Zacks Small-Cap Research

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DXI Energy Inc. (DXI- NYSE MKT)

DXI Energy Reports 1Q 2016 results

Based on a calculation of net asset value per share, which uses the most recent 51-101-compliant Reserve Report and subsequent financial reports, a target of US$0.81 (CDN$1.06) per share is indicated.

Current Price (05/19/16)	$0.13
Valuation	**$0.81**

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 has grown the revenue stream with the first quarter of 2016 being the second highest (at 740 BOEPD) in the last six years. Management's 2016 production profile target is 1,200+ BOEPD; however, to reach this target, management needs to close bolt-on acquisition(s) and/or drill additional wells in order to augment the now declining productions profiles of the Kokopelli and Woodrush wells.

SUMMARY DATA

52-Week High	**$0.70**
52-Week Low	**$0.12**
One-Year Return (%)	**-79.84**
Beta	**0.67**
Average Daily Volume (shrs.)	**308,575**
Shares Outstanding (million)	**36.510**
Market Capitalization ($ mil.)	**$4.56**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-2.3**
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-C$ E&P**

ZACKS ESTIMATES

Revenue
(in millions of $)

	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	2.77 A	8.58 A
2016	1.66 A	1.42 E	1.80 E	1.87 E	6.75 E
2017					8.50 E

Price/Sales Ratio (Industry = 2.5x)

	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	-$0.14 A	-$0.19 A
2016	-$0.04 A	-$0.05 E	-$0.14 E	-$0.04 E	-$0.28 E
2017					-$0.07 E

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

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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.
  - Phase 3 has not yet been announced. The low price of natural gas is inhibiting the further development at Kokopelli at this time.
- In 2014, 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.
- In 2015, management tested 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.
- 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 January 19, 2016, DXI Energy was informed by the NYSE MKT that the company was not in compliance with the minimum stock price listing standard. In order to maintain DXI's listing, management must present an acceptable plan by July 19, 2016 on how it intends to regain compliance.

RECENT NEWS

Expectations for 2016

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.

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).

In order to reach the 1,200+ BOEPD production target, management needs to close bolt-on acquisition(s) and/or drill additional wells in order to augment the declining productions profiles of the Kokopelli and Woodrush wells. Sequentially from the record production achieved in the fourth quarter of 2015, natural gas production declined 25.4% while oil production declined 23.3% during the first quarter of 2016. Daily gross production declined from 977 BOEPD in the fourth quarter of 2015 to 740 BOEPD during the first quarter of 2016. The lower production appears to be a result of both declining production profiles (at both Woodrush and Kokopelli) and intentionally choking the natural gas wells at Kokopelli due to current low gas prices.

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.

First Quarter Results

On May 11, 2016, after the close, DXI Energy reported results for the first quarter ending March 31, 2016. DXI reported a loss of CDN $0.044 per diluted share versus a loss of $0.032 in the comparable quarter last year. Gross oil and gas revenues (before royalties) increased 13% to $1.66 million versus $1.47 million.

Gross production averaged 740 BOEPD during the quarter, a 44.0% increase year-over-year (YOY) from 514 BOEPD during the first quarter of 2015, but a 24.3% sequential decline from 977 BOEPD during the fourth quarter of 2015. Natural gas production increased 28% YOY but declined 25.4% sequentially while oil production increased 61.9% YOY but declined 23.3% sequentially. Commodity pricing continued to be under pressure (YOY realized natural gas prices declined 14.6% while realized oil prices dropped 30.3%).

Gross oil and gas revenues (before royalties) for the quarter increased 13.1% YOY to $1.66 million versus $1.47 million.

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	643	977	**663**
2016	740				

Management significantly reduced G&A expenses by 35.5% YOY from $685 thousand to $442 thousand though G&A expenses were generally flat (+1.0%) sequentially. As of March 31, 2016, DXI Energy had a

working capital deficiency of $10.7 million including a non-cash derivative liability of $1.3 million. A significant part of the current liabilities is the $6.99 million financial contract liability of Dejour USA, which is due on September 30, 2016. The financial contract liability stems from the Drilling Fund's right to require Dejour USA to purchase its working interests in the seven wellbores completed in September 2013. Management believes that the maximum cash component to settle the financial contract liability is US$3.0 million.

The **net takeaway for the quarter** is that even though the **company's oil & gas production increased 44.0% year-over-year**, **sequential production declined 24.3%** due to a declining production profile, which was exacerbated by additional double-digit **sequential declines in realized oil & gas prices**.

NYSE MKT Listing Compliance

On January 19, 2016, DXI Energy was informed by the NYSE MKT that the company was again not in compliance with the minimum stock price listing standard. In order to maintain DXI's listing, management must present an acceptable plan by July 19, 2016 on how it intends to regain compliance.

Fourth Quarter and 2015 Year Results

On March 9, 2016, DXI Energy reported results for the fourth quarter and full year of 2015 ending December 31, 2015. Also, DXI filed its 2015 Annual Information Form, which includes the 51-101-compliant report of estimated reserves and associated economic evaluation.

Quarterly earnings were a net loss of CDN $0.135 per diluted share versus a loss of $0.127 in the comparable quarter last year. Gross oil and gas revenues (before royalties) for the quarter increased 98.5% year-over-year to $2.77 million versus $1.39 million, primarily due to a 211% increase in gas production from the recently completed eight wells at Kokopelli and secondarily from a 217% increase crude oil & NGLs. Gross production averaged 977 BOEPD during the quarter, a 215% increase YOY from 310 BOEPD during the fourth quarter of 2014.

For the year, DXI reported a loss of CDN $0.19 per diluted share versus a loss of $0.20 in 2014. Gross oil and gas revenues (before royalties) decreased 5.3% to $8.58 million versus $9.05 million as the **103% increase in gas production** and **11.7% increase in oil production** was more than offset by reduced pricing (realized natural gas prices declined 57.1% and realized oil prices dropped 40.1%).

Operating & transportation expenses declined 6.2% to $3.84 million, and management significantly reduced G&A expenses by 35.7% from $3.49 million to $2.25 million. Since production increased, G&A expenses per BOE decrease by 56% from $21.31 to $9.28 per BOE.As of December 31, 2013, Dejour Energy had a working capital deficiency of $10.3 million.

The **net takeaway for the quarter** is that despite **record company oil & gas production**, the major **decline in commodity prices muted the improved production profile**. The bottom line was significantly impacted by three non-cash line items. In addition, amortization & depletion ballooned to 81% of gross revenues, in large part due to a $1.0 million write-down at the Woodrush oilfield. Non-cash derivative liabilities increased as a result of issuing 13,000,000 warrants (exercisable at CDN$0.45/US$0.35) in order to extend the maturity of the related-party loans to November 30, 2018. Lastly, the financial contract liability related to providing the Drilling Fund its minimum return on September 30, 2016 increased due to the significant declines in the values of residual reserves and the Canadian Dollar.

Annual Reserve Report

Based on Gustavson Associates evaluations for U.S. properties and GLJ Petroleum Consultants for Canadian properties, net P2 reserves decreased 11.6% from 11,457 MBOE to 10,129 MBOE; moreover, due to lower pricing assumptions, the value of the annual reserve assessments (Net Present Value at

10% discount rate of 2P reserves) decreased 54.6% from CDN$60.904 million to CDN$27.622 million. Obviously, the decline in oil & gas prices has impacted the value of DXI's reserves. Also, it appears that the independent evaluation gave very little weight to the Mancos discovery. It is difficult to determine the potential of the Mancos at Kokopelli due to the lack of information. COGIS (Colorado Oil and Gas Information Systems) indicates initial production of 82,108 MCF in October 2015, which has subsequently declined to 35,880 MCF in February 2016. Part of the decline could be a result of choking the well to limit production during this time of low natural gas prices. On the other hand, the well could also have a steeply declining production profile, which may or may not be a result of it being a vertical well without any horizontal laterals. Management's discussion and analysis does not provide an explanation, and IP results for the most recently completed wells have not been provided.

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 Rebranded 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.

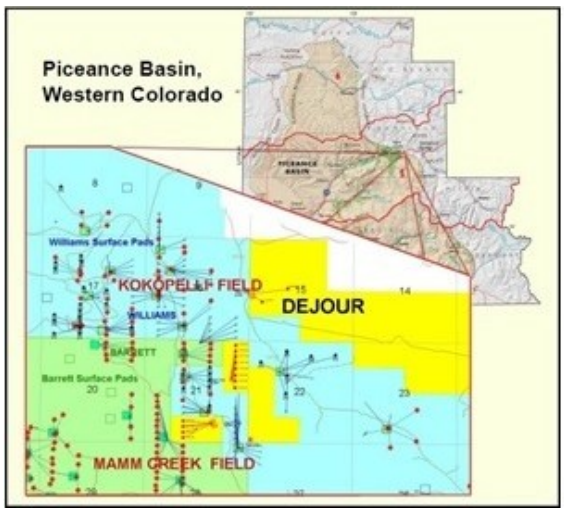
2014-2015 Kokopelli Development Program

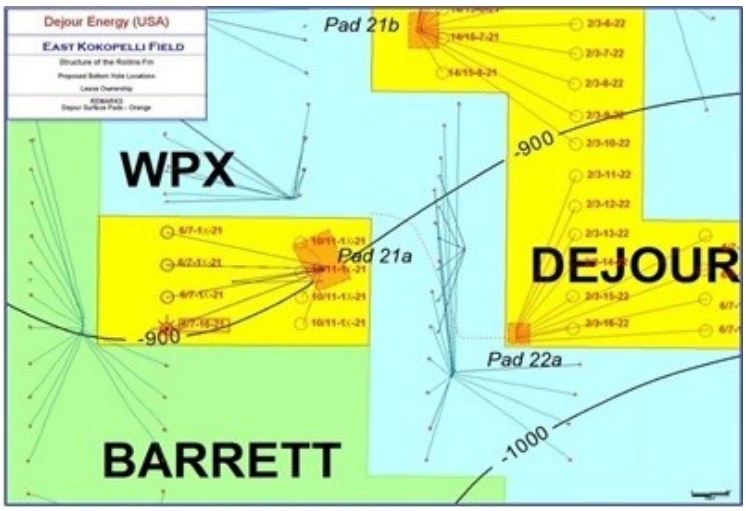
Well	Spud Date	Wellbore Completion	First Production	Depth (feet)	Frac Stages	Formation
Federal 14-15-1-21	10/10/2014	10/20/2014	8/11/2015	7,957	9	Williams Fork
Federal 14-15-2-21	10/21/2014	11/01/2014	8/10/2015	7,735	9	Williams Fork
Federal 14-15-3-21	11/02/2014	11/13/2014	8/7/2015	7,768	9	Williams Fork
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

The production profile of new gas wells begins with peak production during the first three months (October through December 2015); full production from these eight new wells contributed significantly to DXI's revenues in the fourth quarter of 2015.

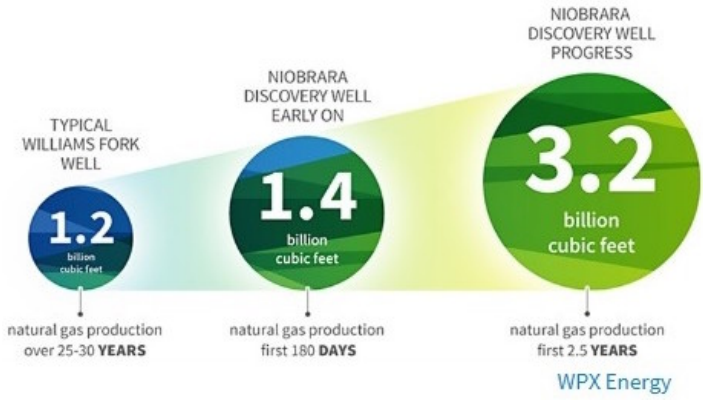
According to management, the time constraint to preserve northern 1,520-acre leasehold has been suspended. A suspension of an oil & gas lease extends the lease in order to allow the lessee to continue development of the lease. DXI continues to have good faith discussions with the Bureau of Land Management (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.

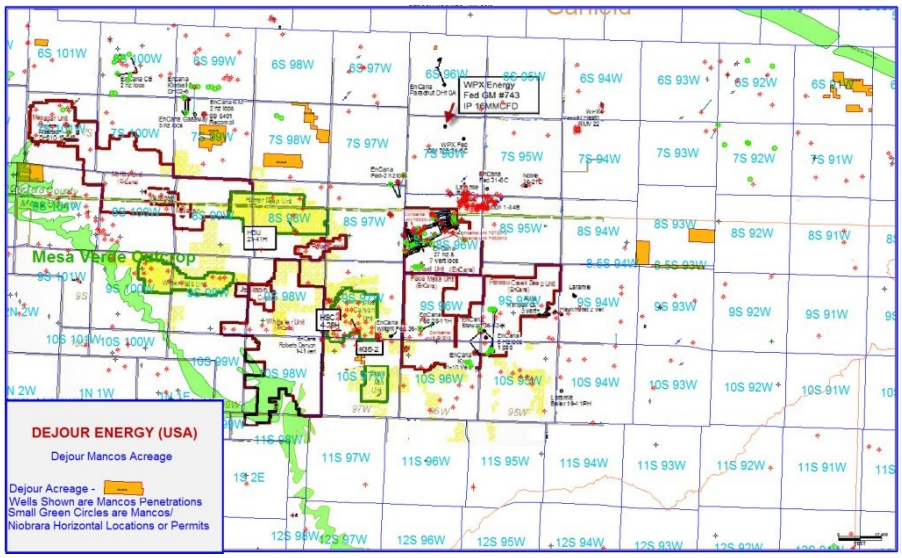
Management believes that the Mancos formation offers superior economics to the Williams Fork (an estimated 57% IRR for Niobrara/Mancos gas versus 13% for Williams Fork gas). However, the capital cost higher ($7-to-$8 million per well versus $2 million for a Williams Fork well).

DXI's Mancos well (Federal 14/15-7-21) produced approximately 211 MMCF during the first three months of full production (October through December 2015).

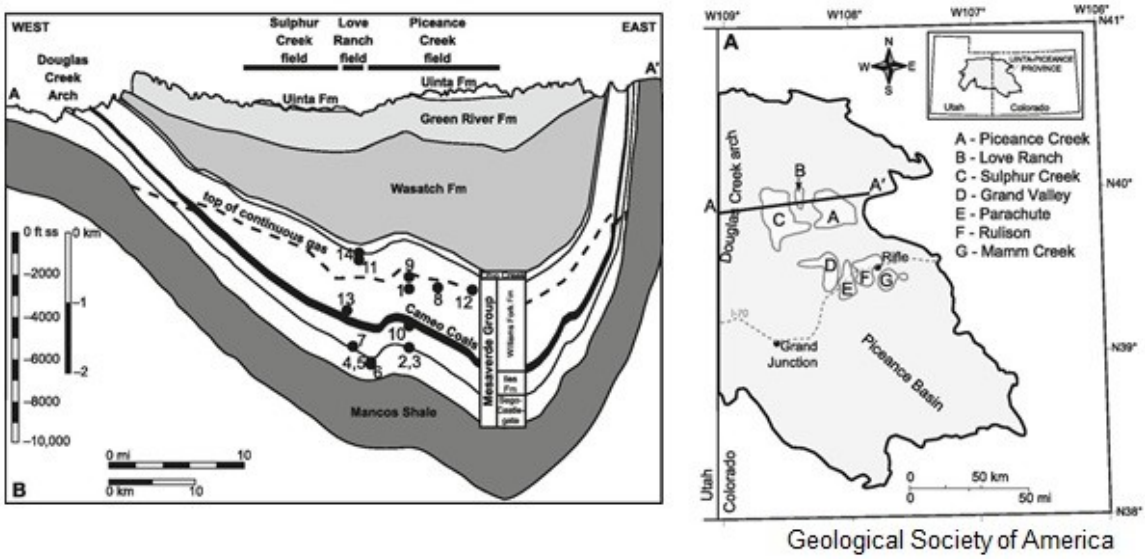
The **Niobrara shale**, a lower member of the Mancos Shale Group, **appears to be potentially the most productive oil & gas play**. The Niobrara has been most productive in the Greater Wattenberg and Silo fields in Denver-Julesburg (DJ) Basin, especially from the Niobrara B zone. Over the last few years, 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.

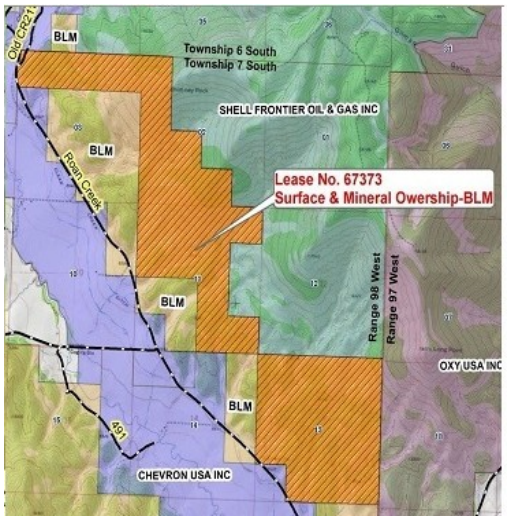
Summary of Contingent Resource Estimates

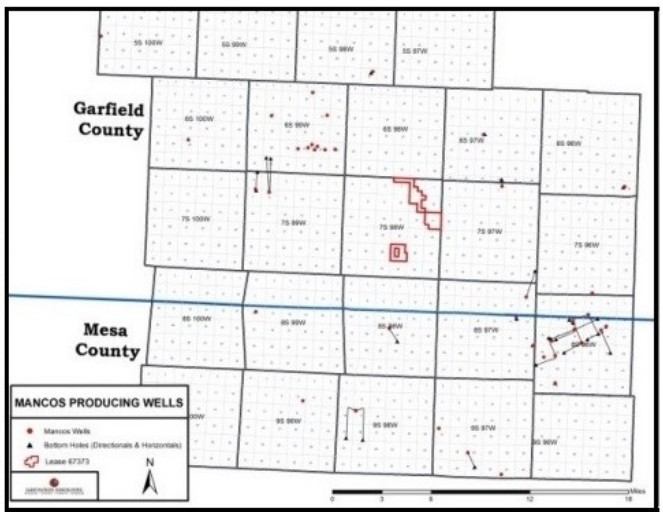
	Contingent Gas Resources, BSCF			Contingent Condensate Resources, Mbbl		
	Low Estimate	Best Estimate	High Estimate	Low Estimate	Best Estimate	High Estimate
Gross	28.4	39.8	52.7	3.2	15.3	87.3
Net	22.7	31.9	42.1	2.6	12.2	69.9

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.

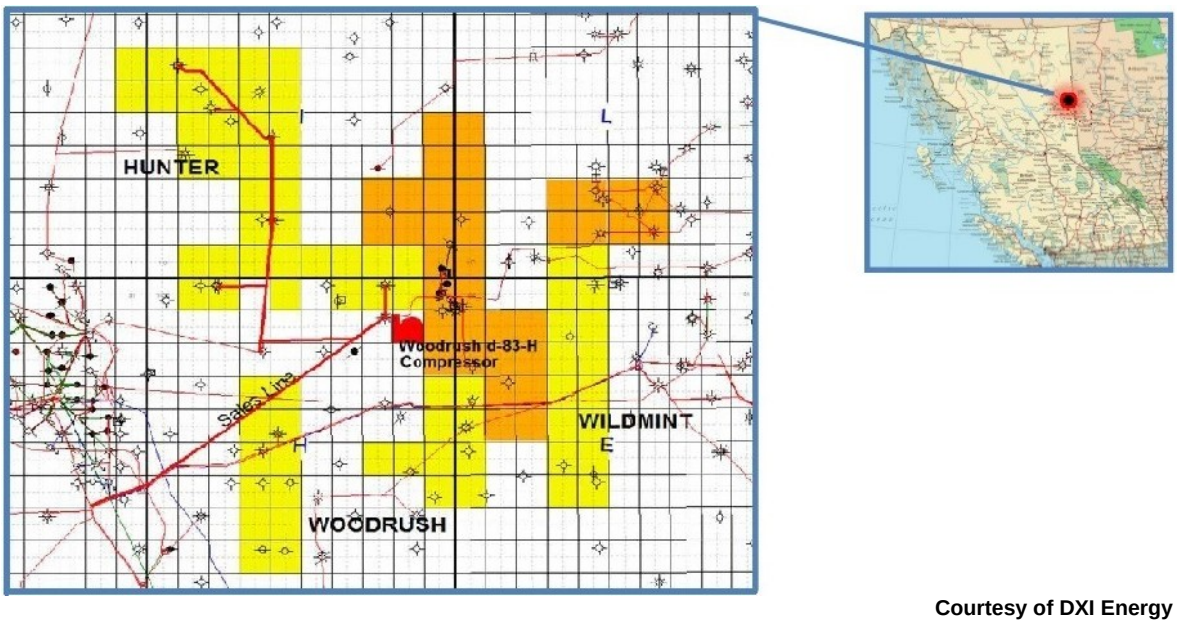
Nevertheless, within two townships of the Roan Creek properties, there are 48 wells producing from the Mancos Group: 29 vertical and 19 horizontal. The closest Mancos producing wells are nine miles to the west in the Gasaway Field and 10 miles to the southeast in the Orchard Field, both by Encana.

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.

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.
- 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.
- On January 19, 2016, DXI Energy was informed by the NYSE MKT that the company was not in compliance with the minimum stock price listing standard. In order to maintain DXI's listing, management must present an acceptable plan by July 19, 2016 on how it intends to regain compliance.

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$46.5 million (CDN$1.27 per share outstanding). The $46.5 million is attained by adding the company's assets of $31.42million[1] of estimated PV-10 Proved Reserves, $20.56 million in property & equipment and $5.6 million in tax loss carry-forwards; then adjusting for the production since the NI-51-101-compliant Reserve Report and the $9.42 million in negative net working capital.[2] After accounting for dilutive options and warrants, **our target prices are US$0.81 per diluted share** and **$CAD1.06 per diluted share.**

DXI ENERGY, INC.

		Gross Acres	Net Acres	Net Proved Reserves (PV-10)
WOODRUSH	(British Columbia) 51-101 effective date 12/31/2015	19,200	19,000	4,022,000
KOKOPELLI	(Colorado) 51-101 effective date 12/31/2015	2,240	560	23,600,000
ROAN CREEK	(Colorado) 51-101 effective date 6/1/2014	1,960	1,960	3,801,000
YTD Production				(1,663,000)
	TOTAL - U.S. and CANADIAN PROPERTIES			29,760,000
PROPERTY & EQUIPMENT				20,565,000
TAX LOSSES AND TAX POOL DEDUCTIONS				5,600,000
NET WORKING CAPITAL				(9,423,000)
	TOTAL			**46,502,000**
	Shares outstanding			36,509,953
	NAV per outstanding share ($CDN)			**1.27**
	Fully diluted shares			49,529,953
	NAV per diluted share ($CDN)			**1.06**
	NAV per diluted share ($US)			**0.81**

[1] Based on the reserve estimation and economic assessment in the 2015 Annual Information Form (dated as of December 31, 2015).
[2] Balance sheet items valued as of March 31, 2016.

BALANCE SHEET

DXI Energy Inc.

($CDN thousands)							1Q/2016
YEARS ENDING 12/31	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**3/31/2016**
ASSETS							
Cash and cash equivalents	4,758	2,488	1,508	505	1,215	38	136
Accounts receivable	689	887	549	831	605	2,202	1,508
Share subscription receivable	-	516	-	-	-	-	-
Prepaids and deposits	93	100	92	49	141	31	13
Current Assets	**5,539**	**3,992**	**2,149**	**1,385**	**1,961**	**2,271**	**1,657**
Deposits	442	404	392	447	297	294	291
Exploration and evaluation assets	10,257	5,283	3,890	3,281	3,107	3,222	2,553
Property and equipment	14,175	19,760	21,144	20,386	17,909	21,899	20,565
Total Assets	**30,413**	**29,438**	**27,575**	**25,499**	**23,274**	**27,686**	**25,066**
LIABILITIES							
Bank credit facilities	4,800	5,545	5,957	2,900	1,955	147	-
Loan facility	-	-	-	2,911	-	-	-
Accounts payable & acc. liabilities	2,473	3,958	2,019	2,623	3,515	2,985	3,040
Loans from related parties	250	-	-	-	-	1,000	1,050
Warrant liability	1,093	2,245	1,425	324	755	1	8
Derivative liability	-	-	-	287	216	1,226	1,274
Flow-through shares liability	187	-	-	-	-	-	-
Current financial contract liability	-	-	1,305	1,248	-	7,207	6,990
Current Liabilities	**8,803**	**11,749**	**10,706**	**10,293**	**6,441**	**12,566**	**12,362**
Decommissioning liability	706	1,339	1,429	1,212	3,709	3,825	3,917
Loans from related parties	-	-	-	-	-	4,727	4,906
Other liabilities	32	44	32	22	0	-	-
Financial contract liability	-	-	5,162	4,873	2,739	-	-
Total Liabilities	**9,540**	**13,131**	**17,329**	**16,400**	**12,889**	**21,118**	**21,185**
SHAREHOLDERS' EQUITY							
Share capital	79,386	85,076	90,274	90,274	97,132	97,162	97,162
Contributed surplus	7,639	8,134	8,802	9,150	9,674	10,438	10,439
Deficit	(65,467)	(76,510)	(88,262)	(90,839)	(98,042)	(105,150)	(106,749)
Acc. other comprehensive income (loss)	(685)	(393)	(568)	514	1,621	4,118	3,029
Total Shareholders' Equity	**20,873**	**16,307**	**10,246**	**9,099**	**10,385**	**6,568**	**3,881**
Total Liabilities and Shareholders' Equity	**30,413**	**29,438**	**27,575**	**25,499**	**23,274**	**27,686**	**25,066**
Shares outstanding (thousands)	22,036	25,378	29,783	29,783	36,480	36,494	36,510

PROJECTED INCOME STATEMENT

DXI Energy Inc. Earnings Model

($CDN thousands)												
YEARS ENDING 12/31	**2013**	**2014**	**Q1**	**Q2**	**Q3**	**Q4**	**2015**	**Q1**	**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	47.2	**134.3**	36.3	27.3	34.5	33.5	**131.6**
Natural gas (MMCF)	**326.6**	**575.1**	145.8	100.9	142.2	249.3	**642.3**	186.2	163.9	144.2	126.9	**621.2**
Total (MBOE)	**455.3**	**642.9**	46.3	46.8	59.1	88.8	**776.6**	67.4	54.6	58.6	54.6	**752.8**
Gross average production (BOEPD)	**504**	**451**	514	514	643	981	**663**	740	603	647	604	**649**
OIL PRICE REALIZATIONS / GAS HUB PRICES												
Natural gas (CAD/MCF)	**4.00**	**5.45**	2.57	2.26	2.28	2.26	**2.34**	2.19	2.30	2.41	2.53	**2.36**
Oil (CAD/BBL)	**86.24**	**87.99**	49.88	64.22	52.63	46.72	**52.68**	34.77	38.24	42.07	46.27	**40.34**
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	2,206	**7,076**	1,263	1,042	1,452	1,550	**5,309**
Kokopelli natural gas revenues	**1,361**	**3,150**	374	228	324	562	**1,503**	400	376	348	321	**1,445**
Total oil and gas revenues	**9,317**	**9,062**	**1,470**	**2,152**	**2,189**	**2,768**	**8,579**	**1,663**	**1,418**	**1,800**	**1,871**	**6,753**
Royalties	**1,811**	**1,488**	193	384	389	517	**1,483**	296	252	320	333	**1,202**
Total oil and gas revenues (net)	**7,506**	**7,574**	1,277	1,768	1,800	2,251	**7,096**	1,367	1,166	1,480	1,538	**5,552**
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**	**2,251**	**7,096**	**1,367**	**1,166**	**1,480**	**1,538**	**5,552**
Operating expenses												
Operating and transportation	**3,398**	**4,099**	1,052	706	768	1,317	**3,843**	1,156	635	806	838	**3,436**
General and administrative	**3,384**	**3,493**	685	516	429	616	**2,246**	442	451	460	469	**1,822**
Amortization, depletion & acc.	**3,630**	**6,515**	670	572	703	2,244	**4,189**	1,248	1,186	1,126	1,070	**4,630**
Change in fair value of warranty liability	**(1,101)**	**78**	(479)	(106)	(92)	(77)	**(754)**	7	7	7	7	**28**
Change in fair value of derivative liability	**(264)**	**0**	(180)	(36)	0	(2,029)	**(2,245)**	48	0	0	0	**48**
Financial contract liability	**(1,268)**	**(918)**	-	-	103	0		84	0	3,600	0	**3,684**
Stock based compensation	**348**	**1,270**	248	360	139	24	**771**	1	250	250	250	**751**
Total operating expenses	**8,127**	**14,537**	**1,996**	**2,012**	**2,050**	**2,095**	**8,050**	**2,986**	**2,529**	**6,249**	**2,634**	**14,398**
OPERATING INCOME	**(621)**	**(6,963)**	**(719)**	**(244)**	**(250)**	**156**	**(954)**	**(1,619)**	**(1,363)**	**(4,770)**	**(1,096)**	**(8,846)**
Interest (expense) & financing expenses	**(1,182)**	**(1,168)**	(180)	(220)	(324)	(393)	**(1,117)**	(501)	(521)	(542)	(564)	**(2,127)**
Interest income	**0**	**0**	-	-	-	-	**0**	-	-	-	-	**0**
Gain (loss) on investments	**0**	**(388)**	-	-	-	-	**0**	-	-	-	-	**0**
Gain (loss) on financial contract liability	**0**	**0**	(96)	(100)	-	(3,152)	**(3,348)**	-	-	-	-	**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**
Gain (loss) on debt extinguishment	**0**	**0**	-	-	-	(1,399)	**(1,399)**	-	-	-	-	**0**
Equity income (loss)	**0**	**0**	-	-	-	-	**0**	-	-	-	-	**0**
Other income	**23**	**24**	1	1	2	(1)	**3**	51	-	-	-	**51**
Impairments	**0**	**0**	-	-	(1,000)	-	**0**	-	-	-	-	**0**
Foreign exchange gain (loss)	**(505)**	**(286)**	(175)	66	(36)	(142)	**(287)**	470	-	-	-	**470**
Pretax income	**(2,577)**	**(7,190)**	(1,169)	(503)	(1,608)	(4,931)	**(7,108)**	(1,599)	(1,884)	(5,312)	(1,660)	**(10,453)**
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)**	**(4,931)**	**(7,108)**	**(1,599)**	**(1,884)**	**(5,312)**	**(1,660)**	**(10,453)**
Foreign currency translation adjustment	**1,082**	**1,107**	1,093	(183)	0	0	**2,497**	(1,089)	0	0	0	**(1,089)**
Comprehensive Income (loss)	**(1,495)**	**(6,083)**	(76)	(686)	(1,608)	(4,931)	**(4,611)**	(2,688)	0	0	0	**(11,542)**
Weighted Avg. Diluted Shares Out.	**29,783**	**35,425**	36,480	36,480	36,493	36,500	**36,510**	36,510	36,875	37,244	37,616	**37,061**
DILUTED EPS before NRI	**(0.09)**	**(0.20)**	(0.032)	(0.014)	(0.044)	(0.135)	**(0.19)**	(0.044)	(0.051)	(0.143)	(0.044)	**(0.28)**
REPORTED NET INCOME	**(0.09)**	**(0.20)**	(0.032)	(0.014)	(0.044)	(0.135)	**(0.19)**	(0.044)	(0.051)	(0.143)	(0.044)	**(0.28)**

HISTORICAL STOCK PRICE



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