Zacks Equity Research

September 7, 2010
Steven Ralston, CFA

www.zacks.com
111 North Canal Street, Chicago, IL 60606

Dejour Enterprises Ltd. (DEJ-AMEX)

DEJ: Zacks Co. Report – OUTPERFORM

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	09/05/2010
Current Price (09/06/10)	$0.31
Six- Month Target Price	**$1.05**

OUTLOOK

Our rating on Dejour's stock is being upgraded to Outperform based upon a higher confidence level of a successful drilling program at Woodrush later this year coupled with a more attractive valuation level of the stock. The company's production profile should dramatically improve with the new wells. In addition, the removal of allowable production constraints is expected next year when the water flood project is completed. Our price target is $1.05 based on a NAV analysis.

SUMMARY DATA

52-Week High	**$0.61**
52-Week Low	**$0.28**
One-Year Return (%)	**2.16**
Beta	**1.32**
Average Daily Volume (shrs.)	**160,985**
Shares Outstanding (million)	**99**
Market Capitalization ($ mil.)	**$30**
Short Interest Ratio (days)	**0.64**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**N/A**
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	**5.2**
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	2.77 A	3.58 E	3.98 E	11.64 E
2011					22.03 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	-$0.00 A	$0.00 E	$0.01 E	-$0.01 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 rating on Dejour's stock has been upgraded to Outperform due to a higher confidence level of a successful drilling program at Woodrush later this year coupled with a more attractive valuation level of the stock. 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).
- Significant fundamental events can considerably increase the company's valuation parameter in a step-fashion. One such event would be the Dejour's achievement of positive profitability, in which case the stock could experience rapid price appreciation. We now expect the company to achieve profitability in the fourth quarter this year.
- 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.
- 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.

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.

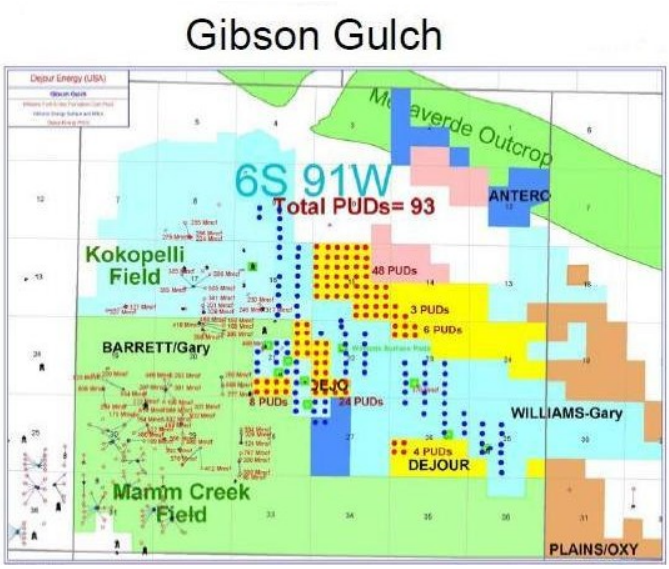
Peace River Arch in the **Western Canadian** Sedimentary Basin

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 and developing partnerships, along with equity capital and debt issuance. Currently, cash flow is being generated by the Woodrush wells and $3.5 million of a $5 million bank credit facility has been utilized. 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 16, 2010, Dejour reported results for the second quarter of 2010 ending June 30, 2010. Quarterly earnings were almost breakeven at a minor loss of $0.003 per diluted share, a positive surprise versus our estimate of a loss of $0.02. Total revenues increased 65% year-over-year to $2.768 million attributable to two new wells (one gas and one oil) coming on line with unlimited production for 90 days. Gross production averaged 599 BOE/D in the second quarter. Though production was expected to increase, the real driver of the positive earnings surprise was the impressive cost-cutting plan implemented during the quarter. Operating & transportation expenses declined 25% and G&A expenses fell 21%. Further transportation cost improvement is possible when a seven-mile pipeline should be constructed next year. In addition, amortization and depletion allowances declined 42%, since the reserves at Woodrush increased based on the reserve study announced on August 3, 2010 (see below).

For the remainder of the year, we expect gross production to average 750 BOE/D in the third quarter and 940 BOE/D in the fourth quarter, driven by the additional production from the two new wells that commenced production in May. For the first 90 days, production from these wells was unlimited, and then regulations require that the production be lowered to an allowable level commensurate with maintaining the pressure level in the reservoir until a mechanism, such as the implementation of a water flood, is in place to maintain the reservoir's pressure. Management expects to have a water flood in place in March 2011. Given the above expectations, we estimate (see Earnings model) that Dejour should report a loss of $0.02 for 2010 and be profitable in 2011. The company became cash flow positive in this, the second, quarter generating operating cash flow of $559,000.

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 (2P) increased to 346 MBO, 1,539 MMCF for a total of 604 MBOE, up from the prior evaluation of 255 MBOE. The net present value of the Woodrush Proved and Probable Producing reserves increased from $6.5 million to nearly $16 million.

VALUATION

NAV Formulation

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 $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.

Dejour Enterprises Ltd. Earnings Model											
	FISCAL YRS ENDING 12/31	Q1	Q2	Q3	Q4	2008	Q1	Q2	Q3	Q4	2009
PROVED RESERVES (net)											
Natural gas (MMCF)						**2,187**					**88,368**
Crude oil (MBO)						**333**					**698**
Natural gas liquids (MBO)						**16**					**4**
	Total (MMCFE)					**4,281**					**92,580**
	Total (MBOE)					**714**					**15,430**
PRODUCTION VOLUMES (net)											
	Natural gas (MMCF)	0.0	184.2	169.3	155.6	**509.0**	212.6	207.7	46.7	89.1	**556**
	Crude oil (MBO)	0.0	0.0	0.6	7.5	**9.0**	32.4	15.1	19.8	14.0	**81**
	Natural gas liquids (BBLS)	0.0	0.3	0.4	0.2	**1**	0.7	0.7	0.5	0.1	**2**
	Total (MMCFE)	0.0	185.7	175.0	201.3	**562**	411.4	302.4	168.4	173.7	**1,056**
	Total (MBOE)	0.0	31.0	29.2	33.5	**94**	68.6	50.4	28.1	29.0	**176**
OIL PRICE REALIZATIONS / GAS HUB PRICES											
Natural gas (CAD/MCF)		N/A	11.23	9.16	7.54	**9.48**	4.79	3.88	4.67	4.19	**4.35**
Oil (CAD/BBL)		N/A	136.20	98.74	57.43	**60.03**	42.04	59.88	73.33	63.96	**54.62**
Natural gas liquids (CAD/BBL)		N/A	69.78	126.97	120.44		43.21	49.41	72.42	78.00	
INCOME STATEMENT (CAD 000 except EPS)											
Natural gas revenues		0	2,149	1,534	1,280	**4,963**	1,019	806	214	436	**2,475**
Crude oil revenues		0	86	144	574	**804**	1,394	905	823	904	**4,026**
Natural gas liquids revenues		0	18	45	20	**82**	31	33	38	9	**111**
Total oil and gas revenues		0	2,235	1,678	1,853	**5,766**	2,431	1,682	1,036	1,321	**6,471**
Other operating revenues		0	0	0	0	**0**	290	0	20	6	**315**
TOTAL REVENUES		0	2,235	1,678	1,853	**5,766**	2,721	1,682	1,056	1,327	**6,786**
Operating expenses											
	Royalties	0	478	379	292	**1,149**	526	(23)	3	63	**569**
	Operating and transportation	0	508	558	908	**1,973**	1,017	875	651	371	**2,915**
	Amortization, depletion & acc.	7	197	1,988	1,499	**3,691**	2,710	1,264	1,558	904	**6,437**
	General and administrative	1,248	1,109	1,354	504	**4,215**	938	972	1,082	1,046	**4,038**
	Stock based compensation	773	938	529	480	**2,720**	210	107	183	198	**697**
Total operating expenses		2,028	3,230	4,808	3,682	**13,748**	5,402	3,196	3,477	2,582	**14,657**
OPERATING INCOME		(2,028)	(996)	(3,130)	(1,828)	**(7,982)**	(2,681)	(1,514)	(2,421)	(1,255)	**(7,871)**
	Interest expense	(50)	(88)	(156)	(188)	**(481)**	(200)	(185)	(119)	(315)	**(818)**
	Interest income	159	105	84	(111)	**236**	258	105	8	45	**417**
	Gain (loss) on investments	(14)	5			**(9)**	(311)	37		0	**(274)**
	Equity income (loss)	(318)	(161)	313	3,803	**3,637**	(142)			0	**(142)**
	Impairments				(2,030)	**(2,030)**				(1,260)	**(1,260)**
	Foreign exchange gain (loss)	73	(10)	(150)	(589)	**(676)**	(152)	477	63	(131)	**257**
Pretax income		(2,178)	(1,144)	(3,039)	(944)	**(7,305)**	(3,228)	(1,080)	(2,468)	(2,915)	**(9,691)**
	Inc. tax recovery (expense)	621	0	0	(1,217)	**(596)**	779	299	55	0	**1,133**
Net Income before non-reoccurin		(1,557)	(1,144)	(3,039)	(2,161)	**(7,901)**	(2,449)	(781)	(2,413)	(2,915)	**(8,558)**
	Less: non-recurring items	0	0	0	(12,990)	**(12,990)**	0	0	(115)	(4,134)	**(4,249)**
REPORTED NET INCOME		(1,557)	(1,144)	(3,039)	(15,151)	**(20,891)**	(2,449)	(781)	(2,528)	(7,049)	**(12,807)**
	Weighted Avg. Shares Out.	70,458	71,193	73,511	73,684	**72,211**	73,721	74,343	81,801	85,840	**78,926**
EPS before NRI		(0.02)	(0.02)	(0.04)	(0.03)	**(0.11)**	(0.03)	(0.01)	(0.03)	(0.03)	**(0.11)**
REPORTED NET INCOME		(0.02)	(0.02)	(0.04)	(0.21)	**(0.29)**	(0.03)	(0.01)	(0.03)	(0.08)	**(0.16)**

Dejour Enterprises Ltd. Earnings Model									
	FISCAL YRS ENDING 12/31	Q1	Q2	Q3 E	Q4 E	2010 E	2011 E	2012 E	2013 E
PROVED RESERVES (net)									
Natural gas (MMCF)						89,279	100,000	125,000	150,000
Crude oil (MBO)						899	1,000	1,200	1,500
Natural gas liquids (MBO)						4	5	6	7
	Total (MMCFE)					89,303	100,030	125,036	150,042
	Total (MBOE)					14,884	16,672	20,839	25,007
PRODUCTION VOLUMES (net)									
	Natural gas (MMCF)	96.6	136.5	159.3	250.3	606.0	660.0	720.0	800.0
	Crude oil (MBO)	11.8	31.8	41.7	44.8	189.0	230.0	280.0	350.0
	Natural gas liquids (BBLS)	0.6							
	Total (MMCFE)	171.2	327.1	409.3	518.9	1,740.0	2,040.0	2,400.0	2,900.0
	Total (MBOE)	28.5	54.5	68.2	86.5	290.0	340.0	400.0	483.3
OIL PRICE REALIZATIONS / GAS HUB PRICES									
Natural gas (CAD/MCF)		5.04	4.29	4.50	5.00	4.75	5.50	6.00	6.50
Oil (CAD/BBL)		71.60	65.79	70.00	75.00	70.00	80.00	85.00	92.00
Natural gas liquids (CAD/BBL)		23.58							
INCOME STATEMENT (CAD 000 except EPS)									
Natural gas revenues		487	586	717	1,251	3,041	3,630	4,320	5,200
Crude oil revenues		846	2,089	2,917	3,358	9,210	18,400	23,800	32,200
Natural gas liquids revenues		15				15			
Total oil and gas revenues		1,347	2,676	3,634	4,609	12,265	22,030	28,120	37,400
Other operating revenues		(42)	93	0	0	51	0	0	0
TOTAL REVENUES		1,305	2,769	3,634	4,609	12,317	22,030	28,120	37,400
Operating expenses									
	Royalties	221	551	763	968	2,503	4,626	5,905	7,854
	Operating and transportation	843	660	670	675	2,847	3,047	3,260	3,488
	Amortization, depletion & acc.	746	729	730	730	2,935	3,300	3,400	3,500
	General and administrative	987	769	770	785	3,311	3,500	4,000	4,200
	Stock based compensation	164	150	160	160	635	700	750	800
Total operating expenses		2,961	2,859	3,093	3,318	12,231	15,173	17,315	19,842
OPERATING INCOME		(1,656)	(91)	541	1,291	86	6,857	10,805	17,558
	Interest expense	(252)	(275)	(300)	(300)	(1,128)	(250)	(200)	(150)
	Interest income	9	8	7	5	29	6	6	6
	Gain (loss) on investments					0			
	Equity income (loss)					0			
	Impairments					0			
	Foreign exchange gain (loss)	(16)	13	0	0	(3)			
Pretax income		(1,915)	(346)	248	996	(1,016)	6,613	10,611	17,414
	Inc. tax recovery (expense)	0	0	0	0	0	0	0	0
Net Income before non-reoccurin		(1,915)	(346)	248	996	(1,016)	6,613	10,611	17,414
	Less: non-recurring items	0	0	0	0	0	0	0	0
REPORTED NET INCOME		(1,915)	(346)	248	996	(1,016)	6,613	10,611	17,414
	Weighted Avg. Shares Out.	97,727	98,698	100,000	102,300	100,000	110,000	125,000	135,000
EPS before NRI		(0.02)	(0.00)	0.00	0.01	(0.01)	0.06	0.08	0.13
REPORTED NET INCOME		(0.02)	(0.00)	0.00	0.01	(0.01)	0.06	0.08	0.13

PROJECTED INCOME STATEMENT & BALANCE SHEET

Dejour Enterprises Ltd.

Income Statement and Balance Sheet

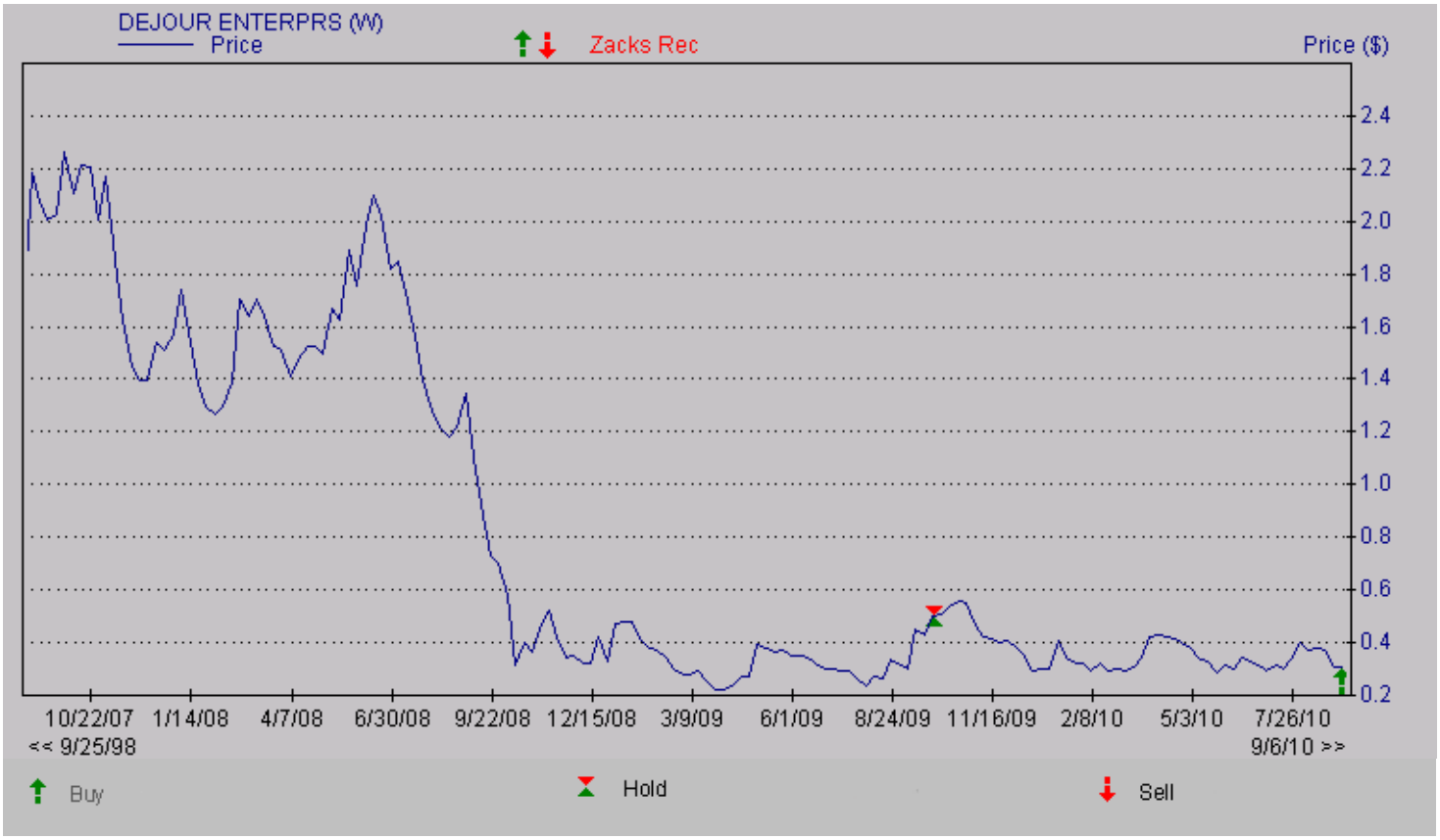
(Canadian Dollars in millions, except EPS data)

	12/05	12/06	12/07	12/08	12/09	12/10E
Revenues	0.0	0.0	0.0	5.8	6.8	12.3
Amortization & depletion	0.0	0.0	0.0	3.7	6.4	2.9
Operating/transportation	0.0	0.0	0.0	2.0	2.9	2.8
Royalties	0.0	0.0	0.0	1.1	0.6	2.5
General & administrative	1.7	2.5	4.3	4.2	4.0	3.3
Interest expense	0.0	0.1	0.3	0.5	0.8	1.1
Stock-based compensation	0.3	1.3	2.5	2.7	0.7	0.6
Interest	0.1	0.7	0.8	0.2	0.4	0.0
Impairments and other	0.0	28.5	24.7	12.7	4.5	0.0
Net Income	-1.6	24.3	-26.8	-20.9	-12.8	-1.0
Zacks Adj. Income before NRI	-1.6	-4.2	-26.8	-7.9	-8.6	-1.0
Net Income	-1.6	24.3	-26.8	-20.0	-12.8	-1.0
Diluted EPS before NRI	-0.06	-0.07	-0.40	-0.11	-0.11	-0.01
Reported EPS	-0.06	0.42	-0.40	-0.29	-0.16	-0.01
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	7.2
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

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
P50 - Probable reserves with a 50% confidence level of recovery aka 2P
PD - Proved Developed reserves
PUD - Proved Undeveloped reserves
PV-10 - Present value calculated at a 10% discount rate.

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

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