Zacks Small-Cap Research

August 24, 2015

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Dejour Energy, Inc. (DEJ-AMEX)

DEJ: Eight Kokopelli wells expected to be completed in the 3rd quarter and producing in 4Q.

Current Recommendation	**Buy**
Prior Recommendation	Hold
Date of Last Change	01/26/2014
Current Price (08/21/15)	$0.10
Six- Month Target Price	**$0.42**

OUTLOOK

Dejour Energy is producing natural gas from the Williams Fork formation in the Piceance Basin and oil & gas from the Halfway & Gething pools at Woodrush/Hunter in British Columbia. The company is building a growing revenue stream through the JV at Kokopelli and the further development of Woodrush/Hunter. Seven Williams Fork natural gas wells and one vertical well testing the Niobrara shale have been drilled at Kokopelli. Completion (fracking) is currently underway with full production expected during the fourth quarter. The two new wells at Woodrush/Hunter came on line in January 2015. We maintain our Outperform rating.

SUMMARY DATA

52-Week High	**$0.28**
52-Week Low	**$0.09**
One-Year Return (%)	**-64.81**
Beta	**0.58**
Average Daily Volume (shrs.)	**335,051**
Shares Outstanding (million)	**182.4**
Market Capitalization ($ mil.)	**$17.3**
Short Interest Ratio (days)	**1.53**
Institutional Ownership (%)	**1**
Insider Ownership (%)	**5**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**0.9**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/M**
P/E using 2015 Estimate	**N/M**
P/E using 2016 Estimate	**9.5**
Zacks Rank	**3**

Risk Level	**Above Average**
Type of Stock	**Small - Value**
Industry	**Oil – C$ E&P**
Zacks Rank in Industry	**3 of 16**

ZACKS ESTIMATES

Revenue
(in millions of $CDN)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	2.04 A	2.53 A	2.40 A	2.36 A	9.32 A
2014	2.79 A	2.60 A	2.26 A	1.39 A	9.08 A
2015	1.47 A	2.15 A	1.47 E	2.55 E	7.60 E
2016					10.00 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	-$0.01 A	-$0.01 A	-$0.03 A	$0.03 A	-$0.02 A
2014	-$0.02 A	$0.00 A	-$0.01 A	-$0.03 A	-$0.04 A
2015	-$0.01 A	-$0.00 A	-$0.01 E	-$0.00 E	-$0.02 E
2016					$0.01 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

Quarterly revenues and EPS do not equal annual figures due to rounding.

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KEY POINTS

- Management continues to proceed with the development of the **Kokopelli project** (a tight gas sand play) in Colorado's Piceance Basin.
  - In Phase 1, four gas wells were completed and fractured in July 2013.
  - Phase 2 consists of drilling, completing and fracturing seven Williams Fork wells and one Mancos-Niobrara vertical test well in a $16 million program. The drilling program has been accomplished and the **completion (fracture stimulation) and tie-in of the 8 wells are currently occurring**. The Kokopelli JV with an E&P company (Coachman) drove an impressive drilling program in Colorado during 2014 and will result in growing revenue and cash flow streams in the fourth quarter.
  - Phase 3 is anticipated to be Mancos-Niobrara vertical test well in the northern Kokopelli lease, potentially in 2016.
- During early 2014, Dejour expanded its exposure to **Woodrush** with two strategic transactions:
  - Effective February 1, 2014, Dejour acquired working interests in natural gas producing leaseholds [9,800 net acres], along with a 96.8% working interest in both a sour gas processing facility and 24 km of pipeline, all near the company's Woodrush oilfield. The oil & gas lease includes a 54% working interest in a producing well and a 74% working interest in three shut-in natural gas wells, one of which was reactivated in April 2014.
  - In July 2014, Dejour acquired an additional 24% working interest in the Woodrush project, bringing the company's stake to 99%.
  - The drilling of **two new wells** in December 2014, which are **now in production**, are enhancing Dejour's oil production profile in 2015, along with boosting the company's Canadian reserves.
- Management is in the process of testing the **Mancos-Niobrara shale gas play** at Kokopelli.
  - An extremely successful discovery well in Garfield County was completed during December 2012 by WPX Energy. The well generated considerable excitement about the potential of the Niobrara/Mancos shale play in this area of the Piceance Basin. This WPX Energy well is situated directly between Dejour's Roan Creek and Kokopelli properties.
  - Proximity to 28 Niobrara/Mancos wells drilled and/or completed by WPX, Encana and Black Hills Corp.
  - At its 25%-owned southern Kokopelli project, Dejour Energy drilled and cased its first Mancos/Niobrara well in the second half of 2014. The 13,550-foot **vertical well** is scheduled for completion during the third quarter of 2015 and **should be producing in the fourth quarter**.
- Also, management has **plans to advance Roan Creek and North Rangely**.
  - Dejour's management has plans to advance Roan Creek, a 100%-owned property with Mancos/Niobrara prospectivity. WPX Energy "Beast" well is situated directly between Dejour's Roan Creek and Kokopelli properties.
- G&A expenses have been significantly reduced through the retirement of Harrison Blacker (COO and Co-Chairman) and by transferring the operatorship of Kokopelli to a US-based E&P company.
- Management has a strong track record of developing oil and gas properties. CEO Robert Hodgkinson has twice founded oil and gas companies that mounted successful, large-scale drilling programs. The companies were subsequently acquired by medium-capitalization exploration companies.
- On June 1, 2015, Dejour Energy was informed by the NYSE MKT that the company has regained compliance with Section 1003(a)(iv) of the Exchange's Company Guide for the continued listing standards of the NYSE: MKT.
- We maintain an Outperform rating on Dejour's stock and target of $0.42 per share.

RECENT NEWS

2015 Update

During 2015, management expects 10 additional wells to come into production: seven Williams Fork gas wells in southern Kokopelli, one vertical well testing the Mancos/Niobrara in southern Kokopelli and two new wells (one oil and one gas) at Woodrush/Hunter. Having drilled and cased two wells at Woodrush/Hunter in December 2014, one new Gething gas well and one Woodrush oil pool well started producing in January 2015.

The last first phase of the current southern Kokopelli project to hydraulically fracture eight natural gas wells, including the one vertical Mancos/Niobrara well, should be completed during the third quarter. Having subcontracted the completions to Halliburton, the operator (Coachman Energy Operating Company, LLC) commenced completing (fracking) the wells in the last week of July. According to COGIS filings, five wells have already been completed. The last well to be completed, will test the Mancos/Niobrara.

Full production from these eight new wells is expected to contribute significantly to Dejour's revenues in the fourth quarter, since the production profile of new gas wells begins with peak production during the first three months. As a result, management anticipates achieving the corporate goal of average production of 1,200 BOEPD at some point during the fourth quarter, an important milestone for the company. More significantly, a successful Mancos/Niobrara well should meaningfully boost the annual NI 51-101 resource assessment of the company, which feeds into the net asset valuation calculations that determine Dejour Energy's stock price potential.

Management's net production target for Woodrush/Hunter is 700 BOEPD, while Kokopelli is anticipated to achieve over 500 BOEPD when the eight already drilled wells are completed, which management expects to occur in the fourth quarter. At that point, the company should producing 1,200 BOEPD: 4 oil wells at Woodrush/Hunter, 10 gas wells at Woodrush/Hunter, 11 liquids-rich Williams Fork wells at Kokopelli and a vertical Mancos/Niobrara well at Kokopelli.

Second Quarter Results

Dejour Energy reported results for the second quarter ending June 30, 2015. Gross oil and gas revenues (before royalties) declined 17.1% Year-Over-Year (YOY) to $2.15 million, which was due to a combination of the company having sold 65% of its working interest in Kokopelli on June 30, 2014 (reducing production attributable to Dejour Energy), a 57.1% decline in average realized gas prices and a 26.8% decline in average realized oil prices This was partially offset by the commencement of production from two new wells at Woodrush in January 2015: one being a natural gas discovery in the Gething geological formation and the other being an oil well tapping the south end of the company's Woodrush oil pool. The latter helped increase oil and NGL production by 70.8% YOY to 30.0 MBO. Gas production declined 49.8% due to a confluence of events: the sale of 65% of its working interest in Kokopelli, the expected gas production profile for Kokopelli and the curtailment of all gas production in Canada during all of June 2015 while Spectra Energy's McMahon natural gas processing facility underwent a major turnaround of regulatory inspections, maintenance and upgrades. Gross production averaged 517 BOEPD during the quarter, a 7.9% decrease YOY from 561 BOEPD, but a slight sequential increase of 0.5% over the first quarter's 514 BOEPD. The **net takeaway for the quarter** is that despite lower gas production, the 36.4% sequential increase in oil production (which was driven by the two new wells at Woodrush and from enhancements to the waterflood operation also at Woodrush) coupled with the sequential 28.7% increase in oil/NGL price realizations generated a 46.4% sequential increase in oil and gas revenues on basically flat sequential total production of 517 BOEPD.

Daily Gross Production

Gross Production (BOEPD)	1Q (March)	2Q (June)	3Q (Sept)	4Q (Dec)	Total (Year)
2010	317	599	610	418	**487**
2011	408	287	514	471	**421**
2012	416	406	346	319	**372**
2013	379	422	591	620	**504**
2014	546	561	382	310	**449**
2015	514	514			

Operating & transportation expenses dramatically decreased 49.7% YOY due to allocation of fixed operating costs over a higher oil production volume on the oil operations and on the gas side, the absence of higher water hauling costs for the Kokopelli natural gas wells which were incurred in the second quarter of 2014. G&A expenses also significantly declined 33.7% YOY which is primarily attributable to the reduction of salaried employees in Denver. Quarterly earnings were a loss of CAD $0.003 per diluted share versus a gain of $0.003 in the comparable quarter last year.

During the current third quarter, the last first phase of the current Kokopelli project to hydraulically fracture eight natural gas wells should be completed. Having subcontracted the completions to Halliburton (HAL), the operator (Coachman Energy Operating Company, LLC) commenced completing (fracking) the wells in the last week of July. According to COGIS filings, five wells have already been completed. The last well to be completed, will vertically test the Mancos formation. **Full production from these eight new wells is expected to contribute significantly to Dejour's revenues in the fourth quarter**, since the production profile of new gas wells begins with peak production in the first three months.

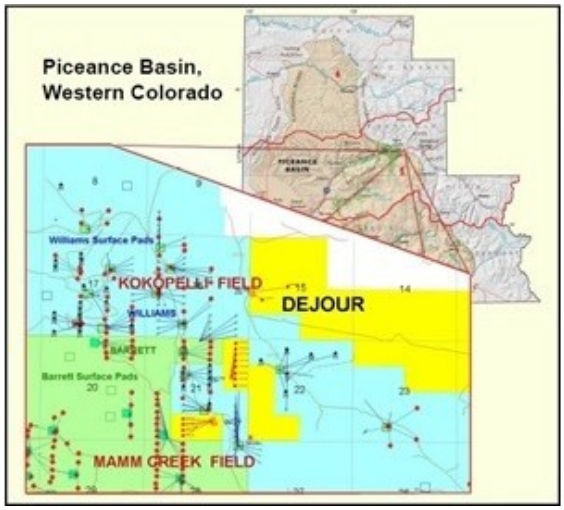
Financings

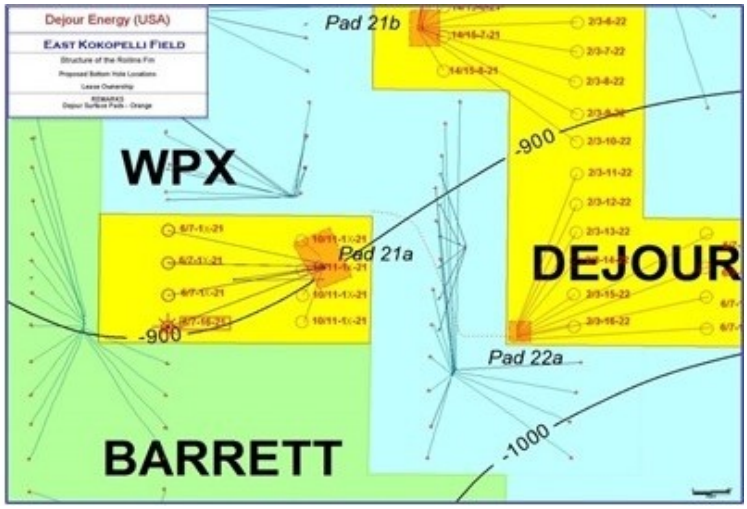
During the second quarter, $2.5 million in bridge financing was provided by Dejour's CEO, along with a $2.0 million bridge loan from HEC (a private company controlled by Dejour's CEO), which were utilized primarily to fund the company's capital expenditure plan to develop Kokopelli. With a 25% working interest in Kokopelli, Dejour is responsible for 25% of the developmental costs of eight new drilled and cased wells ($3.6 million) in order to secure its rightful portion of future production. The promissory note bears an annual interest of the Canadian prime rate plus 5%. As of the end of the second quarter of 2015, the working capital deficit was approximately $5.47 million.

KOKOPELLI

The initial well at Kokopelli (Federal 6-7-16-21) was drilled between September and November 2012. The 8,436-foot well intersected five gas-bearing zones in the Williams Fork (Mesaverde) formation. The two zones without groundwater were the targets for perforation and hydraulic fracturing. After receiving $6.5 million in capital from the Bakken Drilling Fund III, a private Denver-based oil and gas drilling fund, Dejour successfully drilled three additional wells (Federal 6-7-13-21, Federal 6-7-15-21 and Federal 6-7-16-21) from the existing Pad 21-A in April 2013. All the wells encountered ample gas shows from multiple horizons of the NGL-rich Williams Fork formation. Thereafter, in July 2013, Halliburton (HAL: NYSE) completed all four wells by perforating and hydraulic fracturing multiple zones of the Williams Fork

formation in an eight-stage fracking process. In addition, the gas sales line tie in was completed in May. Production began in early August 2013 from two of the wells, while the other two came online later after the clean-up phase.





Financing of 1st Tranche of Kokopelli Wells

The Bakken Drilling Fund III provided $7.0 million of the $8.2 million needed to complete the multi-well Kokopelli project. As a result, the Denver-based drilling fund will receive a priority payout from initial production until 125% of the capital contribution is received. After the fund has received $8.75 million, Dejour's payout in the four-well project will increase from 7.2% to approximately 39% to 35%, and the drilling fund will earn the remainder of the cash flow after costs. During the entire production phase, Dejour will receive an infrastructure usage fee of $0.20 per MCF of gas produced.

JV formed to Accelerate Development of Kokopelli

On June 30 2014, Dejour Energy entered into a joint venture with a private, US-based Exploration and Production (E&P) company to develop Kokopelli. Subsequent filings with COGIS (Colorado Oil and Gas Information System) identified the E&P company as Coachman Energy Operating Company LLC. Dejour Energy received $3.75 million at closing, which was used retire the 14% CDN$3.5 million loan facility from a Canadian institutional lender.

The JV was structured such that **Dejour Energy retained 25% of the Kokopelli project**; the E&P company will earn a 65% working interest with Brownstone Energy holding the remaining 10%. Coachman Energy assumed operatorship of the Kokopelli project, which resulted in a 70% reduction in G&A expenses at Dejour USA. The JV does not affect the separate agreement governing the four previously-drilled producing natural gas wells. Subsequently, in March 2015, Brownstone Energy sold its 10% interest in Kokopelli to Coachman Energy Partners LLC.

In addition, the JV is charged with obtaining a Surface Utility Agreement for the 1,520-acre north lease at Kokopelli. The good faith work toward developing the north lease should hold the lease in good standing with the Bureau of Land Management (BLM) and Bureau of Wildlife Management.

Drilling Program at Kokopelli During Second Half of 2014

On July 17, 2014, Dejour Energy announced that the 2014 developmental project on the southern Kokopelli leasehold commenced with the construction of Pad 21-B. Initially, the JV drilled seven new Williams Fork wells and one Mancos/Niobrara test well. Coachman Energy is carrying both Dejour Energy and Brownstone Energy through this phase of developing the Kokopelli project up to $16 million. Therefore, Dejour's share of drilling expenditures of this drilling program is fully funded.

Pad 21-B, including its gas connection, was completed in August, and a produced water disposal (PWD) well was completed and cased in early October from Pad 21-A, which is located less than 500 yards from Pad 21-B. The PWD well was subsequently fracked and tested and is now ready to support the production wells to be drilled in this area of southern Kokopelli.

According to filings with COGIS (Colorado Oil and Gas Information System), the Kokopelli wells targeting only the Williams Fork Formation were spud in quick succession from Federal 14-15-1-21 on October 8th through Federal 14-15-8-21 on December 11th. The last well spud, Federal 14-15-1-21, on December 20th also tested the deeper Mancos/Niobrara shale. The operator is listed as Coachman Energy Operating Company LLC.

2014 Kokopelli Drilling program

Well	Spud Date	Depth (feet)	Formation
Federal 14-15-1-21	10/08/2014	7,913	Williams Fork
Federal 14-15-2-21	10/21/2014	7,810	Williams Fork
Federal 14-15-3-21	11/01/2014	7,825	Williams Fork
Federal 14-15-4-21	11/14/2014	7,674	Williams Fork
Federal 14-15-5-21	11/24/2014	7,607	Williams Fork
Federal 14-15-6-21	12/02/2014	7,556	Williams Fork
Federal 14-15-7-21	12/20/2014	13,550	Williams Fork & Mancos
Federal 14-15-8-21	12/11/2014	7,638	Williams Fork

Logs of the Williams Fork wells indicate that their production profiles should be similar with prior four wells completed in July 2013. Fracking, completion and tie-in options are now being assessed by Coachman Energy Operating Company LLC, the operator. The logs of the Mancos vertical test well encountered the presence of gas throughout the deeper Mancos/ Niobrara.

As a result of the JV, which was formed in late June, Dejour Energy owns a 25% working interest in the Kokopelli Project while Dejour's JV partner, operator of the project, is earning a 65% working interest. Dejour is being carried for its 25% proportional share of the first US$16 million in expenditures. After the initial $16 million in development costs, subsequent costs will be shared on a pro rata basis.

Future of Kokopelli

The lease on the entire 2,240 gross acres at Kokopelli was preserved through a diligent drilling effort in late 2012, for which Colorado's Bureau of Land Management provided a two-year extension on the original 10-year lease dated November 2002. Since production has been achieved, the lease on the southern 680 acres is being held-by-production (HBP). Under Phase 2 of a developmental project, seven Williams Fork wells have been drilled and in addition one vertically well testing the deeper Mancos/Niobrara.

Having subcontracted the completions to Halliburton, the operator (Coachman Energy Operating Company, LLC) commenced completing (fracking) the wells in the last week of July 2015. According to COGIS filings, five wells have been completed. The last well to be completed, will test the Mancos/Niobrara.

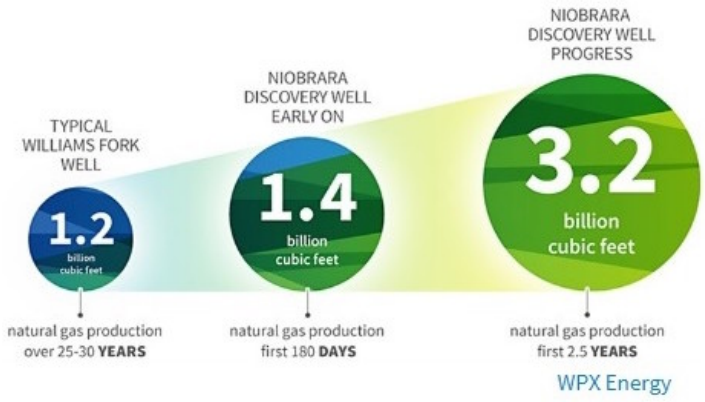
Since the production profile of new gas wells begins with peak production during the first three months, full production from these eight new wells is expected to contribute significantly to Dejour's revenues in the fourth quarter of 2015. As a result, management anticipates achieving the corporate goal of average production of 1,200 BOEPD at some point during the fourth quarter, an important milestone for the company.

Management anticipates the 2016 drilling campaign to encompass the drilling of a Mancos-Niobrara vertical test well in the northern Kokopelli lease. With a 25% working interest, Dejour would be responsible for 25% of the developmental costs to secure its portion of the production. According to management, the time constraint to preserve northern 1,520-acre leasehold has been suspended. A suspension of an oil & gas lease extends the lease in order to allow the lessee to continue development of the lease. Dejour continues to have good faith discussions with the Bureau of Land Management (BLM) and Bureau of Wildlife Management.

NIOBRARA-MANCOS POTENTIAL (Kokopelli and Roan Creek)

In Garfield County, Colorado, Dejour Energy hold interests in oil & gas leaseholds with Niobrara/Mancos shale gas potential. The acreage includes 680 acres of southern Kokopelli in T6S R91W (see map below) and the 1,960-acre Roan Creek project in T7S R98W. Management is keen to develop Mancos/Niobrara gas wells at both properties for two primary reasons: 1) the major discovery by WMX Energy in T7S R96W, which has been substantiated by additional Mancos/Niobrara wells being drilled by WPX and Black Hills and 2) the **superior economics Mancos/Niobrara** versus Williams Fork gas wells.

In December 2012, WPX Energy completed a surprisingly successful discovery well in the Piceance Basin. Targeting the Mancos/Niobrara shale with a 10,200-foot vertical depth and a 4,600-foot horizontal leg, the test well produced over 1 BCF of natural gas in roughly the first 100 days of operation (which would take 25 years for a typical Williams Fork to produce), 1.4 BCF of natural gas over the first six months, 2.5 BCF over the first 18 months and 3.2 BCF in its first 2.5 years. The well initially produced at a rate of 16 MMCFPD. Some have nicknamed the well "**the Beast**." WPX Energy estimated the well's EUR in the range of 7-to-10 BCF and the resource potential in the range of 20-to-30 TCF on its 180,000 acres.



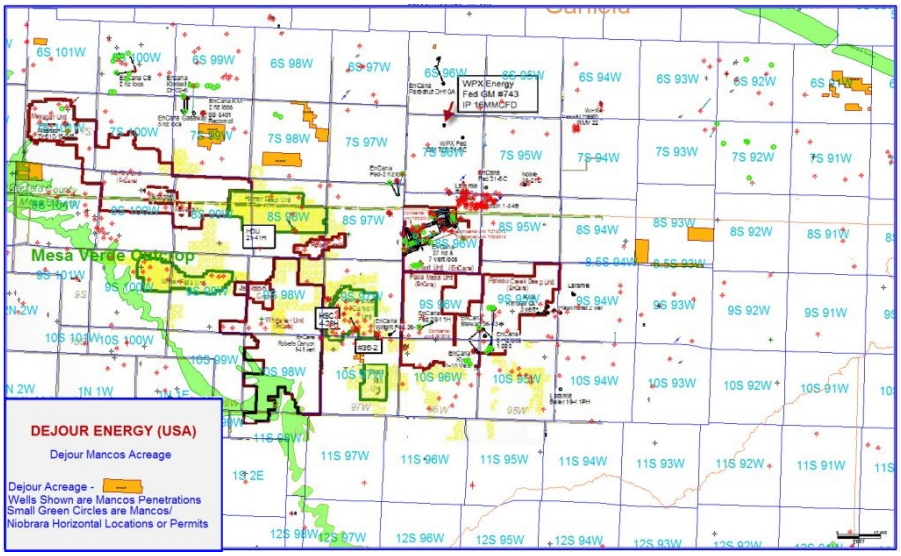
The WPX Energy well is situated directly between Dejour's Roan Creek and Kokopelli properties. Also, Encana has been drilling the Niobrara/Mancos shale formation in the area. Of the seven wells on which Encana disclosed production, the output of three rival WPX's test well.

In the past, natural gas drilling in the Piceance Basin predominantly targeted the Williams Fork (within the Mesaverde Group) formation. The encouraging production results from recent wells completed by WPX Energy (WPX: NYSE) and Black Hills Corp. (BKH: NYSE) that targeted the Niobrara-Mancos shale formation has intensified the interest in this deeper (10,000-18,000 feet) Mancos/Niobrara play with the potential of over twice the net reserves of the shallower (6,000-10,000 feet) Williams Fork. The investor

presentations of WPX Energy and Black Hills provide a great deal of information to increase investor understanding of the Mancos/Niobrara play in the Piceance Basin. Even though drilling costs are higher (approximately $7 million) in the Niobrara-Mancos play (due to both the greater vertical depth and the requirement for horizontal legs), the potential for higher production and reserves contribute the higher estimated return.

Since 2012, numerous Mancos-Niobrara wells have been drilled in the Piceance Basin. Drilling activity targeting the Mancos/Niobrara by WPX and Black Hills has de-risked the play. Not only have significant gas resources been discovered (with Estimated Ultimate Recovery exceeding 6 BCF for multi-stage horizontal wells), but also very high pressures have been encountered.

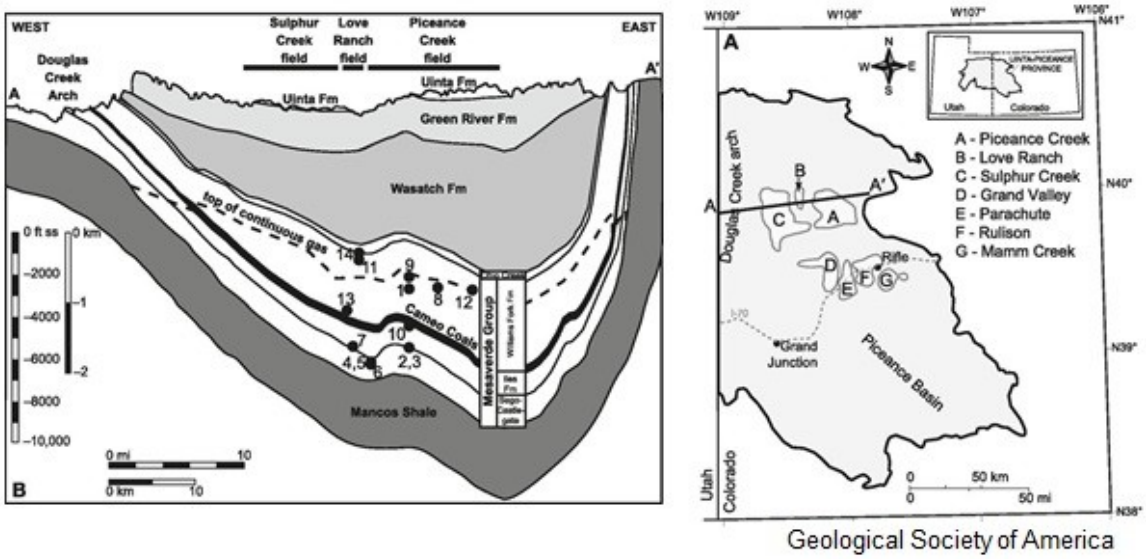
Management believes that the Mancos formation offers superior economics to the Williams Fork (an estimated 57% IRR for Niobrara/Mancos gas versus 13% for Williams Fork gas). However, the capital cost higher ($7-to-$8 million per well versus $2 million for a Williams Fork well).



The **Niobrara shale**, a lower member of the Mancos Shale Group, **appears to be potentially the most productive oil & gas play**. The Niobrara has been most productive in the Greater Wattenberg and Silo fields in Denver-Julesburg (DJ) Basin, especially from the Niobrara B zone. Over the last few years, Mancos/Niobrara drilling has been expanded into the Piceance, San Juan, Powder River and Greater Green River Basins. In the DJ and Powder River Basins, the Niobrara formation is oil rich, while in the Greater Green River and Piceance Basins, drilling has validated the existence of highly-pressured gas accumulation that is amenable to the production of pipeline-quality gas. Horizontal drilling has proven instrumental in unlocking gas and oil reserves in shale formations in the Mancos Group. Generally, select intervals of marine sands are proving to be productive reservoir rocks and the shale members are being identified as source rock.

A much higher level of expertise is necessary to develop a deep Niobrara well with a horizontal lateral. For example, the challenges incurred by WPX Energy for its 10,200-foot vertical depth well with a 4,600-foot horizontal lateral included locating an area where the structural dip of the 50-foot thick formation was gentle, the use of tools and equipment that tolerate the 300 °F temperature and the need for engineered proppant to handle the highly over-pressurized formation (10,000 pounds per square inch).

The good news about the Mancos play is that it is large gross interval (up to 5,000 feet) with multiple potential producing intervals. The bad news is the Mancos is deeper than the Williams Fork Formation, and the operator must contend with deep over-pressured completions between 10,000 and 18,000 feet below surface. Structurally, the Mancos Group in the Piceance Basin is deepest in the Colorado counties of Garfield and Rio Blanco, along with a northern part of Mesa County, reaching its maximum depth in the Piceance Creek area. The Mancos is shallower (roughly 8,500 feet) at Roan Creek.



The matrix structure of the Mancos Group, especially the Niobrara, is relatively complex with Mancos marine shale inter-stratified with local layers of siltstone, sandstone and limestone. The variability of production performance among Mancos wells in the early stage of development of the Mancos/Niobrara is a reflection of the heterogeneity and complexity of the play. However, now skilled completion firms, like Halliburton (HAL), have analytical tools to identify pay zones and provide multi-stage stimulation (completion) treatments. In addition, the thickness of the Mancos is generally about 5,000 feet, giving operators ample opportunity to determine the most productive pay zones.

Roan Creek – Estimated Contingent and Prospective Resources

On July 29 2014, Dejour Energy announced the completion of a **NI 51-101-compliant report** on its **Roan Creek** properties which included an assessment of Contingent and Prospective Resources. The report's best estimates (at the P-50 confidence level) are Contingent Gas and Condensate Resources of 5.5 MMBOE in the Mancos Shale formation and Prospective Gas and Condensate Resources of 3.8 MMBOE within the Mesaverde Group (which includes William Fork formation), which total 67.5 BCFE. Utilizing the Best Estimates (P-50), we estimate that the Contingent and Prospective Resources adds approximately $3.8 million in asset value, which is somewhat offset by additional shares outstanding in our NAV-valuation model.

Summary of Contingent Resource Estimates

	Contingent Gas Resources, BSCF			Contingent Condensate Resources, Mbbl		
	Low Estimate	Best Estimate	High Estimate	Low Estimate	Best Estimate	High Estimate
Gross	28.4	39.8	52.7	3.2	15.3	87.3
Net	22.7	31.9	42.1	2.6	12.2	69.9

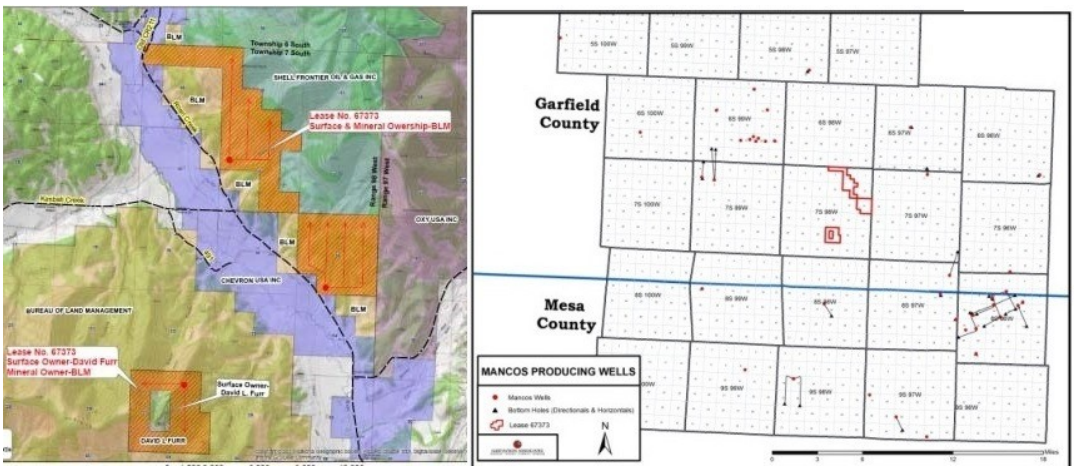
Summary of Prospective Resource Estimates

	Prospective Gas Resources, BSCF			Prospective Condensate Resources, Mbbl		
	Low Estimate	Best Estimate	High Estimate	Low Estimate	Best Estimate	High Estimate
Gross	17.4	27.4	41.9	24.9	49.2	90.5
Net	13.9	22.0	33.5	19.9	39.4	72.4

For those unfamiliar with NI 51-101 prospective resource terminology, prospective resources are “those quantities of oil and gas estimated on a given date to be potentially recoverable from undiscovered accumulations” by application of future development projects. “Prospective resources have both an associated chance of discovery and a chance of development,” The key elements of prospective resources are that they are undiscovered, yet deemed potentially recoverable since they are considered to be “technically viable and economic to recover” under existing economic conditions, operating methods and government regulations.

Contingent resources are “those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but are not yet considered” to be commercially developable “because of one or more contingencies.” The applicable contingency at Roan Creek is that the development of the Mancos Group in the immediate area is still in its early stages; therefore, there is insufficient data regarding the productivity of the Mancos reservoirs to assign a reserve estimate.

Nevertheless, within two townships of the Roan Creek properties, there are 48 wells producing from the Mancos Group: 29 vertical and 19 horizontal. The closest Mancos producing wells are nine miles to the west in the Gasaway Field and 10 miles to the southeast in the Orchard Field, both by Encana.



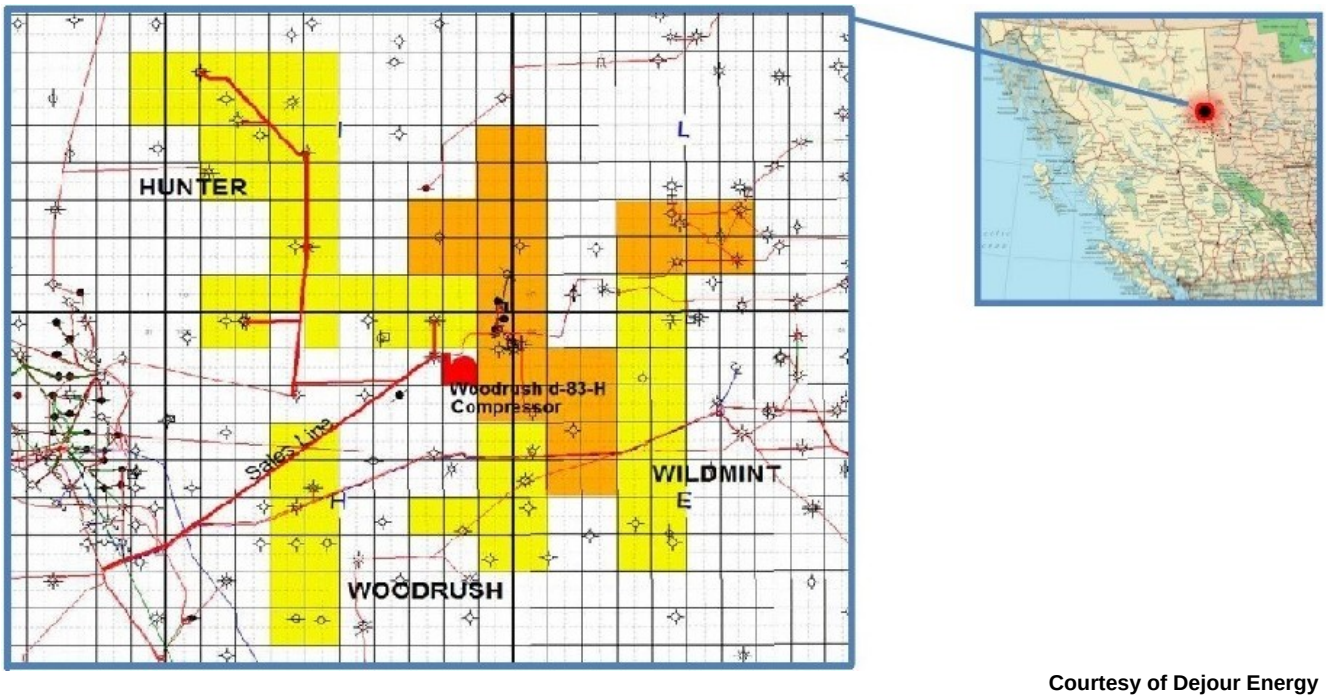
Gas and liquids are being produced from the Williams Fork formation as close as one mile to the east, just over one mile to the north and two miles to the southeast. Despite the close proximity of producing wells, Gustavson Associates (the independent, third-party preparer of the resource estimates) classified the resources as Prospective rather than Contingent citing that the Roan Creek leasehold “is near the edge of the continuous accumulation in the Williams Fork Formation.”

Dejour Energy holds 100% of the oil & gas leasehold on the 1,960-acre Roan Creek properties and carries an 80% net revenue interest. Currently, the lease is currently in suspension, and Dejour has filed an APD (Application for Permit to Drill) with the Bureau of Land Management. A suspension of an oil and gas lease effectively extends a lease and allows the lessee to continue development. Without a lease suspension, the lease's term would expire. Also, Dejour Energy has already filed an Environmental Assessment.

WOODRUSH PROPERTY (British Columbia) in the Peace River Arch

Dejour Energy owns and operates exploration and production projects in the Peace River Arch located in northeastern British Columbia and northwestern Alberta. The projects (denoted as Woodrush, Hunter and Wildmint) encompass approximately 19,000 net acres to Dejour. Dejour holds a 99% working interest in the **Woodrush** area, where the company benefits from production from 13 wells (four light oil and nine gas). Three gas wells are producing from Notekwin formation, one gas well producing from Gething gas

pool, and five oil wells and two gas wells producing from Halfway reservoir. Three of the oil wells at Woodrush are in close proximity (500 meters) to each other. There are also two water injection wells supporting waterflood operations.



Courtesy of Dejour Energy

On March 26, 2014, Dejour Energy announced the acquisition of working interests in production leaseholds [totaling 5,500 net acres], a **sour gas processing facility** (96.8% working interest) and 24 km of **pipeline** (96.8%+ working interests) near the company's Woodrush oilfield. The oil & gas lease includes a 54% working interest in a **producing well** (producing 800 MCF/D gross [432 MCF/D net] from the Halfway formation) and a 74% working interest in **two shut-in natural gas wells**, one of which was reactivated in mid-April 2014. The sales pipeline allows Dejour to eliminate paying a pipeline tariff to transport the gas from the company's tank battery at Woodrush. The purchase was funded by cash on hand and drawing upon an acquisition provision of an existing credit line with Canadian Western Bank.

On July 3, 2014, Dejour Energy acquired an **additional 24% working interest in the Woodrush** oil & gas project for 9.6 million shares of Dejour common stock (worth $1.94 million). The deal fulfilled two of management's goals for 2014, namely increasing production in British Columbia and expanding the company's assets through acquisition.

Drilling Program at Woodrush/Hunter During 2014

Hunter was acquired in the acquisition of a package of properties adjacent to Woodrush in March 2014. To fund the 2014 Woodrush-Hunter development program, Dejour Energy issued 6,000,000 Units under the company's shelf registration during August. The net proceeds of approximately US$1.41 million from the private placement helped fund the completion of two production wells.

Soon after receiving permits from the British Columbia Oil & Gas Commission on November 23, 2014, Dejour contracted Ensign Drilling Partnership to drill the two wells at Woodrush. The drilling rig arrived within days, and by December 16th, the first well (B-100) had been drilled, logged and cased. The logs indicated 38 feet of net combined productive pay from the Halfway oil and Gething gas pools, though the Gething gas will remain behind pipe in this well. The second well (A-100) was drilled, logged and cased by December 24th, and the logs indicated 17 feet of net productive pay from the Gething gas pool. By January 26, 2015, both wells were tied-in to existing gathering lines and began producing. Dejour Energy owns a 99% working interest in these two wells and is the project operator.

The Gething gas pool discovery and the confirmation of the geographical extension of the Halfway pool to the south are expected to enhance Dejour's reserve base for the Woodrush/Hunter project. A-100 confirms the extension of the Gething gas zone to several sections of Dejour's land under oil & gas leases while B-100 confirms a southerly extension of the main Woodrush Halfway pool. Finding and development costs at Woodrush/Hunter are only $5 per BOE. In addition, the incremental gas production would leverage the operation of the Dejour's sour gas processing facility and utilization of the excess capacity of company's 24 km of pipeline.

Woodrush/Hunter Active Wells

Well (WA Number)	Spud Date	Depth (meters)	Fluid Type
18812	01/26/2005	778	Gas
22719	02/25/2007	819	Gas
22881	03/26/2007	806	Gas
22887	04/02/2007	782	Gas
23467	01/08/2009	1,185	Gas
23736	01/18/2008	824	Gas
23737	01/21/2008	1,123	Gas
23844	02/11/2008	1,173	Oil
23845	02/04/2008	1,136	Oil
25180	03/10/2010	1,182	Oil
25228	10/02/2010	1,190	Water Injection
25232	12/02/2009	1,195	Gas
26783	01/31/2011	1,466	Water Injection
27916	11/23/2011	1,224	Oil
30889 (B-100)	12/07/2014	Confidential	Oil
N/A (A-100)	12/17/2014	Confidential	Gas

VALUATION

The valuation process for small and mid-cap E&P oil & gas companies is based upon Net Asset Value (NAV), which involves evaluating a company's assets and reserves, and then determining an appropriate discount at which the stock should trade. The NAV calculation entails applying several subjective inputs, such as land valuation (cost or market), a predicted oil price, oil versus gas mix, predicted gas price, drilling costs deep offshore wells versus, drilling success rate, mix of development and exploratory wells, etc. The discount attempts to quantify many factors, including but not limited to the average length of time that will be required to put the reserve additions on the company's books, R/P (reserves to annual production ratio), the company's PUD (Proved Undeveloped reserve) to 2P reserve ratio, and the stock's liquidity.

DEJOUR ENERGY, INC.				
		Gross Acres	Net Acres	Net Proved Reserves (PV-10)
WOODRUSH	(British Columbia) 51-101 effective date 12/31/2014	19,200	19,000	5,698,000
KOKOPELLI	(Colorado) 51-101 effective date 12/31/2014	2,240	560	55,206,000
ROAN CREEK	(Colorado) 51-101 effective date 6/1/2014	1,960	1,960	3,801,000
ANTICIPATED VALUE OF GETHING GAS POOL & HALFWAY EXPANSION				1,937,320
ANTICIPATED VALUE OF DERIVED FROM KOKOPELLI DRILLING PROGRAM				4,968,540
	TOTAL - U.S. and CANADIAN PROPERTIES			71,610,860
PROPERTY & EQUIPMENT				19,475,000
UNDRILLED LAND	(at cost)		57,985	13,000,000
TAX LOSSES AND TAX POOL DEDUCTIONS				5,600,000
NET WORKING CAPITAL				(5,297,000)
	TOTAL			**104,388,860**
	Shares outstanding			182,402,139
	NAV per outstanding share ($CDN)			**0.57**
	Fully diluted shares			217,532,813
	NAV per diluted share ($CDN)			**0.54**
	NAV per diluted share ($US)			**0.42**

Dejour's NAV is estimated to be CDN$104.4 million (CDN$0.57 per share outstanding). The $104.4 million is attained by adding the company's assets of $71.6 million[1] of estimated PV-10 Proved Reserves and anticipated incremental value from recently drilled wells, $19.5 million in property & equipment, $13.0 million of land (at cost), $5.6 million in tax loss carry-forwards and then adjusting for the $5.30 million in negative net working capital.[2] After accounting for dilutive options and warrants, **our target price remains US$0.42 per diluted share.**

RISKS

- Dejour Energy's stock trades at less than $1 per share and has a market capitalization with less than $100 million. Certain risks are associated with such stocks, including liquidity (low daily volume), the ability to obtain financing, etc. In addition, the company operates in the oil & gas industry, which involves risks related to commodity price cycles, production performance of wells and the assessment of the company's reserves.
- At times, management's plans have been delayed due to a lack of working capital. However, to date, financing (debt, equity and bank) has been secured in a timely fashion. On occasions, the CEO has provided capital to the company in order to keep developmental projects on track.

[1] Based on the reserve estimation and economic assessment in the 2014 Annual Information Form (dated as of December 31, 2014).
[2] Balance sheet items valued as of March 31, 2015.

PROJECTED INCOME STATEMENT

Dejour Energy Inc. Earnings Model

($CDN thousands) YEARS ENDING 12/31	2013	Q1	Q2	Q3	Q4	2014	Q1	Q2	Q3 E	Q4 E	2015 E
PRODUCTION VOLUMES (net)											
Woodrush natural gas (MMCF)	**303.4**			9.6	8.3	**17.9**			15.0	15.0	**30.0**
Crude oil & NGL (MBO)	**78.1**	14.8	17.5	19.3	14.9	**66.5**	22.0	30.0	22.5	31.0	**105.4**
Natural gas (MMCF)	**326.6**	206.3	200.8	84.7	73.7	**565.5**	145.8	100.9	128.3	410.4	**785.4**
Total (MBOE)	**455.3**	49.2	51.0	35.0	28.6	**634.9**	46.3	46.8	46.4	101.9	**895.8**
Gross average production (BOEPD)	**504**	546	561	382	316	**451**	514	517	512	1,126	**667**
OIL PRICE REALIZATIONS / GAS HUB PRICES											
Natural gas (CAD/MCF)	**4.00**	6.80	5.27	4.28	3.87	**5.45**	2.57	2.26	2.43	2.43	**2.42**
Oil (CAD/BBL)	**86.24**	93.51	87.76	96.07	72.29	**87.99**	49.88	64.22	50.00	49.00	**53.28**
Natural gas liquids (CAD/BBL)											
INCOME STATEMENT (CAD 000 except EPS)											
Woodrush natural gas revenues	**1,233**			41	32	**98**			36	36	**73**
Woodrush crude oil revenues	**6,733**	1,382	1,539	1,853	1,077	**5,852**	1,096	1,924	1,123	1,519	**5,615**
Kokopelli natural gas revenues	**1,361**	1,403	1,058	363	285	**3,109**	374	228	312	997	**1,911**
Total oil and gas revenues	**9,317**	**2,785**	**2,597**	**2,257**	**1,395**	**9,073**	**1,470**	**2,152**	**1,472**	**2,553**	**7,599**
Royalties	**1,811**	511	442	339	196	**1,488**	193	384	263	456	**1,039**
Total oil and gas revenues (net)	**7,506**	2,274	2,155	1,918	1,199	**7,585**	1,277	1,768	1,209	2,097	**6,560**
Financial instrument gain (loss)	**0**	0	0	0	0	**0**	0	0	0	0	**0**
Other operating income	**0**	0	0	0	0	**0**	0	0	0	0	**0**
TOTAL REVENUES	**7,506**	**2,274**	**2,155**	**1,918**	**1,199**	**7,585**	**1,277**	**1,768**	**1,209**	**2,097**	**6,560**
Operating expenses											
Operating and transportation	**3,398**	977	1,404	875	843	**4,099**	1,052	706	875	629	**3,262**
General and administrative	**3,384**	838	778	759	1,118	**3,493**	685	516	526	537	**2,264**
Amortization, depletion & acc.	**3,630**	738	692	834	4,251	**6,515**	670	572	834	679	**2,755**
Change in fair value of warranty liability	**(1,101)**	1,298	(594)	(18)	(608)	**78**	(479)	(106)	150	150	**(285)**
Change in fair value of derivative liability	**(264)**	608	(312)	94	(390)	**0**	(180)	(36)	0	0	**(216)**
Financial contract liability	**(1,268)**	-	-	-	0	**(918)**	-	-	-	0	
Stock based compensation	**348**	87	434	404	345	**1,270**	248	360	360	360	**1,328**
Total operating expenses	**8,127**	**4,546**	**2,402**	**2,948**	**5,559**	**14,537**	**1,996**	**2,012**	**2,745**	**2,355**	**9,108**
OPERATING INCOME	**(621)**	**(2,272)**	**(247)**	**(1,030)**	**(4,360)**	**(6,952)**	**(719)**	**(244)**	**(1,536)**	**(257)**	**(2,548)**
Interest (expense)	**(1,182)**	(441)	(440)	(132)	(155)	**(1,168)**	(180)	(220)	(220)	(100)	**(720)**
Interest income	**0**	-	-	-	-	**0**	-	-	-	-	**0**
Gain (loss) on investments	**0**	-	(388)	-	-	**(388)**	-	-	-	-	**0**
Gain (loss) on financial contract liability		-	-	(338)	-		(96)	(100)	-	-	**0**
Gain (loss) on disposal of E&E assets	**(185)**	-	(389)	-	71	**(318)**	-	-	-	-	**0**
Gain (loss) disposal of property & equip.	**(107)**	-	1,935	45	(71)	**1,909**	-	(6)	-	-	**(6)**
Equity income (loss)	**0**	-	-	-	-	**0**	-	-	-	-	**0**
Other income	**23**	6	11	5	2	**24**	1	1	-	-	**2**
Impairments	**0**	-	-	-	-	**0**	-	-	-	-	**0**
Foreign exchange gain (loss)	**(505)**	(275)	248	(170)	(89)	**(286)**	(175)	66	-	-	**(109)**
Pretax income	**(2,577)**	(2,982)	730	(1,620)	(4,602)	**(7,179)**	(1,169)	(503)	(1,756)	(357)	**(3,381)**
Inc. tax recovery (expense)	**0**	0	0	0	0	**0**	0	0	0	0	**0**
REPORTED NET INCOME	**(2,577)**	**(2,982)**	**730**	**(1,620)**	**(4,602)**	**(7,179)**	**(1,169)**	**(503)**	**(1,756)**	**(357)**	**(3,381)**
Foreign currency translation adjustment	**1,082**	645	(481)	538	405	**1,107**	1,093	(183)	0	0	**910**
Comprehensive Income (loss)	**(1,495)**	(2,337)	249	(1,082)	(4,197)	**(6,072)**	(76)	(686)	(1,756)	(357)	**(2,471)**
Weighted Avg. Diluted Shares Out.	**148,916**	155,478	209,607	178,239	182,402	**177,124**	182,402	182,402	182,402	186,050	**183,314**
DILUTED EPS before NRI	**(0.02)**	(0.019)	0.003	(0.009)	(0.025)	**(0.04)**	(0.006)	(0.003)	(0.010)	(0.002)	**(0.02)**
REPORTED NET INCOME	**(0.02)**	(0.019)	0.003	(0.009)	(0.025)	**(0.04)**	(0.006)	(0.003)	(0.010)	(0.002)	**(0.02)**

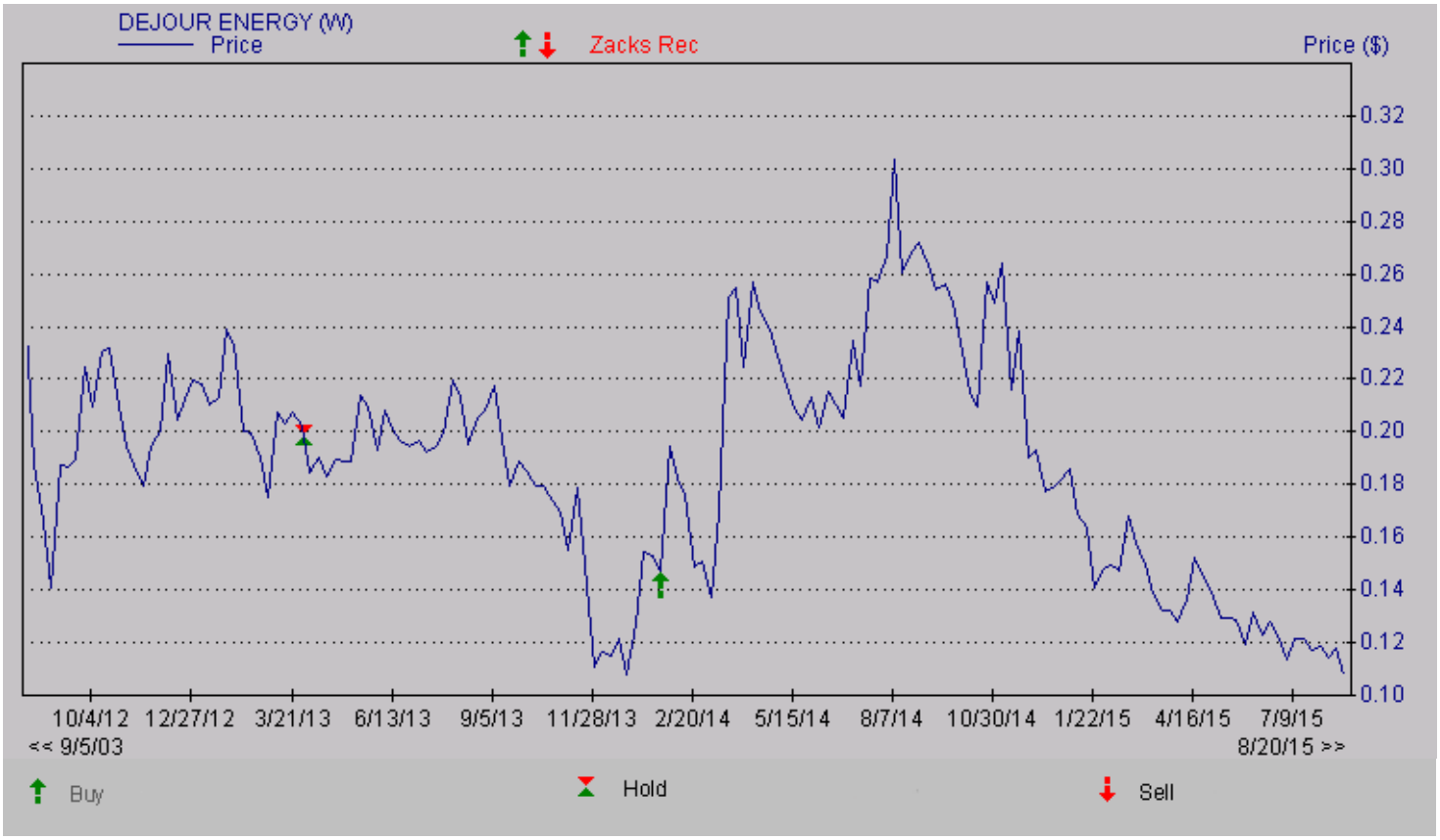
BALANCE SHEET

Dejour Energy Inc.

($CDN thousands)

YEARS ENDING 12/31	2010	2011	2012	2013	2014	2Q/2015
ASSETS						
Cash and cash equivalents	4,758	2,488	1,508	505	1,215	176
Accounts receivable	689	887	549	831	605	4,406
Share subscription receivable	-	516	-	-	-	-
Prepaids and deposits	93	100	92	49	141	68
Current Assets	**5,539**	**3,992**	**2,149**	**1,385**	**1,961**	**4,650**
Deposits	442	404	392	447	297	291
Exploration and evaluation assets	10,257	5,283	3,890	3,281	3,107	3,318
Property and equipment	14,175	19,760	21,144	20,386	17,909	19,246
Total Assets	**30,413**	**29,438**	**27,575**	**25,499**	**23,274**	**27,505**
LIABILITIES						
Bank credit facilities	4,800	5,545	5,957	2,900	1,955	1,562
Loan facility	-	-	-	2,911	-	-
Accounts payable & acc. liabilities	2,473	3,958	2,019	2,623	3,515	1,885
Loans from related parties	250	-	-	-	-	6,500
Warrant liability	1,093	2,245	1,425	324	755	170
Derivative liability	-	-	-	287	216	-
Flow-through shares liability	187	-	-	-	-	-
Current financial contract liability	-	-	1,305	1,248	-	-
Current Liabilities	**8,803**	**11,749**	**10,706**	**10,293**	**6,441**	**10,117**
Decommissioning liability	706	1,339	1,429	1,212	3,709	3,757
Other liabilities	32	44	32	22	0	0
Financial contract liability	-	-	5,162	4,873	2,739	3,400
Total Liabilities	**9,540**	**13,131**	**17,329**	**16,400**	**12,889**	**17,274**
SHAREHOLDERS' EQUITY						
Share capital	79,386	85,076	90,274	90,274	97,132	97,132
Contributed surplus	7,639	8,134	8,802	9,150	9,674	10,282
Deficit	(65,467)	(76,510)	(88,262)	(90,839)	(98,042)	(99,714)
Acc. other comprehensive income (loss)	(685)	(393)	(568)	514	1,621	2,531
Total Shareholders' Equity	**20,873**	**16,307**	**10,246**	**9,099**	**10,385**	**10,231**
Total Liabilities and Shareholders' Equity	**30,413**	**29,438**	**27,575**	**25,499**	**23,274**	**27,505**
Shares outstanding (thousands)	110,181	126,892	148,916	148,916	182,402	182,402

HISTORICAL ZACKS RECOMMENDATIONS



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The current distribution is as follows: Buy/Outperform- 26.4%, Hold/Neutral- 56.2%, Sell/Underperform – 14.4%. Data is as of midnight on the business day immediately prior to this publication.