66,742	-	67,000	-	-
Senior secured notes	100,099	-	-	105,000	-
Total	218,373	50,987	67,575	105,000	-

(1) The borrowing base of the senior credit facility is based on a revolving term which is reviewed semi-annually and converts to a 365 day non-revolving term facility if not renewed.

5) CAPITAL MANAGEMENT

The Company's policy is to ensure a strong capital base so as to maintain investor, creditor and capital market confidence and to sustain future development of the business. The Company's objective in managing its capital is to ensure adequate and appropriate sources of capital are available to execute a capital investment program while maintaining a flexible overall capital structure. Maintaining a flexible capital structure is important due to the inherent risks in oil and gas operations and the volatility of commodity prices.

The Company considers share capital and net debt, being the sum of bank debt, senior secured notes, long term portion of unutilized take-or-pay contract and current liabilities less current assets (excluding the fair value of financial instruments), as the components of capital to be managed.

The key measure used by the Company to evaluate its capital structure is the ratio of net debt to adjusted funds flow. Adjusted funds flow is defined as cash flow from operating activities before decommissioning expenditures and changes in non-cash working capital from operating activities. This ratio represents the time period required to repay the Company's net debt from funds generated from operations on the assumption there are no further capital expenditures incurred and adjusted funds flow remain constant. The measure is often calculated on an annualized most recent quarter basis to provide a more current view of the Company's capital structure.

Net debt and adjusted funds flow are non-IFRS terms.

At December 31, 2018, net debt was $182.0 million and annualized adjusted funds flow based on the fourth quarter was $35.6 million resulting in a net debt to adjusted funds flow ratio of 5.1:1. This ratio may increase at certain times as a result of acquisitions, the timing of capital expenditures or change in commodity prices.

In order to facilitate the management of this ratio, the Company prepares annual adjusted funds flow and capital expenditure forecasts, which are updated as necessary throughout the year and are reviewed and periodically approved by Delphi's Board of Directors. The Company manages its capital structure by keeping abreast of current and forecast economic conditions and commodity prices, particularly natural gas and crude oil prices and the cost of oilfield services. Additionally, the Company establishes internal processes to monitor and estimate planned capital expenditures, forecast adjusted funds flow and forecast net debt levels.

The Company maintains an active risk management program as an integral part of its capital management strategy to mitigate the volatility in adjusted funds flow resulting from fluctuating commodity prices. The net debt to adjusted funds flow ratio is the key driver in determining whether to maintain or alter the capital structure. To alter the capital structure of the Company, consideration is given to the level of credit available under current credit facilities, the proceeds on disposition of properties, the amount of the planned capital expenditure program and the offering of new common share equity if available on acceptable terms. There were no changes in the Company's approach to capital management during the period.

The Company's share capital is not subject to external restrictions, however, the Company's credit facilities does contain financial covenants that are outlined in note 10.

6) ACCOUNTS RECEIVABLE

Accounts receivable is comprised as follows:

	December 31, 2018	December 31, 2017
Revenue	**9,157**	14,478
Joint Partners	**20,865**	29,198
Other (1)	**957**	4,178
Total	**30,979**	47,854

(1) The balance outstanding as at December 31, 2018 was due from government agencies for input tax credits and has been collected subsequent to December 31, 2018.

7) EXPLORATION AND EVALUATION ASSETS

	Total
Balance as at December 31, 2016	15,748
Additions	3,749
Transfer to oil and gas properties	(6,742)
Balance at December 31, 2017	12,755
Additions	621
Dispositions	(115)
Expense	(47)
Transfer to oil and gas properties	(3,726)
Balance at December 31, 2018	**9,488**

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

During the year, Delphi added $0.6 million of exploration and evaluation expenditures related to developing the Montney formation at Bigstone and expensed $47.0 thousand of exploration and evaluation assets due to the expiry of a lease in the Company's Bigstone area. In 2018, a partner exercised its right to participate in previous acquisitions of undeveloped land for $115.0 thousand. The Company transferred $3.7 million of exploration and evaluation assets to property, plant and equipment following the addition of proved and probable reserves.

In 2017, Delphi added $3.7 million of exploration and evaluation additions which was comprised of $1.4 million of expenditures related to developing the Montney formation at Bigstone and $2.3 million of undeveloped land. The Company transferred $6.7 million of exploration and evaluation assets to property, plant and equipment following the addition of proved and probable reserves.

8) PROPERTY, PLANT AND EQUIPMENT

Cost	**Crude oil and natural gas properties**	**Production equipment**	**Other assets**	**Total**
Balance as at December 31, 2016	435,528	43,402	1,076	480,006
Additions	106,911	9,335	277	116,523
Decommissioning obligations	480	2,778	-	3,258
Disposals and derecognition	(190)	(994)	-	(1,184)
Transfers from exploration and evaluation assets	6,742	-	-	6,742
Balance as at December 31, 2017	549,471	54,521	1,353	605,345
Additions	84,658	6,065	108	90,831
Decommissioning obligations	466	1,821	-	2,287
Disposals and derecognition	(28)	(215)	-	(243)
Transfers from exploration and evaluation assets	3,726	-	-	3,726
Balance at December 31, 2018	**638,293**	**62,192**	**1,461**	**701,946**

Accumulated depletion and depreciation	Crude oil and natural gas properties	Production equipment	Other assets	Total
Balance December 31, 2016	(209,427)	(14,531)	(831)	(224,789)
Depletion and depreciation	(33,666)	(2,108)	(80)	(35,854)
Disposals and derecognition	32	752	-	784
Balance as at December 31, 2017	(243,061)	(15,887)	(911)	(259,859)
Depletion and depreciation	(43,706)	(1,232)	(110)	(45,048)
Impairment loss	(45,198)	(5,806)	-	(51,004)
Balance as at December 31, 2018	**(331,965)**	**(22,925)**	**(1,021)**	**(355,911)**
Net book value as at December 31, 2018	**306,328**	**39,267**	**440**	**346,035**
Net book value as at December 31, 2017	318,540	26,504	442	345,486

Delphi's senior credit facilities are secured by a demand floating charge debenture and a general security agreement over all assets. The Company's senior secured notes are secured on a second-priority basis by substantially all of the assets.

Delphi has included $474.0 million (December 31, 2017 - $274.4 million) for future development costs and excluded $7.5 million (December 31, 2017 - $7.4 million) for estimated salvage from the depletion and depreciation calculation for the three months ended December 31, 2018.

For the year ended December 31, 2018, Delphi capitalized $2.3 million (December 31, 2017 - $2.5 million) of employee salaries and benefits and $0.3 million (December 31, 2017 - $0.5 million) of share-based compensation expense directly related to exploration and development activities.

Dispositions

In 2018, Delphi received proceeds of $42.0 thousand for the disposal of obsolete production equipment with a net book value of $215.0 thousand, resulting in a loss on disposition of $173.0 thousand. In addition, Delphi exchanged certain assets with a decommissioning obligation of $9.0 thousand for exploration and evaluation assets with a fair value of $129.0 thousand, resulting in a $138.0 thousand gain.

In 2017, Delphi received proceeds of $2.4 million for certain petroleum and natural gas assets in its Bigstone and Miscellaneous Alberta CGUs with net book values of $0.06 million, resulting in $2.4 million of gain on disposition. In addition, Delphi exchanged an interest in certain assets with no book value for exploration and evaluation assets with a fair value of $0.2 million, resulting in a $0.2 million gain.

Impairment

In the fourth quarter of 2018, Delphi identified indicators of impairment, primarily as a result of sustained declines in forecasted commodity prices and a market capitalization deficiency relative to the book value of the Company's shareholders' equity. Delphi performed an impairment test on its Bigstone CGU, based on the recoverable amount estimated using a value in use calculation derived from expected future cash flows generated from proved and probable reserves using a pre-tax discount rate of approximately 12.5 percent plus an estimate of the fair value of the undeveloped land associated with the Bigstone CGU that is not considered exploration and evaluation. The difference between the carrying amount and the estimated recoverable amount resulted in the recognition of a $51.0 million impairment.

The following independent reserves evaluators' price estimates were used in the determination of future cash flows for the impairment test as at December 31, 2018:

	Natural Gas		Oil				
Year	AECO/NIT Spot $CDN/MMBtu	NYMEX Henry Hub $US/MMBtu	Edmonton Light $CDN/bbl	NYMEX WTI $US/bbl	Pentanes Plus Edmonton $CDN/bbl	Inflation %	Exchange Rate $US/$CDN
2019	1.85	3.00	63.33	56.25	67.67	0.0	0.750
2020	2.29	3.15	75.32	63.00	79.22	2.0	0.770
2021	2.67	3.35	79.75	67.00	83.54	2.0	0.790
2022	2.90	3.50	81.48	70.00	85.49	2.0	0.810
2023	3.14	3.63	83.54	72.50	87.80	2.0	0.820
2024	3.23	3.70	86.06	75.00	90.30	2.0	0.825
2025	3.34	3.77	89.09	77.50	93.33	2.0	0.825
2026	3.41	3.85	92.62	80.41	96.86	2.0	0.825
2027	3.48	3.93	94.57	82.02	98.81	2.0	0.825
2028	3.54	4.00	96.56	83.66	100.80	2.0	0.825
2029+	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	2.0	0.825

The recoverable amount is highly sensitive to the discount rate and forecast future commodity prices. Holding all other variables constant, if the discount rate applied to the Bigstone CGU increased to 13.5 percent, the impairment would increase by $22.1 million.

At December 31, 2017, Delphi evaluated its property, plant and equipment for indicators of any potential impairment or related reversal. As a result of these assessments, management determined that no impairment or impairment reversal calculation was required.

9) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised as follows:

	December 31, 2018	December 31, 2017
Trade	**14,188**	14,920
Royalties	**1,161**	1,208
Joint partners	**3,914**	4,213
Capital	**30,242**	52,984
Total	**49,505**	73,325

10) LONG TERM DEBT

	December 31, 2018	December 31, 2017
Senior Credit Facility (1)		
Prime-based loans	**-**	2,000
Bankers' acceptances, net of discount	**66,742**	24,878
Total	**66,742**	26,878

(1) As at December 31, 2018, the Company had outstanding letters of credit totaling $7.5 million.

During the fourth quarter of 2018, Delphi's lenders completed the semi-annual review of the Company's senior credit facility and maintained the borrowing base at $105.0 million. The facility is a 364 day committed facility available on a revolving basis until May 28, 2019 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 29, 2020. The non-extension provisions are applicable to the lenders on an individual basis. The borrowing base of the facilities will be based on the lenders' evaluation of the Company's petroleum and natural gas reserves and commodity prices at the time of the review. A decrease in the borrowing base could result in a reduction to the credit facility, which may require a repayment to the lenders within 60 days.

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 0.5 percent to a maximum of the bank's prime rate or U.S. base rate plus 2.5 percent or from a minimum of bankers' acceptances or LIBOR rate plus a stamping fee of 1.5 percent to a maximum of bankers' acceptances rate plus a stamping fee of 3.5 percent.

The 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.

As at December 31, 2018, Delphi had $30.8 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 December 31, 2018**
Adjusted working capital ratio	$\geq$ 1.0	1.3
Adjusted bank debt to EBITDA ratio	$\leq$ 3.0	1.4
Adjusted debt to EBITDA ratio	$\leq$ 4.0	3.2

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 and liabilities associated with the unutilized take-or-pay contract.

EBITDA is calculated based on the terms and definitions set out in the senior credit facility agreement which adjusts net earnings (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 December 31, 2018 was $54.1 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, senior secured notes and liabilities associated with the unutilized take-or-pay contract.

EBITDA is defined as above.

Delphi was in compliance with all covenants as at December 31, 2018.

11) SENIOR SECURED NOTES

	Senior Secured Notes
Balance as at December 31, 2017	**83,642**
Issue of senior secured notes	**15,000**
Issue costs	**(328)**
Accretion of discount and amortization of issue costs	**1,785**
Balance, end of year	**100,099**

On November 9, 2018, Delphi issued an additional $15.0 million principal of senior secured notes through a private placement. The senior secured notes were issued under the same indenture as the previously existing senior secured notes and collectively are treated as a single class of debt securities with identical terms.

At December 31, 2018, Delphi had outstanding $105.0 million principal amount of ten percent senior secured notes which mature on July 15, 2021. Interest is payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year. 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): 2019 at 105 percent and 2020 and thereafter at 100 percent.

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 carried at amortized cost, net of transaction costs and are accreted to their principal balance at maturity using the effective interest rate method.

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

12) PROVISIONS

	December 31, 2018	December 31, 2017
Decommissioning obligations	**28,507**	25,871
Unutilized take-or-pay commitment	**867**	1,504
Total	**29,374**	27,375

Decommissioning obligations

The Company's decommissioning obligations result from working interests in crude oil and natural gas assets including well sites, gathering systems and processing facilities. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future years. The Company estimates the undiscounted total future liability of $39.0 million (December 31, 2017 - $34.8 million) to be settled over the next 40 years. A risk-free rate between 1.86 percent and 2.18 percent (December 31, 2017 – 1.68 percent to 2.26 percent) and an inflation rate of 2.5 percent were used to calculate the estimated fair value of the decommissioning obligations. A reconciliation of the decommissioning obligations is provided below:

	December 31, 2018	December 31, 2017
Balance, beginning of year	**25,871**	23,879
Liabilities incurred	**2,501**	1,760
Liabilities acquired	**-**	68
Liabilities disposed	**(9)**	(331)
Liabilities settled	**(180)**	(1,317)
Accretion expense	**538**	382
Change in estimate	**(468)**	1,828
Change in discount rate	**254**	(398)
Total	**28,507**	25,871
Current portion	**382**	414
Long term portion	**28,125**	25,457

Unutilized take-or-pay commitment

	December 31, 2018	December 31, 2017
Balance, beginning of year	**1,504**	-
Additions	**-**	1,504
Settlement of commitment	**(660)**	-
Finance cost	**23**	-
Total	**867**	1,504

Current portion	**650**	637
Long term portion	**217**	867
Total	**867**	1,504

During the year ended December 31, 2017, the Company recorded a $1.5 million provision related to an unutilized take-or-pay commitment, which was determined to be an onerous contract. The provision represents the present value of the future payments the Company is obligated to make under the take-or-pay commitment. The undiscounted amount of estimated future cash flows to settle the obligation is $0.9 million as at December 31, 2018. These cash flows have been discounted using a risk-free rate of 1.0%. The onerous contract provision is expected to be settled in periods up to April 2020.

13) DEFERRED INCOME TAXES

The provision for income taxes differs from the expected amount calculated by applying the combined Federal and Provincial corporate income tax rates to Delphi's earnings (loss) before taxes. This difference results from the following items:

	December 31, 2018	December 31, 2017
Earnings (loss) before income taxes	**(26,366)**	6,902
Statutory tax rate	**27%**	27%
Expected income tax expense (recovery)	**(7,119)**	1,864
Stock-based compensation and other non-deductible items	**277**	334
Other	**(41)**	(62)
Change in unrecognized deferred income tax asset	**6,883**	(2,136)
Total deferred income taxes recovery	**-**	-

Deferred tax assets are recognized for deductible temporary differences to the extent that the realization of the related tax benefit through future taxable profits is probable. Due to the uncertainty of future realization as the commodity price outlook for commodities remains weak, Delphi has not recognized its deferred income tax asset of $23.4 million.

The components in deferred income tax assets and liabilities for the years ended December 31, 2018 and 2017 are as follows:

	Balance December 31, 2017	Recognized in net earnings	Recognized in equity	**Balance December 31, 2018**
Deferred income tax assets:				
Decommissioning obligations	6,985	712	-	**7,697**
Unutilized take-or-pay commitment	406	(172)	-	**234**
Non capital losses	37,678	1,916	-	**39,594**
Share issue costs	260	(65)	-	**195**
Risk management	-	313	-	**313**
Other	-	268		**268**
Deferred income tax liabilities:			-	
Risk management	(234)	(7,268)	-	**(7,502)**
Other	(30)	(14)	-	**(44)**
Senior secured note and issuance costs	(910)	234	-	**(676)**
Exploration and evaluation and property, plant and equipment	(44,155)	3,920	-	**(40,079)**
Net deferred income tax asset (liability)	-	-	-	**-**

	Balance December 31, 2016	Recognized in net earnings	Recognized in equity	Balance December 31, 2017
Deferred income tax assets:				
Decommissioning obligations	6,448	537	-	6,985
Unutilized take-or-pay commitment	-	406		406
Restricted share units	44	(44)	-	-
Non capital losses	12,548	25,130	-	37,678
Share issue costs	-	260	-	260
Risk management liability	2,437	(2,437)	-	-
Other	9	(9)	-	-
Deferred income tax liabilities:				
Risk management	-	(234)	-	(234)
Other	-	(30)	-	(30)
Senior secured note and issuance costs	(1,092)	182	-	(910)
Exploration and evaluation and property, plant and equipment	(20,394)	(23,761)	-	(44,155)
Net deferred income tax asset (liability)	-	-	-	-

Non capital losses of $233.4 million will expire in years 2030 through to 2038.

The Company's unrecognized deductible temporary differences are as follows:

	Balance December 31, 2018	Balance December 31, 2017
Non capital losses	**86,750**	61,260

14) 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

	December 31, 2018		December 31, 2017	
	Outstanding shares (000's)	**Amount**	Outstanding shares (000's)	Amount
Balance, beginning of year	185,547	347,011	155,994	310,146
Issued on exercise of stock options	**-**	**-**	1,994	2,245
Transferred on exercise of options	**-**	**-**		822
Private placement	**-**	**-**	27,559	35,000
Share issue costs	**-**	**-**		(1,202)
Balance, end of year	**185,547**	**347,011**	185,547	347,011

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.

b) Share-based compensation

The Company has established a stock option plan under which it has granted options to acquire common shares to certain officers, directors and employees. The plan provides for the granting of options of up to ten percent of the issued and outstanding common shares of the Company. Options granted vest over a three year period with one-third vesting on each of the first, second and third anniversary date of the grant.

The exercise price of each option equals the five day weighted average of the market price of the Company's common shares, immediately preceding the date of the grant. As at December 31, 2018, a total of 18.6 million options to purchase shares were reserved and 9.7 million options to purchase shares were outstanding, leaving an additional 8.9 million available for future grants.

The following table summarizes the changes in the number of options outstanding and the weighted average exercise prices:

	December 31, 2018		December 31, 2017	
	Outstanding options (000's)	**Weighted average exercise price**	Outstanding options (000's)	Weighted average exercise price
Balance, beginning of year	**9,562**	**1.56**	10,058	1.60
Granted	**3,240**	**0.87**	3,430	1.46
Cancelled	**(307)**	**1.26**	(502)	3.29
Repurchased	**-**	**-**	(1,110)	1.23
Exercised	**-**	**-**	(1,994)	1.13
Expired	**(2,775)**	**1.21**	(320)	3.02
Balance, end of year	**9,720**	**1.43**	9,562	1.56
Exercisable, end of year	**4,333**	**1.84**	5,460	1.71

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2018:

	Options outstanding			Options exercisable	
Range of exercise price	Outstanding options (000's)	Weighted average exercise price	Weighted average remaining term (years)	Exercisable (000's)	Weighted average exercise price
\$0.57 - \$0.85	2,290	\$0.80	2.5	1,855	\$0.81
\$0.86 - \$1.06	2,780	\$0.89	4.5	5	\$0.89
\$1.07 - \$1.42	615	\$1.30	3.3	205	\$1.30
\$1.43 - \$2.49	2,660	\$1.50	3.1	893	\$1.50
\$2.50- \$4.37	1,375	\$3.53	0.5	1,375	\$3.53
Total	**9,720**	**1.43**	**3.0**	**4,333**	**\$1.84**

The Company accounts for its share-based compensation using the fair value method for all stock options. For the year ended December 31, 2018, Delphi recognized share-based compensation expense of \$1.2 million (December 31, 2017 - \$1.5 million) related to its stock options, of which \$0.3 million was capitalized (December 31, 2017: \$0.5 million).

During the year ended December 31, 2018, the Company granted 3.2 million options (December 31, 2017: 3.4 million). The fair values of all options granted during the period are estimated at the date of grant using the Black-Scholes option pricing model. The weighted average fair value of options granted during the period was \$0.41 per option (December 31, 2017: \$0.69 per option). The weighted average of the assumptions used in the Black-Scholes model to determine fair value were as follows:

For the years ended December 31,	**2018**	2017
Risk-free interest rate (%)	**2.03**	0.99
Expected life (years)	**4.2**	4.2
Forfeiture rate (%)	**8.63**	9.3
Expected volatility (%)	**57.5**	60.3

(b) Warrants

	December 31, 2018	
	Outstanding warrants (000's)	Amount
Balance, beginning and end of year	14,700	3,055

As at December 31, 2018, 14.7 million warrants outstanding. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of \$1.40. The warrants are exercisable at any time prior to July 15, 2021. The warrants have an average remaining contractual life of 2.5 years.

(c) Net earnings (loss) per share

Net loss per share has been calculated based on a net loss of $ 26.4 million (2017 earnings: $6.9 million) and the following weighted average common shares:

For the years ended December 31,	2018	2017
Weighted average common shares - basic	**185,547**	173,171
Dilutive effect of share options outstanding	**-**	804
Weighted average common shares - diluted	**185,547**	173,975

For the year ended December 31, 2018, a total of 9.7 million share options (December 31, 2017: 8.8 million) and 14.7 million warrants (December 31, 2017:14.7 million) were excluded from the calculation as they were anti-dilutive.

15) FINANCE COSTS

Finance costs is comprised of the following:

For the years ended December 31,	2018	2017
Interest on long term debt	**3,478**	1,743
Effective interest on senior secured notes	**10,900**	9,357
Accretion on decommissioning obligations	**538**	382
Effective interest on unutilized take-or-pay commitment	**23**	-
Foreign exchange (gain) loss	**(378)**	180
Total	**14,561**	11,662

16) NATURE OF EXPENSES

Delphi's consolidated statement of earnings (loss) is prepared primarily by nature of expense, with the exception of employee salaries and benefits costs which are included in both the operating and general and administrative expense line items. The following table details operating, general and administrative and employee compensation costs:

For the years ended December 31,	2018	2017
Operating	**29,897**	29,426
Employee salaries and benefits	**(561)**	(445)
Operating, before employee compensation	**29,336**	28,981
General and administrative	**5,749**	6,549
Employee salaries and benefits	**(3,619)**	(4,175)
General and administrative, before employee compensation	**2,130**	2,374
Employee salaries and benefits	**4,180**	4,620
Total	**35,646**	35,975

17) KEY MANAGEMENT COMPENSATION

Key management includes senior officers and directors (executive and non-executive) of the Company. The compensation paid or payable to key management is shown below:

For the years ended December 31,	2018	2017
Salaries and other short-term employee benefits	**2,342**	2,162
Long term incentive compensation	**291**	273
Termination payments	**-**	556
Share-based compensation (1)	**771**	939
Total	**3,404**	3,930

(1) Share-based compensation includes share options and RSUs.

18) COMMITMENTS

Delphi is committed to future minimum payments for natural gas gathering, processing and transmission, operating leases on compression equipment and office space. Delphi has a lease for office space in Calgary, Alberta. Payments required under these commitments for each of the next five years are as follows:

	2019	2020	2021	2022	Thereafter
Gathering, processing and transmission (1)	16,074	18,421	1,234	1,234	4,004
Office, equipment and software leases	574	389	397	397	672
Interest payments on Senior secured notes	10,500	10,500	5,688	-	-
Total	27,148	29,310	7,319	1,631	4,676

(1) Balances denominated in US dollars have been translated at the December 31, 2018 exchange rate.

19) REVENUE

In the 2018, Delphi sold approximately 60 percent of its natural gas production in the United States via the Alliance Pipeline system, which is sold in Chicago, Illinois. In 2017, approximately 90 percent of the Company's natural gas was sold in the United States via the Alliance Pipeline system. Accordingly, Chicago City Gate is the primary benchmark for Delphi's natural gas sales in the United States. The remainder of Delphi's natural gas production is sold in Alberta on the NGTL system. The AECO 5A price is the primary benchmark for the Company's natural gas sales in Alberta. Condensate and natural gas liquids are delivered and sold in Fox Creek, Alberta and are generally priced off light oil and natural gas prices.

Crude oil and natural gas sales are comprised of the following:

	2018	2017
Natural gas	**41,186**	42,866
Field condensate	**62,128**	42,475
Natural gas liquids	**23,114**	16,174
Sulphur	**826**	321
Total crude oil and natural gas sales	**127,254**	101,836

20) SUPPLEMENTAL CASH FLOW INFORMATION

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

For the years ended December 31,	**2018**	2017
Source (use) of cash		
Accounts receivable	**16,875**	(18,050)
Prepaid expenses and deposits	**(146)**	334
Accounts payable and accrued liabilities	**(23,820)**	33,808
Total change in non-cash working capital	**(7,091)**	16,092
Relating to:		
Operating activities	**7,742**	(2,459)
Financing activities	**-**	48
Investing activities	**(14,833)**	18,503
	(7,091)	16,092

21) SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary and a partnership. Any reference to Delphi or the Company throughout these consolidated financial statements refers to the Company, its wholly-owned subsidiary and partnership. All inter-entity transactions and balances have been eliminated.

(b) Jointly controlled operations and assets

Certain of the Company's crude oil and natural gas activities are conducted jointly with others where the participants have a direct ownership interest in, and jointly control, the related assets. Accordingly, the accounts of Delphi reflect only its working interest share of revenues, expenses and capital expenditures related to these jointly controlled assets.

(c) Foreign currency transactions

Transactions in foreign currencies are translated to Canadian dollars at the exchange rate on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Foreign currency differences arising on translation are recognized in the consolidated statement of earnings (loss).

(d) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. All financial instruments, including all derivatives, are recognized on the consolidated statement of financial position at fair value at the time the Company becomes a party to the provisions of the contract. Subsequently, all financial assets and liabilities, except financial assets and liabilities carried at fair value through earnings are measured at amortized cost determined using the effective interest method. Financial assets and liabilities carried at fair value through earnings or loss are measured at fair value with changes in fair value recognized in the consolidated statement of earnings (loss).

Transaction costs attributable to financial instruments carried at fair value through earnings or loss are expensed as incurred. All other transaction costs related to the Company's financial instruments are recorded as part of the instrument and are amortized using the effective interest method.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Company has the legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or if it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

The Company has a risk management program whereby the commodity price associated with a portion of its future production volumes is fixed in order to mitigate cash flow volatility resulting from fluctuating commodity prices. The Company sells forward a portion of its future production volumes by entering into a combination of physical sale contracts with customers and derivative financial contracts such as fixed price contracts, costless collars and the purchase of floor price options with financial counterparties. These instruments are not used for trading or speculative purposes.

The Company has not designated its financial derivative contracts as effective accounting hedges and thus has not applied hedge accounting. As a result, financial derivatives are classified as fair value through earnings or loss and are recorded on the consolidated statement of financial position at fair value.

The Company accounts for its commodity sales and purchase contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the consolidated statement of financial position. Settlements on these physical sales contracts are recognized in crude oil and natural gas sales in the consolidated statement of earnings (loss).

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any taxes.

(e) Exploration and evaluation assets

Costs incurred before acquiring the legal right to explore in a specific area do not meet the definition of an asset and therefore are expensed by the Company as incurred.

Exploration and evaluation assets consist of expenditures incurred in an exploration area pending the determination of technical feasibility and commercial viability. Exploration and evaluation expenditures, including the costs of acquiring licenses, drilling exploratory wells and other directly attributable costs are capitalized and accumulated in cost centres by well, field or exploration area.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved and probable reserves are determined to exist and are capable of economic production. A review of each exploration license or field is carried out, at each reporting period, to ascertain whether economic proved and probable reserves have been discovered. Upon determination of total proved and probable reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to property, plant and equipment. If an exploration and evaluation asset is determined to be unsuccessful, all associated costs are charged to the consolidated statement of earnings (loss) at that time.

Assets classified as exploration and evaluation are not subject to depletion and depreciation until they are reclassified to property, plant and equipment.

For exchanges or parts of exchanges that involve only exploration and evaluation assets, the exchange is accounted for at the carrying value of the asset given up and no gain or loss is recognized.

(f) Property, plant and equipment

i) Recognition and measurement

Items of property, plant and equipment, which include crude oil and natural gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Property, plant and equipment consist of costs to drill and complete development wells, infrastructure construction, successful exploration and evaluation assets and the related asset retirement obligation.

ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as crude oil and natural gas interests only when it is probable that the costs increase the future economic benefits embodied in the specific asset to which they relate. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved or proved and probable reserves and bringing on or enhancing production from such reserves and are accumulated on a field or area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in the consolidated statement of earnings (loss) as incurred.

Property, plant and equipment, including crude oil and natural gas interests, are de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on the disposal of assets are determined by comparing the proceeds from disposition with the net carrying amount of the asset and are recognized on a net basis in the consolidated statement of earnings (loss).

iii) Asset exchanges

Exchanges of development and production assets are measured at fair value, unless the exchange transaction lacks commercial substance or the fair value of the assets given up or the assets received cannot be reliably estimated. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more reliable. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gain or loss on the de-recognition of the asset given up is recognized in the consolidated statement of earnings (loss).

iv) Depletion and depreciation

The net carrying amount of development and production assets is depleted using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production and estimated net realizable value of production equipment and facilities. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by the Company's independent engineers at least annually and determined in accordance with NI 51-101 and COGEH. For the purpose of this calculation, production and reserves of petroleum and natural gas are converted to a common unit of measure on the basis of their relative energy content, where six thousand cubic feet of natural gas equates to one barrel of oil.

The estimated useful lives for certain production assets for the current and comparative periods are as follows:

Facilities	30 years - 33 years
Crude oil and natural gas properties	Based on reserve life

For other assets, depreciation is recognized in the consolidated statement of earnings (loss) on a declining balance basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The estimated useful lives for other assets for the current and comparative periods are as follows:

Furniture and office equipment	5 years
Leaseholds	Term of the lease

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(g) Business combinations

Business combinations are accounted for using the acquisition method. The identifiable assets acquired and liabilities and contingent liabilities assumed are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the aggregate consideration transferred, measured at the acquisition date fair value. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognized immediately in net earnings (loss). If the cost of the acquisition is more than the fair value of the net assets acquired, the difference is recognized on the balance sheet as goodwill. Acquisition transaction costs incurred are expensed.

(h) Assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition. For the sale to be highly probable, management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must have been initiated. The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value and the sale should be expected to be completed within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell, with impairments recognized in the consolidated statement of earnings (loss) in the period measured. Non-current assets held for sale are presented in current assets and liabilities within the consolidated statement of financial position. Assets held for sale are not depleted, depreciated or amortized.

(i) Impairment

(i) Financial assets

A financial asset not classified at fair value through earnings or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. Those found not to be individually impaired are then assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the consolidated statement of earnings (loss).

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in the consolidated statement of earnings (loss).

(ii) Non-financial assets

The carrying amount of property, plant and equipment is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment if 1) sufficient data exists to determine technical feasibility and commercial viability and 2) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of assessing impairment of oil and gas properties, assets are tested at the CGU level. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated statement of earnings (loss). Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the unit on a pro rata basis.

Impairment losses in respect of property, plant and equipment recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

(j) Short term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short term cash bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(k) Share-based compensation

Long term incentives are granted to officers, directors, employees and certain consultants in accordance with the Company's stock option and restricted share unit ("RSU") plans.

i) Equity-settled share-based awards

The fair value determined at the grant date of an award is expensed on a graded basis over the vesting period of each respective tranche with a corresponding increase to contributed surplus. In calculating the expense of the stock options, Delphi revises its estimate of the number of equity instruments expected to vest by applying an estimated forfeiture rate for each vesting tranche and subsequently revising this estimate throughout the vesting period, as necessary, with a final adjustment to reflect the actual number of awards that vest. Upon the exercise of the stock options, consideration paid by the stock option holders and the value in contributed surplus pertaining to the exercised stock options are recorded as share capital. In the event that vested stock options expire without being exercised, previously recognized compensation costs associated with such awards are not reversed.

The fair value of employee stock options is measured using a Black-Scholes option pricing model. Measurement inputs include the share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends and the risk-free interest rate (based on government bonds).

ii) Cash-settled share-based awards

The Company's RSU plan is accounted for as a cash-settled share-based payment plan. The fair value of the amount payable under the RSU plan is recognized as an expense with a corresponding increase in liabilities. The liability is calculated at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized in the consolidated statement of earnings (loss).

A portion of share-based compensation directly attributable to the exploration and development of the Company's assets is capitalized.

(l) Lease payments

Payments made under operating leases are recognized in the consolidated statement of earnings (loss) on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

(m) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability if the risks have not been incorporated into the estimate of cash flows. Provisions are not recognized for future operating losses.

Onerous contracts

A provision for onerous contracts is recognized when the expected economic benefits received by the Company from a contract are lower than the unavoidable cost of meeting the obligation under the contract. The provision is measured at the lower of the cost of terminating the contract and the present value of the expected cash flows of the remaining term of the contract.

Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and site remediation activities. A provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the date of the consolidated statement of financial position. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation as well as changes to the discount rate. The increase in the provision due to the passage of time is recognized as a finance cost whereas increases or decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established. The difference between the actual costs incurred and the provision established is recorded as a gain or loss in the consolidated statement of earnings (loss).

(n) Flow-through shares

Delphi may issue flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. The difference between the value ascribed to the flow-through shares issued and the value that would have been received for common shares with no tax attributes is initially recognized as a liability. When the expenditures are incurred, the liability is drawn down, a deferred tax liability is recorded equal to the estimated amount of deferred income tax payable by the Company as a result of the renunciation and the difference is recognized as a deferred tax expense or recovery.

(o) Revenues

Delphi's crude oil and natural gas are sold under short-term contracts with terms that are less than one year at market index prices. Revenue from the sale of crude oil and natural gas is measured based on the consideration specified in contracts with customers. Delphi recognizes revenue when it transfers control of the product to the customer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the delivery mechanism agreed with the customer, often pipelines. Revenues are typically collected on the 25th day of the following month of delivery.

Delphi evaluates its arrangements with third parties and partners to determine if the Company acts as the principal or as an agent. In making this evaluation, management considers if the Company obtains control of the product delivered, which is indicated by Delphi having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If Delphi acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Company from the transaction.

Fees charged to other entities for use of facilities owned by the Company are evaluated by management to determine if these originate from contracts with customers or from incidental or collaborative arrangements. Fees charged to other entities that are from contracts with customers are recognized in revenue when the related services are provided.

Marketing revenues are comprised of the sale of purchased third party natural gas and premiums collected from third parties for the temporary assignment of excess natural gas transportation. Marketing revenues are recorded when control of the natural gas or the natural gas transportation is transferred to the buyer.

(p) Finance costs

Finance costs are comprised of interest expense and stamping fees on borrowings, amortization of negotiation fees, accretion of the discount on decommissioning obligations, accretion of deferred fees on subordinated debt and senior secured notes and the effective interest rate on the Company's unutilized take-or-pay obligation.

(q) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the consolidated statement of earnings (loss) except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred taxes are recognized on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding tax bases used in the computation of taxable income. Deferred taxes are not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable earnings. In addition, deferred taxes are not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(r) Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the net earnings or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted per share information is calculated giving effect to the potential dilution that would occur if stock options were exercised. The dilutive effect of stock options is calculated with the assumption that proceeds received from the exercise of options, for which the exercise price is less than the market price, plus the unamortized portion of share-based compensation expense are used to repurchase common shares at the average market price for the period. No adjustment to dilutive earnings (loss) per share is made if the result of these calculations is anti-dilutive.

(s) Cash and cash equivalents

Cash and cash equivalents consist of cash balances and call deposits with original maturities of three months or less.

22) NEW AND FUTURE ACCOUNTING STANDARDS

(a) Financial instruments

Effective January 1, 2018, the Company adopted IFRS 9, "Financial Instruments" ("IFRS 9"), which replaced IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). The Company applied the new standard retrospectively. The adoption of IFRS 9 did not have an impact on the Company's consolidated financial statements.

The nature and effects of the key changes to the Company's accounting policies resulting from the adoption of IFRS 9 are summarized below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income and fair value through earnings or loss. The previous IAS 39 categories of held to maturity, loans and receivables and available for sale are eliminated. IFRS 9 bases the classification of financial assets on the contractual cash flow characteristics and the company's business model for managing the financial asset. Additionally, embedded derivatives are not separated if the host contract is a financial asset within the scope of IFRS 9. Instead, the entire hybrid contract is assessed for classification and measurement. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The differences between the two standards did not impact the Company at the time of transition.

Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss ("ECL") model. The credit loss model groups receivables based on similar credit risk characteristics and days past due in order to estimate bad debts. The ECL model applies to the Company's receivables.

(b) Revenue from contracts with customers

IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"), provides a single, five-step model to be applied to all contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The standard requires an entity to recognize revenue that reflects the transfer of goods and services for the amount it expects to receive when control is transferred to the customer.

Delphi adopted IFRS 15 with a date of initial application of January 1, 2018. Delphi used the cumulative method to adopt the new standard and has applied transitional relief to contracts completed before January 1, 2018. As a result of the practical expedient, there were no changes made to the timing or amount of revenue recognized under the previous revenue standard.

(c) Leases

In January 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16"), which replaces IAS 17 Leases and IFRIC 4, "Determining Whether an Arrangement Contains a Lease". IFRS 16 requires the recognition of lease assets and liabilities on the balance sheet for most leases, where the entity is acting as a lessee. For lessees applying IFRS 16, the dual classification model of leases as either operating leases or finance leases no longer exists, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets can be exempt from the balance sheet recognition requirements, and may continue to be treated as operating leases.

The standard will come into effect for annual periods beginning on or after January 1, 2019. IFRS 16 is required to be adopted either retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect of IFRS 16 as an adjustment to opening retained earnings and applies the standard prospectively. Delphi will elect to apply the optional exemptions for short-term and low-value leases.

The adoption of IFRS 16 will increase the Company's assets and liabilities, increase depreciation, depletion and amortization expense, increase finance costs and reduce operating and general and administrative expenses. Total cash payments over the life of the leases will remain the same. Cash payments associated with operating leases are currently presented within cash flows from operating activities. Under IFRS 16, the cash flows will be allocated between financing activities for the repayment of the principal liability and operating activities for the financing expense portion. The overall impact to cash flow will remain unchanged. Based on Delphi's review of identified contracts completed to date, the Company anticipates that it will record approximately $2.0 million of right of use assets and lease liabilities upon adoption of IFRS 16.

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Independent Businessman

David J. Sandmeyer (3)
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Lamont C. Tolley (3)
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Ian G. Wild (2)(3)
Independent Businessman

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

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Toronto Stock Exchange – DEE, DEE.NT, DEE.WT

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