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For The Three Months Ended
March 31, 2014

DELPHI ENERGY CORP.

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First Quarter 2014 Highlights

- Increased production to a record average 10,302 barrels of oil equivalent per day ("boe/d") in the first quarter of 2014, an increase of 37 percent over the comparative quarter in 2013 and an increase of 15 percent over the fourth quarter of 2013;
- Improved cash netbacks per barrels of oil equivalent ("boe") in the first quarter of 2014 by 59 percent to $22.02 per boe over the comparative quarter of 2013, resulting in record funds from operations of $20.4 million, a 118 percent increase over the first quarter of 2013 and an 80 percent increase over the fourth quarter of 2013;
- Increased the borrowing base of the senior credit facilities by $30.0 million to $170.0 million upon completion of the lenders' annual review, resulting in total credit capacity of $190.0 million;
- On an annualized, first quarter funds from operations basis, Delphi decreased its net debt to funds from operations ratio to 1.9:1 from 3.0:1 at the end of 2013;
- Increased average field condensate production by 249 percent to 1,455 barrels per day ("bbls/d") in comparison to the first quarter of 2013;
- Increased the average natural gas liquid ("NGL") and field condensate yield by 44 percent to 69 barrels per million cubic feet ("bbls/mmcf") compared to the first quarter of 2013. Field and plant condensate yield was 44 bbls/mmcf or 64 percent of the total 69 bbls/mmcf;
- Increased Montney production from 1,530 boe/d in the first quarter of 2013 to 5,770 boe/d in the first quarter of 2014, an increase of 277 percent. The Bigstone Montney project contributed 56 percent of the Company's production during the first quarter of 2014 compared to 21 percent during the comparative quarter of 2013;
- Montney liquids yield was 101 bbls/mmcf in the first quarter of 2014 with field and plant condensate representing 75 percent of the liquids yield and the balance of the liquids yield split between butane at 10 percent and propane at 15 percent;
- Successfully drilled three gross (three net) Montney wells as part of the Company's capital program and completed, tied-in and brought on production 1.97 net Montney wells in East Bigstone;
- Expanded the capacity of its 100 percent owned compression and dehydration facility in East Bigstone from 30.0 million cubic feet per day ("mmcf/d") to 45.0 mmcf/d and doubled the field condensate storage to 6,000 barrels; and
- Recently completed pipeline connections to deliver its Montney production at Bigstone to SemCAMS K3 processing facility.

Operational Highlights

	Three Months Ended March 31, 2014		
Production	**2014**	2013	% Change
Field condensate (bbls/d)	**1,455**	417	249
Natural gas liquids (bbls/d)	**1,493**	1,189	26
Crude oil (bbls/d)	**242**	318	(24)
Total crude oil and natural gas liquids	**3,190**	1,924	66
Natural gas (mcf/d)	**42,673**	33,574	27
Total (boe/d)	**10,302**	7,520	37

Financial Highlights ($ thousands except per unit amounts)

	Three Months Ended March 31, 2014		
	2014	2013	% Change
Petroleum and natural gas sales	**49,046**	21,763	125
Realized sales price per boe	**47.45**	32.04	48
Funds from operations	**20,409**	9,383	118
Per boe	**22.02**	13.87	59
Per share – Basic	**0.13**	0.06	117
Per share – Diluted	**0.12**	0.06	100
Net earnings	**723**	56	1,191
Per boe	**0.78**	0.08	875
Per share – Basic	**0.00**	0.00	-
Per share – Diluted	**0.00**	0.00	-
Capital invested	**37,410**	23,956	56
Disposition of properties	**-**	(3,172)	-
Net capital invested	**37,410**	20,784	80
Acquisition of undeveloped properties	**-**	13,664	-
Total capital invested	**37,410**	34,448	9

	March 31, 2014	December 31, 2013	% Change
Net debt [(1)]	**155,015**	138,340	12
Total assets	**485,625**	451,680	8
Shares outstanding (000's)			
Basic	**154,426**	153,254	1
Diluted	**166,156**	166,106	-

(1) *Defined as the sum of long term and subordinated debt plus (minus) the working capital deficit (surplus) excluding the current portion of the fair value of the financial instruments.*

MESSAGE TO SHAREHOLDERS

Delphi continues to focus on its Montney development at Bigstone, increasing the Company's cash generating capability through the growth of its liquids-rich production, towards a self-funded capital program.

Revenue generated during the first quarter of 2014 increased to $49.0 million, a 125 percent increase over the comparative quarter of 2013 which had revenues of $21.8 million. Funds from operations in the first quarter of 2014 were $20.4 million or $0.13 per basic share and $0.12 per diluted share compared to $9.4 million or $0.06 per basic and diluted share in the comparative quarter of 2013. The increase in funds from operations is primarily due to an increase in field condensate, natural gas liquids and natural gas production and an improvement in commodity prices in the first quarter of 2014, particularly natural gas prices.

Production volumes for the three months ended March 31, 2014 averaged a record 10,302 boe/d, an increase of 37 percent over the comparative quarter in 2013 and an increase of 15 percent over the fourth quarter of 2013. Two wells were brought on-stream in the quarter with the second one being brought on production later in the quarter upon completing the expansion of Delphi's 100 percent owned Montney compression and dehydration facility to 45 mmcf/d. Production from the Montney project at Bigstone increased to an average 5,770 boe/d in the first quarter of 2014, up 277 percent from 1,530 boe/d in the first quarter of 2013.

The Company's production portfolio for the first quarter of 2014 was weighted two percent to crude oil, 14 percent to field condensate, 14 percent to natural gas liquids and 70 percent to natural gas. This compares to a production portfolio for the comparative quarter of 2013 weighted four percent to crude oil, six percent to field condensate, 16 percent to natural gas liquids and 74 percent to natural gas. For the first quarter of 2014, Delphi's field condensate production increased 249 percent to 1,455 bbls/d and NGL production increased 26 percent to 1,493 bbls/d compared to the first quarter of 2013. Plant and field condensate production increased from 732 bbls/d to 1,881 bbls/d over this same comparative period.

The liquids-rich nature of the Montney production continues to strengthen the Company's cash generating capability, with Montney operating netbacks (excluding all commodity risk management contracts) of $35.82 per boe during the first quarter of 2014. 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 in the first quarter were $37.4 million, which primarily included the drilling of three Montney horizontal wells and the completion and tie-in operations of three Montney horizontal wells. During the first quarter, the Company incurred $9.3 million on infrastructure to expand its Montney facility to 45 mmcf/d, increase field condensate storage to 6,000 bbls/d and install pipeline connections to deliver its Montney natural gas and natural gas liquids to SemCAMS K3 processing facility.

During the first quarter, the Company received a $30.0 million increase in the borrowing base of its senior credit facilities to $170.0 million upon completion of the lenders' annual review. As at March 31, 2014, the Company had net debt of $155.0 million on total credit facilities of $190.0 million. On an annualized first quarter funds from operations basis, Delphi's net debt to funds from operations ratio was 1.9:1, down from 3.0:1 at the end of 2013. Net debt includes subordinated and bank debt plus working capital deficiency excluding the fair value of financial instruments.

Operations

Bigstone Montney Program

The Company finished the planned winter drilling season ahead of schedule as a result of improved spud to spud cycle times. This enabled Delphi to accelerate the drilling of two additional wells that will be ready for completion operations after spring break-up. This positions the Company to manage a potential extended wet spring break-up period with minimal impact to market guidance production volumes and potentially increase the capital program later in the year. Delphi took advantage of pad drilling operations to drill the two additional wells from the common 1-19-60-22W5M surface pad. The 8-21-60-22W5M ("8-21") well (100 percent working interest) has reached a total depth of 5,580 metres with a horizontal lateral in the Montney of 2,692 metres. Drilling operations on the 2-7-60-22W5M well concluded shortly after the end of the first quarter.

At East Bigstone, Delphi has now drilled a total of 14 horizontal wells in the Montney formation, nine of which were completed with the slickwater hybrid fracturing technique, after completing the first three wells with conventional oil fracturing techniques in early 2012. The strong performance of the slickwater frac wells have become the basis for the Company's revised type well assumptions previously announced with the Company's 2013 year end results. The revised type well reflects a 34 percent increase in the IP30 production rate and a 40 percent increase in the initial total field condensate and plant NGL yield compared to the old type well. Wells #10 through #13 in the table below were drilled as part of the Company's winter capital program, with two of the wells (#10 and #11) now completed, equipped and tied-in. The remaining two wells are planned to be completed later in the second quarter or early in the third quarter, subject to access to the field after spring break-up.

Initial Production (IP) Rate Well Performance[1]

Well[2]		HZ Length (metres)	Number of Fracs	Initial Test Rate[3] (boe/d)	IP30 Total Sales (boe/d)	IP30 FCond Rate (bbls/d)	IP30 Total NGL Yield (bbl/mmcf)	IP180 Total Sales (boe/d)	Total Sales on Day 180 (boe/d)
Conventional Fracs (original completion technique)									
16-30	#1	2,760	20	3,047	1,099	273	104	558	259
05-02	#2	3,005	20	2,390	969	170	80	479	250
14-23	#3	2,238	20	3,715	1,570	223	70	635	291
Slickwater Fracs (new completion technique)									
15-10	#4	1,424	20	957	991	194	86	660	421
12-17	S.BS Expl[4]	1,848	26	962					
Revised Type Well		2,400 – 3,000	30		1,629	449	119	1,083	746
15-24	#7	2,328	30	1,585	1,387	454	136	**1,059**	**824**
10-27	#5	2,407	30	2,350	1,815	582	133	1,364	928
13-30	#10	2,593	30	2,381	2,075	655	136		
08-21	**#13**	**2,692**	waiting on completion						
02-07	**#12**	**2,702**	waiting on completion						
02-01	#11	2,807	30	902	**634**	**209**	**142**		
16-23	#6	2,809	30	1,943	1,781	465	108	1,235	842
15-21	#9	2,886	30	1,686	1,293	499	170		
15-30	#8	3,014	30	2,953	2,076	566	113		

(1) Average production calculated on operating days, excludes non-producing days. Includes estimated NGL gas plant recoveries.

(2) Slickwater frac wells numbered chronologically and sorted on HZ length.

(3) Final continuous 24 hour rate on clean-up test. 100% of load frac oil had not been recovered for wells 1, 2, 3.

(4) Initial Exploration Well on Delphi's South Bigstone Lands

Delphi's 15-24-60-23W5M ("15-24") well has now been on production for 180 days and has produced at an average rate of approximately 1,059 boe/d (40 percent field condensate and plant NGL's) over this time period. The 15-24 well compares favourably to the revised type well (IP180 of 1,083 boe/d) but the rate at day 180 of 824 boe/d exceeds the revised type well rate at day 180 by ten percent (746 boe/d) showing how this well, despite a lower initial rate (IP30), has converged to the revised type well after six months of production.

The Company's 2-1-60-23W5M ("2-1") well, drilled from the same surface location as 15-24, has now been on production for 30 days and has produced at an average rate of approximately 634 boe/d. Total liquids, including estimated NGL plant recoveries, averaged 142 bbls/mmcf of which 72 percent was field produced condensate. The Company remains encouraged by the strong frac water clean-up rates and high liquids yield of the well and continues to evaluate the early time production performance of the well as more load frac water is recovered.

2014 Guidance

The 2014 capital program contemplates drilling and completing six extended-reach Montney horizontal wells and the start of the seventh prior to year-end utilizing the existing drilling rig. The expected improvement in AECO pricing and continued growth in volumes of the higher netback Montney production is expected to result in significant growth in funds from operations compared to 2013. This is expected to lead to a financial transformation of the Company in 2014 with the net debt to annualized fourth quarter funds from operations ratio decreasing to 2.1:1 by the end of the year.

The Company anticipates second quarter production to be affected by downtime for scheduled maintenance and turnarounds. Production for the second quarter is expected to be 9,500 boe/d to 10,000 boe/d while average annual and exit production is reaffirmed as stated below.

	2013 Actuals	2014 Guidance	% Change
Average Annual Production (boe/d)	8,241	10,000 - 10,500	24%
Exit Production Rate (boe/d)	9,638	11,500 - 12,000	22%
AECO Natual Gas Price (Cdn $ per mcf)	$3.17	$4.00	26%
WTI Oil Price (US $ per bbl)	$98.00	$95.50	(3%)
Net Capital Program ($ million)	$82.3	$71.0 - $78.0	(10%)
Funds from Operations ($ million)	$39.1	$60.0 - $65.0	60%
Net Debt at December 31 ($ million)	$138.3	$143.0 - $150.0	6%
Net Debt / Q4 FFO (Annualized)	3.0	2.1	(30%)

Outlook

Delphi continues to focus on its Montney production and reserves base at Bigstone as it transforms to a self-funded growth business model. The Company has a total of eleven Montney horizontal wells on production in East Bigstone, with eight 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.

The Company's success at East Bigstone increased corporate production to over 11,000 boe/d (29 percent NGL's and light oil) in April 2014 with two Montney wells drilled and ready for completion operations after spring break-up. Both of these wells are on an existing wellsite reducing the time and cost of completion and tie-in operations. In addition, the Company's 12-17 well in the southern portion of East Bigstone, which had been completed with a slickwater frac late in 2013, is planned to be tied-in and brought on production in the third quarter.

Corporate production volumes will be affected by turnaround and maintenance outages in mid 2014. The anticipated effect of the outages to the Company have been accounted for in current market guidance.

With the large development inventory assembled on 125 sections of Montney lands together with ownership in strategic infrastructure, the Company has never been better positioned with an asset capable of long term sustainable growth.

In 2014, the operational and financial transformation of the Company will continue, as strong cash netbacks and low-cost production and reserve additions from the growth in the Montney reshape the financial strength of the Company, creating a platform for self-funded long term growth.

Delphi's 5-year growth plan from 2014 to 2018 contemplates production growth to 28,000 boe/d by 2018, with targeted annual production per share growth of 28 percent and annual cash flow per share growth of 48 percent. Capital spending over the next five years to achieve that result under the plan is projected to be approximately $770 million, funded entirely from cash flow over the five year period to drill 70 Montney horizontal wells and fund the expansion of Delphi's 100 percent owned facility. The Company now has a 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 capital expenditures program on a go forward basis.

Recently, the Company initiated a public sale process of its greater Wapiti assets. Bids are due mid June 2014 on the asset package but there is no guarantee an acceptable bid will be received. The objective of selling these assets at an acceptable price is to initially reduce the Company's financial leverage and accelerate the development of the Montney at Bigstone.

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
May 13, 2014

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 months ended March 31, 2014 and 2013 and should be read in conjunction with the unaudited condensed consolidated interim financial statements and accompanying notes for the three months ended March 31, 2014 and the audited consolidated financial statements of the Company for the years ended December 31, 2013 and 2012 and the related MD&A. 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 May 13, 2014.

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.

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

Funds from operations - cash flow from operating activities before accretion on long term and subordinated debt, decommissioning expenditures and changes in non-cash working capital from operating activities. 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. 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 (loss) or other measures of financial performance calculated in accordance with IFRS.

Funds from operations per share - funds from operations divided by the number of common shares outstanding calculated using weighted average shares outstanding consistent with the calculation of earnings (loss) per share.

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

Net debt to equity ratio - net debt is defined as long term debt and subordinated debt plus (minus) the working capital deficit (surplus) excluding the current portion of the fair value of financial instruments. Equity is equivalent to shareholders' equity. This ratio is used to calculate the Company's compliance with its net debt to equity ratio covenant.

Net debt to funds from operations ratio - net debt is defined as long term debt and subordinated debt plus (minus) the working capital deficit (surplus) excluding the current portion of the fair value of financial instruments. Funds from operations is defined as cash flow from operating activities before accretion of long term and subordinated debt, decommissioning expenditures and changes in non-cash working capital from operating activities. Delphi's most recently completed quarter's funds from operations is annualized (multiplied by four) for the calculation of this ratio. This ratio is used to calculate the Company's compliance with its net debt to funds from operations ratio covenant.

Total debt – the sum of long term debt and subordinated debt. This amount is used in management's calculation of net debt.

Net debt – the sum of total debt plus (minus) the working capital deficit (surplus) excluding the current portion of the fair value of the financial instruments. Net debt is used by management to monitor the remaining availability under its credit facilities.

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

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

Cash netbacks - operating netbacks less interest on total debt, general and administrative costs and cash costs related to the Company's restricted share units. Management considers cash netbacks per boe an important measure as it demonstrates the cash realized on each unit of production to be reinvested in future capital investment or repay debt.

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.

FIRST QUARTER 2014 ACCOMPLISHMENTS

What were the highlights of Delphi's operational and financial results for the first quarter of 2014?

In the first quarter of 2014, the Company achieved the following:

- Increased production to a record average 10,302 barrels of oil equivalent per day ("boe/d") in the first quarter of 2014, an increase of 37 percent over the comparative quarter in 2013 and an increase of 15 percent over the fourth quarter of 2013;

- Improved cash netbacks per barrels of oil equivalent ("boe") in the first quarter of 2014 by 59 percent to $22.02 per boe over the comparative quarter of 2013, resulting in record funds from operations of $20.4 million, a 118 percent increase over the first quarter of 2013 and an 80 percent increase over the fourth quarter of 2013;

- Increased the borrowing base of the senior credit facilities by $30.0 million to $170.0 million upon completion of the lenders' annual review, resulting in total credit capacity of $190.0 million;

- On an annualized, first quarter funds from operations basis, Delphi decreased its net debt to funds from operations ratio to 1.9:1 from 3.0:1 at the end of 2013;

- Increased average field condensate production by 249 percent to 1,455 barrels per day ("bbls/d") in comparison to the first quarter of 2013;

- Increased the average natural gas liquid ("NGL") and field condensate yield by 44 percent to 69 barrels per million cubic feet ("bbls/mmcf") compared to the first quarter of 2013. Field and plant condensate yield was 44 bbls/mmcf or 64 percent of the total 69 bbls/mmcf;

- Increased Montney production from 1,530 boe/d in the first quarter of 2013 to 5,770 boe/d in the first quarter of 2014, an increase of 277 percent. The Bigstone Montney project contributed 56 percent of the Company's production during the first quarter of 2014 compared to 21 percent during the comparative quarter of 2013;

- Montney liquids yield was 101 bbls/mmcf in the first quarter of 2014 with field and plant condensate representing 75 percent of the liquids yield and the balance of the liquids yield split between butane at 10 percent and propane at 15 percent;

- Successfully drilled three gross (three net) Montney wells as part of the Company's capital program and completed, tied-in and brought on production 1.97 net Montney wells in East Bigstone;

- Expanded the capacity of its 100 percent owned compression and dehydration facility in East Bigstone from 30.0 million cubic feet per day ("mmcf/d") to 45.0 mmcf/d and doubled the field condensate storage to 6,000 barrels; and

- Recently completed pipeline connections to deliver its Montney production at Bigstone to SemCAMS K3 processing facility.

Funds from operations in the first quarter of 2014 were $20.4 million or $0.13 per basic share and $0.12 per diluted share, compared to $9.4 million or $0.06 per basic and diluted share in the comparative quarter of 2013. The increase in funds from operations from the first quarter of 2013 to the first quarter of 2014 is primarily due to an increase in natural gas, field condensate and natural gas liquids production associated with the Montney development program at East Bigstone in combination with an improvement in realized commodity prices. In the first quarter of 2014, funds from operations increased by 80 percent in comparison to the fourth quarter of 2013 as a result of increased production due to Delphi's successful Montney development program and an improvement in commodity prices.

For the first three months of 2014, Delphi recognized $5.1 million and $0.4 million in realized losses on its financial and physical commodity risk management contracts, respectively.

As at March 31, 2014, the Company's net debt was $155.0 million. On an annualized, first quarter funds from operations basis, Delphi's net debt to funds from operations ratio was 1.9:1, down from 3.0:1 at the end of 2013.

2014 OUTLOOK AND FORWARD-LOOKING INFORMATION

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

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

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

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

Commodity prices used in the determination of forecast revenues are based upon general economic conditions, commodity supply and demand forecasts and publicly available price forecasts. The Company continually monitors its forecast assumptions to ensure the stakeholders are informed of material variances from previously communicated expectations.

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

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

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

PRODUCTION

What are the Company's production expectations for 2014?

The Company expects average annual production in 2014 to be between 10,000 and 10,500 boe/d. The production is expected to be split 29 percent to liquids and 71 percent to natural gas.

REVENUES

What does the Company project for crude oil and natural gas prices and the Canadian/United States exchange rate in 2014?

Natural Gas

United States natural gas prices are commonly referenced to the New York Mercantile Exchange Henry Hub in Louisiana ("NYMEX") while Canadian natural gas prices are typically referenced to the Canadian Alberta Energy Company interconnect with the TransCanada Alberta system ("AECO"). Natural gas prices are primarily influenced by North American, rather than global, supplies of natural gas versus domestic demand for winter heating and the generation of electricity for summer cooling requirements. Over the past five years, multi-stage hydraulic fracturing technology has unlocked significant natural gas resource potential in numerous shale basins in North America which are capable of initially producing at very high rates of natural gas before declining and producing for a long time. The United States has significantly grown its supply of dry gas to meet domestic demand over that same period of time further influencing the dynamics of the natural gas markets.

So far in 2014, natural gas storage levels have decreased to levels significantly lower than the five year average and last year due to colder than normal average winter temperatures in North America, particularly in the regions of the greatest consumption. As a result, the average price for AECO in the first quarter of 2014 was $5.65 per thousand cubic feet ("mcf"). Consequently, Delphi anticipates AECO natural gas prices to average between $3.75 and $4.25 per mcf for the entire year.

Crude Oil

West Texas Intermediate at Cushing, Oklahoma (“WTI”) is the benchmark reference for North American crude oil prices. Canadian crude oil prices are based upon postings, primarily at Edmonton, Alberta and represent the WTI price adjusted for quality and transportation differentials as well as the Canadian/United States (“Cdn/US”) dollar exchange rate. The fundamental supply/demand equation for crude oil is more balanced on a daily basis than natural gas due to consistent demand for crude oil of approximately 89 - 90 million barrels per day to meet the global requirement for energy. The price of crude oil can also be influenced significantly by geopolitical events in the major oil exporting countries of the world and the strength or weakness of the global economies.

Delphi anticipates the demand for crude oil to remain constant on a global basis resulting in WTI averaging between U.S. $90.00 and $100.00 per barrel in 2014.

Canadian/United States Exchange Rate

Both crude oil and natural gas prices in Canada are premised on the U.S. dollar price for each product adjusted for the Cdn/US dollar exchange rate and quality and transportation differentials. The strength or weakness of the Canadian dollar versus the U.S. dollar will largely reflect the global demand for raw materials, particularly metals, minerals and crude oil. The global financial markets tolerance for risk and its need for financial security in the form of holding U.S dollars will also have an effect on the value of the Canadian dollar against the U.S. dollar.

So far in 2014, the Canadian dollar has weakened relative to the U.S. dollar. The exchange rate is influenced by many variables which will continue to result in volatility. Delphi has assumed that the Canadian dollar will strengthen slightly resulting in an average exchange rate of $1.08 Cdn. to U.S. dollar.

ROYALTIES

What average royalty rate does Delphi expect to pay in 2014?

The Company pays royalties to provincial governments, individuals and companies that own surface and/or mineral rights and Companies that have been granted an overriding royalty. These payments take the form of Crown, freehold and overriding royalties. Crown royalty rates for crude oil and natural gas are generally calculated on a sliding scale based on commodity prices and production rates whereas freehold and overriding royalty rates are generally a fixed percentage of revenue less the cost to deliver the product to market. Crown royalty rates can change due to price fluctuations or changes in production volumes on a well by well basis subject to minimum and maximum rates. For natural gas liquids, Crown royalty rates are a fixed percentage of revenue with the rate varying according to the nature of the product. Crown royalty credits are received from the Crown and represent the fee earned by the owners of natural gas processing infrastructure to process the Crown’s royalty share of natural gas. Freehold royalties are paid on freehold lands and overriding royalties are generally payable on lands where the Company has earned an interest in the lands through a farm-in, whether the lands are Crown or freehold. Crown royalties are also influenced by royalty incentives provided by the provincial governments to stimulate drilling activity by the industry. Delphi expects the royalty regime in Alberta to remain stable throughout 2014. Royalties are not affected by gains or losses realized through the Company’s risk management program.

For 2014, Delphi expects its royalty rate, after the deduction for royalty credits and incorporating the higher Crown royalty rates expected for the increased natural gas prices in the first quarter of 2014, will average between 15 and 18 percent of gross revenue, excluding realized and unrealized gains or losses on commodity risk management contracts.

TRANSPORTATION EXPENSES AND OPERATING COSTS

Will Delphi be able to further reduce its costs of production in 2014?

Transportation expenses are costs incurred by the Company to transport its production volumes from the wellhead to the point of sales. In Alberta, transportation expense is influenced by market conditions and availability of existing pipeline capacity. In British Columbia, infrastructure is owned by Spectra Energy Corp. that enables natural gas producers to avoid facility construction in exchange for regulated gathering, processing and transmission fees. These charges are included in transportation expenses.

Delphi expects its transportation expenses to be approximately $3.60 to $3.90 per boe in 2014. Transportation expenses are subject to the availability of pipeline capacity on an interruptible basis in areas of significant production growth by industry. Delphi does not anticipate having any issues moving its production to sales.

The costs of production may be more than expected in periods of very high industry activity causing considerable competition and rising prices for general oilfield services and equipment. With the growth in Montney production as a percentage of total production, operating costs are expected to increase due to sour gas processing through non-operated facilities. Operating costs in 2014 are expected to average $8.50 to $9.00 per boe.

GENERAL & ADMINISTRATIVE AND FINANCE COSTS

What are the Company's overhead costs for personnel and financing?

In 2014, Delphi anticipates its general and administrative costs, net of capitalized amounts, to be approximately $2.00 to $2.20 per boe, very similar to 2013. A high level of industry activity may cause an increase in general and administrative expenses due to higher than expected employee retention costs, fees to hire new employees and general cost of inflation.

Interest costs will be dependent on market rates and credit spreads for the oil and gas sector and will be a function of the general economic conditions in Canada. If the economy is viewed as growing too fast, which may result in inflation, interest rates may be increased to slow down the pace of growth in the economy. Interest costs may also increase if funds from operations are less than expected and long term debt is used to fund a larger portion of the capital program than originally anticipated. The Company expects the Canadian prime rate to remain stable in 2014. Interest expense is expected to be approximately $2.00 to $2.20 per boe in 2014.

CAPITAL PROGRAM AND NET DEBT LEVELS

What are the Company's forecast capital expenditures and net debt levels for 2014?

The Company expects 2014 net capital expenditures to be between $71.0 and $78.0 million to drill, complete and tie-in 7 wells with funding from cash flow, the sale of gross overriding royalties and bank indebtedness. The ability to drill, complete and tie in wells assumes the availability of equipment and field personnel to undertake the operations. Historically, Delphi executes a winter capital program in excess of first quarter cash flow followed by at least one quarter of minimal activity prior to returning to the field with an active summer/fall program.

The Company is targeting net debt at December 31, 2014 to be between $143.0 and $150.0 million.

FIRST QUARTER 2014 OPERATIONAL AND FINANCIAL RESULTS

BUSINESS ENVIRONMENT

What external factors of the business environment did the Company have to contend with in the first quarter of 2014?

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 March 31		
	2014	2013	% Change
Natural Gas			
NYMEX (US $/mmbtu)	**4.72**	3.45	37
AECO (CDN $/mcf)	**5.65**	3.20	77
Crude Oil			
West Texas Intermediate (US $/bbl)	**98.62**	94.34	5
Edmonton Light (CDN $/bbl)	**99.69**	88.17	13
Foreign Exchange			
Canadian to U.S. dollar	**0.91**	0.99	(8)
U.S. to Canadian dollar	**1.10**	1.01	9

Natural Gas

The level of natural gas storage in North America has decreased to levels below last year and the five year average due to significantly colder than normal average winter temperatures in North America. The significant increase in demand for natural gas resulted in an improvement in the pricing for natural gas. The daily AECO benchmark natural gas price was volatile during the first quarter of 2014, reaching a high of $7.58 per mcf in February and decreasing to $5.28 per mcf in March. AECO averaged $5.65 per mcf in the first quarter of 2014, a 77 percent increase over the comparative period.

Natural Gas Liquids

Natural gas liquids include ethane, propane, butane, pentane and plant condensate which 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 generally trading at a premium to Canadian light oil prices.

Crude Oil

WTI averaged U.S. $98.62 per barrel in the first quarter of 2014, an increase of five percent over the comparative period in 2013. Canadian prices experienced a narrowing basis differential as well as a foreign exchange decline resulting in a Canadian price increase of 13 percent in the three months ended March 31, 2014 compared to the same period in 2013. Edmonton Light averaged $99.69 per barrel in the first quarter of 2014 compared to $88.17 per barrel in the same period in 2013.

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 $0.94 in December 2013 to $0.90 in March 2014. 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 March 31, 2014 was $0.91.

DRILLING OPERATIONS

How active was Delphi in its drilling program in the first quarter of 2014 and where was the drilling focused?

Delphi's drilling program was focused on the Bigstone Montney formation, drilling three gross (three net) wells with a success rate of 100 percent. In comparison, Delphi drilled two gross (two net) wells in the first quarter of 2013, also focused on the Bigstone Montney formation.

	Three Months Ended March 31, 2014	
	Gross	**Net**
Liquids rich natural gas (>40 bbls/mmcf liquids content)	**3.0**	**3.0**
Success rate (%)	**100**	**100**

CAPITAL INVESTED

How much capital was invested by the Company in the first quarter of 2014 and where were the capital expenditures incurred?

During the first quarter of 2014, Delphi invested $37.4 million of which $30.0 million, or 80 percent, was primarily directed toward the drilling of three net wells and the completion operations and equipping on three gross (2.97 net) wells, one of which was drilled during the fourth quarter of 2013. The Company also installed pipeline connections to alternately deliver its Montney natural gas and natural gas liquids to the SemCAMS K3 processing facility. Delphi invested 16 percent of its first quarter 2014 capital program on facilities expenditures, primarily on the expansion of its 100 percent owned compression and dehydration facility located in East Montney. The facility was expanded by adding an additional compressor and dehydrator, thereby increasing the capacity to handle an additional 15 mmcf/d of raw natural gas to a total capacity of 45 mmcf/d of raw natural gas and doubling the field condensate tank storage capacity to 6,000 barrels.

As of March 31, 2014, Delphi has a working interest in a total of 92.5 gross (81.1 net) sections of undeveloped land as part of 119.5 gross (104.7 net) sections of total land prospective for liquids-rich natural gas in the Montney formation, situated at its core area of Bigstone.

	Three Months Ended March 31		
	2014	2013	% Change
Land	**39**	122	(68)
Seismic	**15**	1	1,400
Drilling, completions and equipping	**30,026**	21,030	43
Facilities	**6,044**	2,222	172
Capitalized expenses	**1,286**	578	122
Other	**-**	3	-
Capital invested	**37,410**	23,956	56
Disposition of properties	**-**	(3,172)	-
Net capital invested	**37,410**	20,784	80
Acquisition of properties	**-**	13,664	-
Total capital invested	**37,410**	34,448	9

PRODUCTION

What factors contributed to the production volumes?

Production volumes for the three months ended March 31, 2014 averaged 10,302 boe/d, a 37 percent increase over the comparative period. Production volumes have increased as a result of the Company's successful drilling program in the Montney formation at Bigstone, partially offset by natural declines in its other areas. Production volumes from the Montney development for the three months ended March 31, 2014 averaged 5,770 boe/d, an increase of 277 percent over the comparative period.

In comparison, production volumes have increased 15 percent from the fourth quarter of 2013. During the first quarter of 2014, two gross (1.97 net) wells were brought on production, of which one well came on stream during the latter part of the quarter. Average production volumes from the Montney development for the three months ended March 31, 2014 increased 49 percent from the fourth quarter 2013 average production volumes.

The Company's production portfolio for the first quarter of 2014 was weighted 14 percent to field condensate, 14 percent to natural gas liquids, two percent to crude oil and 70 percent to natural gas. This compares to a production portfolio for the comparative quarter in 2013 weighted six percent to field condensate, 16 percent to natural gas liquids, four percent to crude oil and 74 percent to natural gas. The increase in field condensate production from the first quarter of 2013 to 2014 is due to the liquids-rich nature of the Company's Montney lands at Bigstone. For the first quarter of 2014, the Montney production consisted of 24 percent field condensate, 14 percent natural gas liquids and 62 percent natural gas.

Field condensate as a percentage of total liquids increased to 46 percent for the three months ended March 31, 2014 compared to 22 percent for the comparative quarter in 2013. Total liquids production for the first quarter of 2014 increased 66 percent compared to the first quarter of 2013. Due to the liquids-rich natural gas play at Bigstone, the Company has increased its first quarter 2014 average corporate NGL and field condensate yield by 44 percent from the first quarter of 2013 to 69 bbls/mmcf.

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.

	Three Months Ended March 31		
	2014	2013	% Change
Field condensate (bbls/d)	**1,455**	417	249
Natural gas liquids (bbls/d)	**1,493**	1,189	26
Crude oil (bbls/d)	**242**	318	(24)
Total crude oil and natural gas liquids	**3,190**	1,924	66
Natural gas (mcf/d)	**42,673**	33,574	27
Total (boe/d)	**10,302**	7,520	37

REALIZED SALES PRICES

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

For the three months ended March 31, 2014, Delphi realized an average sales price of $47.45 per boe, a 48 percent increase when compared to the same period in 2013. The increase is primarily due to an improvement in natural gas, crude oil and field condensate and natural gas liquids prices.

For the three months ended March 31, 2014, Delphi's realized natural gas price increased by 56 percent in comparison to the same period in 2013. The increase is due to a 77 percent improvement in the average daily AECO benchmark price and an increase in the premium received for Delphi's heat content and marketing arrangements partially offset by higher losses on physical and financial commodity risk management contracts. The increase in the revenue received for Delphi's heat content and marketing arrangements is primarily due to an increase in the Chicago Monthly Index relative to AECO for volumes sold on the Alliance pipeline.

Realized crude oil and field condensate prices were ten percent higher for the three months ended March 31, 2014, compared to the same period in 2013. The increase in the realized crude oil and field condensate sale price is due to an improvement in Edmonton light and a premium partially offset by a loss on financial commodity risk management contracts. The premium received is primarily due to the higher pricing obtained for the Company's field condensate relative to Edmonton light due to a strong demand for condensate in Alberta as a diluent for bitumen.

Delphi's realized natural gas liquids price for the first quarter of 2014 increased 29 percent compared to the first quarter of 2013. The increase in the realized natural gas liquids price is primarily due to an increase in prices for propane, pentanes and plant condensate in combination with the change in production mix of these products.

	Three Months Ended March 31		
	2014	2013	% Change
AECO ($/mcf)	**5.65**	3.20	77
Heating content and marketing arrangements ($/mcf)	**0.95**	0.34	179
Realized price before risk management contracts ($/mcf)	**6.60**	3.54	86
Gain (loss) on physical contracts ($/mcf)	**(0.11)**	(0.05)	120
Gain (loss) on financial contracts ($/mcf)	**(1.10)**	(0.03)	3,566
Realized natural gas price ($/mcf)	**5.39**	3.46	56
Edmonton Light ($/bbl)	**99.69**	88.17	13
Quality differential ($/bbl)	**2.43**	(0.50)	-
Realized price before risk management contracts ($/bbl)	**102.12**	87.67	16
Gain (loss) on financial contracts ($/bbl)	**(5.44)**	0.03	18,233
Realized oil and field condensate price ($/bbl)	**96.68**	87.70	10
Realized natural gas liquids price ($/bbl)	**63.30**	48.95	29
Total realized sales price ($/boe)	**47.45**	32.04	48

RISK MANAGEMENT ACTIVITIES

What is Delphi's risk management strategy over the sales price it receives for its production 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.

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

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)
May 2014	Natural Gas – fixed	2,500 GJ/d	$4.575 Cdn	$4.575 Cdn
May 2014	Natural Gas – fixed	2,500 GJ/d	$4.60 Cdn	$4.60 Cdn
May 2014	Natural Gas – fixed	2,500 GJ/d	$4.62 Cdn	$4.62 Cdn

Financial Contracts

Time Period	Type of Contract	Quantity Contracted	Price Floor ($/unit)	Price Ceiling ($/unit)
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
June 2013 – December 2016	Natural Gas – fixed	6,000 GJ/d	$3.45 Cdn	$3.45 Cdn
August 2013 – October 2014	Natural Gas – fixed	3,000 mmbtu/d	$3.71 U.S.	$3.71 U.S.
January 2014 – October 2014	Natural Gas – fixed	2,500 GJ/d	$3.65 Cdn	$3.65 Cdn
April 2014 – October 2014	Natural Gas – fixed	5,000 GJ/d	$3.40 Cdn	$3.40 Cdn
April 2014 – October 2014	Natural Gas – fixed	5,000 GJ/d	$3.25 Cdn	$3.25 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	Crude Oil – call option	600 bbls/d	-	$90.00 U.S.
May 2014 – December 2014	Crude oil – put option (1)	1,000 bbls/d	$110.15 Cdn	-

(1) The put contract has a deferred cost of $4.01 per barrel.

The fair value of the financial contracts outstanding as at March 31, 2014 is estimated to be a liability of approximately $13.5 million. The fair values of these contracts are based on an approximation of the amounts that would have been paid to or received from counterparties to settle the contracts outstanding at the end of the period having regard to forward prices and market values provided by independent sources. Due to the inherent volatility in commodity prices, actual amounts realized may differ from these estimates.

The Company recorded an unrealized loss on its financial contracts of $7.7 million for the three months ended March 31, 2014. The unrealized loss for the three months ended March 31, 2014, is the difference between the fair value of the commodity risk management contracts outstanding as at March 31, 2014 and the fair value as at December 31, 2013.

The Company accounts for 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 first three months of 2014 compare to 2013 and what factors contributed to the change?

Delphi generated revenue of $49.0 million in the first quarter of 2014, a 125 percent increase over the comparative period. The increase in revenues in primarily due to higher natural gas, field condensate and natural gas liquids production in combination with an improvement in realized sales prices for this production partially offset by a decrease in crude oil revenue due to lower production volumes as a result of natural declines and an increase in realized losses on physical commodity risk management contracts.

For the first quarter of 2014, field condensate and natural gas liquids contributed 45 percent of total revenues compared to 39 percent in the same period in 2013.

	Three Months Ended March 31		
	2014	2013	% Change
Natural gas	**25,344**	10,689	137
Natural gas physical contract gains (loss)	**(414)**	(136)	204
Field condensate	**13,500**	3,347	303
Natural gas liquids	**8,505**	5,238	62
Crude oil	**2,100**	2,452	(14)
Sulphur	**10**	173	(94)
Total	**49,046**	21,763	125

ROYALTIES

What were royalty costs in the first three months of 2014?

For the first quarter of 2014, royalties totaled $7.7 million compared to $3.0 million in the same period in 2013. Over the same respective period, Crown royalties increased $1.2 million, primarily due to higher royalties paid on natural gas, field condensate and propane. This is a result of an improvement in commodity prices for natural gas, field condensate and propane in combination with higher production of these commodities. In the first quarter of 2014, gross overriding royalties increased $3.4 million in comparison to the same period in 2013. The increase is primarily due to the addition of new wells in the Montney area which have been encumbered by a gross overriding royalty in combination with an increase in sales price and production from the Montney development.

	Three Months Ended March 31		
	2014	2013	% Change
Crown royalties	**4,713**	3,475	36
Royalty credits	**(1,471)**	(1,456)	1
Crown royalties – net	**3,242**	2,019	61
Gross overriding royalties	**4,421**	1,000	342
Total	**7,663**	3,019	154
Per boe	**8.26**	4.46	85

What were the average royalty rates paid on production in the first three months of 2014?

For the three months ended March 31, 2014, the average royalty rate increased to 15.5 percent, up from 13.8 percent in the comparative period in 2013. For the three months ended March 31, 2014, the Crown royalty rate decreased by 28 percent compared to the same period in 2013, primarily as a result of an increase in production from wells that take advantage of the Alberta royalty incentive programs in combination with an increase in revenue due to the Company's natural gas heat content and marketing arrangements.

The gross overriding royalty rate for the first quarter of 2014 increased 93 percent compared to the same period in 2013. The increase is primarily due to new wells with high production levels brought on since the first quarter of 2013 encumbered by a gross overriding royalty.

	Three Months Ended March 31		
	2014	2013	% Change
Crown rate – net of royalty credits	**6.6%**	9.2%	(28)
Gross overriding rate	**8.9%**	4.6%	93
Average rate	**15.5%**	13.8%	12

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 first quarter of 2014 compare to 2013?

Production costs for the three months ended March 31, 2014 increased 71 percent compared to the same period in 2013. The increase is primarily due to power and fuel charges, equipment rentals, trucking charges and processing fees associated with the Company's new Montney production, which is processed for natural gas liquids at third party facilities. Production costs in the first quarter of 2013 were reduced by approximately $0.5 million due to 13th month equalizations related to Bigstone Montney.

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 25 percent in the three months ended March 31, 2014, compared to the same period in 2013.

	Three Months Ended March 31		
	2014	2013	% Change
Production costs	**9,658**	5,651	71
Processing income	**(682)**	(912)	(25)
Total	**8,976**	4,739	89
Per boe	**9.68**	7.00	38

TRANSPORTATION EXPENSES

What factors contributed to the change in transportation costs in the first quarter of 2014?

For the three months ended March 31, 2014, transportation expenses nearly doubled compared to the same period in 2013, increasing 45 percent on a per boe basis. 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 related to natural gas liquids.

	Three Months Ended March 31		
	2014	2013	% Change
Total	**3,756**	1,887	99
Per boe	**4.05**	2.79	45

GENERAL AND ADMINISTRATIVE

How do general and administrative costs in the first quarter of 2014 compare to 2013?

General and administrative ("G&A") expenses (after recoveries and allocations) for the three months ended March 31, 2014 were $1.3 million compared to $1.5 million for the same period in 2013.

Gross expenses in the first quarter of 2014 are 38 percent higher than the comparative period primarily due to higher personnel costs. Overhead recoveries increased 60 percent over the comparative period due to a larger capital program in combination with a higher total number of wells drilled in the first quarter of 2014 compared to the same period in 2013. Salary allocations in the first quarter of 2014 increased as a result of higher personnel costs in the first quarter of 2014 compared to the same period in 2013.

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

	Three Months Ended March 31		
	2014	2013	% Change
Gross expenses	**3,647**	2,634	38
Overhead recoveries	**(581)**	(362)	60
Salary allocations	**(1,721)**	(781)	120
General and administrative expenses	**1,345**	1,491	10
Per boe	**1.45**	2.20	(34)

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 statement of financial position 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 for the three months ended March 31, 2014 increased 56 percent in comparison to the same period in 2013.

Share-based compensation expense related to the Company's option plan decreased four percent from the first quarter of 2013 to that of 2014. The decrease is primarily due to a lower weighted average fair value per vesting option.

Share-based compensation expense related to the Company's RSU's increased in the first quarter of 2014 in comparison to the same period in 2013. The increase in the expense related to the RSU's is a combination of the granting of 0.7 million RSU's subsequent to the first quarter of 2013 and a higher closing share price used to calculate the fair value of the outstanding RSU's as at March 31, 2014 compared to March 31, 2013. Capitalized share-based compensation increased in the first quarter of 2014 in comparison to the same period in 2013 as a consequence of an increase in the expenses.

	Three Months Ended March 31		
	2014	2013	% Change
Share-based compensation – Options	**508**	531	(4)
Share-based compensation – RSU's	**1,051**	543	94
Capitalized costs	**(476)**	(379)	26
Net	**1,083**	695	56
Per boe	**1.17**	1.03	14

FINANCE COSTS

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

For the three months ended March 31, 2014, interest charges increased 58 percent compared to the same period in 2013, as a result of a higher average debt balance in combination with higher interest rates charged on the Company's outstanding debt. During the third quarter of 2013, the Company obtained a $20.0 million subordinated facility which bears an annual coupon rate of 8.5 percent. The bankers' acceptances outstanding at March 31, 2014 have terms ranging from 91 to 181 days and a weighted average effective interest rate of 4.85 percent over the term.

Accretion and finance charges are non-cash and comprised of accretion expense on the Company's decommissioning obligations 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 March 31, 2014 compared to the same period in 2013 in combination with an increase in risk-free interest rates. The decommissioning obligation increased primarily due to a change in estimate. During the fourth quarter of 2013, the Company revised its estimates to abandon and reclaim its crude oil and natural gas properties.

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 March 31		
	2014	2013	% Change
Interest	**1,832**	1,163	58
Accretion	**294**	182	62
Finance charges	**113**	53	113
Total finance costs	**2,239**	1,398	60
Interest per boe	**1.98**	1.72	15
Accretion per boe	**0.32**	0.27	19
Finance charges per boe	**0.12**	0.08	50

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

Delphi has two interest rate swap transactions to protect against an increase in interest rates charged on 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

DEPLETION AND DEPRECIATION

Has the Company's depletion and depreciation rate and expense changed in the first quarter of 2014 compared to the first quarter of 2013?

Depletion and depreciation for the three months ended March 31, 2014 increased 32 percent compared to the same period in 2013 primarily due to higher depletion as a result of an increase in production volumes, partially offset by a decrease in the depletion rate. The depletion rate for the first quarter of 2014 decreased in comparison to the same period in 2013 primarily due to an increase in the reserve base, partially offset by an increase in the depletion base as a result of capital additions and higher future development costs.

	Three Months Ended March 31		
	2014	2013	% Change
Depletion and depreciation	**10,235**	7,750	32
Depletion and depreciation per boe	**11.04**	11.45	(4)

INCOME TAXES

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

Delphi recorded a deferred income tax expense of $0.3 million for the three months ended March 31, 2014 compared to $0.1 million for the three months ended March 31, 2013. 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 2017.

	Three Months Ended March 31		
	2014	2013	% Change
Deferred income tax recovery	**288**	140	106
Per boe	**0.31**	0.21	48

FUNDS FROM OPERATIONS

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

Funds from operations is a non-IFRS measure that has been defined by the Company and is used as a measure to analyze performance. Delphi considers funds from operations a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future capital investments and to repay debt. Funds from operations is calculated as cash flow from operating activities before accretion on long term and subordinated debt, decommissioning expenditures and changes in non-cash working capital.

How do cash flow from operating activities and funds from operations in the first three months of 2014 compare to 2013?

Delphi's cash flow from operating activities of $23.8 million for the three months ended March 31, 2014 increased 127 percent from the 10.5 million generated in the same period in 2013. In the three months ended March 31, 2014, Delphi generated funds from operations of $20.4 million, up 118 percent from the $9.4 million for the same period in 2013. The increase in cash flow from operating activities and funds from operations is primarily due to higher petroleum and natural gas sales partially offset by an increase in royalties, realized losses on commodity risk management contracts, operating, transportation and interest costs.

	Three Months Ended March 31		
	2014	2013	% Change
Cash flow from operating activities	**23,769**	10,472	127
Accretion of subordinated and long term debt	**(574)**	36	(1,694)
Decommissioning expenditures	**191**	793	(76)
Change in non-cash working capital	**(2,977)**	(1,918)	55
Funds from operations	**20,409**	9,383	118

NET EARNINGS

What factors contributed to the earnings in the first quarter of 2014?

For the three months ended March 31, 2014, Delphi recorded net earnings of $0.7 million ($0.00 per diluted share), compared to net earnings of $56 thousand ($0.00 per diluted share) in the same period in 2013. The increase in net earnings is due to an increase in petroleum and natural gas sales and a reduction in general and administrative costs and decommissioning expense partially offset by an increase in royalties, realized and unrealized losses on commodity risk management contracts, operating costs, transportation costs, share-based compensation, depletion and depreciation expense, interest costs and deferred income tax expense as well as a decrease in gains on dispositions.

CASH NETBACK AND EARNINGS ANALYSIS

How do Delphi's netbacks achieved in the first quarter of 2014 compare to 2013?

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 operating and cash netback per boe.

For the three months ended March 31, 2014, Delphi's cash netback per boe increased 59 percent compared to the same period in 2013. The increase in the cash netback per boe for the first quarter of 2014 compared to the same period in 2013 is primarily due to improved realized sales prices in combination with a higher liquids yield and a reduction in general and administrative expenses partially offset by higher royalties, operating, transportation and interest costs.

	Three Months Ended March 31		
	2014	2013	% Change
Barrels of oil equivalent ($/boe)			
Realized sales price	**47.45**	32.04	48
Royalties	**8.26**	4.46	85
Operating expenses	**9.68**	7.00	38
Transportation	**4.05**	2.79	45
Operating netback	**25.46**	17.79	43
General and administrative expenses	**1.45**	2.20	(34)
Paid out restricted share units	**0.01**	-	-
Interest	**1.98**	1.72	15
Cash netback	**22.02**	13.87	59
Unrealized loss on commodity risk contracts	**8.29**	5.13	62
Share-based compensation expense	**1.16**	1.03	13
Gain on dispositions	**-**	(4.75)	-
Decommissioning	**-**	0.37	-
Depletion and depreciation	**11.04**	11.45	(4)
Accretion and finance charges	**0.44**	0.35	26
Deferred income taxes	**0.31**	0.21	50
Net earnings	**0.78**	0.08	875

SELECTED INFORMATION

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

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

In the first quarter of 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 2013, Delphi continued to focus on exploiting its liquids-rich resource at Bigstone, Alberta. The Company completed, tied-in and placed on production five net wells which utilized the Company's new slickwater hybrid completion technique which has significantly decreased initial production decline rates and improved productivity of reservoir condensate. Production in the fourth quarter of 2013 increased 24 percent in comparison to the same quarter in 2012 due to the Company's successful capital program. For the year ended December 31, 2013, Delphi's average corporate natural gas liquids and field condensate yield has increased by 51 percent to 53 barrels per million cubic feet compared to 2012.

So far in the first quarter of 2014, Delphi has achieved record production of 10,302 boe/d, a 37 percent increase from the comparative quarter in 2013 and a 15 percent increase from the fourth quarter of 2013. The increase in production is reflective of the capital invested in the development of the Montney play at East Bigstone. During the first quarter of 2014, the Company's senior lenders completed their annual review of the syndicated credit facility resulting in a $30.0 million increase in the borrowing base.

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 2013 and so far in 2014, prices for natural gas experienced some improvements due to cooler than average temperatures experienced in North America. The average spot price for AECO in 2013 was $3.17 per mcf and $5.65 per mcf in the first quarter of 2014.

Net earnings (loss) of the Company are primarily driven by the difference between the cash netback realized per boe of production versus the Company's depletion and depreciation rate, unrealized losses on commodity risk management contracts and other non-cash charges. Overall finding and development ("F&D") costs were $18.03 per proved plus probable boe in 2012 versus $9.43 per proved plus probable boe in 2013.

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

	Mar. 31, 2014	Dec. 31, 2013	Sep. 30, 2013	Jun. 30, 2013	Mar. 31, 2013	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012
Production								
Oil and field condensate (bbls/d)	**1,697**	1,242	1,035	988	735	565	830	1,083
Natural gas liquids (bbls/d)	**1,493**	1,286	1,294	1,115	1,189	1,055	1,069	1,040
Natural gas (mcf/d)	**42,673**	38,761	38,807	33,189	33,574	33,654	38,148	39,080
Barrels of oil equivalent (boe/d)	**10,302**	8,988	8,797	7,635	7,520	7,229	8,257	8,636
Financial								
Petroleum and natural gas revenue	**49,046**	29,459	25,666	23,541	21,763	18,858	20,878	21,875
Funds from operations	**20,409**	11,352	9,972	8,408	9,383	6,269	7,881	7,181
Per share – basic	**0.13**	0.07	0.07	0.05	0.06	0.04	0.06	0.05
Per share – diluted	**0.12**	0.07	0.06	0.05	0.06	0.04	0.06	0.05
Net earnings (loss)	**723**	(16,100)	1,208	3,209	56	(29,394)	(9,190)	(3,531)
Per share – basic	**-**	(0.11)	0.01	0.02	-	(0.21)	(0.07)	(0.03)
Per share – diluted	**-**	(0.11)	0.01	0.02	-	(0.21)	(0.07)	(0.03)

LIQUIDITY AND CAPITAL RESOURCES

Share Capital

How many common shares and stock options are currently outstanding?

As at May 13, 2014, the Company had 154.6 million common shares outstanding and 11.5 million stock options outstanding. The stock options have an average exercise price of $1.62 per option.

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

The common shares of Delphi trade on the TSX under the symbol DEE. The following table summarizes outstanding share data for the three months ended March 31, 2014:

	Three Months Ended March 31, 2014
Weighted Average Common Shares	
Basic	**153,852**
Diluted	**157,389**
Trading Statistics [1]	
High	**2.77**
Low	**1.81**
Average daily volume	**941,545**

[1] Trading statistics based on closing price

Sources and Uses of Funds

	Three Months Ended March 31, 2014
Sources:	
Funds from operations	**20,409**
Exercise of stock options	**1,079**
Change in non-cash working capital	**10,940**
	32,428
Uses:	
Cash and cash equivalents	**648**
Capital expenditures	**37,410**
Accretion of subordinated and long term debt	**(574)**
Expenditures on decommissioning	**191**
	37,675
Change in long term debt	**5,247**

Net Debt

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

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

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

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

Delphi's results are affected by external market and risk factors, such as fluctuations in the prices of crude oil and natural gas, movements in foreign currency exchange rates and inflationary pressures on service costs.

How much debt was outstanding on March 31, 2014?

At March 31, 2014, the Company had $98.7 million outstanding in the form of bankers' acceptances, $7.0 million drawn under Canadian-based prime loans, $19.9 million in subordinated debt and a working capital deficiency of $29.4 million for net debt of $155.0 million. Net debt is a non-IFRS term. Delphi's calculation of net debt includes long term and subordinated debt and the working capital deficiency (surplus) before the current portion of the fair value of financial instruments.

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

The annual review of the Company's senior extendible revolving term credit facility was conducted during the first quarter of 2014 resulting in a $30.0 million increase to $170.0 million.

The Company's senior extendible revolving term credit facility with a syndicate of Canadian chartered banks is subject to the banks' semi-annual review 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 25, 2015 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, 2016. 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.

As a result of the $30.0 million increase in the syndicated credit facility's borrowing base, the demand floating charge debenture provided to the lenders as security was increased from $200.0 million to $300.00 million. The syndicated credit facility also has a general security agreement over all assets of the Company.

A semi-annual review of the Company's $170.0 million extendible revolving term credit facility will be conducted during the fourth quarter of 2014. 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 subordinated demand credit facility with a Canadian energy and resource lender. The debt is secured by the Company's assets and subordinate to the Company's senior credit facility. The debt has a maturity date of December 31, 2014 and may be extended at the option of Delphi for an additional six months, subject to the Company being compliant with the financial covenants of the facility. Delphi anticipates that it will extend the subordinated debt to June 30, 2015. At maturity, the Company expects to repay the subordinated debt through borrowings under its senior credit facility.

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.

The senior credit facility and the subordinated demand credit facility are subject to the following financial covenants:

Financial covenant [1]	Requirement	As at March 31, 2014	Facility subject to financial covenant
Adjusted working capital ratio	>1.0 : 1	**1.6**	Senior, Subordinated
Net debt to equity ratio	< 0.75 : 1	**0.7**	Subordinated
Net debt to funds from operations ratio			
March 31, 2014	< 3.0 : 1	**1.9**	Subordinated
December 31, 2014	< 2.8 : 1	**N/A**	Subordinated

[1] The financial covenant calculations refer to measures that are non-IFRS. Please see the definitions of non-IFRS measures at the beginning of this MD&A.

Delphi's calculation of its adjusted working capital ratio and net debt to funds from operations ratio are as follows:

Adjusted working capital ratio	As at March 31, 2014
Current assets	**33,143**
Undrawn portion of senior credit facility	**64,290**
	97,433
Current liabilities	**93,641**
Exclusion of the current portion of subordinated debt	**(19,911)**
Exclusion of the current fair value of financial instruments	**(11,193)**
	62,537
Adjusted working capital ratio	**1.6**

Net debt to funds from operations ratio	As at March 31, 2014
Long term debt	**105,710**
Subordinated debt	**19,911**
Current liabilities	**93,641**
Exclusion of the current portion of subordinated debt	**(19,911)**
Exclusion of the current fair value of financial instruments	**(11,193)**
Current assets	**(33,143)**
Net debt	**155,015**
Funds from operations for the three months ended March 31, 2014	**20,409**
Annualized (multiplied by four)	**81,636**
Net debt to funds from operations ratio	**1.9**

Delphi is in compliance with all covenants of its credit facilities as at March 31, 2014.

Contractual Obligations

Does the Company have any contractual obligations as of March 31, 2014 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, the senior credit facility 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 ending on December 31 are as follows:

	2014	2015	2016	2017	2018
Gathering, processing and transmission	3,231	4,106	242	94	13
Office, equipment and software leases	936	1,380	1,393	957	-
Accounts payable and accrued liabilities	62,298	-	-	-	-
Decommissioning obligations	239	-	-	-	-
Fair value of financial instruments	11,193	1,798	552	-	-
Restricted share units – long term portion	-	861	193	-	-
Interest payments on subordinated debt	1,275	843	-	-	-
Long term debt	-	-	105,710	-	-
Subordinated debt	-	19,911			-
Total	79,172	28,899	108,090	1,051	13

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.

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, 2013 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

Did the Company adopt any new standards and are there any future accounting standards which the Company will have to comply with in the future?

IFRIC 21 - "Levies", establishes guidelines for the recognition and accounting treatment of a liability relating to a levy imposed by a government. This standard is effective for annual periods beginning on or after January 1, 2014 and was adopted by the Company effective January 1, 2014. The adoption of IFRIC 21 had no impact on the Company's consolidated financial statements.

Amendments to "Offsetting Financial Assets and Financial Liabilities" addressed within IAS 32 - "Financial Instruments: Presentation", which provides guidance regarding when it is appropriate and permissible for an entity to disclose offsetting financial assets and financial liabilities on a net basis. The amendments to this standard are effective for annual periods beginning on or after January 1, 2014 and were adopted by the Company effective January 1, 2014. The adoption of the IAS 32 amendments had no impact on the Company.

The IASB has issued IFRS 9, "Financial Instruments", which is the result of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The standard has an effective date of January 1, 2018. The Company is currently evaluating the impact of adopting this standard.

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 President and Chief Executive Officer and Senior Vice President, Finance and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles applicable to the Company.

The Company is required to disclose any change in the Company's internal control over financial reporting that occurred during the period beginning on January 1, 2014 and ended on March 31, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. No material changes in the Company's internal control over financial reporting were identified during such period that has materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

ADDITIONAL INFORMATION

Where is additional information about Delphi available?

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

DELPHI ENERGY CORP.

Condensed Consolidated Statements of Financial Position

(thousands of dollars)	**March 31, 2014**	December 31, 2013
(unaudited)		
Assets		
Current assets		
Cash and cash equivalents	**3,010**	2,362
Accounts receivable	**27,814**	20,254
Prepaid expenses and deposits	**2,319**	4,605
	33,143	27,221
Exploration and evaluation (Note 6)	**21,575**	24,666
Property, plant and equipment (Note 7)	**430,907**	399,793
Total assets	**485,625**	451,680
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**62,298**	45,477
Decommissioning obligations	**239**	397
Fair value of financial instruments (Note 5)	**11,193**	4,794
Subordinated debt (Note 8)	**19,911**	19,807
	93,641	70,475
Restricted share units	**1,054**	629
Long term debt (Note 8)	**105,710**	99,880
Fair value of financial instruments (Note 5)	**2,350**	1,062
Decommissioning obligations	**42,927**	42,289
Deferred income taxes	**5,407**	5,119
Total liabilities	**251,089**	219,454
Shareholders' equity		
Share capital (Note 9)	**306,588**	305,027
Contributed surplus	**16,689**	16,663
Deficit	**(88,741)**	(89,464)
Total shareholders' equity	**234,536**	232,226
Total liabilities and shareholders' equity	**485,625**	451,680

See accompanying notes to the condensed consolidated interim financial statements.

DELPHI ENERGY CORP.

Condensed Consolidated Statements of Earnings and Comprehensive Income
For the three months ended March 31,

(thousands of dollars, except per share amounts)	**2014**	2013
(unaudited)		
Revenues		
Crude oil and natural gas sales	**49,046**	21,763
Royalties	**(7,663)**	(3,019)
	41,383	18,744
Realized loss on financial instruments (Note 5)	**(5,051)**	(81)
Unrealized loss on financial instruments (Note 5)	**(7,687)**	(3,473)
	28,645	15,190
Expenses		
Operating	**8,976**	4,739
Transportation	**3,756**	1,887
General and administrative	**1,345**	1,491
Share-based compensation	**1,083**	695
Gain on property dispositions	**-**	(3,217)
Loss on decommissioning	**-**	251
Depletion and depreciation (Note 7)	**10,235**	7,750
	25,395	13,596
Finance costs	**2,239**	1,398
Earnings before income taxes	**1,011**	196
Income taxes		
Deferred income taxes	**288**	140
Net earnings and comprehensive income	**723**	56
Net earnings per share (Note 9)		
Basic and diluted	**-**	-

See accompanying notes to the condensed consolidated interim financial statements.

DELPHI ENERGY CORP.

Condensed Consolidated Statements of Changes in Shareholders' Equity
For the three months ended March 31,

(thousands of dollars)	**2014**	2013
(unaudited)		
Share capital		
Common shares		
Balance, beginning of period	**305,027**	304,816
Issued on exercise of options	**1,079**	33
Transferred on exercise of options	**482**	17
Balance, end of period	**306,588**	304,866
Contributed surplus		
Balance, beginning of period	**16,663**	14,608
Share-based compensation	**508**	532
Transferred on exercise of options	**(482)**	(17)
Balance, end of period	**16,689**	15,123
Deficit		
Balance, beginning of period	**(89,464)**	(77,837)
Net earnings	**723**	56
Balance, end of period	**(88,741)**	(77,781)
Total shareholders' equity	**234,536**	242,208

See accompanying notes to the condensed consolidated interim financial statements.

DELPHI ENERGY CORP.

Condensed Consolidated Statements of Cash Flows
For the three months ended March 31,

(thousands of dollars)	**2014**	2013
(unaudited)		
Cash flow from (used in) operating activities		
Net earnings	**723**	56
Adjustments for:		
Depletion and depreciation	**10,235**	7,750
Accretion and finance charges	**407**	235
Share-based compensation	**1,069**	695
Gain on property dispositions	**-**	(3,217)
Loss on decommissioning	**-**	251
Unrealized loss on financial instruments	**7,687**	3,473
Deferred income taxes	**288**	140
Accretion of subordinated debt and long term debt	**574**	(36)
Decommissioning expenditures	**(191)**	(793)
Change in non-cash working capital (Note 10)	**2,977**	1,918
	23,769	10,472
Cash flow from (used in) financing activities		
Exercise of options	**1,079**	33
Finance lease obligation	**-**	(1,641)
Increase in long term debt	**5,247**	14,442
Change in non-cash working capital (Note 10)	**-**	(212)
	6,326	12,622
Cash flow available for investing activities	**30,095**	23,094
Cash flow from (used in) investing activities		
Additions to exploration and evaluation	**(21,886)**	(159)
Acquisitions of exploration and evaluation	**-**	(12,135)
Additions to property, plant and equipment	**(15,524)**	(23,797)
Disposition of property, plant and equipment	**-**	3,172
Acquisition of property, plant and equipment	**-**	(1,529)
Change in non-cash working capital (Note 10)	**7,963**	11,354
	(29,447)	(23,094)
Increase in cash and cash equivalents	**648**	-
Cash and cash equivalents, beginning of period	**2,362**	-
Cash and cash equivalents, end of period	**3,010**	-
Cash interest paid	**1,014**	1,764

See accompanying notes to the condensed consolidated interim financial statements.

1) STRUCTURE OF DELPHI

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

The condensed consolidated interim financial statements as at and for the three months ended March 31, 2014 comprise the accounts of the Company, its wholly-owned subsidiary and a partnership.

2) BASIS OF PRESENTATION

(a) Statement of compliance and authorization

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, 2013.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors on May 13, 2014.

(b) Basis of measurement and functional currency

The condensed consolidated interim financial statements have been prepared on a going concern basis, using historical costs, 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 and rounded to the nearest thousand (unless stated otherwise).

(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 judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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 critical judgments that management has made in the process of applying Delphi's accounting policies and that have the most significant effect on the amounts recognized were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2013.

3) SIGNIFICANT ACCOUNTING POLICIES

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, 2013 with the exception of the following new and amended standards which have been adopted with an effective date of January 1, 2014 and have been applied retrospectively:

IFRIC 21 - "Levies", which establishes guidelines for the recognition and accounting treatment of a liability relating to a levy imposed by a government. The adoption of IFRIC 21 had no impact on the Company's consolidated financial statements.

IAS 32, “Financial Instruments: Presentation”, which clarifies the requirements for offsetting financial assets and liabilities. The amendments clarify when an entity has a legally enforceable right to offset and certain other requirements that are necessary to present a net financial asset or liability. There was no impact to the Company on the adoption of the amendments to IAS 32.

4) DETERMINATION OF FAIR VALUES

A number of the Company’s accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. IFRS establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described as follows:

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.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods:

(a) Cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities:

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying value due to their short term to maturity.

(b) Subordinated debt and long term debt:

The Company’s subordinated debt is measured at level 2 of the fair value hierarchy for disclosure purposes. The subordinated debt has a fair value of $20.0 million based on future cash flows associated with the facility discounted at current market rates of interest. 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.

(c) Restricted share units:

The restricted share unit liability is measured at level 2 of the fair value hierarchy. The fair value is based on the Company’s closing share price on the last business day immediately preceding the date of the consolidated statement of financial position.

(d) Derivatives:

Delphi’s interest and commodity contracts are measured at level 2 of the fair value hierarchy. The fair value of 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 financial position date. The fair value of interest rate swap contracts is determined by discounting the net future cash flows based on the fixed and variable rates associated with the notional amounts.

5) FINANCIAL RISK MANAGEMENT

The Company is exposed to market, credit and liquidity risks from its use of financial instruments. There have not been any changes to the Company’s exposure to each of the above risks and the Company’s policies and processes for measuring and managing these risks since December 31, 2013.

As at March 31, 2014, 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 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
June 2013 – December 2016	Natural Gas – fixed	6,000 GJ/d	$3.45 Cdn	$3.45 Cdn
August 2013 – October 2014	Natural Gas – fixed	3,000 mmbtu/d	$3.71 U.S.	$3.71 U.S.
January 2014 – October 2014	Natural Gas – fixed	2,500 GJ/d	$3.65 Cdn	$3.65 Cdn
April 2014 – October 2014	Natural Gas – fixed	5,000 GJ/d	$3.40 Cdn	$3.40 Cdn
April 2014 – October 2014	Natural Gas – fixed	5,000 GJ/d	$3.25 Cdn	$3.25 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	Crude Oil – call option	600 bbls/d	-	$90.00 U.S.

Subsequent to March 31, 2014, Delphi entered into the following contracts:

Time Period	Type of Contract	Quantity Contracted	Price Floor ($/unit)	Price Ceiling ($/unit)
May 2014	Natural Gas – physical, fixed	2,500 GJ/d	$4.575 Cdn	$4.575 Cdn
May 2014	Natural Gas – physical, fixed	2,500 GJ/d	$4.60 Cdn	$4.60 Cdn
May 2014	Natural Gas – physical, fixed	2,500 GJ/d	$4.62 Cdn	$4.62 Cdn
May 2014 – December 2014	Crude oil – put option (1)	1,000 bbls/d	$110.15 Cdn	-

(1) The put has a deferred cost of $4.01 per barrel.

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 March 31, 2014 is estimated to be a liability of approximately $13.5 million (December 31, 2013 – current liability of $4.8 million and a long term liability of $1.1 million). As at March 31, 2014, no risk management contracts were offset as all contracts outstanding were in liability positions. For the three months ended March 31, 2014, Delphi recorded an unrealized loss on its risk management contracts of $7.7 million (March 31, 2013 - $3.5 million). The unrealized loss recognized is the difference between the fair value of the risk management contracts outstanding as at March 31, 2014 and the fair value as at December 31, 2013.

For the three months ended March 31, 2014, the derivative commodity contracts resulted in realized losses of $5.1 million (March 31, 2013 - $81 thousand) that have been included in the consolidated statement of earnings as a realized loss on financial instruments. As at March 31, 2014, an increase in crude oil price of $1.00 per barrel would result in a decrease in the fair value of the oil commodity contracts of $138 thousand after tax. As at March 31, 2014, an increase in natural gas price of $0.10 per gigajoule would result in a decrease in the fair value of the natural gas commodity contracts of $1.2 million after tax.

6) EXPLORATION AND EVALUATION ASSETS

	Total
Balance as at December 31, 2012	12,406
Additions	16,902
Acquisitions	12,135
Expense	(315)
Transfer to oil and gas properties	(16,462)
Balance as at December 31, 2013	24,666
Additions	21,886
Transfer to oil and gas properties	(24,977)
Balance as at March 31, 2014	**21,575**

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

During the first three months of 2014, Delphi added $21.9 million of exploration and evaluation expenditures related to developing the Montney formation at Bigstone. During the first quarter of 2014, $25.0 million of exploration and evaluation assets were transferred to property, plant and equipment following the successful discovery of proven and probable reserves.

During 2013, Delphi added $16.9 million of exploration and evaluation expenditures related to developing the Montney formation at Bigstone. During the first quarter of 2013, Delphi acquired 30 gross (26.8 net) sections of Montney mineral 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 year ended December 31, 2013, $16.5 million of exploration and evaluation assets were transferred to property, plant and equipment following the successful discovery of proven and probable reserves. During 2013, the Company expensed $0.3 million of exploration and evaluation assets as management does not intend to extend the leases of certain lands in the Company's North East British Columbia ("NEBC") cash generating unit ("CGU").

7) PROPERTY, PLANT AND EQUIPMENT

Cost	Crude oil and natural gas properties	Production equipment	Other assets	Total
Balance as at December 31, 2012	534,447	49,233	860	584,540
Additions	54,412	1,704	25	56,141
Acquisitions	1,529	-	-	1,529
Decommissioning obligations	7,763	(625)	-	7,138
Dispositions	(419)	-	-	(419)
Transfer from exploration and evaluation assets	16,462	-	-	16,462
Balance as at December 31, 2013	614,194	50,312	885	665,391
Additions	10,803	5,192	-	15,995
Decommissioning obligations	377	-	-	377
Transfer from exploration and evaluation assets	24,977	-	-	24,977
Balance as at March 31, 2014	**650,351**	**55,504**	**885**	**706,740**

Accumulated depletion and depreciation	Crude oil and natural gas properties	Production equipment	Other assets	Total
Balance as at December 31, 2012	(202,704)	(11,387)	(381)	(214,472)
Depletion and depreciation	(34,876)	(1,021)	(121)	(36,018)
Dispositions	192	-	-	192
Impairment losses	(14,074)	(1,226)	-	(15,300)
Balance as at December 31, 2013	(251,462)	(13,634)	(502)	(265,598)
Depletion and depreciation	(9,929)	(280)	(26)	(10,235)
Balance as at March 31, 2014	**(261,113)**	**(14,192)**	**(528)**	**(275,833)**
Net book value as at March 31, 2014	**389,238**	**41,312**	**357**	**430,907**
Net book value as at December 31, 2013	362,732	36,678	383	399,793

For the three months ended March 31, 2014, Delphi has included $360.8 million (March 31, 2013: $267.1 million) for future development costs and excluded $2.0 million (March 31, 2013: $1.9 million) for estimated salvage to its costs subject to depletion and depreciation.

For the three months ended March 31, 2014, Delphi capitalized $1.3 million (December 31, 2013: $2.0 million) of general and administrative expenses and $0.5 million (December 31, 2013: $1.3 million) of share-based compensation expense directly related to exploration and development activities.

For the year ended December 31, 2013, the Company recognized $15.3 million of impairments relating to its Hythe, Berland River, Miscellaneous Alberta and NEBC 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 twelve to 20 percent.

8) LONG TERM DEBT AND SUBORDINATED DEBT

	March 31, 2014	December 31, 2013
Senior Credit Facility		
Prime-based loans	**7,000**	2,000
Bankers' acceptances, net of discount	**98,710**	97,880
	105,710	99,880
Subordinated debt, net of finance costs	**19,911**	19,807
Total	**125,621**	119,687

The annual review of the Company's senior extendible revolving term credit facility was conducted during the first quarter of 2014 resulting in a $30.0 million increase in the borrowing base to $170.0 million.

The Company's senior extendible revolving term credit facility with a syndicate of Canadian chartered banks is subject to the banks' semi-annual review 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 25, 2015 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, 2016. 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 net 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.

The syndicated credit facility is secured by a $300.0 million demand floating charge debenture and a general security agreement over all assets of the Company.

A semi-annual review of the Company's $170.0 million extendible revolving term credit facility will be conducted during the fourth quarter of 2014. 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 subordinated demand credit facility with a Canadian energy and resource lender. The debt is secured by the Company's assets and is subordinate to the Company's senior credit facility. The debt has a maturity date of December 31, 2014 and may be extended at the option of Delphi for an additional six months, subject to the Company being compliant with the financial covenants of the facility.

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.

The senior credit facility and the subordinated demand credit facility are subject to the following financial covenants:

Financial covenant	**Requirement**	**As at March 31, 2014**	**Facility subject to financial covenant**
Adjusted working capital ratio	>1.0 : 1	**1.6**	Senior, Subordinated
Net debt to equity ratio	< 0.75 : 1	**0.7**	Subordinated
Net debt to funds from operations ratio			
March 31, 2014	< 3.0 : 1	**1.9**	Subordinated
December 31, 2014	< 2.8 : 1	**N/A**	Subordinated

For the purpose of the financial covenants, the following definitions are applicable:

Adjusted working capital ratio

Current assets include the undrawn portion of the senior credit facility and exclude the current portion of the fair value of financial instruments. Current liabilities exclude the current portion of long term debt and subordinated debt and the current portion of the fair value of financial instruments.

Net debt to equity ratio

Net debt is defined as long term debt and subordinated debt plus (minus) the working capital deficit (surplus) excluding the current portion of the fair value of financial instruments. Equity is equivalent to shareholders' equity.

Net debt to funds from operations ratio

Net debt is defined as long term debt and subordinated debt plus (minus) the working capital deficit (surplus) excluding the current portion of the fair value of financial instruments. Funds from operations is defined as cash flow from operating activities before accretion of long term and subordinated debt, decommissioning expenditures and changes in non-cash working capital from operating activities. Delphi's most recently completed quarter's funds from operations is annualized (multiplied by four) for the calculation of this ratio.

Delphi is in compliance with all covenants as at March 31, 2014.

9) SHARE CAPITAL

Delphi is authorized to issue an unlimited number of common shares. All shares are issued as fully paid and non-assessable and have no par value. The holders of common shares are entitled to receive dividends as declared by the Company and are also entitled to one vote per share.

(a) Issued and outstanding	**March 31, 2014**		December 31, 2013	
	Outstanding shares (000's)	**Amount**	Outstanding shares (000's)	Amount
Balance, beginning of period	**153,254**	**305,027**	153,049	304,816
Issued on exercise of stock options	**1,172**	**1,079**	205	141
Transferred on exercise of options	**-**	**482**	-	70
Balance, end of period	**154,426**	**306,588**	153,254	305,027

For the three months ended March 31, 2014, a total of 1.2 million stock options were exercised. The weighted average share trading price of the Company's common shares at the dates of exercise ranged from $1.88 to $2.56. As at March 31, 2014, 11.7 million stock options were outstanding with a weighted average exercise price of $1.63.

(b) Net earnings per share

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

As at March 31,	**2014**	2013
Weighted average common shares - basic	**153,852**	153,070
Dilutive effect of share options outstanding	**3,537**	316
Weighted average common shares - diluted	**157,389**	153,386

For the three months ended March 31, 2014, a total of 8.2 million share options (March 31, 2013: 10.6 million) were excluded from the calculation as they were anti-dilutive.

10) SUPPLEMENTAL CASH FLOW INFORMATION

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

For the three months ended March 31,	**2014**	2013
Source (use) of cash		
Accounts receivable	**(7,560)**	(3,493)
Prepaid expenses and deposits	**2,286**	119
Outstanding cheques	**-**	2,964
Accounts payable and accrued liabilities	**16,214**	13,470
Total change in non-cash working capital	**10,940**	13,060
Relating to:		
Operating activities	**2,977**	1,918
Financing activities	**-**	(212)
Investing activities	**7,963**	11,354
	10,940	13,060

DIRECTORS

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Delphi Energy Corp.

Tony Angelidis
Senior Vice President Exploration
Delphi Energy Corp.

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Independent Businessman

David Sandmeyer (2)
Director
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Lamont C. Tolley (1) (2)
Independent Businessman

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

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LEGAL COUNSEL

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BANKERS

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The Bank of Nova Scotia
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INDEPENDENT ENGINEERS

GLJ Petroleum Consultants Ltd.

STOCK EXCHANGE LISTING

Toronto Stock Exchange – DEE

TRANSFER AGENT

Olympia Trust Company

ABBREVIATIONS

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