



## **Delphi Energy Corp.**

ANNUAL INFORMATION FORM  
For the year ended December 31, 2015

March 30, 2016

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## **INTRODUCTORY INFORMATION**

In this Annual Information Form (this “AIF”), unless otherwise specified or the content otherwise requires, reference to “Delphi” or the “Corporation” includes reference to subsidiaries of and partnership interests held by Delphi Energy Corp. and its subsidiaries.

Defined terms, abbreviations and conversions used throughout this AIF which are not defined or explained in the text can be found in Appendix “C”.

Unless otherwise specified, all dollar amounts are expressed in Canadian dollars, all references to “dollars” or “\$” are to Canadian dollars and all references to “US\$” are to United States dollars.

## **FORWARD-LOOKING INFORMATION**

*This AIF contains certain forward-looking information or forward-looking statements within the meaning of applicable securities legislation (collectively “forward-looking information”). Forward-looking information typically contains statements with words such as “anticipate”, “expect”, “believe”, “plan”, “estimate”, “may”, “will”, “should”, “intends” or similar words suggesting future outcomes. Forward-looking information contained in this AIF includes, but is not limited to, statements regarding:*

- *Business prospects and strategy;*
- *Planned capital expenditures;*
- *Expected results from the Corporation’s portfolio of oil and gas assets;*
- *Planned drilling, exploration and development;*
- *Future net cash flows and discounted cash flows;*
- *Future tax horizon;*
- *The ability of the Corporation to fund its capital program and future development through cash flow from operations, debt financing and new equity;*
- *Future development, abandonment and reclamation costs; and*
- *Expectations, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, results of operations or performance (financial or otherwise).*

*The forward-looking statements contained in this AIF are based on certain assumptions, including expectations and assumptions relating to the stability of the global and national economic environment; the stability of and commercial acceptability of tax, royalty and regulatory regimes applicable to Delphi; exploitation and development activities being consistent with management’s expectations; production levels of Delphi being consistent with management’s expectations; the absence of significant project delays; the stability of oil and gas prices; the absence of significant fluctuations in foreign exchange rates and interest rates; the stability of costs of oil and gas development and production in Western Canada, including operating costs; the timing and size of development plans and capital expenditures; availability of third party infrastructure for transportation; processing or marketing of oil and natural gas volumes; prices and availability of oilfield services and equipment being consistent with management’s expectations; the availability of, and competition for, among other things, pipeline capacity, skilled personnel and drilling*

*and related services and equipment; results of development and exploitation activities that are consistent with management's expectations; weather affecting Delphi's ability to develop and produce as expected; contracted parties providing goods and services on the agreed timeframes; Delphi's ability to manage environmental risks and hazards and the cost of complying with environmental regulations; the accuracy of operating cost estimates; the accurate estimation of oil and gas reserves; future exploitation, development and production results; Delphi's ability to market oil and natural gas successfully to current and new customers; future well production rates; the performance of existing wells; the success of drilling new wells; and the capital availability to undertake planned activities.*

*Readers are cautioned not to place undue reliance on forward-looking information because it is possible that predictions, forecasts, projections and other forms of forward-looking information will not be achieved by Delphi and actual results may vary materially from such forecasts, predictions and projections. By its nature, Delphi's forward-looking information involves numerous known and unknown risks, including those discussed under the heading "Risk Factors", and uncertainties including, but not limited to, the following factors: general global economic and business conditions including the effect, if any, of a potential economic slowdown in the U.S. and/or Canada; changes in business strategies; operational risks in development, exploration and production; delays or changes to plans with respect to exploration or development projects or capital expenditures; the ability to access sufficient capital from internal and external resources; the availability and price of energy commodities from the perspective of both a producer and a user of such commodities; the effects of competition and pricing pressures; industry overcapacity; shifts in market demands; changes in laws and regulations, including environmental and regulatory laws such as the imposition of restrictions in response to environmental concerns with respect to the production of oil and gas; potential increases in maintenance and operating costs; uncertainties of litigation; labour disputes; timing of completion of capital or maintenance projects; currency and interest rate fluctuations; various events which could disrupt operations, including severe weather conditions; and technological changes. Statements relating to "reserves" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions that the reserves described can be profitably produced in the future. Readers are cautioned that the foregoing list of factors is not exhaustive. The forward-looking statements in this AIF are expressly qualified by this cautionary statement.*

*Delphi does not undertake any obligation to publicly update or revise any forward-looking statement unless required by applicable law. Further, readers should also carefully consider the matters discussed under the heading "Risk Factors" in this AIF.*

## **CORPORATE STRUCTURE**

### **Name, Address and Incorporation**

Delphi was formed on June 19, 2003 through the business combination (“Merger”) of DT Energy Ltd. (“DTE”) and Rise Energy Ltd. (“Rise”). The Merger was completed by way of a plan of arrangement, pursuant to which Rise acquired all of the common shares of DTE in consideration for common shares issued by Rise. Rise’s name was changed to Delphi Energy Corp. and its board of directors and senior management positions were reconstituted. The two companies then amalgamated, resulting in Delphi being the only corporate entity at the time. Delphi is subject to the *Business Corporations Act (Alberta)* (“ABCA”). On January 1, 2004, the Corporation filed Articles of Amalgamation to complete a short-form amalgamation with two wholly-owned subsidiaries, Murias Energy Corporation (“Murias”) and Fish Creek Resources Inc. (“Fish Creek”), which it had acquired in 2003. On February 1, 2005, the Corporation filed Articles of Amalgamation to complete a short-form amalgamation with its wholly-owned subsidiary, Tercero Energy Inc. (“Tercero”) which it acquired in 2004. On November 30, 2009, a subsidiary of the Corporation amalgamated with Fairmount Energy Inc. (“Fairmount”) with the resulting entity continuing under the name Fairmount Energy Inc. On December 31, 2009, the Corporation completed two additional amalgamations. The Corporation amalgamated first with Fairmount and subsequently with two wholly-owned subsidiaries which it acquired in connection with the acquisition of Fairmount, FMTSK Energy Inc. and FMT Energy VI Inc.

DTE was incorporated on September 20, 2000 under the ABCA. On October 19, 2000, DTE filed Articles of Amendment to remove the restrictions on share transfers. On December 12, 2001, DTE filed Articles of Amendment to allow, subject to certain conditions, its Board to appoint directors between annual meetings, with such directors serving until the next annual meeting of shareholders.

Rise was incorporated under the ABCA on June 8, 1995 as “657334 Alberta Ltd.” On November 14, 1995, the company amended its Articles of Incorporation by changing its name from 657334 Alberta Ltd. to “Rise Resources Ltd.”. On December 23, 1996, Rise amended its articles by changing its share capital structure to authorize the issuance of an unlimited number of Class A, Class B, Class C, Class D, Class E and Class F shares of Rise with the rights, privileges and restrictions set out in the Articles of Amendment. On August 17, 2001, Rise amalgamated with Red Raven Resources Inc., a company incorporated under the ABCA on September 13, 1996. The common shares of Red Raven Resources Inc. traded on the Canadian Venture Exchange, as the company had previously completed its major transaction under the junior capital pool rules.

The Corporation has its registered office at 2500, 450 – 1st Street S.W., Calgary, Alberta T2P 5H1 and its head and principal office at Suite 300, 500 - 4<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 2V6.

### **Inter-corporate Relationships**

As of the date of this AIF the Corporation has a wholly-owned subsidiary, Delphi Energy Ltd., a corporation incorporated under the ABCA. Delphi Energy Corp. and Delphi Energy Ltd. are the partners of Delphi Energy Partnership established on December 30, 2005 under the laws of the Province of Alberta.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

### **Three Year History**

The three year history of the Corporation is as follows:

#### 2013

##### *Debt Financing*

During the third quarter of 2013, the Corporation issued \$20.0 million of subordinated debt with a maturity date of December 31, 2014. The maturity date of December 31, 2014, may be extended at the option of Delphi for an additional six months, subject to the Corporation being compliant with the financial covenants of the facility. The debt is secured by a \$25.0 million demand floating charge debenture. The subordinated debt has a fixed interest rate of 8.5 percent and a deferred fee of 1.5 percent of the facility is due upon maturity. The subordinated debt was obtained to partially fund the Corporation's 2013 capital program.

##### *Acquisition of Undeveloped Land*

During the first quarter of 2013, Delphi completed a \$13.7 million strategic land acquisition in the centre of its Bigstone Montney acreage. The Corporation acquired 30 gross (26.8 net) sections of Montney rights directly offsetting Delphi existing acreage and producing wells.

#### 2014

##### *Disposition of Developed Properties*

During the third quarter of 2014, the Company closed the sale of certain interests from its Hythe property for net proceeds of \$16.0 million after closing adjustments. The disposed assets were producing approximately 430 boe/d (55 percent natural gas) and included 23.3 gross (17.7 net) sections of primarily shallow Cretaceous rights.

##### *Acquisition of Undeveloped Land*

During the third quarter of 2014, the Company closed the acquisition of eight gross (3.5 net) sections of Montney rights directly offsetting Delphi's current Montney production and recent drilling activity at East Bigstone for a purchase price of \$8.8 million. The acquisition was funded by the Hythe property disposition.

##### *Acquisition of Developed Properties*

During the fourth quarter of 2014, Delphi acquired production, undeveloped land and a natural gas processing facility in West Bigstone for a cash purchase price of \$8.9 million after closing adjustments. The production consists of approximately 430 boe/d (87 percent natural gas) and 26.3 gross (19.3 net) sections of Cretaceous rights in the greater Bigstone area. As part of the transaction, Delphi has also acquired approximately 40 kilometres of field gathering infrastructure and a 100 percent working interest in an under-utilized 15 mmcf/d sweet shallow cut natural gas processing plant. The acquisition was partially funded by the disposition in the third quarter of 2014 and bank debt. The acquisition complements Delphi's existing West Bigstone assets and provides Delphi with direct-to-sales infrastructure for future Montney development at West Bigstone.

### *Renewed Terms of Subordinated Debt*

During the fourth quarter of 2014, Delphi renewed the terms of its existing \$20.0 million subordinated facility to extend the maturity date from December 31, 2014 to June 30, 2016. The renewed terms of the subordinated debt has an annual coupon rate of 10.5 percent with interest payable monthly. A deferred fee of 1.5 percent of the facility is due upon maturity.

### 2015

#### *Disposition of Developed Properties*

During the third quarter of 2015, Delphi closed the sale of its Wapiti assets for net proceeds of \$48.9 million after closing adjustments. The disposed assets were producing approximately 1,245 boe/d (69 percent natural gas) and included 85.5 gross (48.9 net) sections of land.

During the fourth quarter of 2015, Delphi closed the sale of its Hythe assets and parts of its Miscellaneous Alberta and British Columbia assets for net proceeds of \$11.4 million after closing adjustments. The Greater Hythe assets were producing approximately 1,057 boe/d (94 percent natural gas) and included 274.1 gross (166.4 net) sections of land.

Delphi applied the proceeds from the two dispositions against its outstanding indebtedness.

#### *Syndicated Credit Facility*

The Company's senior extendible revolving credit facility was re-determined giving effect to the dispositions in 2015, the Company's risk management program, the Company's reserves and the lenders' view of future commodity prices. The senior credit facility was reduced by \$57.5 million to \$132.5 million, consisting of a \$15.0 million operating facility and a \$117.5 million revolving facility.

## **NARRATIVE DESCRIPTION OF THE BUSINESS**

### **General**

Delphi is a public corporation engaged in the acquisition for and exploration, development and production of crude oil, natural gas and natural gas liquids in western Canada. Delphi's operations are principally concentrated in Northwest Alberta at Bigstone. Delphi's fundamental principles within its growth strategies continue to provide a competitive advantage:

- large contiguous land positions complete with ownership in strategic infrastructure provide repeatable and scalable project inventory with capital and production cost structure advantages;
- robust revenue generating quality of Delphi's NGL production stream and inventory of high liquids content growth opportunities is a natural hedge against natural gas price weakness while maintaining significant exposure to a recovery in natural gas prices;
- Delphi maintains direct control over its core assets, operating over 90 percent of its production and 90 percent of its capital program;
- an active hedging program maintains a forward-looking 12 to 48 month hedge position and provides protection for a defined level of capital spending; and

- financial stability and strength is maintained through prudent capital to cash flow, debt to cash flow and debt to equity ratios.

The Corporation will evaluate both crude oil and natural gas opportunities. Delphi funds its capital program with cash flow from operations, debt financing, proceeds from dispositions and strategic use of new equity when appropriate.

## **Areas of Operations**

Delphi's core operating area, Bigstone, is in the Deep Basin of Northwest Alberta. The stacked, multi-zone opportunities that contain liquids rich natural gas and oil make it a very active area in the industry. The area is also extensively covered by the infrastructure required to bring hydrocarbon products to market.

### **Bigstone Montney**

The liquids-rich Montney development project is located in the East Bigstone area of Alberta, 150 kilometres southeast of Grande Prairie. The Montney formation is now recognized as one of the world's greatest deposits of hydrocarbons. It covers vast distances and many areas are now exploited with horizontal drilling combined with hydraulic fracturing. As the database of Montney production expands, a divergence between higher and lower economic value areas becomes apparent. To be a top tier producer, you have to operate in areas with top tier values. Delphi's Bigstone Montney has the combination of high deliverability, high liquid ratios and easy access to markets that make it a high value area.

Delphi continued to concentrate on Bigstone Montney throughout 2015. The Corporation now controls 140 gross Montney sections (119 net). Within this land base, over 100 two mile horizontal locations have been identified, providing a significant inventory for future growth. In the fourth quarter of 2015, Montney production average 6,922 boe/d, or 79 percent of corporate production. The Montney production comes with a high liquids yield. In 2015, Delphi averaged a liquid yield (propane, butanes, pentanes and condensate) of 97 barrels per million cubic feet ("bbls/mmcf"). Of this, the valuable field and plant condensate was 65 bbls/mmcf, or 67 percent. Condensate pricing closely tracks light oil pricing, increasing the netbacks on Bigstone Montney production significantly.

Delphi's 2015 drilling program was very mindful of the low price environment. Emphasis was placed on drilling lower cost infills from existing pads. Additionally, the Corporation has consistently striven to improve its drilling and completion technology. In 2015, Delphi continued to drill long reach horizontal wells. All of Delphi's six (5.3 net) drills had over 2,600 metres of horizontal length. After initial testing of the new liners, the Corporation has now increased the maximum number of hydraulically fractured stages to 40, up from the previous maximum of 30. Changes in sand concentrations, water volumes and fluid rates have also allowed Delphi to continually improve results and simultaneously reduce costs.

Production from the Montney is produced through the Corporation's 100 percent owned 7-11-60-23 W5M (the "7-11 Facility") compression and dehydration facility. Recently a new fuel gas pipeline accessing higher quality fuel gas has been installed and the 7-11 compression and dehydration facility has been expanded with an owned compressor replacing two existing rental compressors resulting in reduced maintenance and rental costs as well as increased throughput capacity. These and other upgrades to the facility now allow for a capacity of over 55 mmcf/d of raw natural gas, allowing for significant future growth.

Delphi continues to reduce Bigstone operating costs by improving efficiencies, service costs and processing costs. A major development in 2015 was the commissioning of Delphi's 100 percent owned water disposal facility. It is now handling approximately 1,200 bbls/d of mostly frac water from the Montney production,

resulting in an expected reduction to operating costs. The disposal well is currently capable of 2,000 bbls/d of disposal capacity. Delphi is currently evaluating the potential of accepting water from other producers, turning the Corporation's water disposal facility into a profit center from a cost center.

Delphi's Montney gas is processed at the SemCAMS K3 facility. Delphi has improved transport efficiencies for Bigstone by entering into an agreement with Alliance Pipeline for full path firm service into the Chicago market. This eliminates exposure to production curtailments and Alberta natural gas price weakness.

### **Bigstone Cretaceous**

The Bigstone property is located 150 kilometres southeast of the city of Grande Prairie. The sweet natural gas production from the shallower Cretaceous zones at Bigstone are now the Corporation's second largest producing asset, contributing an average in 2015 of 1,100 boe/d, with 16 percent as oil and natural gas liquids. Important infrastructure ownership in the area for this production includes the Corporation's 26 percent working interest in the Bigstone West gas plant, with a gross capacity of 85 mmcf/d. The Corporation has an average working interest of 74 percent in 82 sections of land.

A major expansion of the Company's Bigstone Cretaceous assets occurred with the purchase of the Negus property in 2014. Delphi acquired over 40 kilometres of field gathering infrastructure as well as a 100 percent working interest in a 15 mmcf/d sweet shallow cut natural gas processing plant. In addition 26.3 gross sections (19.3 net) of Cretaceous rights were added to Delphi's portfolio. Going forward, Delphi will intensify Cretaceous development at Bigstone. An initial target will be the Gething channel system. These stacked channels can recover over 12 Bcf from vertical wells in the area, but many vertical wells underperform due to the low permeability reservoir and reservoir compartmentalization. By utilizing modern methods of horizontal drilling and hydraulic fracturing, Delphi can access the lower permeability reservoir and connect these compartments, giving the Corporation's wells higher recovery volumes and higher deliverability.

### **Employees**

The Corporation employs or retains the services of 25 individuals (including personnel hired on a contract basis) at its head office in Calgary, Alberta. In addition, Delphi also retains the services of 12 individuals in field operations in various locations in Alberta.

### **Specialized Skill and Knowledge**

The Corporation's business requires the application of extremely high levels of technical skill in the areas of geology, geophysics and reservoir engineering, well drilling and completions and well production operations. Delphi has assembled a team of skilled technical experts who provide the technical skills required to succeed in its business. See "Risk Factors – Reliance on Key Personnel".

### **Cycles**

The oil and natural gas business is cyclical. Oil and natural gas prices fluctuate with global demand for oil, which is dependent on a number of factors, including the health of the global economy and political conditions locally, nationally and internationally. In addition, the oil and natural gas industry in Alberta is influenced by seasonal weather patterns. A mild winter or wet spring may result in limited access to drilling sites and related facilities and hence, may result in the reduction or suspension of operations. Unpredictable weather can also cause delays in implementing and completing field projects. Municipalities and provincial transportation departments enforce road bans that restrict the movement of drilling rigs and other heavy equipment during periods of wet weather, thereby reducing activity levels. Also, certain oil and natural gas

producing areas are located in areas that are inaccessible other than during the winter months because of the swampy terrain surrounding these sites. Seasonal interruptions in drilling and construction operations do occur but are expected and accounted for in the budgeting and forecasting process.

### **Competitive Conditions**

Delphi competes for reserve acquisitions, exploration leases, licences and concessions and skilled industry personnel with a substantial number of other oil and natural gas companies, many of which have significantly greater financial resources than Delphi. The Corporation's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators.

Some of Delphi's customers and potential customers are themselves exploring for oil and natural gas, and the results of such exploration efforts could affect the Corporation's ability to sell or supply oil and/or natural gas to these customers in the future. Delphi's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment. Alberta provincial land sales are a competitive bid process and the Corporation assesses its interpretation of the value of such lands and then submits a bid. Field equipment availability is competitive and the Corporation continues to gain access to it through prior agreements and contacts.

Hiring and retaining technical and administrative personnel continues to be a competitive process. To meet this challenge, the Corporation rewards existing employees and provides opportunities for new staff to participate in the equity of the Corporation.

### **Seasonal Considerations**

Certain properties in Northern Alberta are accessible only during winter months. The majority of Delphi's properties are accessible year round, except during spring break-up. Major facilities through which Delphi's production is processed may temporarily be shut down for a short period of time during the year to conduct repair and maintenance operations.

### **Environmental Protection**

Delphi is subject to a range of environmental regulations, as are its competitors in the oil and natural gas industry. The Corporation has also adopted a corporate procedures manual that provides employees with detailed instructions on how they are to fulfill their responsibilities at an operational level (e.g. procedures to follow in the event of a spill).

As the environmental regulations applicable to the Corporation are also applicable to its competitors, environmental protection did not affect the competitive position of the Corporation in 2015, nor did the Corporation incur any material environmental protection or regulatory costs out of the ordinary course of business in 2015.

### **Oil and Gas Activities**

National Instrument 51-101 "Standards of Disclosure for Oil and Gas Activities" ("NI 51-101") establishes a standard of disclosure for all Canadian reporting issuers in upstream oil and natural gas activities and reserves definitions for proved and probable reserves categories. The reserves disclosure presented below

conforms to the requirements of NI 51-101. All of the Corporation's reserves are in western Canada and specifically in the provinces of Alberta and British Columbia.

The Corporation engaged GLJ Petroleum Consultants Ltd. (“GLJ”), independent qualified reserves evaluators, to evaluate and report on 100 percent of the Corporation’s proved and proved plus probable reserves. The crude oil, natural gas and natural gas liquids reserves of the Corporation were evaluated by GLJ, with an effective date of December 31, 2015 in a report dated February 22, 2016 (the “GLJ Report”).

NI 51-101 reports of GLJ, and of the management of Delphi respecting the following reserves data can be found in Appendix “A” and Appendix “B”, respectively.

Definitions, abbreviations, notes and conversions used throughout the following tables can be found in Appendix “C”.

**The use of the boe unit of measurement may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf of natural gas to 1 barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. The estimated future net revenue contained in the following tables does not represent the fair market value of reserves associated with Delphi’s assets and properties. Tables may not add due to rounding.**

**The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.**

Reserves Data (Forecast Prices and Costs)

*Reserves Summary*

	Conventional Natural Gas (Mbbls)		Shale Gas (Mmcf)		Natural Gas Liquids (Mbbls)		BOE (6:1) (Mboe)	
	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>
Proved <sup>(3) (6)</sup>								
Developed producing <sup>(4)</sup>	7,116	5,990	46,698	39,099	4,030	2,611	12,999	10,126
Developed non-producing <sup>(4)</sup>	118	102	1,984	1,708	146	91	496	393
Undeveloped <sup>(5)</sup>	(1,149)	(1,002)	41,231	38,039	3,716	2,900	10,396	9,073
Total proved	6,085	5,091	89,913	78,846	7,892	5,602	23,891	19,592
Probable <sup>(3) (6)</sup>	4,189	3,178	82,560	74,748	7,114	5,100	21,572	18,088
Total proved plus probable	10,273	8,269	172,472	153,594	15,005	10,703	45,463	37,680

*Net Present Value of Future Net Revenue Summary*

	<b>Before Income Taxes</b>					<b>Unit Value Before Income Tax</b>	
	<b>Discounted at</b>					<b>Discounted at 10%</b>	
	<b>0%</b>	<b>5%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>\$/boe</b>	<b>\$/mcf</b>
	<b>(\$ 000's)</b>	<b>(\$ 000's)</b>	<b>(\$ 000's)</b>	<b>(\$ 000's)</b>	<b>(\$ 000's)</b>		
Proved <sup>(3) (6)</sup>							
Developed producing <sup>(4)</sup>	167,197	134,159	112,019	96,575	85,321	11.06	1.84
Developed non-producing <sup>(4)</sup>	4,343	2,837	1,870	1,222	766	4.76	0.79
Undeveloped <sup>(5)</sup>	125,890	76,716	48,169	30,588	19,155	5.31	0.88
Total proved	297,431	213,712	162,059	128,385	105,242	8.27	1.38
Probable <sup>(3) (6)</sup>	331,428	176,290	103,092	63,947	40,783	5.70	0.95
Total proved plus probable	628,859	390,002	265,151	192,332	146,026	7.04	1.17

	<b>After Income Taxes</b>				
	<b>Discounted at</b>				
	<b>0%</b>	<b>5%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>
	<b>(\$ 000's)</b>	<b>(\$ 000's)</b>	<b>(\$ 000's)</b>	<b>(\$ 000's)</b>	<b>(\$ 000's)</b>
Proved <sup>(3) (6)</sup>					
Developed producing <sup>(4)</sup>	167,197	134,159	112,019	96,575	85,321
Developed non-producing <sup>(4)</sup>	4,343	2,837	1,870	1,222	766
Undeveloped <sup>(5)</sup>	123,819	75,975	47,890	30,479	19,110
Total proved	295,360	212,971	161,780	128,275	105,197
Probable <sup>(3) (6)</sup>	241,196	132,284	79,342	50,127	32,271
Total proved plus probable	536,556	345,255	241,121	178,402	137,469

*Breakdown of Future Net Revenue (Undiscounted)*

	<b>Revenue</b>	<b>Royalties</b>	<b>Operating Costs</b>	<b>Capital Development Costs</b>	<b>Well Abandonment and Reclamation Costs</b>	<b>Future Net Revenue Before Income Taxes</b>	<b>Income Taxes<sup>(9)</sup></b>	<b>Future Net Revenue After Income Taxes</b>
	<b>(\$ 000's)</b>	<b>(\$ 000's)</b>	<b>(\$ 000's)</b>	<b>(\$ 000's)</b>	<b>(\$ 000's)</b>	<b>(\$ 000's)</b>	<b>(\$ 000's)</b>	<b>(\$ 000's)</b>
Proved <sup>(3) (6)</sup>								
Developed producing <sup>(4)</sup>	459,392	111,713	169,517	512	10,453	167,197	-	167,197
Developed non-producing <sup>(4)</sup>	16,555	3,843	5,112	2,977	280	4,343	-	4,343
Undeveloped <sup>(5)</sup>	409,386	67,563	107,036	105,831	3,066	125,890	2,071	123,819
Total proved	885,333	183,119	281,664	109,320	13,799	297,431	2,071	295,360
Probable <sup>(3) (6)</sup>	946,386	192,895	281,805	134,465	5,793	331,428	90,232	241,196
Total proved plus probable	1,831,719	376,013	563,469	243,785	19,592	628,859	92,303	536,556



The Corporation received the following weighted average prices in 2015, excluding gains and losses on financial and physical commodity price contracts.

Shale gas (\$/mcf)	Conventional Natural gas (\$/mcf)	Natural gas liquids (\$/bbl)	Total (\$/boe)
2.60	2.89	36.99	22.97

*Reconciliation of Corporation's Gross <sup>(1)</sup> Reserves Using Forecast Prices and Costs*

	Conventional Natural Gas (Mmcf)			Shale Gas (Mmcf)		
	Proved	Probable	Proved Plus Probable	Proved	Probable	Proved Plus Probable
Adjusted December 31, 2014 <sup>(7)</sup>	70,147	41,261	111,408	111,311	90,401	201,712
Extensions and Improved Recovery	-	-	-	10,528	(5,615)	4,913
Technical revisions	(6,747)	(3,173)	(9,920)	(3,146)	(11,747)	(14,893)
Discoveries	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-
Dispositions	(54,118)	(31,815)	(85,934)	-	-	-
Economic factors	(1,474)	(2,084)	(3,558)	(16,131)	9,520	(6,611)
Production	(1,723)	-	(1,723)	(12,649)	-	(12,649)
December 31, 2015	6,085	4,189	10,273	89,913	82,560	172,472

	Natural Gas Liquids (Mbbls)			Light & Medium Oil (Mbbls)			BOE (Mboe)		
	Proved	Probable	Proved Plus Probable	Proved	Probable	Proved Plus Probable	Proved	Probable	Proved Plus Probable
December 31, 2014	12,641	9,477	22,118	19	5	24	42,903	31,426	74,329
Extensions and Improved Recovery	907	(538)	369	-	-	-	2,662	(1,474)	1,188
Technical revisions	(812)	(1,078)	(1,891)	-	-	-	(2,462)	(3,565)	(6,026)
Discoveries	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-
Dispositions	(2,710)	(1,544)	(4,254)	(7)	(7)	(14)	(11,736)	(6,854)	(18,590)
Economic factors	(1,086)	797	(289)	(2)	2	-	(94,022)	2,039	(1,983)
Production	(1,049)	-	(1,049)	(10)	-	(10)	(3,454)	-	(3,454)
December 31, 2015	7,892	7,114	15,005	-	-	-	23,891	21,572	45,463

Additional Information Relating to Reserves Data

*Undeveloped Reserves <sup>(9)</sup>*

*Proved and Probable Undeveloped Reserves*

The following table sets forth the volumes of proved undeveloped and probable undeveloped reserves that were first attributed to each product type in each of the most recent three financial years:

Product Type	Units	2013	2014	2015
<b>Proved Undeveloped</b>				
Light & medium oil	Mbbl	-	-	-
Shale gas <sup>(8)</sup>	Mmcf	-	-	5,091
Conventional natural gas	Mmcf	30,824	19,916	-
Natural gas liquids	Mbbl	2,378	1,751	428
Total	Mboe	<u>7,515</u>	<u>5,070</u>	<u>1,277</u>
<b>Probable Undeveloped</b>				
Light & medium oil	Mbbl	-	-	-
Shale gas <sup>(8)</sup>	Mmcf	-	-	4,913
Conventional natural gas	Mmcf	35,537	32,145	-
Natural gas liquids	Mbbl	2,594	2,804	369
Total	Mboe	<u>8,517</u>	<u>8,162</u>	<u>1,188</u>

The Corporation's proved and probable undeveloped reserves are attributed to drilling locations, recompletions and tie-ins that are anticipated to proceed in the near term. The capital program in 2016 primarily includes the development of locations included in the GLJ Report. The Corporation's proved and probable undeveloped reserves are forecast to be developed during the next several years in accordance with the Corporation's development program and cash flows set out in the reserve report. Over the next two years, the Corporation will focus development on its proved reserves.

The pace of development of these reserves is influenced by several factors including, but not limited to, the outcomes of drilling and reservoir evaluations, changes in commodity pricing, changes in capital allocations, changing technical conditions, regulatory changes and impact of future acquisitions and dispositions. These reserves are reviewed and development plans are revised accordingly as new information becomes available.

#### *Significant Factors or Uncertainties*

The process of evaluating reserves is inherently complex and requires significant judgments and decisions based upon a number of variable factors and assumptions, such as commodity prices, projected production from the properties, the assumed effects of regulation by government agencies and future operating costs. All of these estimates may vary from actual results. The reserve estimates contained in this "Oil and Gas Activities" section are based on current production forecasts, prices and economic conditions. Estimates of the recoverable oil and natural gas reserves attributable to any particular group of properties, classifications of such reserves based on risk of recovery and estimates of future net revenues expected therefrom, may vary. The Corporation's actual production, revenues, taxes, development and operating expenditures with respect to its reserves may vary from such estimates and such variances could be material.

In connection with its operations, the Corporation will incur abandonment and reclamation costs for surface leases, wells, facilities and pipelines. The Corporation budgets for and recognizes as a liability the estimated present value of the future decommissioning liabilities associated with its oil and gas assets (see Note 11 of the Company's December 31, 2015 consolidated financial statements which are available on the SEDAR website at [www.sedar.com](http://www.sedar.com)). There are no unusually significant abandonment and reclamation costs associated with its reserves properties or to properties with no attributed reserves.

*Future Development Costs*

Period	Forecast Prices and Costs <sup>(9)</sup>	
	Proved Reserves	Proved Plus Probable Reserves
2016	26,700	50,100
2017	36,692	51,240
2018	45,335	123,053
2019	-	17,621
2020	-	459
Remainder	593	1,311
Total for all years undiscounted	109,320	243,785
Total for all years discounted at 10% per year	93,245	202,396

The future development costs are capital costs required in the future for Delphi to convert proved undeveloped reserves and probable reserves into proved developed producing reserves. On an on-going basis Delphi typically uses its internally generated cash flow, proceeds from dispositions, available credit facilities and new equity financings, if available on favourable terms, to fund requirements for future development required to develop the proved or the proved plus probable reserves.

Other Oil and Gas Information

For a description of Delphi's important oil and gas properties and facilities, see "Narrative Description of the Business – Areas of Operations" above.

*Oil and Gas Properties and Wells*

The following table sets forth the number and status of wells in which Delphi had a working interest as at December 31, 2015. All but several of the non-producing wells were at one time producing or abandoned. Delphi has title to its net working interest in all wells and is not subject to any change in ownership as a consequence of any current contract or agreement.

	Producing Wells				Non-Producing Wells			
	Oil		Gas		Oil		Gas	
	Gross <sup>(1)</sup>	Net <sup>(2)</sup>						
Alberta	-	-	88	73	-	-	254	97
British Columbia	-	-	-	-	-	-	36	18
	-	-	88	73	-	-	290	115

*Properties with No Attributed Reserves*

The following table sets forth the Corporation's undeveloped land holdings as at December 31, 2015.

<b>(Acres)</b>	<b>Undeveloped</b>	
	<b>Gross<sup>(1)</sup></b>	<b>Net<sup>(2)</sup></b>
Alberta	154,318	77,957
British Columbia	27,220	10,385
Total	181,538	88,341

During 2016, approximately 2,829 net acres of the Corporation's undeveloped land is set to expire, however, a portion of these lands can be continued by proving production capability.

None of the above properties are subject to any work commitments.

*Significant Factors or Uncertainties Relevant to Properties with No Attributed Reserves*

There are several economic factors and significant uncertainties that affect Delphi's anticipated development of its properties to which no reserves are attributed. Delphi will be required to make substantial capital expenditures in order to prove, exploit, develop and produce from these properties in the future. If cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or, if available, on terms acceptable to the Corporation. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain opportunities and reduce or terminate its operations on such properties. The inability of Delphi to access sufficient capital for its exploration and development purposes could have a material adverse effect on the Corporation's ability to execute its business strategy to develop these prospects. See "*Risk Factors*".

The primary economic factors that affect the development of the properties to which no reserves have been attributed are future commodity prices for oil, natural gas and NGLs (and the Corporation's outlook relating to such prices) and the future costs of drilling, completing, tying-in and operating wells at the time that such activities are considered. The Corporation would also need to secure adequate transportation capacity on acceptable terms for its incremental future production. The primary uncertainties that affect the development of such lands are the future drilling and completion results achieved in the development activities, drilling and completion results achieved by others on lands in close proximity to these lands, and future changes to applicable regulatory or royalty regimes that affect timing or economics of proposed development activities. All of these uncertainties have the potential to delay the development of such lands. Conversely, uncertainty as to the timing and nature of the evolution or development of better exploration, drilling, completion and production technologies have the potential to accelerate development activities and enhance the economics relating to such properties.

*Forward Contracts*

Delphi uses risk management contracts in order to reduce its exposure to fluctuations in commodity prices. These instruments are not used for trading or speculative purposes.

All of the contracts through which the Corporation has fixed the price applicable to certain of its future production outstanding as at December 31, 2015 have been disclosed in Note 4 to the audited financial

statements of the Corporation for the years ended December 31, 2015 and 2014, which are available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

Delphi has an agreement with Alliance Pipeline Ltd. for full path service to deliver up to 50.7 mmcf/d of natural gas volumes by the end of 2017 into the Chicago gas market. In addition, the Corporation has incremental service commencing in April 2018 on the TransCanada pipeline system. The Corporation's transportation commitments with Alliance Pipeline Ltd. for the years 2017 to 2020 and the incremental service on the TransCanada system exceed Delphi's current expected future production from its proved reserves. The Corporation has excess transportation of 14.4 mmcf/d for 2017, 36.2 mmcf/d for 2018, 46.0 mmcf/d for 2019, 43.9 mmcf/d for 2020, 4.9 mmcf/d for 2021, 7.2 mmcf for 2022, 8.6 mmcf/d for 2023 and 9.9 mmcf/d for 2024. The total value of the excess capacity is estimated to be \$8.7 million. The Corporation has the ability to assign portions of its transportation commitments.

### *Tax Horizon*

The income taxes deducted in the calculation of future net revenue assume a blow down scenario whereby the Corporation produces out its existing reserves. Under this scenario Delphi would pay taxes in 2029.

The Corporation forecasts its tax horizon assuming reinvestment of cash flow to achieve production and reserve growth. The Corporation does not expect to be required to pay income taxes for the 2016 financial year. The Corporation does not anticipate becoming cash taxable before 2020.

### *Costs Incurred*

During 2015, the Corporation incurred the following costs in Canada:

	<b>2015</b> <i>(\$ 000's)</i>
Property and acquisition costs – Unproved properties	47
Property and acquisition costs – Proved properties	-
Exploration costs <sup>(14)</sup>	-
Development costs <sup>(12)</sup>	57,403

### *Exploration and Development Activities*

The following table sets forth the number of exploratory and development wells in which Delphi participated which were completed during the year ended December 31, 2015:

	<u>Exploratory Wells<sup>(13)</sup></u>		<u>Development Wells<sup>(11)</sup></u>	
	<u>Gross<sup>(1)</sup></u>	<u>Net<sup>(2)</sup></u>	<u>Gross<sup>(1)</sup></u>	<u>Net<sup>(2)</sup></u>
Natural gas wells	-	-	6.0	5.3
Total wells	-	-	6.0	5.3

Delphi's capital program is currently focused on the development of its inventory of opportunities at Bigstone in the Montney formation.

### *Production Estimates*

The following table sets forth the volume of daily gross production estimated for the year 2016 in the reserves forecast for proved and proved plus probable reserves.

**Proved**

	<b>Conventional natural gas (mcf/d)</b>	<b>Shale gas (mcf/d)</b>	<b>Natural gas liquids (bbls/d)</b>	<b>boe/d</b>
Bigstone	2,028	28,184	2,741	7,776
Other	3,092	-	29	545
<b>Total Proved</b>	<b>5,120</b>	<b>28,184</b>	<b>2,770</b>	<b>8,321</b>

**Probable**

	<b>Conventional natural gas (mcf/d)</b>	<b>Shale gas (mcf/d)</b>	<b>Natural gas liquids (bbls/d)</b>	<b>boe/d</b>
Bigstone	(17)	4,133	415	1,101
Other	43	-	1	8
<b>Total Probable</b>	<b>26</b>	<b>4,133</b>	<b>415</b>	<b>1,109</b>

**Proved plus Probable**

	<b>Conventional natural gas (mcf/d)</b>	<b>Shale gas (mcf/d)</b>	<b>Natural gas liquids (bbls/d)</b>	<b>boe/d</b>
Bigstone	2,011	32,317	3,156	8,877
Other	3,135	-	30	552
<b>Total Proved plus Probable</b>	<b>5,146</b>	<b>32,317</b>	<b>3,186</b>	<b>9,430</b>

*Production History*

Delphi's 2015 average gross daily production, before deduction of royalties, is summarized below:

<b>Average Daily Production</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
Conventional natural gas (mcf/d)	18,728	17,375	12,334	9,626
Shale gas (mcf/d)	27,495	25,660	21,538	25,093
Natural gas liquids (bbls/d)	3,298	3,037	2,243	3,028
<b>Total (boe/d)</b>	<b>11,002</b>	<b>10,210</b>	<b>7,888</b>	<b>8,814</b>

Delphi's 2015 share of average gross daily production, before deduction of royalties from Bigstone, is summarized below:

<b>Average Daily Production</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
Conventional natural gas (mcf/d)	5,505	6,074	5,656	5,053
Shale gas (mcf/d)	27,495	25,660	21,538	25,093
Natural gas liquids (bbls/d)	2,786	2,547	2,132	2,966
<b>Total (boe/d)</b>	<b>8,286</b>	<b>7,836</b>	<b>6,664</b>	<b>7,990</b>

Delphi's 2015 share of average gross daily production, before deduction of royalties from Wapiti, is summarized below:

<b>Average Daily Production</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
Conventional natural gas (mcf/d)	5,416	5,038	1,072	26
Shale gas (mcf/d)	-	-	-	-
Natural gas liquids (bbls/d)	420	431	61	14
Total (boe/d)	1,323	1,271	240	18

Delphi's 2015 share of average gross daily production, before deduction of royalties from Hythe, is summarized below:

<b>Average Daily Production</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
Conventional natural gas (mcf/d)	6,467	5,580	4,970	3,888
Shale gas (mcf/d)	-	-	-	-
Natural gas liquids (bbls/d)	94	49	45	43
Total (boe/d)	1,172	979	873	691

#### *Netback By Product*

The following table sets forth information in respect of quarterly average net product prices received before risk management contracts, royalties paid, operating expenses and operating netbacks by product for the year ended December 31, 2015.

	<b>Conventional Natural Gas (\$/mcf)</b>			
	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
Average prices received	2.87	3.01	2.98	2.58
Royalties	0.34	0.35	(0.05)	(0.95)
Operating expenses	(2.22)	(2.79)	(3.05)	(0.82)
Transportation	(0.63)	(0.76)	(0.68)	(0.62)
Netback	0.36	(0.19)	(0.80)	0.19
	<b>Shale Gas (\$/mcf)</b>			
	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
Average prices received	2.64	2.47	2.55	2.73
Royalties	(0.06)	(0.07)	(0.17)	(0.27)
Operating expenses	(1.81)	(1.73)	(2.02)	(2.36)
Transportation	(0.45)	(0.53)	(0.57)	(1.11)
Netback	0.32	0.14	(0.21)	(1.01)
	<b>Natural Gas Liquids (\$/bbl)</b>			
	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
Average prices received	36.06	42.96	36.59	33.92
Royalties	(5.88)	(7.38)	(5.44)	(5.80)
Operating expenses	-	-	-	-
Transportation	(4.01)	(3.59)	(4.83)	(3.22)
Netback	26.17	31.99	26.32	24.90

### *Product Sales Revenues*

The only significant products produced and sold by the Corporation are conventional natural gas, shale gas and natural gas liquids. The Corporation disposed of its crude oil properties in 2014. Virtually all of these products are sold on a short term basis that is a function of current market prices. None of the Corporation's products are sold to non-arm's length parties. The following table summarizes the Corporation's revenues in 2014 and 2015 by product type.

<b>Product (\$ 000's)</b>	<b>2015</b>	<b>2014</b>
Conventional natural gas	15,259	36,283
Shale gas	23,662	41,429
Light and medium oil	-	5,990
Natural gas liquids	39,581	79,324

### **DIVIDENDS**

The Corporation has not declared or paid any dividends on any of its shares since its formation on June 19, 2003, nor did DTE or Rise pay any dividends on their respective shares at any time prior thereto. The Corporation does not intend to pay dividends in the near future as future earnings will be retained to finance further expansion of business and operations. Any decision to pay dividends on any class of shares will be made by the board of directors on the basis of earnings, financial requirements and other conditions existing at such future time. The credit facilities of the Corporation also restrict its ability to pay dividends.

### **DESCRIPTION OF CAPITAL STRUCTURE**

#### **Common Shares**

The holders of the common shares in the capital of the Corporation ("**Common Shares**") are entitled to one vote per share at meetings of shareholders, to receive such dividends as declared by the Corporation and to receive the remaining property and assets of the Corporation upon dissolution or winding up of the Corporation. The Common Shares are not subject to any future call or assessment and there are no pre-emptive, conversion or redemption rights attached to such shares. An unlimited number of voting Common Shares, without par value, have been authorized, of which 155, 510, 378 Common Shares were outstanding at December 31, 2015.

#### **Preferred Shares**

An unlimited number of preferred shares issuable in series have also been authorized in series of which none are outstanding.

## MARKET FOR SECURITIES

### Trading Price and Volume

The Common Shares are listed and posted for trading on the Toronto Stock Exchange (“TSX”) under the trading symbol “DEE”. The following table sets forth the market price ranges and the aggregate volume of trading of the Common Shares on the TSX for the periods indicated:

<u>Period</u>	<u>High</u> <u>(\$)</u>	<u>Low</u> <u>(\$)</u>	<u>Close</u> <u>(\$)</u>	<u>Volume</u>
<b>2015</b>				
January	1.57	1.08	1.17	12,748,064
.....				
February	1.42	1.12	1.40	10,485,242
.....				
March	1.51	1.08	1.46	9,774,942
.....				
April	1.81	1.43	1.67	5,880,162
.....				
May	1.75	1.27	1.31	7,935,120
.....				
June	1.55	1.24	1.36	8,847,200
.....				
July	1.37	0.98	1.01	5,067,054
.....				
August	1.05	0.62	0.89	10,696,309
.....				
September	0.91	0.68	0.69	6,065,405
.....				
October	0.99	0.68	0.73	16,331,025
.....				
November	0.88	0.67	0.77	7,424,601
.....				
December	0.93	0.71	0.89	4,362,848
.....				

## DIRECTORS AND OFFICERS

### Name, Occupation and Security Holdings

The names, province and country of residence, positions with the Corporation and the principal occupations of the directors and officers of the Corporation during the past five years are set out below.

Name and Municipality of Residence	Office or Position with the Corporation	Present and Principal Occupation During the Last Five Years
David J. Reid ..... Alberta, Canada	Director, President, Chief Executive Officer since June 2003; prior thereto a director of DTE since September 2000.	President and Chief Executive Officer of Delphi since June 19, 2003; President and Treasurer of DTE from September 20, 2000 to June 19, 2003.
Robert A. Lehodey, Q.C. <sup>(2)(3)</sup> ..... Alberta, Canada	Director since June 2003; prior thereto a director of DTE since September 2000.	Partner with the law firm Osler, Hoskin & Harcourt LLP since March 2006.
Harry S. Campbell, Q.C. <sup>(2)</sup> ..... Alberta, Canada	Director since June 2003; prior thereto a director of DTE since December 2000.	Chairman of the law firm Burnet, Duckworth & Palmer LLP from 2012; prior thereto Vice Chairman and Managing Partner of the law firm Burnet, Duckworth & Palmer LLP from 1995.
Lamont C. Tolley <sup>(1)(3)</sup> ..... Alberta, Canada	Director since June 2003; prior thereto a director of DTE since December 2000.	Independent businessman since 1999.
Andrew E. Osis <sup>(1)(2)</sup> ..... Alberta, Canada	Director since May 2005.	Chief Executive Officer of Magnetic North Partners since 2013; Independent businessman since 2012; prior thereto Chief Executive Officer and Director of Poynt Corporation (formerly Multiplied Media Corporation) since September 2008; prior thereto Chief Financial Officer and Director of Multiplied Media Corporation (formerly Z28 Capital Corp.), a TSX Venture company; prior thereto Vice President, Global Banking of RBC Dominion Securities from 1999 through 2001.
Stephen W. C. Mulherin <sup>(1)</sup> ..... Alberta, Canada	Director since March 2010.	Partner and Vice President at Polar Capital Corporation since 1997 and Chairman of Veresen Inc. since May 2011.
David J. Sandmeyer <sup>(3)</sup> ..... Alberta, Canada	Director since March 2010	Independent businessman since 2010. Director of Anderson Energy Inc. since March 2010; Director of Freehold Royalties Ltd. since 1996 and former President of Rife Resources Ltd. and Freehold Royalties Ltd. until May 2009.
Brian P. Kohlhammer..... Alberta, Canada	Senior Vice President, Finance and Chief Financial Officer since December 2004.	Senior Vice President, Finance and Chief Financial Officer of Delphi since December 2004; prior thereto Vice President, Finance and Chief Financial Officer of Virtus Energy Ltd. from September 2001 to November 2004.

Name and Municipality of Residence	Office or Position with the Corporation	Present and Principal Occupation During the Last Five Years
Rod A. Hume..... Alberta, Canada	Senior Vice President, Engineering since February 2006.	Senior Vice President, Engineering of Delphi since February 2006; prior thereto Senior Exploitation Engineer of Delphi from February 2005; prior thereto Exploitation Manager/Engineer of Dominion Exploration Canada Ltd. from September 2002 to January 2005.
Hugo H. Batteke ..... Alberta, Canada	Vice President, Operations since October 2007.	Vice President, Operations of Delphi Energy Corp. since October 2007; prior thereto Senior Project Manager at Hood Engineering from March 2003 to September 2007.
Michael K. Galvin ..... Alberta, Canada	Vice President, Land since April 2010.	Vice President, Land of Delphi Energy Corp. since April 2010; prior thereto Manager, Land of Delphi from February 2008 to March 2010; prior thereto Land Manager of Rockyview Energy Inc. from December 2005 to January 2008.

**Notes:**

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

The term of each director expires at the next annual meeting of shareholders of the Corporation.

As at March 18, 2016, the directors and executive officers of the Corporation, as a group, beneficially owned, directed or controlled, directly or indirectly 5,685,951 Common Shares or approximately 4% of the issued and outstanding Common Shares and held options to acquire a further 7,157,500 Common Shares. Assuming exercise of all options, the directors and executive officers of the Corporation, as a group, would beneficially own, direct or control, directly and indirectly, 12,843,451 Common Shares or approximately 8% of the then issued and outstanding Common Shares. The information as to Common Shares beneficially owned, directed or controlled, not being within the knowledge of the Corporation, has been furnished by the respective individuals.

**Cease Trade Orders**

As of the date of this AIF, within 10 years before the date of this AIF, no director or executive officer of the Corporation was a director or executive officer at a company that was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under and securities legislation, for a period of more than 30 consecutive days, other than Mr. Andrew Osis, who as a director of Genesis Land Development Corporation (“Genesis”) consented to a management cease trade order (“MCTO”) dated April 7, 2006 with the Alberta Securities Commission (“ASC”) as a result of the failure of Genesis to file its 2005 financial statements by the required deadline under securities legislation. Subsequently, on June 6, 2006, the ASC issued a cease trade order (“CTO”) against Genesis, which replaced the MCTO, as a result of Genesis still not having filed its 2005 financial statements and failing to file its first quarter financial statements by the required regulatory deadline. Genesis filed its 2005 financial statements and its first quarter financial statements on June 15, 2006. The CTO issued by the ASC against Genesis expired on June 21, 2006.

## **Bankruptcies**

No director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation (a) is, as at the date of this AIF, or has been within the 10 years before the date of this AIF, a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (b) has, within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder, other than on July 5, 2012, Poynt Corporation filed a notice of intention to make a proposal pursuant to the Bankruptcy and Insolvency Act, and, on October 31, 2012, the Court of Queen's Bench of Alberta issued an order deeming Poynt Corporation to have made an assignment in bankruptcy. Mr. Osis was the Chief Executive Officer and a director of Poynt Corporation and resigned from both positions effective October 31, 2012.

## **Penalties or Sanctions**

No director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation has been subject to (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

## **Conflicts of Interest**

Certain directors of Delphi are also directors of other oil and gas companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the ABCA. In accordance with the ABCA, directors who have a material interest in any person who is a party to a material contract or proposed material contract with Delphi are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of Delphi.

## **AUDIT COMMITTEE**

### **Composition of Audit Committee**

The Audit Committee is comprised of three members of the Board of Directors: Stephen W. C. Mulherin (Chairman), Andrew E. Osis and Lamont C. Tolley. Each of the members of the Audit Committee is financially literate and independent within the meaning of National Instrument 52-110 – Audit Committees. The mandate of the Audit Committee is reproduced in Appendix “D”.

## Education and Experience

The members of Delphi's Audit Committee have education and experience relevant to the performance of their responsibilities, which includes the following:

### *Stephen W. C. Mulherin (Chairman)*

Mr. Mulherin has extensive experience in financial analysis and financial management, including employment in the banking industry and as CFO/VP Development of a transportation company. Mr. Mulherin is a partner in an investment company and has held and continues to hold directorships in numerous corporations, both public and private entities. He has a Degree in Economics from Queens University and is a graduate of the Advanced Management Program from Stanford University.

### *Andrew E. Osis*

Mr. Osis has extensive experience in financial analysis including employment as an investment banker, assistant portfolio manager, and research analyst. Coupled with experience as a CFO of two public companies, and serving as a member of or as chair of the audit committee of other public companies. He has a Bachelor of Commerce degree in Finance from the Haskayne School of Business at the University of Calgary.

### *Lamont C. Tolley*

Mr. Tolley has extensive experience in financial analysis and financial management. Mr. Tolley holds and has held directorships and executive positions in numerous public and private oil and gas corporations and royalty trusts. He has a Masters Degree of Business Administration from Dalhousie University.

## Pre-Approval Policies and Procedures

The Audit Committee has established a pre-approval policy and procedures for the engagement of non-audit services. The Audit Committee must approve all engagements for non-audit services which are expected to exceed \$20,000 per engagement before the engagement may commence. For engagements for non-audit services which are expected to be less than \$20,000 the engagement may commence upon approval by the Chairman of the Audit Committee with all members being informed of the service at the next meeting of the Committee. All recommendations for services will be submitted by the Senior Vice-President, Finance and Chief Financial Officer.

## External Auditor Service Fees

The following table provides the fees for services by KPMG LLP, the Corporation's external auditors during fiscal 2015 and 2014.

	<b>2015</b>	<b>2014</b>
Audit Fees	\$ 166,500	\$ 185,000
Audit-Related Fees	-	-
All Other Fees	17,100	12,500
Total	<u>\$ 183,600</u>	<u>\$ 197,500</u>

Audit fees include fees for quarterly reviews. All other fees include fees for services provided for tax compliance.

## **RISK FACTORS**

### **Exploration, Development and Production Risks**

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Delphi depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves Delphi may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in Delphi's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that Delphi will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Corporation may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by Delphi.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or in personal injury. In accordance with industry practice, Delphi is not fully insured against all of these risks, nor are all such risks insurable. Although the Corporation maintains liability insurance in an amount that it considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event Delphi could incur significant costs that could have a material adverse effect upon its financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on future results of operations, liquidity and financial condition.

### **Weakness in the Oil and Gas Industry**

Recent market events and conditions, including global excess oil and natural gas supply, recent actions taken by the Organization of the Petroleum Exporting Countries ("OPEC"), slowing growth in China and other emerging economies, market volatility and disruptions in Asia, and sovereign debt levels in various countries, have caused significant decrease in the valuation of oil and gas companies and a decrease in confidence in the oil and gas industry. These difficulties have been exacerbated in Canada by the recent changes in government at a federal level and, in case of Alberta, the provincial level and the resultant uncertainty surrounding regulatory, tax and royalty changes that may be implemented by the new

governments. In addition, the inability to get the necessary approvals to build pipelines and other facilities to provide better access to markets for the oil and gas industry in western Canada has led to additional uncertainty and reduced confidence in the oil and gas industry in western Canada. Lower commodity prices may also affect the volume and value of the Corporation's reserves especially as certain reserves become uneconomic. In addition, lower commodity prices have reduced, and are anticipated to continue to reduce the Corporation's cash flow which could result in a reduced capital expenditure budget. As a result, the Corporation may not be able to replace its production with additional reserves and both the Corporation's production and reserves could be reduced on a year over year basis. Any decrease in value of the Corporation's reserves may reduce the borrowing base under the Credit Facilities, which, depending on the level of the Corporation's indebtedness, could result in the Corporation having to repay a portion of its indebtedness. Given the current market conditions and the lack of confidence in the Canadian oil and gas industry, the Corporation may have difficulty raising additional funds in the future or if it is able to do it may be on unfavourable and highly dilutive terms.

### **Global Financial Markets**

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the American and European sovereign debt levels, have caused significant volatility in commodity prices. These events and conditions have caused a decrease in confidence in the broader United States and global credit and financial markets and have created a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and are likely to continue to impact the performance of the global economy going forward. Worldwide crude oil commodity prices are expected to remain volatile in the near future as a result of global excess supply, recent actions taken by the OPEC, and ongoing global credit and liquidity concerns. This volatility may affect the Corporation's ability to obtain equity or debt financing on acceptable terms.

### **Prices, Markets and Marketing**

The marketability and price of oil and natural gas that may be acquired or discovered by Delphi will be affected by numerous factors beyond its control. Delphi's ability to market its natural gas may depend upon its ability to acquire space on pipelines that deliver natural gas to commercial markets. Delphi may also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities, and related to operational problems with such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

Both oil and natural gas prices are unstable and are subject to fluctuation. Any material decline in prices could result in a reduction of Delphi's net production revenue. The economics of producing from some wells may change as a result of lower prices, which could result in a reduction in the volumes of Delphi's reserves. Delphi might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Delphi's net production revenue causing a reduction in its oil and gas acquisition, development and exploration activities. In addition, bank borrowings available to Delphi are in large part determined by Delphi's borrowing base. A sustained material decline in prices from historical average prices could reduce its borrowing base, therefore reducing the bank credit available to the Corporation which could require that a portion, or all, of its bank debt be repaid.

### **Market Price of Common Shares**

The trading price of securities of oil and natural gas issuers is subject to substantial volatility often based on factors related and unrelated to the financial performance or prospects of the issuers involved. Factors unrelated to the Corporation's performance could include macroeconomic developments nationally, within North America or globally, domestic and global commodity prices or current perceptions of the oil and gas market. Similarly, the market price of the Common Shares of the Corporation could be subject to significant fluctuations in response to variations in the Corporation's operating results, financial condition, liquidity and other internal factors. The price at which the Common Shares of the Corporation will trade cannot be accurately predicted.

### **Gathering and Processing Facilities and Pipeline Systems**

The Corporation delivers its products through gathering, processing and pipeline systems some of which it does not own. The amount of oil and natural gas that the Corporation can produce and sell is subject to the accessibility, availability, proximity and capacity of these gathering, processing and pipeline systems. The lack of availability of capacity in any of the gathering, processing and pipeline systems, and in particular the processing facilities, could result in the Corporation's inability to realize the full economic potential of its production or in a reduction of the price offered for the Corporation's production. Although pipeline expansions are ongoing, the lack of firm pipeline capacity continues to affect the oil and natural gas industry and limit the ability to produce and to market oil and natural gas production. In addition, the pro-rationing of capacity on inter-provincial pipeline systems also continues to affect the ability to export oil and natural gas. Any significant change in market factors or other conditions affecting these infrastructure systems and facilities, as well as any delays in constructing new infrastructure systems and facilities could harm the Corporation's business and, in turn, the Corporation's financial condition, results of operations and cash flows.

A portion of the Corporation's production may, from time to time, be processed through facilities owned by third parties and over which the Corporation does not have control. From time to time these facilities may discontinue or decrease operations either as a result of normal servicing requirements or as a result of unexpected events. A discontinuation or decrease of operations could materially adversely affect the Corporation's ability to process its production and to deliver the same for sale.

### **Competition**

The petroleum industry is competitive in all its phases. The Corporation competes with numerous other participants in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. Delphi's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of Delphi. Delphi's ability to increase reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery.

### **Cost of New Technologies**

The oil and gas industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oil companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before the Corporation. There can be no assurance that the Corporation will be able to respond to such competitive pressures and implement such

technologies on a timely basis or at an acceptable cost. One or more of the technologies currently utilized by the Corporation or implemented in the future may become obsolete. In such case, the Corporation's business, financial condition and results of operations could be affected adversely and materially. If the Corporation is unable to utilize the most advanced commercially available technology, its business, financial condition and results of operations could also be adversely affected in a material way.

### **Alternatives to and Changing Demand for Petroleum Products**

Full conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas and technological advances in fuel economy and energy generation devices could reduce the demand for oil, natural gas and other liquid hydrocarbons. The Corporation cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

### **Regulatory**

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. Delphi's operations may require licenses from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at its projects.

### **Royalty Regimes**

There can be no assurance that the federal government and the provincial governments of the western provinces will not adopt new royalty regimes or modify the existing royalty regimes which may have an impact on the economics of the Corporation's projects. An increase in royalties would reduce the Corporation's earnings and could make future capital investments, or the Corporation's operations, less economic.

### **Alberta Royalty Review**

The Government of Alberta released its Royalty Review Advisory Panel Report on January 29, 2016 (the "Review"). The Review recommends new rules coming into effect in 2017, but also recommends grandfathering, under the current rules, all wells drilled before 2017 for a ten year period and recommends no change to the oil sands royalty structure. The Review recommended modernization of Alberta's conventional oil and gas royalty regime, but did not provide detail. The Government of Alberta has accepted the recommendations set out in the Review and is expected to adopt those recommendations in spring 2016. It is not anticipated that the new rules will materially impact the Corporation's financial condition; however, the specific manner in which the new rules will be applied has not yet been determined and may alter this view.

### **Environmental**

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which

may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require Delphi to incur costs to remedy such discharge. Although the Corporation believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect Delphi's financial condition, results of operations or prospects.

### **Hydraulic Fracturing**

Hydraulic fracturing involves the injection of water, sand and small amounts of additives under pressure into rock formations to stimulate hydrocarbon (oil and natural gas) production. The use of hydraulic fracturing is being used to produce commercial quantities of oil and natural gas from reservoirs that were previously unproductive. Any new laws, regulations or permitting requirements regarding hydraulic fracturing could lead to operational delays, increased operating costs or third party or governmental claims, and could increase Delphi's costs of compliance and doing business as well as delay the development of oil and natural gas resources from shale formations which are not commercial without the use of hydraulic fracturing. Restrictions on hydraulic fracturing could also reduce the amount of oil and natural gas that Delphi is ultimately able to produce from its reserves.

### **Substantial Capital Requirements**

Delphi anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If Delphi's revenues or reserves decline, it may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Delphi. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on its financial condition, results of operations or prospects.

### **Additional Funding Requirements**

Delphi's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, the Corporation may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause Delphi to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If Delphi's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect Delphi's ability to expend the necessary capital to replace its reserves or to maintain its production. If Delphi's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on terms acceptable to Delphi.

### **Failure to Realize Anticipated Benefits of Acquisitions and Dispositions**

Delphi considers acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as Delphi's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of Delphi. The integration of acquired businesses may require substantial management effort,

time and resources and may divert management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, non-core assets may be periodically disposed of, so that the Corporation can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, the Corporation, if disposed of, could be expected to realize less than their carrying value on the financial statements of Delphi.

### **Issuance of Debt**

From time to time Delphi may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase Delphi's debt levels above industry standards. Depending on future exploration and development plans, Delphi may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms. Neither Delphi's articles nor its by-laws limit the amount of indebtedness that Delphi may incur. The level of Delphi's indebtedness from time to time, could impair Delphi's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

### **Credit Facility Arrangements**

The Corporation currently has a credit facility and the amount authorized thereunder is dependent on the borrowing base determined by its lenders. The Corporation is required to comply with covenants under its credit facilities which may, in certain cases, include certain financial ratio tests, which from time to time either affect the availability, or price, of additional funding and in the event that the Corporation does not comply with these covenants, the Corporation's access to capital could be restricted or repayment could be required. Events beyond the Corporation's control may contribute to the failure of the Corporation to comply with such covenants. A failure to comply with covenants could result in default under the Corporation's credit facilities, which could result in the Corporation being required to repay amounts owing thereunder. Even if the Corporation is able to obtain new financing, it may not be on commercially reasonable terms or terms that are acceptable to the Corporation. If the Corporation is unable to repay amounts owing under credit facilities, the lenders under the credit facility could proceed to foreclose or otherwise realize upon the collateral granted to them to secure the indebtedness. The acceleration of the Corporation's indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross default or cross-acceleration provisions. In addition, the Corporation's credit facilities may impose operating and financial restrictions on the Corporation that could include restrictions on, repurchase or making of other distributions with respect to the Corporation's securities, incurring of additional indebtedness, the provision of guarantees, the assumption of loans, making of capital expenditures, entering into of amalgamations, mergers, take-over bids or disposition of assets, among others.

The Corporation's lenders use the Corporation's reserves, commodity prices, applicable discount rate and other factors, to periodically determine the Corporation's borrowing base. A material decline in commodity prices could reduce the Corporation's borrowing base, reducing the funds available to the Corporation under the credit facility. This could result in the requirement to repay a portion, or all, of the Corporation's bank indebtedness.

### **Risk Management**

From time to time Delphi may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, Delphi will not benefit from such increases. Delphi may

also enter into interest rate swaps to fix the interest payable for a given period of time on a certain amount of its debt in order to offset the risk of incremental interest costs if rates increase, however, if interest rates decrease, Delphi would not benefit from reduced interest costs. Similarly, from time to time Delphi may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar; however, if the Canadian dollar declines in value compared to the United States dollar, Delphi will not benefit from the fluctuating exchange rate.

### **Availability of Drilling Equipment and Access**

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to Delphi and may delay exploration and development activities. To the extent Delphi is not the operator of its oil and gas properties, Delphi will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

### **Title to Assets**

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat Delphi's claim which could result in a reduction of the revenue received by Delphi.

### **Reserve Estimates**

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and NGL reserves and cash flows to be derived therefrom, including many factors beyond Delphi's control. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary from actual results. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom prepared by different engineers, or by the same engineers at different times, may vary. Delphi's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

In accordance with applicable securities laws, GLJ, the Corporation's independent qualified reserves evaluator, has used forecast price and cost estimates in calculating reserve quantities in the GLJ Report summarized under "Oil and Gas Activities" above. Actual future net cash flows will be affected by other factors such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and cash flows derived therefrom will vary from the estimates contained in the GLJ Report, and such variations could be material. The GLJ Report is based in part on the assumed success of activities Delphi intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the GLJ Report will be reduced to the extent that such activities do not achieve the level of success assumed in the GLJ Report.

## **Insurance**

Delphi's involvement in the exploration for and development of oil and natural gas properties may result in Delphi becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although prior to drilling, Delphi will obtain insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, Delphi may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to Delphi. The occurrence of a significant event that Delphi is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on Delphi's financial position, results of operations or prospects.

## **Geopolitical Risks**

Political events throughout the world that cause disruptions in the supply of oil continuously affect the marketability and price of oil and natural gas acquired or discovered by the Corporation. Conflicts, or conversely peaceful developments, arising outside of Canada have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and result in a reduction of the Corporation's net production revenue.

In addition, the Corporation's oil and natural gas properties, wells and facilities could be the subject of a terrorist attack. If any of the Corporation's properties, wells or facilities are the subject of terrorist attack it may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. The Corporation does not have insurance to protect against the risk from terrorism.

## **Dilution**

The Corporation may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Corporation which may be dilutive.

## **Management of Growth**

The Corporation may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Corporation to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Corporation to deal with this growth could have a material adverse impact on its business, operations and prospects.

## **Expiration of Licenses and Leases**

The Corporation's properties are held in the form of licences and leases and working interests in licences and leases. If the Corporation or the holder of the licence or lease fails to meet the specific requirement of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of the Corporation's licences or leases or the working interests relating to a licence or lease may have a material adverse effect on the Corporation's results of operations and business.

### **Aboriginal Claims**

Aboriginal peoples have claimed aboriginal title and rights to portions of western Canada. The Corporation is not aware that any claims have been made in respect of its property and assets; however, if a claim arose and was successful this could have an adverse effect on the Corporation and its operations.

### **Seasonality**

The level of activity in the Canadian oil and gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. There can be no assurance that these seasonal factors will not adversely affect the timing and scope of the Corporation's exploration and development activities, which could in turn have a material adverse impact on the Corporation's business, operations and prospects.

### **Third Party Credit Risk**

The Corporation is, or may be exposed to, third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Corporation, such failures could have a material adverse effect on the Corporation and its cash flow from operations. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Corporation's ongoing capital program, potentially delaying the program and the results of such program until the Corporation finds a suitable alternative partner.

### **Reliance on Key Personnel**

Delphi's success depends in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse affect on Delphi. Delphi does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations of Delphi are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that Delphi will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Delphi.

### **Litigation**

In the normal course of the Corporation's operations, it may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions, related to personal injuries, property damage, property tax, land rights, the environment and contract disputes. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the Corporation and as a result, could have a material adverse effect on the Corporation's assets, liabilities, business, financial condition and results of operations.

Even if the Corporation prevails in any such legal proceeding, the proceedings could be costly and time consuming and may divert the attention of management and key personnel from the Corporation's business operations, which could adversely affect its financial condition.

### **Intellectual Property Litigation**

Due to the rapid development of oil and gas technology, in the normal course of the Corporation's operations, the Corporation may become involved in, named as a party to, or be the subject of, various legal proceedings in which it is alleged that the Corporation has infringed the intellectual property rights of others or commence lawsuits against others who the Corporation believes are infringing upon its intellectual property rights. The Corporation's involvement in intellectual property litigation could result in significant expense, adversely affecting the development of its assets or intellectual property or diverting the efforts of its technical and management personnel, whether or not such litigation is resolved in the Corporation's favour. In the event of an adverse outcome as a defendant in any such litigation, the Corporation may, among other things, be required to: (a) pay substantial damages; cease the development, use, sale or importation of processes that infringe upon other patented intellectual property; (b) expend significant resources to develop or acquire non-infringing intellectual property; (c) discontinue processes incorporating infringing technology; or (d) obtain licences to the infringing intellectual property. However, the Corporation may not be successful in such development or acquisition or such licences may not be available on reasonable terms. Any such development, acquisition or licence could require the expenditure of substantial time and other resources and could have a material adverse effect on the Corporation's business and financial results.

### **Breach of Confidentiality**

While discussing potential business relationships or other transactions with third parties, the Corporation may disclose confidential information relating to the business, operations or affairs of the Corporation. Although confidentiality agreements are signed by third parties prior to the disclosure of any confidential information, a breach could put the Corporation at competitive risk and may cause significant damage to its business. The harm to the Corporation's business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages. There is no assurance that, in the event of a breach of confidentiality, the Corporation will be able to obtain equitable remedies, such as injunctive relief, from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause.

### **Income Taxes**

The Corporation files all required income tax returns and believes that it is in full compliance with the provisions of the *Income Tax Act* (Canada) and all other applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of the Corporation, whether by re-characterization of exploration and development expenditures or otherwise, such reassessment may have an impact on current and future taxes payable.

Income tax laws relating to the oil and natural gas industry, such as the treatment of resource taxation, may in the future be changed or interpreted in a manner that adversely affects the Corporation. Furthermore, tax authorities having jurisdiction over the Corporation may disagree with how the Corporation calculates its income for tax purposes or could change administrative practices to the Corporation's detriment.

### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

To the knowledge of management of the Corporation, there are no legal proceedings to which the Corporation is or was a party to or which any of its property is or was the subject of, nor are any such proceedings known to be contemplated, during the recently completed financial year.

To the knowledge of management of the Corporation, there have not been any penalties or sanctions imposed against the Corporation by a court relating to provincial and territorial securities legislation or by a securities regulatory authority, nor have there been any other penalties or sanctions imposed by a court or regulatory body against the Corporation, and the Corporation has not entered into any settlement agreements before a court relating to provincial and territorial securities legislation or with a securities regulatory authority.

#### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

There are no material interests, direct or indirect, of directors, executive officers, senior officers, any direct or indirect shareholder of the Corporation who beneficially owns, or who exercises control or direction over, more than 10% of the outstanding Common Shares or any known associate or affiliate of such persons, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or will materially affect Delphi.

#### **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the Common Shares is Computershare Trust Company of Canada at its office in Calgary, Alberta.

#### **MATERIAL CONTRACTS**

The Corporation has not entered into any material contracts during the most recently completed financial year, or before the last financial year, other than those entered into in the ordinary course of business.

#### **INTERESTS OF EXPERTS**

KPMG LLP, Delphi's auditor, is independent in accordance with the auditor's rules of professional conduct of the Institute of Chartered Accountants of Alberta.

Information relating to reserves in this AIF dated March 30, 2016 was evaluated by GLJ as independent reserves evaluators. The partners, employee and consultants of GLJ as a group own less than one percent of the Common Shares of Delphi.

#### **ADDITIONAL INFORMATION**

Additional information relating to Delphi is available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR"), which can be accessed at [www.sedar.com](http://www.sedar.com). Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities, options to purchase securities, securities authorized for issuance under equity compensation plans and interest of insiders in material transactions, is contained in the Information Circular of the Corporation for the Corporation's most recent annual meeting of shareholders that involved the election of directors. Additional financial information is provided in the Corporation's audited financial statements and management's discussion and analysis for the year ended December 31, 2015, available on SEDAR.

**APPENDIX A**

**REPORT ON RESERVES DATA BY INDEPENDENT QUALIFIED RESERVES EVALUATOR  
OR AUDITOR  
(NI 51-101 F2)**

To the board of directors of Delphi Energy Corp. (the “Company”):

1. We have evaluated the Company's reserves data as at December 31, 2015. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2015, estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company’s management. Our responsibility is to express an opinion on the reserves data based on our evaluation.
3. We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the “COGE Handbook”) maintained by the Society of Petroleum Evaluation Engineers (Calgary Chapter).
4. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
5. The following table shows the net present value (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2015, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company's board of directors:

<b>Independent Qualified Reserves Evaluator</b>	<b>Effective Date of Evaluation/Report</b>	<b>Location of Reserves (Country or Foreign Geographic Area)</b>	<b>Net Present Value of Future Net Revenue (before income taxes, 10% discount rate, 000's)</b>			
			<b>Audited</b>	<b>Evaluated</b>	<b>Reviewed</b>	<b>Total</b>
GLJ Petroleum Consultants	December 31, 2015	Canada	-	\$ 265,151	-	\$ 265,151

6. In our opinion, the reserves data evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
7. We have no responsibility to update our reports referred to in paragraph 5 for events and circumstances occurring after the respective preparation dates.
8. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

GLJ Petroleum Consultants Ltd., Calgary, Alberta, Canada, February 22, 2016

ORIGINALLY SIGNED BY

Ian G. Jacksteit, P. Eng.  
Manager, Engineering

**APPENDIX B**  
**REPORT OF MANAGEMENT AND DIRECTORS**  
**ON RESERVES DATA AND OTHER INFORMATION**  
**(NI 51-101 F3)**

Management of Delphi Energy Corp. (the “Corporation”) is responsible for the preparation and disclosure of information with respect to the Corporation's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2015, estimated using forecast prices and costs.

An independent qualified reserves evaluator has evaluated the Corporation’s reserves data. The report of the independent qualified reserves evaluator is presented in Appendix A.

The Reserves Committee of the Board of Directors of the Corporation has:

- (a) reviewed the Corporation's procedures for providing information to the independent qualified reserves evaluator;
- (b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Reserves Committee of the Board of Directors has reviewed the Corporation's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The Board of Directors has, on the recommendation of the Reserves Committee, approved:

- (a) the content and filing with securities regulatory authorities of Form 51-101F1 containing the reserves data and other oil and gas information;
- (b) the filing of Form 51-101F2 which is the report of the independent qualified reserves evaluator on the reserves data; and
- (c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

*(signed) David Reid*

\_\_\_\_\_  
David Reid  
President & Chief Executive Officer

*(signed) Robert Lehodey*

\_\_\_\_\_  
Robert Lehodey, Q.C.  
Director and Member of the Corporate  
Governance and Compensation Committee  
and Reserves Committee

(signed) *Andrew Osis*

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Andrew Osis  
Director and Member of the Corporate  
Governance and Compensation Committee and  
Audit Committee

(signed) *Harry Campbell*

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Harry Campbell, Q.C.  
Director and Member of the Corporate  
Governance and Compensation Committee

(signed) *Lamont Tolley*

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Lamont Tolley  
Director and Member of the Audit and  
Reserves Committee

(signed) *Stephen Mulherin*

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Stephen Mulherin  
Director and Member of the Audit Committee

(signed) *David Sandmeyer*

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David Sandmeyer  
Director and Member of the Reserves  
Committee

## APPENDIX C

### ABBREVIATIONS, EQUIVALENCIES AND DEFINITIONS

The following are abbreviations of terms used in this AIF. All calculations converting natural gas to crude oil equivalent have been made using a ratio of 6 mcf of natural gas to one barrel of crude equivalent.

<b>Crude Oil and Natural Gas Liquids</b>		<b>Natural Gas</b>	
bbbl	One barrel equaling 34.972 Imperial gallons or 42 U.S. gallons	bcf	Billion cubic feet
bbls/d	Barrels per day	bcfe	Billion cubic feet equivalent
bbls/mmcf	Barrels per million cubic feet	bcf/d	Billion cubic feet per day
boe	Barrels of oil equivalent	mcf	Thousand cubic feet
boe/d	Barrels of oil equivalent per day	Mcf	Thousand cubic feet equivalent
Mboe	Thousand barrels of oil equivalent	mcf/d	Thousand cubic feet per day
Mmboe	Million barrels of oil equivalent	Mmcf	Million cubic feet equivalent
Mbbls	Thousand barrels	Mmcf	Million cubic feet
Mmbbls	Million barrels	Mmcf/d	Million cubic feet per day
Mmlts	Million long tonnes	Mmbtu	Million British Thermal Units
NGL or NGLs	Natural gas liquids, consisting of any one or more of propane, butane and condensate	GJ/d	Gigajoules per day
WI	Working interest		

The following table sets forth certain standard conversions from Standard Imperial units to the International System of Units (or metric units).

<b>To Convert From</b>	<b>To</b>	<b>Multiply By</b>
Mcf	Cubic metres	28.174
Cubic metres	Cubic feet	35.494
Bbls	Cubic metres	0.159
Cubic metres	Bbls	6.290
Feet	Metres	0.305
Metres	Feet	3.281
Miles	Kilometres	1.609
Kilometres	Miles	0.621
Acres	Hectares	0.405
Hectares	Acres	2.471
GJ	Mcf	1.055

The following are the note references to the tables disclosed under “Oil and Gas Activities” in this AIF.

(1) **Gross**

- (a) In relation to the Corporation's interest in production or reserves, its “company gross reserves”, which are the Corporation’s working interest (operating or non-operating) share before deduction of royalties and excluding any royalty interest of the Corporation;
- (b) In relation to wells, the total number of wells in which the Corporation has an interest;
- (c) In relation to properties, the total area of properties in which the Corporation has an interest.

(2) **Net**

- (a) In relation to the Corporation's interest in production or reserves, the Corporation's working interest (operating and non-operating) share after deduction of royalty obligations, plus the Corporation's royalty interests in production or reserves;
- (b) In relation to the Corporation’s interest in wells, the number of wells obtained by aggregating the Corporation’s working interest in each of its gross wells.
- (c) In relation to the Corporation's interest in a property, the total area in which the Corporation has an interest multiplied by the working interest owned by the Corporation.

(3) Definitions used for reserve categories in the GLJ Report are as set forth, which definitions apply to both estimates of individual reserves entities and the aggregate of reserves for multiple entities:

*Reserve Categories*

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on

- analysis of drilling, geological, geophysical and engineering data;
- the use of established technology; and
- specified economic conditions,

Reserves are classified according to the degree of certainty associated with the estimates.

- (a) **Proved reserves** are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- (b) **Probable reserves** are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Each of the reserve categories (proved and probable) may be divided into developed and undeveloped categories:

(4) Each of the **reserve categories (proved and probable)** may be divided into developed and undeveloped categories:

- (a) **Developed reserves** are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

- i. **Developed producing reserves** are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These

reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

- ii. **Developed non-producing reserves** are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.

(5) **Undeveloped reserves** are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned. In multi-well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

(6) Levels of Certainty for Reported Reserves

The qualitative certainty levels referred to in the definitions above are applicable to individual reserve entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserves are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- (a) At least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves; and
- (b) At least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves.

A quantitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

(7) Amendments to NI 51-101 require reserves to be broken out by conventional natural gas and shale gas. The adjusted opening balance reflects this new requirement. The ending natural gas reserves for 2014 as reported in the Corporation's December 31, 2014 AIF can be obtained by adding the adjusted opening conventional natural gas and the shale gas reserves.

(8) Shale gas values have not been reported on in previous years. Recent amendments to NI 51-101 require separate disclosure for conventional natural gas and shale gas.

(9) Forecast prices and costs

Future prices and costs that are:

- (a) Generally accepted as being a reasonable outlook of the future;
- (b) If, and only to the extent that, there are fixed or presently determinable future prices or costs to which the Corporation is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

The forecast summary table identifies benchmark reference pricing that apply to the Corporation.

- (10) Future income tax expenses  
 Future income tax expenses are estimated:
- (a) Making appropriate allocations of estimated unclaimed costs and losses carried forward for tax purposes, between oil and gas activities and other business activities;
  - (b) Without deducting estimated future costs (for example, Crown royalties) that are not deductible in computing taxable income;
  - (c) Taking into account estimated tax credits and allowances (for example, royalty tax credits); and
  - (d) Applying to the future pre-tax net cash flows relating to the Corporation's oil and gas activities the appropriate year-end statutory rates, taking into account future tax rates already legislated.
- (11) **Development well** – A well drilled inside the established limits of an oil or gas reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive.
- (12) **Development costs** – Costs incurred to obtain access to reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas from the reserves. More specifically, development costs, including applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:
- (a) Gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground, draining, road building, and relocating public roads, gas lines and power lines, to the extent necessary in developing the reserves;
  - (b) Drill and equip development wells, development type stratigraphic test wells and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment and wellhead assembly;
  - (c) Acquire, construct and install production facilities such as flow lines, separators, treaters, heaters, manifolds, measuring devices and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems; and
  - (d) Provide improved recovery systems.
- (13) **Exploration well** – A well that is not a development well, a service well or a stratigraphic test well.
- (14) **Exploration costs** – Costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects that may contain oil and gas reserves, including costs of drilling exploratory wells and exploratory type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property (sometimes referred to in part as “prospecting costs”) and after acquiring the property. Exploration costs, which include applicable operating costs of support equipment and facilities and other costs of exploration activities are:
- (a) Costs of topographical, geochemical, geological and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews and others conducting those studies (collectively sometimes referred to as “geological and geophysical costs”);
  - (b) Costs of carrying and retaining unproved properties, such as delay rentals, taxes (other than income and capital taxes) on properties, legal costs for title defense, and the maintenance of land and lease records;
  - (c) Dry hole contributions and bottom hole contributions;
  - (d) Costs of drilling and equipping exploratory wells; and
  - (e) Costs of drilling exploratory type stratigraphic test wells.
- (15) Numbers may not add due to rounding.

**APPENDIX D**  
**AUDIT COMMITTEE MANDATE**

*Policy Statement*

Delphi Energy Corp. (the “**Corporation**”) has established and maintains an Audit Committee, (the “**Committee**”) composed entirely of independent directors, to assist the Board of Directors (the “**Board**”) in carrying out its oversight responsibility with respect to public reporting related to the Corporation’s internal controls, financial reporting and risk management processes. The Committee will be provided with resources commensurate with the duties and responsibilities set out herein and assigned to it by the Board from time to time, including administrative support. If determined necessary by the Committee, it will have the discretion to institute investigations of improprieties, or suspected improprieties within the scope of its responsibilities, including the standing authority to retain special counsel or experts.

*Composition*

1. The Committee shall consist of at least three directors. The Board shall appoint the members of the Committee. The Board shall appoint one member of the Committee to be the chairman of the Committee ( the “**Chairman**”);
2. Each director appointed to the committee by the Board shall be “independent” as required under the applicable securities laws and the applicable rules of any stock exchange on which the securities of the Corporation are listed.
3. Each member of the Committee shall be “financially literate” as required under the applicable securities laws, including without limitation *National Instrument 52-110 - Audit Committees* (“**NI 52-110**”). In order to be financially literate, a director must have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation’s financial statements. If available, at least one member shall have “accounting or related financial management expertise”, meaning the ability to analyze and interpret a full set of financial statements, including the notes attached thereto, in accordance with Canadian generally accepted accounting principles.
4. A director appointed by the Board to the Committee shall be a member of the Committee until replaced by the Board or until his or her resignation.

*Meetings and Operations*

1. The Committee shall convene a minimum of four times each year at such times and places as may be designated by the Chairman and whenever a meeting is requested by the Board, a member of the Committee, the external auditors (the “**auditors**”), or an officer of the Corporation. Meetings of the Committee shall correspond with the review of the quarterly and annual financial statements and the associated management’s discussion and analysis (“**MD&A**”).
2. Notice of each meeting of the Committee shall be given to each member of the Committee and to the auditors, who shall be entitled to attend each meeting of the Committee and who shall attend whenever requested to do so by a member of the Committee.

3. A quorum for the transaction of business at a meeting of the Committee shall consist of two members of the Committee.
4. A member or members of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities, as permits all persons participating in the meeting to communicate adequately with each other. A member participating in such a meeting by any such means is deemed to be present at the meeting.
5. In the absence of the Chairman, the members of the Committee shall choose one of the members present to be chairman of the meeting. In addition, the members of the Committee shall choose one of the persons present to be the secretary of the meeting.
6. The President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer and other members of senior management shall be invited to attend meetings of the Committee upon the request of the Committee; subject, however, to the requirement that the Committee (i) hold in camera sessions of the members of the Committee, without management representatives present at every meeting of the Committee, and (ii) meet with the auditors separately and independent of management at every meeting at which the auditors are in attendance.
7. Minutes shall be kept of all meetings of the Committee.

#### *Authority and Reporting*

1. In discharging its duties and responsibilities, the Committee shall have the authority to:
  - (a) inspect any and all of the books and records of the Corporation, its subsidiaries and affiliates;
  - (b) discuss with the management of the Corporation, its subsidiaries and affiliates and staff of the Corporation, any affected party, contractors and consultants of the Corporation and the auditors, such accounts, records and other matters as any member of the Committee considers necessary and appropriate;
  - (c) engage independent counsel and other advisors (including a second firm of external auditors) as it determines necessary to carry out its duties; and
  - (d) set and pay the compensation for any advisors employed by the Committee.
2. The Committee shall after each meeting, report to the Board the results of its activities and any reviews undertaken and make recommendations to the Board as deemed appropriate.

#### *Primary Duties and Responsibilities*

1. The Committee's primary duties and responsibilities regarding its audit function are to:
  - (a) review with the external auditors the audit function generally, the objectives, staffing, locations, co-ordination, and scope of proposed audits of the financial statements of the Corporation;

- (b) review with management and the external auditors, and recommend to the Board for approval and release to shareholders, the quarterly and annual financial statements of the Corporation, together with related reports to shareholders, MD&A associated with such financial statements and, when applicable, other public filings (such as prospectus or annual information forms) containing financial disclosures;
  - (c) review with the auditors and management, and monitor the management of, the principal risks that could affect the financial reporting of the Corporation;
  - (d) review and assess the framework of and periodically consider the integrity of the Corporation's financial reporting process and system of internal controls regarding financial reporting and accounting compliance through discussions with management and the auditor;
  - (e) consider the independence and performance of the Corporation's auditors;
  - (f) deal directly with the auditors to approve the annual external audit plan, other services (if any) and associated fees;
  - (g) approve the audit engagement and consider the external audit process and results;
  - (h) provide an avenue of communication among the auditors (both external and internal, if any), management and the Board, and direct the external auditors to report directly to the Committee;
  - (i) establish and monitor procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters and the anonymous submission by employees of concerns regarding questionable accounting or auditing matters or other "whistleblower" issues, and review the minutes of any Committee meetings held in connection with any subsidiary companies of the Corporation.
2. The Committee shall, in connection with the financial aspects of the Corporation's business:
- (a) review the annual external audit plan with the Corporation's auditors and with management and approve the engagement letter relating thereto;
  - (b) discuss with management and the auditors any proposed changes in major accounting policies or principles, the presentation and effect of significant risks and uncertainties and key estimates and judgments of management that may be material to financial reporting;
  - (c) review with management and with the auditors significant financial reporting issues arising during the most recent fiscal period and the resolution or proposed resolution of such issues;
  - (d) review any problems experienced or concerns expressed by the auditors in performing an audit, including any restrictions imposed by management or significant accounting issues on which there was a disagreement with management;

- (e) review with management the process of identifying, monitoring and reporting the Corporation's risk management policies and procedures and the principal risks affecting financial reporting;
- (f) review and evaluate any recommendations of the auditors and decide the appropriate course of action;
- (g) consider consistency of the data reported in the financial statements, annual and quarterly reports and related public disclosure documents;
- (h) review audited annual financial statements and related documents in conjunction with the report of the auditors and significant variances between comparative reporting periods as set out in the MD&A;
- (i) review, independently of management, and without management present, the results of the annual external audit, the audit report thereon and the auditor's review of the related MD&A, and discuss with the auditor the quality of accounting principles used, any alternative treatments of financial information that have been discussed with management, the ramifications of their use and the auditor's preferred treatment and any other material communication with management.
- (j) consider and review with management:
  - (i) all unadjusted errors identified by the external auditors,
  - (ii) the internal control memorandum or management letter containing the recommendations of the auditors and management's response, if any, including any evaluation of the adequacy and effectiveness of the internal financial controls of the Corporation and subsequent follow-up to any identified weakness;
- (k) review with management and the auditors the quarterly unaudited financial statements and MD&A before release to the public;
- (l) before release, review and if appropriate, recommend for approval by the Board, all public disclosure documents containing audited or unaudited financial information, including any prospectus, annual reports, annual information forms, MD&A and press releases;
- (m) review and approve the Corporation's hiring policies regarding employees and former employees of the present and former auditors;
- (n) review with management the Corporation's relationship with regulators and the timelines and accuracy of the Corporation's filings with regulatory agencies; and
- (o) review with management all related party transactions and the development of policies and procedures related to those transactions.

### *Auditors*

1. The Committee shall:
  - (a) consider the independence and performance of the auditors and annually recommend to the Board the appointment or discharge of the auditor when circumstances are warranted and recommend to the Board the compensation of the auditors;
  - (b) pre-approve all non-audit services to be provided to the Corporation or its subsidiary entities by the auditors, or the auditors of any of the Corporation's subsidiary entities;
  - (c) when there is to be a change of auditors, review all issues and provide documentation related to the change, including the information to be included in the Notice of Change of Auditors and related documentation required pursuant to *National Instrument 51-102 — Continuous Disclosure Obligations*, with respect to a change of auditors (or any successor legislation) and the planned steps for an orderly transition period;
  - (d) review all material written communications between the auditor and management; and
  - (e) review all reportable events, including disagreements, unresolved issues and consultations, as defined by applicable securities policies, on a routine basis, whether or not there is to be a change of auditors.

### *Financing Matters*

1. The Committee shall:
  - (a) review all securities offering documents (including documents incorporated therein by reference) of the Corporation;
  - (b) review findings, if any, from examinations or reviews performed by regulatory agencies with respect to financial matters;
  - (c) review management's consideration of the Corporation's compliance with laws and regulations;
  - (d) review management's assessment of current and expected future compliance with covenants under any financing agreements;
  - (e) if requested by the Board, review the proposed issuance of debt and equity instruments including public and private debt, equity and hybrid securities, credit facilities with banks and others, and other credit arrangements such as material capital and operating leases, as well as any related securities filings;
  - (f) if requested by the Board, review the proposed repurchase of public and private debt, equity and hybrid securities; and
  - (g) in consultation with management understand the Corporation's capital structure and financial risks arising from exposure to such things as commodity prices, interest rates, foreign currency exchange rates and credit and review the management of these risks

including any proposed hedging of the exposures, including receiving a summary report of the hedging activities and hedge-related instruments.

*Other*

1. The Committee shall consider the amount and terms of any insurance to be obtained or maintained by the Corporation with respect to risks inherent in its operations and potential liabilities incurred by the directors or officers in the discharge of their duties and responsibilities.
2. The Committee shall consider the appointments of the Chief Financial Officer and any key financial managers who are involved in the financial reporting process.
3. The Committee shall enquire into and determine the appropriate resolution of any conflict of interest in respect of audit or financial matters, which are directed to the Committee by any member of the Board, a shareholder of the Corporation, the auditors, or management.
4. The Committee shall review, on an annual basis this mandate and recommend any changes to the Board.
5. The Committee will perform any other activities consistent with this mandate, the Corporation's bylaws and applicable laws as the Committee or the Board deems necessary or appropriate.

*Scope and Reliance*

1. While the Committee has the responsibilities, duties and authorities herein, it is not required to plan or conduct audits or to determine that the Corporation's financial statements and disclosures are complete and accurate or are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the auditors. The Committee, its Chairman and any of its members who have accounting or related financial management experience or expertise, are members of the Board, appointed to the Committee to provide broad oversight to the financial disclosure, financial risk and control related activities of the Corporation, and are specifically not accountable nor responsible for the day-to-day operation of such activities. Although designation of a member or members as being "financially literate" or a "financial expert" is based on each such individual's education and experience, which that individual will bring to bear in carrying out his or her duties on the Committee, designation as being "financially literate" or a "financial expert" does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Committee and Board in the absence of such designation. Rather, the role of any financially literate individual or financial expert, like the role of all Committee members, is to oversee the process and not to certify or guarantee the internal or external audit of the Corporation's; financial information or public disclosure.
2. Absent actual knowledge to the contrary (which shall be promptly reported to the Board), each member of the Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside the Corporation from which it receives information, (ii) the accuracy of the information provided to the Committee by such persons or organizations, and (iii) representations made by management of the Corporation, the external auditors of the Corporation, independent counsel, and other advisors and experts to the Corporation and its subsidiaries.