Zacks Equity Research

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Dejour Enterprises Ltd. (DEJ-AMEX)

DEJ: Zacks Company Report – NEUTRAL

Current Recommendation	**Neutral**
Prior Recommendation	N/A
Date of Last Change	09/28/2009
Current Price (08/11/10)	$0.35
Six- Month Target Price	**$1.05**

OUTLOOK

A recent reserve study for the company's Woodrush area increased the tract's net present value of 2P reserves by 150%. This is in addition to the initial and positive reserve study for the Gibson Gulch area that was announced in March. On the other hand, Woodrush production is being negatively impacted by the implementation of a production quota during the third quarter. With drilling programs slated for Woodrush and Gibson Gulch in late 2010 and 2011, the company still needs to attract the capital to develop these two tracts. Our rating remains neutral and the price target is $1.05 based on NAV analysis.

SUMMARY DATA

52-Week High	**$0.61**
52-Week Low	**$0.24**
One-Year Return (%)	**45.90**
Beta	**2.38**
Avg. Daily Volume (shares)	**346,736**
Shares Outstanding (million)	**99**
Market Capitalization ($mil.)	**$35**
Short Interest Ratio (days)	**3.10**
Institutional Ownership (%)	**0.1**
Insider Ownership (%)	**25**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/M**
P/E using 2010 Estimate	**N/M**
P/E using 2011 Estimate	**5.8**
Zacks Rank	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small - Value**
Industry	**Oil – E&P**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue **(before non-reoccurring gains on sale)**
(in millions of $CAD)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2008	0.00 A	2.24 A	1.68 A	1.85 A	5.77 A
2009	2.72 A	1.68 A	1.06 A	1.33 A	6.79 A
2010	1.31 A	4.35 E	4.35 E	4.75 E	14.76 E
2011					28.15 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2008	-$0.02 A	-$0.02 A	-$0.04 A	-$0.03 A	-$0.11 A
2009	-$0.03 A	-$0.01 A	-$0.03 A	-$0.03 A	-$0.11 A
2010	-$0.02 A	-$0.01 E	$0.00 E	$0.00 E	-$0.03 E
2011					$0.06 E

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

2008 and 2009 quarterly EPS do not equal annual EPS due to rounding.

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KEY POINTS

- The neutral rating on Dejour's stock is reconfirmed. Our price target of $1.05 is derived assigning a 40% discount to the company's net asset value of $1.64 (see Valuation section).
- Recent reserve studies (Gibson Gulch by Gustavson Associates in March 2010 and Woodrush by GLJ Petroleum Consultants in August 2010) have increase Proved and Probable reserves.
- Management continues to take steps towards the development of its prime properties: Woodrush in British Columbia's Peace River Arch and Gibson Gulch in Colorado's Piceance Basin.
- In 2009 William's Companies (WMB-NYSE) purchased acreage adjoining Dejour's Gibson Gulch leaseholds, indicating that the Gibson Gulch parcel is at the heart of high-value acreage in the U.S. Rocky Mountains.
- 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. President Harrison Blacker has a 30-year record of managing oil and gas operations around the globe.
- Consult the initiation report dated September 29, 2009 for full background information.

OVERVIEW

Based in Vancouver, British Columbia, Dejour Enterprises (DEJ) is a Canadian independent oil and natural gas company and holds interests in 129,000 net acres of oil and gas leases in North America. Proved and Probable Producing Reserves (as estimated by independent petroleum engineering consultants) were 15.7 million barrels of oil equivalent (MMBOE) as of May 2010. All Proved Producing Reserves (1 MMBOE) are in the Canadian **Woodrush** area of the Peace River Arch and include eight producing wells. Acreage holdings consist of 15,000 net acres in northeastern British Columbia and northwestern Alberta, and 109,000 net acres (all undeveloped) in Colorado and Utah in the Piceance, Uinta and Paradox Basins. The company is the operator of its developed acreage and approximately 88% of its undeveloped 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 578,365 acres.



Dejour's Oil & Gas Properties Canada and U.S.



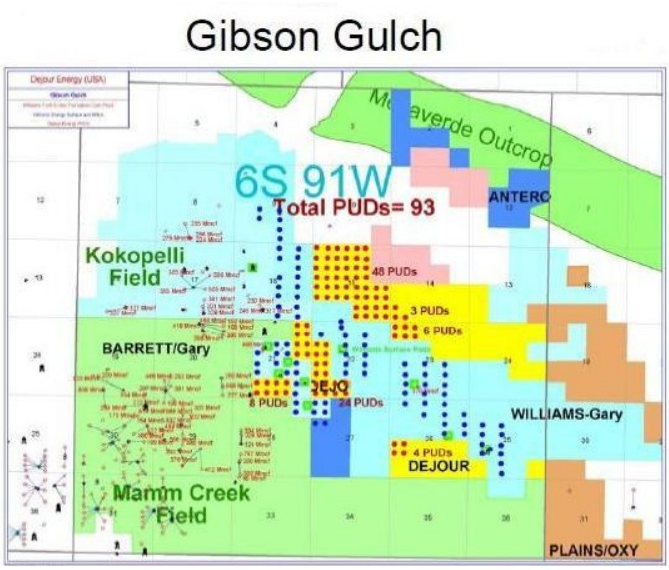
Piceance, Uinta and Paradox Basins

Peace River Arch in the **Western Canadian** Sedimentary Basin

Dejour Enterprises operates exploration and production projects in 20,000 acres in the Peace River Arch located in northeastern British Columbia and northwestern Alberta. Dejour has a 75% working interest in the **Woodrush** area of 6,000 gross acres (or 4,500 net acres), which is the source of the company's entire production and will be the focus of drilling and exploration activity in 2010. Currently, the area has production from eight wells with current net production of 750 barrels of oil equivalent per day (BOE/D). Effective June 30, 2010, Proved and Probable Reserves of Dejour's Woodrush leasehold increased to 604 MBOE. Management plans to drill two additional wells in the second half of 2010 and extend its oil and gas drilling program into 2011.

Piceance, Uinta and Paradox Basins (109,000 net acres) in the **U.S Rocky Mountains**

Gibson Gulch in the Piceance Basin – Dejour has a 72% working interest of 2,200 gross acres (or 1,585 net acres) adjoining natural gas production from the Williams Fork sandstone (the upper portion of the Mesaverde Group). Gibson Gulch acreage is one of the company's leading prospects due to its proximity to the producing properties (some within one mile) in the Kokopelli Field, which has proved reserves of 1.5 billion cubic feet per well. In August 2009, Williams Companies (WMB - NYSE) acquired the Kokopelli Field and is currently drilling 150 wells around Dejour's Gibson Gulch acreage. Management plans to ultimately drill 220 wells (158 wells net to Dejour) in Gibson Gulch starting with 16 wells between the fourth quarter of 2010 and the third quarter of 2011, after receiving the necessary approvals and permits. In March 2010, the company announced the results of the area's initial reserve evaluation of Gibson Gulch effective December 31, 2009. Proved and Probable Undeveloped reserves are 1.4 MMBO, 207 BCF for a total of 35.9 MMBOE. This year-end reserve report also assessed a statistically derived Prospective Resource Best Estimate of Dejour's entire leasehold position in Colorado and Utah. In addition to Gibson Gulch assessment, Proved and Probable Undeveloped reserves are 124 MMBO, 1.4 TCF for a total of 350 MMBOE net to Dejour.



South Rangely in the Piceance Basin – Dejour has 7,000 gross acres on the south side of Rangely field and management plans to drill two wells in 2011, after securing financing or a development partner.

Roan Creek in the Piceance Basin – Dejour has a 72% working interest of 4,500 gross acres (3,240 net acres) and has received five well pad permits. After securing financing and/or finding a development partner, the management plans to drill at least two wells in 2011.

North Rangely in the Uinta Basin – The company has a 22,000 gross acres, which it plans to explore and exploit after the wells in South Rangely have proven successful.

RISKS

Need for Funding: In order to develop the acreage under the company's control, significant development costs will be incurred. Management expects to fund future development costs through a combination of internally generated cash flow, equity capital, and debt issuance. Currently, cash flow is being generated by the Woodrush wells and short-term debt has been issued through mezzanine financing. In addition, management has a history of selling assets to fund development costs. If the company fails to obtain funding on a timely basis, the company could forfeit its interest in certain properties or have to reduce its level of drilling. On the other hand, successful drilling programs at certain tracts, such as Gibson Gulch, could become self-funding within two years. If and when the company attains sufficient funding to fulfill management's estimated development costs for Canada and the U.S., Dejour's stock should see a rapid share price response in anticipation of the impending drilling program.

RECENT NEWS

On August 10, 2010 Dejour Enterprises announced that gross project oil and gas production for the month of July was 28,271 barrels of oil equivalent (BOE), despite the D-91 oil well being shut in for the majority of the month to meet OGC production allowable quotas. Management expects gross production to be approximately 750 BOE/D for the balance of third quarter due to the implementation of a production allowable quota on the recently drilled well A-1-I, which will lower its daily output by 250 BOPD. The production allowable quotas now in place will be effectively eliminated, if the company successfully drills additional development locations and doubles the proven reserves of the Halfway oil pool. The company is expected to release third quarter financial results prior to the opening of trading on August 16, 2010.

On August 3, 2010 Dejour Enterprises announced GLJ Petroleum Consultants conducted a reserve evaluation of Proved and Probable Reserves of Dejour's Woodrush 6,000 acre leasehold effective June 30, 2010. Proved and Probable Producing reserves increased to 346 MBO, 1,539 MMCF for a total of 604 MBOE. The net present value of the Woodrush Proved and Probable Producing reserves increased by 150% to nearly $16 million.

VALUATION

NAV Valuation Analysis

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 reserves) to 2P reserves ratio, and the stock's liquidity.

Dejour's NAV is estimated to be $200 million (or $1.64 per share) as of June 30, 2010. The $200 million is attained by adding the company's assets of $24 million of land (at cost) and $180 million of PV-10 Proved reserves and deducting $4 million in debt (listed as current liabilities on the company's balance sheet). The NAV is then discounted by 40% to attain our target price of $1.05 per share. Though a 40% discount may appear high, it is well within the range of 13% to 59% discounts at which mid-cap E&P companies are currently trading. In addition, with Dejour's stock trading only $125,000 worth of stock on an average day, the stock's illiquidity also factors into the estimated 40% discount.

INSIDER TRADING AND OWNERSHIP

Corporate insiders own over 25% of the outstanding common stock and have engaged in net share purchases during the last three quarters. During the fourth quarter of 2009 and the first quarter of 2010, insiders had net share repurchases of 1,750,000 shares and 1,862,300 shares, respectively.

PROJECTED INCOME STATEMENT & BALANCE SHEET

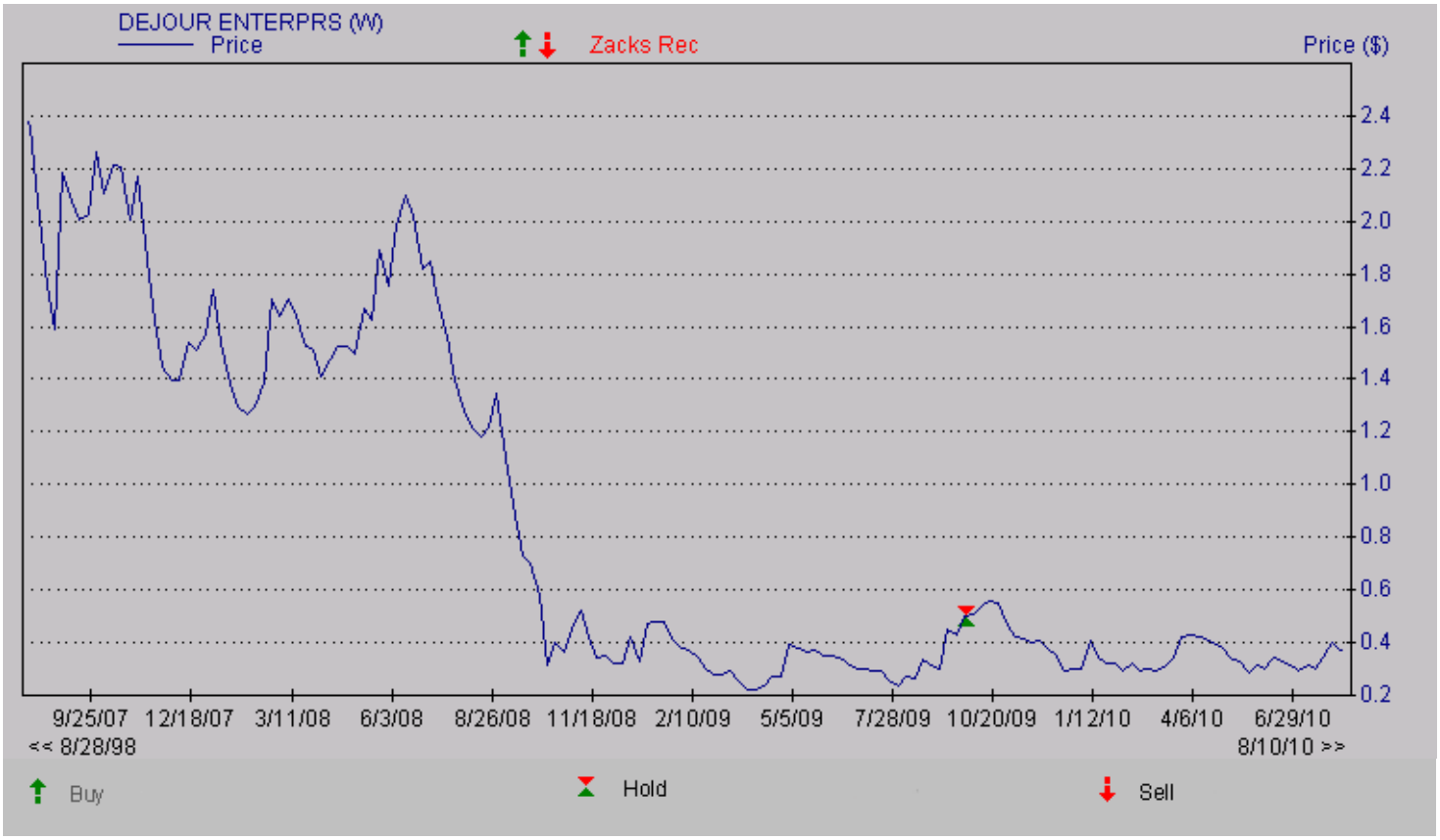
Dejour Enterprises Ltd.

Income Statement and Balance Sheet

(Canadian Dollars in millions, except EPS data)

	12/05	12/06	12/07	12/08	12/09	12/10E
Revenues	0.0	0.0	0.0	5.8	6.8	14.8
Amortization & depletion	0.0	0.0	0.0	3.7	6.4	5.4
Operating/transportation	0.0	0.0	0.0	2.0	2.9	5.1
Royalties	0.0	0.0	0.0	1.1	0.6	1.5
General & Administrative	1.7	2.5	4.3	4.2	4.0	3.8
Interest expense	0.0	0.1	0.3	0.5	0.8	0.9
Stock based compensation	0.3	1.3	2.5	2.7	0.7	0.7
Interest	0.1	0.7	0.8	0.2	0.2	0.0
Impairments and other	0.0	28.5	24.7	12.7	4.4	0.0
Net Income	-1.6	24.3	-26.8	-20.9	-12.8	-2.7
Zacks Adj. Income before NRI	-1.6	-4.2	-26.8	-7.9	-8.8	-2.7
Diluted EPS before NRI	-0.06	-0.07	-0.40	-0.11	-0.11	-0.03
Reported EPS	-0.06	0.42	-0.40	-0.29	-0.16	-0.03
Cash & Marketable Securities	12.4	17.7	13.5	0.4	2.7	1.5
Current Assets	12.4	18.1	15.0	2.1	4.0	3.1
Current Liabilities	0.3	6.4	3.7	14.8	3.6	7.6
Long Term Debt	0.0	1.3	.00	2.3	1.9	0.0
Shareholder's Equity	16.0	71.4	59.4	44.4	39.7	38.8

HISTORICAL ZACKS RECOMMENDATIONS



GLOSSARY AND KEY TO ABBREVIATIONS

1P - Proved reserves
2P - Proved reserves plus Probable reserves
3P - Proved reserves plus Probable reserves plus Possible reserves
API - American Petroleum Institute
BCF - Billion cubic feet
BLM - U.S. Dept of the Interior, Bureau of Land Management
BOE - Barrel of oil equivalent (6 MCF of natural gas = 1 BOE)
BOE/D - Barrel of oil equivalent per day
BOPD - Barrels of oil per day
E&P – Exploration and Production
MBO - Thousand barrels oil
MBOE - Thousand barrels of oil equivalent
MCF - Thousand cubic feet natural gas
MCFD - Thousand cubic feet per day
MMBO - Million barrels oil
MMBOE - Million barrels of oil equivalent
MMCF - Million cubic feet
MMCFD - Million cubic feet per day
NAV - Net Asset Value
OGC - Canadian Office for Government Commerce
OPEC Organization of Petroleum Exporting Countries
P50 - Probable reserves with a 50% confidence level of recovery aka 2P

GLOSSARY AND KEY TO ABBREVIATIONS (continued)

PD - Proved Developed reserves
PUD - Proved Undeveloped reserves
PV-10 - Present value calculated at a 10% discount rate.
TCF - Trillion cubic feet
WTI - West Texas Intermediate Light Crude Oil (the worldwide benchmark price for oil)

DISCLOSURES

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