



FOR THE NINE MONTHS ENDED  
**September 30, 2013**

**Q3**

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### Third Quarter 2013 Highlights

- Produced an average of 8,797 barrels of oil equivalent per day (“boe/d”) during the three months ended September 30, 2013, a seven percent increase over the comparative quarter of 2012 and a 15 percent increase over the second quarter of 2013;
- Increased the Company’s field condensate production 174 percent to 705 bbls/d and natural gas liquids (“NGL”) production 21 percent to 1,294 bbls/d for the three months ended September 30, 2013 compared to the third quarter of 2012. The combined corporate field condensate and NGL yield increased 49 percent to 52 barrels per million cubic feet (“bbls/mmcf”);
- Increased production from the Bigstone Montney project for the three months ended September 30, 2013 to 3,528 boe/d, a 77 percent increase over the comparative quarter of 2012. The Bigstone Montney project contributed 40 percent of the Company’s production during the third quarter of 2013 compared to 24 percent during the comparative quarter of 2012;
- Increased the combined Montney field condensate and NGL yield 52 percent to 95 bbls/mmcf for the three months ended September 30, 2013, compared to 63 bbls/mmcf during the third quarter of 2012. Field and plant condensate yield was 56 bbls/mmcf or 59 percent of the total 95 bbls/mmcf;
- Increased funds from operations to \$10.0 million, a 27 percent increase over the comparative quarter of 2012 and a 19 percent increase over the second quarter of 2013. Corporate cash netbacks increased 19 percent over the comparative quarter of 2012;
- Recorded net earnings of \$1.2 million for the three months ended September 30, 2013 versus a net loss of \$9.2 million in the comparative quarter of 2012;
- Drilled one net Montney well in East Bigstone which has been completed and tied-in during the fourth quarter of 2013. Drilling times for the Company’s Montney wells have decreased 35 percent and drilling costs have been reduced by 25 percent. The most recent well at 15-30 was drilled to a total depth of 5,834 metres with a record horizontal lateral length of 3,014 metres drilled across two sections in 30 days and set a record low Montney well cost for Delphi of \$4.85 million;
- Completed drilling operations of the Duvernay vertical stratigraphic (“strat”) test well with a subsequent Montney horizontal whipstock as part of a farm-in agreement to earn additional Montney and Nordegg petroleum and natural gas rights; and
- Increased the Company’s Montney land position by 13 percent to a current total of 107 net (122 gross) sections through an industry farm-in and recent Crown land sale activity.

### Operational Highlights

Production	Three Months Ended September 30			Nine Months Ended September 30		
	2013	2012	% Change	2013	2012	% Change
Crude oil (bbls/d)	330	573	(42)	320	796	(60)
Field condensate (bbls/d)	705	257	174	601	229	162
Natural gas liquids (bbls/d)	1,294	1,069	21	1,200	1,117	7
Total crude oil and natural gas liquids	2,329	1,899	23	2,121	2,142	(1)
Natural gas (mcf/d)	38,807	38,148	2	35,209	38,910	(10)
Total (boe/d)	8,797	8,257	7	7,989	8,627	(7)

**Financial Highlights** (\$ thousands except per unit amounts)

	Three Months Ended September 30			Nine Months Ended September 30		
	2013	2012	% Change	2013	2012	% Change
Petroleum and natural gas sales	<b>25,666</b>	20,878	23	<b>70,971</b>	66,896	6
Realized sales price per boe	<b>32.94</b>	29.25	13	<b>32.89</b>	29.65	11
Funds from operations	<b>9,972</b>	7,881	27	<b>27,763</b>	26,036	7
Per boe	<b>12.32</b>	10.37	19	<b>12.73</b>	11.02	16
Per share – Basic	<b>0.07</b>	0.06	-	<b>0.18</b>	0.20	(10)
Per share – Diluted	<b>0.06</b>	0.06	-	<b>0.18</b>	0.20	(10)
Net earnings (loss)	<b>1,208</b>	(9,190)	-	<b>4,473</b>	(28,636)	-
Per boe	<b>1.49</b>	(12.10)	-	<b>2.05</b>	(12.11)	-
Per share – Basic	<b>0.01</b>	(0.07)	-	<b>0.03</b>	(0.22)	-
Per share – Diluted	<b>0.01</b>	(0.07)	-	<b>0.03</b>	(0.22)	-
Capital invested	<b>13,015</b>	7,516	73	<b>44,332</b>	72,190	(39)
Disposition of properties	<b>(42)</b>	(23,045)	(100)	<b>(3,319)</b>	(34,619)	(90)
Net capital invested	<b>12,973</b>	(15,529)	-	<b>41,013</b>	37,571	9
Acquisition of undeveloped properties	-	-	-	<b>13,664</b>	-	-
Total capital invested	<b>12,973</b>	(15,529)	-	<b>54,677</b>	37,571	46

	September 30, 2013	December 31, 2012	% Change
Debt plus working capital deficiency <sup>(1)</sup>	<b>121,670</b>	92,815	31
Total assets	<b>443,428</b>	401,649	10
Shares outstanding (000's)			
Basic	<b>153,114</b>	153,049	-
Diluted	<b>166,246</b>	162,104	3

<sup>(1)</sup> excludes the fair value of financial instruments.

**MESSAGE TO SHAREHOLDERS**

Delphi continues to successfully grow its Montney production, reserves and undeveloped land position at Bigstone. The Company now holds 122 gross sections of land where continued refinement of completion techniques and reduction in drilling and completion costs are delivering a step change to the economics of the project.

The value of Delphi's Montney project continues to be validated with each new well drilled and brought on production. The wells, fracture stimulated with the slickwater hybrid completion, continue to exceed the Company's expectations. Given the performance of these new wells, a midyear reserves evaluation was completed by GLJ Petroleum Consultants Ltd ("GLJ") with an effective date of June 30, 2013 and press released on September 3, 2013. The Montney reserves growth in all categories resulted in a 49 percent increase in the Company's proved plus probable net asset value to \$3.21 per share. The midyear reserves report included 20 gross (17 net) proved plus probable undeveloped locations of the approximately 100 extended-reach development locations (equal to 200 locations with conventional one mile horizontal lateral lengths) currently identified by Delphi's technical staff.

Production volumes for the three months ended September 30, 2013 averaged 8,797 boe/d, a 15 percent increase over the second quarter of 2013. Although no new production was brought on-stream during the third quarter, corporate production growth during the third quarter was driven by the strong performance of the 10-27 Montney horizontal well brought on production in March and the 16-23 Montney horizontal well brought on production in June. An additional Montney horizontal well at 15-24 was drilled during the third quarter and brought on-stream in late October.

The Company's production portfolio for the third quarter of 2013 was weighted three percent to crude oil, eight percent to field condensate, 15 percent to natural gas liquids and 74 percent to natural gas. This compares to a production portfolio for the comparative quarter of 2012 weighted seven percent to crude oil, three percent to field condensate, 13 percent to natural gas liquids and 77 percent to natural gas. For the third quarter of 2013, Delphi's field condensate production increased 174 percent to 705 bbls/d and NGL production increased 21 percent to 1,294 bbls/d compared to the third quarter of 2012.

Funds from operations in the third quarter of 2013 were \$10.0 million or \$0.07 per basic and \$0.06 per diluted share, compared to \$7.9 million or \$0.06 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 and NGL production, partially offset by a decrease in crude oil production, an improvement in commodity prices and lower royalties with higher operating and transportation costs.

The liquids-rich nature of the Montney production continues to strengthen the Company's cash generating capability, with Montney operating netbacks 61 percent greater than the netback generated from the Company's legacy producing assets during the third quarter of 2013. With the growth Delphi has achieved in Montney production, opportunities are being pursued to further increase the Montney operating netbacks through lower operating and transportation costs and improved marketing arrangements yielding better NGL and condensate pricing.

Net capital expenditures during the third quarter were \$13.0 million, which primarily included the drilling of one Montney horizontal well and the drilling of a Duvernay "strat" test and Montney whipstock, pursuant to the terms of a previously announced industry farm-in arrangement. Net capital expenditures for the nine months ended September 30, 2013 were \$54.7 million and include the strategic acquisition of undeveloped properties for additional Montney rights in the Bigstone area for \$13.7 million.

During the quarter, the Company entered into a financing agreement for \$20.0 million with a Canadian energy and resource lender. The funding was fully drawn by the end of the quarter with the proceeds being used to repay a portion of the bank debt with the Company's senior lenders. The debt is secured by the Company's assets and subordinate to the Company's senior credit facility, matures on December 31, 2014 and is extendible at the option of Delphi for an additional six months. The subordinated debt has an annual coupon rate of 8.5 percent with interest payable monthly.

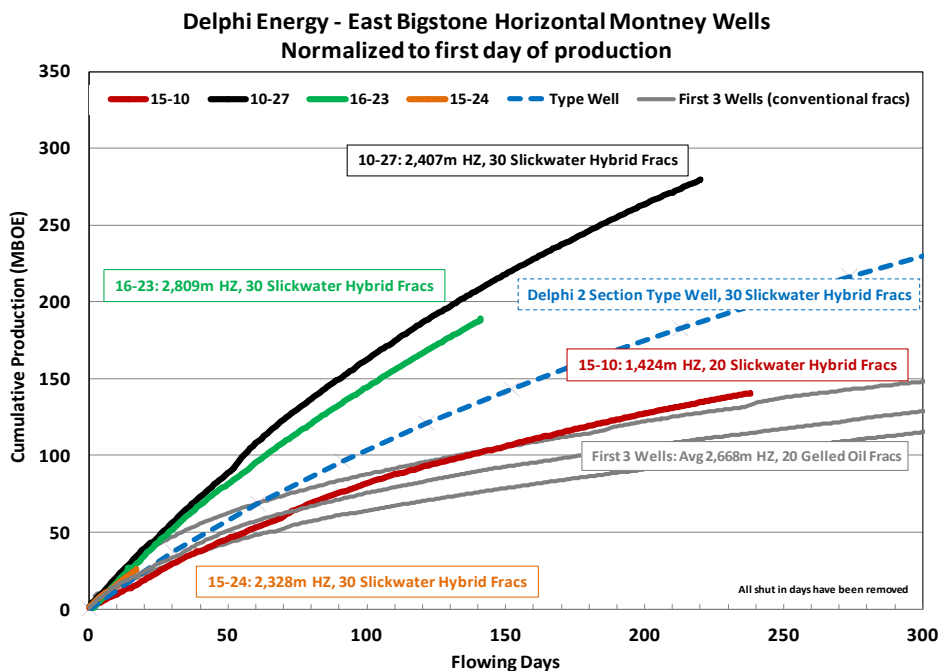
As at September 30, 2013, the Company had total debt of \$121.7 million on total credit facilities of \$160.0 million. On an annualized third quarter funds from operations basis, Delphi's total debt to funds from operations ratio was 3.1:1, an 11 percent decrease from the second quarter of 2013. Total debt includes subordinated and bank debt plus working capital deficiency excluding the fair value of financial instruments.

## Operations

### Bigstone Montney Program

Delphi has now successfully drilled, completed and brought on production seven Montney horizontal wells at East Bigstone. The most recent four 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 was drilled across one section and stimulated with 20 stages to limit operational risk with the subsequent three wells drilled with extended reach laterals and completed using 30 stage slickwater hybrid fracture stimulations.

The first three Montney wells at East Bigstone in 2013, stimulated with the new slickwater hybrid fracturing technique, continue to exceed the Company's expectations. The 10-27 well has produced approximately 245,000 boe, (109 bbls/mmcf sales of total NGL's, 67 percent of which is field condensate) at an average rate of 1,364 boe/d over the first 180 days of production. The 16-23 well has produced approximately 168,000 boe (90 bbls/mmcf sales of total NGL's, 60 percent of which is field condensate) at an average rate of 1,395 boe/d over the first 120 days of production. At payout, the 16-23 and 10-27 wells are forecast to still be producing approximately 500 to 700 boe/d each, contributing significant free cash flow for the continued development of the Bigstone Montney project.



The fourth and most recent well to be stimulated with 30 stages using the slickwater hybrid fracturing technique at 15-24-60-23W5 was brought on production in late October through the Company's 100 percent owned Montney compression and dehydration facility. Over the first 15 days of production, the well averaged 5.1 mmcf/d raw (4.6 mmcf/d sales) with total NGL production of 152 bbls/mmcf sales for a total of 1,452 boe/d. Field condensate production was 116 bbls/mmcf sales (76 percent of the total NGL production) over this time period. Delphi is encouraged with the strong initial total NGL yields that compare to the richest Montney wells the Company has drilled to date. Consistent with Delphi's existing Montney production in Bigstone, the field condensate liquid yields are expected to stabilize over the next three to four months.

Completion operations have commenced at the Company's 15-30-60-23W5 horizontal Montney well. The 15-30 well was drilled to a Company record horizontal lateral length of 3,014 metres in a record 30 days. Delphi looks forward to reporting on these results and expects the well to be on production in December.

Drilling operations continue in East Bigstone with 3 gross (2.7 net) additional wells planned to be drilled prior to break-up in 2014.

The Company has concluded drilling operations on the South Bigstone strat test and 11-17-59-22W5 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 11-17 Montney well with a surface located at 5-8-59-22W5M will be completed, equipped and pipeline connected in 2014.

### **Market Guidance**

The Company expects net capital spending for the fourth quarter of 2013 to be approximately \$25.0 million for a total 2013 net capital program of approximately \$80.0 million with production for the year to average approximately 8,100 to 8,300 boe/d. Total debt at year end is expected to be approximately \$136.0 million. Delphi expects AECO natural gas prices to average approximately Cdn. \$3.10 per mcf and Edmonton light oil prices to average approximately Cdn. \$94.00 per barrel for the year resulting in cash flow for 2013 of approximately \$38.0 to \$40.0 million. For the remainder of 2013, the Company has approximately 69 percent of its natural gas production hedged at an average price of \$3.44 per mcf and approximately 37 percent of its crude oil and condensate production hedged at a floor price of Cdn \$94.00 per barrel.

For 2014, corporate production is forecast to grow 20 percent compared to 2013, predominantly from a Montney focused capital program with its superior netbacks, resulting in expected cash flow growth of 49 percent. Delphi is estimating production to average 9,500 to 10,000 boe/d on a net capital program of \$67 to \$72 million, drilling a total of seven Montney horizontal wells at Bigstone. The Company is again looking at supplementing its 2014 capital program through third party participation for \$15.0 to \$20.0 million. Total debt at year end 2014 is expected to be between \$145.0 and \$150.0 million. Total debt to funds flow ratios are forecast to drop to 2.2 times in the fourth quarter of 2014 and reach a targeted 1.5 times in 2015. Delphi expects AECO natural gas prices to average approximately Cdn. \$3.50 per mcf and Edmonton light oil prices to average approximately Cdn. \$91.50 per barrel resulting in cash flow for 2014 of approximately \$55.0 to \$60.0 million. Currently, the Company has approximately 50 percent of its natural gas production hedged at an average price of \$3.59 per mcf for 2014 and approximately 27 percent of its crude oil and condensate production hedged at a floor price of Cdn \$96.03 per barrel for the first half of 2014.

### **Outlook**

Delphi continues to grow its Montney production, reserves and undeveloped land position at Bigstone. The Company expects to have a total of ten Montney horizontal wells on production by the end of the winter drilling season, with seven of those having been completed with the refined drilling and completion techniques yielding a step change in the economics of the Montney play in the Bigstone area.

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 contemplated 50 well drilling program represents less than half of the current development drilling inventory on approximately 50 percent of Delphi's current Montney undeveloped land holdings. The Company now has a current project inventory that will provide economic growth beyond a 10-year horizon. Over this time period, the Company's balance sheet is forecast to continually strengthen, with internally generated cash flow funding the majority of the capital expenditures on a go forward basis.

During the third quarter, the Company increased its Montney land position by ten gross sections through an industry farm-in and more recently added another four gross sections through Crown land sales, increasing the Montney land position to 122 gross sections. 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 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, continues to have a favourable impact on 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  
November 12, 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 nine months ended September 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 nine months ended September 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 November 12, 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", "total 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 subordinated and 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 total debt as the sum of subordinated and long term debt plus/minus working capital excluding the current portion of the fair value of financial instruments. Total 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, general and administrative costs and cash expense related to the Company's restricted share units. 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.

### THIRD QUARTER 2013 ACCOMPLISHMENTS

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

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

- produced an average of 8,797 barrels of oil equivalent per day ("boe/d"), despite production downtime of approximately 280 boe/d, compared to 8,257 boe/d in the third quarter of 2012, an increase of seven percent, and 7,635 boe/d in the second quarter of 2013, an increase of 15 percent;
- increased field condensate production 174 percent to 705 bbls/d compared to the third quarter of 2012;
- natural gas liquids ("NGLs") production increased 21 percent to 1,294 bbls/d versus the comparative quarter of 2012;
- increased the average corporate natural gas liquid ("NGL") and field condensate yield by 49 percent from the third quarter of 2012 to 52 barrels per million cubic feet ("bbls/mmcf");
- Montney production in the third quarter of 2013 of 3,528 boe/d represented 40 percent of total production and 48 percent of field operating income compared to 24 percent and 22 percent in the third quarter of 2012, respectively;
- Montney NGL and field condensate yield increased 52 percent to 95 bbls/mmcf in the third quarter of 2013 versus the comparative period in 2012. Field and plant condensate yield was 56 bbls/mmcf or 59 percent of the total 95 bbls/mmcf;
- increased funds from operations to \$10.0 million, a 27 percent increase over the comparative quarter of 2012 and a 19 percent increase over the second quarter of 2013. Corporate cash netbacks increased 19 percent over the comparative quarter;
- recorded net earnings of \$1.2 million versus a net loss of \$9.2 million in the third quarter of 2012;
- obtained a \$20.0 million subordinated credit facility; and



- drilled one net Montney well in East Bigstone which has been completed and tied-in during the fourth quarter of 2013 and drilled a Duvernay vertical stratigraphic (“strat”) test well with a subsequent Montney horizontal whipstock as part of a farm-in agreement to earn Montney and Nordegg petroleum and natural gas rights.

Funds from operations in the third quarter of 2013 were \$10.0 million or \$0.07 per basic share (\$0.06 per diluted share), compared to \$7.9 million or \$0.06 per basic and diluted share in the comparative quarter in 2012. Funds from operations of \$10.0 million represented an increase of 27 percent compared to the comparative quarter of 2012 and a 19 percent increase compared to the second quarter of 2013. The increase in funds from operations is primarily due to an improvement in overall commodity prices in combination with an increase in field condensate and natural gas liquids production associated with the Montney development program at East Bigstone

During the quarter, Delphi drilled and completed one net Montney well in East Bigstone and drilled a Duvernay vertical strat test well with a subsequent Montney horizontal whipstock. The Montney well was completed utilizing slickwater hybrid fracture stimulation and commenced production in the fourth quarter. The Montney horizontal whipstock is expected to be completed and tied-in during 2014. The Duvernay vertical strat test well and Montney horizontal whipstock are part of a farm-in agreement whereby the Company will earn a 75 percent working interest in 35 sections of Montney and Nordegg petroleum and natural gas rights.

As at September 30, 2013, the Company had total debt of \$121.7 million on total credit facilities of \$160.0 million. On an annualized third quarter funds from operations basis, Delphi’s total debt to funds from operations ratio was 3.1:1. Total debt includes subordinated and bank debt plus working capital deficiency excluding the current portion of the fair value of financial instruments.

## **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](http://www.sedar.com)). The forward-looking statements and information contained in this MD&A are made as of November 12, 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 TOTAL DEBT LEVELS

### *What are the Company's forecast capital expenditures and total debt levels for 2013?*

The Company expects 2013 net capital expenditures to be approximately \$80.0 million funded from cash flow, drilling participation arrangements and available credit facilities. Approximately \$3.3 million in minor dispositions were completed during the first nine months of 2013.

The Company is targeting total debt at December 31, 2013 to be approximately \$136.0 million.

## THIRD 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 nine months 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 September 30			Nine Months Ended September 30		
	2013	2012	% Change	2013	2012	% Change
<b>Natural Gas</b>						
NYMEX (US \$/mmbtu)	<b>3.56</b>	2.88	24	<b>3.67</b>	2.54	45
AECO (Cdn \$/mcf)	<b>2.44</b>	2.30	6	<b>3.05</b>	2.12	44
<b>Crude Oil</b>						
West Texas Intermediate (US \$/bbl)	<b>105.82</b>	92.18	15	<b>98.17</b>	96.20	2
Edmonton Light (Cdn \$/bbl)	<b>104.72</b>	84.27	24	<b>95.22</b>	86.78	10
<b>Foreign Exchange</b>						
Canadian to U.S. dollar	<b>0.96</b>	0.99	(3)	<b>0.98</b>	0.99	(1)
U.S. to Canadian dollar	<b>1.04</b>	1.01	3	<b>1.02</b>	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 incremental weather related demand since the end of 2012 through to the summer of 2013. The increase in demand levels resulted in an improvement in the pricing for natural gas. The increased cost of transporting natural gas from Alberta was the primary cause of a significantly wider basis differential in the third quarter of 2013. This served to moderate the pricing uplift in the AECO market. AECO averaged \$2.44 per mcf in the third quarter of 2013, six percent higher than the comparative period in 2012 and 31 percent lower than the second quarter of 2013. For the first nine months of 2013, AECO increased 44 percent compared to the same period in 2012.

### Natural Gas Liquids

Natural gas liquids ("NGLs") include ethane, propane, butane and condensate and are generally priced off light oil and natural gas prices. Ethane prices are correlated to natural gas prices while propane and butane prices trade at a discount to light oil prices depending on supply/demand conditions. Strong demand for condensate in Alberta, as a diluent for transporting heavy oil, results in benchmark condensate prices at Edmonton trading at a premium to Canadian light oil prices.

### Crude Oil

WTI averaged U.S. \$105.82 per barrel in the third quarter of 2013, an increase of 15 percent over the third quarter of 2012. For the nine months ended September 30, 2013, WTI increased two 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 24 percent and ten percent higher in the three and nine months ended September 30, 2013, respectively, over the comparative periods in 2012. Edmonton Light averaged \$104.72 per barrel in the third quarter of 2013 versus \$84.27 per barrel in the comparative period.



## Canadian/United States Exchange Rate

The value of the Canadian dollar against its U.S. counterpart has been declining from \$1.01 in January 2013 to \$0.97 in September 2013. As a producer of crude oil, a decline in the Canadian dollar has a positive effect on the price received for production. The average Cdn/US exchange rate for the three months ended September 30, 2013 was \$0.96.

## DRILLING OPERATIONS

### *How active was Delphi in its drilling program in the first nine months of 2013 and where was the drilling focused?*

Delphi had another successful capital program in the first nine months of 2013, drilling 4 gross (4 net) wells with a success rate of 100 percent. The drilling was focused on the Bigstone Montney formation including a Duvernay vertical strat test well with a subsequent Montney horizontal whipstock.

In the first nine months 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.

	Nine Months Ended September 30, 2013	
	Gross	Net
Liquids rich natural gas (>40 bbls/mmcf liquids content)	4.0	4.0
Natural gas (>20 bbls/mmcf <40 bbls/mmcf liquids content)	-	-
Total	4.0	4.0
Success rate (%)	100	100

## CAPITAL INVESTED

### *How much did the Company spend in the third quarter and first nine months of 2013 and where were the capital expenditures incurred?*

During the third quarter of 2013, Delphi invested \$13.0 million of which \$11.7 million was directed toward the drilling and completion of an East Montney well, which commenced production in the fourth quarter, and the drilling of a Duvernay vertical strat test well with a subsequent Montney horizontal whipstock.

In the first nine months of 2013, total capital was \$58.0 million which was partially funded by proceeds on dispositions of \$3.3 million. The capital invested of \$44.3 million for the first three quarters of 2013 was primarily directed toward the Montney formation at Bigstone. During the year, Delphi drilled and completed three horizontal wells at East Bigstone, drilled a Duvernay vertical strat test well with a subsequent Montney horizontal whipstock and completed an East Bigstone well which was drilled in the fourth quarter of 2012. Drilling, completion and equipping costs were approximately 64 percent of capital invested. Facility expenditures, approximately nine percent of capital invested, were primarily directed toward the tie-in of the three net wells brought on production during the year.

The Company completed minor non-core property dispositions during the first nine months of 2013, 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 September 30, 2013, Delphi has drilled two successful wells as part of the drilling participation agreement.

As of September 30, 2013, Delphi has a total of 77.3 sections (59.4 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. As of

September 30, 2013, Delphi has earned a working interest in 21 sections of the Montney and Nordegg petroleum rights contemplated in the farm-in agreement.

	Three Months Ended September 30			Nine Months Ended September 30		
	2013	2012	% Change	2013	2012	% Change
Land	53	275	(81)	227	344	(34)
Seismic	31	14	121	32	51	(37)
Drilling, completions and equipping	11,654	4,709	147	38,345	46,617	(18)
Facilities	730	1,800	(59)	4,114	22,913	(82)
Capitalized expenses	547	654	(16)	1,609	2,199	(27)
Other	-	64	(100)	5	66	(92)
Capital invested	13,015	7,516	73	44,332	72,190	(39)
Disposition of properties	(42)	(23,045)	(100)	(3,319)	(34,619)	(90)
Net capital invested	12,973	(15,529)	-	41,013	37,571	9
Acquisition of undeveloped properties	-	-	-	13,664	-	-
Total	12,973	(15,529)	-	54,677	37,571	46

## PRODUCTION

### *What factors contributed to the production volumes?*

Production volumes for the three months ended September 30, 2013 averaged 8,797 boe/d, a seven percent increase over the comparative period in 2012 and a 15 percent increase over the second quarter of 2013. Production volumes have increased as a result of the Company's successful drilling program, partially offset by production downtime of approximately 280 boe/d and natural declines.

Production volumes for the first nine months of 2013 averaged 7,989 boe/d, a seven percent decrease over the comparative period in 2012. Production volumes were impacted by scheduled third-party pipeline and plant shutdowns in the Company's core and several other areas (approximately 837 boe/d), natural declines and the disposition of predominantly producing oil properties in the third quarter of 2012. This decrease was partially offset by new condensate and other 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 third quarter was weighted three percent to crude oil, eight percent to field condensate, 15 percent to natural gas liquids and 74 percent to natural gas. This compares to a production portfolio for the comparative quarter of 2012 weighted seven percent to crude oil, three percent to field condensate, 13 percent to natural gas liquids and 77 percent to natural gas.

Total liquids production for the three months ended September 30, 2013 increased 23 percent and ten percent compared to the quarter ended September 30, 2012 and June 30, 2013, respectively.

Field condensate as a percentage of total liquids increased to 30 percent for the three months ended September 30, 2013 compared to 14 percent for the comparative period in 2012.

In the three months ended September 30, 2013, the Company increased its corporate natural gas liquids yield, including field condensate, to 52 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 2013 of approximately 8,100 to 8,300 boe/d.

	Three Months Ended September 30			Nine Months Ended September 30		
	2013	2012	% Change	2013	2012	% Change
Crude oil (bbls/d)	330	573	(42)	320	796	(60)
Field condensate (bbls/d)	705	257	174	601	229	162
Natural gas liquids (bbls/d)	1,294	1,069	21	1,200	1,117	7
Total liquids	2,329	1,899	23	2,121	2,142	(1)
Natural gas (mcf/d)	38,807	38,148	2	35,209	38,910	(10)
Total (boe/d)	8,797	8,257	7	7,989	8,627	(7)

## REALIZED SALES PRICES

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

For the three and nine months ended September 30, 2013, Delphi realized an average sales price of \$32.94 per boe and \$32.89 per boe, respectively, a 13 percent and eleven percent increase when compared to the same periods in 2012. The increase is primarily due to an improvement in commodity prices.

For the three months ended September 30, 2013, Delphi's realized natural gas price increased by eleven percent in comparison to the same period in 2012. The increase is due to an improvement in the average daily AECO index, an increase in the premium received for Delphi's heat content and marketing arrangements and higher realized gains on financial commodity risk management contracts partially offset by decreased realized gains on physical commodity risk management contracts.

For the nine months ended September 30, 2013, Delphi's realized natural gas price increased by 28 percent in comparison to the same period in 2012. The increase is due to an improvement in the average daily AECO index and an increase in the premium received for Delphi's heat content and marketing arrangements partially offset by decreased realized gains on financial and physical commodity risk management contracts.

Realized crude oil and field condensate prices were five percent higher and two percent lower for the three and nine months ended September 30, 2013, respectively, compared to the same periods in 2012. The increase in the realized crude oil and condensate sales price from the third quarter of 2012 to that of 2013 is due to an improvement in Edmonton light pricing partially offset by a loss on financial commodity risk management contracts and a wider differential. The decrease in the realized crude oil and condensate sales price from the nine months ended September 30, 2012 to that of 2013 is primarily due to a loss on financial commodity risk management contracts and a wider differential. The differential has increased as a result of the quality of the shipped field condensate pursuant to industry standards.

For the three months ended September 30, 2013, Delphi's realized natural gas liquids price increased one percent compared to the same period in 2012. The natural gas liquids price increased six percent due to an increase in butane prices in combination with higher production volumes, partially offset by an increase in propane production in combination with a decrease in prices for propane. The increase in natural gas liquids price was partially offset by a decrease in realized gains on financial commodity risk management contracts.

For the nine months ended September 30, 2013, Delphi's realized natural gas liquids prices remained equivalent compared to the same period in 2012. The natural gas liquids price increased two percent compared to the same period in 2012, offset by a decrease in realized gains on financial commodity risk management contracts.

	Three Months Ended September 30			Nine Months Ended September 30		
	2013	2012	% Change	2013	2012	% Change
AECO (\$/mcf)	2.44	2.30	6	3.05	2.12	44
Heating content and marketing (\$/mcf)	0.38	0.30	27	0.34	0.26	31
Gain (loss) on physical contracts (\$/mcf)	0.16	0.22	(27)	0.01	0.18	(94)
Gain (loss) on financial contracts (\$/mcf)	0.44	0.25	76	0.14	0.21	(33)
Realized natural gas price (\$/mcf)	3.42	3.07	11	3.54	2.77	28
Edmonton Light (\$/bbl)	104.72	84.27	24	95.22	86.78	10
Gain (loss) on financial contracts (\$/bbl)	(5.98)	3.56	(268)	(2.41)	2.02	(219)
Quality differential (\$/bbl)	(7.25)	(0.66)	998	(5.43)	0.27	(2,111)
Realized oil and field condensate price (\$/bbl)	91.49	87.17	5	87.38	89.07	(2)
Realized natural gas liquids price (\$/bbl)	48.02	45.35	6	47.05	45.97	2
Gain (loss) on financial contracts (\$/bbl)	-	1.98	(100)	-	1.15	(100)
Delphi's realized natural gas liquids price (\$/bbl)	48.02	47.33	1	47.05	47.12	-
Total (\$/boe)	32.94	29.25	13	32.89	29.65	11

## 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 the remainder of 2013, Delphi has approximately 69 percent of its before-royalty natural gas production contracted at a predominately AECO based average price of \$3.44 per mcf and approximately 37 percent of its crude oil and condensate production contracted at an average floor price of Cdn \$94.00 per barrel.

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 – October 2014 <sup>(1) (2)</sup>	Natural Gas – fixed	3,000 mmbtu/d	\$3.71 U.S.	\$3.71 U.S.
January 2013 – December 2013 <sup>(1)</sup>	Natural Gas – fixed	1,500 GJ/d	\$3.41 Cdn	\$3.41 Cdn
April 2013 – December 2013 <sup>(1)</sup>	Natural Gas – fixed	1,500 GJ/d	\$3.42 Cdn	\$3.42 Cdn
May 2013 – October 2013 <sup>(1)</sup>	Natural Gas – fixed	2,000 GJ/d	\$3.45 Cdn	\$3.45 Cdn
October 2013	Natural Gas – fixed	2,500 GJ/d	\$2.37 Cdn	\$2.37 Cdn
October 2013	Natural Gas – fixed	2,500 GJ/d	\$2.40 Cdn	\$2.40 Cdn

(1) Due to a change in the Company's marketing contracts, as of November 1, 2013, these contracts will be classified as financial contracts and be subject to mark-to-market valuations.

(2) During the year, the Company re-priced this natural gas contract from U.S. \$3.21/mmbtu to U.S. \$3.71/mmbtu by increasing the contracted volume from 2,000 mmbtu/d to 3,000 mmbtu/d and extending the term of the contract from December 2013 to October 2014.

## Financial Contracts

Time Period	Type of Contract	Quantity Contracted	Price Floor (\$/unit)	Price Ceiling (\$/unit)
April 2012 – December 2016 <sup>(1)</sup>	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
September 2013 – October 2013	Natural Gas – fixed	2,500 GJ/d	\$2.35 Cdn	\$2.35 Cdn
October 2013	Natural Gas – fixed	2,500 GJ/d	\$2.45 Cdn	\$2.45 Cdn
April 2014 – October 2014	Natural Gas – fixed	5,000 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 <sup>(2)</sup>	Crude Oil – call option	600 bbls/d	-	\$90.00 U.S.

(1) During the year, the Company re-priced this natural gas contract from \$2.88 per gigajoule to \$3.45 per gigajoule by extending the term 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 September 30, 2013 is estimated to be a loss of approximately \$1.0 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 nine months ended September 30, 2013, Delphi recorded an unrealized gain on its risk management contracts of \$1.3 million and \$3.0 million, respectively. The unrealized gain recognized for the three and nine months ended September 30, 2013 is the difference between the fair value of the risk management contracts outstanding as at September 30, 2013 and the fair value as at June 30, 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 nine months ended September 30, 2013 compare to 2012 and what factors contributed to the change?***

For the three months ended September 30, 2013, Delphi generated revenue of \$25.7 million, a 23 percent increase in comparison to the same period in 2012. The increase in revenues is primarily due to an increase in field condensate and natural gas liquids production as a result of Delphi's successful Montney drilling program partially offset by a decrease in crude oil revenue due to the disposition of predominantly producing oil properties in the third quarter of 2012.

For the nine months ended September 30, 2013, Delphi generated revenue of \$71.0 million, a six percent increase in comparison to the same period in 2012. The increase in revenues is primarily due to an increase in natural gas prices and an increase in field condensate and natural gas liquids production partially offset by a decrease in crude oil revenue due to the disposition of predominantly producing oil properties in the third quarter of 2012 and a reduction in realized gains on physical commodity risk management contracts.

For the third quarter in 2013, field condensate and natural gas liquids contributed 46 percent of total revenues compared to 31 percent in the same 2012 period. For the first nine months of 2013, field condensate and natural gas liquids contributed 42 percent of total revenues compared to 29 percent in the same 2012 period.

	Three Months Ended September 30			Nine Months Ended September 30		
	2013	2012	% Change	2013	2012	% Change
Natural gas	<b>10,075</b>	9,129	10	<b>32,506</b>	25,390	28
Natural gas physical contract gains	<b>575</b>	783	(27)	<b>119</b>	1,963	(94)
Crude oil	<b>3,085</b>	4,291	(28)	<b>8,077</b>	19,000	(57)
Field condensate	<b>6,196</b>	2,093	196	<b>14,499</b>	5,449	166
Natural gas liquids	<b>5,717</b>	4,460	28	<b>15,414</b>	14,069	10
Sulphur	<b>18</b>	122	(85)	<b>356</b>	1,025	(65)
<b>Total</b>	<b>25,666</b>	20,878	23	<b>70,971</b>	66,896	6

## ROYALTIES

### *What were royalty costs in the third quarter and first nine months of 2013?*

For the third quarter of 2013 and 2012, royalties are \$3.1 million. Crown royalties decreased twelve percent primarily due to the disposition of producing oil properties in the third quarter of 2012 which had higher crown royalty rates. Gross overriding royalties for the three months ended September 30, 2013 decreased three percent when compared to the same period in 2012. The decrease is a result of the disposition of properties during the third quarter of 2012 that were encumbered by gross overriding royalties partially offset by the addition of a new well that is encumbered by a gross overriding royalty.

For the nine months ended September 30, 2013, royalties decreased 27 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 and the addition of new Montney wells which qualify for the Alberta royalty incentive programs.

	Three Months Ended September 30			Nine Months Ended September 30		
	2013	2012	% Change	2013	2012	% Change
Crown royalties	<b>3,202</b>	3,638	(12)	<b>9,715</b>	11,945	(19)
Royalty credits	<b>(1,349)</b>	(1,765)	(24)	<b>(4,133)</b>	(4,615)	(10)
Crown royalties – net	<b>1,853</b>	1,873	(1)	<b>5,582</b>	7,330	(24)
Gross overriding royalties	<b>1,215</b>	1,255	(3)	<b>2,998</b>	4,387	(32)
<b>Total</b>	<b>3,068</b>	3,128	(2)	<b>8,580</b>	11,717	(27)
Per boe	<b>3.79</b>	4.12	(8)	<b>3.93</b>	4.96	(21)

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

The average royalty rates for the three and nine months ended September 30, 2013 were lower than the comparative periods. For the three and nine months ended September 30, 2013, Crown royalty rates were lower by 20 percent and 30 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 third quarter and first nine months of 2013 decreased 24 percent and 37 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 September 30			Nine Months Ended September 30		
	2013	2012	% Change	2013	2012	% Change
Crown rate – net of royalty credits	7.4%	9.3%	(20)	7.9%	11.3%	(30)
Gross overriding rate	4.8%	6.3%	(24)	4.2%	6.7%	(37)
Average rate	12.2%	15.6%	(22)	12.1%	18.0%	(33)

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 third quarter and first nine months of 2013 compare to 2012?*

Production costs for the three months ended September 30, 2013 increased 25 percent compared to the same period in 2012 due to equalizations in Tower Creek and Hythe and processing fees associated with the Company's new Montney production.

Production costs for the first nine months of 2013 increased two percent compared to the same period in 2013. The increase is due to equalizations in Tower Creek and Hythe and increased trucking and processing fees associated with the Company's new Montney production partially offset by a reduction in repairs and maintenance, chemical costs and equipment rentals due to efficiencies realized at Delphi's core properties. Production costs in the first nine months of 2013 were also reduced by adjustments to prior year costs due to 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 decreased five percent and increased ten percent, in the three and nine months ended September 30, 2013, respectively, compared to the same periods in 2012.

	Three Months Ended September 30			Nine Months Ended September 30		
	2013	2012	% Change	2013	2012	% Change
Production costs	8,035	6,426	25	20,506	20,057	2
Processing income	(479)	(503)	(5)	(2,418)	(2,201)	10
Total	7,556	5,923	28	18,088	17,856	1
Per boe	9.34	7.80	20	8.29	7.55	10

## TRANSPORTATION EXPENSES

### *What factors contributed to the change in transportation costs in the third quarter and first nine months of 2013?*

For the three and nine months ended September 30, 2013, transportation expenses increased 29 percent and 26 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 September 30			Nine Months Ended September 30		
	2013	2012	% Change	2013	2012	% Change
Total	2,904	2,259	29	8,018	6,374	26
Per boe	3.59	2.97	21	3.68	2.70	36



## GENERAL AND ADMINISTRATIVE

### *How do general and administrative costs in the third quarter and first nine months of 2013 compare to 2012?*

General and administrative (“G&A”) expenses (after recoveries and allocations) for the three months ended September 30, 2013 were comparable to the same period in 2012. Although gross expenses increased by one percent, salary allocations decreased by ten percent as a result of lower personnel costs. These increases in general and administrative expenses were offset by an increase in overhead recoveries due to a larger capital program in the third quarter of 2013 compared to that of 2012.

General and administrative (“G&A”) expenses (after recoveries and allocations) for the first nine months of 2013 were \$4.7 million compared to \$4.5 million for the same period in 2012. Gross expenses and salary allocations in the first nine months of 2013 are nine percent and 26 percent lower, respectively, than the comparative period primarily due to lower personnel costs. Overhead recoveries decreased by 13 percent as a result of a reduced capital program in combination with a lower total number of wells drilled in the first nine months 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 September 30			Nine Months Ended September 30		
	2013	2012	% Change	2013	2012	% Change
Gross expenses	<b>2,607</b>	2,580	1	<b>7,670</b>	8,407	(9)
Overhead recoveries	<b>(388)</b>	(280)	39	<b>(963)</b>	(1,101)	(13)
Salary allocations	<b>(760)</b>	(845)	(10)	<b>(2,046)</b>	(2,775)	(26)
Total	<b>1,459</b>	1,455	-	<b>4,661</b>	4,531	3
Per boe	<b>1.80</b>	1.91	(6)	<b>2.14</b>	1.92	11

## 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 nine months ended September 30, 2013, increased 53 percent and 76 percent, respectively, over the comparative periods, respectively, primarily due to the granting of 0.7 million RSU’s subsequent to the third quarter of 2012 in combination with an increase in the Company’s common share trading price.

During the first nine months of 2013, Delphi granted 5.1 million stock options to employees, directors and consultants with a weighted average fair value of \$0.41 per option. During the first nine months of 2013, 0.4 million RSU’s vested resulting in a cash expense, net of capitalization, of \$0.4 million.

	Three Months Ended September 30			Nine Months Ended September 30		
	2013	2012	% Change	2013	2012	% Change
Share-based compensation – Options	<b>519</b>	643	(19)	<b>1,604</b>	1,867	(14)
Share-based compensation – RSU’s	<b>463</b>	109	325	<b>1,389</b>	274	407
Capitalized costs	<b>(299)</b>	(305)	(2)	<b>(955)</b>	(984)	(3)
Net	<b>684</b>	447	53	<b>2,039</b>	1,157	76
Per boe	<b>0.84</b>	0.59	42	<b>0.93</b>	0.49	90

## FINANCE COSTS

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

For the three and nine months of 2013, interest charges increased eight percent and 20 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. During the quarter, the Company obtained a \$20.0 million subordinated facility which bears an annual coupon rate of 8.5 percent.

As at September 30, 2013, Delphi's bankers' acceptances have terms ranging from 90 to 181 days and a weighted average effective interest rate of 4.8 percent over the term.

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

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 September 30, 2013 compared to the same period in 2012.

The finance charge on the Company's finance lease was calculated based on the implicit interest rate in the lease. The leased equipment was purchased during the first quarter of 2013. The finance charge associated with the Company's subordinated debt is based on the effective interest rate method in order to accrete the subordinated debt balance to its face value of \$20.0 million plus a deferred fee of 1.5 percent.

	Three Months Ended September 30			Nine Months Ended September 30		
	2013	2012	% Change	2013	2012	% Change
Interest	<b>1,701</b>	1,577	8	<b>4,265</b>	3,551	20
Accretion	<b>212</b>	69	207	<b>579</b>	260	123
Finance charges	<b>31</b>	82	(62)	<b>84</b>	192	(56)
Total	<b>1,944</b>	1,728	13	<b>4,928</b>	4,003	23
Interest per boe	<b>2.10</b>	2.08	1	<b>1.96</b>	1.50	31
Accretion per boe	<b>0.26</b>	0.09	189	<b>0.27</b>	0.11	145
Finance charges per boe	<b>0.04</b>	0.11	(64)	<b>0.04</b>	0.08	(50)

### *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 nine months ended September 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 third quarter and first nine months of 2013 compared to 2012?*

Depletion and depreciation before impairment loss for the three months ended September 30, 2013 decreased eight percent compared to the same period in 2012 primarily due to a decrease in the average depletion rate. Depletion and depreciation before impairment loss for the nine months ended September 30, 2013 decreased 25 percent compared to the same period in 2012 primarily due to a decrease in the average depletion rate in combination with lower production volumes. The decrease in the rate is a result of a higher reserve base, partially offset by an increase in the cost base.

In the third quarter of 2012, an impairment test was carried out for the Company's North East British Columbia ("NEBC") cash-generating unit ("CGU") as indicators of impairment were identified through the disposition of some of Delphi's working interests in NEBC. The recoverable amount was determined using a fair value less costs to sell methodology using the market metrics associated with the Company's recent disposition. An impairment of \$2.1 million was recognized and is included in depletion and depreciation expense on the consolidated statement of earnings.

In the first quarter of 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 September 30			Nine Months Ended September 30		
	2013	2012	% Change	2013	2012	% Change
Depletion and depreciation	9,402	10,251	(8)	25,586	34,069	(25)
Impairment loss	-	2,129	(100)	-	23,129	(100)
Total	9,402	12,380	(24)	25,586	57,198	(55)
Depletion and depreciation per boe	11.62	13.49	(14)	11.73	14.41	(19)
Impairment loss per boe	-	2.80	(100)	-	9.78	(100)

## 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 recovery of \$0.2 million and a deferred income tax expense of \$1.0 million for the three and nine months ended September 30, 2013, respectively. This compares to a deferred income tax recovery of \$2.9 million and \$8.3 million, respectively, for the comparative periods in 2012. During the quarter ended September 30, 2013, the Company recorded a deferred income tax recovery of \$0.6 million related to the renunciation of qualifying Canadian Exploration Expenses related to its November 13, 2012 flow-through share issuance.

The increase in deferred income taxes year to date 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 September 30			Nine Months Ended September 30		
	2013	2012	% Change	2013	2012	% Change
Deferred expense (recovery)	(237)	(2,936)	(92)	1,020	(8,285)	-
Per boe	(0.29)	(3.86)	(92)	0.47	(3.50)	-

## 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 subordinated and 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 third quarter and first nine months of 2013 compare to 2012?*

Delphi's cash flow from operating activities of \$8.9 million for the three months ended September 30, 2013 increased 32 percent from the \$6.7 million generated in the same period in 2012. Delphi generated funds from operations of \$10.0 million for the three months ended September 30, 2013, up 27 percent from the \$7.9 million for the same period in 2012. The increase in cash flow from operating activities and funds from operations is primarily the result of higher petroleum and natural gas revenues partially offset by an increase in operating and transportation expenses.

For the first three quarters of 2013, Delphi generated cash flow from operating activities of \$25.9 million compared to \$21.8 million for the same period in 2012. The increase in cash flow from operating activities is primarily due to a positive change in non-cash working capital. Delphi's funds from operations of \$27.8 million for the nine months ended September 30, 2013 increased seven percent from the \$26.0 million generated in the same period in 2012. The increase is due to higher crude oil and natural gas revenues and lower royalties partially offset by lower realized gains on financial commodity risk management contracts, higher operating and transportation expenses and an increase in interest charges.

	Three Months Ended			Nine Months Ended		
	September 30			September 30		
	2013	2012	% Change	2013	2012	% Change
Cash flow from operating activities	8,910	6,725	32	25,920	21,805	19
Accretion of long term debt	391	(36)	(1,186)	180	338	(47)
Accretion of subordinated debt	344	-	-	344	-	-
Decommissioning expenditures	179	-	-	1,486	413	260
Change in non-cash working capital	148	1,192	(88)	(167)	3,480	(105)
Funds from operations	9,972	7,881	27	27,763	26,036	7

## NET EARNINGS

### *What factors contributed to the earnings in 2013?*

For the three months ended September 30, 2013, Delphi recorded net earnings of \$1.2 million (\$0.01 per diluted share), up from the \$9.2 million net loss (\$0.07 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 commodity prices in combination with an increase in production, an increase in unrealized gains on financial risk management contracts partially offset by higher operating and transportation expenses and a decrease in deferred income tax recovery.

For the nine months ended September 30, 2013, Delphi recorded net earnings of \$4.5 million (0.03 per diluted share), up from the \$28.6 million net loss (\$0.22 per basic share) recorded in the same period in 2012. The increase in earnings is primarily due to higher crude oil and natural gas revenues, lower royalties, an unrealized gain on commodity risk management contracts and lower impairment charges partially offset by a decrease in realized gains on financial commodity risk management contracts, higher operating and transportation expenses, an increase in interest charges and a deferred tax expense.

## NETBACK ANALYSIS

### *How do Delphi's netbacks achieved in the third quarter and first nine 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 low natural gas prices and to strengthen its cash flow netback per boe.

For the three months ended September 30, 2013, Delphi's cash netback per boe increased 19 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 general and administrative expenses partially offset by higher operating and transportation expenses and cash interest charges.

For the first three quarters of 2013, Delphi's cash netback per boe increased 16 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 September 30			Nine Months Ended September 30		
	2013	2012	% Change	2013	2012	% Change
<b>Barrels of oil equivalent (\$/boe)</b>						
Realized sales price	<b>32.94</b>	29.25	13	<b>32.89</b>	29.65	11
Royalties	<b>3.79</b>	4.12	(8)	<b>3.93</b>	4.96	(21)
Operating expenses	<b>9.34</b>	7.80	20	<b>8.29</b>	7.55	10
Transportation	<b>3.59</b>	2.97	21	<b>3.68</b>	2.70	36
Operating netback	<b>16.22</b>	14.36	13	<b>16.99</b>	14.44	18
General and administrative expenses	<b>1.80</b>	1.91	(6)	<b>2.14</b>	1.92	11
Interest	<b>2.10</b>	2.08	1	<b>1.96</b>	1.50	31
Restricted share units	-	-	-	<b>0.16</b>	-	-
Cash netback	<b>12.32</b>	10.37	19	<b>12.73</b>	11.02	16
Unrealized loss (gain) on commodity risk contracts	<b>(1.61)</b>	4.65	(135)	<b>(1.38)</b>	0.53	(360)
Stock-based compensation expense	<b>0.84</b>	0.59	42	<b>0.77</b>	0.49	58
Loss (gain) on dispositions	<b>(0.05)</b>	4.60	(101)	<b>(1.44)</b>	1.23	(217)
Decommissioning expense	<b>0.02</b>	-	-	<b>0.23</b>	-	-
Depletion, depreciation and impairment	<b>11.62</b>	16.29	(29)	<b>11.73</b>	24.19	(52)
Accretion and finance charges	<b>0.30</b>	0.20	50	<b>0.30</b>	0.19	58
Deferred income taxes (recovery)	<b>(0.29)</b>	(3.86)	(92)	<b>0.47</b>	(3.50)	-
Net earnings (loss)	<b>1.49</b>	(12.10)	-	<b>2.05</b>	(12.11)	-

## 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.

As a result of another successful drilling program in 2011, Delphi had record production in the fourth quarter of 2011 of 9,337 boe/d.

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 nine months 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 third quarter of 2013 increased seven percent in comparison to the same quarter in 2012 despite production downtime of approximately 280 boe/d. As a result of the Company's drilling program and focus on its liquids-

rich resource, Delphi's average corporate natural gas liquids and field condensate yield has increased by 49 percent to 52 barrels per million cubic feet compared to the third quarter of 2012.

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 nine months of 2013 was \$3.05 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:

	<b>Sept. 30 2013</b>	June 30 2013	Mar. 31 2013	Dec. 31 2012	Sept. 30 2012	June 30 2012	Mar. 31 2012	Dec. 31 2011
<b>Production</b>								
Oil and field condensate (bbls/d)	<b>1,035</b>	988	735	565	830	1,083	1,164	1,436
Natural gas liquids (bbls/d)	<b>1,294</b>	1,115	1,189	1,055	1,069	1,040	1,244	1,405
Natural gas (mcf/d)	<b>38,807</b>	33,189	33,574	33,654	38,148	39,080	39,510	38,973
Barrels of oil equivalent (boe/d)	<b>8,797</b>	7,635	7,520	7,229	8,257	8,636	8,993	9,337
<b>Financial</b>								
Petroleum and natural gas revenue	<b>25,666</b>	23,541	21,763	18,858	20,878	21,875	24,143	33,115
Funds from operations	<b>9,972</b>	8,408	9,383	6,269	7,881	7,181	10,974	17,081
Per share – basic	<b>0.07</b>	0.05	0.06	0.04	0.06	0.05	0.08	0.14
Per share – diluted	<b>0.06</b>	0.05	0.06	0.04	0.06	0.05	0.08	0.14
Net earnings (loss)	<b>1,208</b>	3,209	56	(29,394)	(9,190)	(3,531)	(15,915)	825
Per share – basic	<b>0.01</b>	0.02	0.00	(0.21)	(0.07)	(0.03)	(0.12)	0.01
Per share – diluted	<b>0.01</b>	0.02	0.00	(0.21)	(0.07)	(0.03)	(0.12)	0.01

## LIQUIDITY AND CAPITAL RESOURCES

### Share Capital

#### *How many common shares and stock options are currently outstanding?*

As at November 7, 2013, the Company had 153.2 million common shares outstanding (December 31, 2012 – 153.0 million) and 13.0 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 and nine months ended September 30, 2013:

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Weighted Average Common Shares		
Basic	153,100	153,090
Diluted	154,043	153,507
Trading Statistics <sup>(1)</sup>		
High	1.74	1.37
Low	1.37	0.99
Average daily volume	270,761	280,073

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

### **Sources and Uses of Funds**

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
<b>Sources:</b>		
Funds from operations	<b>9,972</b>	<b>27,763</b>
Disposition of petroleum and natural gas properties	<b>42</b>	<b>3,319</b>
Exercise of stock options	<b>15</b>	<b>48</b>
Change in non-cash working capital	<b>6,020</b>	<b>3,196</b>
	<b>16,049</b>	<b>34,326</b>
<b>Uses:</b>		
Cash and cash equivalents	<b>7,358</b>	<b>7,358</b>
Capital expenditures	<b>13,015</b>	<b>44,332</b>
Acquisition of petroleum and natural gas properties	-	<b>13,664</b>
Finance lease obligation	-	<b>1,641</b>
Accretion of long term debt	<b>391</b>	<b>180</b>
Accretion of subordinated debt	<b>344</b>	<b>344</b>
Expenditures on decommissioning	<b>179</b>	<b>1,486</b>
	<b>21,287</b>	<b>69,005</b>
Change in long term debt	<b>5,238</b>	<b>34,679</b>

### **Debt plus Working Capital Deficiency (Total 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.

***How much debt was outstanding on September 30, 2013?***

At September 30, 2013, the Company had \$78.9 million outstanding in the form of bankers' acceptances, \$20.0 million drawn under Canadian-based prime loans, \$19.7 million in subordinated debt and a working capital deficiency of \$3.1 million for total debt of \$121.7 million. Total debt is a non-IFRS term. Delphi's calculation of total debt includes subordinated and long term debt and the net working capital deficiency (excess) before the current fair value of financial instruments.

***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.

During the third quarter of 2013, Delphi obtained a \$20.0 million demand facility with a Canadian energy and resource lender. The funding was available in two tranches; \$12.0 million which was drawn down by July 15, 2013 and \$8.0 million which was drawn down by September 16, 2013. The debt is secured by the Company's assets, 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 has an annual coupon rate of 8.5 percent with interest payable monthly and a deferred fee of 1.5 percent of the facility is due upon maturity.

Delphi is in compliance with the covenants of its credit facilities as at September 30, 2013.

**Contractual Obligations**

***Does the Company have any contractual obligations as of September 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	1,122	4,305	3,807	108	-
Office and equipment lease	528	566	566	579	417
Accounts payable and accrued liabilities	32,047	-	-	-	-
Decommissioning obligations	445	-	-	-	-
Fair value of financial instruments liability	2,498	516	408	311	99
Restricted share units – long term portion	-	78	342	57	-
Interest payments on subordinated debt	429	1,700	843	-	-
Bank debt	-	-	100,000	-	-
Subordinated debt	-	200	20,300	-	-
<b>Total</b>	<b>37,069</b>	<b>7,365</b>	<b>126,266</b>	<b>1,055</b>	<b>516</b>

During the third quarter of 2013, Delphi satisfied its \$8.0 million commitment to incur qualifying capital expenditures associated with its November 13, 2012 flow-through shares.

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 drilling program, the Company drilled 3 gross commitment wells of which the farmor's working interest after payout represents 1.38 net wells. The farm-in agreement will allow Delphi to earn a 75 percent working interest in 35 sections of Montney and Nordegg petroleum and natural gas rights ("PNG rights") in its core area of Bigstone, Alberta. The Company expects to satisfy its remaining commitment at an estimated cost of \$17.8 million. In the event Delphi does not complete its remaining drilling commitments associated with this farm-in agreement, the Company is exposed to a maximum non-performance fee of \$2.0 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. As of September 30, 2013, Delphi has drilled two successful wells that are part of the drilling participation 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 nine months ended September 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 nine months ended September 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 third 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](http://www.sedar.com), at the Company's website at [www.delphienergy.ca](http://www.delphienergy.ca) or by contacting the Company at Delphi Energy Corp. Suite 300, 500 – 4<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 2V6 or by e-mail at [info@delphienergy.ca](mailto:info@delphienergy.ca).

# DELPHI ENERGY CORP.

## Condensed Consolidated Statements of Financial Position

	September 30, 2013	December 31, 2012
(thousands of dollars) (unaudited)		
<b>Assets</b>		
Current assets		
Cash	7,358	-
Accounts receivable	19,920	16,250
Prepaid expenses and deposits	2,149	2,640
Fair value of financial instruments (Note 5)	1,749	285
	<b>31,176</b>	19,175
Exploration and evaluation (Note 6)	34,589	12,406
Property, plant and equipment (Note 7)	377,663	370,068
<b>Total assets</b>	<b>443,428</b>	401,649
<b>Liabilities</b>		
Current liabilities		
Outstanding cheques	-	883
Accounts payable and accrued liabilities	32,047	24,396
Decommissioning obligations	445	420
Finance lease obligation (Note 8)	-	1,588
Fair value of financial instruments (Note 5)	2,121	306
	<b>34,613</b>	27,593
Other liabilities (Note 9)	477	2,651
Long term debt (Note 10)	98,918	84,418
Subordinated debt (Note 10)	19,687	-
Fair value of financial instruments (Note 5)	614	3,981
Decommissioning obligations	31,609	35,293
Deferred income taxes	9,797	6,126
	<b>195,715</b>	160,062
<b>Shareholders' equity</b>		
Share capital (Note 11)	304,888	304,816
Contributed surplus	16,189	14,608
Deficit	(73,364)	(77,837)
<b>Total shareholders' equity</b>	<b>247,713</b>	241,587
<b>Total liabilities and shareholders' equity</b>	<b>443,428</b>	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 nine months ended September 30

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
(thousands of dollars, except per share amounts)				
(unaudited)				
<b>Revenue</b>				
Crude oil and natural gas sales	25,666	20,878	70,970	66,896
Royalties	(3,068)	(3,128)	(8,580)	(11,717)
	<b>22,598</b>	17,750	<b>62,390</b>	55,179
Realized gain on financial instruments	993	1,345	762	3,179
Unrealized gain (loss) on financial instruments (Note 5)	1,305	(3,531)	3,016	(1,256)
	<b>24,896</b>	15,564	<b>66,168</b>	57,102
<b>Expenses</b>				
Operating	7,556	5,923	18,088	17,856
Transportation	2,904	2,259	8,018	6,374
General and administrative	1,458	1,455	4,661	4,531
Share-based compensation	684	447	2,039	1,157
Loss (gain) on property dispositions (note 7)	(42)	3,498	(3,137)	2,904
Decommissioning	19	-	492	-
Depletion, depreciation and impairment (Note 7)	9,402	12,380	25,586	57,198
	<b>21,981</b>	25,962	<b>55,747</b>	90,020
Finance costs	1,944	1,728	4,928	4,003
Earnings (loss) before income taxes	971	(12,126)	5,493	(36,921)
<b>Income taxes</b>				
Deferred income taxes (recovery)	(237)	(2,936)	1,020	(8,285)
Net earnings (loss) and comprehensive earnings (loss)	<b>1,208</b>	(9,190)	<b>4,473</b>	(28,636)
Net earnings (loss) per share (Note 11)				
Basic and diluted	<b>0.01</b>	(0.07)	<b>0.03</b>	(0.22)

See accompanying notes to the condensed consolidated interim financial statements.

# DELPHI ENERGY CORP.

## Condensed Consolidated Statements of Changes in Shareholders' Equity For the nine months ended September 30

Nine Months Ended September 30,

(thousands of dollars)  
(unaudited)

**2013**

**2012**

### Share capital

#### Common shares

Balance, beginning of period	<b>304,816</b>	275,682
Issued on exercise of options	<b>48</b>	152
Transferred on exercise of options	<b>24</b>	79
Balance, end of period	<b>304,888</b>	275,913

#### Contributed surplus

Balance, beginning of period	<b>14,608</b>	12,500
Share-based compensation	<b>1,605</b>	1,868
Transferred on exercise of options	<b>(24)</b>	(79)
Balance, end of period	<b>16,189</b>	14,289

#### Deficit

Balance, beginning of period	<b>(77,837)</b>	(19,807)
Net earnings (loss)	<b>4,473</b>	(28,636)
Balance, end of period	<b>(73,364)</b>	(48,443)

Total shareholders' equity	<b>247,713</b>	241,759
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See accompanying notes to the condensed consolidated interim financial statements.



# DELPHI ENERGY CORP.

## Condensed Consolidated Statements of Cash Flows For the three and nine months ended September 30

	Three Months Ended September 30,		Nine Months Ended September 30,	
(thousands of dollars)	2013	2012	2013	2012
(unaudited)				
<b>Cash flow from (used in) operating activities</b>				
Net earnings (loss)	1,208	(9,190)	4,473	(28,636)
Adjusted for:				
Depletion and depreciation	9,402	12,380	25,586	57,198
Non-cash finance costs	243	151	663	452
Non-cash share-based compensation	684	447	1,682	1,147
Decommissioning expense	19	-	492	-
Loss (gain) on property dispositions	(42)	3,498	(3,137)	2,904
Unrealized gain on financial instruments	(1,305)	3,531	(3,016)	1,256
Deferred income taxes (recovery)	(237)	(2,936)	1,020	(8,285)
Accretion of subordinated and long term debt	(735)	36	(524)	(338)
Decommissioning expenditures	(179)	-	(1,486)	(413)
Change in non-cash working capital (Note 12)	(148)	(1,192)	167	(3,480)
	<b>8,910</b>	<b>6,725</b>	<b>25,920</b>	<b>21,805</b>
<b>Cash flow from (used in) financing activities</b>				
Exercise of options	15	113	48	152
Finance lease obligation	-	(102)	(1,641)	(271)
Increase in subordinated debt	20,000	-	20,000	-
Increase (decrease) in long term debt	(14,762)	(20,116)	14,679	32,229
Change in non-cash working capital (Note 12)	-	-	(212)	-
	<b>5,253</b>	<b>(20,105)</b>	<b>32,874</b>	<b>32,110</b>
<b>Cash flow available for investing activities</b>	<b>14,163</b>	<b>(13,380)</b>	<b>58,794</b>	<b>53,915</b>
<b>Cash flow from (used in) investing activities</b>				
Additions to exploration and evaluation	(11,520)	(259)	(12,645)	(2,031)
Acquisitions of exploration and evaluation	-	-	(12,135)	-
Additions to property, plant and equipment	(1,495)	(7,257)	(31,687)	(70,159)
Disposition of petroleum and natural gas properties	42	23,045	3,319	34,619
Acquisition of petroleum and natural gas properties	-	-	(1,529)	-
Change in non-cash working capital (Note 12)	6,168	(2,149)	3,241	(20,361)
	<b>(6,805)</b>	<b>13,380</b>	<b>(51,436)</b>	<b>(57,932)</b>
Increase (decrease) in cash and cash equivalents	7,358	-	7,358	(4,017)
Cash and cash equivalents, beginning of period	-	-	-	4,017
Cash and cash equivalents, end of period	7,358	-	7,358	-
Cash interest paid	2,342	1,529	5,156	3,991

See accompanying notes to the condensed consolidated interim financial statements.

# DELPHI ENERGY CORP.

## Notes to the Condensed Consolidated Interim Financial Statements As at and for the nine month periods ended September 30, 2013 and 2012

(thousands of dollars, except per share amounts)(unaudited)

### 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 – 4<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 2V6.

The condensed consolidated interim financial statements as at and for the three and nine months ended September 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 November 12, 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 recognized in the consolidated statement of financial position consist of accounts receivable, derivative instruments, accounts payable and accrued liabilities, restricted share units liability, subordinated debt 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 Company's subordinated debt has a fair value of \$19.5 million based on the future cash flows associated with the subordinated debt discounted at current market rates of interest.

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 September 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 <sup>(1)</sup>	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
September 2013 – October 2013	Natural Gas – fixed	2,500 GJ/d	\$2.35 Cdn	\$2.35 Cdn
October 2013	Natural Gas – fixed	2,500 GJ/d	\$2.45 Cdn	\$2.45 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 <sup>(2)</sup>	Crude Oil – call option	600 bbls/d	-	\$90.00 U.S.

<sup>(1)</sup> During the year, the Company re-priced this natural gas contract from \$2.88 per gigajoule to \$3.45 per gigajoule by extending the term of this contract from December 2014 to December 2016.

<sup>(2)</sup> 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 September 30, 2013, Delphi entered into a fixed price natural gas contract for 5,000 GJ/d at \$3.40 Cdn. per gigajoule from April 2014 to October 2014.

### Physical Contracts

Time Period	Type of Contract	Quantity Contracted	Price Floor (\$/unit)	Price Ceiling (\$/unit)
April 2012 – October 2014 <sup>(1) (2)</sup>	Natural Gas – fixed	3,000 mmbtu/d	\$3.71 U.S.	\$3.71 U.S.
January 2013 – December 2013 <sup>(1)</sup>	Natural Gas – fixed	1,500 GJ/d	\$3.41 Cdn	\$3.41 Cdn
April 2013 – December 2013 <sup>(1)</sup>	Natural Gas – fixed	1,500 GJ/d	\$3.42 Cdn	\$3.42 Cdn
May 2013 – October 2013 <sup>(1)</sup>	Natural Gas – fixed	2,000 GJ/d	\$3.45 Cdn	\$3.45 Cdn
October 2013	Natural Gas – fixed	2,500 GJ/d	\$2.37 Cdn	\$2.37 Cdn
October 2013	Natural Gas – fixed	2,500 GJ/d	\$2.40 Cdn	\$2.40 Cdn

(3) Due to a change in the Company's marketing contracts, as of November 1, 2013, these contracts will be classified as financial contracts and be subject to mark-to-market valuations.

(4) During the year, the Company re-priced this natural gas contract from U.S. \$3.21/mmbtu to U.S. \$3.71/mmbtu by increasing the contracted volume from 2,000 mmbtu/d to 3,000 mmbtu/d and extending the term of the contract from December 2013 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 September 30, 2013 is estimated to be a liability of approximately \$1.0 million. For the three and nine months ended September 30, 2013, Delphi recorded an unrealized gain on its risk management contracts of \$1.3 million and \$3.0 million, respectively. The unrealized gain recognized for the three and nine months ended September 30, 2013 is the difference between the fair value of the risk management contracts outstanding as at September 30, 2013 and the fair value as at June 30, 2013 and December 31, 2012, respectively.

As at September 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	1,984	(235)	1,749
Current liability	(2,263)	142	(2,121)
Long term liability	(1,334)	720	(614)
Net asset (liability)	<b>(1,613)</b>	<b>627</b>	<b>(986)</b>

## 6) EXPLORATION AND EVALUATION ASSETS

	<b>Total</b>
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	12,645
Acquisitions	12,135
Transfer to oil and gas properties	(2,597)
Balance as at September 30, 2013	<b>34,589</b>

Exploration and evaluation assets consist of the Company's exploration projects which are pending the determination of proven and probable reserves.

During the third quarter of 2013, the Company commenced drilling two gross and net wells of which one well is to be tied-in during the fourth quarter of 2013 and the other well scheduled to be completed and tied-in in 2014. 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 nine months ended September 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

<b>Cost</b>	<b>Crude oil and natural gas properties</b>	<b>Production equipment</b>	<b>Other assets</b>	<b>Total</b>
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	33,443	558	6	34,007
Decommissioning obligations	(2,671)	(525)	-	(3,196)
Dispositions	(419)	-	-	(419)
Transfer from exploration and evaluation assets	2,597	-	-	2,597
Balance as at September 30, 2013	<b>567,397</b>	<b>49,266</b>	<b>866</b>	<b>617,529</b>

<b>Accumulated depletion and depreciation</b>	<b>Crude oil and natural gas properties</b>	<b>Production equipment</b>	<b>Other assets</b>	<b>Total</b>
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	(24,993)	(499)	(94)	(25,586)
Dispositions	192	-	-	192
Balance as at September, 2013	<b>(227,505)</b>	<b>(11,886)</b>	<b>(475)</b>	<b>(239,866)</b>
Net book value as at September 30, 2013	<b>339,892</b>	<b>37,380</b>	<b>391</b>	<b>377,663</b>
Net book value as at December 31, 2012	331,743	37,846	479	370,068

Delphi has included \$277.6 million (September 30, 2012: \$198.2 million) for future development costs and excluded \$2.0 million (September 30, 2012: \$3.2 million) for estimated salvage from the depletion calculation for the three months ended September 30, 2013.

During the nine months ended September 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 nine months ended September 30, 2013, Delphi capitalized \$1.6 million (September 30, 2012: \$2.2 million) of general and administrative expenses and \$1.0 million (September 30, 2012: \$1.0 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 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 LIABILITIES

	<b>September 30, 2013</b>	December 31, 2012
Liability – flow-through shares	-	2,651
Restricted share units	<b>477</b>	-
Total	<b>477</b>	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.

During the third quarter of 2013, Delphi satisfied its \$8.0 million commitment to incur qualifying capital expenditures associated with its November 13, 2012 flow-through shares. As a result, the long term liability associated with these flow-through shares has been derecognized and a deferred income tax recovery of \$0.7 million was recorded in the consolidated statements of earnings.

## 10) LONG TERM DEBT

	September 30, 2013	December 31, 2012
Prime-based loans	20,000	5,000
Bankers' acceptances, net of discount	78,918	79,418
Subordinated debt, net of finance costs	19,687	-
<b>Total</b>	<b>118,605</b>	<b>84,418</b>

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 third quarter of 2013, Delphi obtained a \$20.0 million demand facility with a Canadian energy and resource lender. The funding was available in two tranches; \$12.0 million which was drawn down by July 15, 2013 and \$8.0 million which was drawn down by September 16, 2013. The debt is secured by the Company's assets, 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 has an annual coupon rate of 8.5 percent with interest payable monthly. A deferred fee of 1.5 percent of the facility is due upon maturity. The subordinated debt of \$20.0 million, net of \$0.4 million of financing costs is accreted using the effective interest rate method such that the carrying amount of the subordinated debt will be equal to the principal amount plus the 1.5 percent deferred fee at maturity.

## 11) SHARE CAPITAL

(a) Issued and outstanding	September 30, 2013		December 31, 2012	
	Outstanding shares (000's)	Amount	Outstanding shares (000's)	Amount
<b>Balance, beginning of period</b>	<b>153,049</b>	<b>304,816</b>	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	66	48	235	152
Transferred on exercise of options	-	24	-	78
Share issue costs, net of deferred tax effect	-	-	-	(1,445)
<b>Balance, end of period</b>	<b>153,115</b>	<b>304,888</b>	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 nine months ended September 30, 2013, Delphi granted 5.1 million stock options to employees, directors and consultants with a weighted average fair value of \$0.41 per option. As at September 30, 2013, a total of 13.1 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 September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Weighted average common shares - basic	<b>153,100</b>	131,145	<b>153,090</b>	131,097
Dilutive effect of share options outstanding	<b>943</b>	-	<b>417</b>	-
Weighted average common shares - diluted	<b>154,043</b>	131,145	<b>153,507</b>	131,097

## 12) SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Source/(use) of cash				
Accounts receivable	<b>1,917</b>	(875)	<b>(3,670)</b>	(729)
Prepaid expenses and deposits	<b>761</b>	188	<b>491</b>	13
Outstanding cheques	<b>(2,517)</b>	(1,248)	<b>(883)</b>	86
Accounts payable and accrued liabilities	<b>5,859</b>	(1,406)	<b>7,258</b>	(23,211)
Total change in non-cash working capital	<b>6,020</b>	(3,341)	<b>3,196</b>	(23,841)
Relating to:				
Operating activities	<b>(148)</b>	(1,192)	<b>167</b>	(3,480)
Financing activities	-	-	<b>(212)</b>	-
Investing activities	<b>6,168</b>	(2,149)	<b>3,241</b>	(20,361)
	<b>6,020</b>	(3,341)	<b>3,196</b>	(23,841)

## 13) COMMITMENTS

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 drilling program, the Company drilled 3 gross commitment wells of which the farmor's working interest after payout represents 1.38 net wells. The farm-in agreement will allow Delphi to earn a 75 percent working interest in 35 sections of Montney and Nordegg petroleum and natural gas rights ("PNG rights") in its core area of Bigstone, Alberta. The Company expects to satisfy its remaining commitment at an estimated cost of \$17.8 million. In the event Delphi does not complete its remaining drilling commitments associated with this farm-in agreement, the Company is exposed to a maximum non-performance fee of \$2.0 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. As of September 30, 2013, Delphi has drilled two successful wells as part of the drilling participation agreement.

## DIRECTORS

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

Tony Angelidis  
Senior Vice President Exploration  
Delphi Energy Corp.

Harry S. Campbell, Q.C. <sup>(3)</sup>  
Chairman  
Burnet, Duckworth & Palmer LLP

Robert A. Lehodey, Q.C. <sup>(2) (3)</sup>  
Partner  
Osler, Hoskin & Harcourt LLP

Stephen Mulherin <sup>(1)</sup>  
Partner  
Polar Capital Corporation

Andrew E. Osis <sup>(1) (3)</sup>  
Independent Businessman

David Sandmeyer <sup>(2)</sup>  
Director  
Freehold Royalty Ltd.

Lamont C. Tolley <sup>(1) (2)</sup>  
Independent Businessman

- <sup>(1)</sup> Member of the Audit Committee  
<sup>(2)</sup> Member of the Reserves Committee  
<sup>(3)</sup> Member of the Corporate Governance  
and Compensation Committee

## AUDITORS

KPMG LLP

## LEGAL COUNSEL

Osler, Hoskin & Harcourt LLP

## 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

## OFFICERS

David J. Reid  
President and Chief Executive Officer

Tony Angelidis  
Senior Vice President Exploration

Hugo H. Batteke  
Vice President Operations

Michael K. Galvin  
Vice President Land

Rod A. Hume  
Senior Vice President Engineering

Brian P. Kohlhammer  
Senior Vice President Finance and Chief Financial  
Officer

## CORPORATE OFFICE

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Website: www.delphienergy.ca

## BANKERS

National Bank of Canada  
The Bank of Nova Scotia  
Alberta Treasury Branches

## INDEPENDENT ENGINEERS

GLJ Petroleum Consultants Ltd.

## STOCK EXCHANGE LISTING

Toronto Stock Exchange – DEE

## TRANSFER AGENT

Olympia Trust Company





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