FOR THE SIX MONTHS ENDED
June 30, 2013
Q2

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Second Quarter 2013 Highlights

- Achieved average production of 7,635 barrels of oil equivalent per day ("boe/d") excluding production downtime at third-party facilities to the extent of approximately 1,495 boe/d, primarily affecting the Company's Montney production during the month of May. In the month of June 2013, Montney production at East Bigstone represented 44 percent of June's average corporate production.
- Generated funds from operations of $8.4 million ($0.05 per basic and diluted share) for the quarter ended June 30, 2013 compared to $7.2 million ($0.05 per basic and diluted share) in the comparative quarter of 2012. Operating cash flow* from Delphi's Montney production in the month of June 2013 represented over 65 percent of June's total operating cash flow for the Company.
- Increased the average corporate natural gas liquid ("NGL") and field condensate yield for the three months ended June 30, 2013 by 54 percent from the comparative quarter in 2012 to 54 barrels per million cubic feet ("bbls/mmcf"). Total crude oil, field condensate and natural gas liquids volumes represented 28 percent of total corporate volumes and accounted for 51 percent of the Company's total revenue in the second quarter.
- Successfully completed, utilizing a 30 stage slickwater hybrid frac stimulation, and brought on-stream a third extended lateral Montney well at East Bigstone late in the quarter.
- Renewed the Company's syndicated revolving credit facility with its lenders for an additional year resulting in a $15.0 million increase to the facility to $140.0 million as a result of the growth in proved developed producing reserves attributable to the continued success of the Company's Montney development at East Bigstone.
- Executed a drilling participation agreement whereby a third party funds $2.5 million per well on four Montney wells for a total capital contribution of $10.0 million towards the 2013 capital program in exchange for a gross overriding royalty on the four wells.
- Entered into a commitment letter for subordinated debt of $20 million which was finalized subsequent to the end of the second quarter to ensure the funding capacity to complete the 2013 capital program.

* Operating cash flow is defined as revenue less royalties, operating costs and transportation expense.

Operational Highlights

	Three Months Ended June 30			Six Months Ended June 30		
Production	**2013**	2012	% Change	**2013**	2012	% Change
Crude oil (bbls/d)	**311**	770	(60)	**315**	908	(65)
Field condensate (bbls/d)	**677**	313	116	**548**	215	155
Natural gas liquids (bbls/d)	**1,115**	1,040	7	**1,152**	1,142	1
Total crude oil and natural gas liquids	**2,103**	2,123	(1)	**2,015**	2,265	(11)
Natural gas (mcf/d)	**33,189**	39,080	(15)	**33,380**	39,295	(15)
Total (boe/d)	**7,635**	8,636	(12)	**7,578**	8,814	(14)

Financial Highlights ($ thousands except per unit amounts)

	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012	% Change	**2013**	2012	% Change
Petroleum and natural gas sales	**23,541**	21,875	8	**45,304**	46,018	(2)
Per boe	**33.67**	29.89	13	**32.86**	29.83	10
Funds from operations	**8,408**	7,181	17	**17,791**	18,155	(2)
Per boe	**12.11**	9.13	33	**12.97**	11.31	15
Per share – Basic	**0.05**	0.05	-	**0.11**	0.14	(21)
Per share – Diluted	**0.05**	0.05	-	**0.11**	0.14	(21)
Net earnings (loss)	**3,209**	(3,531)	-	**3,265**	(19,446)	-
Per boe	**4.61**	(4.50)	-	**2.38**	(12.13)	-
Per share – Basic	**0.02**	(0.03)	-	**0.02**	(0.15)	-
Per share – Diluted	**0.02**	(0.03)	-	**0.02**	(0.15)	-
Capital invested	**7,361**	11,391	(35)	**31,317**	64,674	(52)
Disposition of properties	**(105)**	11	(1,055)	**(3,277)**	(11,574)	(72)
Net capital invested	**7,256**	11,402	(36)	**28,040**	53,100	(47)
Acquisition of undeveloped properties	**-**	-	-	**13,664**	-	-
Total capital invested	**7,256**	11,402	(36)	**41,704**	53,100	(21)

	June 30, 2013	December 31, 2012	% Change
Debt plus working capital deficiency [(1)]	**118,645**	92,815	28
Total assets	**435,018**	401,649	8
Shares outstanding (000's)			
Basic	**153,100**	153,049	-
Diluted	**166,322**	162,104	3

(1) excludes the fair value of financial instruments and includes the long-term portion of the restricted share units.

MESSAGE TO SHAREHOLDERS

The Company continues to focus on its liquids-rich Montney development at Bigstone where the Company holds over 100 sections of land and where new completion techniques have significantly enhanced the economics of the project.

Production volumes for the three months ended June 30, 2013 averaged 7,635 boe/d, a decrease over the comparative period, however, a slight increase from the first quarter of 2013. Production volumes in the second quarter of 2013 were impacted by 1,495 boe/d due to scheduled facility outages in all core and several other areas, but most significantly at East Bigstone where the Company's higher netback revenue stream from the Montney formation was shut-in for 30 days during the quarter. All production was back on-stream early in July.

The Company's production portfolio for the second quarter of 2013 was weighted four percent to crude oil, nine percent to field condensate, 15 percent to natural gas liquids and 72 percent to natural gas. This compares to a production portfolio for the first quarter of 2013 weighted four percent to crude oil, six percent to field condensate, 16 percent to natural gas liquids and 74 percent to natural gas.

Delphi completed, tied-in and brought on production one additional well in the second quarter of 2013. The well was successfully completed utilizing a slickwater hybrid fracture stimulation. The well is outperforming expectations with initial declines significantly less than the original Montney wells in the area. This production performance significantly improves operating netbacks and reduces the expected time to payout the wells.

Capital expenditures during the second quarter were $7.3 million, which primarily included the completion and tie-in operations of the third Montney well of the winter capital program, representing 64 percent of expenditures in the quarter. Net capital expenditures for the six months ended June 30, 2013 were $41.7 million and include the strategic acquisition of undeveloped properties for additional Montney rights in the Bigstone area for $13.7 million.

Funds from operations in the second quarter of 2013 were $8.4 million or $0.05 per basic and diluted share, compared to $7.2 million or $0.05 per basic and diluted share in the comparative quarter of 2012. The increase in funds from operations is primarily due to an increase in field condensate production and natural gas prices and lower royalties,

partially offset by a decrease in crude oil production and natural gas liquids prices and higher transportation costs. The liquids-rich nature of new production in the first half of 2013 has resulted in an improvement in both operating netbacks and cash netbacks relative to the fourth quarter of 2012. Operating netbacks improved to $17.10 per boe, a 13 percent increase and cash netbacks increased 28 percent to $12.11 per boe, resulting in a 33 percent improvement in funds from operations to $8.4 million from $6.3 million in the fourth quarter of 2012. In the month of June 2013, the operating netback on the Montney production was $26.89 per boe. The Company's netback for Montney has been negatively impacted by adjustments for the quality of product delivered and transportation costs associated with certain marketing arrangements. Remedial action is being undertaken to reduce the impact of these issues towards improving the netback of this growing portion of Delphi's production.

Delphi has entered into a drilling participation agreement on four Montney wells in East Bigstone. The participant will contribute $2.5 million per well for a total of $10.0 million towards the Company's 2013 Montney capital program. In exchange for the capital contribution, the participant will receive a gross overriding royalty ("GOR") on the Company's working interest revenue on the well. The GOR will reduce over time as certain milestones are achieved. The Company has expressed interest in a similar arrangement with the participant for the Company's 2014 Montney capital program at East Bigstone.

The Company has also entered into a financing agreement for $20.0 million with a Canadian energy and resource lender. The funding will be available in two tranches; $12.0 million which has been drawn and $8.0 million available for draw down until September 16, 2013. The debt will be secured by the Company's assets and be subordinate to the Company's senior credit facility, mature on December 31, 2014 and is extendible at the option of Delphi for an additional six months. The subordinated debt will have an annual coupon rate of 8.5 percent with interest payable monthly.

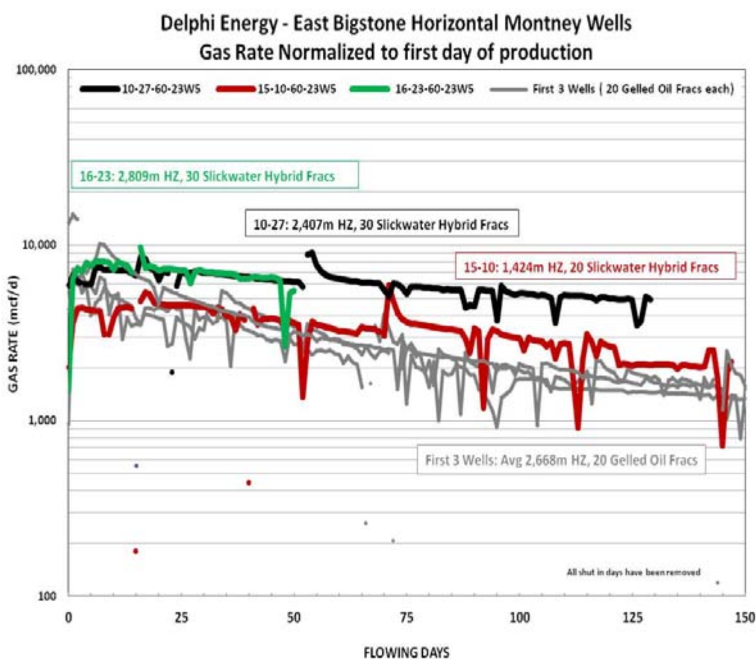
As at June 30, 2013, the Company had net debt of $118.6 million on total credit facilities of $140.0 million. On an annualized second quarter funds from operations basis, Delphi's net debt to funds from operations ratio was 3.5:1. Net debt includes bank debt plus working capital deficiency excluding the fair value of financial instruments plus the long term portion of the restricted share units liability.

Operations

Bigstone Montney Program

Delphi has now successfully drilled, completed and brought on production six Montney horizontal wells at East Bigstone. The last three wells were stimulated utilizing slickwater hybrid frac techniques rather than the smaller conventional gelled oil frac designs used on the first three wells. The first well completed with the new frac technique, 15-10-60-23W5, was drilled across one section and stimulated with 20 stages to limit operational risk. After a successful completion at 15-10, the Company drilled its next well at 10-27-60-23W5 across 1.5 sections and installed a 30 stage liner. After a successful completion on the second well, Delphi drilled the third well of the program at 16-23-60-23W5M across two full sections and has successfully completed it with 30 slickwater hybrid fracs.

The 16-23-60-23W5 well was brought on production on June 18, 2013 through the Company's Montney compression and dehy facility and over the first 47 days of production, the well continues to perform similar to the 10-27 well.



With the new completion techniques accomplishing the Company's goal of significantly reducing declines, the gap between the production rates of these two new wells compared to the first three wells continues to widen. Both wells continue to exceed the current type curve with 10-27 still outperforming the first three wells (after 125 days of production) by approximately 2.5 times. In addition, the new wells continue to produce at higher field condensate to gas ratios compared to the first three wells.

The evolution of Delphi's drilling and completion plan to an extended-reach horizontal wellbore drilled across two sections and stimulated using a 30-stage frac design has also significantly enhanced the economics of the project.

Improved production performance, higher condensate rates, continued operational improvements have all contributed to the step-change increase in the net present value and rate of return generated by these wells. In addition, the time to payout has been significantly reduced, creating faster capital recycle times and increased rates of growth. The application of extended-reach horizontal drilling across two sections reduces overall capital requirements and generates significantly more royalty credits. The number of days to drill to a total depth of almost 6,000 metres across 2 sections has decreased from 48 days to 33 days. On average the cost to drill across the second section has decreased to approximately $750,000, compared to drilling a new well across the second section at an estimated cost of $4.5 million. In addition, incremental royalty credits of approximately $4.5 million are earned by drilling across the second section.

As a result of the new completion technique employed, the three new wells are exhibiting shallower initial declines than the Company's first three wells drilled in East Bigstone (which were completed with gelled oil fracs). The 10-27 and 16-23 wells stimulated with 30 stages are exhibiting similar early time production performance characteristics, exceeding the Company's type curve assumptions. The 10-27 and 16-23 wells are proving to rank in the top decile of liquids-rich wells drilled in the entire deep basin over the past two years.

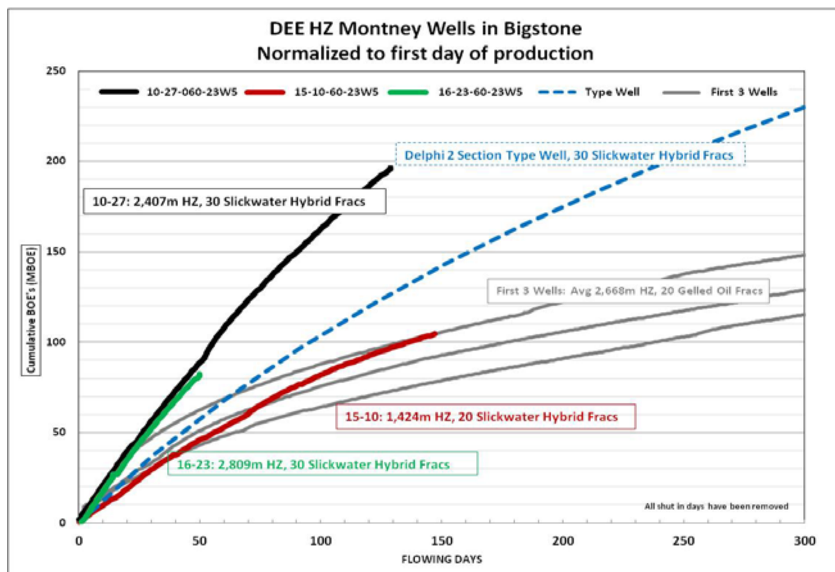
Initial Production Rate Well Performance [1]

Well	HZ Length (m)	Number of Fracs	IP30 Sales (boe/d)	IP120 Sales (boe/d)	Sales at Day 120 (boe/d)
Conventional Oil Fracs					
16-30	2,760	20	1,099	688	361
05-02	3,005	20	969	584	299
14-23	2,238	20	1,570	795	373
Slickwater Fracs					
15-10	1,424	20	991	768	516
10-27	2,407	30	1,815	1,545	1,166
16-23	2,809	30	1,781	n/a	n/a

[1] Calculated on operating days, excluding non-producing days

The adjacent cumulative production plot comparing the new wells to the first three wells continues to demonstrate a significant step change in performance.

The 10-27 well has produced approximately 189,000 boe's in its first 125 days of production, consisting of 0.67 bcf sales gas, 53,000 bbls of condensate and 24,000 bbls of plant NGL's, generating approximately $9.0 million in revenue. With continued strong production rates and total liquids representing over 40 percent of the total production to date, the time to payout of the 10-27 and 16-23 wells is expected to be less than one year.



Delphi plans to drill an additional three wells in East Bigstone prior to the end of 2013, with two of the three wells scheduled to be completed and on production by year-end. Wet weather has delayed the rig move to the first location, but drilling is expected to commence within the next two weeks. The capital program is expected to be a continuous one rig drilling program with up to eight wells planned for 2014, supplemented with the addition of a second rig to the program in the latter part of 2014.

The Company has commenced drilling operations on the South Bigstone strat test and horizontal Montney well as part of the previously announced industry farm-in, whereby Delphi will earn a 75 percent working interest in 32.5 sections of Montney lands. The well with a surface located at 5-8-59-22W5M will be completed, equipped and pipeline connected in 2014 as part of the planned 15 kilometre pipeline expansion from the 7-11 Delphi owned facility to the 5-8 wellsite.

Market Guidance

The Company expects net capital spending for 2013 to be between $78.0 and $82.0 million with production for the year to average approximately 8,000 to 8,400 boe/d. Total debt at year end is expected to be between $130.0 and $135.0 million. Delphi expects AECO natural gas prices to average approximately Cdn. $3.00 per mcf and Edmonton light oil prices to average approximately Cdn. $94.00 per barrel resulting in cash flow for 2013 of approximately $38.0 to $41.0 million. For the remainder of 2013, the Company has approximately 59 percent of its natural gas production hedged at an average price of $3.59 per mcf and approximately 36 percent of its crude oil and condensate hedged at a floor price of Cdn $94.00 per barrel.

For 2014, Delphi is estimating production to average 9,500 to 10,000 boe/d on a capital program of $80.0 to $90.0 million. More detailed guidance will be provided later in 2013 upon completion of the Company's detailed budget process to incorporate the results of the remaining capital program of 2013.

Outlook

Delphi has successfully grown the Bigstone Montney land base from four sections to 108 sections in a relatively short period of time. The Company continues to pursue additional consolidation opportunities in the Bigstone/Fir area leveraging off of its control of critical infrastructure and advanced understanding of the Montney play in the area.

The refined drilling and completion techniques utilized on our recent wells have delivered a step change in the economics of the Montney play in the area which is positioning the Company for long term self-funded growth. The Company now has a current project inventory that will provide economic growth beyond a 10-year horizon.

As previously communicated, Delphi's 5-year growth plan contemplates production growth to 20,000 boe/d by 2017, with targeted annual production per share growth of 25 percent and annual cash flow per share growth of 45 percent. Capital spending over the next five years to achieve that result under the plan is projected to be $560 million funded 90 percent from cash flow to drill 50 Montney horizontal wells and fund the expansion of Delphi's 100 percent owned facility.

The production profile of the new wells, with lower initial declines and greater condensate yields resulting in materially greater present value of the reserves and significantly reduced payout times, is expected to have a favourable impact to the Company's cash generating capability and underlying asset value.

Delphi continues to explore additional options to further accelerate its Montney drilling program, through additional non-core asset dispositions and joint venture relationships and alternate non-dilutive financing structures.

On behalf of the Board of Directors and all the employees of Delphi, we would like to thank our shareholders for their continued support.

On behalf of the Board,

David J. Reid,
President and Chief Executive Officer
August 13, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Management's discussion and analysis ("MD&A") has been prepared by management and reviewed and approved by the Board of Directors of Delphi Energy Corp. ("Delphi" or "the Company"). The discussion and analysis is a review of the financial position and results of operations of the Company. Its focus is primarily a comparison of the financial performance for the three and six months ended June 30, 2013 and 2012 and should be read in conjunction with the unaudited condensed consolidated interim financial statements and accompanying notes for the three and six months ended June 30, 2013 and the audited consolidated financial statements of the Company for the years ended December 31, 2012 and 2011 and the related MD&A of financial results as disclosure which is unchanged from such MD&A may not be repeated herein. The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. The reporting currency is the Canadian dollar. The discussion and analysis has been prepared as of August 13, 2013.

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

This MD&A contains the terms "funds from operations", "funds from operations per share", "net debt", "operating netbacks" "cash netbacks" and "netbacks" which are not recognized measures under IFRS. 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 is a non-IFRS measure and has been defined by the Company as cash flow from operating activities before accretion on long-term debt, decommissioning expenditures and changes in non-cash working capital. 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 IFRS. The Company has defined net debt as the sum of long term debt plus/minus working capital excluding the current portion of the fair value of financial instruments plus the long term portion of the restricted share units ("RSU"). Net debt is used by management to monitor remaining availability under its credit facilities. Operating netbacks have been defined as revenue less royalties, transportation and operating costs. Cash netbacks have been defined as operating netbacks less interest and general and administrative costs. Netbacks are generally discussed and presented on a per boe basis.

DELPHI'S OPERATIONS

What is the nature of Delphi's business and where are its operations?

Delphi is a publicly-traded company with its corporate office in Calgary, Alberta, Canada. Delphi is engaged in the exploration for, development and production of crude oil and natural gas from properties and assets located in Western Canada in which it holds an interest. The Company's operations are primarily concentrated in the Deep Basin of North West Alberta, from which in excess of 90 percent of the Company's production is obtained. The Company has three primary core areas in the Deep Basin located at Bigstone, Hythe and Wapiti.

B**SECOND QUARTER 2013 ACCOMPLISHMENTS**

What were the highlights of Delphi's operational and financial results for the second quarter of 2013?

In the second quarter of 2013, the Company achieved the following:

- produced an average of 7,635 barrels of oil equivalent per day ("boe/d") despite scheduled downtime at third-party facilities to the extent of approximately 1,495 boe/d, primarily affecting the Company's Montney production for 30 days during the quarter;
- recorded net earnings of $3.2 million versus a net loss of $3.5 million in the second quarter of 2012;
- increased the average corporate natural gas liquid ("NGL") and field condensate yield by 54 percent from Q2 2012 to 54 barrels per million cubic feet ("bbls/mmcf");
- renewed its syndicated credit facility, resulting in a $15.0 million increase to $140.0 million;
- completed, tied-in and brought on production one net Montney well late in the quarter in East Bigstone;
- entered into a drilling participation agreement whereby the partner funds $2.5 million per well on four Montney wells in 2013 for a total of $10.0 million; and
- entered into a commitment letter for subordinated debt for $20.0 million which was finalized subsequent to quarter end.

Funds from operations in the second quarter of 2013 were $8.4 million or $0.05 per basic share and diluted share, compared to $7.2 million or $0.05 per basic share and diluted share in the comparative quarter in 2012. The increase in funds from operations is primarily due to an improvement in natural gas prices in combination with an increase in field condensate and natural gas liquids production. The liquids-rich nature of new production in the second quarter of 2013 resulted in an improvement in both operating netbacks and cash netbacks relative to the comparative period in 2012.

Operating netbacks improved to $17.10 per boe, a 32 percent increase and cash netbacks increased 33 percent to $12.11 per boe.

Delphi completed, tied-in and brought on production one net well which was drilled during the first quarter of 2013. The well was completed utilizing slickwater hybrid fracture stimulation and is outperforming expectations with initial declines significantly less than the Company's original Montney wells that came on stream in 2012.

As at June 30, 2013, the Company had net debt of $118.6 million on total credit facilities of $140.0 million. On an annualized second quarter funds from operations basis, Delphi's net debt to funds from operations ratio was 3.5:1. Net debt includes bank debt plus working capital deficiency excluding the current portion of the fair value of financial instruments and the long term liability associated with the Company's outstanding RSU's.

2013 OUTLOOK AND FORWARD-LOOKING INFORMATION

This management discussion and analysis contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", may", "will", "should", believe", "intends", "forecast", "plans", "guidance" and similar expressions are intended to identify forward-looking statements or information.

More particularly and without limitation, this management discussion and analysis contains forward-looking statements and information relating to the Company's risk management program, petroleum and natural gas production, future funds from operations, capital programs, commodity prices, costs and debt levels. The forward-looking statements and information are based on certain key expectations and assumptions made by Delphi, including expectations and assumptions relating to prevailing commodity prices and exchange rates, applicable royalty rates and tax laws, future well production rates, the performance of existing wells, the success of drilling new wells, the capital availability to undertake planned activities and the availability and cost of labour and services.

Although the Company believes that the expectations reflected in such forward-looking statements and information are reasonable, it can give no assurance that such expectations will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the oil and gas industry in general such as operational risks in development, exploration and production, delays or changes in plans with respect to exploration or development projects or capital expenditures, the uncertainty of estimates and projections relating to production rates, costs and expenses, commodity price and exchange rate fluctuations, marketing and transportation, environmental risks, competition, the ability to access sufficient capital from internal and external sources and changes in tax, royalty and environmental legislation. Additional information on these and other factors that could affect the Company's operations or financial results are included in reports on file with the applicable securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com). The forward-looking statements and information contained in this MD&A are made as of August 13, 2013 for the purpose of providing the readers with the Company's expectations for the coming year. The forward-looking statements and information may not be appropriate for other purposes. Delphi undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

Delphi's expectations for 2013 are based upon its projection of drilling plans, drilling success, expected completion of wells, expected tie-in of wells and production results and the estimated time to payout, estimated related revenues and associated costs of royalties, transportation expenses, operating costs, general and administrative expenses and interest costs. Commodity prices used in the determination of forecast revenues are based upon general economic conditions, commodity supply and demand forecasts and publicly available price forecasts. The Company continually monitors its forecast assumptions to ensure the stakeholders are informed of material variances from previously communicated expectations.

CAPITAL PROGRAM AND NET DEBT LEVELS

What are the Company's forecast capital expenditures and net debt levels for 2013?

The Company expects 2013 capital expenditures to be between $78.0 and $82.0 million funded from cash flow and available credit facilities. Historically, Delphi executes a winter capital program in excess of first quarter cash flow followed by at least one quarter of minimal activity prior to returning to the field with an active summer/fall program.

Approximately $3.3 million in minor dispositions were completed during the first half of 2013, with additional non-core assets being evaluated for disposition in 2013.

The Company is targeting net debt at December 31, 2013 to be between $130.0 million and $135.0 million.

SECOND QUARTER 2013 OPERATIONAL AND FINANCIAL RESULTS

BUSINESS ENVIRONMENT

What external factors of the business environment did the Company have to contend with in the first half of 2013?

The table below outlines the changes in the various benchmark commodity prices and economic parameters which affect the prices received for the Company's production.

Benchmark Prices and Economic Parameters

	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012	% Change	**2013**	2012	% Change
Natural Gas						
NYMEX (US $/mmbtu)	**4.12**	2.28	81	**3.79**	2.36	61
AECO (Cdn $/mcf)	**3.53**	1.86	90	**3.37**	2.01	68
Crude Oil						
West Texas Intermediate (US $/bbl)	**94.23**	93.51	1	**94.28**	98.23	(4)
Edmonton Light (Cdn $/bbl)	**92.59**	83.99	10	**90.39**	88.06	3
Foreign Exchange						
Canadian to U.S. dollar	**0.98**	0.99	(1)	**0.98**	0.99	(1)
U.S. to Canadian dollar	**1.02**	1.01	1	**1.02**	1.01	1

Natural Gas

The level of natural gas storage in North America has decreased to levels lower than the same period one year ago due to an increase in demand for heating, primarily as a result of cooler than normal temperatures at the end of 2012 and through the spring of 2013. This decrease in storage levels resulted in an improvement in the pricing for natural gas. AECO averaged $3.53 per mcf in the second quarter of 2013, 90 percent higher than the comparative period in 2012 and ten percent higher than the fourth quarter of 2012. For the first half of 2013, AECO increased 68 percent compared to the same period in 2012.

Crude Oil

WTI averaged U.S. $94.23 per barrel in the second quarter of 2013, an increase of one percent over the second quarter of 2012. For the six months ended June 30, 2013, WTI decreased four percent in comparison to the same period in 2012. Canadian prices experienced a narrowing basis differential as well as a foreign exchange decline as Canadian prices were ten percent and three percent higher, respectively in the three and six months ended June 30, 2013, respectively over the respective comparative periods in 2012. Edmonton Light averaged $92.59 per barrel in the second quarter of 2013 versus $83.99 per barrel in the comparative period.

Canadian/United States Exchange Rate

The value of the Canadian dollar against its U.S. counterpart remains strong. As a producer of crude oil, a stronger Canadian dollar has a negative effect on the price received for production. The average Cdn/US exchange rate for the three months ended June 30, 2013 was $0.98.

DRILLING OPERATIONS

How active was Delphi in its drilling program in the first half of 2013 and where was the drilling focused?

Delphi had another successful capital program in the first half of 2013, drilling 2 gross (2 net) wells with a success rate of 100 percent. The drilling was focused on the Bigstone Montney formation and utilized the Company's new slickwater hybrid completion technique which has lessened the initial high decline production rates of the wells compared to wells utilizing gelled oil completions.

In the first half of 2012, Delphi drilled 6 gross (5.5 net) wells which were primarily focused on the Bigstone Montney and Gething developments.

For the remainder of the 2013 capital program, Delphi will continue to focus on exploiting its liquids-rich natural gas opportunities in the Montney formation at Bigstone in North West Alberta.

	Six Months Ended June 30, 2013	
	Gross	**Net**
Liquids rich natural gas (>40 bbls/mmcf liquids content)	**2.0**	**2.0**
Natural gas (>20 bbls/mmcf <40 bbls/mmcf liquids content)	**-**	**-**
Total	**2.0**	**2.0**
Success rate (%)	**100**	**100**

CAPITAL INVESTED

How much did the Company spend in the second quarter and first half of 2013 and where were the capital expenditures incurred?

During the second quarter of 2013, Delphi invested $7.4 million of which $5.7 million was directed toward the completion and equipping of an East Bigstone well which commenced drilling during the first quarter. Facility expenditures of $1.2 million were primarily directed toward the two liquids rich natural gas wells drilled during the first half of 2013.

In the first half of 2013, total capital was $45.0 million which was partially funded by proceeds on dispositions of $3.3 million. The capital invested of $31.3 million for the first half of 2013 was primarily directed toward the drilling and completion (85 percent of capital invested) of the Montney development of 2 horizontal wells at East Bigstone, the completion of an East Bigstone well which was drilled in the fourth quarter of 2012 and facility expenditures (eleven percent of capital invested) which were primarily directed toward the equipping of the 3 net wells brought on production.

The Company completed minor non-core property dispositions during the quarter primarily consisting of undeveloped land for net proceeds of $3.3 million.

During the first quarter of 2013, Delphi completed a $13.7 million strategic land acquisition in the heart of its Bigstone Montney acreage. The Company acquired 30 gross (26.8 net) sections of Montney rights directly offsetting Delphi existing acreage and producing wells. As a result of this acquisition, the Company's drilling locations in the Bigstone Montney play increased by 54 locations or 63 percent to 140 net potential two-mile horizontal drilling locations.

During the second quarter of 2013, Delphi entered into a drilling participation agreement on four Montney wells in East Bigstone. Under this agreement, Delphi will receive $2.5 million per well for a total of $10.0 million towards the Company's 2013 Montney drilling program in exchange for a gross overriding royalty.

As of June 30, 2013, Delphi has a total of 64 sections (58.4 net) of undeveloped land on two separate blocks which are prospective for liquids-rich natural gas in the Montney formation, situated at its core area of Bigstone located within the Deep Basin of North West Alberta. In 2012, Delphi entered into a farm-in agreement to earn up to a 75 percent working interest in 35 sections of Montney and Nordegg petroleum and natural gas rights in the Bigstone area.

	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012	% Change	**2013**	2012	% Change
Land	**52**	26	100	**174**	69	152
Seismic	**-**	(5)	-	**1**	37	(97)
Drilling, completions and equipping	**5,661**	5,513	3	**26,691**	41,908	(36)
Facilities	**1,162**	5,013	(77)	**3,384**	21,113	(84)
Capitalized expenses	**484**	843	(43)	**1,062**	1,545	(31)
Other	**2**	1	100	**5**	2	150
Capital invested	**7,361**	11,391	(35)	**31,317**	64,674	(52)
Disposition of properties	**(105)**	11	(1,055)	**(3,277)**	(11,574)	(72)
Net capital invested	**7,256**	11,402	(36)	**28,040**	53,100	(47)
Acquisition of undeveloped properties	**-**	-	-	**13,664**	-	-
Total	**7,256**	11,402	(36)	**41,704**	53,100	(21)

PRODUCTION

What factors contributed to the production volumes?

Production volumes for the three months ended June 30, 2013 averaged 7,635 boe/d, a twelve percent decrease over the comparative period in 2012, however, a two percent increase from the three months ended March 31, 2013. Production volumes in the second quarter of 2013 were impacted by scheduled third-party plant shutdowns in the Company's core and several other areas (approximately 1,495 boe/d), natural declines and the disposition of predominantly producing oil properties in the third quarter of 2012 partially offset by new condensate production from the 2013 Montney capital program of which two wells came on stream in the latter half of the first quarter and one well that came on stream late in the second quarter.

Production volumes for the first half of 2013 averaged 7,578 boe/d, a 14 percent decrease over the comparative period in 2012. Production volumes were impacted by third-party pipeline and plant shutdowns in the Company's core and several other areas (approximately 1,121 boe/d), natural declines and the disposition of predominantly producing oil properties in the third quarter of 2012. This downtime was partially offset by new condensate and natural gas liquids production from the 2013 Montney capital program of which two wells came on stream in the latter half of the first quarter and one well came on stream late in the second quarter.

The Company's production portfolio for the second quarter was weighted four percent to crude oil, nine percent to field condensate, 15 percent to natural gas liquids and 72 percent to natural gas. This compares to a production portfolio for the fourth quarter of 2012 weighted six percent to crude oil, two percent to field condensate, 15 percent to natural gas liquids and 77 percent to natural gas.

Total liquids production for the three months ended June 30, 2013 increased ten percent and 30 percent compared to the quarter ended March 31, 2013 and December 31, 2012, respectively.

Field condensate as a percentage of total liquids increased to 32 percent for the three months ended June 30, 2013 compared to 22 percent and ten percent of total liquids for the three months ended March 31, 2013 and December 31, 2012, respectively.

In the three months ended June 30, 2013, the Company increased its corporate natural gas liquids yield, including field condensate, to 54 bbls/mmcf up from the 35 bbls/mmcf produced in the comparative period in 2012.

A significant undeveloped land base, multi-zone potential and the successful application of emerging technologies continue to provide material growth opportunities in existing and new play concepts.

Based on the timing of proposed expenditures, downtime for scheduled plant turnarounds and normal production declines, execution of the remaining 2013 capital budget is anticipated to provide average daily production for the second half of 2013 of approximately 8,600 to 9,000 boe/d.

	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012	% Change	**2013**	2012	% Change
Crude oil (bbls/d)	**311**	770	(60)	**315**	908	(65)
Field condensate (bbls/d)	**677**	313	116	**548**	215	155
Natural gas liquids (bbls/d)	**1,115**	1,040	7	**1,152**	1,142	1
Total liquids	**2,103**	2,123	(1)	**2,015**	2,265	(11)
Natural gas (mcf/d)	**33,189**	39,080	(15)	**33,380**	39,295	(15)
Total (boe/d)	**7,635**	8,636	(12)	**7,578**	8,814	(14)

REALIZED SALES PRICES

What were the sales prices realized by the Company for each of its products?

For the three and six months ended June 30, 2013, Delphi realized an average sales price of $33.67 per boe and $32.86 per boe, respectively, a 13 percent and ten percent increase when compared to the same periods in 2012. The increase is mainly due to an improvement in natural gas prices.

For the three and six months ended June 30, 2013, Delphi's realized natural gas price increased by 38 percent and 36 percent, respectively, in comparison to the same periods in 2012. The increase is primarily due to an increase in the average daily AECO index and an increase in the premium received for Delphi's heat content and marketing. The price increases were partially offset by losses on physical and financial commodity risk management contracts.

Realized crude oil and field condensate prices were five percent and six percent lower for the three and six months ended June 30, 2013, respectively, compared to the same periods in 2012. The decrease in realized crude oil and field condensate price is primarily due to an increased discount for the quality of the shipped field condensate pursuant to industry standards and losses on financial commodity risk management contracts partially offset by an increase in Edmonton light. Alternatives to improve the quality of the Company's field condensate and realized sales price are being evaluated.

For the three months ended June 30, 2013, realized natural gas liquids prices decreased eight percent compared to the same period in 2012. The decrease in the realized sales price is primarily due to a decrease in prices received for butanes, pentanes and plant condensate combined with an increase in production of these products.

For the six months ended June 30, 2013, realized natural gas liquids prices increased one percent in comparison to the same period in 2012. The increase is due to higher prices received for ethane, pentanes and plant condensate partially offset by a decrease in prices received for propane and butanes.

	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012	% Change	**2013**	2012	% Change
AECO ($/mcf)	**3.53**	1.86	90	**3.37**	2.01	68
Heating content and marketing ($/mcf)	**0.37**	0.22	70	**0.35**	0.26	36
Gain (loss) on physical contracts ($/mcf)	**(0.11)**	0.26	(141)	**(0.08)**	0.16	(147)
Gain (loss) on financial contracts ($/mcf)	**(0.04)**	0.37	(110)	**(0.03)**	0.22	(115)
Realized natural gas price ($/mcf)	**3.75**	2.71	38	**3.61**	2.65	36
Edmonton Light ($/bbl)	**92.59**	83.99	10	**90.39**	88.06	3
Gain (loss) on financial contracts ($/bbl)	**(0.43)**	2.98	(115)	**(0.24)**	1.44	(116)
Quality differential ($/bbl)	**(9.22)**	0.27	(3,394)	**(5.27)**	0.33	(1,696)
Realized oil and field condensate price ($/bbl)	**82.94**	87.24	(5)	**84.88**	89.83	(6)
Realized natural gas liquids price ($/bbl)	**43.94**	47.89	(8)	**46.50**	46.23	1
Total ($/boe)	**33.67**	29.89	13	**32.86**	29.83	10

RISK MANAGEMENT ACTIVITIES

What is Delphi's risk management strategy and what contracts are in place to mitigate the risk of price volatility?

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. For natural gas production, Delphi has approximately 59 percent of its before-royalty natural gas production contracted at a predominately AECO based average floor price of $3.61 per mcf for the remainder of 2013.

With respect to financial contracts, which are derivative financial instruments, management has elected not to use hedge accounting and consequently records the fair value of its natural gas and crude oil financial contracts on the statement of financial position at each reporting period with the change in the fair value being classified as unrealized gains and losses in the statement of earnings. Natural gas physical commodity sale contracts based in U.S. dollars include an embedded derivative associated with the foreign exchange rate. Due to this derivative, the changes in the fair value of these contracts are also included in the statement of earnings.

The Company has managed the price applicable to production volumes through the following contracts:

Physical Contracts

Time Period	Type of Contract	Quantity Contracted	Price Floor ($/unit)	Price Ceiling ($/unit)
April 2012 – December 2013 [(1)]	Natural Gas – fixed	2,000 mmbtu/d	$3.21 U.S.	$3.21 U.S.
January 2013 – December 2013	Natural Gas – fixed	1,500 GJ/d	$3.41 Cdn	$3.41 Cdn
April 2013 – December 2013	Natural Gas – fixed	1,500 GJ/d	$3.42 Cdn	$3.42 Cdn
May 2013 – October 2013	Natural Gas – fixed	2,000 GJ/d	$3.45 Cdn	$3.45 Cdn

(1) Subsequent to June 30, 2013, Delphi re-priced this natural gas physical contract to U.S. $3.71/mmbtu by increasing the contracted volume to 3,000 mmbtu/d and extending the contract to October 2014.

Financial Contracts

Time Period	Type of Contract	Quantity Contracted	Price Floor ($/unit)	Price Ceiling ($/unit)
April 2012 – December 2016 [1]	Natural Gas – fixed	6,000 GJ/d	$3.45 Cdn	$3.45 Cdn
April 2013 – April 2015	Natural Gas – fixed	3,000 GJ/d	$3.535 Cdn	$3.535 Cdn
April 2013 – December 2015	Natural Gas – fixed	3,000 GJ/d	$3.27 Cdn	$3.27 Cdn
April 2013 – December 2016	Natural Gas – fixed	3,000 GJ/d	$3.40 Cdn	$3.40 Cdn
March 2013 – December 2013	Crude Oil – fixed	150 bbls/d	$89.65 Cdn	$89.65 Cdn
July 2013 – June 2014	Crude Oil – fixed	100 bbls/d	$95.00 Cdn	$95.00 Cdn
July 2013 – June 2014	Crude Oil – collar	200 bbls/d	$94.00 Cdn	$101.00 Cdn
August 2013 – July 2014	Crude Oil – fixed	100 bbls/d	$101.10 Cdn	$101.10 Cdn
January 2014 – December 2014 [2]	Crude Oil – call option	600 bbls/d	-	$90.00 U.S.

(1) The Company re-priced this natural gas contract from $2.88 per gigajoule to $3.45 per gigajoule by extending the time period of this contract from December 2014 to December 2016.

(2) The Company acquired a natural gas contract at $5.69 per gigajoule on 6,810 gigajoules per day for the period April 1, 2011 through December 31, 2011. The contract was paid for with the sale of a crude oil call on 600 barrels per day at a price of U.S. $90.00 WTI per barrel for the period January 1, 2012 through December 31, 2012. Delphi has deferred this crude oil call to January 1, 2014 through December 31, 2014.

The fair value of the financial contracts outstanding as at June 30, 2013 is estimated to be a loss of approximately $2.3 million. The fair values of the financial and US dollar physical contracts are based on an approximation of the amounts that would have been paid to or received from counterparties to settle the contracts outstanding at the end of the period having regard to forward prices and market values provided by independent sources. Due to the inherent volatility in commodity prices, actual amounts realized may differ from these estimates.

For the three and six months ended June 30, 2013, Delphi recorded an unrealized gain on its risk management contracts of $5.2 million and $1.7 million, respectively. The unrealized gain recognized for the three and six months ended June 30, 2013 is the difference between the fair value of the risk management contracts outstanding as at June 30, 2013 and the fair value as at March 31, 2013 and December 31, 2012, respectively.

The Company accounts for its Canadian dollar physical sales contracts, which were entered into and continue to be held for the purpose of delivery of production, in accordance with its expected sale requirements as executory contracts on an accrual basis rather than as non-financial derivatives.

REVENUE

How do revenues for the three and six months ended June 30, 2013 compare to 2012 and what factors contributed to the change?

For the three months ended June 30, 2013, Delphi generated revenue of $23.5 million, an eight percent increase in comparison to the same period in 2012. The increase in revenues is primarily due to an increase in realized natural gas prices and an increase in field condensate production as a result of Delphi's successful Montney drilling program partially offset by a loss on physical commodity risk management contracts, a decrease in crude oil revenue as a result of lower volumes due to the disposition of predominantly producing oil properties in the third quarter of 2012 and a decrease in natural gas liquids revenue as a result of a decrease in the prices received.

For the six months ended June 30, 2013, Delphi generated revenue of $45.3 million, a two percent decrease in comparison to the same period in 2012. The decrease in revenue is primarily due to a reduction in crude oil revenue due to the disposition of predominantly producing oil properties in the third quarter of 2012 and a loss on physical commodity risk management contracts partially offset by an increase in natural gas revenue due to higher realized prices and an increase in field condensate revenue due to higher production as a result of the Company's successful Montney drilling program.

For the second quarter in 2013, field condensate and natural gas liquids contributed 40 percent of total revenues compared to 32 percent in the same 2012 period. For the first half of 2013, field condensate and natural gas liquids contributed 40 percent of total revenues compared to 28 percent in the same 2012 period.

	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012	% Change	**2013**	2012	% Change
Natural gas	**11,742**	7,395	59	**22,431**	16,261	38
Natural gas physical contract gains (loss)	**(320)**	927	(135)	**(456)**	1,180	(139)
Crude oil	**2,540**	5,913	(57)	**4,992**	14,709	(66)
Field condensate	**4,956**	2,391	107	**8,303**	3,356	147
Natural gas liquids	**4,458**	4,532	(2)	**9,696**	9,609	1
Sulphur	**165**	717	(77)	**338**	903	(63)
Total	**23,541**	21,875	8	**45,304**	46,018	(2)

ROYALTIES

What were royalty costs in the second quarter and first six months of 2013?

For the second quarter of 2013, royalties totaled $2.5 million compared to $4.5 million for the same period in 2012. Crown royalties and gross overriding royalties decreased 33 percent and 44 percent, respectively, from the second quarter of 2012 to that of 2013. The decrease is primarily due to the disposition of producing oil properties in the third quarter of 2012 which had higher crown royalty rates and included wells encumbered by gross overriding royalties.

For the six months ended June 30, 2013, royalties decreased 36 percent compared to the same period in 2012. The decrease is primarily due to lower oil crown and gross overriding royalties as a result of the disposition of predominantly producing oil properties in the third quarter of 2012.

	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012	% Change	**2013**	2012	% Change
Crown royalties	**3,038**	4,536	(33)	**6,513**	8,307	(22)
Royalty credits	**(1,328)**	(1,379)	(4)	**(2,784)**	(2,850)	(2)
Crown royalties – net	**1,710**	3,157	(46)	**3,729**	5,457	(32)
Gross overriding royalties	**783**	1,392	(44)	**1,783**	3,132	(43)
Total	**2,493**	4,549	(45)	**5,512**	8,589	(36)
Per boe	**3.59**	5.79	(38)	**4.02**	5.35	(25)

What were the average royalty rates paid on production in the three and six months of 2013?

The average royalty rates for the three and six months ended June 30, 2013 were lower than the comparative periods. For the three and six months ended June 30, 2013, Crown royalty rates were lower by 53 percent and 33 percent, respectively, than the comparative periods in 2012. The decrease in the crown royalty rate is primarily a result of increased production from wells which take advantage of the Alberta royalty incentive programs and the disposition of producing oil properties in the third quarter of 2012 which had higher crown royalty rates. Gross overriding royalty rates for the second quarter and first half of 2013 decreased 50 percent and 44 percent, respectively, compared to the same comparative periods in 2012. The gross overriding royalty rate decreased primarily due to the dispositions in the third quarter of 2012 which included wells with gross overriding royalty encumbrances.

	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012	% Change	**2013**	2012	% Change
Crown rate – net of royalty credits	**7.1%**	15.1%	(53)	**8.1%**	12.2%	(33)
Gross overriding rate	**3.3%**	6.6%	(50)	**3.9%**	7.0%	(44)
Average rate	**10.4%**	21.7%	(52)	**12.0%**	19.2%	(37)

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

OPERATING EXPENSES

How do operating expenses in the second quarter and first half of 2013 compare to 2012?

Production costs for the three months ended June 30, 2013 decreased nine percent compared to the same period in 2012 primarily as a result of a reduction in chemical and labour related costs. Production costs in the second quarter of 2013 were also reduced by a $0.3 million prior year fee adjustment related to a third party facility in the Wapiti area.

Production costs for the first half of 2013 decreased nine percent compared to the same period in 2012 primarily due to a reduction in repairs and maintenance, chemical costs and equipment rentals. The reduction in these costs is due to efficiencies realized at Delphi's core properties and the purchase of compression equipment in the second and third quarters of 2012. Production costs in the first half of 2013 were also reduced by adjustments to prior year costs of approximately $0.8 million due to 13 month equalizations related to Bigstone Montney production and a fee adjustment related to a third party facility in the Wapiti area.

Delphi earns processing income for third party production volumes going through facilities owned by the Company. The processing income represents a reduction of the Company's costs to operate these facilities and hence is deducted in determining operating expenses. Processing income indicates the Company has excess capacity at its facilities which it can access to handle growth in its production volumes. Processing income increased 61 percent and 14 percent, in the three and six months ended June 30, 2013, respectively, compared to the same periods in 2012. The increase in processing income is primarily due to excess capacity at the new Montney facility.

	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012	% Change	**2013**	2012	% Change
Production costs	**6,820**	7,468	(9)	**12,471**	13,631	(9)
Processing income	**(1,027)**	(639)	61	**(1,939)**	(1,698)	14
Total	**5,793**	6,829	(15)	**10,532**	11,933	(12)
Per boe	**8.34**	8.69	(4)	**7.68**	7.44	3

TRANSPORTATION EXPENSES

What factors contributed to the change in transportation costs in the second quarter and first half of 2013?

For the three and six months ended June 30, 2013, transportation expenses increased 65 percent and 24 percent, respectively, compared to the same periods in 2012, respectively. The increase in transportation expenses is primarily due to the Montney production which has oil emulsion, clean oil and field condensate trucking, higher gas transportation fees and additional transportation costs related to natural gas liquids.

	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012	% Change	**2013**	2012	% Change
Total	**3,227**	1,957	65	**5,114**	4,115	24
Per boe	**4.64**	2.49	87	**3.73**	2.57	45

GENERAL AND ADMINISTRATIVE

How do general and administrative costs in the second quarter and first half of 2013 compare to 2012?

General and administrative ("G&A") expenses (after recoveries and allocations) for the three months ended June 30, 2013 were $1.7 million compared to $1.8 million for the same period in 2012. Gross expenses in the second quarter of 2013 are 22 percent lower than the comparative period primarily due to lower personnel costs. Overhead recoveries decreased by three percent as a result of a reduced capital program. Salary allocations decreased by 52 percent as a result of lower personnel costs.

General and administrative ("G&A") expenses (after recoveries and allocations) for the first half of 2013 were $3.2 million compared to $3.1 million for the same period in 2012. Gross expenses and salary allocations in the first half of 2013 are 13 percent and 33 percent lower, respectively, than the comparative period primarily due to lower personnel costs. Overhead recoveries decreased by 30 percent as a result of a reduced capital program in combination with a lower total number of wells drilled in the first half of 2013 compared to the same period in 2012.

Delphi is committed to delivering strong growth and believes a strong team is paramount to achieve this goal.

	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012	% Change	**2013**	2012	% Change
Gross expenses	**2,429**	3,095	(22)	**5,063**	5,828	(13)
Overhead recoveries	**(213)**	(219)	(3)	**(575)**	(821)	(30)
Salary allocations	**(504)**	(1,041)	(52)	**(1,285)**	(1,931)	(33)
Total	**1,712**	1,835	(7)	**3,203**	3,076	4
Per boe	**2.46**	2.34	6	**2.33**	1.92	22

SHARE-BASED COMPENSATION

What is share-based compensation expense?

Share-based compensation expense is the amortization over the vesting period of the fair value of stock options and restricted share units ("RSU's") granted to employees, directors and key consultants of the Company. The fair value of RSU's is based on the Company's closing share price on the last business day immediately preceding the vesting date or the Company's closing share price on the last business day immediately preceding the balance sheet date. The fair value of all options granted is estimated at the date of grant using the Black-Scholes option pricing model.

The share-based compensation expense (after capitalized costs) for the three and six months ended June 30, 2013, increased 95 percent and 91 percent, respectively, over the comparative periods, respectively, primarily due to the granting of 0.7 million RSU's subsequent to the second quarter of 2012. The increase in share-based compensation expense was partially offset by an increase in capitalized costs as a direct result of the granting of RSU's.

During the first half of 2013, Delphi granted 4.9 million stock options to employees, directors and consultants with a weighted average fair value of $0.40 per option. During the first half of 2013, 0.4 million RSU's vested resulting in a cash expense, net of capitalization, of $0.4 million.

	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012	% Change	**2013**	2012	% Change
Share-based compensation - Options	**554**	533	4	**1,085**	1,224	(11)
Share-based compensation – RSU's	**383**	148	159	**926**	165	461
Capitalized costs	**(277)**	(343)	(19)	**(656)**	(679)	(3)
Net	**660**	338	95	**1,355**	710	91
Per boe	**0.95**	0.43	121	**0.99**	0.44	122

FINANCE COSTS

How do the costs of borrowing compare against the comparative period?

For the three and six months of 2013, interest charges increased 24 percent and 30 percent, respectively, compared to the same periods in 2012, as a result of a higher average debt balance in combination with higher interest rates charged on the Company's outstanding debt.

As at June 30, 2013, Delphi's bankers' acceptances have terms ranging from 90 to 180 days and a weighted average effective interest rate of 4.8 percent over the term.

Accretion and finance lease charges are non-cash and comprised of accretion expense on the Company's decommissioning obligations and the implicit interest rate on the Company's finance lease obligation.

The accretion of decommissioning obligations is an expense that relates to the passing of time until the Company estimates it will retire its assets and restore the asset locations to a condition which meets or exceeds environmental standards. Due to the long term nature of certain assets of the Company, this accretion expense is estimated to extend over a term of one to 64 years. The increase in accretion expense is due to a higher decommissioning obligation as at June 30, 2013 compared to the same period in 2012.

The finance charge on the Company's finance lease is calculated based on the implicit interest rate in the lease. The leased equipment was purchased during the first quarter of 2013.

	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012	% Change	**2013**	2012	% Change
Interest	**1,401**	1,131	24	**2,564**	1,974	30
Accretion	**185**	84	120	**367**	191	92
Finance charge on finance lease obligation	**-**	83	-	**53**	110	(52)
Total	**1,586**	1,298	22	**2,984**	2,275	31
Interest per boe	**2.02**	1.44	40	**1.87**	1.23	52
Accretion per boe	**0.27**	0.10	166	**0.27**	0.12	123
Finance charge on finance lease obligation per boe	**-**	0.11	-	**0.04**	0.07	(45)

What has the Company done to protect itself against an increase in interest rates?

Delphi has two interest rate swap transactions on borrowings through bankers' acceptances. The details are as follows:

Time Period	Amount	Fixed Interest Rate
June 2012 – May 2014	20,000	1.09
March 2013 – February 2015	20,000	1.25

DECOMMISSIONING EXPENSE

What does the decommissioning expense relate to?

For the six months ended June 30, 2013, the Company recognized a $0.5 million decommissioning expense. The decommissioning expense is the difference between decommissioning expenditures incurred in the period and the carrying amount of the Company's decommissioning obligation for those specific assets. The expense recorded primarily relates to difficulties experienced during the abandonment of a well in British Columbia.

DEPLETION, DEPRECIATION AND IMPAIRMENT

Has the Company's depletion and depreciation rate and expense changed in the second quarter and first half of 2013 compared to 2012?

Depletion and depreciation before impairment loss for the three and six months ended June 30, 2013 decreased 22 percent and 32 percent, respectively, over the comparative periods due to a decrease in the depletion rate in combination with lower production. The decrease in the rate is a result of a higher reserve base, partially offset by an increase in the cost base.

Due to the decrease in the forward price curve for natural gas as at April 1, 2012 compared to January 1, 2012, the Company carried out impairment tests on its CGUs as at March 31, 2012. Delphi recognized an impairment charge of $21.0 million related to its Hythe, Berland River, Miscellaneous Alberta and North East British Columbia CGUs. The impairments were based on the difference between the period end carrying value of the CGU's and the recoverable amount. The recoverable amounts were determined using a fair value less costs to sell methodology with the expected future cash flows based on proved and probable reserves using pre-tax discount rates of 8 to 12 per cent.

	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012	% Change	**2013**	2012	% Change
Depletion and depreciation	**8,434**	10,865	(22)	**16,184**	23,818	(32)
Impairment loss	**-**	-	-	**-**	21,000	-
Total	**8,434**	10,865	(22)	**16,184**	44,818	(64)
Depletion and depreciation per boe	**12.14**	13.82	(12)	**11.80**	14.85	(21)
Impairment loss per boe	**-**	-	-	**-**	13.09	-

INCOME TAXES

What was the affect on deferred income taxes as a result of the earnings for the period?

Delphi recorded a deferred income tax expense of $1.1 million and 1.3 million for the three and six months ended June 30, 2013, respectively. This compares to a deferred income tax recovery of $1.1 million and $5.3 million, respectively, for the comparative periods in 2012. The increase in deferred income taxes is primarily due to the increase in net earnings. Deferred taxes arise from differences between the accounting and tax bases of the Company's assets and liabilities. Delphi does not anticipate it will be cash taxable before 2016.

	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012	% Change	**2013**	2012	% Change
Deferred expense (recovery)	**1,117**	(1,077)	-	**1,257**	(5,349)	-
Per boe	**1.61**	(1.37)	-	**0.92**	(3.33)	-

FUNDS FROM OPERATIONS

What are funds from operations and why is it a key performance measure?

Funds from operations is a non-IFRS measure that has been defined by the Company and is used as a measure to analyze performance. Delphi considers funds from operations 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 is calculated as cash flow from operating activities before accretion on long-term debt, decommissioning expenditures and changes in non-cash working capital.

How do cash flow from operating activities and funds from operations in the second quarter and first half of 2013 compare to 2012?

Delphi's cash flow from operating activities of $6.5 million for the three months ended June 30, 2013 decreased four percent from the $6.8 million generated in the same period in 2012. The decrease in cash flow from operations is primarily due to decommissioning expenditures and a negative change in non-cash working capital partially offset by higher revenue as a result of improved pricing in combination with a change in the production mix and lower royalties.

Delphi generated funds from operations of $8.4 million for the three months ended June 30, 2013, up 17 percent from the $7.2 million for the same period in 2012. The increase in funds from operations for the second quarter of 2013 compared to the same period in 2012 is due to higher revenue and lower royalties partially offset by a realized loss on financial risk management contracts and higher interest costs.

For the first half of 2013, Delphi's cash flow from operating activities of $17.0 million was 13 percent higher than the comparative period in 2012. The increase in cash flow from operating activities is primarily due to a positive change in non-cash working capital, lower royalties and operating expenses. Delphi generated funds from operations of $17.8 million for the six months ended June 30, 2013, down two percent from the $18.2 million for the same period in 2012. The decrease is primarily due to a reduction in revenues, a realized loss on commodity risk management contracts, higher transportation expenses and an increase in interest expense partially offset by lower royalties and operating expenses.

	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012	% Change	**2013**	2012	% Change
Cash flow from operating activities	**6,538**	6,818	(4)	**17,010**	15,080	13
Accretion of long-term debt	**(247)**	168	(247)	**(211)**	374	(156)
Decommissioning expenditures	**514**	-	-	**1,307**	413	216
Change in non-cash working capital	**1,603**	195	722	**(315)**	2,288	(114)
Funds from operations	**8,408**	7,181	17	**17,791**	18,155	(2)

NET EARNINGS

What factors contributed to the earnings in 2013?

For the three months ended June 30, 2013, Delphi recorded net earnings of $3.2 million ($0.02 per diluted share), up from the $3.5 million net loss ($0.03 per basic share) recorded in the same period in 2012. The increase in earnings is primarily due to higher revenue as a result of improved natural gas prices and higher natural gas liquids and field condensate production, a decrease in royalties, an increase in unrealized gains on financial risk management contracts and lower expenses partially offset by a realized loss on financial risk management contracts, higher finance costs and a deferred income tax expense.

For the six months ended June 30, 2013, Delphi recorded net earnings of $3.3 million (0.02 per diluted share), up from the $19.4 million net loss ($0.15 per basic share) recorded in the same period in 2012. The increase in earnings is primarily due to lower impairment charges partially offset by a decrease in revenues primarily due to a loss on physical commodity contracts and lower crude oil production, a realized loss on financial risk management contracts, a decrease in unrealized gains on financial risk management contracts, higher finance costs and a deferred income tax expense.

NETBACK ANALYSIS

How do Delphi's netbacks achieved in the second quarter and first six months of 2013 compare to 2012?

Delphi's production is predominantly natural gas, therefore, the Company's operating and cash netbacks are primarily driven by the price received for natural gas. Delphi continues to focus its drilling on liquids-rich natural gas plays in order to mitigate the low natural gas price and to strengthen its cash flow netback per boe.

For the three months ended June 30, 2013, Delphi's cash netback per boe increased 33 percent compared to the same period in 2012. The increase is primarily due to improved realized sales prices in combination with a higher natural gas liquids yield, lower royalties as new production takes advantage of Alberta royalty incentive programs and a decrease in operating expenses partially offset by higher transportation charges, general and administrative expenses, interest charges and restricted share unit expense.

For the first half of 2013, Delphi's cash netback per boe increased 15 percent compared to the same period in 2012. The increase is primarily due to improved realized sales prices in combination with a higher natural gas liquids yield and lower royalties as new production takes advantage of Alberta royalty incentive programs partially offset by higher operating expenses, transportation charges, general and administrative expenses, interest charges and restricted share unit expense.

	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012	% Change	**2013**	2012	% Change
Barrels of oil equivalent ($/boe)						
Realized sales price	**33.67**	29.89	13	**32.86**	29.83	10
Royalties	**3.59**	5.79	(38)	**4.02**	5.35	(25)
Operating expenses	**8.34**	8.69	(4)	**7.68**	7.44	3
Transportation	**4.64**	2.49	87	**3.73**	2.57	45
Operating netback	**17.10**	12.92	32	**17.43**	14.47	20
General and administrative expenses	**2.46**	2.34	5	**2.33**	1.92	22
Interest	**2.02**	1.44	40	**1.87**	1.23	52
Restricted share units	**0.51**	0.01	4,108	**0.26**	0.01	4,250
Cash netback	**12.11**	9.13	33	**12.97**	11.31	15
Unrealized loss (gain) on commodity risk contracts	**(7.46)**	(1.60)	365	**(1.25)**	(1.42)	(12)
Stock-based compensation expense	**0.44**	0.42	5	**0.73**	0.43	70
Loss (gain) on dispositions	**0.18**	2.15	(92)	**(2.26)**	(0.37)	509
Decommissioning expense	**0.32**	-	-	**0.34**	-	-
Depletion, depreciation and impairment	**12.14**	13.82	(12)	**11.80**	27.94	(58)
Accretion and finance lease charges	**0.27**	0.21	27	**0.31**	0.19	61
Deferred income taxes (recovery)	**1.61**	(1.37)	-	**0.92**	(3.33)	-
Net earnings (loss)	**4.61**	(4.50)	-	**2.38**	(12.13)	-

SELECTED INFORMATION

Over the past two years, how has Delphi performed and what significant factors contributed to the results?

Over the past two years, the changes in revenue and funds from operations from quarter to quarter primarily reflect the change in production volumes, product mix and the volatility of commodity prices.

In the first quarter of 2011, production decreased to 8,259 boe/d as a result of natural declines in production and an outage at a non-operated processing facility resulting in the shut-in of 550 boe/d for 22 days in the quarter. Record production in the fourth quarter of 2011 of 9,337 boe/d was a result of another successful drilling program.

In 2012, due to the continued deterioration of the natural gas price environment, the Company completed a strategic disposition of its non-operated light oil interests in the Hythe area and minor offsetting lands in order to develop its assets in the Bigstone Montney formation. In the third quarter of 2012, Delphi completed another strategic disposition of its working interests of Cardium oil assets in order to temporarily reduce debt and to fund the Company's ongoing capital program. Despite the dispositions the Company completed in 2012, production volumes only decreased seven percent in the twelve months of 2012 when compared to the same period in 2011 as a result of its successful 2012 drilling program.

In the first half of 2013, Delphi continued to focus on exploiting its liquids-rich resource at Bigstone, Alberta. The Company completed, tied-in and placed on production three net wells which utilized the Company's new slickwater hybrid completion technique which has significantly decreased initial declines and improved productivity of reservoir condensate. Production in the second quarter of 2013 increased six percent in comparison to the fourth quarter of 2012 despite scheduled third-party pipeline and plant shutdowns during the second quarter of 2013, impacting approximately 1,495 boe/d from the Company's core and several other areas, but most significantly at East Bigstone where the Company's higher netback revenue stream from the Montney formation was shut-in for 30 days. In comparison to the fourth quarter of 2012, total crude oil and natural gas liquids daily production increased 30 percent, which includes a 310 percent increase in daily production of field condensate.

Natural gas prices over the past two years have generally reflected the cyclical nature of demand. Higher prices are usually realized in the winter months, reflecting demand for heating with lower prices through the summer months as production is placed in storage for the upcoming heating season demand. In 2012, due to higher than normal average winter temperatures in North America and high inventory levels of natural gas, Canadian natural gas prices decreased to

ten year lows. The average spot price for AECO in 2011 was $3.63 per mcf and in 2012, the average spot price for AECO was $2.39 per mcf. In the first half of 2013, particularly in March and April 2013, prices for natural gas have experienced some improvements due to cooler than average temperatures experienced in North America. The average spot price for AECO in the first half of 2013 was $3.37 per mcf.

Net earnings of the Company are primarily driven by the difference between the cash netback realized per boe of production versus the Company's non-cash charges rate per boe from depletion, depreciation and impairment, unrealized losses on commodity risk management contracts, gains and losses on dispositions and deferred income taxes.

The following table sets forth certain information of the Company for the past eight consecutive quarters outlining this performance:

	June 30 2013	Mar. 31 2013	Dec. 31 2012	Sept. 30 2012	June 30 2012	Mar. 31 2012	Dec. 31 2011	Sept. 30 2011
Production								
Oil and field condensate (bbls/d)	**988**	735	565	830	1,083	1,164	1,436	1,395
Natural gas liquids (bbls/d)	**1,115**	1,189	1,055	1,069	1,040	1,244	1,405	1,074
Natural gas (mcf/d)	**33,189**	33,574	33,654	38,148	39,080	39,510	38,973	38,989
Barrels of oil equivalent (boe/d)	**7,635**	7,520	7,229	8,257	8,636	8,993	9,337	8,967
Financial								
Petroleum and natural gas revenue	**23,541**	21,763	18,858	20,878	21,875	24,143	33,115	32,194
Funds from operations	**8,408**	9,383	6,269	7,881	7,181	10,974	17,081	17,213
Per share – basic	**0.05**	0.06	0.04	0.06	0.05	0.08	0.14	0.15
Per share – diluted	**0.05**	0.06	0.04	0.06	0.05	0.08	0.14	0.14
Net earnings (loss)	**3,209**	56	(29,394)	(9,190)	(3,531)	(15,915)	825	4,058
Per share – basic	**0.02**	0.00	(0.21)	(0.07)	(0.03)	(0.12)	0.01	0.03
Per share – diluted	**0.02**	0.00	(0.21)	(0.07)	(0.03)	(0.12)	0.01	0.03

LIQUIDITY AND CAPITAL RESOURCES

Share Capital

How many common shares and stock options are currently outstanding?

As at August 8, 2013, the Company had 153.1 million common shares outstanding (December 31, 2012 – 153.0 million) and 13.2 million share options outstanding (December 31, 2012 – 9.1 million). The share options have an average exercise price of $1.56 per option (December 31, 2012 – $1.81 per option).

What has been the market activity in the Company's common shares?

The common shares of Delphi trade on the TSX under the symbol DEE. The following table summarizes outstanding share data for the three months and six months ended June 30, 2013:

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Weighted Average Common Shares		
Basic	153,084	153,084
Diluted	153,493	153,452
Trading Statistics [1]		
High	1.44	1.44
Low	1.10	0.99
Average daily volume	318,280	284,767

[1] Trading statistics based on closing price

Sources and Uses of Funds

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Sources:		
Funds from operations	**8,408**	**17,791**
Disposition of petroleum and natural gas properties	**105**	**3,277**
Exercise of stock options	**-**	**33**
Accretion of long term debt	**247**	**211**
	8,760	**21,312**
Uses:		
Capital expenditures	**7,361**	**31,317**
Acquisition of petroleum and natural gas properties	**-**	**13,664**
Finance lease obligation	**-**	**1,641**
Expenditures on decommissioning	**514**	**1,307**
Change in non-cash working capital	**15,884**	**2,824**
	23,759	**50,753**
Change in long term debt	**14,999**	**29,441**

Bank Debt plus Working Capital Deficiency (Net Debt)

What is liquidity risk and how does the Company manage this risk?

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

Liquidity risk is the risk that Delphi will not be able to meet its financial obligations as they become due. Delphi actively manages its liquidity through daily, short-term and long-term cash, debt and equity management strategies. Such strategies encompass, among other factors: having adequate sources of financing available through its bank credit facilities, forecasting future cash generated from operations based on reasonable production and pricing assumptions, monitoring economic risk management opportunities and maintaining sufficient cash flows for compliance with financial debt covenants.

Delphi generally relies on operating cash flows and its credit facilities to fund ongoing capital requirements and provide liquidity. Future liquidity depends primarily on cash flow generated from operations, existing credit facilities and the ability to access debt and equity markets. From time to time, the Company accesses capital markets to meet its additional financing needs and to maintain flexibility in funding its capital expenditures program. There can be no assurance that future debt or equity financings, or cash generated from operations will be available or sufficient to meet these requirements or other corporate requirements or, if debt or equity financing is available, that it will be on terms acceptable to Delphi.

Delphi's results are affected by external market and risk factors, such as fluctuations in the prices of crude oil and natural gas, movements in foreign currency exchange rates and inflationary pressures on service costs. Market conditions have resulted in Delphi experiencing slight recoveries in crude oil and natural gas prices for 2013 compared to 2012.

How much bank debt was outstanding on June 30, 2013?

At June 30, 2013, the Company had $79.0 million outstanding in the form of bankers' acceptances, $35.0 million drawn under Canadian-based prime loans, a working capital deficiency of $4.3 million and a long term RSU liability of $0.3 million for total net debt of $118.6 million. Net debt is a non-IFRS term. Delphi's calculation of net debt includes long-term debt, the net working capital deficiency (excess) before the current fair value of financial instruments and the long term liability associated with the Company's outstanding RSU's.

What are the Company's credit facilities and when is the next scheduled review of the borrowing base?

A semi-annual review of the Company's extendible revolving term credit facility was conducted during the second quarter of 2013 resulting in a $15.0 million increase to $140.0 million.

The Company's extendible revolving term credit facility with a syndicate of Canadian chartered banks is subject to the banks' semi-annual valuation of the Company's crude oil and natural gas properties. The facility is a 364 day committed facility available on a revolving basis until May 26, 2014 at which time it may be extended at the lenders' option. If the revolving period is not extended, the undrawn portion of the facility will be cancelled and the amount outstanding will convert to a 365 day non-revolving term facility. The amounts outstanding under the non-revolving facility are required to be repaid at the end of the non-revolving term being May 25, 2015. The non-extension provisions are applicable to the lenders on an individual basis.

Interest payable on amounts drawn under the facility is at the prevailing bankers' acceptance rates plus stamping fees, lenders' prime rate or U.S. base rate plus the applicable margins, depending on the form of borrowing by the Company. The applicable margins and stamping fees are based on a sliding scale pricing grid tied to the Company's trailing debt to annualized quarterly funds from operations ratio: from a minimum of the bank's prime rate or U.S. base rate plus 1.00 percent to a maximum of the bank's prime rate or U.S. base rate plus 2.50 percent or from a minimum of bankers' acceptances rate plus a stamping fee of 2.00 percent to a maximum of bankers' acceptances rate plus a stamping fee of 3.50 percent.

Under the terms of the credit facility, the Company covenants that it will maintain a working capital ratio of at least one to one. For the purpose of this ratio, the undrawn portion of the credit facility is added to current assets in the working capital calculation. The credit facility is secured by a $200.0 million demand floating charge debenture and a general security agreement over all assets of the Company. Delphi is in compliance with the covenants of its credit facility as at June 30, 2013.

During the second quarter of 2013, Delphi entered into a commitment letter for a $20.0 million demand facility with a Canadian energy and resource lender. The funding will be available in two tranches; $12.0 million available to be drawn down until July 15, 2013 and $8.0 million available for draw down until September 16, 2013. The debt will be secured by the Company's assets, be subordinate to the Company's senior credit facility and requires the maintenance of a minimum debt to equity ratio and an improvement in the Company's debt to cash flow ratio over the term of the debt. The debt has a maturity date of December 31, 2014 and may be extended at the option of Delphi for an additional six months. The subordinated debt will have an annual coupon rate of 8.5 percent with interest payable monthly. Subsequent to June 30, 2013, the financing was finalized and Delphi has drawn down the first tranche of the subordinated credit facility. The subordinated facility will be used to fund the Company's 2013 capital drilling program.

Contractual Obligations

Does the Company have any contractual obligations as of June 30, 2013 that will require funding in future years?

The Company is committed to future minimum payments for natural gas transmission and processing and operating leases on compression equipment. The Company also has a lease for office space in Calgary, Alberta. As noted above, bank debt is based on a revolving term which is reviewed annually and converts to a 365 day non-revolving term facility if not renewed.

The future minimum commitments over the next five years are as follows:

	< 1 Year	2014	2015	2016	2017
Gathering, processing and transmission	2,215	4,582	3,390	100	-
Office and equipment lease	717	566	566	579	417
Outstanding cheques	2,517	-	-	-	-
Accounts payable and accrued liabilities	25,919	-	-	-	-
Decommissioning obligations	605	-	-	-	-
Fair value of financial instruments	1,117	513	761	1,135	187
Restricted share units – long term portion	-	59	204	18	-
Bank debt	-	-	114,070	-	-
Total	33,090	5,720	118,991	1,832	604

As a result of the flow-through shares issued on December 23, 2012, Delphi is committed to incur approximately $8.0 million in qualifying Canadian exploration expenses on or before December 31, 2013. As at June 30, 2013, Delphi has satisfied $0.9 million of this commitment.

Pursuant to a farm-in agreement, Delphi must drill a total of 5 gross wells in 2013 and 2014 of which it has a commitment to pay the farmor's working interest, representing 2.3 net wells. As a result of the Company's winter drilling program, the Company drilled 2 gross commitment wells of which the farmor's working interest after payout represents 0.38 net wells. The farm-in agreement will allow Delphi to earn working interests in Montney and Nordegg petroleum and natural gas rights ("PNG rights") in its core area of Bigstone, Alberta. Under this farm-in agreement, Delphi may earn a minimum of a 33 percent working interest in 23.5 sections of PNG rights at a remaining estimated cost of $16.8 million or up to a 75 percent working interest in 35 sections of PNG rights at a remaining estimated cost of $29.3 million. In the event Delphi does not complete its drilling commitments associated with this farm-in agreement, the Company is exposed to a maximum non-performance fee of $4.0 million.

During the second quarter of 2013, Delphi entered into a drilling participation agreement whereby Delphi is committed to drill four Montney wells ("the participating wells"). The agreement will allow the participating party to earn a gross overriding royalty on the participating wells in exchange for a capital contribution of $2.5 million per well. In the event that more than one of the participating wells drilled is not successful, Delphi will be required to drill a successful well at 100 percent cost to Delphi and assign a gross overriding royalty to such well, payable to the participant of the agreement.

GUARANTEES AND OFF-BALANCE SHEET ARRANGEMENTS

Does Delphi have any outstanding guarantees on behalf of third parties or any off-balance sheet arrangements which could lead to liabilities in the future?

Delphi has not entered into any guarantees or off-balance sheet arrangements. Certain lease agreements entered into in the normal course of operations could be considered off-balance sheet arrangements; however, all leases which are considered operating leases are charged to operating expenses or general and administrative expenses on a monthly basis according to the lease. In March 2012, the Company entered into a lease agreement that was accounted for as a finance lease. As a result of this arrangement, an asset and obligation were recorded on the Company's consolidated statement of financial position as at December 31, 2012. During the first quarter of 2013, the Company fulfilled its obligation to purchase the leased equipment and as a result has derecognized the associated finance lease obligation.

CRITICAL ACCOUNTING ESTIMATES

In preparing the Company's consolidated financial statements, is Delphi required to make estimates or assumptions about future events?

The reader is advised that the critical accounting estimates, judgments, policies and practices as described in the Company's Management's Discussion and Analysis for the year ended December 31, 2012 continue to be critical in determining Delphi's financial results.

The condensed consolidated interim financial statements have been prepared in conformity with IAS 34, Interim Financial Reporting, which requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, shareholders' equity, revenue and expenses. Actual results may differ from these estimates.

NEW ACCOUNTING STANDARDS

Are there any new accounting standards which the Company has had to adopt and comply with?

The following amended and new standards have been adopted with an effective date of January 1, 2013:

- IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. This standard replaces SIC - 12, "Consolidation – Special Purpose Entities." The adoption of this standard did not have an impact on the Company's consolidated financial statements.

- IFRS 11, "Joint Arrangements" ("IFRS 11"), requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation, each having its own accounting model. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. The standard provides for a more substance based reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal

form. The new standard replaces IAS 31, "Interests in Joint Ventures" and SIC – 13, "Jointly Controlled Entities – Non-monetary Contributions by Venturers" and establishes principles for accounting for all joint arrangements. The adoption of this standard did not have an impact on the Company's consolidated financial statements.

- IFRS 12, "Disclosure of Interests in Other Entities", outlines the required disclosures for interests in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements. The adoption of this standard did not have an impact on the Company's consolidated financial statements.

- IFRS 13, "Fair Value Measurement" defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. The adoption of this standard did not have an impact on the Company's consolidated financial statements other than additional required disclosures – See note 4 of the Company's condensed consolidated interim financial statements for the six months ended June 30, 2013.

- IAS 28, "Investments in Associates and Joint Ventures" has been amended to conform to the changes made in IFRS 10 and IFRS 11. The amendment of this standard did not have an impact on the Company's consolidated financial statements.

Are there any future accounting standards which the Company will have to comply with in the future?

During the six months ended June 30, 2013, there were no revised standards or amendments to IFRS issued. Refer to the Company's December 31, 2012 MD&A for a summary of future accounting pronouncements, with the exception of the standards noted above, for which the Company is continuing to evaluate the impact of adopting those standards.

CORPORATE GOVERNANCE

Overview

The shareholders' interests are a critical factor in the operations and management of Delphi. The Company is committed to maintaining the highest level of investor confidence in the Company through the application of its corporate policies and procedures. Delphi's Board of Directors consists of six 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 Management Information Circular and Annual Information Form for a listing of committees that oversee specific aspects of the Company's operating and financial strategy.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management, including its President and Chief Executive Officer and Senior Vice President, Finance and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company's President and Chief Executive Officer and Senior Vice President, Finance and Chief Financial Officer have concluded that the Company's internal controls over financial reporting and disclosure controls and procedures are effective and 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. Management's assessment of the Company's internal controls over financial reporting was based on the framework in Internal Control over Financial Reporting – Guidance for Smaller Public Companies issued by the Committee of Sponsoring Organizations (1992 Framework).

The Company notes that while it believes the disclosure controls and procedures and internal controls over financial reporting provide a reasonable level of assurance that they are effective, it does not expect that the disclosure controls and procedures and internal controls 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. There were no changes made to the disclosure controls and procedures or internal controls over financial reporting during the second quarter of 2013.

ADDITIONAL INFORMATION

Where is additional information about Delphi available?

Additional information about Delphi Energy is available on the Canadian Securities Administrators' System for Electronic Distribution and Retrieval (SEDAR) at www.sedar.com, at the Company's website at www.delphienergy.ca or by contacting the Company at Delphi Energy Corp. Suite 300, 500 – 4th Avenue S.W., Calgary, Alberta, T2P 2V6 or by e-mail at info@delphienergy.ca.

DELPHI ENERGY CORP.

Condensed Consolidated Statements of Financial Position

(thousands of dollars) (unaudited)	**June 30 2013**	December 31, 2012
Assets		
Current assets		
Accounts receivable	**21,837**	16,250
Prepaid expenses and deposits	**2,910**	2,640
Fair value of financial instruments (Note 5)	**1,422**	285
	26,169	19,175
Exploration and evaluation (Note 6)	**23,069**	12,406
Property, plant and equipment (Note 7)	**385,780**	370,068
Total assets	**435,018**	401,649
Liabilities		
Current liabilities		
Outstanding cheques	**2,517**	883
Accounts payable and accrued liabilities	**25,919**	24,396
Decommissioning obligations	**605**	420
Finance lease obligation (Note 8)	**-**	1,588
Fair value of financial instruments (Note 5)	**1,117**	306
	30,158	27,593
Other liabilities (Note 9)	**2,632**	2,651
Long term debt (Note 10)	**114,070**	84,418
Fair value of financial instruments (Note 5)	**2,596**	3,981
Decommissioning obligations	**31,908**	35,293
Deferred income taxes	**7,684**	6,126
	189,048	160,062
Shareholders' equity		
Share capital (Note 11)	**304,866**	304,816
Contributed surplus	**15,676**	14,608
Deficit	**(74,572)**	(77,837)
Total shareholders' equity	**245,970**	241,587
Total liabilities and shareholders' equity	**435,018**	401,649

Commitments (Note 13)

See accompanying notes to the condensed consolidated interim financial statements.

DELPHI ENERGY CORP.

Condensed Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss)
For the three and six months ended June 30

(thousands of dollars, except per share amounts) (unaudited)	Three Months Ended June 30, **2013**	2012	Six Months Ended June 30, **2013**	2012
Revenue				
Crude oil and natural gas sales	**23,541**	21,875	**45,304**	46,018
Royalties	**(2,493)**	(4,549)	**(5,512)**	(8,589)
	21,048	17,326	**39,792**	37,429
Realized gain (loss) on financial instruments	**(150)**	1,617	**(231)**	1,834
Unrealized gain on financial instruments (Note 5)	**5,184**	1,260	**1,711**	2,275
	26,082	20,203	**41,272**	41,538
Expenses				
Operating	**5,793**	6,829	**10,532**	11,933
Transportation	**3,227**	1,957	**5,114**	4,115
General and administrative	**1,712**	1,835	**3,203**	3,076
Share-based compensation	**660**	338	**1,355**	710
Loss (gain) on property dispositions (note 7)	**122**	1,689	**(3,095)**	(594)
Decommissioning	**222**	-	**473**	-
Depletion, depreciation and impairment (Note 7)	**8,434**	10,865	**16,184**	44,818
	20,170	23,513	**33,766**	64,058
Finance costs	**1,586**	1,298	**2,984**	2,275
Earnings (loss) before income taxes	**4,326**	(4,608)	**4,522**	(24,795)
Income taxes				
Deferred income taxes (recovery)	**1,117**	(1,077)	**1,257**	(5,349)
Net earnings (loss) and comprehensive earnings (loss)	**3,209**	(3,531)	**3,265**	(19,446)
Net earnings (loss) per share (Note 11)				
Basic and diluted	**0.02**	(0.03)	**0.02**	(0.15)

See accompanying notes to the condensed consolidated interim financial statements.

DELPHI ENERGY CORP.

Condensed Consolidated Statements of Changes in Shareholders' Equity
For the six months ended June 30

(thousands of dollars) (unaudited)	Six Months Ended June 30, **2013**	 2012
Share capital		
Common shares		
Balance, beginning of period	**304,816**	275,682
Issued on exercise of options	**33**	39
Transferred on exercise of options	**17**	20
Balance, end of period	**304,866**	275,741
Contributed surplus		
Balance, beginning of period	**14,608**	12,500
Share-based compensation	**1,085**	1,282
Transferred on exercise of options	**(17)**	(20)
Balance, end of period	**15,676**	13,762
Deficit		
Balance, beginning of period	**(77,837)**	(19,807)
Net earnings (loss)	**3,265**	(19,446)
Balance, end of period	**(74,572)**	(39,253)
Total shareholders' equity	**245,970**	250,250

See accompanying notes to the condensed consolidated interim financial statements.

DELPHI ENERGY CORP.

Condensed Consolidated Statements of Cash Flows
For the three and six months ended June 30

(thousands of dollars)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
(unaudited)				
Cash flow from (used in) operating activities				
Net earnings (loss)	**3,209**	(3,531)	**3,265**	(19,446)
Adjusted for:				
Depletion and depreciation	**8,434**	10,865	**16,184**	44,818
Accretion and finance lease charges	**185**	167	**420**	301
Non-cash share-based compensation	**303**	328	**998**	700
Decommissioning expense	**222**		**473**	
Loss (gain) on property dispositions	**122**	1,689	**(3,095)**	(594)
Unrealized gain on financial instruments	**(5,184)**	(1,260)	**(1,711)**	(2,275)
Deferred income taxes (recovery)	**1,117**	(1,077)	**1,257**	(5,349)
Accretion of long term debt	**247**	(168)	**211**	(374)
Decommissioning expenditures	**(514)**	-	**(1,307)**	(413)
Change in non-cash working capital (Note 12)	**(1,603)**	(195)	**315**	(2,288)
	6,538	6,818	**17,010**	15,080
Cash flow from (used in) financing activities				
Exercise of options	**-**	19	**33**	39
Finance lease obligation	**-**	(102)	**(1,641)**	(169)
Increase (decrease) in long term debt	**14,999**	37,061	**29,441**	52,345
Change in non-cash working capital (Note 12)	**-**	-	**(212)**	-
	14,999	36,978	**27,621**	52,215
Cash flow available for investing activities	**21,537**	43,796	**44,631**	67,295
Cash flow from (used in) investing activities				
Additions to exploration and evaluation	**(966)**	(436)	**(1,125)**	(1,772)
Acquisitions of exploration and evaluation	**-**	-	**(12,135)**	-
Additions to property, plant and equipment	**(6,395)**	(10,955)	**(30,192)**	(62,902)
Disposition of petroleum and natural gas properties	**105**	(11)	**3,277**	11,574)
Acquisition of petroleum and natural gas properties	**-**	-	**(1,529)**	-
Change in non-cash working capital (Note 12)	**(14,281)**	(34,863)	**(2,927)**	(18,812)
	(21,537)	(46,265)	**(44,631)**	(71,312)
Increase (decrease) in cash and cash equivalents	**-**	(2,469)	**-**	(4,017)
Cash and cash equivalents, beginning of period	**-**	2,469	**-**	4,017
Cash and cash equivalents, end of period	**-**	-	**-**	-
Cash interest paid	**1,050**	1,389	**2,814**	2,462

See accompanying notes to the condensed consolidated interim financial statements.

1) STRUCTURE OF DELPHI

Delphi Energy Corp. ("Delphi" or "the Company") is a publicly-traded company engaged in the exploration for, development and production of crude oil and natural gas from properties and assets located in Western Canada in which it holds an interest. The Company's operations are primarily concentrated in the Deep Basin of North West Alberta, representing in excess of 90 percent of the Company's production. The registered office of the Company is located at Suite 300, 500 – 4th Avenue S.W., Calgary, Alberta, T2P 2V6.

The condensed consolidated interim financial statements as at and for the three and six months ended June 30, 2013 comprise the accounts of the Company, its wholly-owned subsidiary and a partnership.

2) BASIS OF PRESENTATION

(a) Statement of compliance

These condensed consolidated interim financial statements are unaudited and prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board, and do not include all of the information and disclosures normally provided in annual financial statements and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2012.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors on August 13, 2013.

(b) Basis of measurement and functional currency

The condensed consolidated interim financial statements have been prepared on a going concern basis, using historical cost, except for derivative financial instruments and liabilities for cash-settled share-based payment arrangements which are measured at fair value. The financial statements are presented in Canadian dollars, the Company's functional currency.

(c) Use of estimates and judgments

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts in the condensed consolidated interim financial statements and accompanying notes. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be material. Actual results may differ from these estimates. Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying Delphi's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2012.

3) SIGNIFICANT ACCOUNTING POLICIES

On January 1, 2013, Delphi adopted IFRS 10 - Consolidated Financial Statements, IFRS 11 – Joint Arrangements, IFRS 12 – Disclosure of Interests in Other Entities and IFRS 13 – Fair Value Measurement. The adoption of these standards had no impact on the amounts recorded in the consolidated financial statements as at January 1, 2013 or on the comparative periods.

With the exception of these new standards, the accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended December 31, 2012.

4) DETERMINATION OF FAIR VALUES

Delphi's financial instruments, including derivative financial instruments, recognized in the consolidated statement of financial position consist of accounts receivable, derivative instruments, accounts payable and accrued liabilities, restricted share units liability and long term debt.

The Company's accounts receivable, accounts payable and accrued liabilities approximate their carrying value due to their short term maturity. In the case of long term debt, the fair value approximates its carrying value as it bears interest at floating rates and the applicable margin is indicative of the Company's current credit premium.

The fair values of Delphi's derivative financial instruments are classified according to the following hierarchy based on the amount of observable inputs used to value the instrument:

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

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

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

Delphi's restricted share units and the Company's interest and commodity risk management contracts are measured at level 2 of the fair value hierarchy. The fair value of the commodity contracts is determined by discounting the remaining contracted petroleum and natural gas volumes by the difference between the contracted price and published forward price curves as at the consolidated statement of financial position date. Delphi does not have any fair value measurements classified as level 3.

5) FINANCIAL RISK MANAGEMENT

The Company has exposure to market risk, credit risk and liquidity risk from its use of financial instruments. There have not been any changes to the Company's exposure risks, or the objectives, policies and processes to manage these risks since December 31, 2012.

As at June 30, 2013, Delphi had the following derivative financial and physical commodity risk management contracts outstanding:

Financial Contracts

Time Period	Type of Contract	Quantity Contracted	Price Floor ($/unit)	Price Ceiling ($/unit)
April 2012 – December 2016 (1)	Natural Gas – fixed	6,000 GJ/d	$3.45 Cdn	$3.45 Cdn
April 2013 – April 2015	Natural Gas – fixed	3,000 GJ/d	$3.535 Cdn	$3.535 Cdn
April 2013 – December 2015	Natural Gas – fixed	3,000 GJ/d	$3.27 Cdn	$3.27 Cdn
April 2013 – December 2016	Natural Gas – fixed	3,000 GJ/d	$3.40 Cdn	$3.40 Cdn
March 2013 – December 2013	Crude Oil – fixed	150 bbls/d	$89.65 Cdn	$89.65 Cdn
July 2013 – June 2014	Crude Oil – fixed	100 bbls/d	$95.00 Cdn	$95.00 Cdn
July 2013 – June 2014	Crude Oil – collar	200 bbls/d	$94.00 Cdn	$101.00 Cdn
January 2014 – December 2014 (2)	Crude Oil – call option	600 bbls/d	-	$90.00 U.S.

(1) The Company re-priced this natural gas contract from $2.88 per gigajoule to $3.45 per gigajoule by extending the time period of this contract from December 2014 to December 2016.

(2) The Company acquired a natural gas contract at $5.69 per gigajoule on 6,810 gigajoules per day for the period April 1, 2011 through December 31, 2011. The contract was paid for with the sale of a crude oil call on 600 barrels per day at a price of U.S. $90.00 WTI per barrel for the period January 1, 2012 through December 31, 2012. Delphi has deferred this crude oil call to January 1, 2014 through December 31, 2014.

Subsequent to June 30, 2013, Delphi entered into a fixed price oil contract for 100 bbls/d at $101.10 Cdn. per barrel from August 2013 to July 2014.

Physical Contracts

Time Period	Type of Contract	Quantity Contracted	Price Floor ($/unit)	Price Ceiling ($/unit)
April 2012 – December 2013 [1]	Natural Gas – fixed	2,000 mmbtu/d	$3.21 U.S.	$3.21 U.S.
January 2013 – December 2013	Natural Gas – fixed	1,500 GJ/d	$3.41 Cdn	$3.41 Cdn
April 2013 – December 2013	Natural Gas – fixed	1,500 GJ/d	$3.42 Cdn	$3.42 Cdn
May 2013 – October 2013	Natural Gas – fixed	2,000 GJ/d	$3.45 Cdn	$3.45 Cdn

(1) Subsequent to June 30, 2013, Delphi re-priced this natural gas physical contract to U.S. $3.71/mmbtu by increasing the contracted volume to 3,000 mmbtu/d and extending the contract to October 2014.

Natural gas physical commodity risk management contracts based in U.S. dollars include an embedded derivative associated with the foreign exchange rate. The changes in the fair value of these contracts, which are considered derivatives due to the embedded feature, are included in the unrealized loss on financial instruments in the consolidated statement of earnings.

In addition to commodity risk management contracts, the Company has two interest rate swap transactions on borrowings through bankers' acceptances. The details are as follows:

Time Period	Amount	Fixed Interest Rate
June 2012 – May 2014	20,000	1.09
March 2013 – February 2015	20,000	1.25

The fair value of the risk management contracts outstanding as at June 30, 2013 is estimated to be a liability of approximately $2.3 million. For the three and six months ended June 30, 2013, Delphi recorded an unrealized gain on its risk management contracts of $5.2 million and $1.7 million, respectively. The unrealized gain recognized for the three and six months ended June 30, 2013 is the difference between the fair value of the risk management contracts outstanding as at June 30, 2013 and the fair value as at March 31, 2013 and December 31, 2012, respectively.

As at June 30, 2013, the following derivative financial assets and financial liabilities were offset:

	Gross Amounts of Recognized Financial Assets (Liabilities)	Gross Amounts of Recognized Financial Assets (Liabilities) Offset in Balance Sheet	Net Amounts of Financial Assets (Liabilities) Recognized in Balance Sheet
Risk management contracts			
Current asset	1,536	(114)	1,422
Current liability	(1,616)	499	(1,117)
Long term liability	(2,911)	315	(2,596)
Net asset (liability)	**(2,991)**	**700**	**(2,291)**

6) EXPLORATION AND EVALUATION ASSETS

	Total
Balance as at December 31, 2011	18,699
Additions	5,478
Dispositions	(3,061)
Transfer to oil and gas properties	(8,710)
Balance as at December 31, 2012	12,406
Additions	1,125
Acquisitions	12,135
Transfer to oil and gas properties	(2,597)
Balance as at June 30, 2013	**23,069**

Exploration and evaluation assets consist of the Company's exploration projects which are pending the determination of proven and probable reserves. During the first three months of 2013, Delphi acquired 30 gross (26.8 net) sections of

Montney rights for $13.7 million. Certain of the sections acquired were assigned reserves due to their proximity to existing Delphi producing wells. The sections that were assigned reserves have been included in crude oil and natural gas properties. For the six months ended June 30, 2013, $2.6 million was transferred to property, plant and equipment following the successful discovery of proven and probable reserves.

7) PROPERTY, PLANT AND EQUIPMENT

Cost	**Crude oil and natural gas properties**	**Production equipment**	**Other assets**	**Total**
Balance as at December 31, 2011	485,028	27,862	758	513,648
Additions	62,932	21,066	102	84,100
Decommissioning obligations	16,235	603	-	16,838
Dispositions	(8,165)	-	-	(8,165)
Reclassification to assets held for sale	(30,293)	(1,731)	-	(32,024)
Reclassification from assets held for sale	-	1,433	-	1,433
Transfer from exploration and evaluation assets	8,710	-	-	8,710
Balance as at December 31, 2012	534,447	49,233	860	584,540
Additions	31,949	259	6	32,214
Decommissioning obligations	(2,291)	(397)	-	(2,688)
Dispositions	(419)	-	-	(419)
Transfer from exploration and evaluation assets	2,597	-	-	2,597
Balance as at June 30, 2013	**566,283**	**49,095**	**866**	**616,244**

Accumulated depletion and depreciation	**Crude oil and natural gas properties**	**Production equipment**	**Other assets**	**Total**
Balance as at December 31, 2011	(114,615)	(6,365)	(246)	(121,226)
Depletion and depreciation	(42,450)	(662)	(135)	(43,247)
Dispositions	3,435	-	-	3,435
Reclassification to assets held for sale	5,932	-	-	5,932
Impairment losses	(55,006)	(4,360)	-	(59,366)
Balance as at December 31, 2012	(202,704)	(11,387)	(381)	(214,472)
Depletion and depreciation	(15,623)	(496)	(65)	(16,184)
Dispositions	192	-	-	192
Balance as at June 30, 2013	**(218,135)**	**(11,883)**	**(446)**	**(230,464)**
Net book value as at June 30, 2013	**348,148**	**37,212**	**420**	**385,780**
Net book value as at December 31, 2012	331,743	37,846	479	370,068

Delphi has included $283.0 million (June 30, 2012: $195.4 million) for future development costs and excluded $1.9 million (June 30, 2012: $3.3 million) for estimated salvage from the depletion calculation for the three months ended June 30, 2013.

During the six months ended June 30, 2013, Delphi received $3.3 million for oil and gas properties with a net book value of $227 thousand and decommissioning liabilities of $54 thousand, resulting in a gain of $3.1 million.

For the six months ended June 30, 2013, Delphi capitalized $1.0 million (June 30, 2012: $1.5 million) of general and administrative expenses and $0.5 million (June 30, 2012: $0.7 million) of share-based compensation expense directly related to exploration and development activities.

For the year ended December 31, 2012, the Company recognized $59.4 million of impairments, of which $21.0 million was recorded during the first quarter of 2012, relating to its Hythe, Berland River, Miscellaneous Alberta and North East B.C. CGUs. The impairments were based on the difference between the period end carrying value of the CGU's and the recoverable amount. The recoverable amounts were determined using a fair value less costs to sell methodology with the expected future cash flows based on proved and probable reserves using pre-tax discount rates of 8 to 20 per cent.

8) FINANCE LEASE OBLIGATION

The Company entered into an agreement in March 2012 to lease a compressor with a commitment to purchase the equipment at the end of the lease term. The lease arrangement resulted in the recognition of an asset and an obligation. In March 2013, Delphi fulfilled its commitment to purchase the leased equipment resulting in the derecognition of the finance lease obligation.

9) OTHER LIABIILITIES

	June 30, 2013	December 31, 2012
Liability – flow-through shares	**2,351**	2,651
Restricted share units	**281**	-
Total	**2,632**	2,651

On November 13, 2012, Delphi issued, on a bought deal basis, 4.6 million common shares on a flow-through basis at a price of $1.75 per common share. A premium of $2.7 million related to the issuance of the common shares on a flow-through basis was recorded as a long term liability on the consolidated statement of financial position. The liability is derecognized, with a corresponding deferred tax expense or recovery, as the Company incurs qualifying exploration expenditures. As a result of the second quarter qualifying expenditures, the liability associated with the flow-through shares and the associated deferred tax asset have been reduced with a corresponding tax recovery.

10) LONG TERM DEBT

	June 30, 2013	December 31, 2012
Prime-based loans	**35,000**	5,000
Bankers' acceptances, net of discount	**79,070**	79,418
Total	**114,070**	84,418

A semi-annual review of the Company's extendible revolving term credit facility was conducted during the second quarter of 2013 resulting in a $15.0 million increase to $140.0 million.

The Company's extendible revolving term credit facility with a syndicate of Canadian chartered banks is subject to the banks' semi-annual valuation of the Company's crude oil and natural gas properties. The facility is a 364 day committed facility available on a revolving basis until May 26, 2014 at which time it may be extended at the lenders' option. If the revolving period is not extended, the undrawn portion of the facility will be cancelled and the amount outstanding will convert to a 365 day non-revolving term facility. The amounts outstanding under the non-revolving facility are required to be repaid at the end of the non-revolving term being May 25, 2015. The non-extension provisions are applicable to the lenders on an individual basis.

A semi-annual review of the Company's $140.0 million extendible revolving term credit facility will be conducted during the fourth quarter of 2013. The borrowing base of the facilities will be based on the lenders' evaluation of the Company's petroleum and natural gas reserves and commodity prices.

During the second quarter of 2013, Delphi entered into a commitment letter for a $20.0 million demand facility with a Canadian energy and resource lender. The funding will be available in two tranches; $12.0 million available to be drawn down until July 15, 2013 and $8.0 million available for draw down until September 16, 2013. The debt will be secured by the Company's assets, be subordinate to the Company's senior credit facility and requires the maintenance of a minimum debt to equity ratio and an improvement in the Company's debt to cash flow ratio over the term of the debt. The debt has a maturity date of December 31, 2014 and may be extended at the option of Delphi for an additional six months. The subordinated debt will have an annual coupon rate of 8.5 percent with interest payable monthly. Subsequent to June 30, 2013, the financing was finalized and Delphi has drawn down the first tranche of the subordinated credit facility.

11) SHARE CAPITAL

(a) Issued and outstanding	**June 30, 2013**		December 31, 2012	
	Outstanding shares (000's)	**Amount**	Outstanding shares (000's)	Amount
Balance, beginning of period	**153,049**	**304,816**	131,000	275,682
Issued for cash	**-**	**-**	17,242	25,000
Issued for cash on a flow-through basis	**-**	**-**	4,572	5,349
Issued on exercise of stock options	**51**	**33**	235	152
Transferred on exercise of options	**-**	**17**	-	78
Share issue costs, net of deferred tax effect	**-**	**-**	-	(1,445)
Balance, end of period	**153,100**	**304,866**	153,049	304,816

On November 13, 2012, Delphi issued, on a bought deal basis, 17.2 million common shares at a price of $1.45 per share and 4.6 million common shares on a flow-through basis at a price of $1.75 per common share for total gross proceeds of $33.0 million.

During the six months ended June 30, 2013, Delphi granted 4.9 million stock options to employees, directors and consultants with a weighted average fair value of $0.40 per option. As at June 30, 2013, a total of 13.2 million stock options were outstanding.

(b) Net earnings (loss) per share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
Weighted average common shares - basic	**153,084**	131,060	**153,084**	131,030
Dilutive effect of share options outstanding	**409**	-	**368**	-
Weighted average common shares - diluted	**153,493**	131,060	**153,452**	131,030

12) SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
Source/(use) of cash				
Accounts receivable	**(2,094)**	528	**(5,587)**	146
Prepaid expenses and deposits	**(389)**	(64)	**(270)**	(175)
Outstanding cheques	**(1,330)**	1,334	**1,634**	1,334
Accounts payable and accrued liabilities	**(12,071)**	(36,856)	**1,399**	(21,805)
Total change in non-cash working capital	**(15,884)**	(35,058)	**(2,824)**	(20,500)
Relating to:				
Operating activities	**(1,603)**	(195)	**315**	(2,288)
Financing activities	**-**	-	**(212)**	-
Investing activities	**(14,281)**	(34,863)	**(2,927)**	(18,212)
	(15,884)	(35,058)	**(2,824)**	(20,500)

13) COMMITMENTS

Delphi has an obligation to incur $8.0 million in qualifying exploration expenditures by December 31, 2013 to satisfy the terms of this flow-through common share issuance. As of June 30, 2013, Delphi has satisfied $0.9 million of its $8.0 million commitment.

Pursuant to a farm-in agreement, Delphi must drill a total of 5 gross wells in 2013 and 2014 of which it has a commitment to pay the farmor's working interest, representing 2.3 net wells. As a result of the Company's winter drilling program, the Company drilled 2 gross commitment wells of which the farmor's working interest after payout represents 0.38 net wells. The farm-in agreement will allow Delphi to earn working interests in Montney and Nordegg petroleum and natural gas rights ("PNG rights") in its core area of Bigstone, Alberta. Under this farm-in agreement, Delphi may earn a minimum of a 33 percent working interest in 23.5 sections of PNG rights at a remaining estimated cost of $16.8 million or up to a 75 percent working interest in 35 sections of PNG rights at a remaining estimated cost of $29.3 million. In the event Delphi does not complete its drilling commitments associated with this farm-in agreement, the Company is exposed to a maximum non-performance fee of $4.0 million.

During the second quarter of 2013, Delphi entered into a drilling participation agreement whereby Delphi is committed to drill four Montney wells ("the participating wells"). The agreement will allow the participating party to earn a gross overriding royalty on the participating wells in exchange for a capital contribution of $2.5 million per well. In the event that more than one of the participating wells drilled is not successful, Delphi will be required to drill a successful well at 100 percent cost to Delphi and assign a gross overriding royalty to such well, payable to the participant of the agreement.

DIRECTORS

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Delphi Energy Corp.

Tony Angelidis
Senior Vice President Exploration
Delphi Energy Corp.

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David Sandmeyer [2]
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Freehold Royalty Ltd.

Lamont C. Tolley [1] [2]
Independent Businessman

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

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KPMG LLP

LEGAL COUNSEL

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INDEPENDENT ENGINEERS

GLJ Petroleum Consultants Ltd.

STOCK EXCHANGE LISTING

Toronto Stock Exchange – DEE

TRANSFER AGENT

Olympia Trust Company

ABBREVIATIONS

bbls............barrels
bbls/d............barrels per day
mbbls............thousand barrels
mcf............thousand cubic feet
mcf/d............thousand cubic feet per day
mmcf............million cubic feet
mmcf/d............million cubic feet per day
NGL............natural gas liquids
bcf............billion cubic feet
boe............barrels of oil equivalent (6 mcf:1 bbl)
boe/d............barrels of oil equivalent per day
mmboe............million barrels of oil equivalent

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