



DELPHI ENERGY CORP.

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TSX Symbol: DEE



## Second Quarter 2007 Highlights

- Increased average production 25 percent or 1,057 boe/d to 5,379 boe/d (84 percent natural gas) in the second quarter compared to the first quarter of 2007.
- Realized an average natural gas price of \$8.20 per mcf, 16 percent higher than the benchmark AECO price in the second quarter of 2007, as a result of the Company's hedging strategy and natural gas marketing arrangements.
- Achieved funds from operations of \$11.5 million in the second quarter on higher production volumes and cash netbacks of \$23.44 per boe.
- Acquired an additional 10.5 percent working interest in the Tower Creek 2-21 Leduc exploration well. Delphi now holds a 30.7 percent working interest in the well, which commenced production at restricted rates at the end of June. The well is now producing in excess of 20 million cubic feet of gross raw gas per day.
- Expanded the inventory of opportunities in north west Alberta and north east British Columbia by entering into two farmin agreements totaling 30,000 acres prospective for multi-zone Cretaceous formations. These farmins increase access to available undeveloped lands by 29 percent.
- Achieved hedging gains of \$1.1 million through the Company's risk management program.

## MESSAGE TO SHAREHOLDERS

The positive operating results for the second quarter of 2007, increasing production 25 percent from the first quarter of 2007, are attributed to the successful winter capital program and the existing low decline production base. The financial results reflect this production growth complemented by the Company's hedging strategy mitigating lower natural gas prices during the quarter. Delphi has rebounded from a challenging 2006, positioning itself to continue to grow through this extended cycle of low natural gas prices with a large inventory of economically robust drilling opportunities and financial resources supported by a high quality asset base and strategic hedging program. In addition, industry service and equipment costs are moderating, positively affecting the Company's growth profile with decreasing operating and capital costs.

During the second quarter of 2007, Delphi spent \$15.1 million, with the majority of the expenditures being related to the Tower Creek 2-21 acquisition, tie-in and equipping costs, as well as the start of drilling operations at the Tower Creek 11-26 exploration well. No other capital projects were scheduled during the quarter. The Company's summer drilling program is now underway with four rigs currently drilling or finishing drilling operations within the Company's core areas of north west Alberta and north east British Columbia. The majority of the 2007 capital program is focused on lower risk, high capital efficiency projects accessing existing infrastructure. In addition, the second half of 2007 will see several exploration wells being drilled, which with success, would lead to significant follow-up drilling in 2008 and beyond.

<b>Operational Highlights</b>	Three Months Ended June 30		Six Months Ended June 30	
	<b>2007</b>	2006	<b>2007</b>	2006
Production				
Natural gas (mcf/d)	<b>26,967</b>	28,797	<b>24,327</b>	26,260
Crude oil (bbls/d)	<b>423</b>	531	<b>395</b>	537
Natural gas liquids (bbls/d)	<b>461</b>	503	<b>404</b>	510
Total (boe/d)	<b>5,379</b>	5,834	<b>4,854</b>	5,424

<b>Financial Highlights</b> (\$000s except per boe and per share amounts)				
Petroleum and natural gas sales	<b>24,779</b>	25,865	<b>46,753</b>	49,674
Per boe	<b>50.63</b>	48.72	<b>53.22</b>	50.60
Funds from operations	<b>11,469</b>	14,452	<b>22,134</b>	26,832
Per boe	<b>23.44</b>	27.22	<b>25.19</b>	27.34
Per share – Basic	<b>0.17</b>	0.26	<b>0.34</b>	0.48
Per share – Diluted	<b>0.17</b>	0.26	<b>0.34</b>	0.48
Net earnings (loss)	<b>797</b>	4,768	<b>(10,856)</b>	5,955
Per boe	<b>1.63</b>	8.97	<b>(12.36)</b>	6.08
Per share – Basic	<b>0.01</b>	0.09	<b>(0.17)</b>	0.11
Per share – Diluted	<b>0.01</b>	0.08	<b>(0.16)</b>	0.11
Capital invested	<b>15,182</b>	44,313	<b>31,178</b>	125,342
Proceeds on dispositions	-	15,720	-	15,720
Net capital	<b>15,182</b>	28,593	<b>31,178</b>	109,622

	<b>June 30</b>	December 31
	<b>2007</b>	2006
Debt plus working capital deficit	<b>110,759</b>	118,178
Total assets	<b>323,600</b>	326,668
Shares outstanding		
Basic	<b>68,070</b>	60,663

## OPERATIONAL REVIEW

### NORTH WEST ALBERTA

#### Bigstone

Subsequent to quarter end, Delphi as operator, has drilled and cased the first of three planned wells (1.9 net) in the Bigstone area targeting natural gas in the Cretaceous aged formations at depths up to 2,800 metres that include the Gething, Bluesky, Falher, Viking, and Dunvegan. A completion program is being generated to evaluate four potentially productive intervals and with success, the well will be tied-in to Company owned infrastructure prior to the end of the third quarter. Drilling at the remaining two locations is scheduled to begin towards the end of the third quarter and continue into the fourth quarter. Previous efforts to optimize the gas gathering infrastructure and processing facilities have been very successful, resulting in run-times exceeding 95 percent and Delphi production volumes consistently exceeding 3,000 boe/d in the Bigstone area.

Development of the Cardium light oil play is ongoing with the initiation of production from a vertical Cardium well (1.0 net) at 100 boe/d. The well had been shut-in over spring break-up awaiting surface access to perform well and facility modifications. In addition, a horizontal Cardium well (0.6 net) drilled and cased during the winter program was recently fracture stimulated. Flow back and testing operations are ongoing to determine well deliverability. A short tie-in to Company owned infrastructure would allow the well to come on-stream prior to the end of the third quarter. Two of the wells being drilled for Cretaceous gas will also be testing the Cardium formation and one Cardium location is being licensed, which could result in up to three additional Cardium completions (2.1 net) during the second half of 2007. The Company has identified in excess of 20 potential drilling locations targeting the Cardium light oil play in the Bigstone area.

## **Tower Creek**

Delphi closed the acquisition to acquire an additional 10.5 percent working interest in the Tower Creek 2-21 Leduc exploration discovery, well-site facilities and lands at Tower Creek in north west Alberta, increasing Delphi's stake to 30.7 percent for a total cash consideration of \$10.8 million. Equipping and tie-in operations of the well were completed with production start-up in late June. The operations associated with commissioning the new dehydration facility and the summer maintenance program at the third party sour processing plant are now completed, allowing the 2-21 Leduc well to consistently produce at rates in excess of 20 mmcf/d of gross raw gas (750 boe/d net sales to Delphi).

A seismically defined deep exploration test targeting high pressure sweet gas from the highly fractured Wabamun formation at a depth of 4,500 metres started drilling in June and is currently drilling ahead in the intermediate section of the wellbore. The well is anticipated to reach total depth in the fourth quarter. Delphi will pay 36.8 percent of the drilling and completion costs to earn a 30.7 percent interest in the well and associated lands. Wabamun analogs in the area have commenced production at rates up to 30 mmcf/d of sweet gas.

## **Brazeau**

Subsequent to quarter end, the Company as operator, has drilled and cased the first of three planned 2,000 metre wells targeting natural gas in the Belly River Formation on its lands in the Brazeau River area of west central Alberta. The first well is a twin to an exploration well that Delphi drilled in 2006 for deeper objectives. A completion program is being generated to evaluate four potentially productive intervals. An on-lease tie-in to a midstream company with substantial capacity for gathering and processing of the natural gas will allow the well to come on-stream prior to the end of the third quarter. Offsetting Belly River wells in the area have produced at initial rates of up to 3.0 mmcf/d. Delphi has increased its working interest share to 48.2 percent in the first well, 64.3 percent in the second well and maintains a 27.0 percent working interest in the third proposed well and associated acreage. The second well in this play is anticipated to spud by the end of the third quarter with drilling continuing into the fourth quarter.

## **Valhalla**

The Company has recompleted a previously drilled deep test in the shallower Mississippian zones during the second quarter and the well is producing at a stabilized rate of 2.0 mmcf/d (145 boe/d net).

## **Red Rock**

Delphi, as operator has licensed the first of two planned 3,800 metre tests in the Red Rock area on summer accessible locations. The Company is currently sourcing the required services and plans to spud the first well prior to September 1. The Red Rock area is prospective for multi-zone sweet gas targets including the Cadomin, Gething, Bluesky, Falher, Cadotte, Dunvegan and Cardium formations. Analog wells in the area have a wide range of deliverability with a typical well having an initial production rate of 2 to 3 mmcf/d and several of the more prolific wells having initial production rates in excess of 10 mmcf/d.

The planned wells are the result of a farmin agreement Delphi first communicated in a June 14, 2007 press release with a major industry producer. Under the terms of the agreement, Delphi has the potential to earn a working interest in up to 18,000 acres (28 gas spacing units) of land on a rolling option basis. Upon earning, Delphi will have a 60 percent working interest in this acreage, which is fully covered with existing 3D seismic. Delphi's partner has ownership and access to gas gathering and processing infrastructure in the immediate area.

## **EAST CENTRAL ALBERTA**

### **Horseshoe**

At Horseshoe, two horizontal locations are being licensed after acquiring additional 3D seismic data which has defined a potentially oil bearing structure in the Dina formation over the Company's 100 percent working interest lands. With success in the Dina, up to seven additional offsetting wells could be drilled. A similar well drilled in the adjacent section to the north of Delphi's location had initial oil production rates in excess of 100 barrels per day. The timing of the Horseshoe drilling will be dependent upon success and capital requirements of the prospects currently being drilled in north west Alberta.

## **NORTH EAST BRITISH COLUMBIA**

### **Noel**

Subsequent to quarter end, the Company as operator has recently drilled and cased the two planned 2,300 metre wells targeting multi-zone sweet gas and light oil targets in the Falher, Cadotte, Paddy, Dunvegan and Cardium formations. The first well encountered four potentially productive intervals and the second well encountered three potentially productive intervals. Completion programs are being generated with results expected over the next several weeks. Delphi's partner in this area has access to gas gathering and processing infrastructure which will allow productive zones to be brought to sales by the end of the third quarter.

These wells are part of a farmin agreement Delphi first communicated in a June 14, 2007 press release, with an industry producer in the Noel area of north east British Columbia. Under the terms of this agreement, Delphi has the potential to earn a working interest in up to 12,000 acres (15 gas spacing units) of land on a rolling option basis. Upon earning, Delphi will have a 60 percent working interest in this acreage.

## **FINANCIAL REVIEW**

Funds from operations for the second quarter of 2007 were \$11.5 million (\$0.17 per share) resulting from a cash netback of \$23.44 per boe on sales volume of 5,379 boe/d. Delphi's cash flow per boe strength was partially due to higher realized natural gas prices resulting from its hedging program. The risk management program resulted in hedging gains of \$1.1 million in the second quarter of 2007. The Company realized an average natural gas price which was 16 percent higher than the benchmark AECO price in the second quarter of 2007. Funds from operations for the six months ended June 30, 2007 were \$22.1 million.

The Company recorded net earnings of \$0.8 million (\$0.01 per share) in the second quarter of 2007 and had a loss of \$10.8 million for the six months ended June 30, 2007 as a result of an impairment of goodwill incurred in the first quarter. The non-cash charge of \$12.1 million incurred in the first quarter was based on a review of the valuation of goodwill as of March 31, 2007 which incorporated the market capitalization of the Company and the Company's share price on March 31, 2007.

In the second quarter of 2007, Delphi incurred total capital expenditures of \$15.1 million, with \$10.8 million (72 percent) of the capital being directed towards the acquisition of an additional 10.5 percent interest in the Tower Creek 2-21 Leduc exploration discovery late in the quarter. The majority of the remaining \$4.3 million of capital was incurred on the tie-in and equipping operations at Tower creek 2-21 and the start of drilling operations on the Wabamun prospect in the Tower Creek area. The capital program was financed through funds from operations and the utilization of the Company's credit facilities with its lenders.

At June 30, 2007, Delphi had outstanding bank debt plus working capital deficiency of \$110.8 million. During the quarter, the existing credit facilities consisting of a \$115.0 million revolving credit facility and a \$10.0 million acquisition/development credit facility were confirmed by the Company's lenders based on their scheduled annual review of the Company's independently evaluated oil and gas reserves.

## **OUTLOOK**

For the past 12 months Delphi has maintained a conservative view of the timeline to recovery of the North American natural gas market fundamentals, taking advantage of the significant volatility in natural gas future strip pricing by maintaining an active risk management program through 2007 and into 2008. Reduced industry activity in Canada has been offset by sustained high levels of drilling activity and record LNG imports in the U.S., putting continued pressure on the supply and demand fundamentals of the natural gas markets. This oversupply condition of the natural gas markets could continue through the summer cooling season of 2008. With that view in mind, the Company has approximately 54 percent of its current natural gas production hedged through to the end of 2007 and approximately 35 percent from January 2008 through to the end of October 2008 at a minimum floor price of \$8.36 per mcf. This average minimum price represents a 15 to 30 percent premium to the current forward AECO strip and a 64 percent premium to the current AECO spot price of approximately \$5.10.

Delphi is maintaining its capital budget expectations of \$20 million to \$25 million through the second half of 2007 drilling up to 13 wells, of which four are cased and waiting completion operations. Positive drilling results and continued production growth, coupled with moderating industry service and equipment costs and secure financial resources are positively influencing Delphi's capital investment decisions. Delphi reiterates its third quarter production volume estimate of 5,500 boe/d, taking into consideration scheduled summer maintenance and plant turnaround activities. Operating costs are forecast to drop 15 to 20 percent through the second half of 2007 providing additional growth in funds from operations.

Forecast year-end net debt of approximately \$105 million and continued growth of funds from operations is expected to improve the debt to funds flow ratio at year-end to less than 1.8.

The Company continues to expand its technical team with the recent additions of Richard Webb (22 years experience) and Christine Link (27 years experience) both in the capacities of Staff Geologists as well as Janet Davies (24 years experience) as Senior Exploitation Engineer. Our team remains highly energized and excited about the current drilling program and the significant inventory of internally generated growth opportunities.

Delphi expects to exit the year producing approximately 5,800 to 6,000 boe/d, a 35 percent increase over the first quarter 2007 production rate and reiterates its forecasted average production rate for 2007 of 5,200 to 5,400 boe/d. The Company looks forward to reporting results of the drilling program in progress.

On behalf of the Board,

**David J. Reid,**  
President and Chief Executive Officer  
July 31, 2007

## Management's Discussion and Analysis

(all tabular amounts are expressed in thousands of CDN dollars, except per unit amounts)

The following discussion and analysis 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 results of the Company based upon accounting principles generally accepted in Canada. Its focus is primarily a comparison of the financial performance for the three and six months ended June 30, 2007 and 2006 and should be read in conjunction with the audited financial statements and accompanying notes for the year ended December 31, 2006. The discussion and analysis has been prepared as of July 31, 2007.

**Basis of Presentation.** 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 with the Canadian Securities Administrators' National Instrument 51-101 when boes are disclosed. Boes may be misleading, particularly if used in isolation.

**NON GAAP Measures.** The MD&A contains the terms "funds from operations", "funds from operations per share" and "netbacks" which are not recognized measures under Canadian generally accepted accounting principles. The Company uses these measures to help evaluate its performance. Management considers netbacks an important measure as it demonstrates its profitability relative to current commodity prices. Management uses funds from operations to analyze performance and considers it a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future capital investments and to repay debt. Funds from operations has been defined by the Company as net earnings plus the addback of non-cash items (depletion, depreciation and accretion, stock-based compensation, future income taxes and unrealized (gain)/loss on risk management activities) and excludes the change in non-cash working capital related to operating activities and expenditures on asset retirement obligations and reclamation. The Company also presents funds from operations per share whereby amounts per share are calculated using weighted average shares outstanding consistent with the calculation of earnings per share. Delphi's determination of funds from operations may not be comparable to that reported by other companies nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with Canadian GAAP.

**Forward-Looking Statements.** Certain information regarding Delphi Energy Corp. set forth in this document, including management's assessment of the Company's future plans and operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the Company's control, including the effects of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other oil and gas companies, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from both internal and external sources. The Company's actual results, performance or achievement 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.

## Production

	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2007	2006	% Change	2007	2006	% Change
Natural gas (mcf/d)	26,967	28,797	(6)	24,327	26,260	(7)
Crude oil (bbl/d)	423	531	(20)	395	537	(26)
Natural gas liquids (bbl/d)	461	503	(8)	404	510	(21)
Total (boe/d)	5,379	5,834	(8)	4,854	5,424	(11)

Production for the three months ended June 30, 2007 (the "Quarter") averaged 5,379 boe/d representing an increase of 25 percent over the first quarter of 2007. The significant increase in production over the prior quarter was due to a successful winter program, in particular excellent drilling results at Bigstone, Alberta. Delphi was able to add production at less than \$20,000 per flowing boe, demonstrating Delphi's high quality and low risk profile capital projects. Due to an early spring break-up, drilling activity during the Quarter was limited, however, Delphi currently has four rigs drilling with plans to drill up to 13 wells during the remainder of the year. Delphi remains on track to achieve previously stated guidance of an average production rate between 5,200 and 5,400 boe/d for 2007 and has increased its anticipated exit rate to 5,800 – 6,000 boe/d. The Company's production portfolio for the Quarter was weighted 84 percent to natural gas, eight percent to crude oil and eight percent to natural gas liquids.

Crude oil production was lower than the comparative periods due to the sale of assets which produced approximately 50 boe/d, natural declines and minimal capital investment towards adding new production, but increased 16 percent over the prior quarter due to the development of the Cardium light oil play in north west Alberta.

The decrease in the production of natural gas liquids is consistent with the decrease in natural gas volumes.

## Commodity Prices and Risk Management

### Benchmark Prices

	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2007	2006	% Change	2007	2006	% Change
<b>Natural gas</b>						
NYMEX (US \$/mmbtu)	7.53	6.50	16	7.36	7.96	(8)
AECO (CDN \$/mcf)	7.09	6.05	17	7.25	6.76	7
<b>Crude oil</b>						
West Texas Intermediate (US \$/bbl)	65.02	70.45	(8)	61.63	67.05	(8)
Edmonton Light (CDN \$/bbl)	73.78	77.55	(5)	70.84	73.90	(4)
<b>Foreign exchange rate</b>						
Canadian to US dollar	1.10	1.12	(2)	1.13	1.14	(1)
US to Canadian dollar	0.91	0.89	2	0.88	0.88	-

### Natural Gas

United States natural gas prices are commonly referenced to the New York Mercantile Exchange Henry Hub in Louisiana (NYMEX) while Canadian natural gas prices are typically referenced to the AECO Hub in Alberta. Natural gas prices are influenced more by North American supply and demand than global fundamentals. Natural gas prices increased 16 percent over the comparative quarter and decreased eight percent over the prior year. A relatively mild spring and early summer pushed natural gas storage levels back towards the upper end of the 5-year historical range. There continues to be concern of over-supply due to the high volumes of gas in storage at an early stage of the injection season, combined with high liquefied natural gas (LNG) import levels. The high level of LNG imports have more than offset lower Canadian supply levels.

Delphi expects prices to remain volatile throughout 2007 and as such, has extended its price protection strategy to protect the Company's capital program and its balance sheet. Currently, Delphi has hedged approximately 46 percent of its before-royalty gas production at an average AECO floor price of \$8.54 per thousand cubic feet from July 1, 2007 to March 31, 2008. Delphi continues to monitor the forward strip price curves and layer in additional hedges for 2008 and 2009 when prudent.

### Crude Oil

West Texas Intermediate at Cushing, Oklahoma (WTI) is the benchmark reference for North American crude oil prices. Canadian crude oil prices are based upon postings, primarily at Edmonton, Alberta, and represent the WTI price adjusted for quality and transportation differentials as well as the US/CDN dollar exchange rate.

Crude prices have decreased from the comparative periods but remain robust despite indications of reduced political tensions, particularly in Nigeria. Crude oil price has been buoyed by lower than normal refinery utilization in the United States raising concerns that demand will outstrip supply of gasoline this summer.

Prices for heavy oil and other lesser quality crudes trade at a discount or differential to light crude oil due to the additional costs in the refining process. Delphi primarily receives a Bow River crude price, a benchmark for medium grade oil, and as such continues to receive a discount to WTI. As the development of the Cardium light oil play continues, the price received by Delphi for oil production will more closely correlate to the WTI price.

### Risk Management Activities

Delphi enters into both financial and physical commodity contracts as part of its risk management program to manage commodity price fluctuations designed to ensure sufficient cash is generated to fund its capital program particularly when commodity prices are extremely volatile.

On January 1, 2007 the Company adopted the new accounting standards regarding the accounting for financial instruments. In addition to the adoption of the new standards, management has elected not to use hedge accounting and consequently records the fair value of its natural gas financial contracts at each reporting period with the change in the fair value being classified as unrealized gains and losses in the statement of earnings.

The Company recognized an unrealized non-cash gain on risk management activities for the three and six months ended June 30, 2007 of \$2.0 million and \$1.8 million respectively related to financial commodity contracts. 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 with reference to forward prices and market values provided by independent sources. Due to the inherent volatility in commodity prices, actual amounts realized may differ from these estimates.

The Company has fixed the price applicable to future production through the following contracts:

Time Period	Commodity	Type of Contract	Quantity Contracted	Canadian Price (CDN\$/unit)
April 2007 – October 2007	Natural Gas	Physical	3,000 GJ/d	\$8.75 floor/\$9.55 ceiling
April 2007 – October 2007	Natural Gas	Physical	4,000 GJ/d	\$8.00 floor/\$8.92 ceiling
April 2007 – October 2007	Natural Gas	Physical	2,000 mmbtu/d	\$8.94 fixed
April 2007 – October 2007	Natural Gas	Physical	2,000 GJ/d	\$6.50 floor/\$8.15 ceiling
April 2007 – October 2007	Natural Gas	Financial	2,000 GJ/d	\$6.50 floor/\$9.00 ceiling
April 2007 – October 2007	Natural Gas	Financial	1,500 GJ/d	\$7.09 fixed
April 2007 – October 2007	Natural Gas	Financial	1,500 GJ/d	\$7.10 fixed
November 2007 – December 2007	Natural Gas	Financial	2,000 GJ/d	\$6.50 floor/\$10.45 ceiling
November 2007 – March 2008	Natural Gas	Physical	3,000 GJ/d	\$9.00 floor/\$9.98 ceiling
November 2007 – March 2008	Natural Gas	Physical	2,000 mmbtu/d	\$11.07 fixed
November 2007 – March 2008	Natural Gas	Physical	2,000 GJ/d	\$7.75 floor/\$9.03 ceiling
November 2007 – March 2008	Natural Gas	Physical	2,000 GJ/d	\$8.00 floor/\$10.02 ceiling
November 2007 – March 2008	Natural Gas	Financial	1,500 GJ/d	\$8.55 fixed
November 2007 – March 2008	Natural Gas	Physical	1,500 GJ/d	\$8.55 fixed
April 2008 – October 2008	Natural Gas	Physical	4,000 GJ/d	\$7.21 fixed
April 2008 – October 2008	Natural Gas	Physical	3,000 GJ/d	\$7.61 fixed

The Company has elected to account for its physical commodity sales contracts which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts on an accrual basis rather than as non-financial derivatives. Prior to adoption of the new standards, physical receipt and delivery contracts did not fall within the scope of the definition of a financial instrument and were also accounted for as executory contracts.

## Realized Sales Prices

	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	% Change	2007	2006	% Change
Natural gas (\$/mcf)	<b>8.19</b>	7.59	8	<b>8.82</b>	8.29	6
Gain/(loss) on financial contracts (\$/mcf)	<b>0.01</b>	-	-	<b>0.01</b>	(0.04)	-
Realized gas price (\$/mcf)	<b>8.20</b>	7.59	8	<b>8.83</b>	8.25	7
Crude oil (\$/bbl)	<b>59.24</b>	60.84	(3)	<b>56.39</b>	52.14	8
Realized oil price (\$/bbl)	<b>59.24</b>	60.84	(3)	<b>56.39</b>	52.14	8
Natural gas liquids (\$/bbl)	<b>56.61</b>	66.15	(14)	<b>52.91</b>	58.20	(9)
Total realized sales price (\$/boe)	<b>50.63</b>	48.72	4	<b>53.22</b>	50.60	5

The increase in the average natural gas price received by Delphi during the three and six months ended June 30, 2007, is consistent with the increase in the AECO spot price. The Company continues to receive higher than the AECO spot price on natural gas sales due to the high heating content of its natural gas production. During the Quarter, Delphi benefited



from its risk management program in which the Company fixed the price on a portion of its natural gas production at amounts significantly higher than the AECO spot price. The risk management program increased the average natural gas price received during the Quarter by approximately \$0.45 per mcf and \$0.88 per mcf year to date in excess of the AECO spot price. Delphi's oil production is predominantly a medium grade oil; therefore the Company's average price fluctuates with the quality differential. Realized natural gas liquids prices have decreased due to the decrease in the price received for condensate, the primary component of the Company's natural gas liquid production.

## Revenue

	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2007	2006	% Change	2007	2006	% Change
Natural gas	20,100	19,897	1	38,828	39,419	(1)
Crude oil	2,280	2,940	(22)	4,032	5,068	(20)
Natural gas liquids	2,375	3,028	(22)	3,869	5,372	(28)
Realized gain/(loss) on financial contracts	24	-	-	24	(185)	-
<b>Total</b>	<b>24,779</b>	<b>25,865</b>	<b>(4)</b>	<b>46,753</b>	<b>49,674</b>	<b>(6)</b>

The decrease in revenue over the comparative periods is attributed to decreased production volumes offset by an increase in the realized price received. Revenue increased 13 percent over the first quarter of 2007 due to a 24 percent increase in production volumes offset by a 10 percent decrease in the realized price received.

## Royalties

	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2007	2006	% Change	2007	2006	% Change
Crown	4,320	4,278	1	8,198	9,656	(15)
Freehold and gross overriding	183	251	(27)	372	453	(18)
<b>Total</b>	<b>4,503</b>	<b>4,529</b>	<b>(1)</b>	<b>8,570</b>	<b>10,109</b>	<b>(15)</b>
Royalty credits	(660)	(1,335)	(51)	(1,519)	(1,851)	(18)
<b>Net</b>	<b>3,843</b>	<b>3,194</b>	<b>20</b>	<b>7,051</b>	<b>8,258</b>	<b>(15)</b>
Per boe	7.85	6.02	30	8.03	8.41	(5)
Percent of total revenue	15.5	12.3		15.1	16.6	

The Company pays royalties to provincial governments (Crown), freeholders, which can be individuals or companies, and other oil and gas operators that own surface or mineral rights. Crown royalty rates are calculated on a sliding scale based on commodity prices and individual well production rates. Royalty rates can change due to price fluctuations or changes in production volumes on a well by well basis subject to a minimum and maximum rate restriction ascribed by the Crown. During the Quarter, royalties as a percentage of revenue increased to 15.5 percent due to a decrease in hedging gains in the Quarter. In the comparative quarter Delphi realized an incremental \$3.0 million in hedging gains whereas in the three months ended June 30, 2007, Delphi realized approximately \$1.1 million in hedging gains which are included in revenue but on which royalties are not payable. In Alberta, Delphi pays royalties based on the provincial reference price, not the prices received, resulting in Delphi not paying royalties on the incremental \$1.1 million in hedging gains. Delphi is expecting royalties as a percentage of revenue, before hedging, to be between 17 and 20 percent in 2007.

Royalty credits for the three and six months ended June 30, 2007 are lower than the comparative period due to Delphi receiving a Gas Cost Allowance (GCA) credit of \$0.4 million relating to 2005 in the comparative period. The GCA is a deduction from Alberta Crown royalties to compensate the Company for the cost of gathering, processing and compression facilities to process the Crown royalty portion of production. Until the end of 2006, the Company was eligible for the Alberta Royalty Tax Credit (ARTC), a tax rebate from the Alberta government for eligible crown royalties paid in the year subject to a maximum of \$0.5 million in 2006. The Alberta government announced that the ARTC tax rebate program has been cancelled and as such, Delphi will not receive the rebate in 2007 and thereafter.

## Operating Expenses

	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	% Change	2007	2006	% Change
Total	<b>4,798</b>	4,282	12	<b>8,635</b>	7,932	9
Per boe	<b>9.80</b>	8.07	21	<b>9.83</b>	8.08	22

Operating expenses on a per boe basis for the three and six month period ended June 30, 2007 increased 21 percent and 22 percent respectively, over the comparative periods. The increase in operating costs per boe is partly due to lower production volumes. As discussed earlier, production volumes were eight and 11 percent lower for the three and six months ended June 30, 2007 than the comparative periods. In addition, the Company incurred a higher level of workover and maintenance activity than the previous year and incurred cost adjustments from prior years in several non-operated areas. Operating costs were also negatively impacted by reduced processing income. These fees are recorded as a reduction of operating costs. The Company's core area of Bigstone, Alberta continues to operate at a very efficient cost of approximately \$4.00 per boe. Delphi is projecting operating costs to average \$8.00 to \$8.50 per boe for the remainder of the year.

## Transportation Expenses

	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	% Change	2007	2006	% Change
Total	<b>1,902</b>	1,779	7	<b>3,231</b>	3,095	4
Per boe	<b>3.89</b>	3.35	16	<b>3.68</b>	3.15	17

In British Columbia, infrastructure is owned by Duke Energy that enables natural gas producers to avoid facility construction in exchange for regulated gathering, processing and transmission fees. This all-in charge is included in transportation expenses.

On a per boe basis, transportation costs for the three and six months ended June 30, 2007 increased by 16 percent and 17 percent over the comparative period due to lower production volumes with Delphi still being responsible for paying firm service commitment fees for transportation.

## General and Administrative

	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	% Change	2007	2006	% Change
General and administrative costs	<b>1,519</b>	1,412	8	<b>3,225</b>	3,041	6
Overhead recoveries	<b>(110)</b>	(343)	(68)	<b>(357)</b>	(743)	(52)
Salary allocations	<b>(555)</b>	(421)	32	<b>(1,255)</b>	(1,217)	3
Net	<b>854</b>	648	32	<b>1,613</b>	1,081	49
Per boe	<b>1.74</b>	1.22	43	<b>1.84</b>	1.10	67

On a per boe basis, general and administrative (G&A) costs for the three and six months ended June 30, 2007 increased 32 percent and 49 percent over the comparative periods in 2006. The increase in G&A is due to a decrease in production with a comparable level of staff and overhead. G&A per boe decreased 11 percent from the first quarter of 2007 due to higher production volumes with limited increase in costs. As a result of high levels of activity for Delphi and for the industry as a whole, the costs associated with hiring, compensating, and retaining employees and consultants have risen. Delphi is committed to continue to deliver strong growth and believes a strong technical team is paramount to achieve this goal and as such, added a senior geologist during the Quarter and a senior engineer and senior geologist subsequent to Quarter end. Delphi is expecting G&A per boe to trend lower for the remainder of the year as additional production volumes are slightly offset by an increase in personnel costs.

## Stock-based Compensation

	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	% Change	2007	2006	% Change
Total	101	311	(68)	314	1,859	(83)
Per boe	0.21	0.59	(65)	0.36	1.89	(81)

Stock-based compensation expense is the amortization over the vesting period of the fair value of stock options granted to employees, directors and key consultants 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 non-cash compensation expense for the three and six months ended June 30, 2007, decreased 65 percent and 81 percent due to limited options being granted to new and existing employees. During the three and six months ended June 30, 2007, Delphi capitalized \$0.2 and \$0.5 million of stock-based compensation associated with exploration and development activities.

## Interest

	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	% Change	2007	2006	% Change
Total	1,913	1,587	21	4,089	2,476	65
Per boe	3.91	2.99	31	4.65	2.52	85

Interest expense on a per boe basis increased 31 percent and 85 percent over the comparable periods due to higher bank debt, higher average interest rates and lower production volumes. Interest per boe decreased 30 percent from the first quarter of 2007 and Delphi anticipates interest per boe will continue to decrease throughout the year as debt is paid down and production is brought on stream.

## Depletion, Depreciation and Accretion

	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	% Change	2007	2006	% Change
Depletion and depreciation	11,984	10,500	14	21,359	19,292	11
Accretion expense	164	154	6	322	303	6
Total	12,148	10,654	14	21,681	19,595	11
Per boe	24.82	20.07	24	24.68	19.96	24

Depletion, depreciation, and accretion per boe for the three and six months ended increased 24 percent due to higher cost proved reserve additions, which is a trend throughout the industry. Throughout 2006, Delphi invested a significant amount of capital towards field infrastructure, allocated to depletable costs on a reasonable basis, which does not increase proved reserves but is critical to current operations and future development plans. In 2007, Delphi's capital program has been predominately focused on drilling. Depletion per boe is consistent with the first quarter of 2007.

## Taxes

	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	% Change	2007	2006	% Change
Capital	-	(77)	(100)	-	-	-
Future (recovery)	464	(1,281)	-	740	68	988
Total	464	(1,358)	(134)	740	68	988

The provision for income taxes in the financial statements for the three and six months ended June 30, 2007, differs from the result that would have been obtained by applying the combined federal and provincial tax rates to the Company's before tax loss, primarily due to the impairment of goodwill. Although the Company records the loss for accounting

purposes, it is unable to claim the loss for tax purposes. During the Quarter, the Company recorded a future tax recovery of approximately \$0.5 million relating to a reduction in future federal income tax rates enacted during the Quarter. The Company did not record any capital taxes in 2007 as capital taxes were eliminated effective January 1, 2006 pursuant to the Federal Government budget of May 2, 2006. Delphi does not anticipate it will be cash taxable until 2008 or later based on current commodity prices.

## Goodwill

Goodwill, at the time of acquisition, represents the excess of purchase price of a business over the fair value of net assets acquired. Goodwill is assessed by the Company for impairment at least each year end. If the fair value of the business is less than the book value, a second test is performed to determine the amount of the impairment. The amount of the impairment is determined by deducting the fair value of the business' assets and liabilities from the fair value of the business to determine the implied fair value of goodwill and comparing that amount to the book value of goodwill. Any excess of the book value of goodwill over the implied fair value is the impairment amount and is charged to earnings in the period of the impairment.

The Company reviewed the valuation of goodwill as at March 31, 2007 based on the latest available information including the market capitalization of the Company as indicated by the Company's share price at that time. Based upon this review, an impairment of goodwill of \$12.1 million was recorded as a non-cash charge to earnings for the six months ended June 30, 2007. The Company notes the write-down is a non-cash charge and does not believe it is an indication of the ultimate underlying value of the Company assets.

## Funds from Operations

	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	% Change	2007	2006	% Change
Net earnings	797	4,768	(83)	(10,856)	5,955	-
Non-cash items						
Depletion, depreciation and accretion	12,148	10,654	14	21,681	19,595	11
Impairment of goodwill	-	-	-	12,100	-	-
Unrealized gain on risk management activities	(2,041)	-	-	(1,845)	(645)	186
Stock-based compensation expense	101	311	(68)	314	1,859	(83)
Future income taxes	464	(1,281)	-	740	68	988
Funds from operations	11,469	14,452	(21)	22,134	26,832	(18)

For the three and six months ended June 30, 2007 funds from operations were \$11.5 million (\$0.17 per basic share) and \$22.1 million (\$0.34 per basic share) compared to \$14.5 million (2006 - \$0.26 per basic share) and \$26.8 (2006 - \$0.48 per basic share).

The following table shows the reconciliation of funds from operations to cash flow from operating activities for the periods noted:

	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	% Change	2007	2006	% Change
Funds from operations: Non-GAAP	11,469	14,452	(21)	22,134	26,832	(18)
Settlement of asset retirement obligations	(255)	(265)	(4)	(446)	(341)	31
Change in non-cash working capital	3,720	17,282	(78)	5,636	17,353	(68)
Cash flow from operating activities: GAAP	14,934	31,469	(53)	27,324	43,844	(38)

## Net Earnings

For the three and six months ended June 30, 2007, Delphi recorded net earnings of \$0.8 million and a net loss of \$10.9 million. Earnings were adversely affected by non-cash items such as depletion, depreciation, accretion, stock-based compensation, future income taxes and the impairment of goodwill. These non-cash items represent the majority of the significant difference between funds from operations and net earnings.

## Netback Analysis

	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2007	2006	% Change	2007	2006	% Change
<b>Barrels of oil equivalent (\$/boe)</b>						
Realized sales price	50.63	48.72	4	53.22	50.60	5
Royalties, net of ARTC	7.85	6.02	30	8.03	8.41	(5)
Operating expenses	9.80	8.07	21	9.83	8.08	22
Transportation	3.89	3.35	16	3.68	3.15	17
<b>Operating netback</b>	<b>29.09</b>	<b>31.28</b>	<b>(7)</b>	<b>31.68</b>	<b>30.96</b>	<b>2</b>
G&A	1.74	1.22	43	1.84	1.10	67
Interest	3.91	2.99	31	4.65	2.52	85
Current taxes	-	(0.15)	(100)	-	-	-
<b>Cash netback</b>	<b>23.44</b>	<b>27.22</b>	<b>(14)</b>	<b>25.19</b>	<b>27.34</b>	<b>(8)</b>
Unrealized (gain)/loss on financial contracts	(4.17)	-	-	(2.10)	(0.66)	218
Stock-based compensation expense	0.21	0.59	(65)	0.36	1.89	(81)
Depletion, depreciation and accretion	24.82	20.07	24	24.68	19.96	24
Impairment of goodwill	-	-	-	13.77	-	-
Future income taxes (recovery)	0.95	(2.41)	-	0.84	0.07	1,103
<b>Net earnings (loss)</b>	<b>1.63</b>	<b>8.97</b>	<b>(82)</b>	<b>(12.36)</b>	<b>6.08</b>	<b>-</b>

Approximately 84 percent of Delphi's production is natural gas and therefore Delphi's netbacks are primarily driven by the price received for natural gas. Delphi has an active risk management program to mitigate some of the volatility in commodity prices.

## Drilling Results

	Three Months Ended		Six Months Ended	
	June 30, 2007		June 30, 2007	
	Gross	Net	Gross	Net
Natural gas wells	-	-	4.0	2.1
Oil wells	-	-	2.0	0.5
Dry holes	-	-	-	-
Total wells	-	-	6.0	2.6
Success rate (%)	-	-	100	100

The Company did not drill any wells during the Quarter due to an early spring break-up but did achieve a 100 percent success rate during the first quarter of 2007. The Company currently has two rigs operating and plans to drill 12 wells during the remainder of the year.

## Capital Invested

	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2007	2006	% Change	2007	2006	% Change
Land	13	2,832	(99)	13	2,953	(100)
Seismic	85	3,629	(98)	214	10,050	(98)
Drilling and completions	2,100	20,016	(90)	12,744	68,697	(81)
Equipping and facilities	1,822	16,255	(89)	5,800	41,337	(86)
Property and corporate acquisition	10,871	1,188	815	10,871	1,188	815
Capitalized expenses	195	375	(48)	1,165	1,087	7
Other	96	18	433	371	30	1,137
Capital invested	15,182	44,313	(66)	31,178	125,342	(75)
Asset retirement costs	-	129	-	56	368	(85)
Total capital invested	15,182	44,442	(66)	31,234	125,710	(75)

The majority of capital expenditures during the Quarter was spent on the acquisition of an additional 10.5 percent working interest in the 2-21 Leduc exploration discovery, well-site facilities and lands at Tower Creek in north west Alberta, increasing Delphi's stake to 30.7 percent. The remaining capital in the Quarter was directed to the construction and commissioning of the Tower Creek facility, several re-completions and the drilling of the Tower Creek 11-26 well. The 11-26 well spud in June and is expected to take approximately four months to drill.

Year to date, the Company has drilled five wells in Bigstone and one well in Bigfoot. The significant difference in capital spent year to date versus the comparative period is due to Delphi paying 90 percent to earn a 50 percent working interest in the Bigfoot area of north east British Columbia in 2006. Delphi has satisfied the \$81.0 million farmin commitment and is participating on a 50/50 basis going forward.

## Liquidity and Capital Resources

### Funding

	Three Months Ended	Six Months Ended
	June 30, 2007	June 30, 2007
Sources:		
Funds from operations	11,469	22,134
Issue of flow through shares, net of issue costs	-	16,877
Issue of common shares, net of issue costs	32	32
Change in non-cash working capital	-	3,924
Cash	4,861	757
	16,362	43,724
Uses:		
Change in non-cash working capital	3,825	-
Capital expenditures	4,311	20,307
Acquisition of petroleum and natural gas properties	10,871	10,871
Expenditures on site restoration and reclamation	255	446
	19,262	31,624
Increase/(decrease) in bank debt	2,900	(12,100)

For the three and six months ended June 30, 2007, Delphi funded its capital program through a combination of funds from operations and the issuance of flow-through common shares.

## Share Capital

At June 30, 2007, the Company had 68.1 million common shares outstanding (June 30, 2006 – 60.7 million). The common shares of Delphi trade on the TSX under the symbol DEE. The following table summarizes outstanding share data for the three and six months ended June 30, 2007.

	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
Weighted Average Common Shares		
Basic	<b>68,019</b>	65,582
Diluted	<b>68,344</b>	65,903
Trading Statistics		
High	<b>\$ 2.28</b>	\$ 2.38
Low	<b>\$ 1.56</b>	\$ 1.32
Average daily, volume	<b>260,495</b>	329,900

<sup>(1)</sup> Trading statistics based on closing price.

As at July 31, 2007 the Company had 68.1 million common shares outstanding and 4.4 million stock options outstanding.

## Bank Debt plus Working Capital Deficit

At June 30, 2007, the Company had \$102.9 million outstanding on its credit facility and a working capital deficit of \$7.9 million for total debt plus working capital deficit of \$110.8 million excluding the financial asset of \$2.2 million relating to the unrealized gain on financial commodity contracts and the \$0.7 relating to the current portion of future income taxes. Delphi anticipates spending projected funds from operations on capital expenditures during 2007.

The capital intensive nature of the industry will generally result in the Company having a working capital deficit. The Company has a revolving facility for \$115.0 million with a syndicate of Canadian chartered banks. The facility is a 364 day committed revolving facility with a one year term-out provision. The credit facility bears interest based on a sliding scale tied to the Company's trailing debt to funds flow from operations; from a minimum of the bank's prime rate to a maximum of the bank's prime rate plus 1.0 percent. In addition to the revolving term facility, the Company has a \$10.0 million development facility. The pricing grid on the development facility is 0.25 percent higher than the revolving term facility.

## Financial Strategy

The Company maintains an active risk management program as an integral part of its overall financial strategy to mitigate cash flow volatility resulting from fluctuating commodity prices. Delphi's risk management program consists of both fixed price contracts as well as costless collars, which provide both downside protection and the opportunity to share in the upside if market prices move above the floor price. Currently, Delphi has hedged approximately 50 percent of its before-royalty gas production at an average AECO floor price of \$8.67 per thousand cubic feet from July 1, 2007 to March 31, 2008. The Company plans to spend the majority of its capital during the second half of the year, timed with an expected stronger natural gas price environment and lower cost of services.

## Selected Quarterly Information

The following table sets forth certain information of the Company for the past eight consecutive quarters.

	Jun. 30 2007	Mar. 31 2007	Dec. 31 2006	Sept. 30 2006	Jun. 30 2006	Mar. 31 2006	Dec. 31 2005	Sept. 30 2005
<b>Production</b>								
Oil and NGLs (bbl/d)	884	712	829	856	1,034	1,062	1,028	889
Natural gas (mcf/d)	26,967	21,658	24,919	25,403	28,797	23,695	22,909	19,580
Barrels of oil equivalent (boe/d)	5,379	4,322	4,982	5,090	5,834	5,011	4,846	4,152
<b>Financial</b>								
(\$000s, except as noted)								
Petroleum and natural gas revenue	24,779	21,974	22,928	21,587	25,865	23,809	28,961	20,606
Funds from operations	11,469	10,665	11,817	10,902	14,452	12,380	16,118	10,199
Per share - Basic	0.17	0.17	0.19	0.18	0.26	0.22	0.31	0.20
Per share - Diluted	0.17	0.17	0.19	0.18	0.26	0.22	0.31	0.20
Net earnings (loss)	797	(11,653)	290	658	4,768	1,187	6,425	1,190
Per share - Basic	0.01	(0.18)	-	0.01	0.09	0.02	0.13	0.02
Per share - Diluted	0.01	(0.18)	-	0.01	0.09	0.02	0.12	0.02
Capital invested	15,182	15,996	12,124	27,886	44,313	81,029	29,056	16,280
Dispositions	-	-	(17,867)	(1,331)	(15,720)	-	-	-
Net Capital Invested	15,182	15,996	(5,743)	26,555	28,593	81,029	29,056	16,280
<b>Per unit information</b>								
Natural gas (\$/mcf)	8.20	9.61	8.41	7.20	7.59	8.54	11.69	9.30
Oil and natural gas liquids (\$/bbl)	58.51	50.64	48.39	61.10	63.43	46.79	45.70	47.15
Oil equivalent (\$/boe)	50.63	56.49	50.02	46.10	48.72	52.79	64.94	53.95
Operating netback (\$/boe)	29.09	34.95	31.92	27.61	31.28	30.55	39.18	31.17

## Contractual Obligations

The Company is committed, under contracts of varying lengths, for the utilization of gathering, processing and pipeline capacity on a major natural gas processing and gathering system in north east British Columbia. The future minimum commitments are as follows:

2007	\$	2,280
2008		4,366
2009		4,056
2010		4,045
2011		3,661
2012 – 2015		6,938

The Company has incurred the necessary qualifying exploration expenditures to satisfy the terms of the flow-through shares issued in 2005. Although the Company believes it has incurred the necessary qualifying expenditures, these amounts may be subject to audit and subsequent interpretation by the Canada Revenue Agency. At June 30, 2007 the Company has an obligation to spend approximately \$16.8 million on qualifying exploration expenditures by December 31, 2007 to satisfy the obligation relating to the issuance of flow-through shares in 2006. The Company has an obligation to incur qualifying exploration expenditures of \$18.0 million by December 31, 2008 to satisfy the obligation relating to the issuance of flow-through shares in 2007.



## **Guarantees and Off-balance Sheet Arrangements**

Delphi has not entered into any off-balance sheet arrangements or guarantees.

## **Business Conditions and Risk**

See the Company's 2006 Annual Information Form (AIF) for a listing of certain risks.

## **Critical Accounting Estimates**

Delphi's financial statements have been prepared in accordance with Canadian general accepted accounting principles. Certain accounting policies require management to make decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Delphi's management review their estimates frequently; however, the emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. Delphi attempts to mitigate this risk by employing individuals with the appropriate skill set and knowledge to make reasonable estimates; developing internal reporting systems; and comparing past estimates to actual results.

The Company's financial and operating results include estimates of the following:

- Depletion, depreciation and accretion based on estimates of oil and gas reserves;
- Estimated revenues, operating expenses and royalties for which actual revenues and costs have not been received;
- Estimated capital expenditures on projects that are in progress;
- Estimated fair value of derivative contracts;
- Estimated amount of the asset retirement obligation including estimates of future costs and the timing of the costs; and
- Estimated fair value of the Company in performing the goodwill impairment test.

## **Change in Accounting Policies**

Effective January 1, 2007, the Company adopted the new Canadian accounting standards for financial instruments – recognition and measurement; financial instruments – presentation and disclosure, hedging and comprehensive income. The Company has adopted these standards prospectively and as such the comparative financial statements have not been restated. The adoption of these standards had no effect on opening retained earnings or accumulated other comprehensive income.

The Company adopted Section 1506 – Accounting Changes, the only effect of which is to provide disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. This is the case with Section 1535 – Capital; Section 3862 – Financial Instruments Disclosures; and Section 3863 - Financial Instruments Presentations; which are required to be adopted for fiscal years beginning on or after October 1, 2007. The Company will adopt these standards on January 1, 2008 and it is expected the only effect on the Company will be incremental disclosures about the Company's financial instruments as well as its capital and how it is managed

## **Corporate Governance**

### **Overview**

The shareholders' interests are a critical factor in the operation 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 governance policies. Delphi's Board consists of five independent directors and two officers of the Company who meet regularly to discuss matters of strategy and execution of the business plan. See Delphi's AIF for a listing of committees that oversee specific aspects of the Company's operating and financial strategy.

## **Disclosure Controls**

Disclosure controls and procedures have been designed to ensure information required to be disclosed by Delphi is accumulated and communicated to the Company's Management as appropriate to allow timely decisions regarding disclosures. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the interim filings, that the Company's disclosure controls and procedures provide a reasonable level of assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified and the controls and procedures are designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the issuer's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. The Company notes that while it believes the disclosure controls and procedures provide a reasonable level of assurance that they are effective, it does not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system is designed to provide reasonable, not absolute, assurance that the objectives of the control system are met.

## **SEDAR Filing**

Additional information about Delphi is available on the Canadian Securities Administrators' System for Electronic Distribution and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com) and at the Company's website at [www.delphienergy.ca](http://www.delphienergy.ca).

**DELPHI ENERGY CORP.**  
**Consolidated Balance Sheets (unaudited)**

(\$CDN thousands)	June 30 2007	December 31 2006
<b>Assets</b>		
Current assets:		
Cash	-	757
Accounts receivable	13,985	16,097
Prepaid expenses and deposits	1,185	1,460
Risk management asset (Notes 3 & 8)	2,193	348
	<b>17,363</b>	<b>18,662</b>
Property, plant and equipment (Note 4)	<b>306,237</b>	295,906
Goodwill (Note 10)	-	12,100
<b>Total assets</b>	<b>323,600</b>	<b>326,668</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	23,029	21,492
Current portion of future income taxes	715	-
	<b>23,744</b>	<b>21,492</b>
Long term debt (Note 5)	<b>102,900</b>	115,000
Future income taxes	<b>31,070</b>	23,776
Asset retirement obligations (Note 6)	<b>7,882</b>	7,951
<b>Total liabilities</b>	<b>165,596</b>	<b>168,219</b>
<b>Shareholders' equity</b>		
Share capital (Note 7)	<b>148,910</b>	139,108
Contributed surplus (Note 7)	<b>6,236</b>	5,627
Retained earnings	<b>2,858</b>	13,714
<b>Total shareholders' equity</b>	<b>158,004</b>	<b>158,449</b>
<b>Total liabilities and shareholders' equity</b>	<b>323,600</b>	<b>326,668</b>

Contractual obligations and commitments (Note 9)

See accompanying notes to the consolidated financial statements.

# DELPHI ENERGY CORP.

## Consolidated Statements of Earnings/(Loss), Comprehensive Income/(Loss) and Retained Earnings (unaudited)

For the three and six months ended June 30

(\$CDN thousands, except per unit amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
<b>Revenue:</b>				
Petroleum and natural gas sales	24,755	25,865	46,729	49,859
Realized gain/(loss) on risk management activities	24	-	24	(185)
	24,779	25,865	46,753	49,674
Royalties	(3,843)	(3,194)	(7,051)	(8,258)
Unrealized gain on risk management activities	2,041	-	1,845	645
	22,977	22,671	41,547	42,061
<b>Expenses:</b>				
Operating	4,798	4,282	8,635	7,932
Transportation	1,902	1,779	3,231	3,095
General and administrative	854	648	1,613	1,081
Stock-based compensation (Note 7)	101	311	314	1,859
Interest	1,913	1,587	4,089	2,476
Depletion, depreciation and accretion	12,148	10,654	21,681	19,595
Impairment of goodwill (Note 10)	-	-	12,100	-
	21,716	19,261	51,663	36,038
<b>Earnings/(loss) before taxes</b>	1,261	3,410	(10,116)	6,023
<b>Taxes:</b>				
Capital	-	(77)	-	-
Future	464	(1,281)	740	68
	464	(1,358)	740	68
<b>Net earnings/(loss) and comprehensive income/(loss)</b>	797	4,768	(10,856)	5,955
<b>Retained earnings, beginning of period</b>	2,061	7,998	13,714	6,811
<b>Retained earnings, end of period</b>	2,858	12,766	2,858	12,766
<b>Earnings/(loss) per share (Note 7)</b>				
Basic	0.01	0.09	(0.17)	0.11
Diluted	0.01	0.08	(0.16)	0.11

See accompanying notes to the consolidated financial statements.

# DELPHI ENERGY CORP.

## Consolidated Statements of Cash Flows (unaudited)

For the three and six months ended June 30

(\$CDN thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
<b>Cash flow from operating activities</b>				
Operations:				
Net earnings/(loss)	797	4,768	(10,856)	5,955
Add non cash items:				
Depletion, depreciation and accretion	12,148	10,654	21,681	19,595
Impairment of goodwill		-	12,100	-
Stock-based compensation	101	311	314	1,859
Unrealized gain on risk management activities	(2,041)	-	(1,845)	(645)
Future taxes	464	(1,281)	740	68
Expenditures on asset retirement obligations	(255)	(265)	(446)	(341)
Change in non-cash working capital (Note 11)	3,720	17,282	5,636	17,353
	<b>14,934</b>	<b>31,469</b>	<b>27,324</b>	<b>43,844</b>
<b>Cash flow from financing activities</b>				
Issue of common shares, net of issue costs	32	87	32	286
Issue of flow-through common shares, net of issue costs	-	23,345	16,877	23,345
Increase/(decrease) in bank debt	2,900	27,700	(12,100)	48,300
	<b>2,932</b>	<b>51,132</b>	<b>4,809</b>	<b>71,931</b>
<b>Cash flow used in investing activities</b>				
Capital expenditures	(4,311)	(44,313)	(20,307)	(125,342)
Disposition/(acquisition) of petroleum and natural gas properties	(10,871)	15,720	(10,871)	15,720
Change in non-cash working capital (Note 11)	(7,545)	(54,008)	(1,712)	(6,153)
	<b>(22,727)</b>	<b>(82,601)</b>	<b>(32,890)</b>	<b>(115,775)</b>
Increase in cash and cash equivalents	(4,861)	-	(757)	-
Cash and cash equivalents, beginning of period	4,861	-	757	-
Cash and cash equivalents, end of period	-	-	-	-
Interest paid	1,757	1,309	3,700	2,036

See accompanying notes to the consolidated financial statements.

# **DELPHI ENERGY CORP.**

## **Notes to Consolidated Financial Statements**

**As at and for the periods ended June 30, 2007 and 2006 (unaudited)**

(all tabular amounts are expressed in thousands of CDN dollars, except per unit amounts)

### **NOTE 1: DESCRIPTION OF BUSINESS**

Delphi Energy Corp. (“the Company” or “Delphi”) is incorporated under the Business Corporations Act (Alberta) and is a public company listed on the Toronto Stock Exchange. Delphi is primarily engaged in the exploration for and development and production of natural gas properties located in North West Alberta and North East British Columbia and crude oil properties in East Central Alberta.

### **NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**

The unaudited interim consolidated financial statements of Delphi have been prepared by management in accordance with accounting principles generally accepted in Canada and following the same accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2006, except as described in Note 3. The disclosures provided below are incremental to those included with the annual financial statements. The interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company’s Annual Report for the year ended December 31, 2006. The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results may differ from these estimates.

### **NOTE 3: CHANGE IN ACCOUNTING POLICIES**

1) Effective January 1, 2007, the Company adopted the new Canadian accounting standards for financial instruments – recognition and measurement; financial instruments – presentation and disclosure, hedging and comprehensive income. The Company has adopted these standards prospectively and as such the comparative financial statements have not been restated. The adoption of these standards had no effect on opening retained earnings or accumulated other comprehensive income.

a) Financial instruments – recognition and measurement:

The new standard prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Financial instruments must be classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives and non-financial derivatives are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost determined using the effective interest rate method. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts are recorded in net earnings.

Under adoption of these standards, the Company classified its cash as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and long term debt are classified as other financial liabilities, which are measured at amortized cost.

b) Derivatives:

All derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value unless exempted from derivative treatment as a normal purchase and sale. All changes in the fair value of derivative instruments are recorded in earnings unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income. The Company has a risk management program whereby the commodity price associated with a portion of its future production is fixed in order to mitigate cash flow volatility resulting from fluctuating commodity prices. The Company sells forward a portion of its future production and enters into a combination of fixed price physical sale contracts with customers and fixed price contracts with financial counterparties. The Company has elected not to use cash flow hedge accounting on its fixed price contracts with financial counterparties resulting in all changes in fair value being recorded in the statement of earnings. The Company has elected to account for its physical commodity sales contracts which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts on an accrual basis rather than as non-financial derivatives. Prior to adoption of the new standards, physical receipt and delivery contracts did not fall within the scope of the definition of a financial instrument and were also accounted for as executory contracts.

c) Other comprehensive income

The new standards require a new statement of comprehensive income, which is comprised of net earnings and other comprehensive income which, for the Company, related to changes in gains or losses on derivatives designated as cash flow hedges. The Company has combined this new statement with the statement of earnings.

d) Effective interest rate method

Transactions costs attributable to financial instruments classified as other than held for trading are included in the recognized amount of the related financial instrument and recognized over the life of the resulting financial instrument.

2) New accounting standards have been issued which will require additional disclosure in the Company's financial statements commencing January 1, 2008 about the Company's financial instruments as well as its capital resources and how it is managed.

**NOTE 4: PROPERTY, PLANT AND EQUIPMENT**

<b>As at June 30, 2007</b>	<b>Cost</b>	<b>Accumulated depletion and depreciation</b>	<b>Net book value</b>
<b>Petroleum and natural gas properties</b>	\$ 308,083	\$ 89,704	\$ 218,379
<b>Production equipment</b>	104,622	17,028	87,594
<b>Furniture, fixtures and office equipment</b>	684	420	264
	<b>\$ 413,389</b>	<b>\$ 107,152</b>	<b>\$ 306,237</b>

**As at December 31, 2006**

Petroleum and natural gas properties	\$ 285,168	\$ 71,331	\$ 213,837
Production equipment	95,892	14,087	81,805
Furniture, fixtures and office equipment	639	375	264
	<b>\$ 381,699</b>	<b>\$ 85,793</b>	<b>\$ 295,906</b>

As at June 30, 2007, costs in the amount of \$32.4 million (December 31, 2006 - \$35.8 million) representing unproved properties were excluded from the depletion calculation and estimated future development costs of \$20.1 million (December 31, 2006 - \$21.7 million) have been included in costs subject to depletion. All costs of unproved properties have been capitalized. Ultimate recoverability of these costs will be dependent upon finding proved oil and natural gas reserves. The Company performed a separate impairment review of assets excluded from the ceiling test and

determined that no impairment has occurred.

The Company capitalized \$1.2 million (June 30, 2006 - \$1.1 million) of general and administrative costs directly related to exploration and development activities.

#### **NOTE 5: LONG TERM DEBT**

The Company has a revolving facility for \$115.0 million with a syndicate of Canadian chartered banks. The facility is a 364 day committed revolving facility with a one year term out provision. The credit facility bears interest based on a sliding scale tied to the Company's trailing debt to cash flow: from a minimum of the bank's prime rate to a maximum of the bank's prime rate plus 1.0 percent.

In addition to the revolving term facility, the Company has a \$10.0 million development facility with its lenders. The pricing grid on the development facility is 0.25 percent higher than the revolving term facility.

The two facilities are secured by a \$200.0 million demand floating charge debenture and a general security agreement over all assets of the Company.

#### **NOTE 6: ASSET RETIREMENT OBLIGATIONS**

The Company's asset retirement obligations result from working interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations, over the next three to twenty years, is approximately \$17.1 million. A credit-adjusted risk-free rate of 8.0 percent and an inflation rate of 2.5 percent were used to calculate the estimated fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below.

	<b>June 30</b>	December 31
	<b>2007</b>	2006
<b>Balance, beginning of period</b>	<b>\$ 7,951</b>	\$ 7,394
Liabilities incurred	56	606
Liabilities sold	-	(183)
Liabilities settled	(446)	(503)
Accretion expense	321	637
<b>Balance, end of period</b>	<b>\$ 7,882</b>	\$ 7,951

#### **NOTE 7: SHARE CAPITAL**

**(a) Authorized:**

An unlimited number of common shares.

An unlimited number of preferred shares issuable in series.



(b) Common shares issued:

	June 30, 2007		December 31, 2006	
	Outstanding shares (000's)	Amount	Outstanding shares (000's)	Amount
<b>Balance, beginning of period</b>	<b>60,663</b>	<b>\$ 139,108</b>	55,254	\$ 123,692
Issue of flow-through common shares	7,350	18,007	5,209	25,003
Issue of common shares	-	-	-	-
Exercise of stock options	57	83	200	305
Allocated from contributed surplus	-	24	-	145
Share issue costs	-	(1,181)	-	(1,725)
Future tax effect of share issue costs	-	369	-	528
Tax benefit renounced to shareholders	-	(7,500)	-	(8,840)
<b>Balance, end of period</b>	<b>68,070</b>	<b>\$ 148,910</b>	60,663	\$ 139,108

On March 1, 2007, the Company issued 7.35 million flow-through common shares at a price of \$2.45 per share for gross proceeds of \$18.0 million.

On June 29, 2006, the Company issued 5.2 million flow-through common shares at a price of \$4.80 per share for gross proceeds of \$25.0 million.

The Company has incurred the necessary qualifying exploration expenditures to satisfy the terms of the flow-through shares issued in 2005. Although the Company believes it has incurred the necessary qualifying expenditures, these amounts may be subject to audit and subsequent interpretation by the Canada Revenue Agency. At June 30, 2007 the Company has an obligation to spend approximately \$16.8 million on qualifying exploration expenditures by December 31, 2007 to satisfy the obligation relating to the issuance of flow-through shares in 2006. The Company has an obligation to incur qualifying exploration expenditures of \$18.0 million by December 31, 2008 to satisfy the obligation relating to the issuance of flow-through shares in 2007.

(c) Stock options:

The Company has established a stock option plan under which it has granted options to acquire common shares to certain officers, directors, employees and key consultants. The plan provides for the granting of options equal to ten percent of the issued and outstanding common shares of the Company. Options issued under the plan have a term of five years to expiry and vest over a two-year period starting on the date of the grant. The exercise price of each option equals the closing market price of the Company's common shares immediately preceding the date of the grant. As at June 30, 2007 there were 4.2 million options to purchase shares outstanding.

The following table summarizes the changes in the number of options outstanding and the weighted average share prices.

	June 30, 2007		December 31, 2006	
	Outstanding options (000's)	Weighted average exercise price	Outstanding options (000's)	Weighted average exercise price
<b>Balance, beginning of period</b>	<b>4,229</b>	<b>\$ 3.40</b>	2,629	\$ 2.37
Granted	165	1.92	1,800	4.69
Forfeited	97	3.90	-	-
Exercised	57	1.45	(200)	1.53
<b>Balance, end of period</b>	<b>4,240</b>	<b>\$ 3.34</b>	4,229	\$ 3.40
<b>Exercisable at end of period</b>	<b>3,476</b>	<b>\$ 3.15</b>	2,641	\$ 2.81

The following table summarizes information about the stock options outstanding and exercisable at June 30, 2007.

Range of exercise price	Options outstanding			Options exercisable	
	Outstanding Options (000's)	Weighted average exercise price	Weighted average remaining term	Exercisable (000's)	Weighted average exercise price
\$0.99	343	\$ 0.99	0.7	343	\$ 0.99
\$1.45 - 1.61	787	1.48	0.8	686	1.47
\$1.75 - 1.90	15	1.93	5.0	5	1.93
\$2.66	200	2.66	2.4	200	2.66
\$3.25 - \$3.99	1,190	3.35	2.7	1,132	3.37
\$4.44 - \$4.70	1,565	4.65	3.7	1,017	4.66
\$5.11 - \$5.39	140	5.31	3.6	93	5.31
<b>Total</b>	<b>4,240</b>	<b>\$ 3.34</b>	<b>2.5</b>	<b>3,476</b>	<b>\$ 3.15</b>

**(d) Stock-based compensation:**

For the six months ended June 30, 2007, Delphi recorded non-cash compensation expense of \$0.3 million. The Company capitalized \$0.5 million (June 30, 2006 - \$0.3 million) of stock based compensation directly related to exploration and development activities.

During the six month period ended June 30, 2007 the Company granted 0.2 million options. The fair values of all options granted during the period are estimated at the date of grant using the Black-Scholes option pricing model. The weighted average fair value of options granted during the period was \$0.81 per share. The assumptions used in the Black-Scholes model to determine fair value were as follows:

Period ended June 30	2007	2006
Risk free interest rate (%)	5.0	5.0
Expected life (years)	5.0	5.0
Expected volatility (%)	54.0	45.0

**(e) Contributed surplus:**

The following table outlines the changes in the contributed surplus balance:

	June 30 2007	December 31 2006
<b>Balance, beginning of period</b>	\$ 5,627	\$ 2,380
Stock-based compensation costs	633	3,392
Reclassification to common shares on exercise	(24)	(145)
<b>Balance, end of period</b>	\$ 6,236	\$ 5,627

**(f) Earnings/(loss) per share:**

Net earnings/(loss) per share has been based on the following weighted average common shares:

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Basic	68,019	55,457	65,582	55,397
Diluted	68,344	56,267	65,903	56,234

The reconciling item between the basic and diluted weighted average common shares outstanding is stock options.

**NOTE 8: FINANCIAL INSTRUMENTS**

**(a) Fair value of financial instruments:**

The Company's exposure under its financial instruments is limited to financial assets and liabilities, all of which are included in these financial statements. The fair values of financial assets and liabilities that are included in the balance sheet approximate their carrying amounts.

**(b) Credit risk:**

Substantially all of the Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. With respect to counterparties to financial instruments, the Company partially mitigates associated credit risk by limiting transactions to counterparties with investment grade credit ratings.

**(c) Foreign currency exchange risk:**

The Company is exposed to foreign currency fluctuations as crude oil and natural gas prices are referenced to U.S. dollar denominated prices.

**(d) Interest rate risk:**

The Company is exposed to interest rate risk to the extent that bank debt is at a floating rate of interest.

**(e) Commodity price risk management:**

The Company has a price risk management program whereby the commodity price associated with a portion of its future production is fixed. The Company sells forward a portion of its future production and enters into a combination of fixed price sale contracts with customers and commodity swap agreements with financial counterparties. The forward contracts are subject to market risk from fluctuating commodity prices and exchange rates.

As at June 30, 2007, the Company has fixed the price applicable to future production through the following contracts:

Time Period	Commodity	Type of Contract	Quantity Contracted	Canadian Price (CDN\$/unit)
April 2007 – October 2007	Natural Gas	Physical	3,000 GJ/d	\$8.75 floor/\$9.55 ceiling
April 2007 – October 2007	Natural Gas	Physical	4,000 GJ/d	\$8.00 floor/\$8.92 ceiling
April 2007 – October 2007	Natural Gas	Physical	2,000 mmbtu/d	\$8.94 fixed
April 2007 – October 2007	Natural Gas	Physical	2,000 GJ/d	\$6.50 floor/\$8.15 ceiling
April 2007 – October 2007	Natural Gas	Financial	2,000 GJ/d	\$6.50 floor/\$9.00 ceiling
April 2007 – October 2007	Natural Gas	Financial	1,500 GJ/d	\$7.09 fixed
April 2007 – October 2007	Natural Gas	Financial	1,500 GJ/d	\$7.10 fixed
November 2007 – December 2007	Natural Gas	Financial	2,000 GJ/d	\$6.50 floor/\$10.45 ceiling
November 2007 – March 2008	Natural Gas	Physical	3,000 GJ/d	\$9.00 floor/\$9.98 ceiling
November 2007 – March 2008	Natural Gas	Physical	2,000 mmbtu/d	\$11.07 fixed
November 2007 – March 2008	Natural Gas	Physical	2,000 GJ/d	\$7.75 floor/\$9.03 ceiling
November 2007 – March 2008	Natural Gas	Physical	2,000 GJ/d	\$8.00 floor/\$10.02 ceiling
November 2007 – March 2008	Natural Gas	Financial	1,500 GJ/d	\$8.55 fixed
November 2007 – March 2008	Natural Gas	Physical	1,500 GJ/d	\$8.55 fixed
April 2008 – October 2008	Natural Gas	Physical	4,000 GJ/d	\$7.21 fixed
April 2008 – October 2008	Natural Gas	Physical	3,000 GJ/d	\$7.61 fixed

#### NOTE 9: CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Company is committed, under contracts of varying lengths, for the utilization of gathering, processing and pipeline capacity on a major natural gas processing and gathering system in North East British Columbia. The future minimum commitments are as follows:

2007	\$	2,280
2008		4,366
2009		4,056
2010		4,045
2011		3,661
2012 – 2015	\$	6,938

#### NOTE 10: GOODWILL

The Company reviewed the valuation of goodwill as of March 31, 2007 based upon the latest available information including the market capitalization of the Company as indicated by the Company's share price. Based upon this review, an impairment of goodwill of \$12.1 million has been recorded as a non-cash charge to earnings in the six months ended June 30, 2007.

**NOTE 11: CHANGES IN NON-CASH WORKING CAPITAL ITEMS**

For the period ended June 30	2007	2006
Change in working capital item:		
Accounts receivable	\$ 2,112	\$ (3,489)
Prepaid expenses and deposits	275	73
Accounts payable and accrued liabilities	1,537	14,616
Total change in non-cash working capital	\$ 3,924	\$ 11,200
Relating to:		
Operating activities	5,636	17,353
Financing activities	-	-
Investing activities	(1,712)	(6,153)
	\$ 3,924	\$ 11,200

## CORPORATE INFORMATION

### DIRECTORS

David J. Reid  
President and Chief Executive Officer  
Delphi Energy Corp.

Tony Angelidis  
Senior Vice President Exploration  
Delphi Energy Corp.

Harry S. Campbell, Q.C. <sup>(2)</sup>  
Partner  
Burnet, Duckworth & Palmer LLP

Henry R. Lawrie <sup>(1)</sup>  
Independent Businessman

Robert A. Lehodey, Q.C. <sup>(2)</sup>  
Partner  
Osler, Hoskin & Harcourt LLP

Andrew E. Osis <sup>(1)</sup>  
Independent Businessman

Lamont C. Tolley <sup>(1)</sup>  
Independent Businessman

(1) Member of the Audit and Reserves Committee

(2) Member of the Corporate Governance  
and Compensation Committee

### OFFICERS

David J. Reid  
President and Chief Executive Officer

Tony Angelidis  
Senior Vice President Exploration

Rod A. Hume  
Vice President Engineering

Michael S. Kaluza  
Chief Operating Officer

Brian P. Kohlhammer  
Vice President Finance and Chief Financial Officer

### CORPORATE OFFICE

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### AUDITORS

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National Bank of Canada  
The Bank of Nova Scotia

### LEGAL COUNSEL

Osler, Hoskin & Harcourt LLP

### INDEPENDENT ENGINEERS

GLJ Petroleum Consultants Ltd.

### TRANSFER AGENT

Olympia Trust Company

### STOCK EXCHANGE LISTING

Toronto Stock Exchange – DEE