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 'Darwin Little'

Darwin Little
Interim CFO

March 11, 2020
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, 2019 and December 31, 2018
– the consolidated statements of loss and comprehensive 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, 2019 and December 31, 2018, 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.

Material Uncertainty Related to Going Concern

We draw attention to note 3 in the financial statements, which indicates that the Company is forecasting a potential breach of a certain debt covenant within the next six months that may result in the senior credit facility and senior secured notes becoming due on demand.

As stated in note 3 in the financial statements, these events or conditions, along with other matters as set forth in note 3 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

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 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 represent 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 11, 2020

DELPHI ENERGY CORP.

Consolidated Statements of Financial Position

(thousands of dollars)	**December 31 2019**	December 31 2018
Assets		
Current assets		
Cash and cash equivalents	**526**	3,705
Accounts receivable (Note 7)	**12,673**	30,979
Prepaid expenses and deposits	**1,738**	926
Fair value of financial instruments (Note 5)	**6,306**	23,784
	21,243	59,394
Fair value of financial instruments (Note 5)	**23**	4,002
Exploration and evaluation (Note 8)	**8,963**	9,488
Property, plant and equipment (Note 9)	**272,119**	346,035
Total assets	**302,348**	418,919
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	**18,440**	49,505
Lease Liabilities (Note 23)	**590**	-
Fair value of financial instruments (Note 5)	**-**	810
Provisions (Note 13)	**1,921**	1,032
	20,951	51,347
Long term debt (Note 11)	**46,363**	66,742
Senior secured notes (Note 12)	**103,510**	100,099
Lease Liabilities (Note 23)	**715**	-
Fair value of financial instruments (Note 5)	**-**	350
Provisions (Note 13)	**23,550**	28,342
Total liabilities	**195,089**	246,880
Shareholders' equity		
Share capital (Note 15)	**353,842**	347,011
Warrants (Note 15)	**5,627**	3,055
Contributed surplus	**22,201**	21,803
Deficit	**(274,411)**	(199,830)
Total shareholders' equity	**107,259**	172,039
Total liabilities and shareholders' equity	**302,348**	418,919

Going concern (Note 3)
Commitments (Note 19)
Subsequent events (Note 3, 15)

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Directors:

(signed) "Harry Campbell"
Harry Campbell
Director

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

DELPHI ENERGY CORP.

Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2019 and 2018

(thousands of dollars, except per share amounts)	**2019**	2018
Revenues		
Crude oil and natural gas sales (Note 20)	**93,138**	127,254
Marketing revenue	**19,828**	7,435
Royalties	**(6,472)**	(7,436)
	106,494	127,253
Realized gain (loss) on financial instruments (Note 5)	**13,310**	(12,371)
Unrealized (loss) gain on financial instruments (Note 5)	**(20,297)**	25,760
	99,507	140,642
Expenses		
Operating	**28,684**	29,897
Transportation	**13,091**	17,335
Marketing	**3,825**	2,411
Exploration and evaluation (Note 8)	**-**	47
General and administrative	**5,275**	5,749
Share-based compensation (Note 15)	**216**	846
Loss (gain) on property dispositions and derecognition (Note 8)	**(350)**	61
Gain on derecognition of lease obligation (Note 9)	**(66)**	-
Loss on decommissioning	**-**	49
Loss on debt modification (Note 12)	**3,156**	-
Depletion, depreciation and impairment (Note 9)	**102,372**	96,052
	156,203	152,447
Finance costs (Note 16)	**18,674**	14,561
Loss before income taxes	**(75,370)**	(26,366)
Income taxes		
Deferred income taxes recovery (Note 14)	**(789)**	-
Net loss and comprehensive loss	**(74,581)**	(26,366)
Net loss per share (Note 15)		
Basic and diluted	**(5.76)**	(2.13)

See accompanying notes to the consolidated financial statements.

DELPHI ENERGY CORP.

Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2019 and 2018

(thousands of dollars)	**2019**	2018
Share capital		
Common shares		
Balance, beginning of year	**347,011**	347,011
Private placement (Note 3, 15)	**10,000**	-
Share issue costs	**(3,169)**	-
Balance, end of year	**353,842**	347,011
Warrants		
Balance, beginning of year	**3,055**	3,055
Issued with Senior Secured Notes, net of tax (Note 3, 15)	**2,969**	-
Warrant issue costs	**(397)**	-
Balance, end of year	**5,627**	3,055
Contributed surplus		
Balance, beginning of year	**21,803**	20,627
Share-based compensation	**398**	1,176
Balance, end of year	**22,201**	21,803
Deficit		
Balance, beginning of year	**(199,830)**	(173,464)
Net loss	**(74,581)**	(26,366)
Balance, end of year	**(274,411)**	(199,830)
Total shareholders' equity	**107,259**	172,039

See accompanying notes to the consolidated financial statements.

DELPHI ENERGY CORP.

Consolidated Statements of Cash Flows
For the years ended December 31, 2019 and 2018

(thousands of dollars)	2019	2018
Cash flow from (used in) operating activities		
Net loss	**(74,581)**	(26,366)
Adjustments for:		
Depletion, depreciation and impairment	**102,372**	96,052
Accretion and finance charges	**2,595**	2,346
Share-based compensation	**216**	846
Gain (loss) on property dispositions and derecognition	**(350)**	61
Exploration and evaluation	**-**	47
Loss on decommissioning	**-**	49
Gain on derecognition of lease obligation	**(66)**	-
Loss on debt modification	**3,156**	-
Unrealized loss (gain) on financial instruments	**20,297**	(25,760)
Deferred income taxes recovery	**(789)**	-
Settlement of unutilized take-or-pay commitment	**(672)**	(660)
Decommissioning expenditures	**(155)**	(229)
Change in non-cash working capital (Note 21)	**593**	7,742
	52,616	54,128
Cash flow from (used in) financing activities		
Issue of common shares, net of issue costs (Note 15)	**6,831**	-
Obligations under finance leases	**(832)**	-
Borrowings of senior credit facility	**(20,379)**	39,864
Issue of senior secured notes, net of issue costs (Note 12)	**1,995**	14,672
Warrants issued with senior secured notes, net of issue costs (Note 15)	**(397)**	-
	(12,782)	54,536
Cash flow available for investing activities	**39,834**	108,664
Cash flow from (used in) investing activities		
Additions to exploration and evaluation	**(447)**	(492)
Dispositions of exploration and evaluation	**-**	115
Additions to property, plant and equipment	**(28,402)**	(90,499)
Disposition of property, plant and equipment (Note 9)	**-**	42
Change in non-cash working capital (Note 21)	**(14,164)**	(14,833)
	(43,013)	(105,667)
Increase (decrease) in cash and cash equivalents	**(3,179)**	2,997
Cash and cash equivalents, beginning of year	**3,705**	708
Cash and cash equivalents, end of year	**526**	3,705
Cash interest paid	**15,899**	12,729

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, 2019 comprise the accounts of the Company, its wholly-owned subsidiary and a partnership. As further disclosed in Notes 3 and 18, affiliates of Luminus Management, LLC ("Luminus") hold approximately 46 percent of the common shares of the Company and approximately $53.1 million of principal amount of the outstanding senior secured notes as at December 31, 2019.

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 10, 2020.

(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 22 followed by new and future accounting standards in note 23.

3) GOING CONCERN

The natural resource commodity price environment has been extremely volatile and depressed over the last few years. As an oil and gas company, fluctuations in commodity prices can have significant impact on forecasted cash flows and the execution of a capital program. Delphi has, to the best of its ability, managed through this low commodity price environment by maintaining an active risk management program and by managing a capital program with cash flows, debt and equity capital.

Based on the current outlook on commodity prices and the timing of both anticipated capital expenditures and new production coming on-stream, management forecasts a potential breach of its adjusted debt to EBITDA financial covenant within the senior credit facility within the next six months. Delphi forecasts to be in compliance with its other financial covenants. Management forecasts may change based upon actual prices received during the year, changes in future strip pricing and its future business plans. A breach in a financial covenant would represent an event of default under the senior credit facility. In the event of default under the senior credit facility, the lender has the right (but is not required) to demand immediate repayment of all amounts owed under the senior credit facility. If these financial covenants are not met, the senior credit facility may become due on demand. If an event of default under the senior credit facility results in the acceleration of repayment of the indebtedness to the senior lenders then this would also represent an event of default under the senior secured notes, making them due on demand. Under this scenario, Delphi would need to evaluate all of its options and alternatives related to addressing key liquidity and debt leverage matters. The value available to stakeholders may be significantly less than current trading prices and there is a risk that any proceeds available for distribution to stakeholders under other alternatives would be paid in priority to the lenders under the Company's bank credit facilities, the holders of senior secured notes and other general creditors with the remaining proceeds, if any, paid to the Company's shareholders. There is significant risk that there may be no recovery of any kind, or amount available for, those parties which are lower in the priority ranking in such circumstances.

While management and the Board of Directors of the Company believe that the Company could obtain a waiver for the breach or a number of other options including obtaining permission from the senior lenders to unwind and monetize some risk management contracts or seek an early advancement of a portion of the final equity subscription receipt draw from subscribers (see “Recapitalization Transaction” below) in order to prevent the breach, there can be no assurance that the

Company will be successful, consequently there exists a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. These financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue its operations. Such adjustments could be material.

Recapitalization Transaction

On November 26, 2019, the Company completed a series of transactions (collectively, the "Recapitalization Transaction") in connection with Delphi's priority of improving financial strength and liquidity. The Recapitalization Transaction successfully achieved, among other things, i) the extension of the maturity date of the Company's $105.0 million Senior Secured Notes due July 15, 2021 ("Existing Notes") to April 15, 2023 (see Note 12), ii) raised gross proceeds of $46.5 million through the issuance of new equity and additional senior secured notes exclusively for the development of the Company's Bigstone Montney asset or consolidation of assets in Delphi's core area, and iii) provided for a common share consolidation of 15 to 1.

The Recapitalization Transaction was implemented pursuant to a Plan of Arrangement (the "Arrangement") under Section 192 of the Canada Business Corporations Act.

Delphi completed two brokered private placements (together, the "Private Placements") of subscription receipts raising gross proceeds of $46.5 million. Pursuant to the Private Placements, Delphi issued an aggregate of 18,181,818 equity subscription receipts ("ESRs") at a price of $1.65 per ESR (the "ESR Price") for gross proceeds of approximately $30 million and 22,000 note subscription receipts ("NSRs") at a price of $750 per NSR (the "NSR Price"), plus accrued and unpaid interest from October 15, 2019 to the date of issuance of the NSRs, for gross proceeds of approximately $16.5 million. Each ESR is convertible into one post-consolidation common share and each NSR is convertible into $1,000 principal amount of Senior Secured Notes of Delphi due April 15, 2023 ("NSR Notes").

The gross proceeds from the Private Placements were held in escrow on closing and will be released and automatically exchanged for their underlying respective securities as follows: one third upon the effective date of the Arrangement, one third on the date that is three months after the effective date of the Arrangement, and one third upon the date that is the later of: (a) the date on which Delphi has (i) drilled, completed and tested the first of the two planned three-well pads at its West Bigstone property, and (ii) spud three additional wells at its West Bigstone property on the second pad; and (b) four and one half (4.5) months after the effective date of the Arrangement, provided that if the operational milestones described in subclause (a) do not occur within nine (9) months after the effective date of the Arrangement, the remaining subscription receipt proceeds will automatically be returned to investors and the associated subscription receipts will be cancelled. Proceeds from ESRs and NSRs may also be used for asset acquisition or consolidation opportunities in the Company's Bigstone Montney area. Subscribers of the ESRs and NSRs have the option to exchange their ESRs and NSRs for the underlying security at any point in time prior to nine months after the effective date of the Arrangement.

A summary of the funds held in escrow is as follows:

	ESRs (000's)	Amount ($)	NSRs	Amount ($)
Private placement	18,182	30,000	22,000	16,500
Released November 26, 2019 [1]	(6,060)	(10,000)	(7,332)	(5,500)
Remaining December 31, 2019	12,122	20,000	14,668	11,000
Released February 26, 2020 [1][2]	(6,061)	(10,000)	(7,334)	(5,500)
Remaining February 26, 2020	6,061	10,000	7,334	5,500

(1) Each ESR held in escrow was automatically exchanged for a common share of the Company at a purchase price of $1.65 per common share. Each NSR was automatically exchanged for a senior secured note of the Company with a face value of $1,000 per issued senior secured note.

(2) In accordance with the escrow release conditions, the second release occurred three months after the effective date of the Arrangement.

The trust indenture governing Delphi's Existing Notes was amended and restated (the "Amended and Restated Indenture") to, among other things, extend the maturity of the Existing Notes from July 15, 2021 to April 15, 2023 (the "Amended Notes"). The NSR Notes and Amended Notes have identical terms and trade under on the TSX under the ticker symbol DEE.NT. The Amended and Restated Indenture governs the NSR Notes and the Amended Notes.

Each holder of Existing Notes received 700 transferable Common Share purchase warrants (the "Consent Warrants") for each $1,000 principal amount of Existing Notes held by such holder. Each Consent Warrant is exercisable at any time until

April 15, 2023 for one fifteenth of a post-consolidation Common Share at an aggregate exercise price of $2.23 per whole post-consolidation common share. The Consent Warrants are listed on the TSX under the ticker symbol DEE.WT.A.

Affiliates of Luminus Management, LLC ("Luminus") subscribed for 16,778,306 ESRs for gross proceeds of approximately $27.7 million and 16,933 NSRs for gross proceeds of approximately $12.7 million under the Private Placements. Luminus holds approximately 46 percent of the common shares of the Company and approximately $53.1 million of principal amount of the outstanding senior secured notes as at December 31, 2019. Subsequent to the second release of funds held in escrow and the exchange of underlying securities, Luminus holds approximately 57 percent of the common shares of the Company and approximately $58.7 million of principal amount of the outstanding senior secured notes.

4) DETERMINATION OF FAIR VALUES

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

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

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

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

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

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

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2019 and December 31, 2018, 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 $69.7 million based on December 30, 2019 trading values, the last day the senior secured notes traded in December 2019.

(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.

5) 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.

Delphi has the following commodity price risk management contracts:

Natural Gas Contracts

Time Period	Type of Contract	Quantity Contracted	Price ($/unit)	Reference
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
April 2020 – December 2020	Financial - Swap	2,500 mmbtu/d	$3.470 Cdn	NYMEX

Propane Contracts

Time Period	Type of Contract	Quantity Contracted	Price ($/U.S. gallon)	Reference
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 2020 (1)	Financial - Swap	250 bbls/d	$90.10 Cdn	WTI
January 2020 (1)	Financial - Swap	500 bbls/d	$83.20 Cdn	WTI
January 2020 (2)	Financial - Swap	250 bbls/d	$90.00 Cdn	WTI
April 2020 – December 2020	Financial - Swap	250 bbls/d	$90.00 Cdn	WTI
January 2020 – June 2020	Financial - Swap	500 bbls/d	$80.65 Cdn	WTI
January 2020 – December 2020	Financial - Swap	500 bbls/d	$79.32 Cdn	WTI
February 2020 – December 2020 (1)	Buy Put Option	750 bbls/d	$78.00 Cdn	WTI
February 2020 – December 2020 (1)	Sold Put Option	750 bbls/d	$58.00 Cdn	WTI

(1) Subsequent to December 31, 2019, Delphi monetized 750 bbls/d of WTI contracts from February 2020 to December 2020 with an average price of CDN$84.33 per barrel, sold a put option for 750 bbls/d at CDN$58.00 per barrel and purchased a put option for 750 bbls/d at CDN$78.00 per barrel for proceeds of $1.0 million.

(2) Delphi monetized 250 bbls/d of a WTI contract from February to March 2020 with a price of CDN$90.00 per barrel for proceeds of $0.3 million.

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)
November 2019 – March 2020	Financial - Swap	3,000 mmbtu/d	($0.120)
January 2020 – March 2020	Financial - Swap	7,000 mmbtu/d	($0.135)
January 2020 – December 2020	Financial - Swap	3,500 mmbtu/d	($0.120)
January 2020 – December 2020	Financial - Swap	3,500 mmbtu/d	($0.120)
April 2020 – December 2020	Financial - Swap	3,000 mmbtu/d	($0.1825)
January 2021 – December 2021	Financial - Swap	5,000 mmbtu/d	($0.090)

As at December 31, 2019, 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 $0.6 million. As at December 31, 2019, 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 $0.7 million. As at December 31, 2019, 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 $0.3 million.

Currency risk

Although the majority of the Company's petroleum and natural gas sales in 2019 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, 2019, the Company had $0.3 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, 2019:

U.S. Dollar Forward Exchange Contracts

Time Period	Average Notional U.S. $	Average Exchange Rate (U.S.$ to Cdn$)
January 2020 – December 2020	250.0	1.2920
January 2020 – December 2020	300.0	1.3210

As at December 31, 2019, 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 $0.1 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 2019, had the interest rate charged on the Company's senior credit facility been one percent higher, the net earnings would have decreased by $0.7 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:

	2019			2018		
As at December 31,	Financial Assets	Financial Liabilities	**Net Financial Assets**	Financial Assets	Financial Liabilities	Net Financial Assets (Liabilities)
Risk management contracts						
Current asset	6,780	(474)	**6,306**	25,965	(2,181)	23,784
Current liability	-	-	**-**	-	(810)	(810)
Long term asset	166	(143)	**23**	4,565	(563)	4,002
Long term liability	-	-	**-**	-	(350)	(350)
Net asset	6,946	(617)	**6,329**	30,530	(3,904)	26,626

The fair value of the Company's risk management contracts as at December 31, 2019 is estimated to be a net asset of $6.3 million (December 31, 2018, net asset of $26.6 million) with the change in fair value of $20.3 million included in unrealized loss on financial instruments in the consolidated statement of loss. For the twelve months ended December 31, 2019, Delphi's risk management contracts resulted in realized gains of $13.3 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, 2019, the Company's receivables included $8.0 million of receivables from crude oil and natural gas marketers and financial institutions for settlements of risk management contracts which have been collected subsequent to December 31, 2019. As at December 31, 2019, $1.4 million (December 31, 2018: $3.1 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, 2019, the Company has a provision for uncollectible accounts of $0.1 million.

Delphi's accounts receivables are aged as follows:

	December 31, 2019	December 31, 2018
Current (less than 90 days)	**11,239**	**27,882**
Past due (more than 90 days)	**1,434**	**3,097**
Total	**12,673**	**30,979**

(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 \$80.0 million with a syndicate of Canadian chartered banks with a one year term-out provision (see note 11). 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, 2019 is as follows:

Financial liabilities	**Carrying amount**	**< 1 Year**	**1 – 2 Years**	**3 – 5 Years**	**Thereafter**
Accounts payable and accrued liabilities	18,440	18,440	-	-	-
Unutilized take-or-pay commitment	217	225	-	-	-
Lease obligations	1,305	680	175	517	-
Bank debt (1)	46,363	-	46,500	-	-
Senior secured notes (2)	103,510	-	-	112,332	-
Total	169,835	19,345	46,675	112,849	-

(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.
(2) Subsequent to December 31, 2019, in accordance with the Recapitalization Transaction and the escrow release conditions, Delphi issued an additional \$7.3 million of senior secured notes.

6) 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 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, 2019, net debt was \$155.3 million and annualized adjusted funds flow based on the fourth quarter was \$26.3 million resulting in a net debt to adjusted funds flow ratio of 5.9:1. 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 11.

7) ACCOUNTS RECEIVABLE

Accounts receivable is comprised as follows:

	December 31, 2019	December 31, 2018
Revenue	**8,031**	9,157
Joint Partners	**3,968**	20,865
Other	**674**	957
Total	**12,673**	30,979

8) EXPLORATION AND EVALUATION ASSETS

	Total
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
Additions	797
Transfer to oil and gas properties	(1,322)
Balance at December 31, 2019	**8,963**

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 $0.8 million of exploration and evaluation expenditures related to developing the Montney formation at Bigstone. During the second quarter of 2019, Delphi exchanged certain assets with no book value for exploration and evaluation assets with a fair value of $0.4 million, resulting in a gain of $0.4 million. The Company transferred $1.3 million of exploration and evaluation assets to property, plant and equipment following the addition of proved and probable reserves.

In 2018, Delphi added $0.6 million of exploration and evaluation expenditures related to developing the Montney formation at Bigstone and expensed $47 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 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.

9) PROPERTY, PLANT AND EQUIPMENT

Cost	**Crude oil and natural gas properties**	**Production equipment**	**Other assets**	**Total**
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 as at December 31, 2018	638,293	62,192	1,461	701,946
Additions	26,103	2,419	60	28,582
Decommissioning obligations	(2,712)	(940)	-	(3,652)
Right of Use Assets	-	2,949	662	3,611
Disposals and derecognition	-	(1,760)	-	(1,760)
Transfers from exploration and evaluation assets	1,322	-	-	1,322
Balance at December 31, 2019	**663,006**	**64,860**	**2,183**	**730,049**

Accumulated depletion and depreciation	Crude oil and natural gas properties	Production equipment	Other assets	Total
Balance 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)
Depletion and depreciation	(38,939)	(1,460)	(236)	(40,635)
Impairment loss	(54,363)	(7,374)	-	(61,737)
Disposals	-	353	-	353
Balance as at December 31, 2019	**(425,267)**	**(31,406)**	**(1,257)**	**(457,930)**
Net book value as at December 31, 2019	**237,739**	**33,454**	**926**	**272,119**
Net book value as at December 31, 2018	306,328	39,267	440	346,035

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 $475 million (December 31, 2018 - $474 million) for future development costs and excluded $7.4 million (December 31, 2018 - $7.5 million) for estimated salvage from the depletion and depreciation calculation for the three months ended December 31, 2019.

For the year ended December 31, 2019, Delphi capitalized $1.9 million (December 31, 2018 - $2.3 million) of employee salaries and benefits and $0.2 million (December 31, 2018 - $0.3 million) of share-based compensation expense directly related to exploration and development activities.

Dispositions

In 2019, Delphi reassessed a lease liability related to a right of first refusal option on an idle right of use compressor resulting in a gain of $60.0 thousand.

In 2018, Delphi received proceeds of $42 thousand for the disposal of obsolete production equipment with a net book value of $215 thousand, resulting in a loss on disposition of $173 thousand. In addition, Delphi exchanged certain assets with a decommissioning obligation of $9 thousand for exploration and evaluation assets with a fair value of $129 thousand, resulting in a $138 thousand gain.

Impairment

In the second quarter of 2019, Delphi identified indicators of impairment, primarily due to further significant declines in forecasted commodity prices, particularly for natural gas and natural gas liquids, and a market capitalization deficiency relative to the book value of the Company's shareholders' equity. The Company 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 blended pre-tax discount rate of approximately 13.5 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 of $266.4 million resulted in the recognition of a $61.2 million impairment. In addition, an impairment related to a change in estimates of decommissioning obligations for non-producing properties of $0.5 million was also recognized.

The following independent reserves evaluators' price estimates were used in the determination of future cash flows for the impairment test as at June 30, 2019:

	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 Q3-Q4	1.33	2.53	68.09	58.75	71.38	0.0	0.760
2020	1.90	2.80	72.08	62.50	77.27	2.0	0.770
2021	2.15	2.95	74.05	65.00	79.75	2.0	0.790
2022	2.40	3.10	76.88	67.50	83.13	2.0	0.800
2023	2.55	3.20	80.63	70.00	86.88	2.0	0.800
2024	2.75	3.30	83.75	72.50	90.00	2.0	0.800
2025	2.85	3.38	86.88	75.00	93.13	2.0	0.800
2026	2.95	3.45	90	77.50	96.25	2.0	0.800
2027	3.04	3.52	92.71	79.67	98.96	2.0	0.800
2028	3.11	3.58	94.71	81.27	100.96	2.0	0.800
2029+	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	2.0	0.800

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 14.5 percent, the impairment would increase by $18.1 million.

As at December 31, 2018, Delphi identified indicators of impairment and 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

10) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised as follows:

	December 31, 2019	December 31, 2018
Trade	**11,470**	14,188
Royalties	**968**	1,161
Joint partners	**2,672**	3,914
Capital	**2,939**	30,242
Other	**391**	-
Total	**18,440**	49,505

11) LONG TERM DEBT

	December 31, 2019	December 31, 2018
Senior Credit Facility (1)		
Prime-based loans	**-**	-
Bankers' acceptances, net of discount	**46,363**	66,742
Total	**46,363**	66,742

(1) As at December 31, 2019, the Company had outstanding letters of credit totaling $5.3 million.

In connection with the Recapitalization Transaction, Delphi accelerated the timing of the credit facility's semi-annual borrowing base review. On November 1, 2019, the credit facility was amended. On November 26, 2019, the effective date of the Arrangement, the borrowing base of the amended credit facility was reduced from $90.0 million to $80.0 million and is available on a revolving basis until May 28, 2020, at which time, with a request for extension by the Company, 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 amended maturity date of May 29, 2021. The non-extension provisions are applicable to the lenders on an individual basis.

The borrowing base of the credit facility is reviewed semi-annually by the lenders and 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 resulting in borrowing base shortfall would require a repayment to the lenders within 60 days of any amounts drawn in excess of the reduced borrowing base. The next scheduled borrowing base review must be completed by May 28, 2020. 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 credit facility is secured by a $200.0 million demand floating charge debenture and a general security agreement over all of the assets of the Company.

At December 31, 2019, the Company remains in compliance with all financial covenants pertaining to its bank debt. However in light of the current volatility in oil and gas prices and uncertainty regarding the timing for recovery of such prices, as well as pipeline and transportation capacity constraints, the preparation of financial forecasts is challenging. Due to the volatile economic environment, it is possible that the Company could be subjected to a further reduction in the borrowing base of its credit facility or breach the financial covenants noted within its credit facility in fiscal 2020 or future periods. Based on the current outlook on commodity prices and due to the timing of both anticipated capital expenditures and new production coming on-stream, management forecasts to be in breach of its adjusted debt to EBITDA financial covenant within the next six months. If a covenant violation does occur, this will represent an event of default under the facility and the lender has the right to demand repayment of all amounts owed under the credit facility. If management anticipates it will in fact violate a financial covenant, it may request a waiver from the lender for such breach and/or unwind and monetize some commodity financial contracts in order to alleviate such pressure on the financial covenant; however, there can be no assurance that the Company will be successful.

As at December 31, 2019, Delphi had $28.3 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, 2019
Adjusted working capital ratio	$\geq$ 1.0	2.1
Adjusted bank debt to EBITDA ratio	$\leq$ 3.0	1.1
Adjusted debt to EBITDA ratio	$\leq$ 4.0	3.2

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, the current portion of the fair value of financial instruments and lease obligations.

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 the liability 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, non-recurring gains and losses, payments related to lease obligations, 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, 2019 was $48.0 million.

Adjusted debt to EBITDA ratio

The calculation of adjusted debt excludes accounts payable and accrued liabilities, lease obligations, 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, 2019.

12) SENIOR SECURED NOTES

	Senior Secured Notes
Balance as at December 31, 2018	**100,099**
Accretion of discount and amortization of issue costs	**1,745**
Balance before debt modification	**101,844**
Face value of Existing Notes	**105,000**
Allocated to consent warrants	**(3,758)**
Balance, Existing Notes	**101,242**
Issued	**5,499**
Transaction costs	**(3,504)**
Accretion of discount and amortization of issue costs	**273**
Balance, end of year	**103,510**

As part of the Recapitalization Transaction the maturity date of the Existing Notes was extended by 21 months from July 15, 2021 to April 15, 2023. In addition, holders of the Existing Notes were issued 700 Consent Warrants for each $1,000 principal amount of Existing Notes held by such holder. Each Consent Warrant is exercisable at any time until April 15, 2023 for one fifteenth of a post-consolidation Common Share at an aggregate exercise price of $2.23 per whole post-consolidation Common Share (equal to $0.149 per Common Share on a pre-consolidation basis). In accordance with IFRS 9 “Financial Instruments”, the Company has concluded that the change in the terms of the Existing Notes was not substantial and has accounted for the change as a modification of debt. As a result, the Company revalued the Existing Notes and ascribed a value to the Consent Warrants of $3.8 million. The Company has recognized a $3.2 million loss on the debt modification.

In connection with the Recapitalization Transaction (Note 3), Delphi issued 7,332 senior secured notes through a private placement. The senior secured notes were issued under the same indenture as the Existing Notes and collectively are treated as a single class of debt securities with identical terms. A total of $3.5 million of transaction costs have been allocated to the issue of the additional senior secured notes. Although the Recapitalization Transaction contemplates the issuance of a total of 22,000 senior secured notes, the majority of the transaction costs associated with the Arrangement have been allocated to underlying securities associated with the first escrow release.

At December 31, 2019, Delphi had outstanding $112.3 million principal amount of ten percent senior secured notes which mature on April 15, 2023. 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): 2020 at 103% and thereafter at 100 percent. See note 18.

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. Additionally, the senior secured notes may become due on demand if there is a covenant breach in the Company's senior credit facility that results in the acceleration of repayment of indebtedness.

13) PROVISIONS

	December 31, 2019	December 31, 2018
Decommissioning obligations	**25,254**	28,507
Unutilized take-or-pay commitment	**217**	867
Total	**25,471**	29,374

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 $26.9 million (December 31, 2018 - $39.0 million) to be settled over the next 40 years. A risk-free rate of 1.76 percent (December 31, 2018 – 1.86 percent to 2.18 percent) and an inflation rate of 1.34 percent (December 31, 2018 – 2.50 percent) were used to calculate the estimated fair value of the decommissioning obligations. A reconciliation of the decommissioning obligations is provided below:

	December 31, 2019	December 31, 2018
Balance, beginning of year	**28,507**	25,871
Liabilities incurred	**151**	2,501
Liabilities disposed	**-**	(9)
Liabilities settled	**(155)**	(180)
Accretion expense	**555**	538
Change in future estimated cash outlays	**(3,804)**	(214)
Total	**25,254**	28,507
Current portion	**1,704**	382
Long term portion	**23,550**	28,125

Unutilized take-or-pay commitment

	December 31, 2019	December 31, 2018
Balance, beginning of year	**867**	1,504
Additions	**-**	-
Settlement of commitment	**(672)**	(660)
Finance cost	**22**	23
Total	**217**	867
Current portion	**217**	650
Long term portion	**-**	217
Total	**217**	867

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 $0.2 million as at December 31, 2019. These cash flows have been discounted using a risk-free rate of 1.0 percent. The onerous contract provision is expected to be settled in periods up to April 2020.

14) DEFERRED INCOME TAXES

Delphi recognized a deferred income tax recovery of $0.8 million related the allocation of the Consent warrants as part of the Recapitalization Transaction.

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 loss before taxes. This difference results from the following items:

	December 31, 2019	December 31, 2018
Loss before income taxes	**(75,370)**	(26,366)
Statutory tax rate (1)	**26.5%**	27.0%
Expected income tax expense (recovery)	**(19,973)**	(7,119)
Stock-based compensation and other non-deductible items	**106**	277
Other	**377**	160
Change in tax rates (1)	**5,615**	(201)
Change in unrecognized deferred income tax asset	**13,086**	6,883
Total deferred income taxes recovery	**(789)**	-

(1) The Alberta corporate income tax rate decreased to 11% from 12% effective July 1, 2019. The corporate tax rate will further decrease to 10% January 1, 2020, 9% January 1, 2021 and 8% on January 1, 2022. As a result of the tax rate changes being enacted, the Company has reduced the effective tax rate from 27.0% to 26.5%

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 $37.2 million.

The components in deferred income tax assets and liabilities for the years ended December 31, 2019 and 2018 are as follows:

	Balance December 31, 2018	Recognized in net earnings	Recognized in equity	**Balance December 31, 2019**
Deferred income tax assets:				
Decommissioning obligations	7,697	(1,851)	-	**5,846**
Lease obligations	-	313	-	**313**
Unutilized take-or-pay commitment	234	(180)	-	**54**
Non capital losses	39,594	(24,029)	-	**15,565**
Share issue costs	195	499	-	**694**
Risk management	313	(313)	-	**-**
Other	268	1	-	**269**
Deferred income tax liabilities:				
Risk management	(7,502)	5,920	-	**(1,582)**
Consent warrants and issuance costs	(44)	764	(789)	**(69)**
Right of use assets	-	(287)	-	**(287)**
Senior secured note and issuance costs	(676)	(276)	-	**(952)**
Exploration and evaluation and property, plant and equipment	(40,079)	20,228	-	**(19,851)**
Net deferred income tax asset (liability)	-	789	(789)	**-**

	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 liability	-	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)	4,076	-	(40,079)
Net deferred income tax asset (liability)	-	-	-	-

Non capital losses of $227.7 million will expire in years 2030 through to 2038.

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

	Balance December 31, 2019	Balance December 31, 2018
Non capital losses	**160,573**	86,750

15) 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, 2019		December 31, 2018	
	Outstanding shares (000's)	**Amount**	Outstanding shares (000's)	Amount
Balance, beginning of year	**185,547**	**347,011**	185,547	347,011
Consolidation (15:1) (1)	**(173,178)**		(173,178)	
Private placement	**6,060**	**10,000**	**-**	-
Share issue costs	**-**	**(3,169)**	**-**	**-**
Balance, end of year	**18,429**	**353,842**	12,369	347,011

(1) As part of the Recapitalization Transaction effective November 26, 2019, Delphi consolidated its common shares on a basis of 15:1. Comparative period per share amounts have been adjusted to reflect the current year consolidation.

In connection with the Recapitalization Transaction, effective November 26, 2019, Delphi consolidated its then outstanding common shares on a 15:1 basis. In addition, through the Recapitalization Transaction, Delphi issued 6.1 million common shares at a price of $1.65 per common share. The Company has allocated $3.2 million of the Recapitalization Transaction costs to the issue of common shares.

Subsequent to December 31, 2019, in accordance with the escrow release schedule associated with the Recapitalization Transaction, Delphi issued an additional 6.1 million common shares for gross proceeds of $10.0 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.

In connection with the Recapitalization Transaction, effective November 26, 2019, Delphi consolidated its then outstanding common shares on a 15:1 basis. All stock options outstanding prior to the common share consolidation are exercisable for one fifteenth of a post-consolidation common share.

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, 2019, a total of 1.8 million options to purchase shares were reserved and 4.7 million options to purchase one fifteenth of a common share of the Company (equivalent to 0.4 million on a consolidated basis) were outstanding, leaving an additional 1.4 million available for future grants.

The following table summarizes the changes in the number of options, exercisable for one fifteenth of a post-consolidation common share, outstanding and the weighted average exercise prices:

	December 31, 2019(1)		December 31, 2018	
	Outstanding options (000's)	**Weighted average exercise price**	Outstanding options (000's)	Weighted average exercise price
Balance, beginning of year	**9,720**	**$1.43**	9,562	$1.56
Granted	**-**		3,240	$0.87
Forfeited	**(1,635)**	**$1.09**	(307)	$1.26
Expired	**(1,400)**	**$3.48**	(2,775)	$1.21
Balance, end of year	**6,685**	**$1.09**	9,720	$1.43
Exercisable, end of year	**4,692**	**$1.10**	4,333	$1.84

1. All stock options outstanding are exercisable for one fifteenth of a post-consolidation common share

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2019:

	Options outstanding (1)			Options exercisable (1)	
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 - $0.80	435	$0.75	3.6	145	$0.75
$0.81 - $0.85	1,845	$0.81	1.0	1,845	$0.81
$0.86 - $1.06	1,833	$0.89	3.5	783	$0.89
$1.07 - $1.42	165	$1.31	2.5	152	$1.31
$1.43- $1.50	2,407	$1.50	2.0	1,767	$1.50
Total	**6,685**	**$1.09**	**2.2**	**4,692**	**$1.10**

(1) All stock options outstanding are exercisable for one fifteenth of a post-consolidation common share

The Company accounts for its share-based compensation using the fair value method for all stock options. For the year ended December 31, 2019, Delphi recognized share-based compensation expense of $0.4 million (December 31, 2018 - $1.2 million) related to its stock options, of which $0.2 million was capitalized (December 31, 2018: $0.3 million).

During the year ended December 31, 2019, the Company did not grant any stock options. During the year ended December 31, 2018, the Company granted 3.2 million options. The fair values of all options granted during the period are estimated at the date of grant using the Black-Scholes option pricing model. The weighted average fair value of options granted during 2018 was $0.41 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,	**2019**	2018
Risk-free interest rate (%)	**-**	2.03
Expected life (years)	**-**	4.2
Forfeiture rate (%)	**-**	8.63
Expected volatility (%)	**-**	57.5

(b) Warrants

	December 31, 2019	
	Outstanding warrants (000's)	Amount
Balance, beginning of year	14,700	3,055
Issued	73,500	3,758
Deferred income tax effect		(789)
Transaction costs	-	(397)
Balance, end of year	88,200	5,627

On November 26, 2019, in connection with the Recapitalization Transaction, the Company issued 700 consent warrants for each $1,000 principal amount of Existing Notes. Each Consent Warrant is exercisable at any time until April 15, 2023 for one fifteenth of a post-consolidation Common Share at an aggregate exercise price of $2.23 per whole post-consolidation common share. The Company has ascribed a value of $3.8 million to the consent warrants and was determined based on the valuation of the modification associated with the Existing Notes (Note 12).

The following table summarizes information about the warrants outstanding and exercisable at December 31, 2019:

	Warrants outstanding			
Outstanding warrants (000's)	Exercise price	Weighted average remaining term (years)	Exercisable into post-consolidation shares (000's)	Post-consolidation exercise price
14,700	$1.40	1.5	980	$21.00
73,500	$0.15	3.3	4,900	$2.23
88,200	**$0.36**	**3.0**	**5,880**	**$5.36**

(c) Net loss per share

Net loss per share has been calculated based on a net loss of $74.6 million (2018 net loss: $26.4 million) and the following weighted average common shares:

For the years ended December 31, (000s)	2019	2018
Weighted average common shares - basic (1)	**12,951**	12,369
Dilutive effect of share options outstanding	**-**	-
Weighted average common shares - diluted	**12,951**	12,369

(1) As part of the Recapitalization Transaction effective November 26, 2019, Delphi consolidated its common shares on a basis of 15:1. Comparative period per share amounts have been adjusted to reflect the current year consolidation.

For the year ended December 31, 2019, a total of 6.7 million share options (December 31, 2018: 9.7 million) and 88.2 million warrants (December 31, 2018:14.7 million) were excluded from the calculation as they were anti-dilutive. The 2019 outstanding common shares have been consolidated on a basis of 15:1 in accordance with the Recapitalization Transaction.

16) FINANCE COSTS

Finance costs is comprised of the following:

For the years ended December 31,	2019	2018
Interest on long term debt	**4,667**	3,478
Effective interest on senior secured notes	**12,935**	10,900
Effective interest on lease obligations	**292**	-
Accretion on decommissioning obligations	**555**	538
Effective interest on unutilized take-or-pay commitment	**22**	23
Foreign exchange (gain) loss	**203**	(378)
Total	**18,674**	14,561

17) 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,	2019	2018
Operating	**28,684**	29,897
Employee salaries and benefits	**(572)**	(561)
Operating, before employee compensation	**28,112**	29,336
General and administrative	**5,275**	5,749
Employee salaries and benefits	**(3,463)**	(3,619)
General and administrative, before employee compensation	**1,812**	2,130
Employee salaries and benefits	**4,035**	4,180
Total	**33,959**	35,646

18) RELATED PARTY TRANSACTIONS

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,	2019	2018
Salaries and other short-term employee benefits	**2,267**	2,342
Long term incentive compensation	**65**	291
Termination payments	**1,547**	-
Share-based compensation	**54**	771
Total	**3,933**	3,404

In connection with the Recapitalization Transaction, affiliates of a pooled investment vehicle of Luminus subscribed for 16,778,306 ESRs for gross proceeds of approximately $27.7 million and 16,933 NSRs for gross proceeds of approximately $12.7 million under the Private Placements. Upon exchange of the first tranche of ESRs into common shares of Delphi, Luminus holds approximately 46 percent of the common shares of the Company and approximately $53.1 million of principal amount of the outstanding senior secured notes as at December 31, 2019. Subsequent to the second release of funds held in escrow and the exchange of underlying securities, Luminus holds approximately 57 percent of the common shares of the Company and approximately $58.7 million of principal amount of the outstanding senior secured notes. In connection with the Recapitalization Transaction, Luminus received 33.2 million Consent Warrants (Note 15). Each Consent Warrant is exercisable at any time until April 15, 2023 for one fifteenth of a post-consolidation Common Share at an aggregate exercise price of $2.23 per whole post-consolidation common share. In addition, Luminus appointed two board members to serve on Delphi's board of directors effective September 23, 2019. The Company has recognized $1.6 million of interest expense in relation to the senior secured notes held by Luminus since September 23, 2019 when it became an entity with significant influence over Delphi.

19) COMMITMENTS

Delphi is committed to future minimum payments for natural gas gathering, processing and transmission, 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:

	2020	2021	2022	2023	2024	Thereafter
Gathering, processing and transmission (1)	11,405	14,622	14,618	14,617	14,616	12,657
Operating commitments (2)	341	298	298	298	208	-
Interest payments on Senior secured notes (3)	11,966	11,966	11,966	3,490	-	-
Interest payments on NSRs	550	-	-	-	-	-
Total	24,262	26,886	26,882	18,405	14,824	12,657

(1) Balances denominated in US dollars have been translated at the December 31, 2019 exchange rate.
(2) Operating commitments include variable operating costs related to the Company's office leases.
(3) Includes 7,334 additional senior secured notes issued in accordance with the Recapitalization Transaction.

20) REVENUE

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

	2019	2018
Natural gas	**28,842**	41,186
Field condensate	**53,194**	62,128
Natural gas liquids	**10,846**	23,114
Sulphur	**256**	826
Total crude oil and natural gas sales	**93,138**	127,254

21) SUPPLEMENTAL CASH FLOW INFORMATION

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

For the years ended December 31,	**2019**	2018
Source (use) of cash		
Accounts receivable	**18,306**	16,875
Prepaid expenses and deposits	**(812)**	(146)
Accounts payable and accrued liabilities	**(31,065)**	(23,820)
Total change in non-cash working capital	**(13,571)**	(7,091)
Relating to:		
Operating activities	**593**	7,742
Investing activities	**(14,164)**	(14,833)
	(13,571)	(7,091)

22) 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.

23) NEW AND FUTURE ACCOUNTING STANDARDS

(a) Leases

Effective January 1, 2019, the Company adopted IFRS 16, Leases ("IFRS 16") which replaced IAS 17 Leases ("IAS 17") and IFRIC 4, Determining Whether an Arrangement Contains a Lease. IFRS 16 introduced a single, on-balance sheet accounting model for lessees which requires the recognition of lease assets and liabilities on the balance sheet for most 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 will continue to be expensed in the statement of earnings on a straight line basis over the term of the contract.

As a result of the adoption of IFRS 16, Delphi, as a lessee, has recognized right-of-use assets representing the rights to use the underlying assets and lease liabilities representing the obligation to make lease payments.

The standard was applied using the modified retrospective approach, under which the cumulative effect of initial application is recognized as an adjustment to opening retained earnings. As such, the comparative information for 2018 has not been restated.

Definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, Delphi elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The practical expedient allows the application of IFRS 16 to contracts that were previously identified as leases and does not require the reassessment of contracts that were not identified as leases under IAS 17 and IFRIC 4 for the periods prior to January 1, 2019. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts outstanding or entered into on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, Delphi allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand alone prices.

Accounting policy

Delphi recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost comprising the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, any initial direct costs and restoration costs. The right-of-use asset is subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain re-measurements of the lease liability. The right-of-use asset is depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis.

The lease liability is initially measured at the present value of the lease payments at the commencement date of the lease, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, Delphi’s incremental borrowing rate. Generally, Delphi uses its incremental borrowing rate as the discount rate. Each lease payment is allocated between the liability and finance cost. The lease liability is re-measured when there is a change in an index or rate, a change in future lease payments arising from a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Lease payments on short term leases with lease terms of less than twelve months or leases on which the underlying asset is of low value are accounted for as expenses in the consolidated statement of earnings.

Delphi has applied judgment to determine the lease term for some lease contracts, in which it is a lessee, that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

The accounting policies applicable to Delphi as a lessor are not different from those under IAS 17. Delphi has not identified any contracts for which it is a lessor.

Transition

Delphi leases its corporate office space, production equipment, office equipment and surface rights. On the adoption of IFRS 16, Delphi recognized lease liabilities in relation to all lease arrangements measured at the present value of the remaining lease payments from commitments disclosed as at December 31, 2018, adjusted by commitments in relation to arrangements not containing leases, short-term and low-value leases, and discounted using the Company’s incremental borrowing rate as at January 1, 2019. The associated right-of-use assets were measured at the amount equal to the lease liability on January 1, 2019, with no impact on retained earnings.

Delphi used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than twelve months of remaining lease term;

- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and

- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

As a result of initially applying IFRS 16, Delphi recognized $3.6 million of right-of-use assets and lease obligations. The impact on transition is summarized as follows:

	Production equipment	Other assets	Total
Right-of-use assets presented in property, plant and equipment	2,949	662	**3,611**
Lease liabilities recognized	2,949	662	**3,611**

Reconciliation of lease liability:

Operating lease commitments, disclosed at December 31, 2018	**2,429**
Exemption of leases with less than twelve months of lease term at transition	**(88)**
Non-lease components	**(1,525)**
Renewal options reasonably certain to be exercised	**4,052**
Total undiscounted lease payments	**4,868**
Discounting impact [(1)]	**(1,257)**
Lease liabilities at adoption	**3,611**

[(1)] Discounted using the Company's incremental borrowing rate at January 1, 2019. The weighted average rate applied is nine percent.

Impacts for the periods

During the year ended December 31, 2019, Delphi recognized $1.0 million of depreciation expense related to right-of-use assets.

	Production equipment	Other assets	Total
Right-of-use assets, January 1, 2019	2,949	662	**3,611**
Reassessment of right of use asset, net of depreciation	(1,407)	-	**(1,407)**
Depreciation for the period	(844)	(110)	**(954)**
Right-of-use assets, December 31, 2019	698	552	**1,250**

	Total
Lease liabilities, January 1, 2019	**3,611**
Lease payments related to right-of-use assets	**(1,124)**
Reassessment of right of use asset	**(1,474)**
Lease payments recognized as interest expense	**292**
Lease liabilities, December 31, 2019	**1,305**

During the year ended December 31, 2019, Delphi recognized $0.7 million of lease payments related to short term leases and $0.3 million of lease payments related to variable lease payments which are not included in the measurement of lease liabilities.

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Luminus Management

Lamont C. Tolley (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, DEE.WT.A

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