

first quarter 2006

three months ended March 31, 2006



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First Quarter 2006 Highlights

- Drilled 36 wells (14.5 net) in the first quarter with a 78 percent (86 percent net) success rate, resulting in six new pool discoveries.
- Increased first quarter production by 36 percent to 5,011 barrels of oil equivalent per day (boe/d). Current production is approximately 6,400 boe/d.
- Increased funds from operations by 108 percent to \$12.4 million (\$0.22 per share) compared to \$6 million (\$0.12 per share) in 2005.
- Achieved net earnings of \$1.2 million (\$0.02 per share) in the first quarter compared to a loss of \$1.9 million (\$0.04 per share) for the first quarter of 2005.
- Increased cash netbacks to \$27.45 per boe, an improvement of 53 percent compared to the same quarter in the prior year.
- Maintained operating costs at \$8.06 per boe from \$7.97 in 2005 and \$7.90 per boe in the fourth quarter of 2005 despite significant inflationary pressures.
- Subsequent to quarter end, Delphi and its joint venture partner brought on production from the Bigfoot area of North East British Columbia ahead of schedule and on budget.

Operational Highlights

Three Months Ended March 31

2006 2005 % Change

| | 2006 | 2005 | % Change |
|------------------------------|--------|--------|----------|
| Production | | | |
| Natural gas (mcf/d) | 23,695 | 16,880 | 40 |
| Crude oil (bbls/d) | 544 | 713 | (24) |
| Natural gas liquids (bbls/d) | 518 | 159 | 226 |
| Total (boe/d) | 5,011 | 3,685 | 36 |

Financial Highlights (\$000s except per boe and per share amounts)

| | | | |
|---------------------------------|---------|---------|-----|
| Petroleum and natural gas sales | 23,809 | 13,978 | 70 |
| Per boe | 52.79 | 42.13 | 25 |
| Funds from operations | 12,380 | 5,958 | 108 |
| Per boe | 27.45 | 17.96 | 53 |
| Per share – Basic | 0.22 | 0.12 | 83 |
| Per share – Diluted | 0.22 | 0.12 | 83 |
| Net earnings | 1,187 | (1,943) | - |
| Per boe | 2.64 | (5.85) | - |
| Per share – Basic | 0.02 | (0.04) | - |
| Per share – Diluted | 0.02 | (0.04) | - |
| Capital invested | 81,029 | 60,036 | 35 |
| Debt plus working capital | 128,901 | 61,020 | 111 |
| Total assets | 317,160 | 244,666 | 30 |

MESSAGE TO SHAREHOLDERS

Delphi's capital program was focused in North East British Columbia and in North West Alberta, which are a combination of winter and all season access areas. The winter program resulted in the drilling of 36 wells (14.5 net) by the end of the first quarter for a net success rate of 86 percent. The Company has four rigs currently drilling and all are scheduled to operate through spring break-up.

Capital expenditures for the first quarter were \$81 million. Delphi had contracted all required services for its winter program and had up to five operated and seven non-operated drilling rigs active during the winter season. The Company completed all planned operations with the exception of three tie-in projects, two of which will be completed after spring break-up and the other will be postponed until next winter.

The oilfield service sector was extremely busy through the winter season as a result of the significant level of industry activity to drill or rework wells, stimulate wells through fracture or acid operations and equip and tie-in successful wells. While Delphi was able to complete nearly all its planned operations, the Company did experience delays, particularly in well completion, stimulation and tie-in operations as a result of this high level of activity.

OPERATIONS

Bigstone, North West Alberta

In the Bigstone area of North West Alberta, Delphi continued its low-risk exploitation program through the winter, drilling and casing seven wells (5.2 net) in addition to successfully reactivating five standing cased wells (4.0 net). The Company also completed a major field infrastructure expansion including eight kilometres of new natural gas pipelines and significant expansion of a field compression facility. All of these wells were on production by the end of April with the exception of one tie-in that is expected to be completed after spring break-up. Two new discoveries, including a light oil discovery, and the successful delineation of our existing natural gas trends have increased the drilling inventory at Bigstone to approximately 30 potential locations.

Bigfoot, North East British Columbia

At Bigfoot in North East British Columbia, the Company's capital program has been successful with the completion of major infrastructure for Area 1, including a 54-kilometre all season road, providing Delphi the ability to continue drilling on a year-round basis. Thirty kilometres of 12-inch natural gas transmission pipeline were installed to transport the natural gas from seven new and five reactivated wells to an existing processing facility owned and operated by the Company's joint venture partner in the Greater Sierra area. The Company completed drilling seven wells (3.5 net) with a 100 percent success rate. Two drilling rigs are anticipated to remain active in the area until July/August 2006, drilling the remaining 12 earning wells (6.0 net). Upon completion of the drilling program, Delphi will have earned a 50 percent working interest in approximately 75,000 gross acres in Area 1. Future operations in Area 1 will thereafter be done on a 50/50 working interest basis between Delphi and its joint venture partner. Currently, the project is ahead of schedule and on budget. A 3D seismic program over the southern land block, designated Area 2, has been acquired and will be interpreted over the next several months. Delphi has until August 31, 2006 to evaluate the seismic and elect to participate in the development of Area 2 (an additional 65,000 gross acres).

EXPLORATION DRILLING

Delphi has drilled and cased three of its last four exploration prospects, with one well successful in the primary target of the Wabamun formation and two wells cased for secondary targets. The Valhalla well (18 percent net to Delphi) was successfully completed in the primary target and is being tied in with first production anticipated during the second quarter of 2006. The Cutbank well (50 percent net to Delphi) tested natural gas from two secondary zones at rates in excess of 1 million cubic feet per day (mmcf/d) during the first quarter. The well is being tied in and first production is anticipated during the third quarter of 2006. The Brazeau well (27 percent net to Delphi) was drilled and cased in the first quarter with several secondary zones appearing productive. Completion operations are planned for after spring break-up. A successful completion would result in production during the fourth quarter of 2006.

The Company is participating in a 5,000 metre Leduc test in the Tower Creek area in North West Alberta. This exploration well (21.7 percent net to Delphi) is targeting a Leduc pinnacle reef. Successful Leduc wells in the area are characterized by initial gross raw natural gas rates in excess of 20 mmcf/d and ultimate gross recoveries in excess of 30 billion cubic feet of natural gas. The well is currently drilling and is anticipated to reach total depth early in the third quarter. A second prospect, on the same lease block, will target the Wabamun formation and is anticipated to spud after the drilling operations are completed on the Leduc well. Wabamun analogs in the area have commenced production at gross raw rates of up to 30 mmcf/d of sweet gas. Both of these prospects are fully defined on 3D seismic and are part of Delphi's high-impact exploration program.

FINANCIAL REVIEW

Funds from operations for the first quarter of 2006 were \$12.4 million (\$0.22 per share), an increase of 108 percent over the prior year. Cash flow netbacks were \$27.45 per boe, an increase of 53 percent compared to the first quarter of 2005.

Delphi's cost structure improved further through the first quarter of 2006. With higher production volumes anticipated in the second quarter, this trend is expected to continue as winter projects are brought on-stream. Net earnings for the first quarter of 2006 were \$1.2 million (\$0.02 per share) compared to a loss of \$1.9 million (\$0.04 per share) in the same quarter of 2005. Net earnings for the first quarter of 2006 were reduced significantly by stock-based compensation expenses resulting from stock options granted in the quarter.

Delphi invested \$81 million into its drilling program in the first quarter of 2006, incurring most of the expenditures (52 percent) at Bigfoot. Most of the remaining capital costs were incurred in the Company's winter access operating areas. The capital program was funded by cash flow from operations, bank debt and increase in the Company's working capital deficiency. Subsequent to quarter end, the Company entered into an agreement to dispose of a non-core, non-operated property producing approximately 50 barrels of oil equivalent per day and undeveloped land for proceeds and working capital adjustments of approximately \$10 million. The transaction is expected to close at the end of May. Delphi is proceeding with the planned divestment of its East Central Alberta assets through Scotia Waterous. Current production from these assets is approximately 625 boe/d. The bid date is scheduled for May 15, 2006, with closing anticipated by the end of June. The Company expects to fund its remaining 2006 capital program through cash flow from operations. Proceeds from the disposition of non-core properties will be used to pay down debt.

Delphi continues to use financial leverage to pursue its low-risk development capital program. The basis for this strategy is confidence in the solid producing asset base, an active commodity hedging program and a well-managed low-risk capital program designed to deliver consistent production additions, reserves and cash flow growth. The significant capital program of \$81 million in the first quarter has resulted in outstanding bank debt at March 31, 2006 of \$62.3 million and a working capital deficiency of \$66.6 million, including accrued liabilities of \$59 million, for a total debt plus working capital deficiency of \$128.9 million. At March 31, 2006, the Company did not meet the working capital ratio covenant of its credit facility. The Company's lenders are in the process of finalizing the annual credit review based upon the December 31, 2005 engineering report, with the lending limit anticipated to be increased, and granted a waiver related to the working capital covenant. Based on annualized first quarter cash flow, Delphi's debt to cash flow ratio at March 31, 2006 is 2.6:1 and 2.4:1 after proceeds from the non-core property disposition. As was the case in 2005, the Company's debt to cash flow ratio is expected to be at its peak after the first quarter and decrease throughout the remainder of the year as capital programs going forward are much lower than the winter program and cash flow increases. Cash flow is anticipated to increase as a result of production growth from the successful winter program and production from Bigfoot.

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. As additional natural gas volumes have been brought on-stream, the Company has executed additional physical natural gas forward contracts for the summer contract period of 2006, the winter contract period of 2006/2007 and has begun entering into forward contracts for the summer of 2007. 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. Approximately 40 percent of production is hedged at a minimum floor price of Cdn \$8.73 per million cubic feet for the summer contract period of 2006 and at a minimum floor price of Cdn \$9.84 per million cubic feet for the winter contract period of 2006/2007.

Delphi's first quarter 2006 financial statements and management's discussion and analysis are available on Delphi's website at www.delphienergy.ca and will be available on SEDAR at www.sedar.com within the next 24 hours.

OUTLOOK

Delphi has demonstrated its ability to successfully identify and exploit high quality assets and leverage industry relationships to participate in exciting resource plays with tremendous potential. Current production is approximately 6,400 boe/d, up 28 percent from the first quarter average as a result of the successful drilling results of the winter program. Further production increases over the second quarter are expected as new facilities are commissioned and wells are brought on-stream.

As the Company prepares for its summer and fall capital program, apart from the ongoing Bigfoot drilling program, management is mindful of the current inflationary environment of oilfield service costs and pressures on equipment availability. The Company is planning ahead to mitigate project timing risks, but remains exposed to potential delays.

At this time, the Company continues to forecast average production for 2006 of approximately 7,000 boe/d and an exit production rate of 8,000 boe/d, representing an increase in average production of 66 percent over 2005 with all the production growth being achieved through the drill bit. Cash flow for 2006, based on an AECO natural gas price of approximately Cdn \$8.20 per thousand cubic feet, is expected to be between \$70 million to \$73 million or \$1.27 to \$1.32 per share.

On behalf of the Board,

David J. Reid

President and Chief Executive Officer

May 2, 2006

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 months ended March 31, 2006 and 2005 and should be read in conjunction with the unaudited financial statements and accompanying notes included in this report and the audited financial statements and accompanying notes for the year-ended December 31, 2005 included in the Company's 2005 Annual Report. The discussion and analysis has been prepared as of May 2, 2006.

NON GAAP Measures. 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.

Funds from operations and funds from operations per share are not a recognized measure under Canadian generally accepted accounting principles. 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 site restoration 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. Throughout this discussion, the term cash flow may be used to describe funds from operations.

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 | | |
|-----------------------------|--------------------|--------|----------|
| | March 31 | | |
| | 2006 | 2005 | % Change |
| Natural gas (mcf/d) | 23,695 | 16,880 | 40 |
| Crude oil (bbl/d) | 544 | 713 | (24) |
| Natural gas liquids (bbl/d) | 518 | 159 | 226 |
| Total (boe/d) | 5,011 | 3,685 | 36 |

Production for the three months ended March 31, 2006 averaged 5,011 boe/d representing an increase of 36 percent over the comparative period. The increase is primarily due to production additions resulting from a successful drilling program at Bigstone, Alberta in the latter half of 2005. Production increased three percent over the fourth quarter of 2005 despite production being curtailed due to scheduled facility maintenance, required shut-downs to accommodate new pipeline and facility upgrades and longer than expected timelines to complete tie-in operations due to the high level of industry activity and pressure on oilfield services. Subsequent to quarter end, production from the Bigfoot area in North East British Columbia was brought on stream ahead of schedule and an upgraded facility was commissioned at Bigstone increasing corporate production.

The drilling and optimization success at Bigstone is the primary driver of natural gas production increasing by 6,815 mcf/d or 40 percent from the first quarter of 2005. The success at Bigstone demonstrates Delphi's ability to acquire high quality assets and add production through optimization and exploitation at excellent metrics.

Crude oil production was 24 percent lower during first quarter of 2006 as compared to the same quarter in 2005. Delphi's objective is to allocate capital to the areas and projects with the highest return on capital and focus resources on growing natural gas production in North East British Columbia and North West Alberta. As a result, Delphi continued to optimize its East Central assets with the objective of maintaining production with minimal capital investment. Delphi is proceeding with the planned divestment of its East Central Alberta assets which are currently producing approximately 625 boe/d.

Natural gas liquids (NGL) production, primarily condensate, has increased significantly as a result of the high yield of liquids associated with increased natural gas production at Bigstone, Alberta.

Commodity Prices and Risk Management

Benchmark Prices

| (\$) | Three Months Ended | | |
|-------------------------------------|--------------------|----------|----------|
| | | March 31 | |
| | 2006 | 2005 | % Change |
| Natural gas | | | |
| NYMEX (US \$/mmbtu) | 7.66 | 6.32 | 21 |
| AECO (CDN \$/mcf) | 7.48 | 6.86 | 9 |
| Crude oil | | | |
| West Texas Intermediate (US \$/bbl) | 63.48 | 54.63 | 16 |
| Edmonton Light (CDN \$/bbl) | 68.87 | 61.68 | 12 |
| Foreign exchange rate | | | |
| Canadian to US dollar | 1.15 | 1.23 | (6) |
| US to Canadian dollar | 0.87 | 0.81 | 6 |

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. AECO natural gas prices increased nine percent from the comparative period and decreased 36 percent from the fourth quarter of 2005, ending five consecutive quarters of increasing natural gas prices. A warmer than average winter existed throughout most of North America, including the top natural gas consuming regions in Canada and the United States resulting in U.S. natural gas storage increasing well above historical averages. Delphi expects prices to remain volatile throughout 2006 as a result of the storage surplus, and as such, has extended its price protection strategy to protect the Company's significant capital program, however, Delphi believes the long term fundamentals for natural gas prices are strong particularly when considering the 2007 forward strip price and beyond.

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 oil prices continued to show sustained strength during the first quarter primarily due to geopolitical unrest in major oil producing countries specifically Nigeria and Iran.

The prices received for crude oil are related to the price of crude oil in world markets. Prices for heavy oil and other lesser quality crudes trade at a discount or differential to light crude oil due to the additional processing costs. Heavy oil differentials were consistent with the fourth quarter of 2005 decreasing to \$28.41 from \$28.64. The wide differential has been mainly due to an increase in heavy and medium grade sour crude types entering the North American market and a lack of refining capacity to process this heavier quality crude. In recent weeks, the differential has narrowed and the price Delphi receives for its oil production has increased significantly.

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.

The Company has chosen to mark-to-market its outstanding financial fixed price contracts and record any unrealized gain or loss. The estimated fair value of unrealized derivative instruments is reported on the balance sheet with any change in the unrealized positions charged to earnings. The fair values of these instruments are based on an approximation of the amounts that would have been paid to or received from counterparties to settle the instruments outstanding at the end of the period with reference to forward prices and market values provided by independent sources. The Company incurred an unrealized non-cash gain on risk management activities for the three months ended March 31, 2006 of \$0.6 million related to financial contracts. Currently, Delphi no longer has any outstanding financial contracts and has entered into

physical contracts to reduce the volatility in earnings. During the three months ended March 31, 2006, Delphi recorded a realized loss on physical commodity contracts of \$0.2 million.

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\$/GJ) |
|----------------------------|-------------|------------------|---------------------|---|
| April 2006 – October 2006 | Natural Gas | Physical | 2,000 GJ/d | \$9.50 floor/\$10.90 ceiling |
| April 2006 – October 2006 | Natural Gas | Physical | 2,000 GJ/d | \$9.19 fixed |
| April 2006 – October 2006 | Natural Gas | Physical | 2,000 GJ/d | \$10.50 floor/\$11.15 ceiling |
| April 2006 – October 2006 | Natural Gas | Physical | 1,000 GJ/d | \$8.32 fixed |
| April 2006 – October 2006 | Natural Gas | Physical | 2,000 GJ/d | \$8.00 floor/\$8.60 ceiling |
| May 2006 – October 2006 | Natural Gas | Physical | 4,000 GJ/d | \$6.25 fixed ⁽¹⁾ |
| November 2006 – March 2007 | Natural Gas | Physical | 4,000 GJ/d | \$8.75 floor/\$10.00 ceiling ⁽¹⁾ |
| November 2006 – March 2007 | Natural Gas | Physical | 2,000 GJ/d | \$10.00 fixed |
| November 2006 – March 2007 | Natural Gas | Physical | 4,000 GJ/d | \$9.50 floor/\$10.65 ceiling |
| November 2006 – March 2007 | Natural Gas | Physical | 2,000 GJ/d | \$9.50 floor/\$11.35 ceiling |
| April 2007 – October 2007 | Natural Gas | Physical | 4,000 GJ/d | \$8.00 floor/\$8.92 ceiling ⁽¹⁾ |
| April 2007 – October 2007 | Natural Gas | Physical | 3,000 GJ/d | \$8.75 floor/\$9.55 ceiling ⁽¹⁾ |

⁽¹⁾ Contracts entered into subsequent to quarter end

The contract price on physical contracts is recognized in earnings in the same period as the production revenue.

Realized Sales Prices

| | Three Months Ended | | |
|---|--------------------|--------|----------|
| | 2006 | 2005 | % Change |
| Natural gas (\$/mcf) | 8.63 | 7.02 | 23 |
| Gain/(loss) on financial contracts (\$/mcf) | (0.09) | 0.26 | - |
| Realized gas price (\$/mcf) | 8.54 | 7.28 | 17 |
| Crude oil (\$/bbl) | 43.47 | 38.34 | 13 |
| Loss on financial contracts (\$/bbl) | - | (3.24) | - |
| Realized oil price (\$/bbl) | 43.47 | 35.10 | 24 |
| Natural gas liquids (\$/bbl) | 50.26 | 46.40 | 8 |
| Total realized sales price (\$/boe) | 52.79 | 42.13 | 25 |

The increase in the average price received by Delphi during the three months ended March 31, 2006, is consistent with the upward trend of the benchmark WTI over the same period offset by the strengthening of the Canadian dollar and widening light-heavy differentials. Delphi's oil production is predominantly a medium grade oil therefore the Company's average price also fluctuates with the quality differential. The Company continues to receive higher than the AECO spot price on natural gas sales due to the high heating content of natural gas production and the sale of approximately 19 percent of the Company's production being priced at Chicago from sales on the Alliance Pipeline for the quarter ended March 31, 2006. During the first quarter of 2006, Delphi also 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 price received for natural gas by approximately \$0.52 per mcf in excess of the AECO spot price. Realized natural gas liquids prices have increased due to the increase in the price received for condensate, the primary component of the Company's natural gas liquids production.

Revenue

| (\$) | Three Months Ended | | |
|--------------------------------------|--------------------|---------------|-----------|
| | March 31 | | |
| | 2006 | 2005 | % Change |
| Natural gas | 19,522 | 10,661 | 83 |
| Crude oil | 2,128 | 2,462 | (14) |
| Natural gas liquids | 2,344 | 665 | 252 |
| Realized loss on financial contracts | (185) | 190 | (197) |
| Total | 23,809 | 13,978 | 70 |

The increase in revenue over the comparative period is attributable to increased production volumes and increased commodity prices. Of the increase in total revenue, 90 percent is attributable to natural gas sales revenue which increased 83 percent over the first quarter of 2005. Revenue during the first quarter of 2006 decreased \$5.2 million or 18 percent from the fourth quarter of 2005 due to a 19 percent decrease in the realized price received offset by a three percent increase in production.

Royalties

| (\$) | Three Months Ended | | |
|-------------------------------|--------------------|--------------|------------|
| | March 31 | | |
| | 2006 | 2005 | % Change |
| Crown | 5,378 | 2,563 | 110 |
| Freehold and gross overriding | 202 | 306 | (34) |
| Total | 5,580 | 2,869 | 94 |
| Royalty credits | (516) | (410) | 26 |
| Net | 5,064 | 2,459 | 106 |
| Per boe | 11.23 | 7.41 | 52 |
| Percent of total revenue | 21.3 | 17.6 | |

The Company pays royalties to provincial governments (Crown), freeholders, which can be individuals or companies, and other oil and gas operators, who 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 period ended March 31, 2006, royalties as a percentage of revenue increased over the same period last year due to the Company's production switching from low producing oil wells which have royalty rates of 0 - 15 percent based on volume and prices to more prolific natural gas wells associated with the Bigstone acquisition and subsequent drilling of wells that typically have royalty rates of 15 - 25 percent. This increase is consistent with oil production decreasing 24 percent over the comparative period. During the first quarter of 2006, royalties as a percentage of revenue were consistent with the fourth quarter of 2005. Delphi is expecting royalties as a percentage of revenue to average between 21 - 23 percent for 2006.

Royalty credits for the year ended March 31, 2006 are higher versus the comparative period due to the acquisition of the Bigstone property and capital being spent on natural gas infrastructure which has resulted in an increase to the Gas Cost Allowance (GCA) credit. 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. The Company receives 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.

Operating Expenses

| (\$) | Three Months Ended March 31 | | |
|---------|--------------------------------|-------|----------|
| | 2006 | 2005 | % Change |
| Total | 3,650 | 2,643 | 38 |
| Per boe | 8.09 | 7.97 | 2 |

Operating expenses on a per boe basis for the period ended March 31, 2006 increased a marginal two percent over the comparative period despite an environment which faces strong inflationary pressure as a result of the high level of industry activity creating tight service markets and significantly higher prices for fuel and power costs required for much of the Company's oil production. With continued natural gas production increases from Bigstone and operating areas in North East British Columbia, Delphi is expecting operating costs to trend downwards during the remainder of the year and average \$7.00 to \$7.50 for the year.

Transportation Expenses

| (\$) | Three Months Ended March 31 | | |
|---------|--------------------------------|------|----------|
| | 2006 | 2005 | % Change |
| Total | 1,316 | 967 | 36 |
| Per boe | 2.92 | 2.92 | - |

On a per boe basis, transportation costs for the three months ended March 31, 2006 are consistent with the comparative period. The Company expects a marginal increase in transportation costs on a per boe basis for the remainder of the year as production from the Bigfoot area is brought on-stream.

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.

In the first quarter of 2006, approximately 29 percent of the Company's natural gas production from the Bigstone area was shipped on the Alliance Pipeline and sold in Chicago. The costs of transmission from the field to Chicago are included in transportation expenses.

General and Administrative

| (\$) | Three Months Ended March 31 | | |
|----------------------------------|--------------------------------|-------|----------|
| | 2006 | 2005 | % Change |
| General and administrative costs | 1,629 | 1,228 | 33 |
| Overhead recoveries | (400) | (132) | 203 |
| Salary allocations | (796) | (361) | 120 |
| Net | 433 | 735 | (41) |
| Per boe | 0.96 | 2.21 | (57) |

On a per boe basis, general and administrative (G&A) costs for the three months ended March 31, 2006 decreased 41 percent over the comparative period in 2005. On a gross basis, G&A has increased 33 percent commensurate with increased staffing and activity levels. In order for the Company to have continued success, it is paramount that Delphi retain its current staff and have the ability to continue to attract highly qualified professionals as needed. As anticipated, G&A per boe has decreased as additional production has been tied in with a minimal amount of increased personnel costs and increased overhead recoveries. Delphi has added to its' strong technical team with the addition of another senior geologist and a senior geophysicist during the first quarter of 2006.

Salary allocations have increased by 120 percent due to increased technical staff efforts toward the Company's exploration and development program. Overhead recoveries have increased over the comparative period due to higher operated capital spending during the quarter.

Stock-based Compensation

| (\$) | Three Months Ended | | |
|----------------------------------|--------------------|------|----------|
| | March 31 | | |
| | 2006 | 2005 | % Change |
| Stock-based compensation expense | 1,548 | 575 | 169 |
| Per boe | 3.43 | 1.74 | 97 |

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 period ended March 31, 2006 increased 169 percent due to options being granted to staff to facilitate the significant growth of the Company and to retain current staff in today's competitive environment. Delphi believes providing employees with stock options is an effective way to align the employees' goals with the shareholders and retain key employees. In the current competitive environment, Delphi has been able to retain all key employees and add additional strength to the team. With the growth in the Company's share price over the comparative period, the fair value of each option granted has increased 35 percent. Pursuant to Delphi's option plan, one-third of the options granted vest immediately resulting in higher initial compensation expense.

Interest

| (\$) | Three Months Ended | | |
|---------|--------------------|-------|----------|
| | March 31 | | |
| | 2006 | 2005 | % Change |
| Total | 889 | 1,136 | (22) |
| Per boe | 1.97 | 3.42 | (42) |

Interest expense for the period ended March 31, 2006 on a gross and per boe basis has decreased due to lower average debt levels than the comparative period and lower interest rates payable on the bank debt. Interest expense for the first quarter of 2006 is consistent with the fourth quarter of 2005 on a gross basis and per boe basis.

Depletion, Depreciation and Accretion

| (\$) | Three Months Ended | | |
|----------------------------|--------------------|-------|----------|
| | March 31 | | |
| | 2006 | 2005 | % Change |
| Depletion and depreciation | 8,792 | 5,298 | 66 |
| Accretion expense | 149 | 95 | 57 |
| Total | 8,941 | 5,393 | 66 |
| Per boe | 19.82 | 16.26 | 22 |

Depletion, depreciation, and accretion per boe increased 22 percent for the three months ended March 31, 2006. This increase is attributable to higher cost proved reserve additions through drilling and acquisitions, which is a trend throughout the industry, and a significant investment in infrastructure during the quarter. The increase in total depletion and depreciation versus the comparative periods is a result of increased production levels and a higher per boe rate.

Accretion expense of asset retirement obligations 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 3 to 20 years. The Company uses a credit adjusted risk-free rate of eight percent for the purpose of calculating the fair value of its asset retirement obligations and hence the accretion expense. The accretion expense for the three months ended March 31, 2006 increased 57 percent over the comparative periods. The increase is due to increased drilling and the major acquisition in the first quarter of 2005.

Taxes

| (\$) | Three Months Ended | | |
|-------------------|--------------------|-------|----------|
| | March 31 | | |
| | 2006 | 2005 | % Change |
| Capital | 77 | 80 | (4) |
| Future (recovery) | 1,349 | (754) | - |
| Total | 1,426 | (674) | - |

Current tax for the quarter consists of the Federal Large Corporations Tax. Future income tax of \$1.3 million was recorded for the three months ended March 31, 2006. The effective tax rate for the three months ended March 31, 2006 was 55 percent. The rate is higher than the statutory rate primarily due to stock based compensation expense reducing the Company's income for accounting purposes but not for tax purposes.

Funds from Operations

| (\$) | Three Months Ended | | |
|---|--------------------|---------|----------|
| | March 31 | | |
| | 2006 | 2005 | % Change |
| Net earnings (loss) | 1,187 | (1,943) | (161) |
| Non-cash items | | | |
| Depletion, depreciation and accretion | 8,941 | 5,393 | 66 |
| Unrealized (gain)/loss on financial contracts | (645) | 2,687 | (124) |
| Stock-based compensation expense | 1,548 | 575 | 169 |
| Future income taxes | 1,349 | (754) | (279) |
| Funds from operations | 12,380 | 5,958 | 108 |

For the three months ended March 31, 2006 funds from operations were \$0.22 per basic share (March 31, 2005 - \$0.12). The increase in funds from operations per share is a function of higher realized commodity prices and increased production volumes illustrating Delphi's commitment to maximizing shareholder value by making accretive acquisitions and successfully executing its capital program.

Net Earnings

For the three months ended March 31, 2006, Delphi recorded net earnings of \$1.2 million (March 31, 2005 – loss of \$1.9 million). Earnings were adversely affected by non-cash items such as depletion, depreciation, accretion, stock-based compensation and future income taxes.

Netback Analysis

| | Three Months Ended | | |
|---|--------------------|------------------|----------|
| | 2006 | March 31 2005 | % Change |
| Barrels of oil equivalent (\$/boe) | | | |
| Realized sales price | 52.79 | 42.13 | 25 |
| Royalties, net of ARTC | 11.23 | 7.41 | 51 |
| Operating expenses | 8.09 | 7.97 | 2 |
| Transportation | 2.92 | 2.92 | 0 |
| Operating netback | 30.55 | 23.83 | 28 |
| G&A | 0.96 | 2.21 | (56) |
| Interest | 1.97 | 3.42 | (42) |
| Current taxes | 0.17 | 0.24 | (29) |
| Cash netback | 27.45 | 17.96 | 53 |
| Unrealized (gain)/loss on financial contracts | (1.43) | 8.09 | - |
| Stock-based compensation expense | 3.43 | 1.74 | 97 |
| Depletion, depreciation and accretion | 19.82 | 16.26 | 22 |
| Future income taxes (recovery) | 2.99 | (2.28) | (231) |
| Net earnings (loss) | 2.64 | (5.85) | (145) |

First quarter cash netbacks increased \$9.49/boe or 53 percent over the comparative period and decreased \$8.69 or 24 percent from the fourth quarter of 2005. The significant fluctuations in cash netbacks are primarily a result of the volatile commodity prices experienced in 2005 and the first quarter of 2006. Approximately 80 percent of Delphi's production is natural gas and therefore Delphi's realized price received is 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 | |
|-------------------|--------------------|-------------|
| | Gross | Net |
| Natural gas wells | 27.0 | 11.8 |
| Oil wells | 1.0 | 0.6 |
| Dry holes | 8.0 | 2.1 |
| Total wells | 36.0 | 14.5 |
| Success rate (%) | 78 | 86 |

Delphi continues to successfully allocate capital as evidenced by the 100 percent net success rate in the fourth quarter of 2005 and the 86 percent net success rate achieved in the first quarter of 2006.

Capital Invested

| (\$) | March 31 | | % Change |
|------------------------------------|----------|--------|----------|
| | 2006 | 2005 | |
| Land | 121 | 183 | (34) |
| Seismic | 6,421 | (22) | - |
| Drilling and completions | 48,681 | 5,755 | 746 |
| Equipping and facilities | 25,082 | 2,478 | 912 |
| Property and corporate acquisition | - | 51,250 | (100) |
| Capitalized expenses | 712 | 337 | 111 |
| Other | 12 | 55 | (78) |
| Capital invested | 81,029 | 60,036 | 35 |
| Asset retirement costs | 239 | 1,398 | (83) |
| Total capital invested | 81,268 | 61,434 | 32 |

Delphi's first quarter capital program was focused in North East British Columbia and North West Alberta. During the first quarter Delphi had up to five operated and seven non operated drilling rigs active. The Company completed all planned operations with the exception of three tie-in projects, two of which will be completed after spring break-up and the other will be postponed until next winter.

Delphi was very active in North East British Columbia with the majority of capital expenditures being made in the Bigfoot area. Delphi incurred capital expenditures at Bigfoot of approximately \$42 million resulting in building a 54 kilometer all season road which will allow year round access, building a twelve inch natural gas transmission pipeline, shooting \$6.4 million in seismic and drilling seven wells (3.5 net).

In the Bigstone area of North West Alberta, Delphi continued its low-risk exploitation program drilling four wells (3.1 net), resulting in two new pool discoveries including one light oil discovery. With the new discoveries and successful delineation of existing natural gas trends Delphi now has a drilling inventory in excess of 30 potential locations at Bigstone. The Company also completed a major field infrastructure expansion including eight kilometers of new natural gas pipelines and expansion of a field compression facility.

Liquidity and Capital Resources

Funding

| | Three Months Ended March 31, 2006 |
|--|--------------------------------------|
| Sources (\$) | |
| Funds from operations | 12,380 |
| Exercise of stock options | 217 |
| Change in non-cash working capital | 47,926 |
| | 60,523 |
| Uses (\$) | |
| Share issue costs | 18 |
| Additions to property, plant and equipment additions | 81,029 |
| Property acquisition | - |
| Repayment of mezzanine debt | - |
| Expenditures on site restoration and reclamation | 76 |
| | 81,123 |
| Increase in bank debt | 20,600 |

During the first quarter of 2006, Delphi funded its capital program through a combination of cash flow, bank debt and an increase in working capital deficiency.

Share Capital

At March 31, 2006, the Company had 55.4 million shares outstanding (December 31, 2005 – 55.3 million). The common shares of Delphi trade on the TSX under the symbol DEE. The following table summarizes outstanding share data for the three months ended March 31, 2006 and 2005.

| | Three Months Ended March 31, 2006 | Three Months Ended December 31, 2005 |
|--------------------------------|--------------------------------------|---|
| Weighted Average Common Shares | | |
| Basic | 55,283 | 51,233 |
| Diluted | 56,148 | 52,552 |
| Trading Statistics | | |
| High | \$ 5.82 | \$ 5.95 |
| Low | \$ 4.31 | \$ 4.84 |
| Average daily volume | 111,752 | 105,690 |

As at May 2, 2006, the Company had 55.4 million common shares outstanding and 4.1 million stock options outstanding.

Bank Debt plus Working Capital Deficit

At March 31, 2006, the Company had \$62.3 million outstanding on its credit facility and a working capital deficit of \$66.6 million for total debt plus working capital deficit of \$128.9 million, up from \$61 million at the end of the of 2005. The Company's anticipated funds from operations, an increase to its credit facilities and the sale of non-core assets are expected to be sufficient to meet the current working capital deficit. The capital intensive nature of the industry will generally result in the Company having a working capital deficit. At March 31, 2006, the Company had a credit facility of \$82 million and a development facility associated with the Bigfoot joint venture for \$30 million. At that date, the Company did not meet the working capital ratio covenant of its credit facility. The lenders are in the process of finalizing the annual credit review, with an anticipated increase in Delphi's credit facility, and granted a waiver related to the working capital covenant.

Subsequent to quarter-end, Delphi entered into a purchase and sale agreement to sell a property producing approximately 50 barrels of oil equivalent per day and undeveloped acreage in a non-core area for total consideration of \$10 million, comprised of \$9.3 million in cash and undeveloped land valued at \$0.7 million. Closing is expected to occur at the end of May. The proceeds from the disposition will immediately be used to pay down debt. Delphi is proceeding with the planned divestment of its East Central Alberta assets which are currently producing approximately 625 boe/d.

Financial Strategy

As a result of Delphi's capital program being heavily weighted to the early part of the year, the debt to cash flow ratio is expected to peak in the first half of the year and decrease throughout the second half of the year. Not unlike 2005, the debt to cash flow ratio will come down by year end as capital expenditures are reduced in the latter half of 2006 while at the same time funds from operations are expected to grow with increased production volumes and continued improvement in operating netbacks.

Delphi is confident its use and timing of leverage in combination with a commodity price risk management program and low risk development capital program is a proven strategy to increase shareholder value. Delphi is continuing to transform itself into a dominant company in North East British Columbia and North West Alberta and as such will continue to dispose of non-core assets.

Selected Quarterly Information

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

| | Mar. 31 2006 | Dec. 31 2005 | Sept. 30 2005 | Jun. 30 2005 | Mar. 31 2005 | Dec. 31 2004 | Sept. 30 2004 | Jun. 30 2004 |
|--------------------------------------|-----------------|-----------------|------------------|-----------------|-----------------|-----------------|------------------|-----------------|
| Production | | | | | | | | |
| Oil and NGLs (bbl/d) | 1,062 | 1,028 | 889 | 865 | 872 | 903 | 857 | 726 |
| Natural gas (mcf/d) | 23,695 | 22,909 | 19,580 | 19,961 | 16,880 | 6,849 | 5,353 | 5,943 |
| Barrels of oil equivalent (boe/d) | 5,011 | 4,846 | 4,152 | 4,192 | 3,685 | 2,045 | 1,749 | 1,716 |
| Financial | | | | | | | | |
| (\$000s, except as noted) | | | | | | | | |
| Petroleum and natural gas revenue | 23,809 | 28,961 | 20,606 | 17,335 | 13,978 | 7,459 | 6,233 | 5,860 |
| Funds from operations | 12,380 | 16,118 | 10,199 | 7,937 | 5,958 | 2,748 | 3,557 | 3,248 |
| Per share - basic & diluted | 0.22 | 0.31 | 0.20 | 0.16 | 0.12 | 0.09 | 0.14 | 0.13 |
| Net earnings (loss) | 1,187 | 6,425 | 1,190 | 1,004 | (1,942) | (679) | 854 | 838 |
| Per share - Basic | 0.02 | 0.13 | 0.02 | 0.02 | (0.04) | (0.02) | 0.03 | 0.03 |
| Per share - Diluted | 0.02 | 0.12 | 0.02 | 0.02 | (0.04) | (0.02) | 0.03 | 0.03 |
| Capital invested | 81,029 | 29,056 | 16,280 | 7,096 | 60,036 | 62,417 | 11,160 | 6,994 |
| Per unit information | | | | | | | | |
| Natural gas (\$/mcf) | 8.54 | 11.69 | 9.30 | 7.80 | 7.28 | 7.02 | 6.25 | 6.50 |
| Oil and natural gas liquids (\$/bbl) | 46.79 | 45.70 | 47.15 | 40.35 | 37.16 | 37.57 | 40.03 | 35.50 |
| Oil equivalent (\$/boe) | 52.79 | 64.94 | 53.95 | 45.45 | 42.13 | 39.66 | 38.73 | 37.53 |
| Operating netback (\$/boe) | 30.55 | 39.18 | 31.17 | 24.45 | 23.83 | 20.92 | 23.66 | 24.42 |

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:

| | | |
|-------------|----|-------|
| 2006 | \$ | 3,364 |
| 2007 | | 3,969 |
| 2008 | | 3,619 |
| 2009 | | 3,294 |
| 2010 | | 1,752 |
| 2011 – 2016 | | 8,759 |

On November 23, 2005, the Company announced a farm-in agreement with a major producer to jointly develop a natural gas resource play in the Bigfoot area of North East British Columbia, an opportunity distinct from the Bigstone property in North West Alberta. The Company will pay ninety percent of the capital expenditures up to \$81 million to earn a 50 percent working interest on 118 sections (75,520 acres) from the partner. Pursuant to the agreement, the Company has provided the partner with a \$10 million deposit towards these expenditures. As at March 31, 2006, Delphi had incurred \$42 million relating to this commitment.

The Company's lease rental commitment on office premises from 2006 through 2008 is \$0.1 million per annum.

The Company has an obligation to incur qualifying exploration expenditures of \$26 million by December 31, 2006 to satisfy the terms of the flow-through common shares issued during 2005. As at March 31, 2006, Delphi had incurred \$18.1 million relating to this commitment.

Guarantees and Off-balance Sheet Arrangements

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

Business Conditions and Risk

The business of exploration, development and acquisition of oil and gas reserves involves a number of uncertainties and as a result the Company is exposed to certain business risks inherent in the oil and gas industry which affect results. These business risks can generally be grouped into two major areas: operations, including environmental, and financial.

Operationally, the Company faces risks associated with finding, developing and producing oil and gas reserves. The Company attempts to control operating risks by maintaining a disciplined approach to implementation of the exploration and development program. Exploration risks are managed by hiring experienced technical staff and by concentrating the exploration activity on specific core regions where the Company has experience and expertise. The Company also attempts to operate associated projects where its level of ownership is sufficient. Operational control allows the Company to manage costs, timing and sales of production.

Estimates of economically recoverable reserves and the future net cash flow they will generate are based on a number of factors and assumptions, such as commodity prices, projected production and future capital and operating costs. All of these estimates may vary from actual results. The Company has its reserves evaluated annually by an independent engineering firm and reviews their findings with the Audit Committee of the Board of Directors.

Environmental risks are also associated with field operations. The Company has health and safety programs and procedures and an environmental standards policy. These policies and procedures are designed to protect and maintain the environment with respect to all Company operations. The Company performs an annual third party audit of the safety and environmental policies designed to ensure compliance. Delphi also carries environmental liability, property, drilling and general liability insurance.

The Company is also exposed to financial risks in the form of commodity prices, interest rates, the Canadian to U.S. dollar exchange rate and inflation. Delphi manages commodity price risks by focusing its capital program on areas that are expected to generate attractive rates of return even at substantially lower commodity prices than the industry is currently receiving. The Company also conducts a commodity price risk management program designed to mitigate large downward movements in commodity prices.

See the Company's 2005 Annual Information Form (AIF) for a further listing of 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; and
- Estimated value of the asset retirement obligation including estimates of future costs and the timing of the costs.

Corporate Governance

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 development 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 listing of committees who oversee specific aspects of the Company's operating and financial strategy.

Beginning in 2005, the Company is required to issue a "Modified Certification of Annual Filings during Transition Period" (Modified Certification) in accordance with Multilateral Instrument 52-109, Certification of Disclosures in Issuers' Annual and Interim Filings. The Modified Certification requires certifying officers to state that they are responsible for establishing and maintaining disclosure controls and procedures and as such have designed such procedures and evaluated their effectiveness as of the end of the period covered by the annual filings. Management believes the 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 they believe the disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal controls over financial reporting 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 at www.sedar.com and at the Company's website at www.delphienergy.ca.

DELPHI ENERGY CORP.

Consolidated Balance Sheets (unaudited)
(CDN\$ thousands)

| | March 31 2006 | December 31 2005 |
|---|------------------|---------------------|
| Assets | (\$) | (\$) |
| Current assets: | | |
| Accounts receivable | 17,884 | 17,907 |
| Prepaid expenses and deposits (Note 8) | 11,211 | 11,170 |
| | 29,095 | 29,077 |
| Property, plant and equipment (Note 3 & Note 10) | 275,965 | 203,489 |
| Goodwill | 12,100 | 12,100 |
| Total assets | 317,160 | 244,666 |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | 95,696 | 47,752 |
| Risk management liability | - | 645 |
| Bank debt (Note 4) | 62,300 | 41,700 |
| | 157,996 | 90,097 |
| Future income taxes | 24,475 | 14,292 |
| Asset retirement obligations (Note 5) | 7,706 | 7,394 |
| Total liabilities | 190,177 | 111,783 |
| Shareholders' equity | | |
| Share capital (Note 6) | 115,160 | 123,692 |
| Contributed surplus (Note 6) | 3,825 | 2,380 |
| Retained earnings | 7,998 | 6,811 |
| Total shareholders' equity | 126,983 | 132,883 |
| Total liabilities and shareholders' equity | 317,160 | 244,666 |

Contractual obligations and commitments (Note 8)
Subsequent event (Note 10)

See accompanying notes to the consolidated financial statements

Approved by the Board,

("Signed")
Henry R. Lawrie
Director

("Signed")
Lamont C. Tolley
Director

DELPHI ENERGY CORP.

Consolidated Statements of Earnings and Retained Earnings (unaudited)
(CDN\$ thousands, except per unit amounts)

| Three months ended March 31 | 2006 | 2005 |
|--|---------|---------|
| | (\$) | (\$) |
| Revenue: | | |
| Petroleum and natural gas sales | 23,994 | 13,788 |
| Realized gain/(loss) on risk management activities | (185) | 190 |
| | 23,809 | 13,978 |
| Royalties (net of Alberta royalty tax credit) | (5,064) | (2,459) |
| Unrealized gain/(loss) on risk management activities | 645 | (2,687) |
| | 19,390 | 8,832 |
| Expenses: | | |
| Operating | 3,650 | 2,643 |
| Transportation | 1,316 | 967 |
| General and administrative | 433 | 735 |
| Stock-based compensation (Note 6) | 1,548 | 575 |
| Interest | 889 | 1,136 |
| Depletion, depreciation and accretion | 8,941 | 5,393 |
| | 16,777 | 11,449 |
| Earnings before taxes | 2,613 | (2,617) |
| Taxes: | | |
| Capital | 77 | 80 |
| Future | 1,349 | (754) |
| | 1,426 | (674) |
| Net earnings | 1,187 | (1,943) |
| Retained earnings, beginning of period | 6,811 | 134 |
| Retained earnings, end of period | 7,998 | (1,809) |
| Net earnings per share (Note 6) | | |
| Basic and diluted | 0.02 | (0.04) |

See accompanying notes to the consolidated financial statements

DELPHI ENERGY CORP.

Consolidated Statements of Cash Flows (unaudited)
(CDN\$ thousands)

| Three months ended March 31 | 2006 | 2005 |
|---|-----------------|-----------------|
| | (\$) | (\$) |
| Cash flow from operating activities | | |
| Operations: | | |
| Net earnings | 1,187 | (1,943) |
| Add non cash items: | | |
| Depletion, depreciation and accretion | 8,941 | 5,393 |
| Stock-based compensation | 1,548 | 575 |
| Unrealized gain/(loss) on risk management activities | (645) | 2,687 |
| Future taxes | 1,349 | (754) |
| Expenditures on site restoration and reclamation | (76) | - |
| Change in non-cash working capital (Note 9) | 71 | (4,251) |
| | 12,375 | 1,707 |
| Cash flow from financing activities | | |
| Issue of shares, net of issue costs | 199 | 11,271 |
| Decrease in mezzanine debt | - | (10,000) |
| Increase in bank debt | 20,600 | 18,500 |
| | 20,799 | 19,771 |
| Cash flow used in investing activities | | |
| Capital expenditures | (81,029) | (8,786) |
| Acquisition of petroleum and natural gas properties | - | (51,250) |
| Proceeds on disposition of petroleum and natural gas properties | - | 5,863 |
| Change in non-cash working capital (Note 9) | 47,855 | 987 |
| | (33,174) | (53,186) |
| Decrease in cash and cash equivalents | - | (31,708) |
| Cash and cash equivalents, beginning of period | - | 31,892 |
| Cash and cash equivalents, end of period | - | 184 |
| Interest paid | 727 | 1,213 |
| Taxes paid | - | 20 |

See accompanying notes to the consolidated financial statements

DELPHI ENERGY CORP.

Notes to Consolidated Financial Statements

As at and for the periods ended March 31, 2006 and 2005 (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 primarily 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, 2005. 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, 2005.

The preparation of financial statements in conformity 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: PROPERTY, PLANT AND EQUIPMENT

| As at March 31, 2006 | Cost | Accumulated depletion and depreciation | Net book value |
|--|------------|--|----------------|
| Petroleum and natural gas properties | \$ 268,647 | \$ 44,894 | \$ 223,753 |
| Production equipment | 61,617 | 9,663 | 51,954 |
| Furniture, fixtures and office equipment | 559 | 301 | 258 |
| | \$ 330,823 | \$ 54,858 | \$ 275,965 |

As at December 31, 2005

| | | | |
|--|------------|-----------|------------|
| Petroleum and natural gas properties | \$ 203,264 | \$ 38,035 | \$ 165,229 |
| Production equipment | 45,763 | 7,744 | 38,019 |
| Furniture, fixtures and office equipment | 527 | 286 | 241 |
| | \$ 249,554 | \$ 46,065 | \$ 203,489 |

As at March 31, 2006, costs in the amount of \$52.0 million (December 31, 2005 - \$18.9 million) representing unproved properties were excluded from the depletion calculation and estimated future development costs of \$5.3 million (December 31, 2005 - \$9.6 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 the finding of 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 \$0.7 million (March 31, 2005 - \$0.3 million) of general and administrative costs directly related to exploration and development activities.

On February 1, 2005, the Company acquired producing natural gas and natural gas liquids properties with associated facilities and undeveloped land for cash consideration of \$51.3 million. The Company paid for the acquisition with cash and increased bank debt.

NOTE 4: BANK DEBT

At March 31, 2006 the Company had drawn \$62.3 on its banking facility. The Company has a revolving term facility for \$82 million with a syndicate of Canadian chartered banks (Lenders). The facility may be drawn down or repaid at any time but there are no scheduled repayment terms. 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 \$30 million development facility with its Lenders to fund the Bigfoot joint venture. The Lenders will initially provide \$20 million for the Bigfoot capital program with an additional \$10 million to follow if the program and drilling results are progressing as expected. The pricing grid on the development facility is 0.25 percent higher than the revolving term facility.

The two facilities are secured by a \$150 million demand floating charge debenture and a general security agreement over all assets of the Company.

At March 31, 2006, the Company did not meet the working capital ratio covenant of its credit facility. The Lenders are in the process of finalizing the annual credit review, with an anticipated increase to Delphi's credit facility, and granted a waiver related to the working capital covenant.

NOTE 5: 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 \$15.9 million. A credit-adjusted risk-free rate of 8 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.

| | 2006 | 2005 |
|-------------------------------------|-----------------|-----------------|
| Balance, beginning of period | \$ 7,394 | \$ 5,012 |
| Liabilities incurred | 239 | 950 |
| Liabilities on dispositions | - | (250) |
| Liabilities on acquisitions | - | 1,604 |
| Liabilities settled | (76) | (613) |
| Change in estimate | - | 165 |
| Accretion expense | 149 | 526 |
| Balance, end of period | \$ 7,706 | \$ 7,394 |

NOTE 6: SHARE CAPITAL

(a) Authorized:

An unlimited number of voting common shares.

An unlimited number of preferred shares issuable in series.

(b) Common shares issued:

| | 2006 | | 2005 | |
|--|----------------------------|-------------------|----------------------------|------------|
| | Outstanding shares (000's) | Amount | Outstanding shares (000's) | Amount |
| Balance, beginning of period | 55,254 | \$ 123,692 | 47,704 | \$ 87,944 |
| Issue of flow-through common shares | - | - | 4,686 | 26,004 |
| Issue of common shares | - | - | 2,500 | 14,000 |
| Exercise of stock options | 150 | 217 | 364 | 643 |
| Allocated from contributed surplus | - | 103 | - | 323 |
| Share issue costs | - | (18) | - | (2,741) |
| Future tax effect of share issue costs | - | 6 | - | 921 |
| Tax benefit renounced to shareholders | - | (8,840) | - | (3,402) |
| Balance, end of period | 55,404 | \$ 115,160 | 55,254 | \$ 123,692 |

On March 31, 2005, the Company issued 2.7 million flow-through common shares at a price of \$4.40 per share for gross proceeds of \$12 million.

On December 13, 2005, the Company issued 1.96 million flow-through common shares at a price of \$7.15 per share for gross proceeds of \$14 million.

On December 29, 2005, the Company issued 2.5 million common shares at a price of \$5.60 per share for gross proceeds of \$14 million.

(c) Stock options:

The Company has established a stock option plan (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 March 31, 2006 there were 4.1 million options to purchase shares outstanding.

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

| | 2006 | | 2005 | |
|-------------------------------------|-----------------------------|---------------------------------|-----------------------------|---------------------------------|
| | Outstanding options (000's) | Weighted average exercise price | Outstanding options (000's) | Weighted average exercise price |
| Balance, beginning of period | 2,629 | \$ 2.37 | 1,895 | \$ 1.59 |
| Granted | 1,655 | 4.71 | 1,165 | 3.43 |
| Exercised | (150) | 1.45 | (364) | 1.77 |
| Cancelled | - | - | (67) | 1.85 |
| Balance, end of period | 4,134 | 3.34 | 2,629 | 2.37 |
| Exercisable at end of period | 2,411 | \$ 2.72 | 1,755 | \$ 1.90 |

The following table summarizes information about the stock options outstanding and exercisable at March 31, 2006.

| 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 | 1.9 | 343 | \$ 0.99 |
| \$1.45 - 1.61 | 694 | 1.46 | 2.2 | 694 | 1.46 |
| \$1.75 - 1.90 | 77 | 1.77 | 3.0 | 64 | 1.76 |
| \$2.66 | 200 | 2.66 | 3.6 | 133 | 2.66 |
| \$3.25 - \$3.77 | 1,165 | 3.43 | 4.0 | 625 | 3.43 |
| \$4.44 - \$4.70 | 1,555 | 4.66 | 4.9 | 519 | 4.66 |
| \$5.39 | 100 | 5.39 | 4.8 | 33 | 5.39 |
| Total | 4,134 | \$ 3.34 | 3.8 | 2,411 | \$ 2.72 |

(d) Stock-based compensation:

The Company accounts for its stock-based compensation using the fair value method for all stock options granted since January 1, 2002. For the period ended March 31, 2006, Delphi recorded non-cash compensation expense of \$1.5 million.

During the period ended March 31, 2006 the Company granted 1.7 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 \$2.18 per share (2005 - \$1.62). The assumptions used in the Black-Scholes model to determine fair value were as follows:

| Period ended March 31 | 2006 | 2005 |
|-----------------------------|------|------|
| Risk free interest rate (%) | 5.0 | 4.5 |
| Expected life (years) | 5.0 | 5.0 |
| Expected volatility (%) | 45.0 | 47.0 |

(e) Contributed surplus:

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

| | 2006 | 2005 |
|---|----------|----------|
| Balance, beginning of period | \$ 2,380 | \$ 1,072 |
| Stock-based compensation expense | 1,548 | 1,631 |
| Reclassification to common shares on exercise | (103) | (323) |
| Balance, end of period | \$ 3,825 | \$ 2,380 |

(f) Earnings (loss) per share:

Net earnings per share has been based on the following weighted average common shares:

| | 2006 | 2005 |
|---------|--------|--------|
| Basic | 55,283 | 47,772 |
| Diluted | 56,148 | 47,772 |

The reconciling item between the basic and diluted weighted average common shares outstanding is stock options. In 2005, all stock options were anti-dilutive and therefore excluded from the diluted weighted average shares outstanding.

NOTE 7: 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. The contract price on physical contracts is recognized in earnings in the same period as the production revenue.

As at March 31, 2006, 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\$/GJ) |
|----------------------------|-------------|------------------|---------------------|-------------------------------|
| April 2006 – October 2006 | Natural Gas | Physical | 2,000 GJ/d | \$9.50 floor/\$10.90 ceiling |
| April 2006 – October 2006 | Natural Gas | Physical | 2,000 GJ/d | \$9.19 fixed |
| April 2006 – October 2006 | Natural Gas | Physical | 2,000 GJ/d | \$10.50 floor/\$11.15 ceiling |
| April 2006 – October 2006 | Natural Gas | Physical | 1,000 GJ/d | \$8.32 fixed |
| April 2006 – October 2006 | Natural Gas | Physical | 2,000 GJ/d | \$8.00 floor/\$8.60 ceiling |
| November 2006 – March 2007 | Natural Gas | Physical | 2,000 GJ/d | \$10.00 fixed |
| November 2006 – March 2007 | Natural Gas | Physical | 4,000 GJ/d | \$9.50 floor/\$10.65 ceiling |
| November 2006 – March 2007 | Natural Gas | Physical | 2,000 GJ/d | \$9.50 floor/\$11.35 ceiling |

NOTE 8: 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:

| | | |
|-------------|----|-------|
| 2006 | \$ | 3,364 |
| 2007 | | 3,969 |
| 2008 | | 3,619 |
| 2009 | | 3,294 |
| 2010 | | 1,752 |
| 2011 – 2016 | | 8,759 |

On November 23, 2005, the Company announced a farm-in agreement with a major producer to jointly develop a natural gas resource play in the Bigfoot area of North East British Columbia. The Company will pay ninety percent of the capital expenditures up to \$81 million to earn a 50 percent working interest on 118 sections (75,520 acres) from the partner. Pursuant to the agreement, the Company has provided the partner with a \$10 million deposit towards these expenditures. As at March 31, 2006, Delphi had incurred \$42 million relating to this commitment.

The Company's lease rental commitment on office premises from 2006 through 2008 is \$0.1 million per annum.

NOTE 9: CHANGES IN NON-CASH WORKING CAPITAL ITEMS

| For the period ended March 31 | 2006 | 2005 |
|--|-----------|------------|
| Change in working capital item | | |
| Accounts receivable | \$ 23 | \$ (4,658) |
| Prepaid expenses and deposits | (41) | 18 |
| Accounts payable and accrued liabilities | 47,944 | 1,376 |
| Total change in non-cash working capital | \$ 47,926 | \$ (3,264) |
| Relating to: | | |
| Operating activities | 71 | (4,251) |
| Financing activities | - | |
| Investing activities | 47,855 | 987 |
| | \$ 47,926 | \$ (3,264) |

NOTE 10: SUBSEQUENT EVENT

Subsequent to quarter-end, Delphi entered into a purchase and sale agreement to sell a property producing approximately 50 barrels of oil equivalent per day and undeveloped acreage in a non-core area for total consideration of \$10 million, comprised of \$9.3 million in cash and undeveloped land valued at \$0.7 million. Closing is expected to occur at the end of May.

CORPORATE INFORMATION

DIRECTORS

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President and Chief Executive Officer
Delphi Energy Corp.

Tony Angelidis
Senior Vice President Exploration
Delphi Energy Corp.

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

Henry R. Lawrie ⁽¹⁾
Independent Businessman

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

Andrew E. Osis ⁽¹⁾
Independent Businessman

Lamont C. Tolley ⁽¹⁾
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
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The Bank of Nova Scotia

LEGAL COUNSEL

Bennett Jones LLP

INDEPENDENT ENGINEERS

GLJ Petroleum Consultants Ltd.

TRANSFER AGENT

Olympia Trust Company

STOCK EXCHANGE LISTING

Toronto Stock Exchange – DEE