Zacks Small-Cap Research

February 17, 2016

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DXI Energy Inc. (DXI-NYSE MKT)

DXI: Awaiting IP results & reserves update

Current Recommendation	**Buy**
Prior Recommendation	Hold
Date of Last Change	01/26/2014
Current Price (02/16/16)	$0.18
Six- Month Target Price	**$1.83**

OUTLOOK

DXI Energy produces natural gas from the Williams Fork formation and Mancos in the Piceance Basin and oil & gas from the Halfway & Gething pools at Woodrush in British Columbia. The company is building a growing revenue stream through the JV at Kokopelli and the further development of Woodrush. Seven Williams Fork natural gas wells and one vertical Mancos well have been completed at Kokopelli with full production expected through the entirety of the first quarter. Management's 2016 production profile target from the company's 25 production wells is 1,200+ BOEPD.

SUMMARY DATA

52-Week High	**$0.90**
52-Week Low	**$0.12**
One-Year Return (%)	**-75.67**
Beta	**0.58**
Average Daily Volume (shrs.)	**99,358**
Shares Outstanding (million)	**36.51**
Market Capitalization ($ mil.)	**$6.57**
Short Interest Ratio (days)	**1.17**
Institutional Ownership (%)	**1**
Insider Ownership (%)	**5**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**3.2**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/M**
P/E using 2016 Estimate	**N/M**
P/E using 2017 Estimate	**N/M**

Risk Level	**Above Average**
Type of Stock	**Small - Value**
Industry	**Oil – CDN$ E&P**

ZACKS ESTIMATES

Revenue
(in millions of $CDN)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	2.79 A	2.60 A	2.26 A	1.39 A	9.08 A
2015	1.47 A	2.15 A	2.19 A	2.52 E	8.15 E
2016	2.13 E	2.15 E	2.18 E	2.22 E	7.66 E
2017					8.50 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	-$0.10 A	$0.02 A	-$0.05 A	-$0.13 A	-$0.20 A
2015	-$0.03 A	-$0.01 A	-$0.04 A	-$0.01 E	-$0.05 E
2016	-$0.02 E	-$0.01 E	-$0.01 E	$0.00 E	-$0.03 E
2017					-$0.02 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 consisted of drilling, completing and fracturing seven Williams Fork wells and one Mancos-Niobrara vertical test well in a $16 million program. The drilling program was accomplished during 2014, and the completion (fracture stimulation) program and tie-in of the 8 wells occurred in the second half of 2015.
    - **Production from the 8 new wells at Kokopelli** helped drive DXI's total production to over 1,000 BOEPD in December 2015.
    - A report on **initial production (IP) rates** is expected shortly.
    - The production profile of the new wells, especially the vertical Mancos well, should significantly contribute to the **annual reserve assessment** that is usually completed sometime during the first quarter.
  - Phase 3 is anticipated to be Mancos-Niobrara vertical test well in the northern Kokopelli lease, potentially in 2016.
- DXI Energy expanded its exposure to **Woodrush** with two strategic transactions:
  - Effective February 1, 2014, DXI 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, DXI 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 **began producing in January 2015**, enhanced DXI's oil production, along with boosting the company's Canadian reserves.
- Management is 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 DXI'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, DXI Energy drilled and cased its first Mancos/Niobrara well in the second half of 2014. The 13,550-foot **vertical Mancos well** was completed during the fourth quarter of 2015 and is now producing.
- Also, management has **plans to advance Roan Creek**.
  - DXI's management has plans to advance Roan Creek, a 100%-owned property with Mancos/Niobrara prospectivity. WPX Energy "Beast" well is situated directly between DXI's Roan Creek and Kokopelli properties.
- G&A expenses were significantly reduced through the retirement of Harrison Blacker (COO and Co-Chairman) in January 2014 and by transferring the operatorship of Kokopelli to a US-based E&P company (Coachman).
- Management has a 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 December 23, 2015, DXI Energy was informed by the NYSE MKT that the company has regained compliance with continued listing standards. However, on January 19, 2016, DXI Energy received a letter from NYSE MKT stating that DXI Energy is not in compliance Section 1003 (low priced securities). Management plans to submit a plan by the July 19, 2016 deadline.
- We maintain an Outperform rating on DXI's stock.

RECENT NEWS

Recap of 2015

During 2015, **10 additional wells came 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. At **Woodrush**, through improved execution (especially waterflood management), production improved to 746 BOEPD (446 BOPD and natural gas production 30 BOEPD) in December 2015. However, due to low commodity prices, management has temporarily shut in certain non-dedicated gas production.

The eight natural gas wells in **southern Kokopelli** were hydraulically fractured during the second half by Halliburton, who was subcontracted to complete the wells by the operator (Coachman Energy Operating Company, LLC). The eight wells are composed of a vertical 13,600' Mancos discovery well (Federal 14-15-7-21) and seven Williams Fork wells (Federal 14-15-1-21 through Federal 14-15-8-21).

The **vertical Mancos discovery well** included 14 stages to better assess the multi-zonal pay zones. Upon drilling out the bridge plugs, the Mancos well flowed at a rate of over 8 MMCF/D (approximately 1,300 BOEPD) with casing pressure over 4,000 psi. The well was temporarily choked back to analyze the gas composition in order to optimize the flow with the *in situ* delivery systems. According to COGIS (Colorado Oil and Gas Information System), Coachman reported Mancos production of 73,108 MCF and sales (after use and shrinkage) of 51,666 MCF in November 2015 (latest statistics available).[i]

Full production from these eight new wells is expected to contribute significantly to DXI's revenues during the first half of 2016, since the production profile of new gas wells begins with peak production during the first three months. The company achieved average production of 1,000 BOEPD in December 2015, an important milestone for the company.

More significantly, since the **annual independent evaluation of reserves is expected to include the Mancos potential**, this 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 DXI Energy's stock price potential. Management anticipates the inclusion of the Mancos horizon at Kokopelli to increase reserves significantly.

DXI holds a 25% working interest in Kokopelli, and management believes that over 30 vertical Mancos wells and 220 Williams Fork wells could potentially be drilled and completed on the 2,200 acres of the Kokopelli leases.

The company's Canadian bank debt was paid down significantly during 2015 such that the **credit facility was retired** near the end of January 2016. Approximately CDN $6.5 million in bridge loans from insiders funded the company's programs in 2015 and allowed the bank credit facility to be eliminated.

Expectations for 2016

Management's **2016 production profile target** from the company's 25 production wells is **1,200+ BOEPD**. The Kokopelli Project in Colorado encompasses 12 producing natural gas wells, including a vertical Mancos discovery while Woodrush has 13 producing wells (four light oil and nine natural gas). Management projects net cash flow of $4.5 million in 2016 based on gas pricing in mid-December 2015.

Management continues to be focused on making **opportunistic acquisitions of bolt-on producing assets**, especially near Woodrush where low cost development opportunities would be leveraged by the excess capacity at the company's sour gas processing facilities and 24-km of pipeline. The current

pricing pressures in the oil patch should provide liquidation-type opportunities where management's acquisition pricing metric is a 24-month payback period.

DXI Energy's **development programs** appear to be two-pronged: perform critical work to protect reserve values (aka preserve northern Kokopelli leasehold) and expand reserves in a highly selective manner (namely update Roan Creek's contingent reserves and potentially make a bolt-on acquisition). Applications for Permit to Drill (APD) have been filed for a potential 2016 drilling program.

Near-term, we expect the company to announce **IP rates for the 8 new wells at Kokopelli**. In addition, the **annual update in reserve estimates** is traditionally announced during the first quarter of 2016.

Third Quarter Results

On November 5, 2015, DXI Energy reported results for the third quarter ending September 30, 2015. Gross oil and gas revenues (before royalties) decreased 3.0% Year-Over-Year (YOY) to $2.19 million versus $2.26 million in the third quarter of 2014 as increased production almost offset the impact of lower commodity prices. Oil & gas production increased 68% YOY to 59.1 MBOE. Oil production increased 83.7% YOY primarily due a new oil well at Woodrush that began producing in January 2015, but oil production also increased 18.3% sequentially as a result of enhancements to the waterflood operation. The 50.8% YOY increase in natural gas production is primarily related to the production from the new gas well at Woodrush in January 2015 while the 26.5% sequential increase in gas production was attributable to the an easy comparison versus the second quarter of 2015 when the gas production was halted for 40 days while Spectra's McMahon gas plant was closed for regulatory inspections, maintenance and upgrades. Gross production averaged 643 BOEPD during the quarter, a 68.3% increase YOY from 382 BOEPD and a sequential increase of 25.1% over the second quarter's 514 BOEPD. The increased production almost offset the decline in oil and natural gas price realizations, which sequentially decreased 45.2% and 46.7%, respectively.

Operating & transportation expenses decreased 12.2% 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 due to the completion of the production water disposal well during the quarter. G&A expenses declined 43.5% YOY which is primarily attributable to the reduction of salaried employees in Denver. Amortization and depletion declined 13.7%, primarily due to lower depletion at the four wells at Kokopelli. During the quarter, DXI recorded a $1.0 million impairment charge on the carrying value of the company's Canadian oil & gas interests due to the decline in oil prices. Quarterly earnings were a loss of CAD $0.044 per diluted share versus a loss of $0.045 in the comparable quarter last year. Without the non-cash impairment charge, the loss would have narrowed to CAD $0.017 per diluted share.

NYSE MKT Listing Compliance

On December 23, 2015, DXI Energy was informed by the NYSE MKT that the company regained full compliance with continued listing standards having resolved the listing deficiency with respect to Section 1003(f)(v). However, on January 19, 2016, DXI Energy received a letter from NYSE MKT, which stated that DXI Energy is not in compliance with the continued listing standards as set forth in Section 1003 (low priced securities). By July 19, 2016, management must submit a plan addressing how compliance can be regained.

2015 Financings

In March 2015, DXI Energy closed the initial tranche of a bridge loan of up to CDN $2.0 million from HEC (a private company controlled by Dejour's CEO). The funds were used to support the company's 2015 initiatives, especially the company's capital expenditure plan to develop Kokopelli. Subsequently, on May 11th, the Board of Directors approved for the bridge loan to be increased by an additional $2.0 million to help mitigate the expanding working capital deficit and help fund the drilling and completion of additional

wells at Kokopelli. With a 25% working interest in Kokopelli, Dejour is responsible for 25% of the developmental costs of new wells (approximately $3.6 million) in order to secure its rightful portion of future production. During the second quarter, an additional CDN $2.5 million in bridge financing was provided by DXI's CEO.

During the third quarter, bridge financings reached CDN $6.5 million, of which $4.5 million was secured from HEC and $2.0 million from HVI (a private company associated with the CEO. In late-September, the maturity of the bridge financings was extended until December 31, 2015. The proceeds were being utilized primarily to fund the company's capital expenditures at Kokopelli and secondarily to pay down the bank credit facility by approximately $660,000.

In mid-November 2015, the maturity date of the **CDN $6.5 million bridge loan** was **extended to November 30, 2018** in return for 90% warrant coverage to purchase 13 million common shares at CDN $0.45 / US $0.35 per share for a period of 5 years. DXI may repay the balance owed at any time without penalty.

2016 Financing

On January 25, 2016, DXI Energy announced the **retirement of the company's CDN $7 million bank credit facility** with Canadian Western Bank. The credit facility originated in 2011, and through extensions and amendments amassed certain collateral and restrictive contract requirements, to which DXI is no longer beholding. During this challenging phase in the energy markets, the commercial banking industry has imposed ratio requirements, which no longer apply to DXI, increasing management's flexibility in the pursuit of opportunistic bolt-on acquisitions.

Dejour Energy Rebrands as DXI Energy

On October 27 2015, Dejour Energy changed its name to **DXI Energy, Inc**. In addition, the company's common shares were split on a 1-for-5 basis resulting in the number of common shares was reduced from 182,473,615 to 36,494,609. The rebranding represents the company's new production profile and initiatives for prudent expansion. The company's old website (dejour.com) has been shut down and replaced with dxienergy.com

KOKOPELLI

The initial well at Kokopelli (Federal 6-7-16-21) was drilled in 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, DXI 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. **Currently, DXI Energy has a 7.2% working interest in the initial four wells** completed at Kokopelli. After the fund has received $8.75

million, DXI'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, DXI 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, DXI 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. DXI 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 **DXI Energy retains 25% of the remainder of the Kokopelli project**; Coachman Energy earned a 65% working interest and the remaining 10% was held by Brownstone Energy. Coachman Energy assumed operatorship of the Kokopelli project, which resulted in a 70% reduction in G&A expenses at DXI 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.

Drilling Program at Kokopelli During Second Half of 2014

On July 17, 2014, DXI 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 DXI Energy and Brownstone Energy through this phase of developing the Kokopelli project up to $16 million. Therefore, DXI'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.

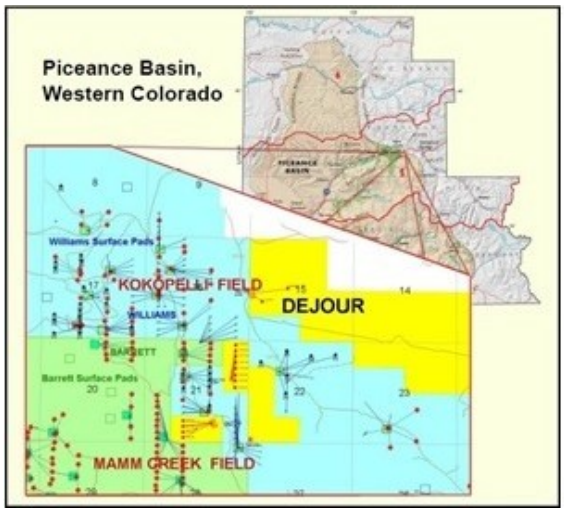
According to filings with COGIS (Colorado Oil and Gas Information System), the Kokopelli wells targeting only the Williams Fork Formation were spud in quick succession from Federal 14-15-1-21 on October 10th through Federal 14-15-8-21 on December 12th. The last well spud, Federal 14-15-1-21, on December 20th tested the deeper Mancos/Niobrara shale. The operator is listed as Coachman Energy Operating Company LLC.

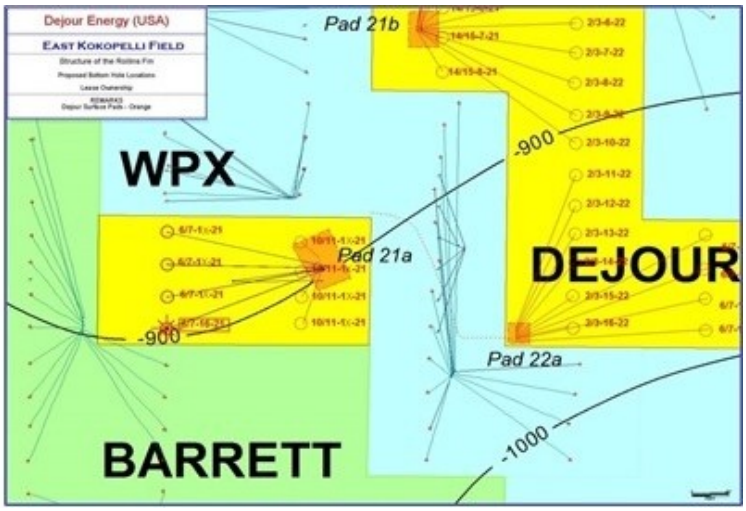
2014-2015 Kokopelli Development Program

Well	Spud Date	Wellbore Completion	First Production	Depth (feet)	Frac Stages	Formation
Federal 14-15-1-21	10/10/2014	10/20/2014	8/11/2015	7,957	9	Williams Fork
Federal 14-15-2-21	10/21/2014	11/01/2014	8/10/2015	7,735	9	Williams Fork
Federal 14-15-3-21	11/02/2014	11/13/2014	8/7/2015	7,768	9	Williams Fork
Federal 14-15-4-21	11/14/2014	11/23/2014	8/11/2015	7,873	10	Williams Fork
Federal 14-15-5-21	11/24/2014	12/02/2014	8/11/2015	7,849	9	Williams Fork
Federal 14-15-6-21	12/03/2014	12/11/2014	8/15/2015	7,874	10	Williams Fork
Federal 14-15-7-21	12/20/2014	1/27/2015	9/2/2015	13,542	14	Mancos
Federal 14-15-8-21	12/12/2014	12/20/2014	8/15/2015	7,955	6	Williams Fork

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 were completed, and in addition, one vertical well was completed to test the deeper Mancos/Niobrara. The completions (fracking) were subcontracted to Halliburton.

DXI Energy owns a 25% working interest in the Kokopelli Project while DXI's JV partner, operator of the project, earned a 75% working interest. DXI was carried for its 25% proportional share of the first US$16 million in expenditures. After the initial $16 million in development costs, subsequent costs are being shared on a pro rata basis.





Future of Kokopelli

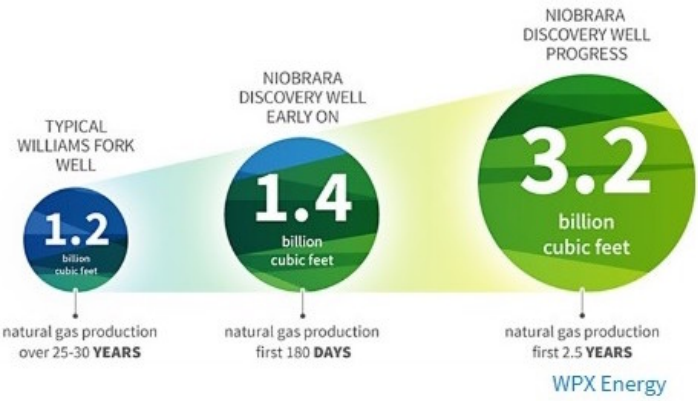
Since the production profile of new gas wells begins with peak production during the first three months, full production from these eight new wells is expected to contribute significantly to DXI's revenues in the first quarter of 2016. As a result, management anticipates achieving the corporate production profile target of average production of 1,200 BOEPD at some point during 2016, an important milestone for the company.

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. DXI continues to have good faith discussions with the Bureau of Land Management (BLM) and Bureau of Wildlife Management. Management anticipates that at some point, a drilling campaign with a Mancos-Niobrara vertical test well in the northern Kokopelli lease will be initiated. With a 25% working interest, DXI would be responsible for 25% of the developmental costs to secure its portion of the production.

NIOBRARA-MANCOS POTENTIAL (Kokopelli and Roan Creek)

In Garfield County, Colorado, DXI 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 DXI'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.

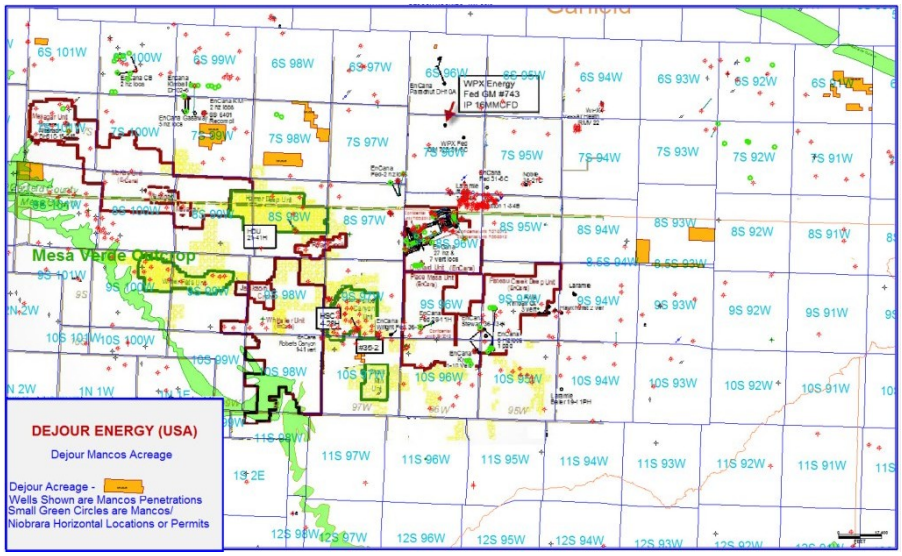
In the past, natural gas drilling in the Piceance Basin predominantly targeted the Williams Fork (within the Mesaverde Group) formation. The encouraging production results from recent wells completed by WPX Energy (WPX: NYSE) and Black Hills Corp. (BKH: NYSE) that targeted the Niobrara-Mancos shale formation 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.

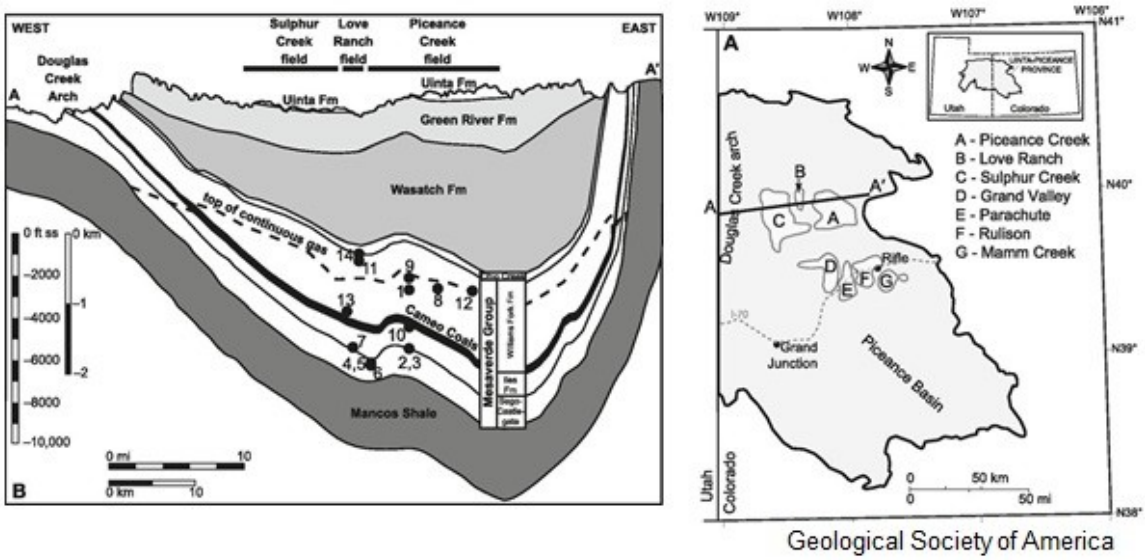
Management believes that the Mancos formation offers superior economics to the Williams Fork (an estimated 57% IRR for Niobrara/Mancos gas versus 13% for Williams Fork gas). However, the capital cost higher ($7-to-$8 million per well versus $2 million for a Williams Fork well).

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, DXI 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.

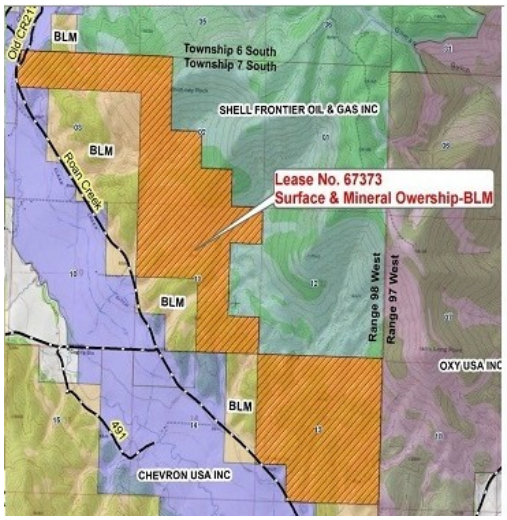
Summary of Contingent Resource Estimates

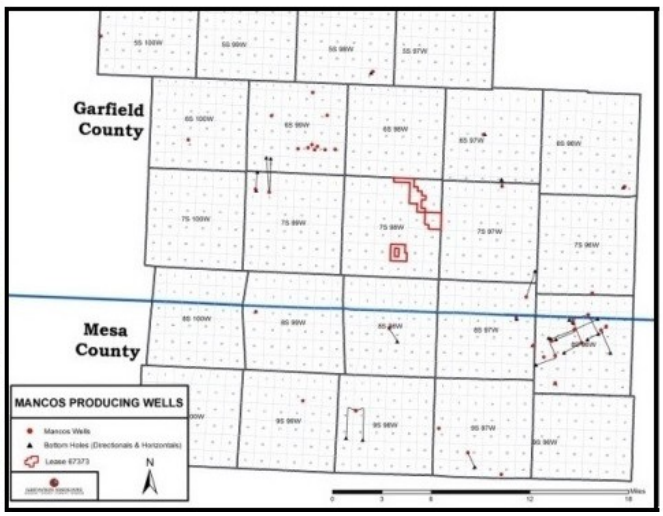
	Contingent Gas Resources, BSCF			Contingent Condensate Resources, Mbbl		
	Low Estimate	Best Estimate	High Estimate	Low Estimate	Best Estimate	High Estimate
Gross	28.4	39.8	52.7	3.2	15.3	87.3
Net	22.7	31.9	42.1	2.6	12.2	69.9

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.

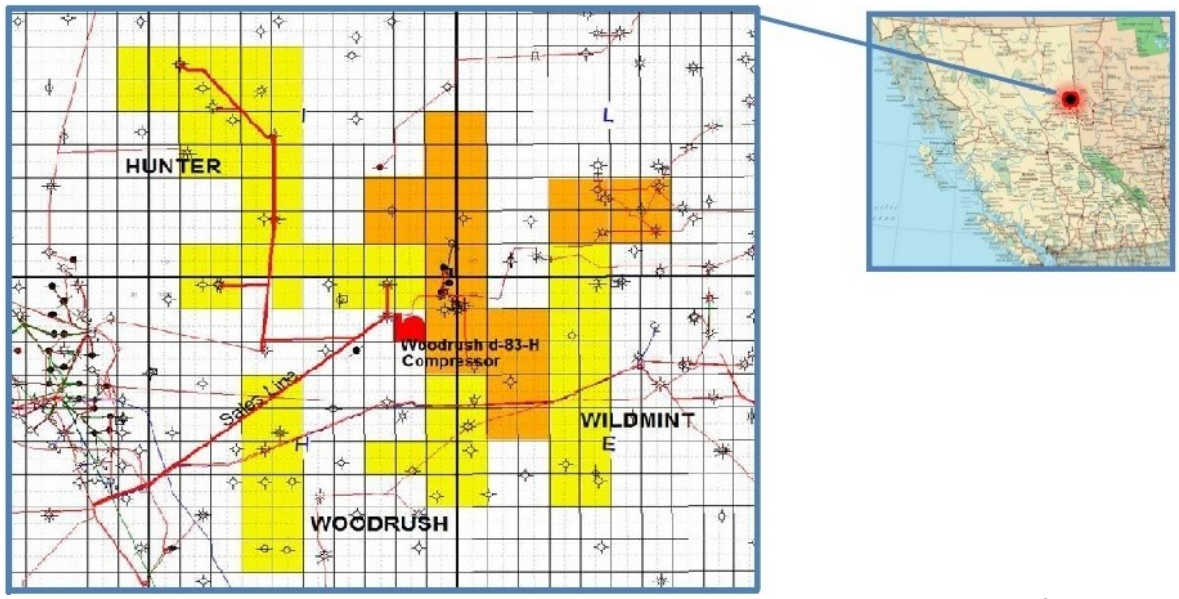
Nevertheless, within two townships of the Roan Creek properties, there are 48 wells producing from the Mancos Group: 29 vertical and 19 horizontal. The closest Mancos producing wells are nine miles to the west in the Gasaway Field and 10 miles to the southeast in the Orchard Field, both by Encana.

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."

DXI 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 DXI 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, DXI Energy has already filed an Environmental Assessment.

WOODRUSH PROPERTY (British Columbia) in the Peace River Arch

DXI 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 DXI. DXI holds a 99% working interest in the **Woodrush** area, where the company benefits from **13 producing wells** (four light oil and nine natural 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. Also, the Woodrush project includes a **sour gas processing facility** (96.8% working interest) and **24-km of pipeline** (96.8%+ working interests) near the company's Woodrush oilfield.



Courtesy of DXI Energy

On March 26, 2014, DXI 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 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 DXI 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 then-existing credit line with Canadian Western Bank.

On July 3, 2014, DXI Energy acquired an **additional 24% working interest in the Woodrush** oil & gas project for 9.6 million shares of DXI 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.

To fund the 2014 Woodrush-Hunter development program, DXI 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, DXI 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, enhancing DXI's oil production, along with boosting the company's Canadian reserves. Through improved execution (especially waterflood management), production improved to 746 BOEPD (446 BOPD and natural gas production 30 BOEPD) in December 2015. However, due to low commodity prices, management has temporarily shut in certain non-dedicated gas production. DXI 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 DXI's reserve base for the Woodrush/Hunter project. A-100 confirms the extension of the Gething gas zone to several sections of DXI'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 DXI's sour gas processing facility and utilization of the excess capacity of company's 24 km of pipeline.

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.

DXI's NAV is estimated to be CDN$97.17 million (CDN$2.66 per share outstanding). The $97.17 million is attained by adding the company's assets of $70.27million[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 $11.17 million in negative net working capital.[2] After accounting for dilutive options and warrants, **our target prices are US$1.83 per diluted share** and **$CAD2.54 per diluted share.**

DXI 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	4,698,000
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				1,597,320
ANTICIPATED VALUE OF DERIVED FROM KOKOPELLI DRILLING PROGRAM				4,968,540
TOTAL - U.S. and CANADIAN PROPERTIES				70,270,860
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				(11,171,000)
	TOTAL			**97,174,860**
	Shares outstanding			36,509,953
	NAV per outstanding share ($CDN)			**2.66**
	Fully diluted shares			41,228,544
	NAV per diluted share ($CDN)			**2.54**
	NAV per diluted share ($US)			**1.83**

RISKS

- DXI 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.

[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.

- 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, including now, the CEO has provided capital to the company in order to keep developmental projects on track.

PROJECTED INCOME STATEMENT

DXI Energy Inc. Earnings Model

($CDN thousands) YEARS ENDING 12/31	2013	2014	Q1	Q2	Q3	Q4 E	2015 E	Q1 E	Q2 E	Q3 E	Q4 E	2016 E
PRODUCTION VOLUMES (net)												
Woodrush natural gas (MMCF)	**303.4**	**8.3**										
Crude oil & NGL (MBO)	**78.1**	**66.5**	22.0	30.0	35.4	42.0	**129.4**	44.5	43.2	41.9	40.6	**170.3**
Natural gas (MMCF)	**326.6**	**575.1**	145.8	100.9	142.2	291.8	**680.7**	437.6	385.1	338.9	298.2	**1,459.9**
Total (MBOE)	**455.3**	**642.9**	46.3	46.8	59.1	90.6	**810.0**	117.5	107.4	98.4	90.3	**1,630.2**
Gross average production (BOEPD)	**504**	**451**	514	514	643	1,001	**668**	1,298	1,187	1,087	998	**1,143**
OIL PRICE REALIZATIONS / GAS HUB PRICES												
Natural gas (CAD/MCF)	**4.00**	**5.45**	2.57	2.26	2.28	2.16	**2.32**	1.98	2.08	2.18	2.29	**2.13**
Oil (CAD/BBL)	**86.24**	**87.99**	49.88	64.22	52.63	36.98	**50.93**	28.38	31.22	34.34	37.77	**32.93**
Natural gas liquids (CAD/BBL)												
INCOME STATEMENT (CAD 000 except EPS)												
Woodrush natural gas revenues	**1,233**	**45**				0	**0**				0	**0**
Woodrush crude oil revenues	**6,733**	**5,852**	1,096	1,924	1,865	1,553	**6,588**	1,264	1,348	1,439	1,535	**5,606**
Kokopelli natural gas revenues	**1,361**	**3,150**	374	228	324	630	**1,556**	867	801	740	684	**3,091**
Total oil and gas revenues	**9,317**	**9,062**	**1,470**	**2,152**	**2,189**	**2,183**	**8,145**	**2,130**	**2,149**	**2,179**	**2,219**	**8,697**
Royalties	**1,811**	**1,488**	193	384	389	390	**1,219**	193	384	389	0	**1,037**
Total oil and gas revenues (net)	**7,506**	**7,574**	1,277	1,768	1,800	1,794	**6,926**	1,937	1,765	1,790	2,219	**7,660**
Financial instrument gain (loss)	**0**	**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	**0**
TOTAL REVENUES	**7,506**	**7,574**	**1,277**	**1,768**	**1,800**	**1,794**	**6,926**	**1,937**	**1,765**	**1,790**	**2,219**	**7,660**
Operating expenses												
Operating and transportation	**3,398**	**4,099**	1,052	706	768	538	**3,064**	1,052	706	706	706	**3,170**
General and administrative	**3,384**	**3,493**	685	516	429	438	**2,068**	450	459	468	478	**1,855**
Amortization, depletion & acc.	**3,630**	**6,515**	670	572	703	580	**2,525**	600	570	542	514	**2,226**
Change in fair value of warranty liability	**(1,101)**	**78**	(479)	(106)	(92)	150	**(527)**	(517)	(517)	(517)	(517)	**(2,067)**
Change in fair value of derivative liability	**(264)**	**0**	(180)	(36)	0	0	**(216)**	0	0	0	0	**0**
Financial contract liability	**(1,268)**	**(918)**	-	-	103	0		0	0	0	0	
Stock based compensation	**348**	**1,270**	248	360	139	139	**886**	650	650	650	650	**2,600**
Total operating expenses	**8,127**	**14,537**	**1,996**	**2,012**	**2,050**	**1,845**	**7,800**	**2,235**	**1,868**	**1,849**	**1,831**	**7,784**
OPERATING INCOME	**(621)**	**(6,963)**	**(719)**	**(244)**	**(250)**	**(51)**	**(874)**	**(298)**	**(103)**	**(59)**	**387**	**(124)**
Interest (expense) & financing expenses	**(1,182)**	**(1,168)**	(180)	(220)	(324)	(250)	**(974)**	(250)	(260)	(270)	(281)	**(1,062)**
Interest income	**0**	**0**	-	-	-	-	**0**	-	-	-	-	**0**
Gain (loss) on investments	**0**	**(388)**	-	-	-	-	**0**	-	-	-	-	**0**
Gain (loss) on financial contract liability			(96)	(100)	-	-	**0**	-	-	-	-	**0**
Gain (loss) on disposal of E&E assets	**(185)**	**(318)**	-	-	-	-	**0**	-	-	-	-	**0**
Gain (loss) disposal of property & equip.	**(107)**	**1,909**	-	(6)	-	-	**(6)**	-	-	-	-	**0**
Equity income (loss)	**0**	**0**	-	-	-	-	**0**	-	-	-	-	**0**
Other income	**23**	**24**	1	1	2	-	**4**	-	-	-	-	**0**
Impairments	**0**	**0**	-	-	(1,000)	-	**0**	-	-	-	-	**0**
Foreign exchange gain (loss)	**(505)**	**(286)**	(175)	66	(36)	-	**(145)**	-	-	-	-	**0**
Pretax income	**(2,577)**	**(7,190)**	(1,169)	(503)	(1,608)	(301)	**(1,995)**	(548)	(363)	(330)	106	**(1,186)**
Inc. tax recovery (expense)	**0**	**0**	0	0	0	0	**0**	0	0	0	0	**0**
REPORTED NET INCOME	**(2,577)**	**(7,190)**	**(1,169)**	**(503)**	**(1,608)**	**(301)**	**(1,995)**	**(548)**	**(363)**	**(330)**	**106**	**(1,186)**
Foreign currency translation adjustment	**1,082**	**1,107**	1,093	(183)	0	0	**910**	0	0	0	0	**0**
Comprehensive Income (loss)	**(1,495)**	**(6,083)**	(76)	(686)	(1,608)	(301)	**(1,085)**	0	0	0	0	**(1,186)**
Weighted Avg. Diluted Shares Out.	**29,783**	**35,425**	36,480	36,480	36,493	36,500	**36,489**	36,509	36,874	37,243	37,615	**37,060**
DILUTED EPS before NRI	**(0.09)**	**(0.20)**	(0.032)	(0.014)	(0.044)	(0.008)	**(0.05)**	(0.015)	(0.010)	(0.009)	0.003	**(0.03)**
REPORTED NET INCOME	**(0.09)**	**(0.20)**	(0.032)	(0.014)	(0.044)	(0.008)	**(0.05)**	(0.015)	(0.010)	(0.009)	0.003	**(0.03)**

BALANCE SHEET

DXI Energy Inc.

($CDN thousands)

YEARS ENDING 12/31	2010	2011	2012	2013	2014	3Q/2015
ASSETS						
Cash and cash equivalents	4,758	2,488	1,508	505	1,215	31
Accounts receivable	689	887	549	831	605	1,849
Share subscription receivable	-	516	-	-	-	-
Prepaids and deposits	93	100	92	49	141	54
Current Assets	**5,539**	**3,992**	**2,149**	**1,385**	**1,961**	**1,934**
Deposits	442	404	392	447	297	292
Exploration and evaluation assets	10,257	5,283	3,890	3,281	3,107	3,556
Property and equipment	14,175	19,760	21,144	20,386	17,909	20,959
Total Assets	**30,413**	**29,438**	**27,575**	**25,499**	**23,274**	**26,741**
LIABILITIES						
Bank credit facilities	4,800	5,545	5,957	2,900	1,955	902
Loan facility	-	-	-	2,911	-	-
Accounts payable & acc. liabilities	2,473	3,958	2,019	2,623	3,515	1,531
Loans from related parties	250	-	-	-	-	6,800
Warrant liability	1,093	2,245	1,425	324	755	78
Derivative liability	-	-	-	287	216	-
Flow-through shares liability	187	-	-	-	-	-
Current financial contract liability	-	-	1,305	1,248	-	3,872
Current Liabilities	**8,803**	**11,749**	**10,706**	**10,293**	**6,441**	**13,183**
Decommissioning liability	706	1,339	1,429	1,212	3,709	3,832
Other liabilities	32	44	32	22	0	0
Financial contract liability	-	-	5,162	4,873	2,739	-
Total Liabilities	**9,540**	**13,131**	**17,329**	**16,400**	**12,889**	**17,015**
SHAREHOLDERS' EQUITY						
Share capital	79,386	85,076	90,274	90,274	97,132	97,147
Contributed surplus	7,639	8,134	8,802	9,150	9,674	10,417
Deficit	(65,467)	(76,510)	(88,262)	(90,839)	(98,042)	(101,323)
Acc. other comprehensive income (loss)	(685)	(393)	(568)	514	1,621	3,485
Total Shareholders' Equity	**20,873**	**16,307**	**10,246**	**9,099**	**10,385**	**9,726**
Total Liabilities and Shareholders' Equity	**30,413**	**29,438**	**27,575**	**25,499**	**23,274**	**26,741**
Shares outstanding (thousands)	22,036	25,378	29,783	29,783	36,480	36,494

HISTORICAL ZACKS RECOMMENDATIONS



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Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution is as follows: Buy/Outperform- 24.0%, Hold/Neutral- 52.2%, Sell/Underperform – 18.0%. Data is as of midnight on the business day immediately prior to this publication.

[i] http://cogcc.state.co.us/cogis/ProductionWellMonthly.asp?APICounty=045&APISeq=22460&APIWB=00&Year=All