MANAGEMENT'S REPORT

The financial statements of Delphi Energy Corp. were prepared by management in accordance with International Financial Reporting Standards.

The financial and operating information presented in this annual report is consistent with that shown in the financial statements.

Management has designed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of financial statements for reporting purposes. Timely release of financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. Such estimates are based on careful judgments made by management. External auditors appointed by the shareholders have conducted an independent examination of the Company's accounting records in order to express their opinion on the financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial and internal control. The Board exercises this responsibility through its Audit Committee. The Audit Committee, which consists of non-management members, has met with the external auditors and management in order to determine that management has fulfilled its responsibilities in the preparation of the financial statements. The Audit Committee has reported its findings to the Board of Directors who have approved the financial statements.

(signed)

David J. Reid,
President and Chief Executive Officer

(signed)

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

March 15, 2016
Calgary, Canada

KPMG LLP
205-5th Avenue SW
Suite 3100, Bow Valley Square 2
Calgary AB
T2P 4B9

Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Delphi Energy Corp.

We have audited the accompanying consolidated financial statements of Delphi Energy Corp., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Delphi Energy Corp. as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 15, 2016
Calgary, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

DELPHI ENERGY CORP.

Consolidated Statements of Financial Position

(thousands of dollars)	**December 31 2015**	December 31 2014
Assets		
Current assets		
Cash and cash equivalents	**2,472**	3,130
Accounts receivable (Note 6)	**15,809**	18,518
Prepaid expenses and deposits	**2,718**	3,099
Fair value of financial instruments (Note 4)	**18,877**	16,873
	39,876	41,620
Fair value of financial instruments (Note 4)	**4,152**	3,203
Exploration and evaluation (Note 7)	**19,213**	18,609
Property, plant and equipment (Note 8)	**297,601**	418,317
Total assets	**360,842**	481,749
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	**33,639**	41,097
Decommissioning obligations (Note 11)	**878**	477
Fair value of financial instruments (Note 4)	**3,008**	-
Subordinated debt (Note 10)	**13,954**	19,547
	51,479	61,121
Restricted share units	**53**	306
Long term debt (Note 10)	**94,192**	137,281
Fair value of financial instruments (Note 4)	**1,561**	-
Decommissioning obligations (Note 11)	**24,059**	49,573
Deferred income taxes (Note 12)	**-**	3,244
Total liabilities	**171,344**	251,525
Shareholders' equity		
Share capital (Note 13)	**309,389**	309,342
Contributed surplus	**19,361**	17,609
Deficit	**(139,252)**	(96,727)
Total shareholders' equity	**189,498**	230,224
Total liabilities and shareholders' equity	**360,842**	481,749

Commitments (Note 17)
Subsequent event (Note 4)
See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Directors:

(signed) "Stephen Mulherin"
Stephen Mulherin
Director

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

DELPHI ENERGY CORP.

Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2015 and 2014

(thousands of dollars, except per share amounts)	**2015**	2014
Revenues		
Crude oil and natural gas sales	**80,275**	163,870
Royalties	**(7,705)**	(24,664)
	72,570	139,206
Realized gain (loss) on financial instruments (Note 4)	**28,324**	(9,014)
Unrealized gain (loss) on financial instruments (Note 4)	**(1,616)**	25,932
	99,278	156,124
Expenses		
Operating	**30,337**	36,118
Transportation	**13,719**	13,927
Exploration and evaluation (Note 7)	**-**	3,634
General and administrative	**5,732**	5,358
Share-based compensation (Note 13)	**1,260**	3,295
Gain on property dispositions (Note 8)	**(8,299)**	(8,134)
Loss on decommissioning	**408**	433
Depletion, depreciation and impairment (Note 8)	**93,057**	101,477
	136,214	156,108
Finance costs (Note 14)	**8,833**	9,154
Loss before income taxes	**(45,769)**	(9,138)
Income taxes		
Deferred income taxes recovery (Note 12)	**(3,244)**	(1,875)
Net loss and comprehensive loss	**(42,525)**	(7,263)
Net loss per share (Note 13)		
Basic and diluted	**(0.27)**	(0.05)

See accompanying notes to the consolidated financial statements.

DELPHI ENERGY CORP.

Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2015 and 2014

(thousands of dollars)	2015	2014
Share capital		
Common shares		
Balance, beginning of year	**309,342**	305,027
Issued on exercise of options	**35**	2,947
Transferred on exercise of options	**12**	1,368
Balance, end of year	**309,389**	309,342
Contributed surplus		
Balance, beginning of year	**17,609**	16,663
Share-based compensation	**1,764**	2,314
Transferred on exercise of options	**(12)**	(1,368)
Balance, end of year	**19,361**	17,609
Deficit		
Balance, beginning of year	**(96,727)**	(89,464)
Net loss	**(42,525)**	(7,263)
Balance, end of year	**(139,252)**	(96,727)
Total shareholders' equity	**189,498**	230,224

See accompanying notes to the consolidated financial statements.

DELPHI ENERGY CORP.

Consolidated Statements of Cash Flows
For the years ended December 31, 2015 and 2014

(thousands of dollars)	2015	2014
Cash flow from (used in) operating activities		
Net loss	**(42,525)**	(7,263)
Adjustments for:		
Depletion, depreciation and impairment	**93,057**	101,477
Accretion and finance charges	**1,314**	1,562
Share-based compensation	**566**	1,257
Gain on property dispositions	**(8,299)**	(8,134)
Exploration and evaluation	**-**	3,634
Loss on decommissioning	**408**	433
Unrealized loss (gain) on financial instruments	**1,616**	(25,932)
Deferred income taxes recovery	**(3,244)**	(1,875)
Accretion of subordinated debt and long term debt	**124**	(332)
Decommissioning expenditures	**(744)**	(1,160)
Change in non-cash working capital (Note 18)	**4,077**	10,369
	46,350	74,036
Cash flow from (used in) financing activities		
Exercise of options	**35**	2,947
Decrease of subordinated debt	**(6,000)**	-
Increase (decrease) in long term debt	**(43,314)**	37,078
	(49,279)	40,025
Cash flow available for investing activities	**(2,929)**	114,061
Cash flow from (used in) investing activities		
Additions to exploration and evaluation	**(635)**	(44,864)
Acquisitions of exploration and evaluation	**-**	(8,800)
Additions to property, plant and equipment	**(56,815)**	(55,987)
Disposition of property, plant and equipment	**67,578**	16,615
Acquisition of property, plant and equipment (Note 8)	**-**	(8,858)
Change in non-cash working capital (Note 18)	**(7,857)**	(11,399)
	2,271	(113,293)
Increase (decrease) in cash and cash equivalents	**(658)**	768
Cash and cash equivalents, beginning of year	**3,130**	2,362
Cash and cash equivalents, end of year	**2,472**	3,130
Cash interest paid	**8,451**	6,792

See accompanying notes to the consolidated financial statements.

1) STRUCTURE OF DELPHI

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

The consolidated financial statements as at and for the year ended December 31, 2015 comprise the accounts of the Company, its wholly-owned subsidiary and a partnership.

2) BASIS OF PRESENTATION

(a) Statement of compliance and authorization

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 15, 2016.

(b) Basis of measurement and functional currency

The consolidated financial statements have been prepared on a going concern basis, using historical costs, except for derivative financial instruments and liabilities for cash-settled share-based payment arrangements which are measured at fair value. The financial statements are presented in Canadian dollars, the Company's functional currency and rounded to the nearest thousand (unless stated otherwise).

(c) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts in the consolidated financial statements and accompanying notes. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be material. Actual results may differ from these estimates. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The following are critical judgments that management has made in the process of applying Delphi's accounting policies and that have the most significant effect on the amounts recognized in these consolidated financial statements:

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

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

ii) Assessment of indicators of impairment

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

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

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

i) Depreciation and depletion

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

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

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

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

The recoverable amount of Delphi's CGUs were estimated as their value in use based on the following information:

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

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

- Reserves - Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward commodity price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being adjusted.
- Oil and gas prices - Forward price estimates of oil and natural gas prices are used in the cash flow model. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.
- Discount rate – Estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Changes in the general economic environment could result in significant changes to this estimate.

iii) Decommissioning obligations

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

iv) Share-based compensation

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

v) Deferred income taxes

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

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

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

The significant accounting policies applied by the Company in preparing these consolidated financial statements are detailed in note 19 followed by new and future accounting standards in note 20.

3) DETERMINATION OF FAIR VALUES

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

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

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

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

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

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

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2015 and December 31, 2014, the fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximated their carrying value due to their short term to maturity.

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

The fair value of property, plant and equipment recognized in a business combination is based on market values. The market value of property, plant and equipment is the estimated amount for which property, plant and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction wherein

the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests are estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally and internally prepared reserve reports. The risk adjusted discount rate is specific to the asset with reference to general market conditions. The market value of exploration and evaluation assets are estimated with reference to the market values of current arm's length transactions in comparable locations.

(c) Subordinated debt and long term debt:

The disclosure of the fair value of the Company's subordinated debt is measured at level 2 of the fair value hierarchy. The subordinated debt has a fair value of $15.5 million based on future cash flows associated with the facility discounted at current market rates of interest. In the case of long term debt, the fair value approximates its carrying value as it bears interest at floating rates and the applicable margin is indicative of the Company's current credit premium.

(d) Restricted share units:

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

(e) Derivatives:

Delphi's interest, foreign exchange, basis differential and commodity contracts are measured at level 2 of the fair value hierarchy. The fair value of commodity contracts is determined by discounting the remaining contracted petroleum and natural gas volumes by the difference between the contracted price and published forward price curves as at the consolidated financial position date. The fair value of interest rate swap contracts is determined by discounting the net future cash flows based on the fixed and variable rates associated with the notional amounts.

4) FINANCIAL RISK MANAGEMENT

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

(a) Market risk

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

Commodity price risk

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

As at December 31, 2015, Delphi had entered into the following commodity price risk management contracts:

Natural Gas Contracts

Time Period	Type of Contract	Average Quantity Contracted	Average Price ($/unit)		Reference
April 2013 – February 2016	Natural Gas - financial	3,000 GJ/d	$3.40	Cdn	AECO
December 2015 – December 2016	Natural Gas - financial	5,000 mmbtu/d	$3.45	U.S.	NYMEX
December 2015 – December 2016	Natural Gas - financial	5,000 mmbtu/d	$3.57	U.S.	NYMEX
December 2015 – December 2017	Natural Gas - financial	5,000 mmbtu/d	$3.55	U.S.	NYMEX
January 2016 – September 2016	Natural Gas – financial	2,400 mmbtu/d	$2.815	U.S.	Chicago
January 2016 – December 2016	Natural Gas - financial	2,500 GJ/d	$3.69	Cdn	AECO
January 2016 – December 2016	Natural Gas – financial	5,000 mmbtu/d	$3.86	U.S.	NYMEX
March 2016 – September 2016	Natural Gas – financial	2,850 mmbtu/d	$2.718	U.S.	Chicago
January 2017 – December 2017	Natural Gas – financial	2,500 mmbtu/d	$3.86	U.S.	NYMEX
January 2017 – December 2017	Natural Gas – financial	2,500 GJ/d	$3.75	Cdn	AECO

Crude Oil Contracts

Time Period	Type of Contract	Quantity Contracted	Price ($/unit)		Reference
January 2016 – December 2016	Crude Oil – financial	200 bbls/d	$78.46	Cdn	WTI
January 2016 – December 2016	Crude Oil – financial	200 bbls/d	$78.35	Cdn	WTI
January 2016 – December 2016 (1)	Crude Oil – collar (1)	400 bbls/d	$78.60 - $85.00	Cdn	WTI

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

Commencing December 1, 2015, Delphi began shipping the majority of its natural gas production through the Alliance pipeline system into the Chicago market. As a result, the Company has entered into the following Chicago – NYMEX basis differential contracts in order to fix the Chicago price on a portion of its production:

Basis Differential Contracts

Time Period	Type of Contract	Quantity Contracted	Differential (U.S. $/unit)
December 2015 – December 2016	Chicago – NYMEX differential	2,500 mmbtu/d	$0.010
December 2015 – December 2016	Chicago – NYMEX differential	5,000 mmbtu/d	$0.020
December 2015 – December 2016	Chicago – NYMEX differential	5,000 mmbtu/d	$0.010
December 2015 – December 2016	Chicago – NYMEX differential	2,500 mmbtu/d	$0.010
January 2016 – December 2016	Chicago – NYMEX differential	2,500 mmbtu/d	$0.025
January 2016 – December 2016	Chicago – NYMEX differential	2,500 mmbtu/d	$0.020

As at December 31, 2015, if the future strip prices for crude oil were $1.00 per barrel higher with all other variables held constant, the fair value of the oil risk management contracts would decrease by $181.0 thousand and the net loss after tax for the year would increase by $132.0 thousand. As at December 31, 2015, if the future strip prices for natural gas were $0.10 per gigajoule or million British thermal unit higher with all other variables held constant, the fair value of the natural gas risk management contracts would decrease by $2.3 million and the net loss after tax for the year would increase by $1.7 million.

Subsequent to December 31, 2015, Delphi entered into the following contracts:

Natural Gas

Time Period	Type of Contract	Quantity Contracted	Price ($/unit)		Reference
January 2017 – December 2017	Financial - fixed	4,500 mmbtu/d	$4.02	Cdn	NYMEX
January 2017 – December 2018	Financial - fixed	3,000 mmbtu/d	$2.77	U.S.	NYMEX
January 2018 – December 2019	Financial - fixed	2,000 mmbtu/d	$4.02	Cdn	NYMEX

Currency risk

Although substantially all of the Company's petroleum and natural gas sales in 2015 were denominated in Canadian dollars, commodity prices are largely denominated in U.S. dollars and as a result the prices that Canadian producers receive are influenced by the relationship between the Canadian and U.S. dollar. The exchange rate effect cannot be quantified but generally an increase in the value of the Canadian dollar as compared to the U.S. dollar will reduce the prices received by the Company for its crude oil and natural gas sales. Commencing December 1, 2015, Delphi began shipping the majority of its natural gas production through the Alliance pipeline system into the Chicago market. Delphi's realized natural gas price will be predominantly based on the Chicago index, increasing the foreign currency exchange risk on the Company's revenues, transportation expenses and financial instruments that are denominated in U.S. dollars.

At December 31, 2015, the Company had $1.5 million in U.S. dollars included in cash and cash equivalents on the consolidated statement of financial position.

The Company had the following foreign exchange rate swaps or related financial contracts in place as at December 31, 2015:

U.S. Dollar Forward Exchange Contracts

Time Period	Notional U.S. $	Exchange Rate (U.S.$ to Cdn$)
May 2015 – December 2018	250.0	1.2574
June 2015 – December 2016	250.0	1.1965
December 2015 – December 2016	200.0	1.2500
December 2015 – December 2016	275.0	1.2520
December 2015 – December 2016	200.0	1.2520
December 2015 – November 2017	200.0	1.2500
January 2016 – December 2017	200.0	1.3050
January 2016 – December 2017	200.0	1.3075
January 2016 – December 2017	300.0	1.3005

As at December 31, 2015, if the U.S. to Canadian dollar exchange rate would have been $0.01 higher, Delphi's net loss would have increased by $0.3 million ($0.3 million after tax).

Subsequent to December 31, 2015, Delphi entered into the following foreign exchange risk management contracts:

Time Period	Average Notional U.S. $	Average Exchange Rate (U.S.$ to Cdn$)
February 2016 – December 2016	431.8	1.4057
January 2017 – December 2017	85.4	1.3476
January 2017 – December 2017	55.0	1.3800

Interest rate risk

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

Interest rate risk is partially mitigated through short term fixed rate borrowings using bankers' acceptances. In addition, the Company has an interest rate swap transaction on borrowings through bankers' acceptances in the amount of $30.0 million maturing on May 1, 2017. The interest rate swap has a fixed interest rate of 0.875 percent.

During 2015, had the interest rate charged on the Company's long term debt been one percent higher, the net loss would have increased by $1.4 million ($1.0 million after tax).

Subsequent to December 31, 2015, Delphi entered into the following interest rate risk management contracts:

Time Period	Notional $	Fixed Interest Rate
February 2016 to February 2018	30,000	0.63%
February 2016 to February 2018	15,000	0.64%

Offsetting financial assets and financial liabilities

The fair value of the Company's risk management contracts as at December 31, 2015 is estimated to be a net asset of $18.5 million (December 31, 2014, net asset of $20.1 million) with the change in fair value of $1.6 million included in unrealized loss on financial instruments in the consolidated statement of loss. As at December 31, 2015, the following derivative financial assets and financial liabilities were offset on the consolidated statement of financial position:

	Gross Amounts of Recognized Financial Assets (Liabilities)	Gross Amounts of Recognized Financial Assets (Liabilities) Offset	Net Amounts of Financial Assets (Liabilities) Recognized
Risk management contracts			
Current asset	19,477	(600)	18,877
Current liability	(3,008)	-	(3,008)
Long term asset	4,152	-	4,152
Long term liability	(1,561)	-	(1,561)
Net asset	**19,060**	**(600)**	**18,460**

For the twelve months ended December 31, 2015, Delphi's risk management contracts resulted in realized gains of $28.3 million. During 2015, Delphi unwound some of its risk management contracts for proceeds of $9.9 million, which is included in realized gains on financial instruments in the consolidated statement of earnings (loss).

(b) Credit risk

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

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

Receivables from crude oil and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers. Delphi sells the majority of its production to two major purchasers and is therefore exposed to concentration risk. The Company historically has not experienced any collection issues with large purchasers.

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

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

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. As at December 31, 2015, the Company's receivables included $6.1 million of receivables from crude oil and natural gas marketers which has been collected subsequent to December 31, 2015. As at December 31, 2015, approximately $3.2 million of the Company's receivables past the due date are from various joint interest partners. Although the accounts from joint interest partners are past due, they are still deemed collectible. As at December 31, 2015, the Company has a provision for uncollectible accounts of $0.1 million.

Delphi's accounts receivables are aged as follows:

	December 31, 2015	December 31, 2014
Current (less than 90 days)	**12,292**	17,426
Past due (more than 90 days)	**3,517**	1,092
Total	**15,809**	18,518

(c) Liquidity risk

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

The Company generates a certain level of cash flow from operations which is used to partially fund all operating, investing and capital activities. Delphi attempts to match its payment cycle with the collection of petroleum and natural gas revenues on the 25th of each month. In addition, the Company has a 364 day revolving credit facility in the amount of $132.5 million with a syndicate of Canadian chartered banks with a one year term-out provision (see note 10). The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

The expected timing of cash flows relating to financial liabilities as at December 31, 2015 is as follows:

Financial liabilities	**Carrying amount**	**< 1 Year**	**1 – 2 Years**	**3 – 5 Years**	**Thereafter**
Accounts payable and accrued liabilities [1]	33,346	33,346	-	-	-
Restricted share units	346	187	159	-	-
Subordinated debt	13,954	14,210	-	-	-
Long term debt [2]	94,192	-	95,000	-	-
Total	141,838	47,743	95,159	-	-

(1) Excludes the current portion of the restricted share units as they are disclosed separately on this table.
(2) Long term debt is based on a revolving term which is reviewed semi-annually and converts to a 365 day non-revolving term facility if not renewed.

5) CAPITAL MANAGEMENT

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

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

The key measure used by the Company to evaluate its capital structure is the ratio of net debt to funds from operations. Funds from operations is defined as cash flow from operating activities before accretion of long term and subordinated debt, decommissioning expenditures and changes in non-cash working capital from operating activities. This ratio represents the time period required to repay the Company's net debt from funds generated from operations on the assumption there are no further capital expenditures incurred and funds from operations remain constant. The measure is often calculated on an annualized most recent quarter basis to provide a more current view of the Company's capital structure.

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

At December 31, 2015, net debt was $121.7 million and annualized funds from operations based on the fourth quarter was $53.3 million resulting in a net debt to funds from operations ratio of 2.3:1. This ratio may increase at certain times as a result of acquisitions, the timing of capital expenditures or change in commodity prices.

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

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

The Company's share capital is not subject to external restrictions, however, the Company's credit facilities do contain financial covenants that are outlined in note 10.

6) ACCOUNTS RECEIVABLE

Accounts receivable is comprised as follows:

	December 31, 2015	December 31, 2014
Revenue	**8,207**	12,889
Joint partners	**6,267**	4,661
Other [1]	**1,335**	968
Total	**15,809**	18,518

(1) This balance is due from government agencies for input tax credits and royalty credits. Approximately $1.3 million has been collected subsequent to December 31, 2015.

7) EXPLORATION AND EVALUATION ASSETS

	Total
Balance as at December 31, 2013	24,666
Additions	44,864
Acquisitions	8,800
Expense	(3,634)
Transfer to oil and gas properties	(56,087)
Balance as at December 31, 2014	18,609
Additions	635
Dispositions	(31)
Balance as at December 31, 2015	**19,213**

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

During the year, Delphi added $0.6 million of exploration and evaluation expenditures related to developing the Montney formation in Bigstone. In the fourth quarter of 2015, the Company disposed of some undeveloped land as part of the disposition of its Hythe CGU. No exploration and evaluation assets were transferred to property, plant and equipment during the year as the Company focused on developing assets with proven reserves.

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

8) PROPERTY, PLANT AND EQUIPMENT

Cost	Crude oil and natural gas properties	Production equipment	Other assets	Total
Balance as at December 31, 2013	614,194	50,312	885	665,391
Additions	35,388	22,353	151	57,892
Acquisitions	10,356	1,070	-	11,426
Decommissioning obligations	6,384	832	-	7,216
Dispositions	(28,507)	(1,184)	-	(29,691)
Transfer from exploration and evaluation assets	56,087	-	-	56,087
Balance as at December 31, 2014	693,902	73,383	1,036	768,321
Additions	55,397	1,732	44	57,173
Decommissioning obligations	75	(991)	-	(916)
Dispositions	(319,724)	(14,368)	-	(334,092)
Balance as at December 31, 2015	**429,650**	**59,756**	**1,080**	**490,486**

Accumulated depletion and depreciation	Crude oil and natural gas properties	Production equipment	Other assets	Total
Balance as at December 31, 2013	(251,462)	(13,634)	(502)	(265,598)
Depletion and depreciation	(43,444)	(1,357)	(128)	(44,929)
Dispositions	16,522	549	-	17,071
Impairment losses	(53,212)	(3,336)	-	(56,548)
Balance as at December 31, 2014	(331,596)	(17,778)	(630)	(350,004)
Depletion and depreciation	(38,399)	(1,580)	(117)	(40,096)
Dispositions	249,903	273	-	250,176
Impairment losses	(45,715)	(7,246)	-	(52,961)
Balance as at December 31, 2015	**(165,807)**	**(26,331)**	**(747)**	**(192,885)**
Net book value as at December 31, 2015	**263,843**	**33,425**	**333**	**297,601**
Net book value as at December 31, 2014	362,306	55,605	406	418,317

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

Delphi has included $243.7 million (December 31, 2014 - $391.4 million) for future development costs and excluded $1.9 million (December 31, 2014 - $5.7 million) for estimated salvage from the depletion and depreciation calculation for the three months ended December 31, 2015.

For the year ended December 31, 2015, Delphi capitalized $2.2 million (December 31, 2014 - $2.8 million) of general and administrative expenses and $0.7 million (December 31, 2014 - $0.9 million) of share-based compensation expense directly related to exploration and development activities.

Acquisitions

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

Dispositions

In the second quarter of 2015, Delphi disposed of a certain interest in its British Columbia CGU for net proceeds of $469 thousand. The net assets sold had a net book value of $333 thousand, including decommissioning obligations of $515 thousand, resulting in a $136 thousand gain on the disposition.

During the third quarter of 2015, Delphi disposed of its Wapiti CGU for net proceeds of $48.8 million. The assets had a net book value of $53.5 million, including decommissioning obligations of $6.8 million, resulting in a $4.7 million loss on the disposition. In addition, Delphi received proceeds of $4.6 million in exchange for a gross overriding royalty on two gross wells completed during the quarter. A gain of $2.0 million was recorded on this disposition.

During the fourth quarter of 2015, the Company disposed of its Hythe CGU and some assets in the Company's Miscellaneous AB and British Columbia CGUs for net proceeds of $11.4 million ("Greater Hythe"). The assets had a net

book value of $1.4 million, including decommissioning obligations of $17.3 million, resulting in a gain of $10.0 million. Delphi also received $2.3 million in exchange for a gross overriding royalty on a well that was completed during the quarter. A gain of $0.9 million was recorded on the sale of the gross overriding royalty.

In 2014, Delphi received net proceeds of $16.7 million for oil and gas properties with a net book value of $9.7 million, including decommissioning liabilities of $2.8 million, resulting in a gain of $6.9 million. In addition, Delphi exchanged assets with a net book value of $69 thousand for assets with a fair value of $1.3 million, resulting in a gain of $1.2 million.

Impairment

During the second quarter of 2015, due to minimal capital spending in all CGUs with the exception of Bigstone, a loss recognized on the sale of the Company's Wapiti CGU and a further decrease in the forward price curves for natural gas and crude oil, Delphi determined that indicators of impairment were present in all CGUs, other than Bigstone. As a result of the impairment tests, Delphi recognized $19.1 million of impairments relating to its Hythe, Miscellaneous Alberta and British Columbia CGUs. The impairments were based on the difference between the period end carrying value of the CGUs and the recoverable amount. The recoverable amounts were determined using a fair value less costs to sell methodology with the expected future cash flows based on proved and probable reserves using pre-tax discount rates of 15 to 20 percent.

As at December 31, 2015, Delphi identified indicators of impairment, such as the continued weak commodity price environment and a reduction in property cash flows. As a result, the Company's only remaining CGU, Bigstone, was tested for impairment. Delphi has recognized a $33.9 million impairment based on the difference between the year-end carrying value and the CGU's estimated recoverable amount. This is the first time the Bigstone CGU has experienced an impairment. Delphi rationalizes this impairment as being associated with the Company's first four wells drilled in the Montney at Bigstone which were completed using a gelled oil fracturing technique yielding significantly lower reserves and production rates as compared to the Company's subsequent wells which were completed using a slickwater fracturing technique. The value in use methodology included the expected future cash flows of proved and probable reserves using a pre-tax discount rate of approximately eleven percent plus an estimate of the fair value of the undeveloped land associated with the CGU's reserves.

The following independent reserves evaluators' price estimates were used in the determination of future cash flows for the impairment test as at December 31, 2015:

	Crude Oil		**Natural Gas Liquids**			**Natural Gas**		
Year	**West Texas Intermediate (US$/bbl)**	**Edmonton Par (Cdn$/bbl)**	**Edmonton Propane (Cdn$/bbl)**	**Edmonton Butane (Cdn$/bbl)**	**Edmonton Pentanes Plus (Cdn$/bbl)**	**AECO spot (Cdn$/mmbtu)**	**Midwest at Chicago (US$/mmbtu)**	**Exchange rate $US/$Cdn**
2016	45.00	55.86	9.58	41.90	60.79	2.76	2.70	0.725
2017	54.00	64.00	16.00	48.00	68.48	3.27	3.20	0.750
2018	61.00	68.39	20.52	51.29	73.17	3.45	3.40	0.775
2019	67.00	73.75	25.81	55.31	78.91	3.63	3.60	0.800
2020	73.00	78.79	27.58	59.09	84.30	3.81	3.80	0.825
2021	78.00	82.35	28.82	61.76	88.12	3.90	4.00	0.850
2022	83.00	88.24	30.88	66.18	94.41	4.10	4.20	0.850
2023	88.00	94.12	32.94	70.59	100.71	4.30	4.40	0.850
2024	91.39	96.48	33.77	72.36	103.24	4.50	4.60	0.850
2025[(1)]	93.22	98.41	34.44	73.81	105.30	4.60	4.70	0.850

(1) Percentage change of 2% represents the change in future prices each year after 2025 to the end of the reserve life.

The recoverable amount is highly sensitive to the discount rate and forecast future commodity prices. Holding all other variables constant, if the discount rate applied to the Bigstone CGU increased to twelve percent, the impairment would increase by $23.3 million.

For the year ended December 31, 2014, Delphi recognized $56.5 million of impairments relating to its Hythe, Wapiti, Berland River and Miscellaneous Alberta CGUs. The impairments were based on the difference between the period end carrying value of the CGUs and the recoverable amount. The recoverable amounts were determined using a fair value less costs to sell methodology with the expected future cash flows based on proved and probable reserves using pre-tax discount rates of 15 to 20 percent.

9) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised as follows:

	December 31, 2015	December 31, 2014
Trade	**10,586**	10,756
Royalties	**2,746**	2,346
Joint partners	**4,125**	6,174
Capital	**16,182**	21,728
Other	**-**	93
Total	**33,639**	41,097

10) LONG TERM DEBT AND SUBORDINATED DEBT

	December 31, 2015	December 31, 2014
Senior Credit Facility (1)		
Prime-based loans	**-**	38,000
Bankers' acceptances, net of discount	**94,192**	99,281
	94,192	137,281
Subordinated debt, net of finance costs	**13,954**	19,547
Total	**108,146**	156,828

(1) As at December 31, 2015, the Company had outstanding letters of credit totaling $6.2 million.

During the third quarter of 2015, the Company's senior extendible revolving credit facility was re-determined giving effect to the disposition of the Company's Wapiti CGU, resulting in a $175.0 million credit facility with borrowings in excess of $140.0 million subject to the consent of the lenders. During the fourth quarter of 2015, Delphi's lenders' completed their semi-annual review of the Company's senior credit facilities. The review primarily incorporated the disposition of the Company's Greater Hythe assets, Delphi's risk management program, the success of the development of the Company's Montney assets and the lenders' view of future commodity prices. As a result, Delphi's senior credit facility was reduced to $132.5 million, consisting of a $15.0 million operating facility and a $117.5 million revolving facility. Delphi has applied the proceeds from the dispositions against its senior and subordinated credit facilities.

The Company's senior extendible revolving term credit facility with a syndicate of Canadian chartered banks is subject to the banks' semi-annual review of the Company's crude oil and natural gas properties. The facility is a 364 day committed facility available on a revolving basis until May 25, 2016 at which time it may be extended at the lenders' option. If the revolving period is not extended, the undrawn portion of the facility will be cancelled and the amount outstanding will convert to a 365 day non-revolving term facility. The amounts outstanding under the non-revolving facility would be required to be repaid at the end of the non-revolving term being May 25, 2017. The non-extension provisions are applicable to the lenders on an individual basis.

Interest payable on amounts drawn under the facility is at the prevailing bankers' acceptance rates plus stamping fees, lenders' prime rate or U.S. base rate plus the applicable margins, depending on the form of borrowing by the Company. The applicable margins and stamping fees are based on a sliding scale pricing grid tied to the Company's trailing net debt to annualized quarterly funds from operations ratio: from a minimum of the bank's prime rate or U.S. base rate plus 1.00 percent to a maximum of the bank's prime rate or U.S. base rate plus 3.00 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 4.00 percent.

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

The annual review of the Company's $132.5 million extendible revolving term credit facility will be conducted prior to May 25, 2016. The borrowing base of the facilities will be based on the lenders' evaluation of the Company's petroleum and natural gas reserves at the time and commodity prices. A decrease in the borrowing base could result in a reduction to the credit facility, which may require a repayment to the lenders.

In addition to the syndicated credit facility, the Company has a subordinated demand credit facility with a Canadian energy and resource lender. During the third quarter of 2015, as a result of the proceeds from the disposition of the Company's Wapiti CGU, the Company repaid $6.0 million on its subordinated facility. The repayment has resulted in a decrease in the facility from $20.0 million to $14.0 million.

The debt is secured by the Company's assets and subordinate to the Company's senior credit facility. The subordinated debt has a maturity date of June 30, 2016. At maturity, the Company expects to repay the subordinated debt through borrowings under its senior credit facility or through an equivalent or similar replacement facility.

The subordinated debt has an annual coupon rate of 10.5 percent with interest payable monthly. A deferred fee of 1.5 percent of the facility is due upon maturity.

The subordinated debt is presented net of financing costs and is accreted using the effective interest rate method such that the carrying amount of the subordinated debt will be equal to the principal amount plus the 1.5 percent deferred fee at maturity.

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

Financial covenant	Requirement	As at December 31, 2015	Facility subject to financial covenant
Adjusted working capital ratio	≥ 1.0 : 1.0	1.2	Senior, Subordinated
Net debt to equity ratio	< 1.0 : 1.0	0.6	Subordinated
Net debt to funds from operations ratio as at December 31, 2015 (1)	≤ 3.5 : 1.0	2.3	Subordinated

(1) Delphi is not subject to a net debt to funds from operations ratio covenant subsequent to December 31, 2015.

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

Adjusted working capital ratio

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

Net debt to equity ratio

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

Net debt to funds from operations ratio

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

Delphi is in compliance with all covenants as at December 31, 2015.

11) DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from working interests in crude oil and natural gas assets including well sites, gathering systems and processing facilities. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future years. The Company estimates the undiscounted total future liability of $32.6 million (December 31, 2014 - $73.2 million) to be settled over the next 47 years. A risk-free rate between 0.48 percent to 2.15 percent (December 31, 2014 - 1.01 percent to 2.33 percent) and an inflation rate of 2.5 percent were used to calculate the estimated fair value of the decommissioning obligations.

A reconciliation of the decommissioning obligations is provided below:

	December 31, 2015	December 31, 2014
Balance, beginning of year	**50,050**	42,686
Liabilities incurred	**1,021**	1,138
Liabilities acquired	**-**	2,568
Liabilities disposed	**(24,668)**	(2,859)
Liabilities settled	**(337)**	(727)
Accretion expense	**807**	1,166
Change in estimate	**(2,619)**	5,723
Change in discount rate	**683**	355
	24,937	50,050
Current portion	**(878)**	(477)
Balance, end of year	**24,059**	49,573

12) DEFERRED INCOME TAXES

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

	December 31, 2015	December 31, 2014
Loss before income taxes	**(45,769)**	(9,138)
Statutory tax rate	**26%**	25%
Expected income tax recovery	**(11,900)**	(2,285)
Stock-based compensation and other non-deductible items	**379**	445
Other	**(81)**	(35)
Change in tax rates	**(133)**	-
Change in unrecognized deferred income tax asset	**8,491**	-
Total deferred income taxes recovery	**(3,244)**	(1,875)

Due to the impairments recognized in 2015 and the continued weak commodity price outlook, Delphi has not recognized its deferred income tax asset of $8.5 million.

As of July 1, 2015, the Alberta government increased the provincial tax rate to twelve percent, from ten percent for a combined federal and provincial tax rate of 27 percent.

The components in deferred income tax assets and liabilities for the years ended December 31, 2015 and 2014 are as follows:

	Balance December 31, 2015	Balance December 31, 2014
Deferred income tax assets:		
Decommissioning obligations	**6,733**	12,513
Restricted share units	**94**	297
Non capital losses	**12,039**	24,938
Share issue costs	**104**	288
Other	**184**	100
Deferred income tax liabilities:		
Risk management asset	**(4,984)**	(5,019)
Exploration and evaluation and property, plant and equipment	**(14,170)**	(36,361)
Net deferred income tax liability	-	(3,244)

Non capital losses of $76.0 million will expire in years 2028 through to 2030.

The Company's unrecognized deductible temporary differences are as follows:

	Balance December 31, 2015	Balance December 31, 2014
Non capital losses	**31,448**	-

13) SHARE CAPITAL

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

(a) Issued and outstanding	**December 31, 2015**		December 31, 2014	
	Outstanding shares (000's)	**Amount**	Outstanding shares (000's)	Amount
Balance, beginning of year	**155,477**	**309,342**	153,254	305,027
Issued on exercise of stock options	**33**	**35**	2,223	2,947
Transferred on exercise of options	**-**	**12**	-	1,368
Balance, end of year	**155,510**	**309,389**	155,477	309,342

(b) Share-based compensation

The Company has established a stock option plan under which it has granted options to acquire common shares to certain officers, directors, employees and key consultants. The plan provides for the granting of options of up to ten percent of the issued and outstanding common shares of the Company. Options granted on May 31, 2011 to December 31, 2012 vest over a four-year period with one-fourth vesting on each of the first, second, third and fourth anniversary of the grant date. Options granted subsequent to December 31, 2012 vest over a three year period with one-third vesting on each of the first, second and third anniversary date of the grant. On December 24, 2015, Delphi granted 30,000 options to an employee which vests over a two year period with one-third vesting immediately on the grant date.

The exercise price of each option equals the five day weighted average of the market price of the Company's common shares, immediately preceding the date of the grant. As at December 31, 2015, a total of 15.5 million options to purchase shares were reserved and 14.4 million options to purchase shares were outstanding, leaving an additional 1.1 million available for future grants.

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

	December 31, 2015		December 31, 2014	
	Outstanding options (000's)	**Weighted average exercise price**	Outstanding options (000's)	Weighted average exercise price
Balance, beginning of year	**12,731**	**1.92**	12,852	1.56
Granted	**2,380**	**0.83**	2,150	3.47
Forfeited	**(37)**	**2.35**	(48)	2.31
Exercised	**(33)**	**1.05**	(2,223)	1.33
Expired	**(600)**	**2.72**	-	-
Balance, end of year	**14,441**	**1.71**	12,731	1.92
Exercisable, end of year	**8,483**	**1.80**	5,310	1.88

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2015:

	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
$0.81 - $1.88	**9,953**	**1.15**	**2.53**	**5,424**	**1.28**
$1.89 - $2.71	**2,426**	**2.48**	**0.51**	**2,365**	**2.49**
$2.72 - $3.54	**1,975**	**3.47**	**3.41**	**665**	**3.47**
$3.55 - $4.37	**87**	**4.37**	**3.69**	**29**	**4.37**
Total	**14,441**	**1.71**	**2.32**	**8,483**	**1.80**

During 2015, a total of 33 thousand options were exercised. The weighted average share trading price of the Company's common shares at the dates of exercise was $1.66.

The Company accounts for its share-based compensation using the fair value method for all stock options. For the year ended December 31, 2015, Delphi recognized share-based compensation expense of $1.8 million (December 31, 2014 - $2.3 million) related to its stock options, of which $0.5 million was capitalized (December 31, 2014: $0.7 million).

During the year ended December 31, 2015, the Company granted 2.4 million options (December 31, 2014: 2.2 million). The fair values of all options granted during the period are estimated at the date of grant using the Black-Scholes option pricing model. The weighted average fair value of options granted during the period was $0.36 per option (December 31, 2014 - $1.20 per option). The weighted average of the assumptions used in the Black-Scholes model to determine fair value were as follows:

For the years ended December 31,	**2015**	2014
Risk-free interest rate (%)	**0.68**	1.2
Expected life (years)	**4.2**	3.4
Forfeiture rate (%)	**9.3**	11.5
Expected volatility (%)	**56.3**	46.7

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

For the year ended December 31, 2015, Delphi recorded $168.3 thousand (December 31, 2014: $1.9 million) of share-based compensation expense related to its RSUs, of which $151.0 thousand was capitalized (December 31, 2014: $0.2 million). As at December 31, 2015, Delphi has included $0.3 million (December 31, 2014: $0.9 million) in accounts payable and accrued liabilities related to the outstanding vested RSUs. The following table summarizes the changes in the number of outstanding RSUs:

	December 31, 2015	December 31, 2014
	Outstanding units (000's)	Outstanding units (000's)
Balance, beginning of year	**1,290**	1,491
Granted	**-**	482
Forfeited	**(6)**	(24)
Redeemed	**(740)**	(659)
Balance, end of year	**544**	1,290

(c) Net earnings (loss) per share

Net loss per share has been calculated based on a net loss of $42.5 million (2014 loss: $7.3 million) and the following weighted average common shares:

For the years ended December 31,	2015	2014
Weighted average common shares - basic	**155,501**	154,839
Dilutive effect of share options outstanding	**-**	-
Weighted average common shares - diluted	**155,501**	154,839

For the year ended December 31, 2015, a total of 14.4 million share options (2014: 12.7 million) were excluded from the calculation as they were anti-dilutive.

14) FINANCE COSTS

Finance costs is comprised of the following:

For the years ended December 31,	2015	2014
Interest on long term debt	**5,580**	5,883
Effective interest on subordinated debt	**2,446**	2,105
Accretion on decommissioning obligations	**807**	1,166
Total	**8,833**	9,154

15) NATURE OF EXPENSES

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

For the years ended December 31,	2015	2014
Operating	**29,427**	35,210
General and administrative	**2,699**	2,722
Employee compensation	**3,943**	3,544
Total	**36,069**	41,476

16) KEY MANAGEMENT COMPENSATION

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

For the years ended December 31,	2015	2014
Salaries and other short-term employee benefits	**2,446**	2,577
Long term incentive compensation	**288**	294
Share-based compensation (1)	**1,015**	2,286
Total	**3,749**	5,157

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

17) COMMITMENTS

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

	2016	2017	2018	2019	2020	Thereafter
Gathering, processing and transmission [(1)]	18,819	22,740	24,568	24,815	20,888	7,036
Office, equipment and software leases	1,585	991	-	-	-	-
Interest payments on subordinated debt	735	-	-	-	-	-
Total	21,139	23,731	24,568	24,815	20,888	7,036

(1) Balances denominated in US dollars have been translated at the December 31, 2015 exchange rate.

18) SUPPLEMENTAL CASH FLOW INFORMATION

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

For the years ended December 31,	**2015**	2014
Source (use) of cash		
Accounts receivable	**2,709**	1,736
Prepaid expenses and deposits	**381**	1,506
Accounts payable and accrued liabilities [(1)]	**(6,870)**	(4,272)
Total change in non-cash working capital	**(3,780)**	(1,030)

(1) Includes changes related to the long term portion of the RSUs.

Relating to:		
Operating activities	**4,077**	10,369
Investing activities	**(7,857)**	(11,399)
	(3,780)	(1,030)

19) SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

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

(b) Jointly controlled operations and assets

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

(c) Foreign currency transactions

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

(d) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. All financial instruments, including all derivatives, are recognized on the consolidated

statement of financial position at fair value at the time the Company becomes a party to the provisions of the contract. Subsequently, all financial assets and liabilities, except financial assets and liabilities carried at fair value through earnings or loss and available-for-sale, are measured at amortized cost determined using the effective interest method. Financial assets and liabilities carried at fair value through earnings or loss are measured at fair value with changes in fair value recognized in the consolidated statement of earnings (loss). Available-for-sale financial assets are measured at fair value with changes in fair value recognized in other comprehensive earnings and reclassified to earnings when derecognized or impaired. The Company does not hold any available-for-sale financial assets.

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

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

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

The Company has the following classifications:

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

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

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

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

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

(e) Exploration and evaluation assets

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

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

by well, field or exploration area.

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

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

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

(f) Property, plant and equipment

i) Recognition and measurement

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

ii) Subsequent costs

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

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

iii) Asset exchanges

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

iv) Depletion and depreciation

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

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

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

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

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

Furniture and office equipment	5 years
Leaseholds	Term of the lease

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

(g) Business combinations

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

(h) Assets held for sale

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

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

(i) Impairment

(i) Financial assets

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

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

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

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

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

(ii) Non-financial assets

The carrying amount of property, plant and equipment is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment if 1) sufficient data exists to determine technical feasibility and commercial viability and 2) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

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

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

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

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

(j) Short term employee benefits

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

(k) Share-based compensation

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

i) Equity-settled share-based awards

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

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

ii) Cash-settled share-based awards

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

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

(l) Lease payments

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

(m) Provisions

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

Decommissioning obligations

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

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

(n) Flow-through shares

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

(o) Revenues

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

(p) Finance costs

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

(q) Income taxes

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

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

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

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

(r) Earnings (loss) per share

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

(s) Cash and cash equivalents

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

20) NEW AND FUTURE ACCOUNTING STANDARDS

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

In May of 2014, the International Accounting Standards Board ("IASB"), issued "Accounting for Acquisitions of Interests in Joint Operations", amendments to IFRS 11, "Joint Arrangements." The amendments require business combination accounting to be applied to the acquisitions of interests in a joint operation that constitute a business. The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The Company does not expect the amendments to have a material impact on the financial statements.

The IASB has issued IFRS 15, "Revenue from Contracts with Customers", which contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The standard has a current effective date of January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

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

The IASB has issued IFRS 16, "Leases", which replaces the previous leases standard, IAS 17, "Leases.". The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. The standard is effective from January 1, 2019. Early adoption is permitted but only if the Company also applies IFRS 15, "Revenue from Contracts with Customers." Delphi does not expect to early adopt the new standard and the extent of the impact of adoption of the standard has not yet been determined.

DIRECTORS

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

Harry S. Campbell, Q.C. (3)
Partner
Burnet, Duckworth & Palmer LLP

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

Stephen Mulherin (1)
Partner
Polar Capital Corporation

Andrew E. Osis (1) (3)
Independent Businessman

David Sandmeyer (2)
Director
Freehold Royalty Trust

Lamont C. Tolley (1) (2)
Independent Businessman

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

AUDITORS

KPMG LLP

LEGAL COUNSEL

Osler, Hoskin & Harcourt LLP

OFFICERS

David J. Reid
President and Chief Executive Officer

Hugo H. Batteke
Vice President Operations

Michael K. Galvin
Vice President Land

Rod A. Hume
Senior Vice President Engineering

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

CORPORATE OFFICE

300, 500 – 4th Avenue S.W.
Calgary, Alberta T2P 2V6
Telephone: (403) 265-6171
Facsimile: (403) 265-6207
Email: info@delphienergy.ca
Website: www.delphienergy.ca

BANKERS

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

INDEPENDENT ENGINEERS

GLJ Petroleum Consultants Ltd.

STOCK EXCHANGE LISTING

Toronto Stock Exchange – DEE

TRANSFER AGENT

Computershare Trust Company of Canada

ABBREVIATIONS

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