Delphi Energy Corp. Reports Third Quarter 2019 Results

07.11.2019 | [GlobeNewswire]

CALGARY, Nov. 06, 2019 - [Delphi Energy Corp.] (“Delphi” or the “Company”) is pleased to announce its financial and operational results for the quarter ended September 30, 2019.

THIRD QUARTER 2019 HIGHLIGHTS

- Average production in the quarter of 8,386 barrels of oil equivalent per day (“boe/d”) was down twelve percent from the 9,514 boe/d in the comparative quarter of 2018. During the third quarter of 2019, the liquids yield averaged 117 barrels per million cubic feet (“bbls/mmcf”), up 18 percent from the 99 bbls/mmcf in the third quarter of 2018. Of the 117 bbls/mmcf, 87 bbls/mmcf were the higher valued condensate and pentane products;
- Delphi’s realized natural gas price, including marketing income (excluding the Permanent Assignment Transaction, defined below) and excluding realized gains on risk management, averaged $2.56 per thousand cubic feet (“mcf”) comparing favourably to the average daily AECO benchmark which averaged $0.91 per mcf. Approximately 56 percent of the Company’s natural gas was sold in the Chicago natural gas market;
- Realized gains of $5.4 million and $9.6 million on the settlement of risk management contracts in the three and nine months ended September 30, 2019. The fair value of financial contracts outstanding as at September 30, 2019 is estimated to be a net asset of $15.1 million;
- Completed the sale of permanent assignment of approximately 35 percent of its firm full-path Alliance service (the “Permanent Assignment Transaction”) for net proceeds of $11.5 million. The net proceeds from the Permanent Assignment Transaction were used to repay bank indebtedness;
- Total cash revenues, excluding the Permanent Assignment Transaction, decreased six percent in the third quarter of 2019 compared to the same period in 2018. Crude oil and natural gas revenues decreased 34 percent in the third quarter of 2019 over the comparative quarter due to weaker commodity prices and lower production volumes. On a per unit basis, total cash revenues increased seven percent to $36.47 per boe in the third quarter of 2019 from $34.19 per boe in the third quarter of 2018;
- The operating netback in the third quarter increased six percent over the comparative period in 2018 largely due to realized gains on risk management partially offset by lower realized prices and higher operating expenses;
- Adjusted funds flow for the third quarter, excluding the Permanent Assignment Transaction, decreased 16 percent over the comparative quarter, largely due to lower total cash revenues and increased finance costs. On a per unit basis, the cash netback before the Permanent Assignment Transaction, decreased five percent in comparison to the same period in 2018;
- Reduced bank debt plus adjusted working capital deficit by $28.6 million from the first quarter of 2019; and
- Advanced a series of transactions (collectively the “Proposed Recapitalization Transaction”) which would, if successfully implemented, among other things: extend the maturity date of the Company’s $105.0 million senior secured notes to April 15, 2023 from July 15, 2021, raise gross proceeds of $46.5 million exclusively for the development of the Company’s Montney asset or a consolidation of assets in Delphi’s core area, allow for repayment of a portion of bank indebtedness, and provide for a common share consolidation of 15 to 1.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended September 30			Nine months e
	2019	2018	% Change	[illegible]
Financial				
($ thousands, except per share)				
Crude oil and natural gas revenues	20,612	31,399	(34)	[illegible]
Net earnings (loss)	10,628	1,252	749	[illegible]
Per share – basic and diluted	0.06	0.01	500	[illegible]

Cash flow from operating activities	17,289	11,385	52	41,448(800
Per share – basic and diluted(1)	0.09	0.06	50	0.20.24(8
Adjusted funds flow(1)	21,291	11,600	84	45,607,225
Per share – basic and diluted(1)	0.11	0.06	83	0.25.2025
Net debt(1)	165,722	163,422	1	165,722,422
Capital expenditures, net of dispositions	(91)	19,317	(100)	26,673(592
Weighted average shares (000s)				
Basic and diluted	185,547	185,547	-	185,547,547
Operating				
(boe conversion – 6:1 basis)				
Production:				
Field condensate (bbls/d)	2,154	2,196	(2)	2,412,504(8
Natural gas liquids (bbls/d)	1,299	1,359	(4)	1,269,451(13
Natural gas (mcf/d)	29,600	35,751	(17)	30,536,514(3
Total (boe/d)	8,386	9,514	(12)	8,709,581(5
Average realized sales prices, before financial instruments				
Field condensate ($/bbl)	63.99	79.65	(20)	64.976.5(184
Natural gas liquids ($/bbl)	21.20	51.85	(59)	26.416.7(434
Natural gas ($/mcf)	1.97	2.67	(26)	2.633.08(15
Netbacks ($/boe)				
Crude oil and natural gas revenues	26.72	35.87	(26)	30.937.2(147
Marketing income (1)	2.09	1.48	41	1.861.3439
Realized gain (loss) on financial instruments	6.97	(4.21)	-	4.00(3.50 -
Revenue, after realized financial instruments	35.78	33.14	8	36.7835.68
Royalties	(2.34)	(2.36)	(1)	(2.05)(2.20)(7
Operating expense	(9.48)	(7.62)	24	(9.28)(8.72
Transportation expense	(4.09)	(4.36)	(6)	(4.25)(5.00)(15
Operating netback (1)	19.87	18.80	6	21.1919.16
Permanent Assignment Transaction	14.96	-	-	4.82 -
General and administrative expenses	(1.77)	(1.61)	10	(1.78)(1.611
Finance charges	(5.25)	(3.75)	40	(4.95)(3.3946
Settlement of unutilized take-or-pay contract	(0.22)	(0.19)	16	(0.21)(0.1191
Cash netback (1)	27.59	13.25	108	19.0513.936

(1) Refer to non–GAAP measures

MESSAGE TO SHAREHOLDERS

Delphi’s third quarter results demonstrate the Company’s commitment to strengthen its financial position and improve the going concern nature of its business, with a 31 percent reduction in its net bank indebtedness since the first quarter of 2019 and the announcement of a Proposed Recapitalization Transaction. The Proposed Recapitalization Transaction benefits the Company by:

- Further reducing the Company’s bank debt while replacing/increasing producing reserves, thus addressing the current broad downward pressure on borrowing base redeterminations from Senior Lenders;
- Extending the non-revolving debt maturity to April 2023, and;
- Providing the working capital to carry out a sustainable 2019/2020 winter capital program while pursuing and participating in consolidation opportunities.

Beyond the recapitalization plan, the Company remains focused on improving its operational and capital efficiencies through continued cost reduction efforts and even stronger well results. Delphi expects its condensate production to continue to grow disproportionately to its natural gas production over the next three to five years. The impact of the Company’s condensate growth, product marketing advantages, cost reductions and hedging strategy continues to demonstrate a strong cash generating business model in this challenging macro environment. The Company’s challenge remains achieving the necessary corporate size and scale to most efficiently develop its high quality liquids-rich Montney asset.

Delphi, as a junior oil and gas company that is tirelessly sourcing a path back to relevancy in today’s capital markets, continues to focus on the elements of its business it can control, and mitigate to the best of its ability the elements it cannot influence. The Company has assembled all of the right attributes to be successful in this challenging macro environment, where a required emphasis on defense has challenged our ability to deliver the growth and scale necessary to generate sustainable free cash:

- The Company’s condensate yields, total liquids content and operating netbacks are among the highest of its Montney peers. The twelve West Bigstone Montney wells drilled to date have averaged 61 percent liquids (207 bbl/mmcf field condensate) resulting in field netbacks that are 60 percent greater than in East Bigstone where condensate yields average 40 bbl/mmcf.
- The significant pipeline and facility infrastructure owned and operated by the Company are material under-appreciated assets that continue to support efficient delineation and development on the 148 sections of land Delphi controls.
- The move to multi-well pad drilling will drive improved capital efficiencies over time, as line of sight to 20 to 25 percent cost savings are achievable. An optimized fracture stimulation design continues to deliver improved and more consistent well results in the ultra liquids-rich area of West Bigstone.
- The diversified natural gas market access weighted to Chicago continues to deliver top-quartile realized pricing for its natural gas and mitigate stubborn AECO natural gas price weakness.
- The Company’s risk management program continues to successfully mitigate commodity price volatility with realized gains in 2019 estimated to be approximately $14 million, contributing to an almost $114 million gain over the past 14 years.

Delphi remains well positioned with a high quality resource base supported by its significant infrastructure footprint. The increased financial flexibility provided by the Proposed Recapitalization Transaction offers our shareholders the opportunity to realize potential equity appreciation, from both further development of its core asset as well as participation in a much broader spectrum of consolidation opportunities. Upon completion of the Proposed Recapitalization Transaction, Delphi will be in a much stronger financial position to create a sustainable relevant path forward.

OPERATING AND FINANCIAL HIGHLIGHTS FOR THE QUARTER ENDED SEPTEMBER 30, 2019

With the successful completion of the Permanent Assignment Transaction and no deployment of capital projects in the third quarter, Delphi was able to further reduce net bank indebtedness. Since the end of the first quarter of 2019, Delphi has reduced bank debt plus adjusted working capital deficit by $28.6 million, representing a 31 percent reduction.

Weak commodity prices continue to put downward pressure on the Company’s operating netback although the Company’s hedge book supports some measure of stability during this volatile commodity price environment. Crude oil and natural gas revenues, marketing revenues (excluding Permanent Assignment Transaction) and realized gains on risk management contracts totaled $28.1 million in the third quarter of 2019, down six percent from $29.9 million in the third quarter of 2018. On a per boe basis, total cash revenues increased seven percent to $36.47 per boe in the third quarter of 2019 from $34.19 per boe in the third quarter of 2018. For the three and nine months ended September 30, 2019, Delphi realized gains of $5.4 million and $9.6 million, respectively, on the settlement of risk management contracts. As at September 30, 2019, the fair value of Delphi’s risk management contracts are estimated to be a net asset of $15.1 million.

Production volumes in the third quarter of 2019 averaged 8,386 boe/d, a decrease of eight percent from the 9,157 boe/d average in the second quarter of 2019 as no additional wells have been drilled since the second quarter of 2019. Production volumes in the third quarter of 2019 are twelve percent lower in comparison to the same period in 2018, primarily due to lower natural gas volumes. Field condensate and natural gas liquids volumes decreased two percent and four percent over the comparative periods, respectively. Production from the four-well pad has shifted the production mix slightly and contributed to higher liquids yields. The liquids yield in the third quarter of 2019 averaged 117 bbls/mmcf, up 18 percent from the 99 bbls/mmcf in the comparative quarter of 2018. In the quarter, production was weighted 26 percent to field condensate, 15 percent to natural gas liquids and 59 percent to natural gas. The production portfolio for the comparative quarter in 2018 was weighted 23 percent to field condensate, 14 percent to natural gas liquids and 63 percent to natural gas.

Crude oil and natural gas revenues were $20.6 million, down 24 percent from the second quarter of 2019 largely due to lower field condensate volumes and weaker benchmark prices for field condensate and natural gas. In comparison, crude oil and natural gas revenues in the third quarter of 2019 were $10.8 million or 34 percent lower than the third quarter of 2018. Approximately $9.3 million of the $10.8 million decrease in crude oil and natural gas revenues is due to lower benchmark prices.

Operating expenses in the third quarter of 2019 were negatively impacted by $0.4 million of third-party equalizations related to prior periods and higher costs associated with road and lease maintenance as a result of wet field conditions. Production volumes on a per boe basis averaged $9.48 per boe in the third quarter of 2019 compared to the $7.62 per boe in the same period of 2018. Production expenses in the third quarter of 2019 have decreased $0.8 million (adjusted for the prior period equalizations) in comparison to the second quarter of 2019 largely due to less field activity, as production from the four-well pad stabilizes, and lower processing fees due to a decrease in production volumes. Transportation expenses in the third quarter of 2019 decreased 17 percent in comparison to the same period of 2018 as the Company ships more of its natural gas volumes on the less costly NGTL system and realizes lower per unit costs for trucking field condensate.

The cash netback in the quarter, excluding the Permanent Assignment Transaction, was $12.63 per boe, down five percent over the comparative quarter in 2018 principally due to lower realized prices, higher operating expenses, and higher finance costs partially offset by a realized gain on risk management.

On October 23, 2019, Delphi completed the closing of the private placement offerings as part of the Proposed Recapitalization Transaction, as disclosed in the management, discussion and analysis dated November 5, 2019, raising $46.5 million, the maximum amount contemplated under the private placement. The proceeds are held in escrow and will be released upon satisfaction of events as described in the management, discussion and analysis. The Proposed Recapitalization Transaction would, if successfully implemented, among other things: extend the maturity date of the Company’s $105.0 million senior secured notes to April 15, 2023 from July 15, 2021, raise gross proceeds of $46.5 million exclusively for the development of the Company’s Montney asset or a consolidation of assets in Delphi’s core area, allow for repayment of a portion of bank indebtedness, and provide for a common share consolidation of 15 to 1.

In connection with the Proposed Recapitalization Transaction, Delphi accelerated the timing of the senior lenders’ semi-annual borrowing base review of the senior credit facility. On November 1, 2019, the senior lenders completed the semi-annual review of the borrowing base and amended the credit facility. Effective on the earlier of the closing date of the Proposed Recapitalization Transaction and November 29, 2019, the borrowing base of the senior credit facility will be renewed at $80.0 million. The borrowing base and revolving period of the amended credit facility is dependent on the completion of the Proposed Recapitalization Transaction. If the Proposed Recapitalization Transaction is completed, the revolving period of the amended credit facility will be extended to May 28, 2020 with a maturity date of May 29, 2021. The terms of the amended credit facility satisfy a critical condition of the Proposed Recapitalization Transaction.

In the event the Proposed Recapitalization Transaction is not approved by shareholders and noteholders, the funds held in escrow will be returned to subscribers of the Private Placements. More importantly, if the Proposed Recapitalization Transaction is not completed by December 13, 2019, the revolving period and maturity date of the senior credit facility would not be extended and the borrowing base of the amended senior credit facility would be redetermined on December 13, 2019. A decrease in the borrowing base resulting in borrowing base shortfall would require a repayment to the lenders within 60 days of any amounts drawn in excess of the reduced borrowing base.

While management and the Board of Directors of the Company believe that all of the conditions required for the approval of the Proposed Recapitalization Transaction will occur, there can be no assurance that the Proposed Recapitalization Transaction, or other strategies, will be successfully implemented, consequently there exists a material uncertainty that may cast significant doubt upon the Company’s ability to continue as a going concern. Refer to note 3 of the condensed consolidated interim financial statements for the three and nine months ended September 30, 2019.

Special meetings of the shareholders and noteholders will be held on November 15, 2019 in relation to the Proposed Recapitalization Transaction. If approved by the shareholders and noteholders, the Proposed Recapitalization Transaction is expected to be completed by the end of November 2019.

NATURAL GAS MARKETING

Natural gas accounted for 25 percent of crude oil and natural gas revenues in the third quarter primarily due to further weakening in the AECO and Chicago benchmarks.

Prior to commissioning the amine facility in May 2018, approximately 90 percent of the Company’s natural gas was sold in the Chicago market. Since commissioning the amine facility, sweetened Montney natural gas from the facility has been processed at Delphi’s 25 percent owned Bigstone sweet natural gas plant and shipped on NGTL. The proportion of natural gas sold in the Chicago market was 56 percent and 57 percent in the three and nine months ended September 30, 2019. This compares to the proportion of natural gas sold in the Chicago market for the three and nine months of 2018 at 60 percent and 75 percent, respectively. With reactivation of the Alliance lateral pipeline at the Bigstone sweet natural gas plant (expected in 2022), the proportion of natural gas sold in Chicago is anticipated to be about 90 percent of total natural gas sales.

Subsequent to the Permanent Assignment Transaction, Delphi has approximately 29.8 mmcf/d of firm service and 7.5 mmcf/d of priority interruptible service on the Alliance pipeline system in addition to approximately 22 mmcf/d of firm service on NGTL.

With its excess Alliance service, Delphi maintains exposure above volumes that are sold in the premium price Chicago gas market and generated $1.6 million of marketing income equivalent to $0.59 per mcf in the third quarter. By marketing more than half of its natural gas outside of the weak and volatile AECO market, Delphi was able to realize a natural gas price including risk management and marketing income of $2.87 per mcf in the third quarter of 2019.

HEDGING

Delphi’s realized prices for condensate and NGL for the remainder of 2019 are well protected by WTI crude oil swap contracts for an average volume of 2,350 bbl/d at an average price of $87.89 per bbl and Conway propane swap contracts for an average volume of 400 bbl/d at an average price of $44.30 per bbl. The Company’s realized price for natural gas for the remainder of 2019 is protected by NYMEX HH natural gas swap contracts for an average volume of 11,600 million British thermal units per day (“mmbtu/d”) at an average price of $3.78 per million British thermal units (“mmbtu”) and Chicago – NYMEX natural gas basis swap contracts for an average volume of 16,300 mmbtu/d at an average basis discount of $0.30 per mmbtu, resulting in an average swap price of $3.48 per mmbtu in Chicago.

Hedging contracts in place for the last quarter of 2019 protect the realized price for approximately 70 percent of Chicago natural gas sales and approximately 80 percent of field condensate and NGL sales combined, based on production in the third quarter of 2019.

Commodity Hedges	Q4 2019 / 2020
Natural gas (mmcf/d)	[illegible]
Average hedge price (C$/mcf)(2)	[illegible]
% of natural gas production hedged(3)	[illegible]
Crude oil (bbl/d)	[illegible]
Average hedge price (C$/bbl)	[illegible]
Propane (bbl/d)	400 / 100
Average hedge price (C$/bbl)	[illegible]
% of condensate and NGL production hedged(3)	[illegible]

(1) Assumes an FX of $1.32 CAD per USD
(2) Includes the impact of NYMEX HH natural gas - Chicago basis hedges

(3) Based on Q3 production of 29.6 mmcf/d of natural gas production, 3,453 bbl/d of condensate and NGL production

OPERATIONS UPDATE

Although Delphi was not actively drilling in the third quarter, it was busy optimizing its infrastructure footprint for natural gas and condensate pipeline connections to sales, as well as pipeline connecting its 7-11-60-23W5 (“7-11”) facility for more efficient water disposal. This activity is in addition to the previous projects of constructing the amine processing facility, the 1-3-60-24W5 West Bigstone facility, and pipeline connecting West Bigstone to the 7-11 facility in East Bigstone.

Delphi recently entered into an agreement whereby a third party mid-stream company will build a pipeline from its Montney assets at West and East Bigstone for transportation of its field condensate to a full service terminal at Fox Creek where the fluids are then sold onto the Pembina pipeline system. This project not only improves the safety and environmental impact of the Company’s operations by getting trucks off the road, it also provides for operating cost savings which is a key focus for Delphi as the Company continues to improve the margins of the Bigstone Montney asset. There are no take or pay commitments associated with the pipeline project, however, Delphi has entered into a dedicated production area for its operated Montney field condensate and oil production for a term of 15 years. Netbacks of the Bigstone Montney asset are expected to increase by approximately $0.40/boe.

Delphi and Alliance have entered into an agreement whereby Alliance will repair and reactivate the Bigstone Lateral that connects the Bigstone Plant to Alliance’s natural gas mainline approximately 50 kilometres southwest of Fox Creek, Alberta and Delphi will pay for the updating and reactivation of the Alliance Meter Station at the Bigstone Plant and commit to deliver approximately 10 mmcf/d. The planned in-service date for the re-activated lateral is February of 2022. In light of the current and foreseeable natural gas market, the Company views natural gas market egress optionality, particularly to Chicago, as very strategic. Once the Bigstone Lateral is reactivated, approximately 95 percent of Delphi’s natural gas production will be processed at the three natural gas plants that will be dually connected to the Alliance and TCPL pipeline systems.

The Company commenced delivering produced water via a pipeline connecting the 7-11 facility to a third party water disposal well and facility in April. This pipeline and third party facility has eliminated the need to truck produced water from the 7-11 facility and has furthered Delphi’s efforts to improve safety, reduce environmental impacts and increase the netbacks of the Montney at Bigstone.

OUTLOOK

The winter capital program is expected to commence in December, assuming the Proposed Recapitalization Transaction becomes effective. As already stated, should the Proposed Recapitalization Transaction not be completed, the capital program would be deferred and the borrowing base of the amended senior credit facility would be subject to a redetermination on December 13, 2019.

The Board of Directors and management of Delphi believe that it is important that the Proposed Recapitalization Transaction be approved and implemented to address Delphi’s capital structure and liquidity needs, thereby placing the Company in a stronger position to pursue a sustainable path forward. Securityholders should refer to the management information circular for additional details with respect to the Proposed Recapitalization Transaction and instructions on how to vote at the securityholder meetings.

The Proposed Recapitalization Transaction is expected to become effective on or around November 26, 2019 if all of the conditions precedent to such effectiveness are satisfied or waived on or before that date.

PROXY ADVISORY FIRMS VOTING RECOMMENDATIONS

Delphi is pleased to announce that two leading independent proxy advisory firms, Institutional Shareholder Services Inc. (“ISS”) and Glass Lewis & Co. (“Glass Lewis”), have each recommended that shareholders vote in favour of all the applicable resolutions relating to the proposed recapitalization transaction. ISS and Glass Lewis are independent firms who provide voting recommendations to investors.

ISS noted in their analysis that the proposed resolutions to implement the Proposed Recapitalization Transaction, “…*makes strategic sense as it may increase financial liquidity and strengthen the balance sheet, repositioning the Company for future growth and value enhancement*“.

The Board of Directors UNANIMOUSLY recommends that Securityholders vote FOR all resolutions related to the Proposed Recapitalization Transaction.

YOUR VOTE IS IMPORTANT - PLEASE VOTE TODAY

Submit your vote well in advance of the proxy deposit deadline of
9:00 a.m. (Mountain time) on Wednesday, November 13, 2019.

Shareholder Questions and Voting Assistance

Laurel Hill Advisory Group
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CONFERENCE CALL AND WEBCAST

A conference call and webcast to review third quarter 2019 results is scheduled for 9:00 a.m. Mountain Time (11:00 a.m. Eastern Time) on Thursday, November 7, 2019. The conference call number is 1-844-358-8760. A brief presentation by David J. Reid, President and CEO, Karyssa Quansah, Controller, and Darwin Little, Interim CFO, will be followed by a question and answer period. The conference call will also be broadcast live on the Internet and may be accessed through www.delphienergy.ca or by entering https://edge.media-server.com/mmc/p/khfek78s in your web browser.

A recorded rebroadcast will be archived and made available on the Company’s website at www.delphienergy.ca or by entering https://edge.media-server.com/mmc/p/khfek78s in your web browser. Delphi's third quarter 2019 financial statements and management’s discussion and analysis are available on the Company’s website at www.delphienergy.ca and SEDAR at www.SEDAR.com.

About Delphi Energy Corp.

Delphi Energy Corp. is an industry-leading producer of liquids-rich natural gas. The Company has achieved top decile results through the development of our high quality Montney property, uniquely positioned in the Deep Basin of Bigstone, in northwest Alberta. Delphi continues to outperform key industry players by improving operational efficiencies and growing our dominant Bigstone land position in this world-class play. Delphi is headquartered in Calgary, Alberta and trades on the Toronto Stock Exchange under the symbol DEE.

FOR FURTHER INFORMATION PLEASE CONTACT:

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DAVID J. REID

President & CEO

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

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

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

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

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

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

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

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

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

As per CSA Staff Notice 51-327 initial test results and initial production performance should be considered preliminary data and such data is not necessarily indicative of long-term performance or of ultimate recovery.

“IP” is an abbreviation for “Initial Production” and represents average production rates over the indicated time period in producing days.

Non-GAAP Measures. The release contains the terms “adjusted funds flow”, “adjusted funds flow per share”, “net debt”, “net debt to adjusted funds flow ratio”, “marketing income”, “operating netbacks”, “total cash revenues”, “cash netbacks,” and “netbacks” which are not recognized measures under GAAP. The Company uses these measures to help evaluate its performance. Management considers netbacks an important measure as it demonstrates its profitability relative to current commodity prices and costs of production. Management uses adjusted funds flow to analyze performance and considers it a key measure as it demonstrates the Company’s ability to generate the cash necessary to fund future capital investments, abandonment obligations and to repay debt. Adjusted funds flow is a non-GAAP measure and has been defined by the Company as cash flow from operating activities before decommissioning expenditures and changes in non-cash working capital from operating activities. The Company also presents adjusted funds flow per share whereby amounts per share are calculated using weighted average shares outstanding consistent with the calculation of earnings per share. Delphi’s determination of adjusted funds flow may not be comparable to that reported by other companies nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with GAAP. Delphi has defined total cash revenues as the sum of crude oil and natural gas revenues, marketing revenue (excluding Permanent Assignment Transaction) and realized gains on risk management contracts. Management uses this measure to assess *the revenues from operations and risk mitigation activities. The Company has defined net debt as the sum of bank debt, senior secured notes and the long term portion of unutilized take-or-pay contract and leases plus/minus working capital deficit/surplus excluding the current portion of the fair value of financial instruments. Net debt is used by management to monitor remaining availability under its credit facilities. Marketing income is defined as the margin earned on the sale of purchased third party natural gas volumes and premiums received on the assignment of a portion of committed capacity on the Alliance pipeline system to a third party. Management considers marketing income important measures of the Company’s ability to mitigate the cost of excess committed capacity. Operating netbacks have been defined as revenue plus marketing income less royalties, transportation and operating costs. Cash netbacks have been defined as operating netbacks less interest on bank debt and senior secured notes, finance charges associated with lease obligations, general and administrative costs and cash costs related to the Company’s restricted share units. Netbacks are generally discussed and presented on a per boe basis.*