INDEPENDENT AUDITORS' REPORT

To the Shareholders of Delphi Energy Corp.

We have audited the accompanying consolidated financial statements of Delphi Energy Corp., which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Delphi Energy Corp. as at December 31, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP
Chartered Accountants

March 17, 2015
Calgary, Canada

DELPHI ENERGY CORP.

Consolidated Statements of Financial Position

(thousands of dollars)	**December 31 2014**	December 31 2013
Assets		
Current assets		
Cash and cash equivalents	**3,130**	2,362
Accounts receivable (Note 6)	**18,518**	20,254
Prepaid expenses and deposits	**3,099**	4,605
Fair value of financial instruments (Note 4)	**16,873**	-
	41,620	27,221
Fair value of financial instruments (Note 4)	**3,203**	-
Exploration and evaluation (Note 7)	**18,609**	24,666
Property, plant and equipment (Note 8)	**418,317**	399,793
Total assets	**481,749**	451,680
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	**41,097**	45,477
Decommissioning obligations (Note 12)	**477**	397
Fair value of financial instruments (Note 4)	**-**	4,794
Subordinated debt (Note 11)	**19,547**	19,807
	61,121	70,475
Restricted share units	**306**	629
Long term debt (Note 11)	**137,281**	99,880
Fair value of financial instruments (Note 4)	**-**	1,062
Decommissioning obligations (Note 12)	**49,573**	42,289
Deferred income taxes (Note 13)	**3,244**	5,119
Total liabilities	**251,525**	219,454
Shareholders' equity		
Share capital (Note 14)	**309,342**	305,027
Contributed surplus	**17,609**	16,663
Deficit	**(96,727)**	(89,464)
Total shareholders' equity	**230,224**	232,226
Total liabilities and shareholders' equity	**481,749**	451,680

Commitments (Note 18)
Subsequent event (Note 4)
See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Directors:

(signed) "Stephen Mulherin"
Stephen Mulherin
Director

(signed) "Andrew E. Osis"
Andrew E. Osis
Director

DELPHI ENERGY CORP.

Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2014 and 2013

(thousands of dollars, except per share amounts)	**2014**	2013
Revenues		
Crude oil and natural gas sales	**163,870**	100,430
Royalties	**(24,664)**	(13,159)
	139,206	87,271
Realized gain (loss) on financial instruments (Note 4)	**(9,014)**	672
Unrealized gain (loss) on financial instruments (Note 4)	**25,932**	(1,854)
	156,124	86,089
Expenses		
Operating	**36,118**	25,482
Transportation	**13,927**	10,640
Exploration and evaluation (Note 7)	**3,634**	315
General and administrative	**5,358**	6,206
Share-based compensation (Note 14)	**3,295**	2,784
Gain on property dispositions (Note 8)	**(8,134)**	(3,137)
Loss on decommissioning	**433**	527
Depletion, depreciation and impairment (Note 8)	**101,477**	51,318
	156,108	94,135
Finance costs (Note 15)	**9,154**	7,240
Loss before income taxes	**(9,138)**	(15,286)
Income taxes		
Deferred income taxes recovery (Note 13)	**(1,875)**	(3,659)
Net loss and comprehensive loss	**(7,263)**	(11,627)
Net loss per share (Note 14)		
Basic and diluted	**(0.05)**	(0.08)

See accompanying notes to the consolidated financial statements.

DELPHI ENERGY CORP.

Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2014 and 2013

(thousands of dollars)	2014	2013
Share capital		
Common shares		
Balance, beginning of year	**305,027**	304,816
Issued on exercise of options	**2,947**	141
Transferred on exercise of options	**1,368**	70
Balance, end of year	**309,342**	305,027
Contributed surplus		
Balance, beginning of year	**16,663**	14,608
Share-based compensation	**2,314**	2,125
Transferred on exercise of options	**(1,368)**	(70)
Balance, end of year	**17,609**	16,663
Deficit		
Balance, beginning of year	**(89,464)**	(77,837)
Net loss	**(7,263)**	(11,627)
Balance, end of year	**(96,727)**	(89,464)
Total shareholders' equity	**230,224**	232,226

See accompanying notes to the consolidated financial statements.

DELPHI ENERGY CORP.

Consolidated Statements of Cash Flows
For the years ended December 31, 2014 and 2013

(thousands of dollars)	**2014**	2013
Cash flow from (used in) operating activities		
Net loss	**(7,263)**	(11,627)
Adjustments for:		
Depletion, depreciation and impairment	**101,477**	51,318
Accretion and finance charges	**1,562**	1,170
Share-based compensation	**1,257**	2,354
Gain on property dispositions	**(8,134)**	(3,137)
Exploration and evaluation	**3,634**	315
Loss on decommissioning	**433**	527
Unrealized loss (gain) on financial instruments	**(25,932)**	1,854
Deferred income taxes recovery	**(1,875)**	(3,659)
Accretion of subordinated debt and long term debt	**(332)**	(298)
Decommissioning expenditures	**(1,160)**	(1,651)
Change in non-cash working capital (Note 19)	**10,369**	(5,783)
	74,036	31,383
Cash flow from (used in) financing activities		
Finance lease obligation	**-**	(1,641)
Exercise of options	**2,947**	141
Issue of subordinated debt	**-**	20,000
Increase in long term debt	**37,078**	15,462
Change in non-cash working capital (Note 19)	**-**	212
	40,025	34,174
Cash flow available for investing activities	**114,061**	65,557
Cash flow from (used in) investing activities		
Additions to exploration and evaluation	**(44,864)**	(16,902)
Acquisitions of exploration and evaluation	**(8,800)**	(12,135)
Additions to property, plant and equipment	**(55,987)**	(55,054)
Disposition of property, plant and equipment	**16,615**	3,319
Acquisition of property, plant and equipment (Note 9)	**(8,858)**	(1,529)
Change in non-cash working capital (Note 19)	**(11,399)**	19,106
	(113,293)	(63,195)
Increase (decrease) in cash and cash equivalents	**768**	2,362
Cash and cash equivalents, beginning of year	**2,362**	-
Cash and cash equivalents, end of year	**3,130**	2,362
Cash interest paid	**6,792**	7,904

See accompanying notes to the consolidated 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 consolidated financial statements as at and for the year ended December 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 17, 2015.

(b) Basis of measurement and functional currency

The consolidated 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 consolidated 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 consolidated financial statements and accompanying notes. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated 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.

The following are 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 in these consolidated financial statements:

i) Identification of a cash generating unit ("CGU")

Delphi's assets are aggregated into CGUs for the purpose of calculating impairment based on their ability to generate largely independent cash inflows. CGUs have been determined based on similar geological structure, geographical proximity, production profiles and infrastructure of its assets. By nature, these assumptions are subject to management's judgment and may impact the carrying value of the Company's assets in future periods. The Company's CGUs could change in the future as a result of development, acquisition or disposition activity.

ii) Assessment of indicators of impairment

The Company assesses its oil and gas properties, including exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable. Determining if there are facts and circumstances present that indicate that the carrying values of the assets may not be recoverable requires management's judgment and analysis of the facts and circumstances.

For oil and gas properties, management considers changes in assumptions relating to future commodity prices, future costs and significant revisions of estimated recoverable reserves when assessing if indicators of impairment are present. For exploration and development assets, particularly undeveloped land, Delphi considers the expiration date of the leases, management's intention and ability to develop the land and if possible, current market prices. The above does not represent an exhaustive list but rather the most significant factors taken into consideration when assessing for indicators of impairment. An impairment test is performed if it is determined that indicators of impairment are present.

The following are key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities within the next financial year:

i) Depreciation and depletion

Management estimates the useful lives of production equipment and other assets based on the period during which the assets are expected to be available for use. For crude oil and natural gas properties, the estimated useful lives are based on proved and probable reserves as determined annually by the Company's independent engineers and internal estimates on a quarterly basis determined in accordance with National Instrument 51-101 ("NI 51-101") and the Canadian Oil and Gas Evaluation Handbook ("COGEH").

Calculations for the depletion of crude oil and natural gas properties are based on total capitalized costs plus estimated future development costs of proved and probable reserves less the estimated net realizable value of production equipment and facilities after the proved and probable reserves are fully produced.

ii) Recoverability of property, plant and equipment and exploration and evaluation

The assessment of any impairment of property, plant and equipment is dependent upon estimates of recoverable amount that take into account factors such as reserves, economic and market conditions, discount rates, timing of cash flows, the useful lives of assets and their related salvage values. In determining whether oil and gas properties are impaired, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less costs to sell and value in use.

The recoverable amount of Delphi's CGUs were estimated as their fair value less costs to sell based on the following information:

- the net present value, using pre-tax discount rates, of expected future cash flows based on proved and probable reserves as estimated by the Company's independent engineers; and
- the fair value of undeveloped land based on estimates provided by Delphi's independent land evaluator.

Key input estimates used in the determination of cash flows from oil and gas reserves include the following:

- Reserves - Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward commodity price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being adjusted.
- Oil and gas prices - Forward price estimates of oil and natural gas prices are used in the cash flow model. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.
- Discount rate - The discount rate used to calculate the net present value of cash flows is based on an estimate of acquisition metrics of 2014 transactions completed on similar assets to those contained within the relevant CGU. Changes in the general economic environment could result in significant changes to this estimate.

iii) Decommissioning obligations

Provisions for decommissioning obligations associated with the Company's drilling operations are based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and timing of cash outflows can differ from estimates because of changes in laws and regulations, public expectations, prices, discovery and analysis of site conditions, changes in clean up technology and changes in discount rates.

iv) Share-based compensation

The fair value of stock options granted is measured using a Black-Scholes option pricing model. Measurement inputs such as the expected volatility, expected life of the options and a forfeiture rate require management judgment and estimates. The Company estimates volatility based on weighted average historical traded daily volatility. The expected life of the options is estimated by using an average life for awards based on historical plan records. Management also makes an estimate of the number of options that will be forfeited based on historical information. The estimated forfeiture rate is adjusted to reflect actual forfeitures. Dividends are not taken into consideration as the Company does not expect to pay dividends.

v) Business combinations

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining fair value of property, plant and equipment, and exploration and evaluation assets acquired generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices, and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of the acquired assets and liabilities could impact the amounts assigned to assets and liabilities in the purchase price allocation.

vi) Deferred income taxes

Deferred income tax assets and liabilities are recognized for the estimated tax consequences between amounts included in the financial statements and their tax base using substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of the reversal of temporary differences and accordingly affect the amount of the deferred income tax asset or liability calculated at a point in time. These differences could materially impact earnings (loss).

Estimates of recoverable quantities of proved plus probable oil and natural gas reserves have an effect on a number of the items referred to above, in particular, the valuation of property, plant and equipment and the calculation of depletion and depreciation. There are numerous uncertainties inherent in estimating oil and natural gas reserves. Estimating reserves is very complex, requiring many judgments based on commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in these factors could have a material impact on the estimated reserves. These estimates may change, having either a negative or positive effect on the consolidated statement of earnings (loss) as further information becomes available and as the economic environment changes.

(d) Significant accounting policies, new and future accounting standards

The significant accounting policies applied by the Company in preparing these consolidated financial statements are detailed in note 20 followed by new and future accounting standards in note 21.

3) 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 is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2014 and December 31, 2013, the fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximated their carrying value due to their short term to maturity.

(b) Property, plant and equipment and exploration and evaluation assets:

The fair value of property, plant and equipment recognized in a business combination is based on market values. The market value of property, plant and equipment is the estimated amount for which property, plant and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests are estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally and internally prepared reserve reports. The market value of exploration and evaluation assets are estimated with reference to the market values of current arm's length transactions in comparable locations.

(c) Subordinated debt and long term debt:

The disclosure of the fair value of the Company's subordinated debt is measured at level 2 of the fair value hierarchy. The subordinated debt has a fair value of $19.6 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.

(d) 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.

(e) 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.

4) FINANCIAL RISK MANAGEMENT

The Company is exposed to market, credit and liquidity risks from its use of financial instruments. This note provides information about the Company's exposure to each of the above risks and the Company's policies and processes for measuring and managing risk. Risk management policies are ultimately established by the Board of Directors and implemented and monitored by senior management.

(a) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's net earnings (loss) or the value of the Company's financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Commodity price risk

Commodity price risk is the risk that the future cash flows will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can materially impact cash flows and the Company's borrowing base limit. Commodity prices for crude oil and natural gas are affected not only by world economic events that dictate the levels of supply and demand but also the relationship between the Canadian and United States ("U.S.") dollar, as outlined below. The Company has a commodity price risk management program in place whereby the commodity price associated with a portion of its future production is fixed. The Company sells forward a portion of its future production by entering into a combination of fixed price physical sales contracts with customers and derivative financial contracts with financial institutions. The Company generally enters into commodity contracts to a range of 40 – 70 percent of current production volumes when considered appropriate.

As at December 31, 2014, the Company had the following commodity derivative financial contracts which were recorded at fair value on the consolidated statement of financial position as a current asset of $16.9 million and a long term asset of $3.2 million (December 31, 2013 –current liability of $4.8 million and long term liability of $1.1 million) with changes in fair value of $25.9 million included in unrealized gain on financial instruments in the consolidated statement of loss.

Natural Gas Contracts

Time Period	Type of Contract	Quantity Contracted	Price ($/unit)		Reference
April 2013 – April 2015	Financial - fixed	3,000 GJ/d	$3.54	Cdn	AECO
April 2013 – December 2015	Financial - fixed	3,000 GJ/d	$3.27	Cdn	AECO
April 2013 – December 2016	Financial - fixed	3,000 GJ/d	$3.40	Cdn	AECO
June 2013 – December 2016	Financial - fixed	6,000 GJ/d	$3.45	Cdn	AECO
January 2015 – December 2015	Financial - fixed	2,500 GJ/d	$3.67	Cdn	AECO
January 2015 – December 2015	Financial - fixed	5,000 GJ/d	$3.69	Cdn	AECO
January 2015 – December 2015	Financial - fixed	2,500 GJ/d	$3.80	Cdn	AECO
January 2015 to March 2015	Physical – fixed	3,000 mmbtu/d	$4.21	U.S.	Chicago
April 2015 – October 2015	Financial - fixed	5,000 GJ/d	$3.23	Cdn	AECO
April 2015 – October 2015	Financial - fixed	2,500 GJ/d	$3.49	Cdn	AECO
April 2015 – October 2015	Financial - fixed	2,500 GJ/d	$3.62	Cdn	AECO
May 2015 – October 2015	Financial - fixed	3,000 GJ/d	$3.20	Cdn	AECO
January 2016 – December 2016	Financial - fixed	2,500 GJ/d	$3.69	Cdn	AECO
January 2017 – December 2017	Financial - fixed	2,500 GJ/d	$3.75	Cdn	AECO
January 2016 – December 2017	Financial - fixed	5,000 mmbtu/d	$3.86	U.S.	NYMEX

Crude Oil Contracts

Time Period	Type of Contract	Quantity Contracted	Floor Price ($/unit)	Reference
January 2015 – December 2015	Crude Oil – put option [(1)]	1,220 bbls/d	$80.00 Cdn	WTI

(1) Delphi has two put option contracts for 250 bbls/d each at a floor price of $100.85 Cdn and $101.00 Cdn, respectively, acting as the purchaser of the put contracts. In exchange for the put contract entered into for the calendar year of 2015 for 1,220 bbls/d at a strike price of $80.00 per barrel, Delphi entered into an additional two put contracts with the same counterparty for 250 bbls/d each at a floor price of $100.85 Cdn and $101.00 Cdn, respectively, acting as the seller of the put contracts.

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

For the year ended December 31, 2014, the derivative commodity contracts resulted in realized losses of $9.0 million (December 31, 2013 - $0.7 million gain) that have been included in the consolidated statement of loss as a realized loss on financial instruments.

As at December 31, 2014, a decrease in crude oil price of $1.00 per barrel would result in an increase in the fair value of the oil commodity contracts of $365 thousand ($274 thousand after tax) and an equal decrease to the net loss for the year. As at December 31, 2014, a decrease in gas price of $0.10 per gigajoule would result in an increase in the fair value of the gas commodity contracts of $3.4 million ($2.6 million after tax) and an equal decrease to the net loss for the year.

As at December 31, 2014, Delphi had entered into contracts to deliver an average of 17,500 GJ/d for January 2015 at an average price of $3.33 per gigajoule.

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

Natural Gas

Time Period	Type of Contract	Quantity Contracted	Price ($/unit)		Reference
February 2015 - March 2015	Physical – fixed	8,814 GJ/d	$2.65	Cdn	AECO
April 2015	Physical – fixed	10,000 GJ/d	$2.54	Cdn	AECO
April 2015 – October 2015	Physical – fixed	6,000 mmbtu/d	$2.84	U.S.	Chicago
April 2015 – October 2015	Financial – fixed	2,000 GJ/d	$2.71	Cdn	AECO
November 2015	Physical – fixed	6,000 mmbtu/d	$3.27	U.S.	Chicago
December 2015 – December 2016	Financial - fixed	5,000 mmbtu/d	$3.45	U.S.	NYMEX
December 2015 – December 2018	Financial - fixed	10,000 mmbtu/d	$3.56	U.S.	NYMEX

Crude Oil

Time Period	Type of Contract	Quantity Contracted	Price ($/unit)		Reference
January 2016 – December 2018	Financial – fixed	200 bbls/d	$78.46	Cdn	WTI
January 2016 – December 2018	Financial – fixed	200 bbls/d	$78.35	Cdn	WTI
January 2016 – December 2018	Financial – collar [(1)]	400 bbls/d	$78.60 - $85.00	Cdn	WTI

(1) The collar has a deferred cost of $4.02 per barrel.

Currency risk

Although substantially all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, commodity prices are largely denominated in U.S. dollars and as a result the prices that Canadian producers receive are influenced by the relationship between the Canadian and U.S. dollar. The exchange rate effect cannot be quantified but generally an increase in the value of the Canadian dollar as compared to the U.S. dollar will reduce the prices received by the Company for its crude oil and natural gas sales. At December 31, 2014, the Company had $1.0 million in U.S. dollars included in cash and cash equivalents on the consolidated statement of financial position. The Company had no foreign exchange rate swap or related financial contracts in place as at December 31, 2014.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Delphi is exposed to interest rate risk as the interest charged on its long term senior credit facility is at a floating rate and consequently changes in market interest rates will have an effect on the Company's cash flow.

Interest rate risk is partially mitigated through short term fixed rate borrowings using bankers' acceptances. The Company has an interest rate swap transaction on borrowings through bankers' acceptances in the amount of $20.0 million which matured on February 28, 2015. The swap transaction has a fixed interest rate of 1.25 percent.

As at December 31, 2014, the interest risk management contract was recorded on the consolidated statement of financial position as an asset of $2.0 thousand (December 31, 2013 – $2.0 thousand liability).

During 2014, had the interest rate charged on the Company's long term debt been one percent higher, the net loss would have increased by $1.4 million ($1.0 million after tax).

Offsetting financial assets and financial liabilities

As at December 31, 2014, the following derivative financial assets and financial liabilities were offset on the consolidated statement of financial position:

	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Offset	Net Amounts of Financial Assets Recognized
Risk management contracts			
Current asset	23,354	(6,481)	16,873
Long term asset	3,203	-	3,203
Net asset	**26,557**	**(6,481)**	**20,076**

(b) Credit risk

Credit risk represents the risk of financial loss to the Company if customers or counterparties to a financial instrument fail to meet their contractual obligations and arise principally from the Company's receivables from joint interest partners, crude oil and natural gas marketers and financial intermediaries.

All of the Company's accounts receivable are with customers and joint interest partners in the oil and gas industry and are subject to normal industry credit risks. Receivables from joint interest partners are typically collected within one to three months of the joint venture bill being issued. The Company attempts to mitigate the risk related to joint interest receivables by obtaining partner pre-approval of significant capital expenditures prior to expenditure. However, partners are exposed to various crude oil and natural gas industry and market risks that could result in non-collection. In addition, further risk exists with joint interest partners as disagreements occasionally arise that increases the potential for non-collection.

Receivables from crude oil and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers. The Company historically has not experienced any collection issues with large purchasers. Concentration of credit risk is mitigated by marketing production to several purchasers under normal industry sale and payment terms.

The Company does not typically obtain collateral from crude oil and natural gas marketers or joint interest partners, however, the Company does have the ability to request pre-payment of certain major capital expenditures and withhold production from joint interest partners in the event of non-payment.

With respect to counterparties to financial commodity contracts, the Company partially mitigates associated credit risk by limiting transactions to counterparties with investment grade credit ratings.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. Delphi sells substantially all of its production to seven primary purchasers under standard industry sale and payment terms. As at December 31, 2014, the Company's receivables included $9.2 million of receivables from crude oil and natural gas marketers which has been collected subsequent to December 31, 2014. As at December 31, 2014, approximately $1.0 million of the Company's receivables past the due date are from various joint interest partners.

Although the accounts from joint interest partners are past due, they are still deemed collectible. The Company does not have an allowance for doubtful accounts as at December 31, 2014.

Delphi's accounts receivables are aged as follows.

	December 31, 2014	December 31, 2013
Current (less than 30 days)	**16,496**	16,081
Past due (31-90 days)	**930**	3,680
Past due (more than 90 days)	**1,092**	493
Total	**18,518**	20,254

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities that are settled by cash as they become due. The Company's financial liabilities arise through the cost of operations and the capital program in order to maintain or increase production and develop reserves, the acquisition of crude oil and natural gas assets, financial instrument contracts and borrowings under the Company's credit facilities.

The Company generates a certain level of cash flow from operations which is used to partially fund all operating, investing and capital activities. Delphi attempts to match its payment cycle with the collection of petroleum and natural gas revenues on the 25th of each month. In addition, the Company has a 364 day revolving credit facility in the amount of $190.0 million with a syndicate of Canadian chartered banks with a one year term-out provision (see note 11). The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

The expected timing of cash flows relating to financial liabilities as at December 31, 2014 is as follows:

Financial liabilities	**Carrying amount**	**< 1 Year**	**1 – 2 Years**	**3 – 5 Years**	**Thereafter**
Accounts payable and accrued liabilities [(1)]	40,215	40,215	-	-	-
Restricted share units	1,188	882	262	44	-
Subordinated debt	19,547	-	20,300	-	-
Long term debt [(2)]	137,281	-	138,000	-	-
Total	198,231	41,097	158,562	44	-

(1) Excludes the current portion of the restricted share units as they are disclosed separately on this table.

(2) Long term debt is based on a revolving term which is reviewed semi-annually and converts to a 365 day non-revolving term facility if not renewed.

5) CAPITAL MANAGEMENT

The Company's policy is to ensure a strong capital base so as to maintain investor, creditor and capital market confidence and to sustain future development of the business. The Company's objective in managing its capital is to ensure adequate and appropriate sources of capital are available to execute a capital investment program while maintaining a flexible overall capital structure. Maintaining a flexible capital structure is important due to the inherent risks in oil and gas operations and the volatility of commodity prices.

The Company considers share capital and net debt, being the sum of subordinated debt, long term debt and current liabilities less current assets (excluding the fair value of financial instruments), as the components of capital to be managed.

The key measure used by the Company to evaluate its capital structure is the ratio of net debt to funds from operations. 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. This ratio represents the time period required to repay the Company's net debt from funds generated from operations on the assumption there are no further capital expenditures incurred and funds from operations remain constant. The measure is often calculated on an annualized most recent quarter basis to provide a more current view of the Company's capital structure.

Net debt and funds from operations are considered non-IFRS terms.

At December 31, 2014, net debt was $173.7 million and annualized funds from operations based on the fourth quarter was $63.5 million resulting in a net debt to funds from operations ratio of 2.7:1. This ratio may increase at certain times as a result of acquisitions, the timing of capital expenditures or change in commodity prices.

In order to facilitate the management of this ratio, the Company prepares annual funds from operations and capital expenditure forecasts, which are updated as necessary throughout the year and are reviewed and periodically approved by Delphi's Board of Directors. The Company manages its capital structure by keeping abreast of current and forecast economic conditions and commodity prices, particularly natural gas prices and the cost of oilfield services. Additionally, the Company establishes internal processes to monitor and estimate planned capital expenditures, forecast funds from operations and current and forecast net debt levels.

The Company maintains an active risk management program as an integral part of its capital management strategy to mitigate the volatility in funds from operations resulting from fluctuating commodity prices. The net debt to funds from operations ratio is the key driver in determining whether to maintain or alter the capital structure. To alter the capital structure of the Company, consideration is given to the level of credit available under current credit facilities, the proceeds on disposition of properties, the amount of the planned capital expenditure program and the offering of new common share equity if available on acceptable terms. There were no changes in the Company's approach to capital management during the period.

The Company's share capital is not subject to external restrictions, however, the Company's credit facilities do contain financial covenants that are outlined in note 11.

6) ACCOUNTS RECEIVABLE

Accounts receivable is comprised as follows:

	December 31, 2014	December 31, 2013
Revenue	**12,889**	12,989
Joint partners	**4,661**	2,744
Other [1]	**968**	4,521
Total	**18,518**	20,254

[1] This balance is due from government agencies for input tax and royalty credits. Approximately $0.8 million has been collected subsequent to December 31, 2014.

7) 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	44,864
Acquisitions	8,800
Expense	(3,634)
Transfer to oil and gas properties	(56,087)
Balance as at December 31, 2014	**18,609**

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

During the year, Delphi added $44.9 million of exploration and evaluation expenditures related to developing the Montney formation at Bigstone. During the third quarter of 2014, Delphi acquired eight gross (3.5 net) sections of Montney rights at East Bigstone for a purchase price of $8.8 million after closing adjustments. During 2014, $56.1 million of exploration and evaluation assets were transferred to property, plant and equipment following the successful discovery of proven and probable reserves. During the year, the Company expensed $3.6 million of exploration and evaluation assets as management does not intend to extend the leases of certain lands in the Company's Bigstone, Wapiti and Miscellaneous Alberta areas.

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. In 2013, the Company expensed $0.3 million of exploration and evaluation assets as management did not intend to extend the leases of certain lands in the Company's North East British Columbia ("NEBC") area.

8) 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	35,388	22,353	151	57,892
Acquisitions	10,356	1,070	-	11,426
Decommissioning obligations	3,695	719	-	4,414
Dispositions	(25,818)	(1,071)	-	(26,889)
Transfer from exploration and evaluation assets	56,087	-	-	56,087
Balance as at December 31, 2014	**693,902**	**73,383**	**1,036**	**768,321**

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	(43,444)	(1,357)	(128)	(44,929)
Dispositions	16,522	549	-	17,071
Impairment losses	(53,212)	(3,336)	-	(56,548)
Balance as at December 31, 2014	**(331,596)**	**(17,778)**	**(630)**	**(350,004)**
Net book value as at December 31, 2014	**362,306**	**55,605**	**406**	**418,317**
Net book value as at December 31, 2013	362,732	36,678	383	399,793

Delphi's credit facilities are secured by a demand floating charge debenture and a general security agreement over all assets.

Delphi has included $391.4 million (December 31, 2013 - $321.9 million) for future development costs and excluded $5.7 (December 31, 2013 - $5.2 million) for estimated salvage from the depletion and depreciation calculation for the three months ended December 31, 2014.

For the year ended December 31, 2014, Delphi capitalized $2.8 million (December 31, 2013 - $2.0 million) of general and administrative expenses and $0.9 million (December 31, 2013 - $1.3 million) of share-based compensation expense directly related to exploration and development activities.

During the third quarter of 2014, Delphi received proceeds of $15.8 million for the sale of certain interests in its Hythe CGU with a net book value of $8.5 million, including decommissioning liabilities of $2.8 million, resulting in a gain of $7.3 million. During the third quarter of 2014, Delphi exchanged assets with a net book value of $69 thousand for assets with a fair value of $1.3 million, resulting in a gain of $1.2 million. In the fourth quarter of 2014, Delphi received proceeds of $0.8 million for the sale of minor interests in its Hythe and Miscellaneous Alberta CGUs. The interests sold had a net book value of $1.2 million, including decommissioning liabilities of $56 thousand, resulting in a loss on disposition of $0.4 million.

During 2013, Delphi received proceeds of $3.3 million for oil and gas properties with a net book value of $227.0 thousand and decommissioning liabilities of $54 thousand, resulting in a gain of $3.1 million.

For the year ended December 31, 2014, Delphi recognized $56.5 million of impairments relating to its Hythe, Wapiti, Berland River and Miscellaneous Alberta CGUs. The impairments were based on the difference between the period end carrying value of the CGUs 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 15 to 20 percent.

The following independent reserves evaluators' price estimates were used in the determination of future cash flows for the impairment test:

	Crude Oil		Natural Gas Liquids			Natural Gas	
Year	West Texas Intermediate (US$/bbl)	Edmonton Par (Cdn$/bbl)	Edmonton Propane (Cdn$/bbl)	Edmonton Butane (Cdn$/bbl)	Edmonton Pentanes Plus (Cdn$/bbl)	AECO spot (Cdn$/mmbtu)	Exchange rate $US/$Cdn
2015	62.50	64.71	19.63	52.91	69.24	3.31	0.850
2016	75.00	80.00	32.00	60.80	85.60	3.77	0.875
2017	80.00	85.71	38.57	65.14	91.71	4.02	0.875
2018	85.00	91.43	41.14	69.49	97.83	4.27	0.875
2019	90.00	97.14	43.71	73.83	103.94	4.53	0.875
2020	95.00	102.86	46.29	78.17	110.06	4.78	0.875
2021	98.54	106.18	47.78	80.70	113.62	5.03	0.875
2022	100.51	108.31	48.74	82.31	115.89	5.28	0.875
2023	102.52	110.47	49.71	83.96	118.20	5.53	0.875
2024	104.57	112.67	50.70	85.63	120.56	5.71	0.875
Thereafter [(1)]	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	Thereafter [(1)]

[(1)] Percentage change of 2% represents the change in future prices each year after 2024 to the end of the reserve life.

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 CGUs 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 12 to 20 percent.

9) BUSINESS ACQUISITION

On October 1, 2014, Delphi acquired production and a natural gas processing facility in West Bigstone for a cash purchase price of $8.9 million after closing adjustments. The acquisition complements Delphi's existing West Bigstone assets and provides Delphi with direct-to-sales infrastructure for future Montney development at West Bigstone.

In accordance with IFRS, a property acquisition is accounted for as a business combination when certain criteria are met, such as the acquisition of inputs and processes to convert those inputs into beneficial outputs. Delphi assessed the property acquisition and determined that it constitutes a business combination under IFRS as the acquisition consists of producing properties and a natural gas processing facility.

The estimated fair value of the property, plant and equipment acquired was determined using internal estimates. The decommissioning liabilities assumed were determined using the timing and estimated costs associated with the abandonment, restoration and reclamation of the wells and facility acquired.

A summary of the acquired property is provided below:

Estimated fair value of acquired properties:	
Oil and natural gas properties	10,356
Property, plant and equipment	1,070
Decommissioning liabilities	(2,568)
Total	**8,858**
Cash consideration	**8,858**

The acquired assets have generated revenues of $1.0 million and operating income of $0.7 million since the acquisition date. On a proforma basis, had the acquisition taken place on January 1, 2014, additional revenues of $5.5 million and operating income of $2.4 million would have been recognized. Proforma information is not necessarily indicative of future revenues and operations.

10) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised as follows:

	December 31, 2014	December 31, 2013
Trade	**10,756**	8,469
Royalties	**2,346**	2,115
Joint partners	**6,174**	5,849
Capital	**21,728**	28,500
Other	**93**	544
Total	**41,097**	45,477

11) LONG TERM DEBT AND SUBORDINATED DEBT

	December 31, 2014	December 31, 2013
Senior Credit Facility		
Prime-based loans	**38,000**	2,000
Bankers' acceptances, net of discount	**99,281**	97,880
	137,281	99,880
Subordinated debt, net of finance costs	**19,547**	19,807
Total	**156,828**	119,687

The semi-annual review of the Company's senior extendible revolving term credit facility was conducted during the fourth quarter of 2014 resulting in a $20.0 million increase in the borrowing base to $190.0 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 would be 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.

The annual review of the Company's $190.0 million extendible revolving term credit facility will be conducted prior to May 25, 2015. The borrowing base of the facilities will be based on the lenders' evaluation of the Company's petroleum and natural gas reserves at the time and commodity prices. A decrease in the borrowing base could result in a reduction to the credit facility, which may require a repayment to the lenders.

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 subordinated debt had an original maturity date of December 31, 2014 but was extended during the fourth quarter of 2014 to a maturity date of June 30, 2016.

The subordinated debt has been classified as a current liability as it is secured by a $25.0 million demand floating charge debenture. The Company believes the lender has no intention of demanding repayment of the subordinated debt before the maturity date of June 30, 2016. At maturity, the Company expects to repay the subordinated debt through borrowings under its senior credit facility.

The subordinated debt had an annual coupon rate of 8.5 percent with interest payable monthly. The renewed terms of the subordinated debt has an annual coupon rate of 10.5 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 December 31, 2014**	**Facility subject to financial covenant**
Adjusted working capital ratio	≥ 1.0 : 1.0	1.9	Senior, Subordinated
Net debt to equity ratio [(1)]	< 1.0 : 1.0	0.8	Subordinated
Net debt to funds from operations ratio	≤ 2.8 : 1.0	2.7	Subordinated

(1) Under the renewed terms of the subordinated debt, the requirement for this ratio was increased to be less than 1.0 : 1.0 from 0.75 : 1.0.

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 December 31, 2014.

12) DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from working interests in crude oil and natural gas assets including well sites, gathering systems and processing facilities. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future years. The Company estimates the undiscounted total future liability of $73.2 million (December 31, 2013 - $72.8 million) to be settled over the next 63 years. A risk-free rate between 1.01 percent to 2.33 percent (December 31, 2013 - 1.13 percent to 3.2 percent) and an inflation rate of 2.5 percent were used to calculate the estimated fair value of the decommissioning obligations.

In 2013, the Company revised its estimates to abandon and reclaim its crude oil and natural gas properties. The revisions were made in accordance with the Alberta Energy Regulator's guidance for abandonment and reclamation costs updated during the year.

A reconciliation of the decommissioning obligations is provided below:

	December 31, 2014	December 31, 2013
Balance, beginning of year	**42,686**	35,713
Liabilities incurred	**1,138**	604
Liabilities acquired	**2,568**	-
Liabilities disposed	**(2,859)**	(54)
Liabilities settled	**(727)**	(1,124)
Accretion expense	**1,166**	1,013
Change in estimate [1]	**6,078**	6,534
	50,050	42,686
Current portion	**(477)**	(397)
Balance, end of year	**49,573**	42,289

[1] At the date of acquisition, decommissioning liabilities are determined at fair value for the purpose of calculating the purchase price allocation. The decommissioning liabilities acquired through a business combination have been revalued using a risk-free discount rate in accordance with IFRS.

13) DEFERRED INCOME TAXES

The provision for income taxes differs from the expected amount calculated by applying the combined Federal and Provincial corporate income tax rates to Delphi's loss before taxes. This difference results from the following items:

	December 31, 2014	December 31, 2013
Loss before income taxes	**(9,138)**	(15,286)
Statutory tax rate	**25%**	25%
Expected income tax recovery	**(2,285)**	(3,822)
Stock-based compensation and other non-deductible items	**445**	397
Other	**(35)**	417
Flow-through common shares	**-**	(651)
Total deferred income taxes recovery	**(1,875)**	(3,659)

Non capital losses of $99.8 million will expire in years 2028 through to 2030.

The components and the changes in deferred income tax assets and liabilities for the years ended December 31, 2014 and 2013 are as follows:

	Balance December 31, 2013	Recognized in net loss	**Balance December 31, 2014**
Deferred income tax assets:			
Decommissioning obligations	10,672	1,841	**12,513**
Restricted share units	405	(108)	**297**
Non capital losses	24,938	-	**24,938**
Share issue costs	579	(291)	**288**
Risk management liability	1,464	(1,464)	**-**
Other	57	43	**100**
Deferred income tax liabilities:			
Risk management asset	-	(5,019)	**(5,019)**
Exploration and evaluation and property, plant and equipment	(43,234)	6,873	**(36,361)**
Net deferred income tax liability	(5,119)	1,875	**(3,244)**

	Balance December 31, 2012	Recognized in net loss	Other	Balance December 31, 2013
Deferred income tax assets:				
Decommissioning obligations	8,924	1,748	-	10,672
Restricted share units	74	331	-	405
Attributed Canadian Royalty Income	361	(361)	-	-
Non capital losses	4,093	20,845	-	24,938
Share issue costs	945	(366)	-	579
Finance lease obligation	397	(397)	-	-
Risk management liability	1,000	464	-	1,464
Other	33	24	-	57
Deferred income tax liabilities:				
Exploration and evaluation and property, plant and equipment	(21,953)	(18,629)	(2,652)	(43,234)
Net deferred income tax liability	(6,126)	3,659	(2,652)	(5,119)

14) 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	**December 31, 2014**		December 31, 2013	
	Outstanding shares (000's)	**Amount**	Outstanding shares (000's)	Amount
Balance, beginning of year	**153,254**	**305,027**	153,049	304,816
Issued on exercise of stock options	**2,223**	**2,947**	205	141
Transferred on exercise of options	**-**	**1,368**	-	70
Balance, end of year	**155,477**	**309,342**	153,254	305,027

(b) Share-based compensation

The Company has established a stock option plan under which it has granted options to acquire common shares to certain officers, directors, employees and key consultants. The plan provides for the granting of options of up to ten percent of the issued and outstanding common shares of the Company. Options issued under the plan have a term of five years to expiry. Options granted between September 1, 2009 and May 31, 2011 vest over a two-year period with one-third vesting six months after the date of grant and one-third on each of the first and second anniversary of the grant date. Options granted on May 31, 2011 to December 31, 2012 vest over a four-year period with one-fourth vesting on each of the first, second, third and fourth anniversary of the grant date. Options granted subsequent to December 31, 2012 vest over a three year period with one-third vesting on each of the first, second and third anniversary date of the grant. The exercise price of each option equals the five day weighted average of the market price of the Company's common shares, immediately preceding the date of the grant. As at December 31, 2014, a total of 15.5 million options to purchase shares were reserved and 12.7 million options to purchase shares were outstanding, leaving an additional 2.8 million available for future grants.

The following table summarizes the changes in the number of options outstanding and the weighted average exercise prices:

	December 31, 2014		December 31, 2013	
	Outstanding options (000's)	**Weighted average exercise price**	Outstanding options (000's)	Weighted average exercise price
Balance, beginning of year	**12,852**	**1.56**	9,055	1.81
Granted	**2,150**	**3.47**	5,050	1.18
Forfeited	**(48)**	**2.31**	(848)	1.79
Exercised	**(2,223)**	**1.33**	(205)	0.69
Expired	**-**	**-**	(200)	2.72
Balance, end of year	**12,731**	**1.92**	12,852	1.56
Exercisable, end of year	**5,310**	**1.88**	4,430	1.91

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2014:

	Options outstanding			Options exercisable	
Range of exercise price	Outstanding options (000's)	Weighted average exercise price	Weighted average remaining term (years)	Exercisable (000's)	Weighted average exercise price
$1.05 - $1.88	**7,625**	**1.25**	**2.77**	**2,857**	**1.31**
$1.89 - $2.71	**2,901**	**2.51**	**1.31**	**2,328**	**2.53**
$2.72 - $3.54	**2,120**	**3.44**	**4.16**	**125**	**2.90**
$3.55 - $4.37	**85**	**4.37**	**4.69**	**-**	**-**
Total	**12,731**	**1.92**	**2.69**	**5,310**	**1.88**

During 2014, a total of 2.2 million options were exercised. The weighted average share trading price of the Company's common shares at the dates of exercise ranged from $1.44 to $4.51.

The Company accounts for its share-based compensation using the fair value method for all stock options. For the year ended December 31, 2014, Delphi recognized share-based compensation expense of $2.3 million (December 31, 2013 - $2.1 million) related to its stock options, of which $0.7 million was capitalized (December 31, 2013: $0.7 million).

During the year ended December 31, 2014, the Company granted 2.2 million options (December 31, 2013: 5.1 million). The fair values of all options granted during the period are estimated at the date of grant using the Black-Scholes option pricing model. The weighted average fair value of options granted during the period was $1.20 per option (December 31, 2013 - $0.41 per option). The weighted average of the assumptions used in the Black-Scholes model to determine fair value were as follows:

For the years ended December 31,	**2014**	2013
Risk-free interest rate (%)	**1.2**	1.2
Expected life (years)	**3.4**	3.3
Forfeiture rate (%)	**11.5**	14.7
Expected volatility (%)	**46.7**	47.0

Effective May 3, 2011, the Company established a restricted share unit plan ("RSU"). Employees are eligible to receive RSU awards as approved by the Board of Directors. The RSU awards vest on each of the first, second and third anniversary of the award date at which time the employee will receive a cash payment equivalent to the number of RSUs vested multiplied by the Company's closing share price on the business day immediately preceding the vesting date.

For the year ended December 31, 2014, Delphi recorded $1.9 million (December 31, 2013: $2.0 million) of share-based compensation expense related to its RSUs, of which $0.2 million was capitalized (December 31, 2013: $0.6 million). As at December 31, 2014, Delphi has included $0.9 million (December 31, 2013: $1.0 million) in accounts payable and accrued liabilities related to the outstanding vested RSUs. The following table summarizes the changes in the number of outstanding RSUs:

	December 31, 2014	December 31, 2013
	Outstanding units (000's)	Outstanding units (000's)
Balance, beginning of year	**1,491**	1,281
Granted	**482**	723
Forfeited	**(24)**	(51)
Redeemed	**(659)**	(462)
Balance, end of year	**1,290**	1,491

(c) Net earnings (loss) per share

Net loss per share has been calculated based on a net loss of $7.3 million (2013 loss: $11.6 million) and the following weighted average common shares:

For the years ended December 31,	**2014**	2013
Weighted average common shares - basic	**154,839**	153,112
Dilutive effect of share options outstanding	**-**	-
Weighted average common shares - diluted	**154,839**	153,112

For the year ended December 31, 2014, a total of 12.7 million share options (2013: 12.9 million) were excluded from the calculation as they were anti-dilutive.

15) FINANCE COSTS

Finance costs is comprised of the following:

For the years ended December 31,	**2014**	2013
Interest on long term debt	**5,883**	5,323
Effective interest on subordinated debt	**2,105**	851
Accretion on decommissioning obligations	**1,166**	1,013
Finance charge on finance lease obligation	**-**	53
Total	**9,154**	7,240

16) NATURE OF EXPENSES

Delphi's consolidated statement of earnings (loss) is prepared primarily by nature of expense, with the exception of employee compensation costs which are included in both the operating and general and administrative expense line items. The following table details operating, general and administrative and employee compensation costs:

For the years ended December 31,	2014	2013
Operating	**35,210**	24,533
General and administrative	**2,722**	3,332
Employee compensation	**3,544**	3,823
Total	**41,476**	31,688

17) KEY MANAGEMENT COMPENSATION

Key management includes senior officers and directors (executive and non-executive) of the Company. The compensation paid or payable to key management is shown below:

For the years ended December 31,	2014	2013
Salaries and other short-term employee benefits	**2,577**	2,365
Long term incentive compensation	**294**	282
Share-based compensation (1)	**2,286**	2,095
Total	**5,157**	4,742

(1) Share-based compensation includes share options and RSUs.

18) COMMITMENTS

Delphi is committed to future minimum payments for natural gas gathering, processing and transmission, operating leases on compression equipment and office space. Delphi also has a lease for office space in Calgary, Alberta. Payments required under these commitments for each of the next five years are as follows:

	2015	2016	2017	2018	2019	Thereafter
Gathering, processing and transmission (1)	8,411	21,505	26,961	27,654	27,463	22,881
Office, equipment and software leases	2,102	1,414	991	-	-	-
Interest payments on subordinated debt	2,100	1,044	-	-	-	-
Total	12,613	23,963	27,952	27,654	27,463	22,881

(1) Balances denominated in US dollars have been translated at the December 31, 2014 exchange rate.

During the fourth quarter of 2014, Delphi entered into an agreement with Alliance Pipeline Ltd. for full path service to deliver up to 62.8 million cubic feet per day ("mmcf/d") of natural gas volumes by the end of 2017 into the Chicago gas market as follows:

	Dec. 2015 to Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Years 2018 - 2020
Volumes (mmcf/d)	35.3	40.3	45.3	50.3	50.3	55.3	60.3	62.8	62.8

Delphi's fourth quarter of 2014 average natural gas production was 49.9 mmcf/d.

19) SUPPLEMENTAL CASH FLOW INFORMATION

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

For the years ended December 31,	2014	2013
Source (use) of cash		
Accounts receivable	**1,736**	(4,004)
Prepaid expenses and deposits	**1,506**	(1,965)
Outstanding cheques	**-**	(883)
Accounts payable and accrued liabilities [1]	**(4,272)**	20,387
Total change in non-cash working capital	**(1,030)**	13,535

[1] Includes changes related to the long term portion of the RSUs.

	2014	2013
Relating to:		
Operating activities	**10,369**	(5,783)
Financing activities	**-**	212
Investing activities	**(11,399)**	19,106
	(1,030)	13,535

20) SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary and a partnership. Any reference to Delphi or the Company throughout these consolidated financial statements refers to the Company, its wholly-owned subsidiary and partnership. All inter-entity transactions and balances have been eliminated.

(b) Jointly controlled operations and assets

Certain of the Company's crude oil and natural gas activities are conducted jointly with others where the participants have a direct ownership interest in, and jointly control, the related assets. Accordingly, the accounts of Delphi reflect only its working interest share of revenues, expenses and capital expenditures related to these jointly controlled assets.

(c) Foreign currency transactions

Transactions in foreign currencies are translated to Canadian dollars at the exchange rate on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Foreign currency differences arising on translation are recognized in the consolidated statement of earnings (loss).

(d) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. All financial instruments, including all derivatives, are recognized on the consolidated statement of financial position at fair value at the time the Company becomes a party to the provisions of the contract. Subsequently, all financial assets and liabilities, except financial assets and liabilities carried at fair value through earnings or loss and available-for-sale, are measured at amortized cost determined using the effective interest method. Financial assets and liabilities carried at fair value through earnings or loss are measured at fair value with changes in fair value recognized in the consolidated statement of earnings (loss). Available-for-sale financial assets are measured at fair value with changes in fair value recognized in other comprehensive earnings and reclassified to earnings when derecognized or impaired. The Company does not hold any available-for-sale financial assets.

Transaction costs attributable to financial instruments carried at fair value through earnings or loss are expensed as incurred. All other transaction costs related to the Company's financial instruments are recorded as part of the instrument and are amortized using the effective interest method.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Company has the legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or if it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

The Company has the following classifications:

Financial Assets and Liabilities	**Category**	**Subsequent Measurement**
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Derivative instruments	Fair value through earnings or loss	Fair value through earnings or loss
Accounts payable and accrued liabilities	Financial liabilities	Amortized cost
Restricted share units	Fair value through earnings or loss	Fair value through earnings or loss
Subordinated debt	Other financial liabilities	Amortized cost
Long term debt	Other financial liabilities	Amortized cost

The Company has a risk management program whereby the commodity price associated with a portion of its future production volumes is fixed in order to mitigate cash flow volatility resulting from fluctuating commodity prices. The Company sells forward a portion of its future production volumes by entering into a combination of physical sale contracts with customers and derivative financial contracts such as fixed price contracts, costless collars and the purchase of floor price options with financial counterparties. These instruments are not used for trading or speculative purposes.

The Company has not designated its financial derivative contracts as effective accounting hedges and thus has not applied hedge accounting. As a result, financial derivatives are classified as fair value through earnings or loss and are recorded on the consolidated statement of financial position at fair value.

The Company accounts for its commodity sales and purchase contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the consolidated statement of financial position. Settlements on these physical sales contracts are recognized in crude oil and natural gas sales in the consolidated statement of earnings (loss).

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any taxes.

(e) Exploration and evaluation assets

Costs incurred before acquiring the legal right to explore in a specific area do not meet the definition of an asset and therefore are expensed by the Company as incurred.

Exploration and evaluation assets consist of expenditures incurred in an exploration area pending the determination of technical feasibility and commercial viability. Exploration and evaluation expenditures, including the costs of acquiring licenses, drilling exploratory wells and other directly attributable costs are capitalized and accumulated in cost centres by well, field or exploration area.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved plus probable reserves are determined to exist and are capable of economic production. A review of each exploration license or field is carried out, at each reporting period, to ascertain whether economic proved plus probable reserves have been discovered. Upon determination of total proved plus probable reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to property, plant and equipment. If an exploration and evaluation asset is determined to be unsuccessful, all associated costs are charged to the consolidated statement of earnings (loss) at that time.

Assets classified as exploration and evaluation are not subject to depletion and depreciation until they are reclassified to property, plant and equipment.

For exchanges or parts of exchanges that involve only exploration and evaluation assets, the exchange is accounted for at the carrying value of the asset given up and no gain or loss is recognized.

(f) Property, plant and equipment

i) Recognition and measurement

Items of property, plant and equipment, which include crude oil and natural gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Property, plant and equipment consist of costs to drill and complete development wells, infrastructure construction, successful exploration and evaluation assets and the related asset retirement obligation.

ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as crude oil and natural gas interests only when it is probable that the costs increase the future economic benefits embodied in the specific asset to which they relate. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved or proved plus probable reserves and bringing on or enhancing production from such reserves and are accumulated on a field or area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in the consolidated statement of earnings (loss) as incurred.

Property, plant and equipment, including crude oil and natural gas interests, are de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on the disposal of assets are determined by comparing the proceeds from disposition with the carrying amount of the asset and are recognized on a net basis in the consolidated statement of earnings (loss).

iii) Asset exchanges

Exchanges of development and production assets are measured at fair value, unless the exchange transaction lacks commercial substance or the fair value of the assets given up or the assets received cannot be reliably estimated. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more reliable. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gain or loss on the de-recognition of the asset given up is recognized in the consolidated statement of earnings (loss).

iv) Depletion and depreciation

The net carrying amount of development and production assets is depleted using the unit-of-production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production and estimated net realizable value of production equipment and facilities. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by the Company’s independent engineers at least annually and determined in accordance with NI 51-101 and COGEH. For the purpose of this calculation, production and reserves of petroleum and natural gas are converted to a common unit of measure on the basis of their relative energy content, where six thousand cubic feet of natural gas equates to one barrel of oil.

The estimated useful lives for certain production assets for the current and comparative periods are as follows:

Facilities	30 years - 33 years
Crude oil and natural gas properties	Based on reserve life

For other assets, depreciation is recognized in the consolidated statement of earnings (loss) on a declining balance basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The estimated useful lives for other assets for the current and comparative periods are as follows:

Furniture and office equipment	5 years
Leaseholds	Term of the lease

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(g) Business combinations

Business combinations are accounted for using the acquisition method. The identifiable assets acquired and liabilities and contingent liabilities assumed are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the aggregate consideration transferred, measured at the acquisition date fair value. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognized immediately in net earnings (loss). If the cost of the acquisition is more than the fair value of the net assets acquired, the difference is recognized on the balance sheet as goodwill. Acquisition transaction costs incurred are expensed.

(h) Finance lease obligation

Leases which effectively transfer substantially all of the risks and rewards of ownership to the Company are classified as finance leases and are accounted for as an acquisition of an asset and an assumption of an obligation at the inception of the lease, measured at the present value of minimum lease payments to a maximum of the asset's fair value. The asset is amortized in accordance with the Company's depletion and depreciation policy.

(i) Assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition. For the sale to be highly probable, management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must have been initiated. The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value and the sale should be expected to be completed within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell, with impairments recognized in the consolidated statement of earnings (loss) in the period measured. Non-current assets held for sale are presented in current assets and liabilities within the consolidated statement of financial position. Assets held for sale are not depleted, depreciated or amortized.

(j) Impairment

(i) Financial assets

A financial asset not classified at fair value through earnings or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. Those found not to be individually impaired are then assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the consolidated statement of earnings (loss).

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the consolidated statement of earnings (loss).

(ii) Non-financial assets

The carrying amount of property, plant and equipment is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment if 1) sufficient data exists to determine

technical feasibility and commercial viability and 2) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of assessing impairment of oil and gas properties, assets are tested at the CGU level. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated statement of earnings (loss). Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the unit on a pro rata basis.

Impairment losses in respect of property, plant and equipment recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

(k) Short term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short term cash bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(l) Share-based compensation

Long term incentives are granted to officers, directors, employees and certain consultants in accordance with the Company's stock option and restricted share unit ("RSU") plans.

i) Equity-settled share-based awards

The fair value determined at the grant date of an award is expensed on a graded basis over the vesting period of each respective tranche with a corresponding increase to contributed surplus. In calculating the expense of the stock options, Delphi revises its estimate of the number of equity instruments expected to vest by applying an estimated forfeiture rate for each vesting tranche and subsequently revising this estimate throughout the vesting period, as necessary, with a final adjustment to reflect the actual number of awards that vest. Upon the exercise of the stock options, consideration paid by the stock option holders and the value in contributed surplus pertaining to the exercised stock options are recorded as share capital. In the event that vested stock options expire without being exercised, previously recognized compensation costs associated with such awards are not reversed.

The fair value of employee stock options is measured using a Black-Scholes option pricing model. Measurement inputs include the share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on government bonds).

ii) Cash-settled share-based awards

The Company's RSU plan is accounted for as a cash-settled share-based payment plan. The fair value of the amount payable under the RSU plan is recognized as an expense with a corresponding increase in liabilities. The liability is calculated at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized in the consolidated statement of earnings (loss).

A portion of share-based compensation directly attributable to the exploration and development of the Company's assets is capitalized.

(m) Lease payments

Payments made under operating leases are recognized in the consolidated statement of earnings (loss) on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

(n) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability if the risks have not been incorporated into the estimate of cash flows. Provisions are not recognized for future operating losses.

Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and site remediation activities. A provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the date of the consolidated statement of financial position. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation as well as changes to the discount rate. The increase in the provision due to the passage of time is recognized as a finance cost whereas increases or decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established. The difference between the actual costs incurred and the provision established is recorded as a gain or loss in the consolidated statement of earnings (loss).

(o) Flow-through shares

Delphi may issue flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. The difference between the value ascribed to the flow-through shares issued and the value that would have been received for common shares with no tax attributes is initially recognized as a liability. When the expenditures are incurred, the liability is drawn down, a deferred tax liability is recorded equal to the estimated amount of deferred income tax payable by the Company as a result of the renunciation and the difference is recognized as a deferred tax expense or recovery.

(p) Revenues

Revenues from the sale of crude oil and natural gas are recorded when the significant risks and rewards of ownership of the product are transferred to the buyer which is usually when legal title passes to the external party. This is generally at the time product enters the pipeline.

(q) Finance costs

Finance costs are comprised of interest expense and stamping fees on borrowings, amortization of negotiation fees, accretion of the discount on decommissioning obligations, accretion of deferred fees on subordinated debt and the implicit interest rate on the Company's finance lease obligation.

(r) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the consolidated statement of earnings (loss) except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred taxes are on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding tax bases used in the computation of taxable income. Deferred taxes are not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable earnings. In addition, deferred taxes are not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(s) Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the net earnings or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted per share information is calculated giving effect to the potential dilution that would occur if stock options were exercised. The dilutive effect of stock options is calculated with the assumption that proceeds received from the exercise of options, for which the exercise price is less than the market price, plus the unamortized portion of share-based compensation expense are used to repurchase common shares at the average market price for the period. No adjustment to dilutive earnings (loss) per share is made if the result of these calculations is anti-dilutive.

(t) Cash and cash equivalents

Cash and cash equivalents consist of cash balances, call deposits with original maturities of three months or less and outstanding cheques.

21) NEW AND FUTURE ACCOUNTING STANDARDS

The following are 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.

The following are future accounting standards and amendments to current standards:

In May of 2014, the International Accounting Standards Board ("IASB"), issued "Accounting for Acquisitions of Interests in Joint Operations", amendments to IFRS 11, "Joint Arrangements." The amendments require business combination accounting to be applied to the acquisitions of interests in a joint operation that constitute a business. The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The Company does not anticipate early adoption of this standard and the extent of the impact of adoption of the standard has not yet been determined.

The IASB has issued IFRS 15, "Revenue from Contracts with Customers", which contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The standard is effective for fiscal years ending on or after December 31, 2017 and is available for early adoption. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

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.

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Delphi Energy Corp.

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Lamont C. Tolley [1] [2]
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[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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National Bank of Canada
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INDEPENDENT ENGINEERS

GLJ Petroleum Consultants Ltd.

STOCK EXCHANGE LISTING

Toronto Stock Exchange – DEE

TRANSFER AGENT

Computershare Trust Company of Canada

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