MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

Management's discussion and analysis ("MD&A") has been prepared by management and reviewed and approved by the Board of Directors of Delphi Energy Corp. ("Delphi" or "the Company"). The discussion and analysis is a review of the financial position and results of operations of the Company. Its focus is primarily a comparison of the financial performance for the three and twelve months ended December 31, 2019 and 2018 and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the years ended December 31, 2019 and 2018. The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The reporting currency is the Canadian dollar. The discussion and analysis has been prepared as of March 10, 2020.

FOURTH QUARTER AND 2019 HIGHLIGHTS

- During 2019, the Company incurred $26.8 million in capital expenditures while generating $52.6 million of adjusted funds flow;
- Reduced bank debt plus adjusted working capital deficit by $41.1 million, or 44 percent, from the first quarter of 2019. Net bank debt as at December 31, 2019 was $51.8 million;
- During the fourth quarter, Delphi commenced construction of a two well pad in West Bigstone for the kickoff of the 2020 capital program. In 2019, Delphi drilled the fourth well from the four-well pad initiated in the fourth quarter of 2018 and also completed and tied-in all four (2.60 net) wells. The installation of artificial lift on some legacy wells has brought back production capacity and will be expanded to other wells to reduce ongoing operating costs;
- Continued the strong hedge book with commodity risk management contracts throughout the year. The Company realized $13.3 million of hedging gains in 2019. As at December 31, 2019, Delphi's risk management contracts had mark-to-market net asset value of $6.3 million;
- Delphi completed a Recapitalization Transaction in the fourth quarter that successfully extended the maturity date of the second lien senior secured notes by 21 months to mature on April 15, 2023 and raised $46.5 million through private placements for the development of the Company's Montney asset or a consolidation of assets. The Recapitalization Transaction also provided for a common share consolidation of 15:1;
- Average production in the quarter of 7,022 barrels of oil equivalent per day ("boe/d") was down 26 percent from the 9,444 boe/d in the comparative quarter of 2018 as no additional production has been brought on-stream since the second quarter of 2019. During the fourth quarter of 2019, the liquids yield averaged 109 barrels per million cubic feet ("bbls/mmcf"), up ten percent from the 99 bbls/mmcf in the fourth quarter of 2018. Of the 109 bbls/mmcf, 78 bbls/mmcf were the higher valued condensate and pentane products;
- Adjusted funds flow for the fourth quarter decreased 26 percent over the comparative quarter, largely due to lower total cash revenues and increased finance costs partially offset by a decrease in operating, transportation and general and administrative expenses. On a per unit basis, the cash netback was $10.17 per boe compared to $10.24 per boe in the fourth quarter of 2018; and
- In 2019, the Company completed the permanent assignment of approximately 35 percent of its firm full-path Alliance service (the "Permanent Assignment Transaction") for net proceeds of $11.5 million. The net proceeds from the Permanent Assignment Transaction were used to repay bank indebtedness.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended December 31			Twelve months ended December 31		
	2019	2018	% Change	**2019**	2018	% Change
Financial						
($ thousands, except per share)						
Crude oil and natural gas revenues	**19,147**	26,786	(29)	**93,138**	127,254	(27)
Net earnings (loss)	**(13,082)**	(17,318)	(24)	**(74,581)**	(26,366)	183
Per share – basic and diluted [(2)]	**(0.89)**	(1.40)	(36)	**(5.76)**	(2.13)	170
Cash flow from operating activities	**11,328**	9,428	20	**52,616**	54,128	(3)
Per share – basic and diluted[(1) (2)]	**0.77**	0.76	1	**4.06**	4.25	(4)
Adjusted funds flow[(1)]	**6,573**	8,890	(26)	**52,178**	46,615	12
Per share – basic and diluted[(1) (2)]	**0.45**	0.72	(38)	**4.03**	3.66	10
Net debt[(1)]	**155,297**	181,985	(15)	**155,297**	181,985	(15)
Capital expenditures, net of dispositions	**2,072**	26,942	(92)	**28,849**	90,834	(68)
Weighted average shares (000s) [(2)]						
Basic	**14,675**	12,370	19	**12,951**	12,730	5
Diluted	**14,675**	12,370	19	**12,951**	12,730	5
Operating						
(boe conversion – 6:1 basis)						
Production:						
Field condensate (bbls/d)	**1,747**	2,644	(34)	**2,245**	2,542	(12)
Natural gas liquids (bbls/d)	**1,027**	1,289	(20)	**1,209**	1,411	(14)
Natural gas (mcf/d)	**25,487**	33,063	(23)	**29,237**	34,925	(16)
Total (Boe/d)	**7,022**	9,444	(26)	**8,327**	9,774	(15)
Average realized sales prices, before financial instruments						
Field condensate ($/bbl)	**64.84**	42.66	52	**64.92**	66.96	(3)
Natural gas liquids ($/bbl)	**19.07**	38.87	(51)	**24.58**	44.88	(45)
Natural gas ($/mcf)	**2.94**	3.71	(21)	**2.70**	3.23	(16)
Netbacks ($/boe)						
Crude oil and natural gas revenues	**29.63**	30.83	(4)	**30.65**	35.68	(14)
Marketing income [(1)]	**0.03**	1.61	(98)	**1.47**	1.41	4
Realized gain (loss) on financial instruments	**5.78**	(3.38)	(271)	**4.38**	(3.47)	(226)
Revenue, after realized financial instruments	**35.44**	29.06	22	**36.50**	33.62	9
Royalties	**(2.43)**	(1.72)	41	**(2.13)**	(2.08)	2
Operating expense	**(10.01)**	(7.33)	37	**(9.44)**	(8.38)	13
Transportation expense	**(4.43)**	(4.43)	-	**(4.31)**	(4.86)	(11)
Operating netback [(1)]	**18.57**	15.58	19	**20.62**	18.30	13
Permanent Assignment Transaction	**(0.01)**	-	-	**3.80**	-	-
General and administrative expenses	**(1.58)**	(1.61)	(2)	**(1.74)**	(1.61)	8
Finance charges	**(6.56)**	(3.54)	85	**(5.29)**	(3.43)	54
Settlement of unutilized take-or-pay contract	**(0.26)**	(0.19)	37	**(0.22)**	(0.19)	16
Cash netback [(1)]	**10.16**	10.24	(1)	**17.17**	13.07	31

(1) Refer to non–GAAP measures
(2) 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 prior to the consolidation have been adjusted to reflect the consolidation.

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 55 percent of the common shares of the Company and approximately $58.7 million of principal amount of the outstanding senior secured notes.

2019 DRILLING AND COMPLETIONS OPERATIONS

Well Location	Gross	Net	Drilled (Rig Released)	Completed	On-stream
102/15-10-060-24W5	1.0	0.65	Q4 2018	Q1 2019	Q2 2019
100/14-10-060-24W5	1.0	0.65	Q4 2018	Q1 2019	Q2 2019
100/12-10-060-24W5	1.0	0.65	Q4 2018	Q1 2019	Q2 2019
100/13-10-060-24W5	1.0	0.65	Q1 2019	Q1 2019	Q2 2019

In the first three months of 2019, Delphi drilled the remaining well (0.65 net) of the four-well pad which was spud during the fourth quarter of 2018. In comparison, Delphi drilled twelve (7.80 net) wells in the Montney formation at Bigstone in the prior year.

CAPITAL EXPENDITURES

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	% Change	**2019**	2018	% Change
Drilling, completions and equipping	**1,036**	22,984	(95)	**18,713**	71,842	(74)
Facilities	**573**	3,236	(82)	**7,980**	16,567	(52)
Capitalized expenses	**416**	604	(31)	**1,926**	2,276	(15)
Other	**47**	160	(71)	**230**	306	(25)
Capital invested	**2,072**	26,984	(92)	**28,849**	90,991	(68)
Disposition of properties	**-**	(42)	-	**-**	(157)	-
Net capital invested	**2,072**	26,942	(92)	**28,849**	90,834	(68)
Total capital	**2,072**	26,942	(92)	**28,849**	90,834	(68)

During the fourth quarter of 2019 Delphi invested $2.1 million of which 50 percent was for drilling, completion and equipping operations. Delphi commenced operations on a two-well pad in West Bigstone, in preparation for drilling two (2.0 net) wells in the first quarter of 2020 and installed two pump jacks on two wells that required critical lift.

In 2019, Delphi invested $28.9 million, of which 65 percent was for drilling, completion and equipping operations. Delphi drilled the last well (0.65 net) of the four-well pad and completed fracturing and equipping operations on the pad. Facility expenditures include the expansion of the battery located in West Bigstone (“01-03 battery”) to accommodate production from the four-well pad and a pipeline to connect the 01-03 battery to the 7-11 facility in East Bigstone. The four-well pad was brought on-stream during the second quarter of 2019. In addition, the Company invested in equipment to commence pumping water to the Catapult Environmental Inc. water disposal facility (“Catapult water disposal facility”) which is connected by pipeline to Delphi’s 07-11 facility. The Company began delivering water volumes to the Catapult water disposal facility when it was commissioned in May 2019.

As of December 31, 2019, Delphi has a working interest in a total of 117 (76.3 net) sections of undeveloped and partially undeveloped land as part of 147 (97.1 net) sections of total land prospective for liquids-rich natural gas in the Montney formation, situated at its core area of Bigstone.

PRODUCTION

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	% Change	**2019**	2018	% Change
Field condensate (bbls/d)	**1,747**	2,644	(34)	**2,245**	2,542	(12)
Ethane (bbls/d)	**6**	12	(50)	**9**	11	(18)
Propane (bbls/d)	**430**	531	(19)	**501**	596	(16)
Butane (bbls/d)	**356**	432	(18)	**385**	449	(14)
Pentanes & plant condensate (bbls/d)	**235**	314	(25)	**314**	355	(12)
Total field condensate and natural gas liquids	**2,774**	3,933	(29)	**3,454**	3,953	(13)
Natural gas (mcf/d)	**25,487**	33,063	(23)	**29,237**	34,925	(16)
Total (boe/d)	**7,022**	9,444	(26)	**8,327**	9,774	(15)

Production volumes in the fourth quarter of 2019 averaged 7,022 boe/d, a 26 percent decrease over the comparative quarter in 2018. No additional production was brought on-stream during the quarter. The production from the four-well pad, which was brought on-stream throughout the second quarter, has contributed to an increase in liquids yield. During the fourth quarter of 2019, the liquids yield averaged 109 bbls/mmcf, up ten percent from the 99 bbls/mmcf in the fourth quarter of 2018. Of the 109 bbls/mmcf, 78 bbls/mmcf were the higher valued condensate and pentane products.

The Company’s production portfolio for the fourth quarter of 2019 was weighted 25 percent to field condensate, 15 percent to natural gas liquids and 60 percent to natural gas. The production portfolio for the comparative quarter in 2018 was weighted 28 percent to field condensate, 14 percent to natural gas liquids and 58 percent to natural gas.

Production volumes in the twelve months of 2019 averaged 8,327 boe/d, a 15 percent decrease from the comparative year. The four-well pad, which was brought on-stream throughout the second quarter of 2019, is the only additional production brought on-stream in the first twelve months of 2019. During the first half of 2019, Delphi shut-in offsetting production during fracturing operations on its four-well (2.6 net) pad, reducing production by about 178 boe/d in the first twelve months of 2019. Production volumes in 2018 includes 104 boe/d of production from the Company’s Tower Creek well which was suspended in October 2018.

BUSINESS ENVIRONMENT

Benchmark Prices and Economic Parameters

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	% Change	**2019**	2018	% Change
Natural Gas						
NYMEX (US $/mmbtu)	**2.50**	3.65	(32)	**2.63**	3.08	(15)
Chicago City Gate MI (US $/mmbtu)	**2.44**	3.62	(33)	**2.56**	3.05	(16)
Chicago City Gate DI (US $/mmbtu)	**2.23**	3.67	(39)	**2.42**	3.02	(20)
AECO 5A (CDN $/mcf)	**2.47**	1.56	58	**1.75**	1.50	17
AECO 7A (CDN $/mcf)	**2.33**	1.90	23	**1.62**	1.53	6
Crude Oil						
West Texas Intermediate (US $/bbl)	**56.96**	58.78	(3)	**57.04**	64.76	(12)
West Texas Intermediate (Cdn$/bbl)	**75.18**	77.57	(3)	**75.70**	83.92	(10)
Edmonton condensate to WTI Differential (Cdn$/bbl)	**(5.60)**	(17.98)	(69)	**(5.73)**	(5.04)	14
Foreign Exchange						
Canadian to U.S. dollar	**0.76**	0.76	-	**0.75**	0.77	(3)
U.S. to Canadian dollar	**1.32**	1.32	-	**1.33**	1.30	2

Natural Gas

After commissioning of the amine processing facility during the second quarter of 2018, Delphi ships approximately 55 percent of its natural gas production through the Alliance pipeline system into the Chicago market. Chicago City Gate is the primary benchmark for Delphi's natural gas sales in the United States. The remainder of Delphi's natural gas production is sold in Alberta on the NGTL system. The AECO 5A price is the primary benchmark for the Company's natural gas sales in Alberta.

The Chicago City Gate benchmark natural gas prices for the three and twelve months ended December 31, 2019 decreased in comparison to the same periods in 2018. Although Chicago City Gate improved slightly in the first quarter of 2019 due to demand for heating purposes, the growth in natural gas supply has placed downward pressure on pricing.

The average daily AECO benchmark natural gas price increased 171 percent in the three months ended December 31, 2019 compared to the three months ended September 30, 2019 and 59 percent in comparison to the three months ended December 31, 2018. The improvement in AECO prices is due to a significant local storage deficit and a new NGTL firm service protocol during system maintenance which now allows storage to be filled during NGTL system maintenance. The average daily AECO benchmark natural gas price increased an average of 17 percent in the first twelve months of 2019 compared to 2018. The increase is largely due to the improvement in benchmark prices in the fourth quarter of 2019 as planned NGTL pipeline outages and limited access to local storage facilities had a negative impact on the daily AECO benchmark price in the first nine months of 2019. The outlook for natural gas in Alberta remains weak due to growing natural gas supplies from Western Canada relative to the limited transportation capabilities to move natural gas out of Western Canada.

Crude Oil

The West Texas Intermediate ("WTI") benchmark averaged US$56.96 per barrel in the fourth quarter of 2019, a three percent decrease from the fourth quarter of 2018. In December of 2018, OPEC and non-OPEC producers agreed to a 1.2 million barrel per day production cut to stabilize the global oil market. In June 2019 these cuts were extended into 2020 and additional cuts are being contemplated to support the market given the outbreak of the coronavirus. US sanctions against Iran and Venezuela further reduced global oil supply, however offsetting this is continued growth in US production primarily in the Permian basin. Continued growth in Canadian crude production coupled with constrained egress out of Western Canada resulted in downward pressure on Canadian crude oil prices and widening differentials relative to the Canadian dollar WTI benchmark price during the fourth quarter of 2018. In response, the Alberta Government imposed production curtailments for certain producers in order to ease the over-supply of Canadian crude oil. The curtailments took effect January 2019 and continued throughout the year. The curtailments have been extended to the end of 2020 but have been reduced. As a result of the curtailment initiative, pipeline constraints and apportionments have eased during 2019 and differentials have improved since the fourth quarter of 2018. The outlook for condensate prices in Alberta remains positive as local demand for condensate as a diluent exceeds current and forecasted domestic supply.

Natural Gas Liquids

Natural gas liquids, including ethane, propane, butane, pentane and plant condensate, are generally priced off light oil and natural gas prices. Ethane prices are correlated to natural gas prices while propane and butane prices trade at a discount to light oil prices depending on supply and demand conditions. Significant increase in supply of natural gas liquids coupled with limited fractionation capabilities in Western Canada have caused downward pressure on the price for natural gas liquids, in particular for propane and butane.

Canadian/United States Exchange Rate

The value of the Canadian dollar against its U.S. counterpart averaged U.S. $0.76 for the three months ended December 31, 2019 and 2018. The value of the Canadian dollar against its U.S. counterpart averaged U.S $0.75 for the twelve months ended December 31, 2019, a two percent decrease in comparison to the same period in 2018. As a producer of natural gas sold in the United States, an increase in the Canadian dollar relative to its U.S. counterpart has a negative effect on the price received for production.

REALIZED SALES PRICES

	Three Months Ended December 31			Twelve Months Ended December 31		
Chicago	**2019**	2018	% Change	**2019**	2018	% Change
Chicago City Gate MI (Cdn$/mcf)	**3.22**	4.80	(33)	**3.39**	3.97	(15)
Heating content and marketing ($/mcf)	**(0.03)**	0.06	(150)	**0.01**	(0.06)	(117)
Realized price before risk management contracts ($/mcf)	**3.19**	4.86	(34)	**3.40**	3.91	(13)
AECO						
AECO 5A ($/mcf)	**2.47**	1.56	58	**1.75**	1.50	17
Heating content and marketing ($/mcf)	**0.18**	0.22	(18)	**0.12**	0.05	140
Realized price before risk management contracts ($/mcf)	**2.65**	1.78	49	**1.87**	1.55	21
Combined Natural Gas						
Realized natural gas price before risk management contracts ($/mcf)	**2.94**	3.71	(21)	**2.70**	3.23	(16)
Realized gain (loss) on financial contracts ($/mcf)	**0.14**	(0.64)	(122)	**(0.03)**	(0.17)	(82)
Realized natural gas price ($/mcf)	**3.08**	3.07	-	**2.67**	3.06	(13)
Marketing income ($/mcf) [(1)]	**0.01**	0.46	(98)	**0.42**	0.39	8
Natural gas price including marketing income ($/mcf)	**3.09**	3.53	(12)	**3.09**	3.45	(10)

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	% Change	**2019**	2018	% Change
Field Condensate						
WTI (Cdn$/bbl)	**75.18**	77.57	(3)	**75.70**	83.92	(10)
Edmonton condensate to WTI Differential ($/bbl)	**(5.60)**	(17.98)	(69)	**(5.73)**	(5.04)	14
Edmonton condensate	**69.58**	59.59	17	**69.97**	78.88	(11)
Differential and marketing ($/bbl)	**(4.74)**	(16.93)	(72)	**(5.05)**	(11.92)	(58)
Realized price before risk management contracts ($/bbl)	**64.84**	42.66	52	**64.92**	66.96	(3)
Realized gain (loss) on financial contracts ($/bbl)	**17.11**	(4.10)	(517)	**13.47**	(10.94)	(223)
Realized field condensate price ($/bbl)	**81.95**	38.56	113	**78.39**	56.02	40
Natural Gas Liquids						
Realized natural gas liquids price ($/bbl)	**19.07**	38.87	(51)	**24.58**	44.88	(45)
Realized gain on financial contracts ($/bbl)	**7.05**	-	-	**5.95**	-	-
Realized natural gas liquids price ($/bbl)	**26.12**	38.87	(33)	**30.53**	44.88	(32)
Total realized sales price ($/boe)	**35.42**	27.45	29	**35.02**	32.21	9

(1) Refer to non–GAAP measures

Delphi sells natural gas in the Chicago market through the Alliance pipeline system and in the AECO market through the NGTL system. Prior to commissioning the amine facility in May 2018, approximately 90 percent of the Company's natural gas was sold in the Chicago market. Since commissioning the amine facility, sweetened Montney natural gas from the facility has been processed at Delphi's 25 percent owned Bigstone sweet natural gas plant and shipped on NGTL. As a result, the proportion of natural gas sold in the Chicago market was 53 percent and 57 percent in the three and twelve months ended December 31, 2019. This compares to the proportion of natural gas sold in the Chicago market for the three and twelve months of 2018 at 63 percent and 72 percent, respectively. With reactivation of the Alliance lateral pipeline at the Bigstone sweet natural gas plant (expected in 2022), the proportion of natural gas sold in Chicago is anticipated to return to about 90 percent of total natural gas sales. Once the reactivation is completed, all of the Company's natural gas, with the exception of natural gas processed at Delphi's 100 percent owned Negus sweet gas plant in West Bigstone, will be processed at facilities that are connected to both the Alliance and NGTL pipeline systems.

Delphi generally receives a higher price, compared to benchmark prices, for its natural gas per mcf due to its high heat content. Differentials for marketing are caused by differences between the daily and monthly benchmark price indices. The majority of the natural gas volumes that were shipped on the Alliance pipeline system were sold with reference to the monthly index and the remainder of the volumes were sold with reference to the daily index. The majority of natural gas volumes shipped on NGTL are sold with reference to AECO 5A index and the remainder with reference to AECO 7A.

For the three and twelve months ended December 31, 2019, Delphi's realized natural gas price before risk management contracts decreased 21 percent and 15 percent in comparison to the same periods in 2018 primarily due to an increase in the proportion of natural gas sales in Alberta coupled with a decrease in Chicago benchmark prices.

Realized field condensate prices before risk management contracts were 52 percent higher in the three months ended December 31, 2019 compared to the same period in 2018. The increase in the realized price before risk management is primarily due to an improvement in the WTI benchmark and the Edmonton condensate to WTI discount. Realized field condensate prices before risk management contracts were three percent lower in the twelve months ended December 31, 2019 compared to the same period in 2018. The decrease in the realized price before risk management is primarily due to the decrease in the WTI benchmark and a reduction in differential and marketing discount partially offset by an improvement in the Edmonton condensate to WTI discount. The Edmonton Condensate to WTI discount has narrowed significantly since the fourth quarter 2018 average of $17.98 per barrel due to provincial government imposed curtailments.

Delphi's realized price for natural gas liquids has declined in comparison to the same periods in 2018 and the first quarter of 2019. A significant increase in the supply of natural gas liquids, in particular propane and butane, coupled with a decrease in demand have caused a substantial reduction in the price received for these products. In addition, the significant increase in supply has led to tightening capacity at fractionation plants causing fractionation fees, which are passed on by the purchaser, to increase by 55 percent.

RISK MANAGEMENT ACTIVITIES

Overall, growing natural gas and natural gas liquids supply has resulted in high inventory levels and ongoing price weakness. Concerns over slowing global economic growth and increased supply continues to create a volatile market environment for crude oil. In an effort to mitigate commodity price fluctuations for natural gas, crude oil and natural gas liquids, Delphi enters into financial commodity contracts as part of its risk management program designed to protect cash flows through to simple payout on the drilling and completion portion of its capital program.

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

Natural Gas Contracts

Time Period	Type of Contract	Quantity Contracted	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)

U.S. Forward Exchange Contracts

Delphi sells approximately 60 percent of its natural gas in the Chicago market in U.S. dollars. In order to mitigate the U.S. to Canadian dollar fluctuation, Delphi has entered into the following U.S. dollar forward exchange contracts:

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

Fair value of Delphi's risk management contracts

The fair value of the financial contracts outstanding as at December 31, 2019 is estimated to be a net asset of $6.3 million. The fair values of these contracts are based on an approximation of the amounts that would have been paid to or received from counterparties to settle the contracts outstanding at the end of the period having regard to forward prices and market values provided by independent sources. Due to the inherent volatility in commodity prices, foreign exchange and interest rates, actual amounts realized may differ from these estimates.

For the three and twelve months ended December 31, 2019, Delphi recorded an unrealized loss on its risk management contracts of $8.7 million and $20.3 million, respectively. The unrealized loss recognized for the three months ended December 31, 2019 is the difference between the fair values of the risk management contracts outstanding as at December 31, 2019 and the fair values as at September 30, 2019. The unrealized loss recognized for the twelve months ended December 31, 2019 is the difference between the fair values of the risk management contracts outstanding as at December 31, 2019 and the fair values as at December 31, 2018.

For the three and twelve months ended December 31, 2019, the risk management contracts resulted in a realized gain of $3.7 million and $13.3 million, respectively. The realized gains are primarily due to higher average pricing for the Company's crude oil and propane risk management contracts relative to the benchmark commodity prices during the respective periods.

REVENUES

CRUDE OIL AND NATURAL GAS

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	% Change	**2019**	2018	% Change
Field condensate	**10,421**	10,378	-	**53,194**	62,128	(14)
Natural gas	**6,902**	11,289	(39)	**28,842**	41,186	(30)
Natural gas liquids	**1,802**	4,610	(61)	**10,846**	23,114	(53)
Sulphur	**22**	509	(96)	**256**	826	(69)
Total	**19,147**	26,786	(29)	**93,138**	127,254	(27)

For the three and twelve months ended December 31, 2019, Delphi generated $19.1 million and $93.1 million of revenues, respectively, from the sale of its crude oil and natural gas. Field condensate and natural gas liquids contributed 64 percent and 69 percent of total revenues in the three and twelve months ended December 31, 2019, respectively, while making up approximately 41 percent of the Company's production on a boe basis.

The impact on revenues due to volumes variance and realized prices before risk management is as follows:

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	**($000's)**	2019	2018	**($000's)**
Crude oil and natural gas revenues, December 31, 2018			**26,786**			**127,254**
Revenue change due to:						
Field condensate						
Volume (bbl/d)	1,747	2,644	**(5,350)**	2,245	2,542	**(7,036)**
Realized price [(1)] ($/bbl)	64.84	42.66	**5,393**	64.92	66.96	**(1,898)**
Natural gas						
Volume (mcf/d)	25,487	33,063	**(2,051)**	29,237	34,925	**(5,611)**
Realized price [(1)] ($/mcf)	2.94	3.71	**(2,336)**	2.70	3.23	**(6,733)**
Natural gas liquids						
Volume (bbl/d)	1,027	1,289	**(459)**	1,209	1,411	**(1,812)**
Realized price [(1)] ($/bbl)	19.07	38.87	**(2,349)**	24.58	44.88	**(10,456)**
Sulphur	22	509	**(487)**	256	826	**(570)**
Crude oil and natural gas revenues, December 31, 2019			**19,147**			**93,138**

(1) Realized price before gains or losses on commodity price risk management contracts.

MARKETING

	Three Months Ended December 31			Twelve Months Ended December 31		
Marketing Revenue	**2019**	2018	% Change	**2019**	2018	% Change
Sale of purchased natural gas	**850**	1,121	(24)	**3,707**	3,513	6
Premiums on the assignment of service	**443**	-	-	**4,221**	3,922	8
Permanent Assignment Transaction	**-**	951	-	**11,900**	-	-
Total	**1,293**	2,072	(38)	**19,828**	7,435	167

	Three Months Ended December 31			Twelve Months Ended December 31		
Marketing Expense	**2019**	2018	% Change	**2019**	2018	% Change
Cost of purchased natural gas	**841**	393	114	**2,119**	1,380	54
Transportation of purchased natural gas	**431**	278	55	**1,343**	1,031	30
Permanent Assignment Transaction	**6**	-	-	**363**	-	-
Total	**1,278**	671	90	**3,825**	2,411	59

Marketing Income [1]	Three Months Ended December 31 **2019**	2018	% Change	Twelve Months Ended December 31 **2019**	2018	% Change
Gain (loss) on marketing of purchased natural gas	**(422)**	450	(194)	**245**	1,102	(78)
Premium on the assignment of service	**443**	951	(53)	**4,221**	3,922	8
Permanent Assignment Transaction	**(6)**	-	-	**11,537**	-	-
Total	**15**	1,401	(99)	**16,003**	5,024	219
Marketing income per boe	**0.03**	1.61	(98)	**1.47**	1.41	4
Permanent Assignment Transaction per boe	**(0.01)**	-	-	**3.80**	-	-

[1]*Refer to non–GAAP measures*

On September 13, 2019, Delphi completed the sale of permanent assignment of approximately 35 percent of its firm full-path Alliance service for net proceeds of $11.5 million. The net proceeds from the Permanent Assignment Transaction were used to repay bank indebtedness.

Subsequent to the closing of the Permanent Assignment Transaction, Delphi has contracted for approximately 45.8 mmcf/d of firm transportation service and 11.4 mmcf/d of priority interruptible service on the Alliance pipeline system from Alberta to Chicago. This service is fully renewable commencing October 2020. In order to mitigate the cost of transportation service in excess of its needs, Delphi either temporarily assigns the excess service to other shippers or purchases natural gas in Alberta or British Columbia for sale in Chicago. Marketing income decreased in the three months ended December 31, 2019 compared to the same period in 2018 as the arbitrage between the Chicago and AECO benchmark price has decreased, reducing demand for temporary assignment of Alliance full path service.

Marketing income increased in 2019, as the Company had additional firm capacity on the Alliance pipeline and a greater portion of natural gas production was shipped on NGTL due to the commissioning of its amine processing facility mid-2018.

ROYALTIES

	Three Months Ended December 31 **2019**	2018	% Change	Twelve Months Ended December 31 **2019**	2018	% Change
Crown royalties	**1,372**	1,259	9	**5,620**	6,495	(13)
Royalty credits	**(402)**	(549)	(27)	**(2,038)**	(2,927)	(30)
Crown royalties – net	**970**	710	37	**3,582**	3,568	-
Gross overriding royalties	**600**	787	(24)	**2,890**	3,868	(25)
Total	**1,570**	1,497	5	**6,472**	7,436	(13)
Per boe	**2.43**	1.72	41	**2.13**	2.08	2

	Three Months Ended December 31 **2019**	2018	% Change	Twelve Months Ended December 31 **2019**	2018	% Change
Crown rate – before royalty credits	**7.2%**	4.7%	53	**6.0%**	5.1%	18
Crown rate – net of royalty credits	**5.1%**	2.7%	89	**3.8%**	2.8%	36
Gross overriding rate	**3.1%**	2.9%	7	**3.1%**	3.0%	3
Average rate	**8.2%**	5.6%	46	**6.9%**	5.8%	19

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

For the three and twelve months ended December 31, 2019, royalties totaled $1.6 million and $6.5 million, respectively, compared to $1.5 million and $7.4 million in the same periods in 2018.

The average Crown royalty rate before royalty credits has increased to 7.2 percent and 6.0 percent in the three and twelve months ended December 31, 2019, in comparison to 4.7 percent and 5.1 percent for the same periods in 2018. Crown royalties are based on provincial reference prices set by the province of Alberta, for each commodity. The price received by Delphi for its commodities may differ from the Alberta reference price ("ARP"), causing a fluctuation in the average Crown royalty rate. Delphi's proportion of natural gas sold by reference to the AECO market, which is closer to the ARP, has increased in the three and twelve months ended December 31, 2019 compared to the same periods in 2018 since the commissioning of its amine facility. In addition, some of the Company's Montney field condensate production, drilled prior to January 1, 2017, which fall under to old royalty regime, have come off of royalty holidays which increases the royalty rate from zero percent to an average of approximately 40 percent (depending on individual well factors and benchmark prices). All of Delphi's production from wells drilled subsequent to January 1, 2017 qualify for reduced Crown royalty rates under the Modern Royalty Framework which currently imposes a five percent royalty rate on all products until certain conditions are met.

Crown royalty credits decreased in the three and twelve months ended December 31, 2019 compared to the same periods in 2018. Crown royalty credits are largely based on the amortization of historical capital and operating costs of gas facilities and do not fluctuate based on commodity prices but are limited to Crown royalties paid on natural gas and natural gas liquids and exclude royalties paid on field condensate.

Gross overriding royalties were 3.1 percent in the three and twelve months ended December 31, 2019. Although production from the four-well pad, brought on-stream throughout the second quarter of 2019 is encumbered with a gross overriding royalty, gross overriding royalties have decreased due to production declines on wells encumbered with a gross overriding royalty.

OPERATING EXPENSES

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	% Change	**2019**	2018	% Change
Production costs	**6,899**	6,797	2	**30,400**	31,130	(2)
Processing recoveries	**(434)**	(427)	2	**(1,716)**	(1,233)	39
Total	**6,465**	6,370	1	**28,684**	29,897	(4)
Per boe	**10.01**	7.33	37	**9.44**	8.38	13

In the three months ended December 31, 2019, production costs increased two percent due to well workover and stimulation and $0.4 million of equalization costs partially offset by lower processing fees, water disposal and trucking costs, third party processing fees and recoveries from partners for their share of operating lease payments now recognized as right-of-use assets. Delphi continues to realize significant benefits related to the Catapult water disposal facility by reducing both the volumes transported and the distance required for disposal at third party facilities. Operating expenses on a per boe basis increased 37 percent primarily related to lower production volumes.

Production costs in 2019 are in line with production costs in 2018; the two percent decrease in year over year production cost relates to water disposal cost savings of $0.6 million, recoveries from partners for their share of operating lease payments now recognized as right-of-use assets and lower third party processing fees partially offset by $0.9 million of equalization costs. Operating expenses on a boe basis have increased by 13 percent due in part to the 15 percent decrease in production volumes.

Delphi recovers processing costs on partner production volumes processed at facilities it owns. The processing recoveries represent a reduction of the Company's costs to operate these facilities and hence is deducted in determining operating expenses. The increase in processing recoveries is primarily due to the partner's share of West Bigstone production that is processed at the Company's 100 percent owned Negus gas processing facility and recoveries from partners for their share of payments related to operating leases that are now recognized as right-of-use assets.

TRANSPORTATION EXPENSES

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	% Change	**2019**	2018	% Change
Transportation	**2,865**	3,853	(26)	**13,091**	17,335	(24)
Transportation per boe	**4.43**	4.43	-	**4.31**	4.86	(11)

The Company's transportation expenses consist of shipping natural gas on the Alliance and NGTL pipeline systems, trucking field condensate to sales terminals and shipping its natural gas liquids through the Pembina pipeline system.

Transportation expenses in the three and twelve months ended December 31, 2019 decreased 26 percent and 24 percent in comparison to the same periods in 2018 primarily due to a decrease in transportation for natural gas and field condensate trucking. The decrease in natural gas transportation is due to a higher proportion of natural gas that is shipped on the NGTL pipeline system which costs approximately $1.00 per mcf less than the cost of shipping on the Alliance pipeline system. Trucking for field condensate decreased due to lower trucking rates in combination with lower field condensate production volumes.

GENERAL AND ADMINISTRATIVE

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	% Change	**2019**	2018	% Change
Gross expenses	**1,438**	1,999	(28)	**7,204**	8,025	(10)
Capitalized	**(419)**	(604)	(31)	**(1,929)**	(2,276)	(15)
General and administrative expenses	**1,019**	1,395	(27)	**5,275**	5,749	(8)
Per boe	**1.58**	1.61	(2)	**1.74**	1.61	8

General and administrative expenses for the three and twelve months ended December 31, 2019 were 28 percent and ten percent lower compared to the same periods in 2018 primarily due to lower personnel costs and a reduction in the expense associated with the employee savings plan which was suspended on May 1, 2019, partially offset by employee severance payments. Capitalized general and administrative expenses decreased in the three and twelve months ended December 31, 2019 as personnel costs decreased.

SHARE-BASED COMPENSATION

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	% Change	**2019**	2018	% Change
Share-based compensation – Options	**(36)**	381	(109)	**398**	1,176	(66)
Capitalized costs	**30**	(107)	(128)	**(182)**	(330)	(45)
Net	**(6)**	274	(102)	**216**	846	(74)
Per boe	**(0.01)**	0.32	(103)	**0.07**	0.24	(71)

Share-based compensation expense is the amortization over the vesting period of the fair value of stock options granted to employees and directors of the Company. The fair value of all options granted is estimated at the date of grant using the Black-Scholes option pricing model.

The Company recorded a recovery of share-based compensation in the fourth quarter of 2019 as 733,000 options were forfeited due to the departure of two senior executives. Share-based compensation decreased 66 percent in the twelve months ended December 31, 2019 as compared to the same period in 2018. The decrease in Share-based compensation is due to a recovery of expense related to the forfeiture of 1.6 million stock options during the year and less expense recognized for the outstanding stock options as the majority of the options are in their second or third year of vesting. The Company did not grant any stock options in 2019.

FINANCE COSTS

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	% Change	**2019**	2018	% Change
Interest	**4,114**	3,305	24	**15,584**	12,593	24
Finance charges in relation to lease obligations	**68**	-	-	**292**		-
Accretion of decommissioning liabilities	**114**	148	(23)	**555**	538	3
Finance charges	**596**	472	26	**2,040**	1,808	13
Foreign exchange (gain) loss	**53**	(226)	(123)	**203**	(378)	(154)
Total finance costs	**4,945**	3,699	34	**18,674**	14,561	28
Per boe	**7.65**	4.26	80	**6.14**	4.08	50

Interest charges on Delphi's bank debt and senior secured notes in the three and twelve months ended December 31, 2019 increased 24 percent over the comparative periods in 2018. The increase in interest expense over the comparative periods is due to a higher average bank debt balance and additional senior secured notes. Delphi issued an additional $15.0 million of ten percent senior secured notes during the fourth quarter of 2018 and an additional $7.3 million of ten percent senior secured notes in the fourth quarter of 2019 as part of the Recapitalization Transaction.

Finance charges related to the Company's lease obligations is a result of the adoption of IFRS 16 – Leases, effective January 1, 2019. Refer to "New Accounting Standards" section of this MD&A for more information on the adoption of this standard.

Accretion and finance charges are non-cash and primarily comprised of accretion expense on the Company's decommissioning obligations and the accretion and amortization of the issue costs of the Company's senior secured notes.

The accretion of decommissioning liabilities is an expense that relates to the passing of time until the Company estimates it will retire its assets and restore the asset locations to a condition which meets or exceeds environmental standards. Due to the long term nature of certain assets of the Company, this accretion expense is estimated to extend over a term of one to 50 years. The increase in accretion expense in the three months ended December 31, 2019 compared to the same period in 2018 is largely due to a lower decommissioning obligation as a result of a change in estimate related to the inflation rate used for the estimated liabilities. Accretion expense in the twelve months ended December 31, 2019 is comparable to the same period in 2018.

Finance charges include the amortization of transaction costs related to the issue of senior secured notes and the accretion of the debt to its face value. The increase in finance charges in the three and twelve months ended December 31, 2019 over the comparative periods in 2018 is due to a higher balance of outstanding debt subject to amortization and accretion.

Delphi's foreign exchange gains and losses primarily relate to the conversion of US dollars to Canadian dollars for the settlement of transactions denominated in US dollars, primarily consisting of natural gas sales and pipeline tolls.

DEPLETION AND DEPRECIATION

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	% Change	**2019**	2018	% Change
Depletion and depreciation	**8,093**	11,940	(32)	**40,635**	45,048	(10)
Impairment loss	**-**	51,004	-	**61,737**	51,004	21
Total	**8,093**	62,944	(87)	**102,372**	96,052	7
Depletion and depreciation per boe	**12.53**	13.74	(9)	**13.37**	12.63	6
Impairment loss per boe	**-**	58.71	-	**20.31**	14.40	41

Depletion and depreciation in the three and twelve months ended December 31, 2019 decreased 32 percent and 10 percent in comparison to the same periods in 2018 respectively. The decrease in depletion and depreciation in the three months ended December 31, 2019 is due to lower production volumes over the quarter and a lower depletion rate as the reserve based used for the calculation decreased, partially offset by a lower net book value due to a total of $118.0 million of impairment charges taken into the calculation since the fourth quarter of 2018. The decrease in depletion and depreciation for the year ended December 31, 2019 is due to lower production volumes versus the prior year partially offset by an increased depletion rate due to the addition of right of use assets into the capital base with the adoption of IFRS 16.

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 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.

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

INCOME TAXES

For the three and twelve months ended December 31, 2019, Delphi recognized a deferred income tax recovery of $0.8 million related the allocation of the debt modification loss to the Consent warrants as part of the Recapitalization Transaction.

Delphi has concluded that it is not probable that the deferred income tax asset will be realized and as a result, it has not been recognized at December 31, 2019. Therefore, no deferred income tax recovery was recorded against the loss for the year ended December 31, 2019 other than the recovery attributable to the Consent Warrants as noted above.

Delphi does not have current income taxes payable and has estimated tax pools available at December 31, 2019 of $422.8 million (December 31, 2018 – $437.8 million).

ADJUSTED FUNDS FLOW

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	% Change	**2019**	2018	% Change
Cash flow from operating activities	**11,328**	9,428	20	**52,616**	54,128	(3)
Decommissioning expenditures	**155**	132	17	**155**	229	(32)
Change in non-cash working capital	**(4,910)**	(670)	633	**(593)**	(7,742)	(92)
Adjusted funds flow(1)	**6,573**	8,890	(26)	**52,178**	46,615	12

(1) Refer to non–GAAP measures

Delphi's cash flow from operating activities for the three months ended December 31, 2019 increased 20 percent in comparison to the same period in 2018. Adjusted funds flow decreased 26 percent in the three months ended December 31, 2019 compared to the same period in 2018. The decrease in cash flow from operating activities and adjusted funds flow is largely attributed to decreased revenues due to lower production volumes, a decrease in marketing income and higher finance charges partially offset by reduced operating, transportation and general and administrative charges.

For the twelve months ended December 31, 2019, cash flow from operating activities decreased 3 percent in comparison to the same period in 2018. Adjusted funds flow increased 12 percent over the same comparative period primarily due to the Permanent Assignment Transaction, realized gains on risk management contracts and reductions in operating, transportation and general and administrative costs partially offset by lower revenues as a result of declining commodity benchmark prices in combination with lower production volumes and higher finance charges.

	Three Months Ended December 31	Twelve Months Ended December 31
	(000's)	**($000's)**
Adjusted Funds Flow (1) December 31, 2018	**8,890**	**46,615**
Impact on adjusted funds flow:		
Production volumes	**(8,347)**	**(15,029)**
Realized prices	**708**	**(19,087)**
Risk management activities	**6,670**	**25,681**
Marketing income (1)	**(1,380)**	**(558)**
Permanent Assignment Transactions	**(6)**	**11,537**
Netback expenses (2)	**1,196**	**6,895**
Finance charges	**(1,156)**	**(3,864)**
Settlement of unutilized take-or-pay contract	**(2)**	**(12)**
Adjusted Funds Flow (1), December 31, 2019	**6,573**	**52,178**

(1) Refer to non–GAAP measures
(2) Netback expenses include royalties, operating expenses, transportation and general and administrative costs.

CASH NETBACK AND EARNINGS ANALYSIS

	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	% Change	**2019**	2018	% Change
Net earnings (loss)	**(13,082)**	(17,318)	(24)	**(74,581)**	(26,366)	183
Per boe	**(20.25)**	(19.93)	2	**(24.54)**	(7.39)	232
Per basic and diluted share	**(0.89)**	(1.40)	(36)	**(5.76)**	(2.13)	170

Delphi recorded a net loss of $13.1 million ($0.89 per basic and diluted share) in the fourth quarter of 2019, down from the $17.3 million net loss in the fourth quarter of 2018. The decrease in net loss is primarily due to lower depletion and impairment charges partially offset by an unrealized loss on risk management contracts and lower adjusted funds flow.

In the twelve months ended December 31, 2019, Delphi recorded a net loss of $74.6 million ($5.76 per basic and diluted share) compared to a net loss of $26.4 million in the same period in 2018. The decrease in net earnings is primarily due to an impairment loss, unrealized loss on risk management contracts and a loss on debt modification related to the Recapitalization Transaction partially offset by an increase in adjusted funds flow.

	Three Months Ended December 31			Twelve Months Ended December 31		
Barrels of oil equivalent ($/boe)	**2019**	2018	% Change	**2019**	2018	% Change
Realized sales price	**29.63**	30.83	(4)	**30.65**	35.68	(14)
Marketing income (1)	**0.03**	1.61	(98)	**1.47**	1.41	4
Royalties	**(2.43)**	(1.72)	41	**(2.13)**	(2.08)	2
Operating expenses	**(10.01)**	(7.33)	37	**(9.44)**	(8.38)	13
Transportation	**(4.43)**	(4.43)	-	**(4.31)**	(4.86)	(11)
Operating netback before risk management contracts (1)	**12.79**	18.96	(33)	**16.24**	21.77	(25)
Realized gain (loss) on risk management contracts	**5.78**	(3.38)	(271)	**4.38**	(3.47)	(226)
Operating netback (1)	**18.57**	15.58	19	**20.62**	18.30	13
Permanent Assignment Transaction	**(0.01)**	-	-	**3.80**	-	-
General and administrative expenses	**(1.58)**	(1.61)	(2)	**(1.74)**	(1.61)	8
Interest	**(6.56)**	(3.80)	73	**(5.29)**	(3.53)	50
Settlement of unutilized take-or-pay contract	**(0.26)**	(0.19)	37	**(0.22)**	(0.19)	16
Cash netback (1)	**10.16**	10.24	(1)	**17.17**	13.07	31

(1) Refer to non–GAAP measures

Delphi continues to focus drilling on high margin, liquids-rich natural gas prospects and reducing costs in order to strengthen its operating and cash netback per boe. However, the Company's netback will continue to be impacted by swings in commodity prices and the realized gains or losses on the Company's risk management contracts. In the fourth quarter of 2019, Delphi's cash netback per boe was flat compared to the same period in 2018 primarily due to the realized gains on risk management contracts which offset the drop in market prices for natural gas and natural gas liquids, higher royalties, operating, transportation and interest costs on a per boe basis. Delphi's cash netback for 2019 increased 31 percent in comparison to 2018 as the Company due to realized gains on risk management contracts, the one-time Permanent Assignment Transaction and lower transportation costs partially offset by an overall lower average price for its products, higher operating and interest charges.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

Delphi generally relies on adjusted funds flow and its credit facilities to fund ongoing capital requirements and provide liquidity. Future liquidity depends primarily on cash flow generated from operations, existing credit facilities and the ability to access debt and equity markets. From time to time, the Company accesses capital markets to meet its additional financing needs and to maintain flexibility in funding its capital expenditure programs. There can be no assurance that future debt financings, equity financings or cash generated from operations will be available or sufficient to meet these or other corporate requirements. If debt or equity financing is available, there is no assurance that it will be on terms acceptable to Delphi. Delphi has recently completed a Recapitalization Transaction (see Recapitalization Transaction in this MD&A) in order to address near term expiries of debt and capital requirements.

Delphi's results are affected by external market and risk factors, such as fluctuations in the prices of crude oil and natural gas, movements in foreign currency exchange rates and inflationary (deflationary) pressures on service costs. Volatility in crude oil and natural gas prices continues to result in a challenging environment for the energy sector. Delphi continuously monitors commodity prices and has an active commodity price risk management program in order to reduce its exposure to fluctuations in commodity prices and protect its future cash flows.

Net Debt

	December 31, 2019	December 31, 2018
Long term debt	**46,363**	66,742
Senior secured notes (1)	**103,510**	100,099
Long term portion of unutilized take-or-pay contract	**-**	217
Adjusted net working capital deficiency(3)	**5,424**	14,927
Net debt(2)(3)	**155,297**	181,985

(1) $112.3 million principal amount of senior secured notes outstanding as at December 31, 2019.
(2) Net debt excludes $5.3 million and $7.5 million as at December 31, 2019 and December 31, 2018, respectively, of outstanding letters of credit.
(3) Refer to non-GAAP measures.

As at December 31, 2019, Delphi had $46.4 million outstanding in bank debt, $103.5 million in senior secured notes and an adjusted working capital deficit of $5.4 million for net debt of $155.3 million. 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.

Senior Credit Facility

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. Refer to note the Going Concern section in this MD&A or note 3 of the consolidated financial statements for the year ended December 31, 2019.

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

Financial covenant	**Requirement**	**As at December 31, 2019**
Adjusted working capital ratio	≥ 1.0	2.1
Adjusted bank debt to EBITDA ratio	≤ 3.0	1.1
Adjusted debt to EBITDA ratio	≤ 4.0	3.2

Adjusted working capital ratio (1)	**As at December 31, 2019**
Current assets	21,243
Exclusion of the current fair value of financial instruments	(6,306)
Undrawn portion of senior credit facility	28,301
	43,238
Current liabilities	20,951
Exclusion of lease obligations	(590)
	20,361
Adjusted working capital ratio	2.1

(1) Refer to non-GAAP measures

Adjusted bank debt to EBITDA ratio (1)	**As at December 31, 2019**
Bank debt	46,363
Unutilized take-or-pay contract	217
Outstanding letters of credit	5,336
Adjusted bank debt	51,916
Annualized EBITDA	47,984
Adjusted bank debt to EBITDA ratio	1.1

(1) Refer to non-GAAP measures

Adjusted debt to EBITDA ratio [(1)]	**As at December 31, 2019**
Bank debt	46,363
Unutilized take-or-pay contract	217
Outstanding letters of credit	5,336
Senior secured notes	103,510
Adjusted debt	155,426
Annualized EBITDA	47,984
Adjusted debt to EBITDA ratio	3.2

(1) Refer to non-GAAP measures

Delphi was in compliance with all covenants as at December 31, 2019.

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, 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.

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.

Share Capital

The common shares of Delphi trade on the TSX under the symbol DEE. The following table summarizes outstanding share data for the three and twelve months ended December 31, 2019:

	Three Months Ended December 31, 2019	Twelve Months Ended December 31, 2019
Weighted Average Common Shares (in thousands)		
Basic	14,675	12,951
Diluted	14,675	12,951
Trading Statistics (1)		
High	0.77	0.77
Low	0.75	0.75
Average daily volume (in thousands)	42	21

(1) Trading statistics based on closing price and adjusted for common share consolidation of 15:1

As at March 10, 2020, the Company had 18.4 million common shares outstanding, 6.7 million stock options outstanding, and 88.2 million warrants outstanding. The stock options have an average exercise price of $1.43 per option and the warrants have an exercise price of $0.36 per warrant. Each stock option and warrant are exercisable for one fifteenth of a post-consolidated common share of the Company.

CONTRACTUAL OBLIGATIONS

The Company is committed to future minimum payments for natural gas transmission and processing and leases on compression equipment. The Company also has a lease for office space in Calgary, Alberta. As noted above, the senior credit facility is based on a revolving term which is reviewed semi-annually and converts to a 364 day non-revolving term facility if not renewed. The senior secured notes mature in 2023 as discussed in the Liquidity and Capital Resources section.

The future minimum commitments over the next five years ending on December 31 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
Office, equipment and software leases	502	424	424	451	304	-
Accounts payable and accrued liabilities	18,440	-	-	-	-	-
Unutilized take or pay	225	-	-	-	-	-
Decommissioning obligations (2)	1,704	299	1,570	228	176	21,277
Interest payments on senior secured notes(3)	11,966	11,966	11,966	3,490	-	-
Interest payments on NSRs	550	-	-	-	-	-
Bank Debt	-	46,500	-	-	-	-
Senior secured notes	-	-	-	119,664	-	-
Total	44,792	73,811	28,578	138,450	15,096	33,934

(1) Balances denominated in U.S. dollars have been translated at the December 31, 2019 exchange rate.

(2) Amounts represent the inflated, discounted future abandonment and reclamation expenditures anticipated to be incurred over the life of the Company's properties.

(3) Includes 7,334 additional senior secured notes issued on February 26, 2020 in accordance with the Recapitalization Transaction.

GUARANTEES AND OFF-BALANCE SHEET ARRANGEMENTS

Delphi has not entered into any guarantees or off-balance sheet arrangements. On January 1, 2019, Delphi adopted IFRS 16 “Leases” which requires the recognition of lease assets and liabilities on the balance sheet for most leases, where the entity is acting as a lessee. See “New Accounting Standards” section of this MD&A for further information.

SELECTED INFORMATION

The following table sets forth selected consolidated financial information of the Company for the most recently completed year ended December 31, 2019 and for the years ended 2018 and 2017:

	2019	2018	2017
Crude oil and natural gas sales	**93,138**	127,254	101,836
Net earnings (loss)	**(74,581)**	(26,366)	6,902
Per share – basic and diluted(1) (2)	**(5.76)**	(2.13)	0.60
Total assets	**302,348**	418,919	409,522
Net debt	**155,297**	181,985	136,421

(1) Refer to non-GAAP measures.
(2) 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.

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

	Dec 31, 2019	Sep 30, 2019	June 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	June 30, 2018	Mar 31, 2018
Production								
(boe conversion – 6:1 basis)								
Field condensate (bbls/d)	**1,747**	2,154	2,762	2,323	2,644	2,196	2,858	2,472
Natural gas liquids (bbls/d)	**1,027**	1,299	1,245	1,265	1,289	1,359	1,575	1,418
Natural gas (mcf/d)	**25,487**	29,600	30,897	31,024	33,063	35,751	37,141	33,747
Barrels of oil equivalent (boe/d)	**7,022**	8,386	9,157	8,759	9,444	9,514	10,623	9,515
Financial								
($ thousands, except per share)								
Crude oil and natural gas sales	**19,147**	20,612	27,026	26,353	26,786	31,399	36,394	32,675
Net earnings (loss)	**(13,082)**	10,628	(53,620)	(18,507)	(17,318)	1,252	(5,834)	(4,466)
Per share – basic and diluted	**(0.89)**	0.90	(4.35)	(1.50)	(1.35)	0.15	(0.45)	(0.30)
Adjusted funds flow(1)	**6,573**	21,291	11,963	12,351	8,890	11,600	14,697	11,428
Per share – basic and diluted(1)(2)	**0.45**	1.65	0.90	1.05	0.75	0.90	1.20	0.90

(1) Refer to non-GAAP measures.
(2) 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.

Over the past two years, the changes in revenue and funds from operations from quarter to quarter primarily reflect the change in production and the volatility of commodity prices. Production has been impacted by processing plant outages, dispositions, production performance and new wells through successful drilling.

During the first quarter of 2018, Delphi invested $41.2 million which included the drilling of four (2.60 net) wells, completion operations on six (3.90 net) wells and the construction of its amine processing facility. Production volumes remained comparable to the fourth quarter of 2017 due to lower production declines and additional production from wells brought on-stream late in the quarter partially offsetting scheduled production outages relating to new well completion operations.

During the second quarter of 2018, Delphi’s lenders completed the annual review of the Company’s senior credit facility and increased the borrowing base to $105.0 million. The Company tied-in and brought on production three (1.95 net) Montney wells in the Bigstone area. Delphi commissioned its newly constructed amine facility during the second quarter which allows the Company to sweeten up to 11 mmcf/d net of Montney raw natural gas in order to process it at its 25 percent owned Bigstone sweet natural gas plant. This allows the Company the flexibility to sell its natural gas into two different natural gas markets and reduce processing fees for the sweetened natural gas. In the third quarter of 2018, Delphi invested $19.3 million, primarily on drilling four (2.60 net) Montney wells and performing completion and tie-in operations on two (1.30 net) wells in Montney.

In the fourth quarter of 2018, Delphi issued an additional $15.0 million of ten percent senior secured notes. The Additional Notes were issued under the same indenture as the existing senior secured notes. Proceeds were used to temporarily repay a portion of outstanding indebtedness. The Company invested $27.0 million in the fourth quarter of 2018, primarily on bringing three (1.95 net) wells on-stream and drilling three (1.95 net) wells of a four (2.60 net) well pad which was fractured during the first quarter of 2019. As at December 31, 2018, Delphi identified indicators of impairment and performed an impairment calculation on the Company's Bigstone CGU resulting in the recognition of a $51.0 million impairment. The recoverable amount of the Bigstone CGU was based on expected future cash flows generated from proved and probable reserves using a pre-tax discount rate of approximately 12.5% plus an estimate of the fair value of the undeveloped land associated with the Bigstone CGU reserves.

In the first quarter of 2019, Delphi concluded drilling the last well on its four-well pad, completed fracturing operations and commenced equipping operations. Production in the quarter fell to 8,759 boe/d, down seven percent from the fourth quarter of 2018 as no additional wells were brought on production. Production in the second quarter of 2019 increased to 9,157 boe/d as the four-well pad was tied in and brought on-stream throughout the second quarter.

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 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 resulted in the recognition of a $61.2 million impairment. In addition, an impairment related to change in estimates of decommissioning obligations for non-producing properties of $0.5 million was also recognized.

During the third quarter of 2019, Delphi closed the sale and permanent assignment of 16 mmcf/d (approximately 35 percent) of its firm full-path service to the Chicago area on the Alliance pipeline system for net proceeds of $11.5 million. Proceeds from the Permanent Assignment Transaction were used to repay bank indebtedness. Upon completion of the Permanent Assignment Transaction and in accordance with the senior credit facility, the borrowing base of the senior credit facility was reduced from $100.0 million to $90.0 million. Subsequent to the Permanent Assignment Transaction, Delphi has approximately 29.8 mmcf/d of firm service and 7.5 mmcf/d of priority interruptible service on the Alliance pipeline system in addition to approximately 22 mmcf/d of firm service on NGTL. Production in the third quarter of 2019 declined to 8,386 boe/d as no additional wells have been drilled or completed since the four-well pad which was brought on-stream during the second quarter of 2019.

During the fourth quarter of 2019, the Company completed a series of transactions in connection with Delphi's priority of improving financial strength and liquidity (See Recapitalization Transaction). 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, 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, iii) addressed the immediate pressures of the borrowing base of the senior credit facility and iv) provided for a common share consolidation of 15 to 1. For further details, please see the Recapitalization Transaction section in this MD&A.

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. Effective on November 26, 2019, the effective date of the Arrangement, the borrowing base of the senior 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.

Delphi's commodity risk management program continues to be an integral part of the Company's strategy to protect cash flows through to simple payout of the drilling and completions portion of its capital program.

CRITICAL ACCOUNTING ESTIMATES

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

Estimates and their underlying assumptions are reviewed on an ongoing basis. Delphi attempts to mitigate this risk by employing individuals with the appropriate skill set and knowledge to make reasonable estimates, developing internal control systems and comparing past estimates to actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are included in the following:

i) Depletion and depreciation – 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 asset carrying values – 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.

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 input estimates 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 can 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 net earnings (loss).

NEW ACCOUNTING STANDARDS

Effective January 1, 2019, Delphi adopted IFRS 16 Leases ("IFRS 16") which replaces IAS 17 Leases 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.

The adoption of IFRS 16 did not have a material impact on our consolidated financial statements.

The impact to the 2019 opening balance sheet and results of operations for the twelve months ended December 31, 2019 is as follows:

	($000's)
Consolidated statements of financial position as at January 1, 2019	
Right of use asset	**3,611**
Right of use liability	**3,611**
Consolidated statements of loss for the period ended December 31, 2019	
Reduction to operating expenses	**985**
Reduction to general and administrative expenses	**139**
Increase to depletion, depreciation and amortization	**(954)**
Increase to finance charges	**(292)**
Gain on change in estimate of right of use asset	**(66)**
Increase in net loss for the period	**(188)**
Consolidated statements of cash flows for the period ended December 31, 2019	
Cash flow from operating activities	**832**
Cash flow from financing activities	**(832)**
	-
Consolidated statements of changes in shareholders' equity for the period ended December 31, 2019	
Increase in deficit	**(188)**

Further information about changes to our accounting policies resulting from the adoption of IFRS 16 can be found in Note 23 to the consolidated financial statements.

CORPORATE GOVERNANCE

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

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures, as defined in NI 52-109, are designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management, including its President and Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The President and Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting, as defined in NI 52-109, to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles applicable to the Company. The President and Chief Executive Officer and Chief Financial Officer have concluded that the Company's internal controls over financial reporting and disclosure controls and procedures are effective. The Company's internal controls over financial reporting is based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework).

The Company is required to disclose any change in the Company's internal control over financial reporting that occurred during the period beginning on October 1, 2019 and ended on December 31, 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. No material changes in the Company's internal control over financial reporting were identified during such period that has materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

2020 OUTLOOK

The Company's hedge book continues to be an important pillar in managing cash flows during this extreme volatile commodity environment. The Company will continue to monitor commodity prices before committing to a second half capital program, taking into consideration options it may have for receiving the third escrow release of the Recapitalization Transaction if the escrow release conditions are not met.

Capital Program

Delphi's capital program for the first half of 2020 will be focused on drilling and completing three (3.0 net) wells in West Bigstone. Capital spending in the first half is forecasted to be approximately $27.5 million.

Marketing Income

Marketing income will principally be due to changes in the basis between Chicago and AECO prices. Based on current forecasted benchmark prices, Delphi is not forecasting marketing income in the first half of 2020.

Production

Production in the first quarter will be lower than the fourth quarter of 2019 as production from the two well pad is not expected to come on-stream until the end of the first quarter of 2020. The third well is anticipated to be on production early in the second quarter of 2020.

Royalties

The Company pays royalties to provincial governments, individuals and companies that own surface and/or mineral rights and companies that have been granted an overriding royalty. These payments take the form of Crown, freehold and overriding royalties. Royalties are not affected by gains or losses realized through the Company's risk management program.

For the first half of 2020, Delphi expects its royalty rate, after the deduction for royalty credits and inclusion of GORRs, to average between five and seven percent of gross revenue, excluding realized and unrealized gains or losses on commodity risk management contracts.

Operating Expenses

The Company is continuously searching for ways to reduce operating expenses and improve production. The fixed cost burden increases on a per unit basis until additional production is brought on-stream. Delphi has recently installed some artificial lift on some legacy wells and is anticipating on reducing the need for additional maintenance on legacy wells and is currently monitoring the results.

Delphi expects operating expense in the first half of 2020 to be between $9.00 and $10.00 per boe.

Transportation Expenses

The average natural gas transportation cost per mcf is expected to remain at the current level until the Alliance lateral from the Bigstone natural gas plant is reactivated, which is expected in mid-2022. The contracted rates for pipeline transportation of natural gas and natural gas liquids are fixed and the rate for trucking field condensate is expected to remain unchanged in the first half of 2020. The Company is anticipating reduced field condensate transportation costs commencing in June when it anticipates using a third party pipeline to move its field condensate production from Montney to a full service terminal at Fox Creek. This benefit will not be fully realized until the second half of 2020.

Delphi expects transportation expense in the first half of 2020 to be between $5.25 and $5.75 per boe.

General and Administrative and Finance Costs

Delphi expects general and administrative expense to be about $0.4 million lower in the first half of 2020 in comparison to the first half of 2019 as the Company has made changes to key management positions.

Interest costs will increase in the first half of 2020 due to the issuance of additional 10 percent senior secured notes as part of the Recapitalization Transaction and capital spending in excess of adjusted funds flow in the first quarter of 2020.

NON GAAP MEASURES

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

For the purpose of reporting production information, reserves and calculating unit prices and costs, natural gas volumes have been converted to a barrel of oil equivalent (“boe”) using six thousand cubic feet equal to one barrel. A boe conversion ratio of 6:1 is based upon an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. This conversion conforms to the Canadian Securities Administrators’ National Instrument 51-101 when boes are disclosed. Boes may be misleading, particularly if used in isolation.

Adjusted bank debt to EBITDA ratio – Adjusted bank debt is defined as amounts outstanding under the senior credit facility, including outstanding letters of credit and liabilities associated with the unutilized take-or-pay contract. EBITDA is calculated based on the terms and definitions set out in the senior credit facility agreement which adjusts net income (loss) for financing costs, non-recurring gains and losses, cash 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. This ratio is used to calculate the Company’s compliance with its adjusted bank debt to EBITDA ratio covenant.

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

Adjusted funds flow - cash flow from operating activities before decommissioning expenditures and changes in non-cash working capital from operating activities. Management uses adjusted funds flow to analyze performance and considers it a key measure as it demonstrates the Company’s ability to generate the cash necessary to fund future capital investments, abandonment obligations and to repay debt. Delphi’s determination of adjusted funds flow may not be comparable to that reported by other companies nor should it be viewed as an alternative to cash flow from operating activities, net earnings (loss) or other measures of financial performance calculated in accordance with IFRS.

Adjusted funds flow per share – adjusted funds flow divided by the number of common shares outstanding calculated using weighted average shares outstanding consistent with the calculation of earnings (loss) per share.

Adjusted working capital – current assets and current liabilities exclude the current portion of the fair value of the financial instruments and lease obligations. This definition is consistent with the definition used in calculating the Company's compliance with its working capital ratio covenant and is used by the Company in determining its net debt.

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

Cash flow from operating activities per share – cash flow from operating activities divided by the number of common shares outstanding calculated using weighted average shares outstanding consistent with the calculation of earnings (loss) per share.

Marketing income - the margin earned on the sale of purchased third party natural gas volumes and premiums received on the assignment of capacity on the Alliance pipeline system to a third party. Management considers marketing income important measures of the Company's ability to mitigate the cost of excess committed capacity.

Net debt – the sum of bank debt, senior secured notes and the long term portion of unutilized take-or-pay contract and lease obligations plus (minus) the adjusted working capital deficit (surplus). Net debt is used by management to monitor the remaining availability under its credit facilities.

Total cash revenues – the sum of crude oil and natural gas revenues, marketing revenue (excluding Permanent Assignment Transaction) and realized gains on risk management contracts. Management uses this measure to assess the revenues from operations and risk mitigation activities.

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

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

Cash netbacks - operating netbacks less interest on bank debt and senior secured notes, finance charges associated with lease obligations, foreign exchange, general and administrative costs, and the settlement of the unutilized take-or-pay contract. Management considers cash netbacks per boe an important measure as it demonstrates the cash realized on each unit of production to be reinvested in future capital investment or repay debt.

FORWARD-LOOKING STATEMENTS

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

More particularly and without limitation, this management discussion and analysis contains forward-looking statements and information relating to petroleum and natural gas production estimates and weighting, projected crude oil and natural gas prices, future exchange rates, expectations as to royalty rates, expectations as to transportation and operating costs, expectations as to general and administrative costs and interest expense, expectations as to capital expenditures and net debt, planned capital spending, future liquidity and Delphi's ability to fund ongoing capital requirements through operating cash flows and its credit facilities, estimated tax pools and expectations regarding current income taxes payable by Delphi in 2019, supply and demand fundamentals for oil and gas commodities, timing and success of development and exploitation activities, cash availability for the financing of capital expenditures, access to third-party infrastructure, treatment under governmental regulatory regimes and tax laws and future environmental regulations.

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

The forward-looking statements and information contained in this management discussion and analysis are based on certain key expectations and assumptions made by Delphi. The following are certain material assumptions on which the forward-looking statements and information contained in this management discussion and analysis are based: the stability of the global and national economic environment, the stability of and commercial acceptability of tax, royalty and regulatory regimes applicable to Delphi, exploitation and development activities being consistent with management's expectations, production levels of Delphi being consistent with management's expectations, the absence of significant project delays, the stability of oil and gas prices, the absence of significant fluctuations in foreign exchange rates and interest rates, the stability of costs of oil and gas development and production in Western Canada, including operating costs, the timing and size of development plans and capital expenditures, availability of third party infrastructure for transportation, processing or marketing of oil and natural gas volumes, prices and availability of oilfield services and equipment being consistent with management's expectations, the availability of, and competition for, among other things, pipeline capacity, skilled personnel and drilling and related services and equipment, results of development and exploitation activities that are consistent with management's expectations, the availability of capital, weather affecting Delphi's ability to develop and produce as expected, contracted parties providing goods and services on the agreed timeframes, Delphi's ability to manage environmental risks and hazards and the cost of complying with environmental regulations, the accuracy of operating cost estimates, the accurate estimation of oil and gas reserves, future exploitation, development and production results and Delphi's ability to market oil and natural gas successfully to current and new customers. Additionally, estimates as to expected average annual production rates assume that no unexpected outages occur in the infrastructure that the Company relies on to produce its wells, that existing wells continue to meet production expectations and any future wells scheduled to come on in the coming year meet timing and production expectations.

Commodity prices used in the determination of forecast revenues are based upon general economic conditions, commodity supply and demand forecasts and publicly available price forecasts.

Financial outlook information contained in this management discussion and analysis about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. This financial outlook is included to provide readers with an understanding of the Company's operations for 2020 and readers are cautioned that such financial outlook information contained in this management discussion and analysis should not be used for purposes other than for which it is disclosed.

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

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