Zacks Small-Cap Research

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Dejour Energy, Inc. (DEJ-AMEX)

DEJ: Four Kokopelli wells expected to start producing in July 2013.

Current Recommendation	**Neutral**
Prior Recommendation	Outperform
Date of Last Change	04/01/2013
Current Price (01/18/13)	$0.18
Six- Month Target Price	**$0.50**

OUTLOOK

Since closing a financing arrangement from a drilling fund in January, the development of the four-wells at Kokopelli has progressed steadily. In addition, a very successful discovery well by WPX Energy is generating considerable interest in Niobrara shale plays in Garfield County, Colorado. The WPX Energy well is situated directly between Dejour's Roan Creek and Kokopelli properties. Our rating on Dejour's stock is Neutral with a price target of $0.50. We look forward to production from Kokopelli being a catalyst to better value Dejour's reserves than the year-end resource assessment.

SUMMARY DATA

52-Week High	**$0.36**
52-Week Low	**$0.14**
One-Year Return (%)	**-36.90**
Beta	**1.81**
Average Daily Volume (shrs.)	**446,815**
Shares Outstanding (million)	**148.9**
Market Capitalization ($ mil.)	**$26.8**
Short Interest Ratio (days)	**0.39**
Institutional Ownership (%)	**5**
Insider Ownership (%)	**15**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**5.5**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/M**
P/E using 2013 Estimate	**N/M**
P/E using 2014 Estimate	**18.0**
Zacks Rank	**3**

Risk Level	**Above Average**
Type of Stock	**Small - Value**
Industry	**Oil – C$ E&P**
Zacks Rank in Industry	**12 of 16**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	1.36 A	1.46 A	2.34 A	2.06 A	7.20 A
2012	1.55 A	1.48 A	1.33 A	1.37 A	5.90 A
2013	1.45 E	1.70 E	2.40 E	2.81 E	8.36 E
2014					10.00 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	-$0.02 A	-$0.00 A	-$0.00 A	-$0.07 A	-$0.09 A
2012	-$0.00 A	-$0.00 A	-$0.01 A	-$0.06 A	-$0.08 A
2013	-$0.01 E	-$0.01 E	-$0.01 E	-$0.00 E	-$0.03 E
2014					$0.01 E

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

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

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KEY POINTS

- Management continues to develop its prime properties: **Woodrush** in British Columbia's Peace River Arch, the **Kokopelli project** in Colorado's Piceance Basin and the **South Rangely** unitized leasehold situated on the western side of the Douglas Creek Arch. Management is currently re-evaluating the potential of the **Niobrara/Mancos play** in Garfield County, Colorado and may re-prioritize its capital expenditure program to focus on the development of this shale gas play in the West Grand Valley area.
  - At **Woodrush**, Dejour operates eight producing wells (three oil and six gas). Production from the **third oil production well (AB-1-I) is continuing to improve** after remedial work completed last year**.** Management expects gross production from Woodrush to increase to approximately the 700 BOEPD level during 2013.
  - At the **Kokopelli** project in Colorado, the first well was drilled and cased in the third quarter of 2012. After three additional wells are drilled and cased during the first quarter of 2013, all four wells are expected to be fracture stimulated and completed by June 30th.
  - At **South Rangely**, production has increased from the restricted rate of 250 MCFPD to 400 MCFPD currently.
  - A surprisingly successful discovery well by WPX Energy in Garfield County is generating considerable excitement about the potential of the **Niobrara/Mancos shale play** in this area of the Piceance Basin. Management of WPX believes the Estimated Ultimate Recovery (EUR) of the well is in the range of 7-to-10 BCF with the well having produced over 1 BCF of natural gas less than four months of operation. **The WPX Energy well is situated directly between Dejour's Roan Creek and Kokopelli properties.**
- Management has a strong track record of developing oil and gas properties. CEO Robert Hodgkinson has twice founded oil and gas companies that mounted successful, large-scale drilling programs. The companies were subsequently acquired by medium-capitalization exploration companies.
- The rating on Dejour's stock is Neutral with a price target of $0.50 per share. Our rating and target had been lowered on April 1st due to larger-than-expected 51.9% decline in value of the annual reserve assessments by AJM Deloitte for Woodrush and Kokopelli, despite an 11.4% increase in proved natural gas reserves. The decline in NPV was driven primarily by an untenable assumption for very low average gas pricing in 2013 (see adjustment in Updated Annual Reserve Assessments section). We look forward to production from Kokopelli being a catalyst to better value Dejour's reserves and to determine the IRR of the company's development programs.

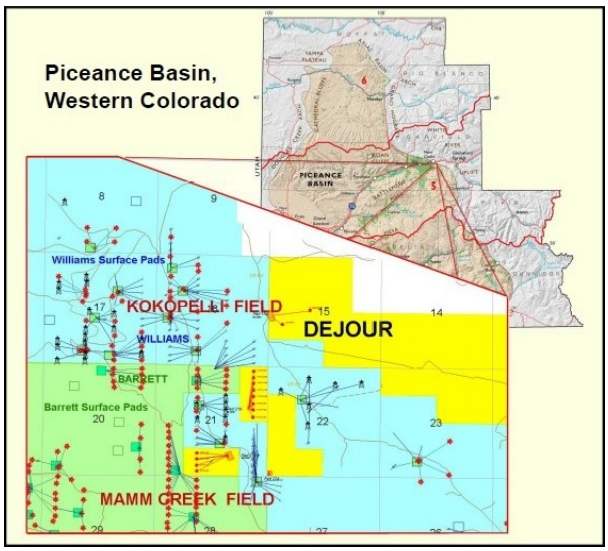
RECENT NEWS

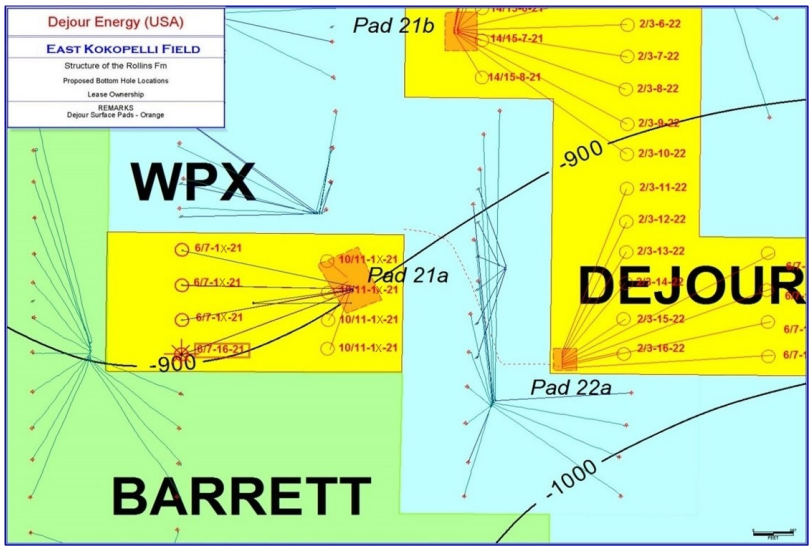
Drilling at Kokopelli

Since receiving $6.5 million in capital from a private Denver-based drilling fund in January, the drilling of three additional wells from the existing pad 21-A at Kokopelli has commenced through a contract with Patterson-UTI Energy (PTEN: NASDAQ). All three wells (Federal 6-7-13-21, Federal 6-7-14-21 and Federal 6-7-15-21) have been drilled to a depth of roughly 1,250 feet and surfaced cased. On April 25th, Dejour announced that Federal 6-7-13-21 had been drilled, cased and cemented to a total depth of 8,124 feet to be followed by the Federal 6-7-14-21 and Federal 6-7-15-21 wells. Thereafter, Halliburton (HAL: NYSE) has been contracted to complete all four wells, including Federal 6-7-16-21 that was drilled in late 2012, prior to the financing deal. After perforating and hydraulic fracturing all four wells in multiple zones of the Williams Fork (aka Mesaverde) sandstone formation, management expects the Kokopelli project to be completed by June 30th. The project is fully permitted and funded.

The drilling fund provided $6.50 million of the $8.2 million multi-well Kokopelli project. For its financial contribution, drilling fund will receive a priority payout (equivalent to a 75% working interest) from initial production of the first well until 125% of the capital contribution is received. After the fund has received $8.125 million, Dejour's payout in the four-well project will increase from 18% to approximately 45%. During the entire production phase, Dejour will receive an infrastructure usage fee of $0.20 per MCF of gas produced. The fund also has the right of first refusal on the next multi-well project at Kokopelli, which would entail the fund to provide an additional $8.5 million capital funding. The terms of the financing do not pertain to Dejour's 71.4% working interest in the deeper Mancos shale gas play over the entire 2,200 gross acres of the lease.

The initial well at Kokopelli (Federal 6-7-16-21) was drilled between September and November 2012. The 8,440-foot well intersected five gas-bearing zones in the Williams Fork (Mesaverde) formation. Two zones are without groundwater and will be the targets for perforation and hydraulic fracturing. As Federal 6-7-13-21 was drilled to a depth of 8,124 feet, ample gas shows were observed.





According to management, the lease on the entire 2,200 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. When production is achieved in mid-2013, the lease on the southern 680 acres will be held-by-production (HBP) with the northern 1,500 acres requiring a well by mid-2014 to preserve that portion of the leasehold by attaining HBP status.

Fourth Quarter and Year-end Results

On April 1, 2013, Dejour Energy reported results for the fourth quarter and full year of 2012 ending December 31, 2012. Quarterly earnings were a loss of CAD $0.063 per diluted share versus a loss of $0.069 in the comparable quarter last year. Reported earnings were below our estimate, primarily due to a $6.4 million non-cash impairment charge but also due slightly lower-than-expected oil & gas production at Woodrush. Gross oil and gas revenues for the quarter declined 34.2% year-over-year to $1.63 million as operating & transportation expenses decreased 7.6% and G&A expenses were reduced by 31.8%. However, on a sequential quarter basis, oil production improved 6.7% though natural gas production sequentially declined 23.9% due to one of the producing gas wells being shut-in for a workover and management of the waterflood as it encroached upon the Halfway reservoir.

For the year, earnings were a loss of CAD $0.083 per diluted share versus a loss of $0.092 in 2011. Gross oil and gas revenues decreased 22.0% to $6.88 million, primarily due to lower oil and gas production (down 11.9% and 10.9%, respectively) but also because of lower price realizations (realized oil prices declined 8.5% while realized natural gas prices fell 30.1%). Though G&A expenses declined 15.1% and amortization & depletion allowances significantly contracted by 68.0%, operating &

transportation expenses increased 51.8% to $3.79 million due to a major $564,000 workover on well A-1–I, along with increased repairs and maintenance and higher waterflood expenses. An unexpected $6.4 impairment of Property & Equipment (D&P assets) was recorded in the fourth quarter. Of the total, $4.9 million was attributable to the Canadian assets and $1.5 million to the company's interests in the U.S. The impairments were recognized since the carrying value of certain oil & gas assets were determined to exceed the expected recoverable amount based on observable market prices. Operating netbacks decreased 58.0% to $1.97 million from $4.70 million in 2011 due to lower revenues and higher operating and transportation expenses (+51.8%), partly offset by a 31.4% decline in royalties.

Updated Annual Reserve Assessments

Along with reporting results for the fourth quarter and full year, Dejour's filing included the 51-101-compliant report of estimated reserves and associated economic evaluation based on Gustavson & Associates reports for U.S. properties and by AJM Deloitte for Canadian properties. Despite an 11.4% increase in proved natural gas reserves, the value of the annual reserve assessments (Net Present Value at 10% discount rate) unexpectedly declined 51.9% from $115.8 million to $55.68 million. Since these evaluations directly drive our valuation model, our price target and stock rating were lowered, despite the positive spudding news at Kokopelli. The decline in NPV was driven primarily by an untenable assumption for very weak gas pricing in 2013 (namely $2.33 per MCF in the U.S.) and secondarily by a 26.7% decline in proved oil reserves (primarily due to production). Thus far in 2013, U.S. natural gas prices (Colorado Interstate Gas - Rocky Mountains) have averaged $3.33 per MCF or 43% above the assumed expected price. The dramatic decline of natural gas prices (Henry Hub) from $4.92 MCF in June 2011 to a low of $1.82 in April 2012, which is being attributed to the impact of increasing unconventional supplies, especially the growth in reserves and resources of shale gas, obviously weighed heavily on the economic evaluation of Dejour's gas reserves. Our valuation provides for an adjustment to compensate for the unrealistic and improbable pricing assumption for U.S. natural gas.

Woodrush Update

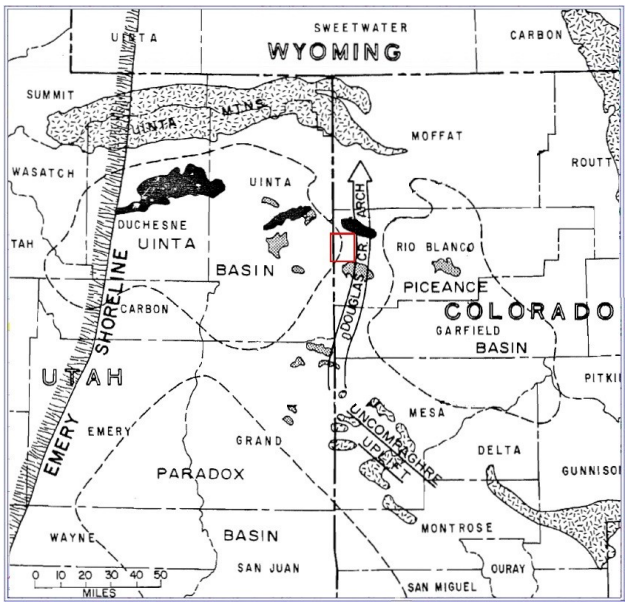
Since the gas cap blowdown at well A-1–I during the third quarter of 2012, production has steadily improved. Gross oil equivalent (includes gas) production at Woodrush averaged 500 BOEPD (barrels of oil equivalent per day) in February, 540 BOEPD in March and so far 613 BOEPD in April. Obviously, the coiled-tubing workover and other remediation work conducted in the third quarter last year were successful. Results indicate a significant rate of progress toward management's expectation of achieving production of 700 BOEPD sometime in 2013 at Woodrush.

South Rangely (Colorado)

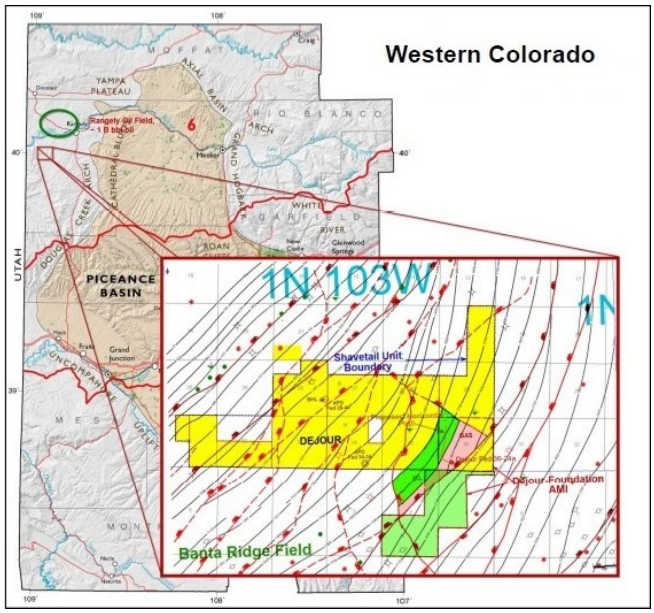
Dejour Energy has a **81.6% working interest of 5,500 gross acres** (or 4,490 net acres) in **South Rangely** area on the western flank of the Douglas Creek Arch (a broad north-south trending anticline), which is directly south of the Rangely Oil field that has been operated by Chevron since the 1960's and situated between the Piceance Basin to the east and the Uinta Basin to the west. Dejour's acreage is adjacent and approximately six miles northeast from an oil producing property operated by a private operator, RW Bayless.

In June 2011, the vertical 3,863-foot test well (Federal 36-24A) encountered approximately 90 feet of hydrocarbon bearing siltstone in the Lower Mancos C sands. The well was drilled and cased over approximately 90 feet through the Mancos B sands. In late December 2011, the test well was completed and fracture stimulated with 100,000 pounds of proppant. The well flow tested rich gas at a rate of 315 MCF per day for more than 10 days with no decline in production or pressure. In late 2012, the discovery well turned into production well when it began producing at a restricted rate of 250 MCFPD, which was a restricted rate mandated in order to minimize an adverse reservoir response. As of April 2013, the well is producing about 400 MCFPD of liquids-rich natural gas. Dejour's independent reservoir engineers estimated reserves of 261,000 BOE to this particular well with a pre-tax NPV (discounted at 10%) of $344,000 as of December 31, 2012.

Douglas Arch



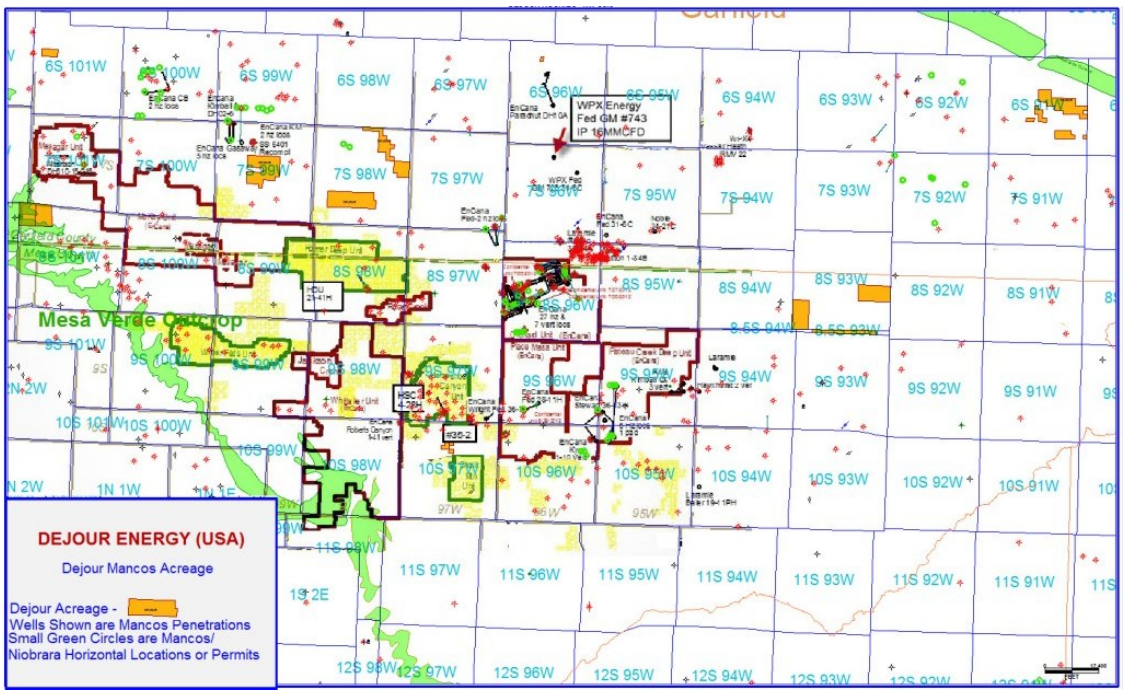
South Rangely



Dejour has a 30% working interest in the discovery well, and holds a 77% working interest in the remainder of the 6,300-acre unitized leasehold (or 4,850 net acres). The next phase entails horizontal (Hz) development to explore for oil in a down dip extension of the Niobrara formation. By virtue of the production, the 6,300-acre unitized leasehold is held-by-production.

Niobrara/Mancos Potential in Garfield County (Kokopelli, Roan Creek, et al.)

In Garfield County, Colorado, Dejour Energy controls the oil & gas leaseholds on approximately 12,500 gross acres (7,700 net acres) with Niobrara/Mancos shale gas potential. The acreage includes Kokopelli in T6S R91W (see map below) and the West Grand Valley area, especially the 1,440-acre Roan Creek project in T7S R98W. For the next developmental phase of the company, management is contemplating horizontal (Hz) development to explore the Niobrara formation for gas accumulations in this area for two primary reasons: 1) the major discovery by WMX Energy in T7S R96W and 2) superior economics to Williams Fork gas (an estimated 57% versus 13% IRR for Williams Fork gas at the current price of gas).



In August, 2012, WPX Energy (WPX: NYSE) drilled a surprisingly successful discovery well in the Piceance Basin. Targeting the Niobrara/Mancos shale at 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. The well initially produced 16 MMCFPD. WPX Energy estimates the well's EUR in the range of 7-to-10 BCF and the resource potential in the range of 20-to-30 TCF on its 180,000 acres. **The WPX Energy well is situated directly between Dejour's Roan Creek and Kokopelli properties.**

In the past, natural gas drilling in the Piceance Basin predominantly targeted the Williams Fork (or Mesaverde) formation. The encouraging production results from recent wells completed by WPX Energy, Encana (ECA: NYSE) and Black Hills Corp. (BKH: NYSE) that targeting the Niobrara/Mancos shale formation has intensified the interest in this deeper (10,000-13,000 feet) play with the potential of over twice the net reserves of the shallower (6,000-9,000 feet) Williams Fork plays. 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 a horizontal leg), the potential for higher production and reserves contribute the higher estimated return.

On December 6, 2012, Dejour Energy announced the execution of an agreement to sell and farm-out approximately 7,450 acres (gross and net) to an unnamed large-cap NYSE-listed exploration & production (E&P) company. The transaction includes a commitment to carry Dejour through the drilling and completion of three earning wells, along with Dejour being able to retain a 20% working interest in over 5,100 acres of the project. As a result, Dejour can participate in the advancement of this natural gas resource in a capital-efficient manner as well as benefit from a well-capitalized operating partner continuing to secure the leases through the development of the project.

Part of the 7,450 acres is the 5,100+ acres in which Dejour is retaining a 20% working interest, which dovetails perfectly with the description of Dejour's 5,180-acre West Grand Valley prospect, which is located at the southwestern edge of the Piceance Basin in the western half of Garfield County. The West Grand Valley property includes the 1,440-acre **Roan Creek project**, which is known to be part of the anticipated farm-out. Adjacent acreage has been successfully developed for natural gas from thick shale intervals with pervasive gas saturation in the Niobrara formation of the Lower Mancos Shale and the shallower Williams Fork formation where Dejour has estimated there are cumulatively 200-to-250 feet of potentially productive zones of gas sand on the West Grand Valley prospect. Though Dejour will not confirm or deny the precise properties involved in the agreement due to a confidentiality clause, we strongly believe that the retained 20% working interest in over 5,100 acres pertains to West Grand Valley, which is a very positive attribute of the deal in that Dejour will participate in the development of this attractive prospect.

Management is currently re-evaluating the potential of the Niobrara/Mancos play and may re-prioritize its capital expenditure program to focus on development of this "exciting liquids-rich shale play."

Financing

On December 31, 2012, Dejour Energy had a $6.7 million revolving operating demand loan, which is collateralized by a $10.0 million debenture over all assets of Dejour Energy (Alberta) Ltd. and a $10.0 million guarantee from Dejour Energy, Inc. On December 31, 2012, approximately $5.96 million was outstanding on this credit facility, which requires a working capital ratio of greater than 1:1 at all times.

UPCOMING EVENTS

In 2013, management is focused on a four-well completion program at the Kokopelli project in Colorado, along with increasing oil production from the Halfway oil pool at **Woodrush** in British Columbia. Having executed a $6.5 million financial contract with a private oil and gas drilling fund to help finance the **Kokopelli** project, spudding the second well occurred at the end of March, and all four wells are

expected to be completed and producing by mid-year. Thereafter, during the second half of 2013, management plans to conduct a geological and operational review of Drake/Woodrush project in Canada for the purpose of improving operating efficiencies and defining additional drilling targets. Also, management is seeking a means to aid in demonstrating the **Niobrara/Mancos potential** of Dejour's Colorado properties.

OVERVIEW

Based in Vancouver, British Columbia, Dejour Energy (DEJ) is a Canadian independent oil and natural gas company and holds interests in approximately **130,285 net acres** of oil and gas leases in North America[1]. As of the beginning of 2013, net Proved and Probable Reserves were 34.3 million barrels of oil equivalent (MMBOE)[2]. All Proved Producing Reserves are in the Canadian **Woodrush** area of the Peace River Arch, which has nine producing wells (three light oil and six gas) and two water injection wells. Acreage holdings consist of approximately 6,150 net acres[3] in northeastern British Columbia and northwestern Alberta, and approximately 124,000 net acres (almost all undeveloped, initial production from one well at South Rangely began in December 2012 and production is expected to commence at Kokopelli in June 2013) in Colorado and Utah in the Piceance, Uinta and Paradox Basins. Net Proved and Probable Undeveloped Reserves at **Kokopelli** are 320 thousand barrels of oil (MBO), 13.4 million barrels of natural gas liquids (NGL) and 124 billion cubic feet (BCF) of natural gas[4]. The company is the operator of its developed acreage. During 2009 Dejour sold its shares in Titan Uranium Inc., but still maintains a 10% carried interest and 1% Net Smelter Return on approximately 966,969 acres in Saskatchewan, Canada. Dejour has a 71.5% interest in the 2,200 acre Kokopelli Project with Brownstone Energy (BWN: TSX-V, BWSOF: OTC) holding the remaining 28.5%. However, to accelerate the development of the Kokopelli Project, a drilling fund provided $6.5 million in capital in exchange for a significant working interest (either 75% or 48% depending on the Phase of the production) in the first well to be completed.

VALUATION

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

Dejour's NAV is estimated to be $79.0 million ($0.51 per diluted share). The $79.0 million is attained by adding the company's assets of $18 million of land (at cost), $55.7 million[5] of PV-10 Proved Reserves and net cash of $2.0 million, a $9.3 million adjustment for a low natural gas pricing assumption on the proven reserves and then deducting $6.0 million in debt (listed as a current liability on the company's balance sheet) [6]. Therefore, **our target price is $0.50 per share.**

[1] MDA for the year ended December 31, 2012, p. 19.
[2] Dejour Energy Annual Information Form, estimated by the independent consultant firms of AJM Deloitte and Gustavson as of January 1, 2013, p.17.
[3] Dejour has a 75% interest in 8,200 acres located in British Columbia.
[4] As estimated by the independent consultant firms of AJM Deloitte (Canadian properties) Gustavson Associates LLC (US) as of January 1, 2013.
[5] Based on the reserve estimation and economic assessment in the 2012 Annual Information Form (dated as of January 1, 2013).
[6] Balance sheet items valued as of December 31, 2012.

DEJOUR ENERGY, INC.		Gross Acres	Net Acres	Net Proved Reserves (PV-10)
WOODRUSH (British Columbia) 51-101 dated 1/1/2013		8,200	6,150	
KOKOPELLI (Colorado) 51-101 dated 1/1/2013		2,200	1,571	
SOUTH RANGELY (Colorado) 51-101 dated 1/1/2013		5,500	4,490	
MISCELLANEOUS		N/A	1,360	
	TOTAL - U.S. and CANADIAN PROPERTIES			55,675,800
ADJUSTMENT FOR LOW PRICING ASSUMPTION ON PROVEN RESERVES				9,267,910
UNDRILLED LAND (at cost)			117,676	18,000,000
NET CASH				1,991,414
(DEBT) (line of credit)				(5,956,749)
	TOTAL		131,247	78,978,375
	Shares outstanding			148,916,374
	Fully diluted shares			192,358,636
	NAV per outstanding share			0.53
	NAV per diluted share			**0.51**

We are cognizant that there are nuances concerning the quality of reserves that are not captured in our valuation model. One such feature is that by treating PDs and PUDs similarly, our model does not capture some of the inherent risks of PUDs. Since uncertainties exist about the ultimate conversion of PUDs to PDs, there is an inherent discount valuation related to PUDs that must be considered.

In the case of Dejour, the majority of proven reserves are undeveloped ($46.9 million of the $55.7 million). However, these PUDs are within or adjacent to a known producing gas field. Williams Companies has somewhat extended a pipeline from its Grand Valley gathering system towards the Kokopelli Field, where Dejour's PUDs are located. This both reduces most of the uncertainties related to the PUDs and also provides an efficient method to transport Dejour's natural gas into a large-scale, high-volume distribution system.

As gas wells begin to produce, the natural gas reserves associated with the wells become proved developed producing reserves (PDs or PDPs) instead of proven undeveloped reserves (PUDs). **We expect a positive valuation increment** in the marketplace **as PUDs at Kokopelli become PDs.** When the uncertainties associated with PUDs abate, the discount to NAV that pertains to the PUDs at Kokopelli should be reduced or entirely eliminated. As PUDs become producing wells in mid- 2013, the marketplace may start to eliminate the discount to NAV to a portion of the 220 PUDs located at Kokopelli. As the certainty of the value of the PUDs increases, we expect the valuation of Dejour's stock to migrate towards Net Asset Value.

Recent Transactions in the Piceance and Uinta Basins

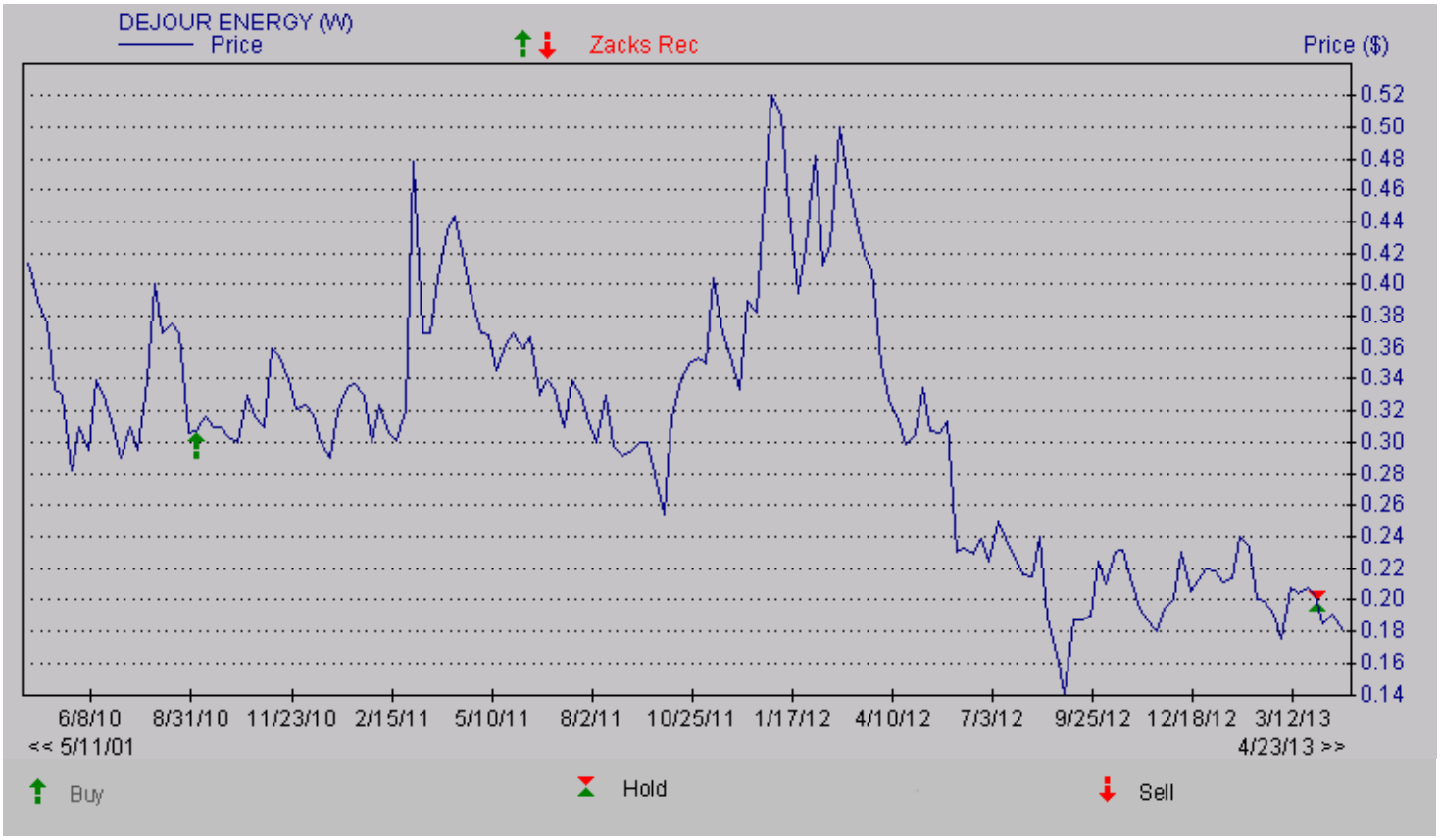
In November 2012, two significant transactions were announced pertaining to natural gas leases in the Piceance and Uinta Basins: Vanguard Natural Resources LLC agreed to purchase 254,000 net acres of leasehold from Bill Barrett Corp. (BBG: NYSE) for $335 million, and a private company agreed to purchase 61,000 net acres of leasehold and the 30 miles of gathering pipeline of Antero Resources (also a private company) for $325 million. Though both transactions involve producing properties in the 50 MMCFE per day range, the deals may be indicative of the value of the Kokopelli project once the field demonstrates consistent production. The average valuation of the two agreements is roughly $1.4 million per BCFE of reserves. Based on the most recent resource estimates, we estimate that the Kokopelli project contains 85 BCFE of reserves that would be classified as proven developed reserves (PDs), which would be valued at $119 million in a transaction consistent with the ones executed in November 2012, which is significantly higher than our NAV-based target of $79 million.

PROJECTED INCOME STATEMENT

Dejour Energy Inc. Earnings Model

FISCAL YRS ENDING 12/31	Q1	Q2	Q3	Q4	2011	Q1	Q2	Q3	Q4	2012	2013 E
PRODUCTION VOLUMES (net)											
Natural gas (MMCF)	146.7	55.9	103.0	125.5	**432.2**	115.7	104.3	91.3	69.5	**380.8**	**525.0**
Crude oil (MBO)	12.3	16.9	30.1	22.1	**81.5**	18.6	19.6	16.6	17.8	**72.6**	**98.6**
Natural gas liquids (BBLS)		0.5									
Total (MBOE)	36.7	26.7	47.3	43.0	**153.5**	37.8	36.9	31.9	29.3	**136.0**	**186.1**
OIL PRICE REALIZATIONS / GAS HUB PRICES											
Natural gas (CAD/MCF)	3.89	3.91	3.66	3.23	**3.67**	2.47	2.16	2.49	3.15	**2.57**	**3.30**
Oil (CAD/BBL)	82.51	94.83	85.37	93.00	**88.93**	88.46	78.85	79.66	78.50	**81.37**	**82.50**
Natural gas liquids (CAD/BBL)											
INCOME STATEMENT (CAD 000 except EPS)											
Natural gas revenues	571	218	377	425	**1,591**	286	225	227	219	**957**	**1,733**
Crude oil revenues	1,013	1,598	2,570	2,053	**7,233**	1,643	1,543	1,325	1,394	**5,904**	**8,130**
Natural gas liquids revenues											
Total oil and gas revenues	1,583	1,816	2,946	2,478	**8,824**	1,928	1,771	1,552	1,630	**6,882**	**9,863**
Royalties	237	348	614	430	**1,628**	331	291	234	261	**1,116**	**1,504**
Total oil and gas revenues (net)	1,347	1,468	2,333	2,048	**7,196**	1,598	1,480	1,318	1,370	**5,766**	**8,359**
Financial instrument gain (loss)	(47)	(12)	0	0	**(59)**	(55)	0	0	0	**(55)**	**0**
Other operating income	8	8	9	8	**34**	8	8	8	0	**33**	**0**
TOTAL REVENUES	**1,308**	**1,465**	**2,341**	**2,056**	7,171	**1,551**	**1,489**	**1,326**	**1,370**	5,744	8,359
Operating expenses											
Operating and transportation	507	471	664	857	**2,499**	952	840	1,209	792	**3,793**	**5,021**
General and administrative	960	990	718	1,374	**4,042**	927	855	714	937	**3,433**	**3,200**
Amortization, depletion & acc.	718	498	1,417	819	**8,652**	691	696	597	783	**2,766**	**2,919**
Change in fair value of warranty liability	874	(795)	(543)	2,044	**1,580**	(1,110)	(681)	(16)	(35)	**(1,842)**	**0**
Stock based compensation	189	210	150	113	**662**	300	66	26	474	**867**	**1,134**
Total operating expenses	**3,247**	**1,375**	**2,407**	**5,207**	17,436	**1,760**	**1,777**	**2,530**	**2,951**	9,017	12,274
OPERATING INCOME	**(1,939)**	**90**	**(66)**	**(3,151)**	**(10,266)**	**(209)**	**(288)**	**(1,204)**	**(1,581)**	**(3,273)**	**(3,915)**
Interest (expense)	(243)	(283)	(270)	(72)	**(868)**	(125)	(208)	(67)	(188)	**(588)**	**(750)**
Interest income	-	-	-	-	**0**	-	-	-	-	**0**	**0**
Gain (loss) on investments	-	-	-	-	**0**	-	-	-	299	**299**	**0**
Equity income (loss)	-	-	-	-	**0**	-	-	-	-	**0**	**0**
Other income	-	-	-	-	**0**	-	-	-	(92)	**(92)**	**0**
Impairments	-	-	-	(5,200)	**0**	-	-	-	(7,910)	**(7,910)**	**0**
Foreign exchange gain (loss)	(84)	4	(11)	0	**(98)**	(20)	(84)	(95)	9	**(189)**	**(50)**
Pretax income	(2,266)	(189)	(347)	(8,422)	**(11,231)**	(353)	(580)	(1,365)	(9,462)	**(11,753)**	**(4,715)**
Inc. tax recovery (expense)	187	0	0	0	**187**	0	0	0	0	**0**	**0**
REPORTED NET INCOME	**(2,079)**	**(189)**	**(347)**	**(8,422)**	**(11,044)**	**(353)**	**(580)**	**(1,365)**	**(9,462)**	**(11,753)**	**(4,715)**
Foreign currency translation adjustment	(287)	(66)	991	(347)	**292**	(160)	177	(309)	117	**(175)**	**0**
Comprehensive Income (loss)	(2,366)	(255)	645	(8,769)	**(10,752)**	(514)	(403)	(1,674)	(9,345)	**(11,928)**	**(4,715)**
Weighted Avg. Shares Out.	116,652	118,000	121,391	125,159	**120,300**	130,786	136,165	148,916	148,916	**141,056**	**155,000**
EPS before NRI	(0.02)	(0.00)	(0.00)	(0.07)	**(0.09)**	(0.00)	(0.00)	(0.01)	(0.06)	**(0.08)**	**(0.03)**
REPORTED NET INCOME	(0.02)	(0.00)	(0.00)	(0.07)	**(0.09)**	(0.00)	(0.00)	(0.01)	(0.06)	**(0.08)**	**(0.03)**

HISTORICAL ZACKS RECOMMENDATIONS



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