300, 500 – 4th Avenue S.W. Calgary, Alberta T2P 2V6 // T: (403) 265-6171 // F: (403) 265-6207 // E: info@delphienergy.ca // www.delphienergy.ca // TSX Symbol: DEE

Second Quarter 2012 Highlights

- produced an average of 8,636 barrels of oil equivalent ("boe/d") in the second quarter. Downtime at various third party facilities resulted in a loss of average production of approximately 450 boe/d (55 percent liquids) for the second quarter;
- signed a purchase and sale agreement to dispose of Delphi's Cardium oil assets at Bigstone representing 450 boe/d for gross proceeds of $23.0 million, subject to standard accounting adjustments. The transaction was closed and the proceeds were received subsequent to the end of the quarter on July 24, 2012;
- finished drilling a third Montney horizontal well at Bigstone East with completion operations conducted subsequent to the end of the quarter;
- reduced the Company's net debt to $117.9 million at June 30, 2012 reflecting the Cardium assets held for sale and received reconfirmation from Delphi's lenders of the Company's $145.0 million credit facilities upon closing of the disposition; and
- completed construction and start-up of the Company's Bigstone East compression/dehydration facility and gathering system for Delphi and third-party Montney production in the area.

Financial Information ($ thousands except per unit amounts)

	Three Months Ended June 30			Six Months Ended June 30		
	2012	2011	% Change	**2012**	2011	% Change
Petroleum and natural gas sales	**21,875**	32,678	(33)	**46,018**	61,578	(25)
Per boe	**29.89**	41.35	(28)	**29.83**	40.34	(26)
Funds from operations	**7,181**	17,517	(59)	**18,155**	32,578	(44)
Per boe	**9.14**	21.60	(58)	**11.32**	20.96	(46)
Per share – Basic	**0.05**	0.15	(67)	**0.14**	0.28	(50)
Per share – Diluted	**0.05**	0.15	(67)	**0.14**	0.28	(50)
Net earnings (loss)	**(3,531)**	5,757	(161)	**(19,446)**	6,719	(389)
Per boe	**(4.50)**	7.09	(163)	**(12.12)**	4.32	(381)
Per share – Basic	**(0.03)**	0.05	(160)	**(0.15)**	0.06	(350)
Per share – Diluted	**(0.03)**	0.05	(160)	**(0.15)**	0.06	(350)
Capital invested	**11,391**	9,542	19	**64,674**	43,839	48
Disposition of properties	**11**	(63)	-	**(11,574)**	(336)	3,345
Net capital invested	**11,402**	9,479	20	**53,100**	43,503	22
Acquisition of properties	**-**	-	-	**-**	87	(100)
Total capital invested	**11,402**	9,479	20	**53,100**	43,590	22

Operational Information

Production	Three Months Ended June 30 2012	2011	% Change	Six Months Ended June 30 2012	2011	% Change
Crude oil (bbls/d)	**1,083**	1,346	(20)	**1,123**	1,225	(8)
Natural gas liquids (bbls/d)	**1,040**	1,317	(21)	**1,142**	1,195	(4)
Total crude oil and natural gas liquids	**2,123**	2,663	(20)	**2,265**	2,420	(6)
Natural gas (mcf/d)	**39,080**	37,460	4	**39,295**	36,987	6
Total (boe/d)	**8,636**	8,906	(3)	**8,814**	8,585	3

	June 30, 2012	December 31, 2011	% Change
Debt plus working capital deficiency [(1)]	**117,869**	95,632	23
Total assets	**455,649**	447,073	2
Shares outstanding (000's)			
Basic	**131,060**	131,000	-
Diluted	**143,129**	141,591	1

[(1)] excludes the fair value of financial instruments.

MESSAGE TO SHAREHOLDERS

The second quarter of 2012 was highlighted by challenging natural gas prices as unseasonably warm weather throughout the winter in North America and continued strong production supply in the United States resulted in a significant over supply of natural gas at the start of injection season. Canadian AECO natural gas prices averaged the lowest quarterly price in over ten years at $1.86 per thousand cubic feet ("mcf").

Production during the second quarter of 2012 averaged 8,636 boe/d, a three percent decrease from the comparative quarter of 2011 and a decrease of four percent from the first quarter of 2012. The slight decrease in production as compared to the first quarter is attributed to production downtime associated with scheduled maintenance at SemCAM's K3 sour natural gas processing facility and scheduled maintenance of the Dow Fort Saskatchewan ethylene production facility affecting the Company's liquid sales at Wapiti. The Company estimates the total impact of the downtimes incurred in the second quarter was an average of approximately 450 boe/d (55 percent liquids).

Net capital expenditures during the second quarter were $11.4 million, which primarily included the drilling of 1.0 (1.0 net) well and completion of the construction of the 100 percent owned Bigstone East Montney facility and gathering system. As of June 30, 2012, Delphi's net capital expenditures were $53.1 million. Of the capital invested, 33 percent related to the construction of the Montney facility and 65 percent was directed towards drilling for new production and reserves.

Funds flow in the second quarter of 2012 was $7.2 million or $0.05 per basic share. Delphi's funds flow and cash netbacks were negatively affected in the second quarter by lower liquids volumes, lower prices received for its production volumes and higher operating costs. Higher operating costs primarily relate to increased equipment rental costs, annual maintenance costs and prior period costs of approximately $0.6 million.

For the quarter ended June 30, 2012, the Company recognized approximately $2.5 million in realized gains on financial and physical hedging contracts. For the remainder of 2012, Delphi now has approximately 66 percent of its daily natural gas production hedged at an average price of $2.94 per mcf and approximately 90 percent of its daily light oil production protected by financial contracts at an average WTI price of Cdn. $98.50 per barrel ("bbl"), providing significant stability to the Company's funds from operations.

The Company has been successful in closing a disposition of assets in an acquisition/disposition market overwhelmed with oil and gas properties and entire companies for sale. As a result, at June 30, 2012, the Company has reduced its net debt to $117.9 million. In addition, the Company's lenders have reconfirmed the credit facilities at $145.0 million on a post-disposition basis. Net debt includes bank debt plus working capital deficiency excluding the fair value of financial instruments. Delphi continues to evaluate its options to monetize a portion of the new Montney facility in conjunction with its feasibility study to integrate this new facility with its ownership in the existing 80 million cubic feet per day ("mmcf/d") sweet natural gas processing facility at Bigstone to create a Montney processing facility that offers the lowest possible cost structure and best natural gas liquid ("NGL") recovery efficiencies for the Company.

Operations

Bigstone Montney

At Bigstone East, the 30 mmcf/d compression and dehydration facility was completed with start-up commencing in mid-May. The new facility and infrastructure provides Delphi with the capacity to develop the existing Bigstone East land base and generate processing revenue from excess capacity. The facility has been designed to be readily expanded in 15 mmcf/d increments to handle increased Company and third party volumes.

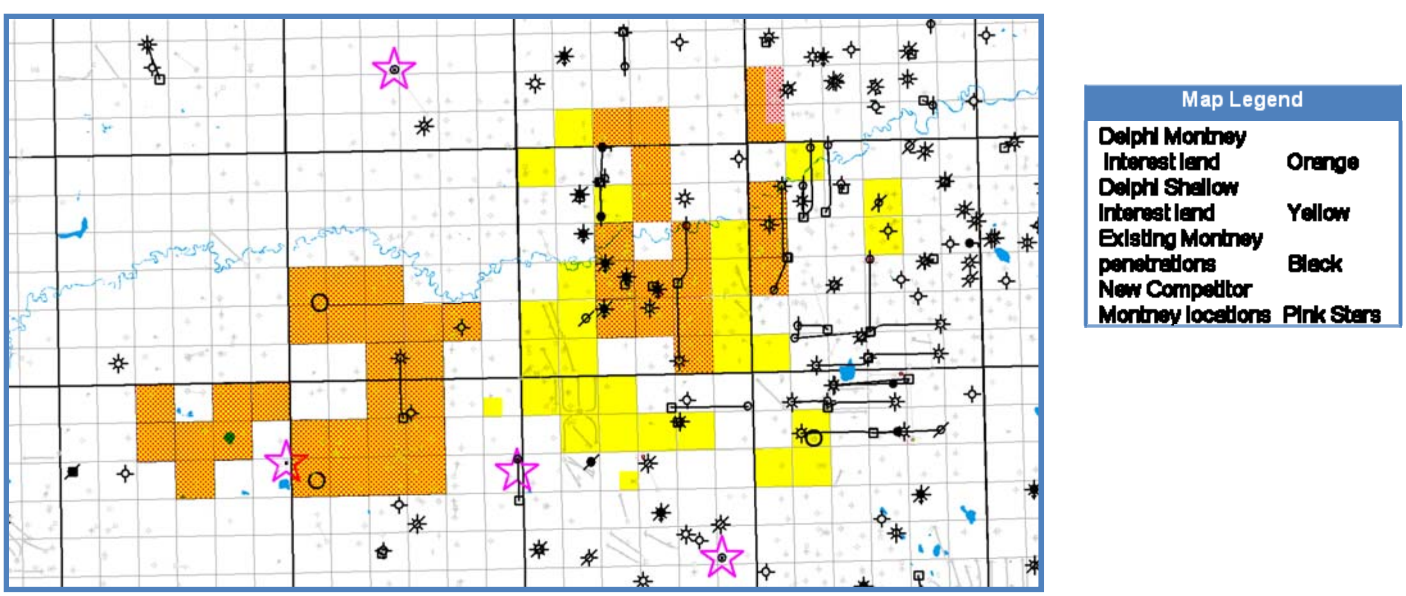
The Company's first Montney horizontal well at Bigstone East (100 percent working interest) with a surface location of 1-19-60-22 W5M has produced over its first 60 days of production at an average rate of 4.2 mmcf/d of raw natural gas and 186 bbls/d of wellhead condensate. Including estimated shallow-cut gas plant NGL recoveries, the total average liquid production over the same time period is 326 bbls/d, of which 69 percent is plant and wellhead condensate. The resulting average sales production rate over the first 60 days was 970 boe/d.

Production from the second Bigstone East Montney well (75 percent working interest), with its surface location at 5-14-60-23 W5M, three miles (five kilometres) south west of the first well, has produced over its first 60 days of production at an average rate of 3.7 mmcf/d of raw natural gas and 120 bbls/d of wellhead condensate. Including estimated shallow-cut gas plant NGL recoveries, the total average liquid production over the same time period is 244 bbls/d, of which 63 percent is plant and wellhead condensate. The resulting average sales production rate over the first 60 days was 814 boe/d.

Subsequent to the end of the quarter, Delphi successfully completed its third Montney well (100 percent working interest) with a surface location of 5-14-60-23 W5M involving a 20 stage oil-based fracturing program. This is the second well from this surface location, however, this well's extended reach horizontal lateral was drilled to the north versus the south. The well has been brought on production through the Company's 100 percent owned compression and dehydration facility. Subsequent to completion and fracturing operations, the well was flow tested at an average rate of 16.0 mmcf/d at a flowing pressure of 6,170 kPa over the final 24 hours of the initial four day flow period. The well was also producing approximately 800 bbls/d or 50 bbls/mmcf of free condensate at the end of the test, although 100 percent of the load fluid hadn't been recovered (load oil recovery stands at 72 percent after the four day flow period).

Delphi's three extended reach horizontal wells and existing vertical well tests have efficiently evaluated eight sections of land and with competitor drilling activity all around the Company's 18 gross (14.75 net) sections, the remaining 30 net Montney horizontal locations identified at Bigstone East have been largely de-risked. The Company had only 1.7 net Montney drilling locations booked at Bigstone East in the GLJ independent engineering report at December 31, 2011 with associated proved and probable reserves of approximately 2.0 million boe.

A major oil and gas producer has recently licensed four Montney drilling locations offsetting Delphi's Montney interest lands at Bigstone. These new locations include three vertical tests and one horizontal. The horizontal well license is less than two miles east of the Company's Bigstone West land block and one vertical location is only 200 metres west of these same lands. These new control points will accelerate Delphi's efforts to optimize and de-risk the Montney oil and gas resource on the Company's 27 sections in Bigstone West.



Outlook

Since the end of the second quarter, natural gas prices have continued to recover from the lows of Cdn. $1.67 per mcf and U.S. $1.95 per million British thermal units ("mmbtu") in Canada and the United States, respectively, experienced in the second quarter. Extremely hot temperatures across much of the United States has resulted in a significant increase in demand for electricity to meet the incremental power usage for industrial activity and cooling requirements. Much of this increased power demand has been met by utilities switching to natural gas fired power generation versus coal fired power generation due to the low natural gas prices. Low natural gas prices have had an impact on the number of natural gas wells drilled, however, United States dry gas production still remains relatively stable at 62-64 billion cubic feet per day due to the number of drilled wells that just needed to be completed and tied-in, the stronger natural gas production rates achieved per well from the horizontal shale drilling and the associated natural gas produced from an increased focus on drilling oil or liquids rich natural gas opportunities. This increased natural gas demand has lessened natural gas injections into storage and propped up natural gas prices over the past four to six weeks in both Canada and the U.S.

Delphi remains cautious on natural gas pricing for the remainder of the year as the demand for power to meet cooling requirements dissipates as summer comes to an end. Consequently, the Company has been increasing its natural gas hedges for the remainder of the year and is now approximately 66 percent hedged at an average floor price of $2.94 per mcf.

At Wapiti, approximately 800-1,000 boe/d of production continues to be curtailed due to a third party operated pipeline failure in the area. Repair operations have been commenced by the operator.

Capital expenditures for the remainder of the year are expected to be in line with funds from operations to maintain the balance sheet strength and financial flexibility achieved through the disposition of the Company's Cardium assets in the Bigstone area for $23.0 million.

On behalf of the Board of Directors and all the employees of Delphi, we would like to thank our shareholders for their continued support as we remain focused on sustainable, capital efficient growth of the Company's production and reserve base while maintaining financial strength and flexibility in this challenging crude oil and natural gas pricing environment.

On behalf of the Board,

David J. Reid
President and Chief Executive Officer
July 24, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Management's discussion and analysis ("MD&A") has been prepared by management and reviewed and approved by the Board of Directors of Delphi Energy Corp. ("Delphi" or "the Company"). The discussion and analysis is a review of the financial position and results of operations of the Company. Its focus is primarily a comparison of the financial performance for the three and six months ended June 30, 2012 and 2011 and should be read in conjunction with the unaudited condensed consolidated interim financial statements and accompanying notes for the three and six months ended June 30, 2012 and the audited consolidated financial statements of the Company for the years ended December 31, 2011 and 2010 and the related MD&A of financial results as disclosure which is unchanged from such MD&A may not be repeated herein. The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. The reporting currency is the Canadian dollar. This discussion and analysis has been prepared as of August 7, 2012.

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

This MD&A contains the terms "funds from operations", "funds from operations per share", "net debt", "cash operating costs" and "netbacks" which are not recognized measures under IFRS. The Company uses these measures to help evaluate its performance. Management considers netbacks an important measure as it demonstrates its profitability relative to current commodity prices. Management uses funds from operations to analyze performance and considers it a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future capital investments and to repay debt. Funds from operations is a non-IFRS measure and has been defined by the Company as cash flow from operating activities before accretion on long-term debt, decommissioning expenditures and changes in non-cash working capital. The Company also presents funds from operations per share whereby amounts per share are calculated using weighted average shares outstanding consistent with the calculation of earnings per share. Delphi's determination of funds from operations may not be comparable to that reported by other companies nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with IFRS. The Company has defined net debt as the sum of long term debt plus/minus working capital excluding the current portion of the fair value of financial instruments. Net debt is used by management to monitor remaining availability under its credit facilities. Cash operating costs have been defined as the sum of operating expenses, transportation expense, general and administrative expenses and cash finance costs. Operating netbacks have been defined as revenue less royalties, transportation and operating costs. Cash netbacks have been defined as operating netbacks less interest and general and administrative costs. Netbacks are generally discussed and presented on a per boe basis.

DELPHI'S OPERATIONS

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

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

SECOND QUARTER 2012 ACCOMPLISHMENTS

What were the highlights of Delphi's operational and financial results the second quarter of 2012?

In the second quarter of 2012, the Company achieved the following:

- produced an average of 8,636 barrels of oil equivalent ("boe/d") in the second quarter. Downtime at various third party facilities resulted in a loss of average production of approximately 450 boe/d (55 percent liquids) for the second quarter;

- signed a purchase and sale agreement to dispose of Delphi's Cardium oil assets at Bigstone representing 450 boe/d for gross proceeds of $23.0 million, subject to standard accounting adjustments. The transaction was closed and the proceeds were received subsequent to the end of the quarter on July 24, 2012.

- completed drilling a third Montney horizontal well at Bigstone East with completion operations to be conducted in the third quarter;

- reduced the Company's net debt to $117.9 million at June 30, 2012 reflecting the Cardium assets held for sale and received reconfirmation from its lenders of the Company's $145.0 million credit facilities upon closing of the disposition; and

- completion of construction and start-up of the Company's Bigstone East compression/dehydration facility and gathering system for Delphi and third-party Montney production in the area.

Funds from operations in the second quarter of 2012 were $7.2 million or $0.05 per basic and diluted share, compared to $17.5 million or $0.15 per basic and diluted share in the comparative quarter in 2011. The decrease in funds from operations from the second quarter of 2011 to that of 2012 is primarily due to a decrease in realized natural gas and crude oil prices. In the second quarter of 2012, Delphi recognized approximately $1.6 million and $0.9 million in realized gains on financial and physical commodity risk management contracts, respectively.

At June 30, 2012, the Company had net debt of $117.9 million on total credit facilities of $145.0 million. Net debt includes bank debt plus working capital surplus excluding the fair value of financial instruments.

2012 OUTLOOK AND FORWARD-LOOKING INFORMATION

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

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

Although the Company believes that the expectations reflected in such forward-looking statements and information are reasonable, it can give no assurance that such expectations will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the oil and gas industry in general such as operational risks in development, exploration and production, delays or changes in plans with respect to exploration or development projects or capital expenditures, the uncertainty of estimates and projections relating to production rates, costs and expenses, commodity price and exchange rate fluctuations, marketing and transportation, environmental risks, competition, the ability to access sufficient capital from internal and external sources and changes in tax, royalty and environmental legislation. Additional information on these and other factors that could affect the Company's operations or financial results are included in reports on file with the applicable securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com). The forward-looking statements and information contained in this MD&A are made as of August 7, 2012 for the purpose of providing the readers with the Company's expectations for the coming year. The forward-looking statements and information may not be appropriate for other purposes. Delphi undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

Delphi's expectations for 2012 are based upon its projection of drilling plans, drilling success and production results and the estimated related revenues and associated costs of royalties, transportation expenses, operating costs, general and administrative expenses and interest costs and expected closing of sale transactions. Commodity prices used in the determination of forecast revenues are based upon general economic conditions, commodity supply and demand forecasts and publicly available price forecasts. The Company continually monitors its forecast assumptions to ensure the stakeholders are informed of material variances from previously communicated expectations.

Has Delphi undertaken any commodity price risk management for 2012 to mitigate the risk of volatility in its product pricing?

In light of the low natural gas prices over the past three years and a future outlook which has resulted in the forward price curve for natural gas to decrease based on the view that there is ample supply of natural gas with the development of the shale gas plays, particularly in the United States, Delphi has become more focused on protecting the downside of prices as opposed to locking in gains to be made on unusually high prices. Currently, Delphi has approximately 26.1 mmcf/d of its natural gas production at a predominantly AECO based average floor price of $2.94 per mcf for the remainder of 2012. Delphi continually monitors the variables affecting the price of natural gas and crude oil in order to ensure its capital program is in line with expected funds from operations. The following natural gas production is protected by commodity price fluctuations, in order to support the Company's funds from operations:

	2012
Production provided for (mmcf/d)	26.1
Percentage of natural gas production *	66%
Price floor (Cdn $/mcf)	$2.94

* based on 39.5 mmcf/d

In addition, Delphi has commodity price risk management contracts for approximately 90 percent of its daily light oil production by financial contracts at an average WTI price of Cdn. $98.50 per barrel.

CAPITAL PROGRAM AND NET DEBT LEVELS

What are the Company's forecast capital expenditures and net debt levels for 2012?

Delphi continues to rationalize certain non-core assets with proceeds being redeployed into the 2012 capital program. During the first quarter of 2012, the Company completed the sale of non-core producing assets for net proceeds of $11.6 million. During the second quarter of 2012, Delphi entered into an agreement to dispose of its Cardium oil assets for gross proceeds of $23.0 million. The sale closed on July 24, 2012 for net proceeds of $22.6 million.

Capital expenditures for the remainder of the year are expected to be in line with funds from operations to maintain the balance sheet strength and financial flexibility achieved through the disposition of the Company's Cardium assets. The Company is targeting net debt at December 31, 2012 to be approximately $115.0 million and $125.0 million.

SECOND QUARTER 2012 OPERATIONAL AND FINANCIAL RESULTS

BUSINESS ENVIRONMENT

What external factors of the business environment did the Company have to contend with in the second quarter of 2012?

The price the Company receives for its production volumes is a significant determinant of the Company's funds from operations. The table below outlines the changes in the various benchmark commodity prices and economic parameters which affect the prices received for the Company's production.

Benchmark Prices and Economic Parameters

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Natural Gas						
NYMEX (US $/mmbtu)	**2.28**	4.37	(48)	**2.36**	4.28	(45)
AECO (CDN $/mcf)	**1.86**	3.87	(52)	**2.01**	3.83	(48)
Crude Oil						
West Texas Intermediate (US $/bbl)	**93.51**	102.55	(9)	**98.23**	98.39	-
Edmonton Light (CDN $/bbl)	**83.99**	103.05	(18)	**88.06**	95.62	(8)
Foreign Exchange						
Canadian to U.S. dollar	**0.99**	0.97	2	**0.99**	0.98	1
U.S. to Canadian dollar	**1.01**	1.03	(2)	**1.01**	1.02	(1)

Natural Gas

The growth in natural gas supply continues to exceed the growth in natural gas demand in North America, leading to an excess supply situation and lower natural gas commodity prices. AECO averaged $1.86 per mcf in the second quarter of 2012, 52 percent lower than the comparative period in 2011 and 13 percent lower than the first quarter of 2012.

Crude Oil

WTI averaged U.S. $93.51 per barrel in the second quarter of 2012, a decrease of nine percent over the second quarter of 2011. The decreased price was further reduced by an adjustment for an oversupply of crude oil at Cushing, Oklahoma resulting in Canadian prices being 18 percent lower in the second quarter of 2012 over the comparative period of 2011.

Edmonton light averaged $83.99 per barrel in the second quarter of 2012 versus $103.05 per barrel in the comparative period in 2011.

Canadian/United States Exchange Rate

The value of the Canadian dollar against its U.S. counterpart continues to hold its strength in 2012. As a producer of crude oil, a stronger Canadian dollar has a negative effect on the price received for production. The average Cdn/US exchange rate for the three months ended June 30, 2012 was $0.99 compared to $0.97 for the same period in 2011. This negative effect to the price of oil for Canadian producers was further impacted by the widening basis differential between U.S. and Canadian markets.

DRILLING OPERATIONS

How active was Delphi in its drilling program in the second quarter and first six months of 2012 and where was the drilling focused?

Delphi had another successful capital program in the first half of 2012, drilling 6 gross (5.5 net) wells with a success rate of 100 percent. The drilling was primarily focused on the Bigstone Montney and Gething development.

In light of continued low natural gas prices, the Company focused the majority of its efforts on drilling light oil and liquids-rich natural gas opportunities.

	Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
	Gross	**Net**	**Gross**	**Net**
Liquids rich natural gas (>40 bbl/mmcf liquids content)	**1.0**	**1.0**	**5.0**	**4.8**
Natural gas (>20 bbl/mmcf < 40 bbl/mmcf liquids content)	**-**	**-**	**1.0**	**0.7**
Natural gas (<20 bbl/mmcf liquids content)	**-**	**-**	**-**	**-**
Total wells	**1.0**	**1.0**	**6.0**	**5.5**
Success rate (%)	**100**	**100**	**100**	**100**

CAPITAL INVESTED

How much did the Company spend in the second quarter and first six months of 2012 and where were the capital expenditures incurred?

Total capital expenditures year to date were $64.7 million which was primarily directed toward the Bigstone Montney and Gething drilling programs (65 percent of capital) and the construction of the Bigstone Montney facility (33 percent of capital). In the second quarter of 2012, Delphi completed the construction of its Bigstone Montney facility which has the capacity to handle 30 mmcf/d of natural gas and capacity to store 3,000 barrels of field condensate. Total capital invested in the second quarter of 2012 was $11.4 million which was primarily directed toward drilling a third Bigstone East Montney well (48 percent of capital) and the completion of the Bigstone Montney facility (44 percent of capital).

During the first quarter of 2012, Delphi closed the disposition of its non-operated light oil interests in the Hythe area and minor offsetting lands for net proceeds of approximately $11.0 million. Production associated with the disposition was approximately 217 boe/d (66 percent light oil), based on fourth quarter 2011 production volumes. Proceeds from the sale were used to fund the ongoing Bigstone Montney development.

As of June 30, 2012, Delphi has a total of 44 sections (41.7 net) of land on two separate blocks which are prospective for liquids-rich natural gas in the Montney formation, situated at its core area of Bigstone located within the Deep Basin of North West Alberta.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Land	**26**	188	(86)	**69**	420	(84)
Seismic	**(5)**	151	(103)	**37**	151	(75)
Drilling, completions and equipping	**5,513**	7,423	(26)	**41,908**	33,900	24
Facilities	**5,013**	867	478	**21,113**	7,520	181
Capitalized expenses	**843**	552	53	**1,545**	1,263	22
Other	**1**	361	(100)	**2**	585	(100)
Capital invested	**11,391**	9,542	19	**64,674**	43,839	48
Disposition of properties	**11**	(63)	-	**(11,574)**	(336)	3,345
Net capital invested	**11,402**	9,479	20	**53,100**	43,503	22
Acquisition of properties	**-**	-	-	**-**	87	(100)
Total capital invested	**11,402**	9,479	20	**53,100**	43,590	22

PRODUCTION

What factors contributed to the production volumes?

Production volumes for the three months ended June 30, 2012 averaged 8,636 boe/d, a three percent decrease over the comparative period. Although natural gas production increased by four percent in the second quarter of 2012, crude oil and natural gas liquids production decreased by approximately 20 percent in comparison to the same period in 2011. The decrease in production is due to non-operated plant turnarounds and production associated with the assets disposed of in the first quarter of 2012, partially offset by increased production from the Company's drilling program.

Production volumes for the first six months of 2012 averaged 8,814 boe/d, a three percent increase over the comparative period. Natural gas volumes increased by six percent and crude oil and natural gas liquids decreased by six percent in the first six months of 2012 in comparison to the same period in 2011. The decrease in crude oil and natural gas liquids production volumes is primarily due to non-operated plant turnarounds in the second quarter of 2012 and production associated with the assets disposed of in the first quarter of 2012.

Delphi's production portfolio for the second quarter of 2012 was weighted 13 percent to crude oil, 12 percent to natural gas liquids and 75 percent to natural gas.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Crude oil (bbls/d)	**1,083**	1,346	(20)	**1,123**	1,225	(8)
Natural gas liquids (bbls/d)	**1,040**	1,317	(21)	**1,142**	1,195	(4)
Total crude oil and natural gas liquids	**2,123**	2,663	(20)	**2,265**	2,420	(6)
Natural gas (mcf/d)	**39,080**	37,460	4	**39,295**	36,987	6
Total (boe/d)	**8,636**	8,906	(3)	**8,814**	8,585	3

REALIZED SALES PRICES

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

For the three months ended June 30, 2012, Delphi's realized natural gas price decreased by 43 percent when compared to the same period in 2011. This decrease in realized natural gas prices is primarily the result of a 52 percent decrease in the average daily AECO index and a decrease in realized gains on financial commodity risk management contracts. The decrease was partially offset by higher realized gains on physical commodity risk management contracts.

Realized crude oil prices were eight percent lower in the second quarter of 2012 compared to the same period in 2011. The decrease is due to a decline in Canadian Benchmark crude prices, partially offset by an increase in realized gains on financial commodity risk management contracts and a higher differential.

Natural gas liquids prices for the three months ended June 30, 2012 were nine percent higher than in the same period in 2011. The increase in pricing is primarily a result of a significant increase in condensate production which receives a higher price in comparison to the other natural gas liquids.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
AECO ($/mcf)	**1.86**	3.87	(52)	**2.01**	3.83	(48)
Heating content and marketing ($/mcf)	**0.22**	0.26	(15)	**0.26**	0.23	13
Gain on physical contracts ($/mcf)	**0.26**	0.18	44	**0.16**	0.33	(52)
Gain on financial contracts ($/mcf)	**0.37**	0.45	(18)	**0.22**	0.30	(27)
Realized natural gas price ($/mcf)	**2.71**	4.76	(43)	**2.65**	4.69	(43)
Edmonton Light ($/bbl)	**83.99**	103.05	(18)	**88.06**	95.62	(8)
Gain (loss) on financial contracts ($/bbl)	**2.98**	(5.55)	-	**1.44**	(4.15)	-
Quality differential ($/bbl)	**0.27**	(2.89)	-	**0.33**	(0.58)	-
Realized oil price ($/bbl)	**87.24**	94.61	(8)	**89.83**	90.89	(1)
Realized natural gas liquids price ($/bbl)	**47.89**	44.02	9	**46.23**	48.56	(5)
Total realized sales price ($/boe)	**29.89**	41.35	(28)	**29.83**	40.34	(26)

How do the realized natural gas prices compare to the benchmark AECO pricing?

Excluding commodity risk management contracts, the Company continues to receive higher than the AECO spot price on natural gas sales due to the high heating content of its natural gas production and the sale of approximately 7.4 million British thermal units (mmbtu) per day on the Alliance pipeline which is priced at the Chicago Monthly Index.

The following table outlines the premium Delphi realized on its natural gas price compared to the average quarterly AECO price due to the risk management program, quality of production and gas marketing arrangements. In years of both high and low commodity price environments, Delphi's realized sales price has been a premium to AECO.

	Jun. 30 2012	Mar. 31 2012	Dec. 31 2011	Sept. 30 2011	Jun. 30 2011	Mar. 31 2011	Dec. 31 2010	Sept. 30 2010
Natural Gas Price								
Delphi realized ($/mcf)	**2.71**	2.60	4.19	4.64	4.76	4.62	5.00	5.28
AECO average ($/mcf)	**1.86**	2.15	3.20	3.65	3.87	3.80	3.64	3.54
Premium to AECO	**46%**	21%	31%	27%	23%	22%	37%	49%
Realized gain on commodity contracts ($000's)	**2,250**	470	2,669	2,306	2,142	2,126	4,045	4,676

RISK MANAGEMENT ACTIVITIES

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

Delphi enters into both financial and physical commodity contracts as part of its risk management program to manage commodity price fluctuations designed to ensure sufficient cash is generated to fund its capital program particularly when commodity prices are extremely volatile. For natural gas production, Delphi has approximately 26.1 mmcf/d of its before-royalty natural gas production at a predominately AECO based average floor price of $2.94 per mcf for the remainder of 2012. In addition, Delphi has commodity price risk management contracts for approximately 90 percent of its daily light oil production by financial contracts at an average WTI price of Cdn. $98.50 per barrel.

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

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

Time Period	Commodity	Type of Contract	Quantity Contracted	Contract Price ($/unit)
January 2012 – December 2012 [(1)]	Natural Gas	Physical	2,500 GJ/d	$4.50 call
June 2012 – March 2013	Natural Gas	Physical	5,000 GJ/d	$2.45 fixed
April 2012 – October 2012	Natural Gas	Physical	1,000 mmbtu/d	U.S. $4.96 fixed
April 2012 – October 2012	Natural Gas	Physical	2,000 GJ/d	$4.06 fixed
April 2012 – December 2013	Natural Gas	Physical	2,000 mmbtu/d	U.S. $3.21 fixed
January 2012 – December 2012 [(2)]	Natural Gas	Financial	3,000 GJ/d	$4.50 call
March 2012 – December 2012 [(3)]	Natural Gas	Financial	7,500 GJ/d	$2.65 fixed
April 2012 – December 2014	Natural Gas	Financial	6,000 GJ/d	$2.88 fixed
August 2012 – December 2012	Natural Gas	Financial	1,000 GJ/d	$2.55 fixed
August 2012 – December 2012	Natural Gas	Financial	1,000 GJ/d	$2.60 fixed
August 2012 – December 2012	Natural Gas	Financial	1,000 GJ/d	$2.655 fixed
August 2012 – March 2013	Natural Gas	Financial	1,000 GJ/d	$2.50 floor
				$2.95 ceiling
August 2012 – March 2013	Natural Gas	Financial	1,000 GJ/d	$2.50 floor
				$3.04 ceiling
August 2012 – March 2013	Natural Gas	Financial	1,000 GJ/d	$2.55 floor
				$3.07 ceiling
May 2012 – December 2012	Natural Gas Liquid	Financial	200 bbls/d	$39.85 fixed
March 2012 – December 2012 [(3)]	Crude Oil	Financial	500 bbls/d	U.S. $110.00 call
May 2012 – December 2012	Crude Oil	Financial	250 bbls/d	$100.00 floor
				$108.25 ceiling
May 2012 – December 2012[(4)]	Crude Oil	Financial	250 bbls/d	$100.00 put
January 2013 – December 2013 [(5)]	Crude Oil	Financial	600 bbls/d	U.S. $90.00 call

(1) The Company acquired a natural gas contract at $4.12 per gigajoule on 2,500 gigajoules per day for the period January 1, 2011 through December 31, 2011. The contract was paid for with the sale of a natural gas call on 2,500 gigajoules per day at a price of $4.50 per gigajoule for the period January 1, 2012 through December 31, 2012.

(2) The Company acquired a natural gas put contract at $4.00 per gigajoule on 3,000 gigajoules per day for the period January 1, 2011 through December 31, 2011. The put was paid for with the sale of a natural gas call on 3,000 gigajoules per day at a price of $4.50 per gigajoule for the period January 1, 2012 through December 31, 2012.

(3) The Company acquired a natural gas contract at $2.65 per gigajoule on 7,500 gigajoules per day for the period March 1, 2012 through December 31, 2012. The contract was paid for with the sale of a crude oil call on 500 barrels per day at a price of U.S. $110.00 WTI per barrel for the period March 1, 2012 through December 31, 2012.

(4) The Company acquired a crude oil put contract at $100.00 per barrel on 250 barrels per day for the period May 1, 2012 through December 31, 2012. The put has a cost of $2.96 per barrel.

(5) The Company acquired a natural gas contract at $5.69 per gigajoule on 6,810 gigajoules per day for the period April 1, 2011 through December 31, 2011. The contract was paid for with the sale of a crude oil call on 600 barrels per day at a price of U.S. $90.00 WTI per barrel for the period January 1, 2011 through December 31, 2012. Delphi has deferred this crude oil call to January 1, 2013 through December 31, 2013.

The fair value of the commodity risk management contracts outstanding as at June 30, 2012 is estimated to be a net liability of approximately $1.0 million. For the six months ended June 30, 2012, Delphi recognized an unrealized gain on its commodity risk management contracts of $2.3 million. The unrealized gain recognized is the difference between the fair value of the commodity risk management contracts outstanding as at June 30, 2012 and that of December 31, 2011.

The fair values of these contracts are based on an approximation of the amounts that would have been paid to or received from counterparties to settle the contracts outstanding at the end of the period having regard to forward prices and market values. Due to the inherent volatility in commodity prices, actual amounts realized may differ from these estimates.

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

REVENUE

How do revenues for the second quarter and first six months of 2012 compare to 2011 and what factors contributed to the change?

For the three months ended June 30, 2012, Delphi generated revenue of $21.9 million, 33 percent lower than the comparative period in 2011. For the six months ended June 30, 2012, revenues decreased 25 percent in comparison to the same period in 2011. The reduction in revenues from the first six months of 2011 to that of 2012 is primarily due to a decrease in realized commodity prices, particularly for natural gas, and a reduction in crude oil and natural gas liquids production. For the first half of 2012, crude oil and natural gas liquids contributed to 60 percent of total revenues compared to 51 percent in the same period in 2011.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Natural gas	**7,395**	14,077	(47)	**16,261**	27,119	(40)
Natural gas physical contract gains	**927**	619	50	**1,180**	2,241	(47)
Crude oil	**8,304**	12,277	(32)	**18,065**	21,079	(14)
Natural gas liquids	**4,532**	5,277	(14)	**9,609**	10,504	(9)
Sulphur	**717**	428	68	**903**	635	42
Total	**21,875**	32,678	(33)	**46,018**	61,578	(25)

ROYALTIES

What were royalty costs in the second quarter and first six months of 2012?

For the second quarter of 2012, royalties totaled $4.5 million compared to $4.8 million in the same period in 2011. Royalties for the second quarter of 2012 include $0.6 million of Crown royalties, $0.2 million of gross overriding royalties and $0.4 million of royalty credit adjustments related to prior years.

In the first six months of 2012, royalties totaled $8.6 million, a five percent decrease compared to the same period in 2011. Crown royalties decreased nine percent as a result of weakening natural gas and crude oil prices, partially offset by $1.0 million of prior period adjustments. Gross overriding royalties increased 19 percent in the first six months of 2012 in comparison to the same period in 2011. The increase in gross overriding royalties is due to a $0.2 million charge related to prior years and the granting of overriding royalties on certain lands in the Hythe area in the third quarter of 2011.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Crown royalties	**4,536**	4,558	-	**8,307**	9,142	(9)
Royalty credits	**(1,379)**	(1,396)	(1)	**(2,850)**	(2,789)	2
Crown royalties – net	**3,157**	3,162	-	**5,457**	6,353	(14)
Freehold royalties	**-**	54	(100)	**-**	54	(100)
Gross overriding royalties	**1,392**	1,555	(10)	**3,132**	2,633	19
Total	**4,549**	4,771	(5)	**8,589**	9,040	(5)
Per boe	**5.79**	5.89	(2)	**5.35**	5.82	(8)

What were the average royalty rates paid on production in the second quarter of 2012?

The average royalty rates were higher than the comparative period. In the three and six months ended June 30, 2012, Crown royalty rates increased 53 percent and 14 percent, respectively, in comparison to the same period in 2011. The increase is primarily due to a $1.0 million adjustment related to prior years. The gross overriding royalty rates for the second quarter and first six months of 2012 increased 35 percent and 59 percent in comparison to the same periods in 2011 primarily as a result of prior period royalty adjustments of $0.2 million and an increase in the number of wells encumbered by an overriding royalty.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Crown rate – net of royalty credits	**15.1%**	9.9%	53	**12.2%**	10.7%	14
Gross overriding rate	**6.6%**	4.9%	35	**7.0%**	4.4%	59
Average rate	**21.7%**	14.9%	46	**19.2%**	15.2%	26

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

OPERATING EXPENSES

How do operating expenses in the second quarter of 2012 compare to 2011?

Production expenses, net of processing income, for the three and six months ended June 30, 2012 increased 27 percent and 15 percent, respectively, compared to the same period in 2011. Production expenses increased due to higher equipment rentals, trucking and repairs and maintenance. Processing income increased as a result of a prior period adjustment related to the Clayhurst facility.

Delphi earns processing income for third party production volumes going through facilities owned by the Company. The processing income represents a reduction of the Company's costs to operate these facilities and hence is deducted in determining operating expenses. Processing income indicates the Company has excess capacity at its facilities which it can access to handle growth in its production volumes.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Production costs	**7,468**	6,036	24	**13,631**	11,684	17
Processing income	**(639)**	(665)	(4)	**(1,698)**	(1,280)	33
Total	**6,829**	5,371	27	**11,933**	10,404	15
Per boe	**8.69**	6.63	31	**7.44**	6.70	11

TRANSPORTATION EXPENSES

What factors contributed to the change in transportation costs in the second quarter of 2012?

Transportation expenses for the three and six months ended June 30, 2012 decreased 14 percent and 8 percent in comparison to the same period in 2011, respectively. The reduction is primarily a result of reduced oil emulsion and clean oil trucking as a result of the disposition in January 2012 and lower gas gathering and transportation fees.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Total	**1,957**	2,269	(14)	**4,115**	4,481	(8)
Per boe	**2.49**	2.80	(11)	**2.57**	2.88	(11)

GENERAL AND ADMINISTRATIVE

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Gross expenses	**3,095**	4,194	(26)	**5,828**	6,895	(15)
Overhead recoveries	**(219)**	(373)	(41)	**(821)**	(825)	-
Salary allocations	**(1,041)**	(1,532)	(32)	**(1,931)**	(2,573)	(25)
General and administrative expenses	**1,835**	2,289	(20)	**3,076**	3,497	(12)
Per boe	**2.34**	2.82	(17)	**1.92**	2.25	(15)

How do general and administrative costs in the second quarter of 2012 compare to 2011?

General and administrative ("G&A") expenses (after recoveries and allocations) for the three and six months ended June 30, 2012 were 20 percent and 12 percent lower than that in the same period in 2011, respectively. The reduction in gross expenses and the related overhead recoveries and salary allocations is primarily due to reduced cash compensation adjustments. Overhead recoveries and salary allocations are consistent with the Company's capital expenditures.

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

SHARE-BASED COMPENSATION

What is share-based compensation expense?

Share-based compensation expense is the amortization over the vesting period of the fair value of stock options and restricted share units granted to employees, directors and key consultants of the Company. The fair value of restricted share units is based on the Company's share price. The fair value of all options granted is estimated at the date of grant using the Black-Scholes option pricing model.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Share-based compensation	**681**	356	91	**1,389**	536	159
Capitalized costs	**(343)**	(25)	1,272	**(679)**	(39)	1,641
Net	**338**	331	2	**710**	497	43
Per boe	**0.43**	0.41	5	**0.44**	0.32	38

The share-based non-cash compensation expense for the three and six months ended June 30, 2012, increased 91 percent and 159 percent, respectively, over the comparative periods, primarily due to options granted subsequent to the second quarter of 2011. In the first half of 2012, Delphi granted 1.9 million options with a weighted average fair value of $0.51 per option. During the six months ended June 30, 2012, Delphi capitalized $0.7 million of share-based compensation expense.

Included in share-based compensation for the six months ended June 30, 2012 is $29,000 of expense related to the Company's outstanding restricted share units. During the six months ended June 30, 2012, Delphi capitalized $0.1 million of share-based compensation expense related to its outstanding restricted share units.

FINANCE COSTS

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Interest	**1,131**	1,303	(13)	**1,974**	2,683	(26)
Accretion and finance lease charges	**167**	138	(21)	**301**	279	8
Total finance costs	**1,298**	1,441	(10)	**2,275**	2,962	(23)
Interest per boe	**1.44**	1.61	(11)	**1.23**	1.73	(29)
Non-cash finance charges per boe	**0.21**	0.17	24	**0.19**	0.18	6

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

For the first half of 2012, bank interest charges decreased 26 percent when compared to the same period in 2011. Interest costs associated with the Company's long-term debt decreased as a result of a lower average debt balance in the three months ended June 30, 2012 when compared to the same period in 2011 and slightly lower interest rates charged on the Company's outstanding debt.

As at June 30, 2012, Delphi's bankers' acceptances have terms ranging from 59 to 91 days and a weighted average effective interest rate of 3.69 percent over the term.

What are accretion and finance lease charges and how do these expenses for the second quarter of 2012 compare to 2011?

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Accretion	**84**	138	(39)	**191**	279	(32)
Finance charge on finance lease obligation	**83**	-	-	**110**	-	-
Total	**167**	138	21	**301**	279	8
Accretion per boe	**0.10**	0.17	(41)	**0.12**	0.18	(33)
Finance charge on finance lease obligation per boe	**0.11**	**-**	**-**	**0.07**	**-**	**-**

The accretion of decommissioning obligations is an expense that relates to the passing of time until the Company estimates it will retire its assets and restore the asset locations to a condition which meets or exceeds environmental standards. Due to the long term nature of certain assets of the Company, this accretion expense is estimated to extend over a term of one to 20 years. The decrease in accretion expense is due to a decrease in the average risk free interest rate used for the calculation as at June 30, 2012 in comparison to the same period in 2011.

The finance charge on the Company's finance lease is calculated based on the implicit interest rate in the lease.

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

Delphi has entered into an interest rate swap transaction on borrowings through bankers' acceptances in the amount of $20.0 million maturing on June 1, 2014. The swap transaction has a fixed interest rate of 1.09%. The interest swap is fair valued at each reporting period and included in the fair value of financial instruments in the Company's consolidated balance sheets.

DEPLETION, DEPRECIATION AND IMPAIRMENT

Has the Company's depletion and depreciation rate and expense changed in the second quarter of 2012 compared to the second quarter of 2011?

Depletion and depreciation per boe for the three months ended June 30, 2012 decreased six percent, over the comparative period. The depletion and depreciation expense decreased as a result of lower production volumes and higher reserves.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Depletion and depreciation	**10,865**	11,522	(6)	**23,818**	22,123	8
Impairment loss	**-**	-	-	**21,000**	-	-
Total	**10,865**	11,522	(6)	**44,818**	22,123	103
Depletion and depreciation per boe	**13.82**	14.22	(3)	**14.85**	14.24	4
Impairment loss per boe	**-**	-	-	**13.09**	-	-

INCOME TAXES

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

Delphi recorded a deferred income tax recovery of $1.1 million and $5.3 million for the three and six months ended June 30, 2012. Deferred taxes arise from differences between the accounting and tax bases of the Company's assets and liabilities. Delphi does not anticipate it will be cash taxable before 2014.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Deferred tax (recovery) expense	**(1,077)**	2,150	(150)	**(5,349)**	2,361	(327)
Per boe	**(1.37)**	2.65	(152)	**(3.33)**	1.52	(319)

FUNDS FROM OPERATIONS

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

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

How do cash flow from operating activities and funds from operations in the second quarter of 2012 compare to 2011?

Delphi's cash flow from operating activities of $6.8 million for the three months ended June 30, 2012 decreased 64 percent from the $18.8 million generated in the same period in 2011. Delphi generated funds from operations of $7.2 million for the three months ended June 30, 2012, down 59 percent from the $17.5 million for the same period in 2011. The decrease in cash flow from operating activities and funds from operations for the second quarter of 2012 compared to the second quarter of 2011 was primarily the result of the continuation of the weakening sales price for natural gas, a decrease in crude oil prices and higher production expenses partially offset by an increase in realized gains on commodity risk management contracts and a decrease in transportation and general and administrative expenses.

Delphi's cash flow from operating activities of $15.1 million for the six months ended June 30, 2012 decreased 51 percent from the $30.5 million generated in the same period in 2011. Delphi generated funds from operations of $18.2 million for the six months ended June 30, 2012, down 44 percent from the $32.6 million for the same period in 2011. The decrease in cash flow from operating activities and funds from operations for the first half of 2012 compared to the first half of 2011 was primarily the result of overall weakening commodity sales prices and higher production expenses partially offset by an increase in realized gains on commodity risk management contracts and a decrease in transportation, general and administrative and interest expenses.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Cash flow from operating activities	**6,818**	18,749	(64)	**15,080**	30,525	(51)
Accretion of long-term debt	**168**	626	(73)	**374**	405	(8)
Decommissioning expenditures	**-**	-	-	**413**	-	-
Change in non-cash working capital	**195**	(1,858)	-	**2,288**	1,648	39
Funds from operations	**7,181**	17,517	(59)	**18,155**	32,578	(44)

NET EARNINGS

What factors contributed to the loss in 2012?

Delphi recorded a net loss of $3.5 million ($0.03 per basic share) for the second quarter of 2012, down from the $5.8 million net earnings ($0.05 per basic share) recorded in the same period in 2011. The net loss in the second quarter of 2012 compared to the net earnings in the second quarter of 2011 is primarily due to lower realized sale prices, a reduction in crude oil and natural gas liquids production and higher operating expenses. Average production volumes in the second quarter of 2012 are only three percent lower than the same period in 2011 while total realized sales price is down 28 percent in the second quarter of 2012 in comparison to the same period in 2011.

For the six months ended June 30, 2012, Delphi recorded a net loss of $19.4 million ($0.15 per basic share), down from the $6.7 million net earnings ($0.06 per basic share) recorded in the same period in 2011. The reduction in earnings is primarily due to lower realized sale prices, particularly for natural gas as Delphi's realized natural gas price for the six months ended June 30, 2012 decreased by 43 percent in comparison to the same period in 2011, higher operating expenses and a non-cash $21.0 million impairment on its oil and gas properties partially offset by higher gains on commodity risk management contracts and a deferred income tax recovery.

NETBACK ANALYSIS

How do Delphi's netbacks achieved in the second quarter and first six months of 2012 compare to 2011?

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

For the three and six months ended June 30, 2012, Delphi's cash netback per boe decreased 58 percent and 46 percent, respectively, compared to the same period in 2011, respectively. The decrease is primarily due to lower realized sales prices.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Barrels of oil equivalent ($/boe)						
Realized sales price	**29.89**	41.35	(28)	**29.83**	40.34	(26)
Royalties	**5.79**	5.89	(2)	**5.35**	5.82	(8)
Operating expenses	**8.69**	6.63	31	**7.44**	6.70	11
Transportation	**2.49**	2.80	(11)	**2.57**	2.88	(11)
Operating netback	**12.92**	26.03	(50)	**14.47**	24.94	(42)
General and administrative expenses	**2.34**	2.82	(17)	**1.92**	2.25	(15)
Interest	**1.44**	1.61	(11)	**1.23**	1.73	(29)
Cash netback	**9.14**	21.60	(58)	**11.32**	20.96	(46)
Unrealized loss/(gain) on commodity risk contracts	**(1.60)**	(2.86)	(44)	**(1.42)**	0.60	(337)
Stock-based compensation expense	**0.43**	0.41	5	**0.44**	0.32	38
Loss (gain) on dispositions	**2.15**	(0.08)	-	**(0.37)**	(0.22)	68
Depletion and depreciation	**13.82**	14.22	(3)	**27.94**	14.24	96
Accretion and finance lease charges	**0.21**	0.17	24	**0.19**	0.18	6
Deferred income taxes (recovery)	**(1.37)**	2.65	(152)	**(3.33)**	1.52	(319)
Net earnings (loss)	**(4.50)**	7.09	(163)	**(12.13)**	4.32	(381)

SELECTED INFORMATION

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

Over the last eight quarters, average production has grown from 8,114 boe/d to 8,636 boe/d. In 2010, the Company continued to be successful in its drilling program and focused on light oil and liquids-rich natural gas opportunities. For the 2010 fourth quarter, the company produced an average of 8,539 boe/day, an increase of twenty four percent over the same period in 2009. In the first quarter of 2011, production decreased to 8,259 boe/d as a result of natural declines in production and an outage at a non-operated processing facility resulting in the shut-in of 550 boe/d for 22 days in the quarter. Record production in the fourth quarter of 2011 of 9,337 boe/d was a result of another successful drilling program. Due to the continued deterioration of the natural gas price environment, the Company completed a strategic disposition of its non-operated light oil interests in the Hythe area and minor offsetting lands in order to develop its assets in the Bigstone Montney formation. Production for the second quarter of 2012 averaged 8,636 boe/d, a reduction from the fourth quarter of 2011 as a result of the disposition, plant turnarounds and natural declines.

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

Natural gas prices over the past two years have generally reflected the cyclical nature of demand. Higher prices have been realized in the winter months, reflecting demand for heating with lower prices through the summer months as production is placed in storage for the upcoming heating season demand. The average spot price for AECO in 2010 was $4.00 per mcf and in 2011, the average spot price for AECO was $3.63 per mcf. In the second quarter of 2012, the average spot price for AECO was $1.86 per mcf, the lowest average price in ten years. In 2010, WTI crude oil averaged U.S. $79.55, while in first half of 2011, crude oil prices increased exceeding U.S. $100 but withdrew in the second half of 2011. The average oil price in 2011 was U.S. $95.12. In the second quarter of 2012, WTI crude oil averaged U.S. $93.51 per barrel.

Net earnings of the Company are primarily driven by the difference between the cash netback realized per boe of production versus the Company’s depletion, depreciation and amortization (“DD&A”) rate. Overall finding and development (“F&D”) costs were $14.83 per proved plus probable boe in 2010 and $12.37 per proved plus probable boe in 2011.

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

	June 30 2012	Mar. 31 2012	Dec. 31 2011	Sept. 30 2011	Jun. 30 2011	Mar. 31 2011	Dec. 31 2010	Sep. 30 2010
Production								
Oil (bbls/d)	1,083	1,164	1,436	1,395	1,346	1,102	1,147	831
Natural gas liquids (bbls/d)	1,040	1,244	1,405	1,074	1,317	1,072	906	710
Natural gas (mcf/d)	39,080	39,510	38,973	38,989	37,460	36,509	38,918	39,439
Barrels of oil equivalent (boe/d)	8,636	8,993	9,337	8,967	8,906	8,259	8,539	8,114
Financial								
($ thousands except per share amounts)								
Crude oil and natural gas sales	21,875	24,143	33,115	32,194	32,678	28,900	29,792	26,554
Funds from operations	7,181	10,974	17,081	17,213	17,517	15,061	17,868	14,988
Per share – basic	0.05	0.08	0.14	0.15	0.15	0.13	0.16	0.13
Per share – diluted	0.05	0.08	0.14	0.14	0.15	0.13	0.16	0.13
Net earnings (loss)	(3,531)	(15,915)	825	4,058	5,757	962	1,744	(20,472)
Per share – basic	(0.03)	(0.12)	0.01	0.03	0.05	0.01	0.02	(0.18)
Per share – diluted	(0.03)	(0.12)	0.01	0.03	0.05	0.01	0.02	(0.18)

LIQUIDITY AND CAPITAL RESOURCES

Share Capital

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

At June 30, 2012, the Company had 131.0 million common shares outstanding (December 31, 2011 – 131.0 million). The common shares of Delphi trade on the TSX under the symbol DEE. The following table summarizes outstanding share data for the three and six months ended June 30, 2012:

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Weighted Average Common Shares		
Basic and diluted	131,060	131,030
Trading Statistics [1]		
High	1.42	2.23
Low	1.13	1.13
Average daily volume	274,981	300,993

[1] Trading statistics based on closing price

How many common shares and stock options are currently outstanding?

As at August 2, 2012, the Company had 131.2 million common shares outstanding and 11.7 milllion share options outstanding. The share options have an average exercise price of $1.82 per option.

Sources and Uses of Funds

	Three Months Ended June 30, 2012	Six Month Ended June 30, 2012
Sources:		
Cash and cash equivalents	**2,469**	**4,017**
Funds from operations	**7,181**	**18,155**
Disposition of petroleum and natural gas properties	**(11)**	**11,574**
Exercise of stock options	**19**	**39**
Change in non-cash working capital	**(35,058)**	**(20,500)**
	(25,400)	**13,285**
Uses:		
Capital expenditures	**11,391**	**64,674**
Accretion of long term debt	**168**	**374**
Finance lease obligation	**102**	**169**
Expenditures on decommissioning	**-**	**413**
	11,661	**65,630**
Change in long term debt	**37,061**	**52,345**

Bank Debt plus Working Capital Deficiency (Net Debt)

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

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

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

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

How much bank debt was outstanding on June 30, 2012?

At June 30, 2012, the Company had $79.4 million outstanding in the form of bankers' acceptances, $55.0 million drawn under Canadian-based prime loans and a working capital surplus of $16.5 million for total net debt of $117.9 million. Net debt is a non-IFRS term. Delphi's calculation of net debt includes long-term debt and the net working capital deficiency (surplus) before the current fair value of financial instruments.

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

The Company's credit facility was renewed by its lenders during the second quarter of 2012. The $145.0 million extendible revolving term credit facility with a syndicate of Canadian chartered banks is subject to the banks' semi-annual valuation of the Company's crude oil and natural gas properties. The facility is a 364 day committed facility available on a revolving basis until May 27, 2013 at which time it may be extended at the lenders' option. If the revolving period is not extended, the undrawn portion of the facility will be cancelled and the amount outstanding will convert to a 365 day non-revolving term facility. The amounts outstanding under the non-revolving facility are required to be repaid at the end of the non-revolving term being May 28, 2014. 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, US base rate or LIBOR plus the applicable margins, depending on the form of borrowing by the Company. The applicable margins and stamping fees are based on a sliding scale pricing grid tied to the Company's trailing debt to annualized quarterly cash flow ratio: from a minimum of the bank's prime rate or US base rate plus 1.00 percent to a maximum of the bank's prime rate or US base rate plus 2.50 percent or from a minimum of bankers' acceptances rate plus a stamping fee of 2.00 percent to a maximum of bankers' acceptances rate plus a stamping fee of 3.50 percent.

Under the terms of the credit facility, the Company covenants that it will maintain a working capital ratio of at least one to one. For the purpose of this ratio, the undrawn portion of the credit facility is added to current assets in the working capital calculation. The credit facility is secured by a $200.0 million demand floating charge debenture and a general security agreement over all assets of the Company. Delphi is in compliance with the covenants of its credit facility as at June 30, 2012.

Contractual Obligations

Does the Company have any contractual obligations as at June 30, 2012 that will require funding in future years?

The Company is committed to future minimum payments for natural gas transmission and processing and operating leases on compression equipment. In March of 2012, the Company entered into an arrangement to lease a compressor for one year with a commitment to purchase at the end of the term for $1.6 million. The Company also has a lease for office space in Calgary, Alberta. As noted above, bank debt is based on a revolving term which is reviewed annually and converts to a 365 day non-revolving term facility if not renewed.

The following are the contractual obligations as at June 30, 2012:

	2012	2013	2014	2015	2016
Gathering, processing and transmission	2,345	4,327	3,648	3,611	98
Office and equipment lease	1,102	631	509	509	522
Finance lease	203	1,642	-	-	-
Bank debt	-	-	134,356	-	-
Total	3,650	6,660	138,513	4,120	620

GUARANTEES AND OFF-BALANCE SHEET ARRANGEMENTS

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

Delphi has not entered into any guarantees or off-balance sheet arrangements. Certain lease agreements entered into in the normal course of operations could be considered off-balance sheet arrangements; however, all leases which are considered operating leases are charged to operating expenses or general and administrative expenses on a monthly basis according to the lease. In March of 2012, the Company entered into a lease agreement that is accounted for as a finance lease. As a result of this arrangement, an asset and an obligation have been recorded on the Company's consolidated statement of financial position as at June 30, 2012.

CRITICAL ACCOUNTING ESTIMATES

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

The reader is advised that the critical accounting estimates, judgments, policies and practices as described in the Company's Management's Discussion and Analysis for the year ended December 31, 2011 continue to be critical in determining Delphi's financial results.

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

NEW ACCOUNTING STANDARDS

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

During the six months ended June 30, 2012, there were no revised standards or amendments to IFRS issued. Refer to the Company's December 31, 2011 MD&A for a summary of future accounting pronouncements for which the Company is continuing to evaluate the impact of adopting those standards.

CORPORATE GOVERNANCE

Overview

The shareholders' interests are a critical factor in the operations and management of Delphi. The Company is committed to maintaining the highest level of investor confidence in the Company through the application of its corporate policies and procedures. Delphi's Board of Directors consists of six independent directors and two officers of the Company who meet regularly to discuss matters of strategy and execution of the business plan. See Delphi's Management Information Circular and Annual Information Form for a listing of committees that oversee specific aspects of the Company's operating and financial strategy.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the issuer's management, including its President and Chief Executive Officer and Senior Vice President, Finance and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company's President and Chief Executive Officer and Senior Vice President, Finance and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective and provide a reasonable level of assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified.

The Company notes that while it believes the disclosure controls and procedures and internal controls over financial reporting provide a reasonable level of assurance that they are effective, it does not expect that the disclosure controls and procedures and internal controls will prevent all errors and fraud. A control system is designed to provide reasonable, not absolute, assurance that the objectives of the control system are met.

ADDITIONAL INFORMATION

Where is additional information about Delphi available?

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

DELPHI ENERGY CORP.

Condensed Consolidated Statements of Financial Position

(thousands of dollars) (unaudited)	**June 30, 2012**	December 31 2011
Assets		
Current assets		
Cash and cash equivalents	**-**	4,017
Accounts receivable	**18,624**	18,770
Prepaid expenses and deposits	**3,114**	2,939
Assets held for sale (Note 4)	**24,414**	9,680
Fair value of financial instruments	**2,435**	546
	48,587	35,952
Exploration and evaluation (Note 5)	**11,761**	18,699
Property, plant and equipment (Note 6)	**395,301**	392,422
Total assets	**455,649**	447,073
Liabilities		
Current liabilities		
Outstanding cheques	**1,334**	-
Accounts payable and accrued liabilities	**25,730**	47,451
Liabilities held for sale (Note 4)	**559**	377
Decommissioning obligations	**412**	825
Finance lease obligation (Note 7)	**1,630**	-
Fair value of financial instruments	**942**	21
	30,607	48,674
Other liability (Note 9)	**-**	1,334
Long term debt (Note 8)	**134,356**	82,385
Decommissioning obligations	**18,740**	19,288
Fair value of financial instruments	**2,465**	3,772
Deferred income taxes	**19,231**	23,245
	205,399	178,698
Shareholders' equity		
Share capital (Note 9)	**275,741**	275,682
Contributed surplus	**13,762**	12,500
Deficit	**(39,253)**	(19,807)
Total shareholders' equity	**250,250**	268,375
Total liabilities and shareholders' equity	**455,649**	447,073

See accompanying notes to the condensed consolidated interim financial statements.

DELPHI ENERGY CORP.

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

(thousands of dollars, except per share amounts) (unaudited)	**Three Months Ended June 30, 2012**	2011	**Six Months Ended June 30, 2012**	2011
Revenue				
Crude oil and natural gas sales	**21,875**	32,678	**46,018**	61,578
Royalties	**(4,549)**	(4,771)	**(8,589)**	(9,040)
	17,326	27,907	**37,429**	52,538
Realized gain on financial instruments	**1,617**	842	**1,834**	1,105
Unrealized gain (loss) on financial instruments	**1,260**	2,318	**2,275**	(935)
	20,203	31,067	**41,538**	52,708
Expenses				
Operating	**6,829**	5,371	**11,933**	10,404
Transportation	**1,957**	2,269	**4,115**	4,481
General and administrative	**1,835**	2,289	**3,076**	3,497
Share-based compensation (Note 9)	**338**	331	**710**	497
Loss (gain) on property dispositions	**1,689**	(63)	**(594)**	(336)
Depletion and depreciation (Note 6)	**10,865**	11,522	**44,818**	22,123
	23,513	21,719	**64,058**	40,666
Finance costs	**1,298**	1,441	**2,275**	(2,962)
Earnings (loss) before income taxes	**(4,608)**	7,907	**(24,795)**	9,080
Income taxes				
Deferred income taxes (recovery)	**(1,077)**	2,150	**(5,349)**	2,361
Net earnings (loss) and comprehensive earnings (loss)	**(3,531)**	5,757	**(19,446)**	6,719
Net earnings (loss) per share (Note 9)				
Basic and diluted	**(0.03)**	0.05	**(0.15)**	0.06

See accompanying notes to the condensed consolidated interim financial statements.

DELPHI ENERGY CORP.

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

	Six Months Ended June 30,	
(thousands of dollars) (unaudited)	**2012**	2011
Share capital		
Common shares		
Balance, beginning of period	**275,682**	236,382
Issued for cash on a flow-through basis	**-**	8,160
Issued on exercise of options	**39**	1,800
Transferred on exercise of options	**20**	946
Share issue costs, net of tax	**-**	(32)
Balance, end of period	**275,741**	247,256
Contributed surplus		
Balance, beginning of period	**12,500**	11,987
Share-based compensation	**1,282**	536
Transferred on exercise of options	**(20)**	(946)
Balance, end of period	**13,762**	11,577
Deficit		
Balance, beginning of period	**(19,807)**	(31,409)
Net earnings (loss)	**(19,446)**	6,719
Balance, end of period	**(39,253)**	(24,690)
Total shareholders' equity	**250,250**	234,143

See accompanying notes to the condensed consolidated interim financial statements.

DELPHI ENERGY CORP.

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

(thousands of dollars) (unaudited)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Cash flow from (used in) operating activities				
Net earnings (loss)	**(3,531)**	5,757	**(19,446)**	6,719
Add non-cash items:				
Depletion and depreciation	**10,865**	11,522	**44,818**	22,123
Accretion and finance lease charges	**167**	138	**301**	279
Share-based compensation	**328**	331	**700**	497
Loss (gain) on property dispositions	**1,689**	(63)	**(594)**	(336)
Unrealized loss (gain) on financial instruments	**(1,260)**	(2,318)	**(2,275)**	935
Deferred income taxes (recovery)	**(1,077)**	2,150	**(5,349)**	2,361
Accretion of long term debt	**(168)**	(626)	**(374)**	(405)
Decommissioning expenditures	**-**	-	**(413)**	-
Change in non-cash working capital (Note 10)	**(195)**	1,858	**(2,288)**	(1,648)
	6,818	18,749	**15,080**	30,525
Cash flow from (used in) financing activities				
Issue of flow-through common shares, net of issue costs	**-**	(18)	**-**	8,928
Exercise of options	**19**	521	**39**	1,800
Finance lease obligation	**(102)**	-	**(169)**	-
Increase in long term debt	**37,061**	12,636	**52,345**	12,878
	36,978	13,139	**52,215**	23,606
Cash flow available for investing activities	**43,796**	31,888	**67,295**	54,131
Cash flow from (used in) investing activities				
Additions to exploration and evaluation	**(436)**	(713)	**(1,772)**	(969)
Additions to property, plant and equipment	**(10,955)**	(8,829)	**(62,902)**	(42,870)
Disposition of petroleum and natural gas properties	**(11)**	63	**11,574**	336
Acquisition of petroleum and natural gas properties	**-**	-	**-**	(87)
Change in non-cash working capital (Note 10)	**(34,863)**	(24,080)	**(18,212)**	(8,690)
	(46,265)	(33,559)	**(71,312)**	(52,280)
Increase (decrease) in cash and cash equivalents	**(2,469)**	(1,671)	**(4,017)**	1,851
Cash and cash equivalents, beginning of period	**2,469**	7,561	**4,017**	4,039
Cash and cash equivalents, end of period	**-**	5,890	**-**	5,890
Cash interest paid	**1,389**	1,973	**2,462**	3,169

See accompanying notes to the condensed consolidated interim financial statements.

1) STRUCTURE OF DELPHI

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

The condensed consolidated interim financial statements as at and for the three and six months ended June 30, 2012 comprise the accounts of the Company, its wholly-owned subsidiary and a partnership.

2) BASIS OF PRESENTATION

(a) Statement of compliance

These condensed consolidated interim financial statements are unaudited and prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board, and do not include all of the information and disclosures normally provided in annual financial statements and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2011.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors on August 7, 2012.

(b) Basis of measurement and functional currency

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

(c) Use of estimates and judgments

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying Delphi's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2011.

3) SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended December 31, 2011 with the exception of the following as a result of a new finance lease transaction (Note 7):

(a) 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 leases payments to a maximum of the asset's fair value. The asset is amortized in accordance with the Company's depletion and depreciation policy.

4) ASSETS AND LIABILITIES HELD FOR SALE

During the second quarter of 2012, Delphi entered into an agreement to sell its working interests associated with its proved Cardium assets in the Bigstone cash generating unit for gross proceeds of $23.0 million, subject to adjustments. The net proceeds from the disposition will be used to reduce the Company's bank indebtedness. The Company closed the sale on July 24, 2012. In addition to the Cardium assets held for sale, the Company has included certain pipe and production equipment as assets held for sale with a carrying value of $1.4 million. In accordance with IFRS 5, "Non-current Assets Held for Sale", the assets held for sale have been written down by $1.7 million to their fair value less costs to sell which is included in loss (gain) on property dispositions.

In the fourth quarter of 2011, the Company made the decision to market for disposition, certain non-operated interests in its Hythe cash generating unit ("CGU"). The Company completed the sale on January 16, 2012 for net proceeds of $11.0 million and recognized a gain on the disposition of $1.7 million which is included in loss (gain) on property dispositions.

5) EXPLORATION AND EVALUATION ASSETS

	Total
Balance as at December 31, 2010	2,787
Additions	15,912
Balance as at December 31, 2011	18,699
Additions	1,772
Transfer to oil and gas properties	(8,710)
Balance as at June 30, 2012	**11,761**

Exploration and evaluation assets consist of the Company's exploration projects which are pending the determination of proven and probable reserves. For the six months ended June 30, 2012, $8.7 million was transferred to property, plant and equipment following the successful discovery of proven and probable reserves.

6) PROPERTY, PLANT AND EQUIPMENT

Cost	**Crude oil and natural gas properties**	**Production equipment**	**Other assets**	**Total**
Balance as at December 31, 2010	409,087	27,528	621	437,236
Additions	101,943	334	137	102,414
Acquisitions	273	-	-	273
Dispositions	(14,449)	-	-	(14,449)
Reclassification to assets held for sale	(11,826)	-	-	(11,826)
Balance as at December 31, 2011	485,028	27,862	758	513,648
Additions	45,893	19,184	2	65,079
Reclassification to assets held for sale	(30,293)	(1,731)	-	(32,024)
Transfer from exploration and evaluation assets	8,710	-	-	8,710
Balance as at June 30, 2012	**509,338**	**45,315**	**760**	**555,413**

Accumulated depletion and depreciation	Crude oil and natural gas properties	Production equipment	Other assets	Total
Balance as at December 31, 2010	(74,066)	(5,583)	(129)	(79,778)
Additions	(44,924)	(494)	(117)	(45,535)
Dispositions	3,441	-	-	3,441
Reclassification to assets held for sale	2,146	-	-	2,146
Impairment losses	(1,212)	(288)	-	(1,500)
Balance as at December 31, 2011	(114,615)	(6,365)	(246)	(121,226)
Additions	(23,371)	(379)	(68)	(23,818)
Reclassification to assets held for sale	5,932	-	-	5,932
Impairment losses	(19,600)	(1,400)	-	(21,000)
Balance as at June 30, 2012	**(151,654)**	**(8,144)**	**(314)**	**(160,112)**
Net book value as at June 30, 2012	**357,684**	**37,171**	**446**	**395,301**
Net book value as at December 31, 2011	370,413	21,497	512	392,422

Delphi has included $195.4 million (June 30, 2011: $129.6 million) for future development costs and excluded $3.3 million (June 30, 2011: $3.3 million) for estimated salvage from the depletion calculation for the three months ended June 30, 2012.

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

For the year ended December 31, 2011, the Company recognized a $1.5 million impairment relating to its Hythe, Berland River and Miscellaneous Alberta CGUs. The impairments were based on the difference between the period end carrying value of the CGU's and the recoverable amount. The recoverable amounts were determined using a fair value less costs to sell methodology with the expected future cash flows based on proved and probable reserves using pre-tax discount rates of 8 to 12 per cent.

7) FINANCE LEASE OBLIGATION

The Company entered into an agreement in March 2012 to lease a compressor with a commitment to purchase at the end of the lease term. The lease arrangement has resulted in the recognition of an asset and an obligation. The carrying value of the asset under this finance lease at June 30, 2012 totaled $1.7 million.

The following is a schedule of future minimum lease payments including the purchase price for the asset under the finance lease obligation:

	Amount
2012	203
2013	1,642
	1,845
Amount representing implicit interest rate at 20.1%	(215)
Finance lease obligation	**1,630**

8) LONG TERM DEBT

	June 30, 2012	December 31, 2011
Prime-based loans	**55,000**	3,000
Bankers' acceptances, net of discount	**79,356**	79,385
Total	**134,356**	82,385

The Company's credit facility was renewed during the second quarter of 2012. The $145.0 million extendible revolving term credit facility with a syndicate of Canadian chartered banks is subject to the banks' semi-annual valuation of the Company's crude oil and natural gas properties. The facility is a 364 day committed facility available on a revolving basis until May 27, 2013 at which time it may be extended at the lenders' option. If the revolving period is not extended, the undrawn portion of the facility will be cancelled and the amount outstanding will convert to a 365 day non-revolving term facility. The amounts outstanding under the non-revolving facility are required to be repaid at the end of the non-revolving term being May 28, 2014. The non-extension provisions are applicable to the lenders on an individual basis.

9) SHARE CAPITAL

(a) Issued and outstanding		**June 30, 2012**		December 31, 2011
	Outstanding shares (000's)	**Amount**	Outstanding shares (000's)	Amount
Balance, beginning of period	**131,000**	**275,682**	112,825	236,382
Issue of common shares	**-**	**-**	10,005	22,011
Issue of flow-through common shares	**-**	**-**	6,100	14,801
Exercise of stock options	**60**	**39**	2,070	2,575
Allocated from contributed surplus	**-**	**20**	-	1,347
Share issue costs, net of deferred tax effect	**-**	**-**	-	(1,434)
Balance, end of period	**131,060**	**275,741**	131,000	275,682

On December 23, 2011, Delphi closed an equity issuance of 2.9 million flow-through common shares at a price of $2.75 for total gross proceeds of $8.0 million. A flow-through premium of $1.3 million related to the issuance of the flow-through common shares on December 23, 2011 was recorded as a long term liability on the consolidated statement of financial position. As of March 31, 2012, the Company satisfied its $8.0 million commitment to incur qualifying expenditures associated with its flow-through shares. As a result, deferred income tax of $2.0 million associated with the renouncement of the expenditures was recorded, the long term liability associated with the flow-through shares was derecognized and the difference of $0.7 million was recognized as deferred income tax expense.

(b) Share-based compensation

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

	June 30, 2012	
	Outstanding options (000's)	**Weighted average exercise price**
Balance, beginning of period	**10,591**	**1.89**
Granted	**1,885**	**1.31**
Forfeited	**(333)**	**1.90**
Expired	**(15)**	**1.93**
Exercised	**(60)**	**0.65**
Balance, end of period	**12,068**	**1.81**
Exercisable, end of period	**6,235**	**1.83**

The following table summarizes information about the stock options outstanding and exercisable at June 30, 2012:

	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
$0.65 - $0.97	**979**	**0.65**	**1.68**	**979**	**0.65**
$0.98 - $1.54	**3,796**	**1.37**	**4.43**	**165**	**1.26**
$1.55 - $1.72	**2,685**	**1.68**	**0.40**	**2,685**	**1.68**
$1.73 - $2.15	**875**	**1.95**	**2.42**	**520**	**1.87**
$2.16 - $3.34	**3,733**	**2.61**	**3.52**	**1,886**	**2.69**
Total	**12,068**	**1.81**	**2.87**	**6,235**	**1.83**

The Company accounts for its share-based compensation using the fair value method for all stock options. For the six months ended June 30, 2012, Delphi recorded share-based compensation expense of $1.3 million (June 30, 2011 - $0.5 million), of which $0.6 million was capitalized (2011: $39 thousand).

During the period ended June 30, 2012, the Company granted 1.9 million options. The fair values of all options granted during the period are estimated at the date of grant using the Black-Scholes option pricing model. The weighted average fair value of options granted during the period was $0.51 per option. The assumptions used in the Black-Scholes model to determine fair value were as follows:

For the six months ended June 30,	**2012**
Risk-free interest rate (%)	**1.3**
Expected life (years)	**3.3**
Forfeiture rate (%)	**15.1**
Expected volatility (%)	**54.5**

For the period ended June 30, 2012, Delphi recorded $30 thousand of share-based compensation expense and a $20 thousand liability related to the Company's outstanding restricted share units. The following table summarizes the changes of the RSU's:

For the six months ended June 30, 2012 (000's)	**Outstanding RSU's**
Balance, beginning of period	**332**
Granted	**1,206**
Vested and paid out	**(15)**
Forfeited	**(40)**
Balance, end of period	**1,483**

(c) Net earnings (loss) per share

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2012	2011	**2012**	2011
Weighted average common shares - basic	**131,060**	117,442	**131,030**	115,465
Dilutive effect of share options outstanding	**-**	2,218	**-**	2,218
Weighted average common shares - diluted	**131,060**	119,660	**131,030**	117,682

10) SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
Source/(use) of cash				
Accounts receivable	**528**	4,069	**146**	381
Prepaid expenses and deposits	**(64)**	246	**(175)**	(255)
Outstanding cheques	**1,334**	-	**1,334**	-
Accounts payable and accrued liabilities	**(36,856)**	(26,537)	**(21,805)**	(10,464)
Total change in non-cash working capital	**(35,058)**	(22,222)	**(20,500)**	(10,338)
Relating to:				
Operating activities	**(195)**	1,858	**(2,288)**	(1,648)
Investing activities	**(34,863)**	(24,080)	**(18,212)**	(8,690)
	(35,058)	(22,222)	**(20,500)**	(10,338)

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INDEPENDENT ENGINEERS

GLJ Petroleum Consultants Ltd.

STOCK EXCHANGE LISTING

Toronto Stock Exchange – DEE

TRANSFER AGENT

Olympia Trust Company

ABBREVIATIONS

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

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