



**INTERIM CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS (UNAUDITED)**

**June 30, 2017**

**DXI ENERGY INC.**  
**CONSOLIDATED BALANCE SHEETS**

| <i>(Unaudited)</i><br><i>(thousands of Canadian dollars)</i> | Notes | <b>June 30,</b><br><b>2017</b> | December 31,  |
|--|-------|--------------------------------|---------------|
|  |       | \$                             | 2016          |
|  |       | \$                             | \$            |
| <b>ASSETS</b>  |       |                                |               |
| <b>Current</b>   |       |                                |               |
| Cash and cash equivalents                                    |       | 87                             | 141           |
| Accounts receivable  |       | 365                            | 672           |
| Prepays and deposits   |       | 26                             | 19            |
| <b>Current Assets</b>  |       | <b>478</b>                     | <b>832</b>    |
| <b>Non-current</b>   |       |                                |               |
| Deposits   |       | 235                            | 246           |
| Exploration and evaluation assets                            | 3     | 110                            | 970           |
| Property and equipment                                       | 4     | 18,237                         | 19,212        |
| <b>Total Assets</b>  |       | <b>19,060</b>                  | <b>21,260</b> |
| <b>LIABILITIES</b>   |       |                                |               |
| <b>Current</b>   |       |                                |               |
| Accounts payable and accrued liabilities                     |       | 1,664                          | 2,165         |
| Loans from related parties                                   | 6     | 1,798                          | 2,363         |
| Derivative liability   |       | -                              | 153           |
| Financial contract liability                                 | 8     | 6,984                          | 7,226         |
| <b>Current Liabilities</b>                                   |       | <b>10,446</b>                  | <b>11,907</b> |
| <b>Non-current</b>   |       |                                |               |
| Loans from related parties                                   | 6     | 2,980                          | 4,031         |
| Decommissioning liability                                    | 7     | 4,032                          | 3,776         |
| <b>Total Liabilities</b>                                     |       | <b>17,458</b>                  | <b>19,714</b> |
| <b>SHAREHOLDERS' EQUITY</b>                                  |       |                                |               |
| Share capital  | 9     | 98,733                         | 98,111        |
| Contributed surplus  |       | 13,732                         | 10,626        |
| Deficit  |       | (113,807)                      | (110,636)     |
| Accumulated other comprehensive income                       |       | 2,944                          | 3,445         |
| <b>Total Shareholders' Equity</b>                            |       | <b>1,602</b>                   | <b>1,546</b>  |
| <b>Total Liabilities and Shareholders' Equity</b>            |       | <b>19,060</b>                  | <b>21,260</b> |

Approved on behalf of the Board:

*"signed"*

Robert Hodgkinson - Director

*"signed"*

Craig Sturrock - Director

**DXI ENERGY INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHEHSIVE LOSS**

| <i>(Unaudited)</i>  |       | <b>Three months ended June 30</b> |        | <b>Six months ended June 30</b> |         |
|---|-------|-----------------------------------|--------|---------------------------------|---------|
| <i>(thousands of Canadian dollars, except per share amounts)</i>      | Notes | <b>2017</b>                       | 2016   | <b>2017</b>                     | 2016    |
|   |       | \$                                | \$     | \$                              | \$      |
| <b>REVENUES</b>   |       |                                   |        |                                 |         |
| Gross revenues  |       | <b>806</b>                        | 1,182  | <b>1,735</b>                    | 2,845   |
| Royalties   |       | <b>(86)</b>                       | (178)  | <b>(188)</b>                    | (474)   |
| <b>Total Revenues, net of royalties</b>                               | 13    | <b>720</b>                        | 1,004  | <b>1,547</b>                    | 2,371   |
| <b>EXPENSES</b>   |       |                                   |        |                                 |         |
| Operating and transportation  |       | <b>467</b>                        | 621    | <b>1,082</b>                    | 1,777   |
| Amortization, depletion and impairment losses                         | 5     | <b>545</b>                        | 614    | <b>1,723</b>                    | 1,862   |
| General and administrative  |       | <b>398</b>                        | 384    | <b>806</b>                      | 826     |
| Financing expenses  |       | <b>298</b>                        | 485    | <b>582</b>                      | 986     |
| Stock based compensation  |       | <b>3</b>                          | 178    | <b>8</b>                        | 179     |
| Foreign exchange (gain) loss  |       | <b>(178)</b>                      | (35)   | <b>(248)</b>                    | (506)   |
| Change in fair value of warrant liability                             |       | -                                 | (7)    | -                               | -       |
| Change in fair value of derivative liability                          |       | <b>(109)</b>                      | (672)  | <b>(152)</b>                    | (624)   |
| Loss on debt extinguishment   | 6     | <b>918</b>                        | -      | <b>918</b>                      | -       |
| (Gain) loss on financial contract liability                           | 8     | -                                 | -      | -                               | 83      |
| <b>Total Expenses</b>   |       | <b>2,342</b>                      | 1,568  | <b>4,719</b>                    | 4,583   |
| <b>Loss before other items</b>  |       | <b>(1,622)</b>                    | (564)  | <b>(3,172)</b>                  | (2,212) |
| Other income  |       | <b>1</b>                          | -      | <b>1</b>                        | 49      |
| <b>Loss for the period</b>  |       | <b>(1,621)</b>                    | (564)  | <b>(3,171)</b>                  | (2,163) |
| <b>Other Comprehensive Income (Loss)</b>                              |       |                                   |        |                                 |         |
| <i>Items that may be subsequently reclassified to profit or loss:</i> |       |                                   |        |                                 |         |
| Foreign currency translation adjustment                               |       | <b>(352)</b>                      | (90)   | <b>(501)</b>                    | (1,179) |
| <b>Comprehensive loss</b>   |       | <b>(1,973)</b>                    | (654)  | <b>(3,672)</b>                  | (3,342) |
| <b>Loss per common share - basic and diluted</b>                      | 11    | <b>(0.04)</b>                     | (0.02) | <b>(0.07)</b>                   | (0.06)  |

**DXI ENERGY INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

| <i>(Unaudited)</i>   |       | Number            | Share         | Contributed   |                  |              |              |
|--|-------|-------------------|---------------|---------------|------------------|--------------|--------------|
| <i>(thousands of Canadian dollars, except number of shares)</i>                          | Notes | of Shares         | Capital       | Surplus       | Deficit          | AOCI(L)*     | Total        |
|  |       |                   | \$            | \$            | \$               | \$           | \$           |
| <b>Balance as at January 1, 2017</b>   |       | 44,808,286        | 98,111        | 10,626        | (110,636)        | 3,445        | 1,546        |
| Shares issued via private placements, net of issuance costs                              | 9     | 10,447,828        | 622           | -             | -                | -            | 622          |
| Contributed surplus related to value of conversion feature on loans from related parties | 6     | -                 | -             | 3,098         | -                | -            | 3,098        |
| Stock-based compensation   |       | -                 | -             | 8             | -                | -            | 8            |
| Loss   |       | -                 | -             | -             | (3,171)          | -            | (3,171)      |
| Foreign currency translation adjustment  |       | -                 | -             | -             | -                | (501)        | (501)        |
| <b>Balance as at June 30, 2017</b>   |       | <b>55,256,114</b> | <b>98,733</b> | <b>13,732</b> | <b>(113,807)</b> | <b>2,944</b> | <b>1,602</b> |
| <b>Balance as at January 1, 2016</b>   |       | 36,509,953        | 97,162        | 10,438        | (105,150)        | 4,118        | 6,568        |
| Shares issued via private placements, net of issuance costs                              |       | 5,350,000         | 615           | -             | -                | -            | 615          |
| Stock-based compensation   |       | -                 | -             | 179           | -                | -            | 179          |
| Loss   |       | -                 | -             | -             | (2,163)          | -            | (2,163)      |
| Foreign currency translation adjustment  |       | -                 | -             | -             | -                | (1,179)      | (1,179)      |
| <b>Balance as at June 30, 2016</b>   |       | <b>41,859,953</b> | <b>97,777</b> | <b>10,617</b> | <b>(107,313)</b> | <b>2,939</b> | <b>4,020</b> |

\* Accumulated other comprehensive income (loss)

**DXI ENERGY INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| <i>(Unaudited)</i>   |       | <b>Six months ended June 30</b> |                |
|--|-------|---------------------------------|----------------|
| <i>(thousands of Canadian dollars)</i>                                 | Notes | <b>2017</b>                     | 2016           |
|  |       | \$                              | \$             |
| <b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>                  |       |                                 |                |
| Loss for the period  |       | (3,171)                         | (2,163)        |
| Adjustment for items not affecting cash:                               |       |                                 |                |
| Amortization, depletion and impairment losses                          |       | 1,723                           | 1,862          |
| Stock based compensation   |       | 8                               | 179            |
| Non-cash financing expenses  |       | 293                             | 673            |
| Non-cash foreign exchange on financial contract liability              | 8     | (242)                           | (487)          |
| Change in fair value of derivative liability                           |       | (153)                           | (624)          |
| Loss on debt extinguishment  | 6     | 918                             | -              |
| Loss on financial contract liability                                   |       | -                               | 83             |
| Cash flows from (used in) operations                                   |       | (624)                           | (477)          |
| Changes in operating working capital                                   | 11    | 382                             | 1,676          |
| <b>Total Cash Flows from (used in) Operating Activities</b>            |       | <b>(242)</b>                    | <b>1,199</b>   |
| <b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>                  |       |                                 |                |
| Deposits   |       | 11                              | 2              |
| E&E expenditures   |       | (2)                             | (1)            |
| Additions to property and equipment                                    | 4     | (161)                           | (496)          |
| Changes in investing working capital                                   | 11    | 23                              | (905)          |
| <b>Total Cash Flows used in Investing Activities</b>                   |       | <b>(129)</b>                    | <b>(1,400)</b> |
| <b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>                  |       |                                 |                |
| Repayment of bank credit facility                                      |       | -                               | (147)          |
| Advance of loans from related parties                                  | 6     | 325                             | 50             |
| Transaction costs related to restructure of loans from related parties |       | (25)                            | -              |
| Share issue costs related to the share issuance                        |       | (5)                             | 615            |
| Changes in financing working capital                                   | 11    | 22                              | 17             |
| <b>Total Cash Flows from Financing Activities</b>                      |       | <b>317</b>                      | <b>535</b>     |
| <b>CHANGE IN CASH AND CASH EQUIVALENTS</b>                             |       | <b>(54)</b>                     | <b>334</b>     |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                  |       | <b>141</b>                      | <b>38</b>      |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                        |       | <b>87</b>                       | <b>372</b>     |

Supplemental cash flow information - Note 11

**DXI ENERGY INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the Six Months Ended June 30, 2017 and 2016

(All tabular amounts are expressed in thousands of Canadian dollars unless otherwise noted)

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**NOTE 1 – CORPORATE INFORMATION**

DXI Energy Inc. (the “Company”) is a public company trading on the Toronto Stock Exchange (“TSX”) under the symbol of “DXI” in Canada and the OTCQB (“OTCQB”) under the symbol of “DXIEF” in the United States. The Company is in the business of exploring and developing energy properties with a focus on oil and gas in North America. On October 27, 2015, the Company changed its name from Dejour Energy Inc. to DXI Energy Inc. The address of its registered office is 598 – 999 Canada Place, Vancouver, British Columbia.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Dejour Energy (USA) Corp. (“Dejour USA”), incorporated in Nevada, Dejour Energy (Alberta) Ltd. (“DEAL”), incorporated in Alberta, and 0855524 B.C. Ltd., incorporated in British Columbia. All intercompany transactions are eliminated upon consolidation.

The interim condensed consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the parent company. These consolidated financial statements were authorized and approved for issuance by the Audit Committee on August 9, 2017.

**NOTE 2 – BASIS OF PRESENTATION**

**(a) Basis of presentation**

The interim condensed consolidated financial statements for the six months ended June 30, 2017 have been prepared in accordance with IAS 34 Interim Financial Reporting. These interim results do not include all the information required for the full annual financial statements, and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2016. The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company’s annual consolidated financial statements for the year ended December 31, 2016.

**(b) Going concern**

The financial statements were prepared on a going concern basis. The going concern basis assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company has a working capital deficiency of \$10.0 million. The Company also has an accumulated deficit of \$113.8 million. Of this amount, \$7.0 million is represented by a financial contract liability of Dejour USA, which was due on September 30, 2016. The current status of this instrument is described in note 8 below.

The Company’s ability to continue as a going concern is dependent upon attaining profitable operations and the continued financial support of the non-arm’s length lenders who have provided the Company with sufficient capital to meet capital expenditure commitments and continue exploration and development activities. There is no assurance that these activities will be successful. These material uncertainties cast substantial doubt upon the Company’s ability to continue as a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used that would be necessary if the going concern assumptions were not appropriate.

**DXI ENERGY INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the Six Months Ended June 30, 2017 and 2016  
(All tabular amounts are expressed in thousands of Canadian dollars unless otherwise noted)

**NOTE 3 – EXPLORATION AND EVALUATION (“E&E”) ASSETS**

|  | <b>Canadian Oil<br/>and Gas<br/>Properties</b> | <b>United States<br/>Oil and Gas<br/>Properties</b> | <b>Total</b>  |
|--|--|---|---------------|
|  | \$   | \$  | \$            |
| <b>Cost:</b>                           |  |   |               |
| Balance at January 1, 2016             | 281  | 18,982  | 19,263        |
| Additions                              | 2  | -   | 2             |
| Change in decommissioning provision    | 13   | -   | 13            |
| Disposals                              | -  | (772)   | (772)         |
| Foreign currency translation and other | -  | (768)   | (768)         |
| Balance at December 31, 2016           | 296  | 17,442  | 17,738        |
| Additions                              | -  | 2   | 2             |
| Change in decommissioning provision    | 61   | -   | 61            |
| Disposals                              | -  | -   | -             |
| Foreign currency translation and other | -  | (578)   | (578)         |
| <b>Balance at June 30, 2017</b>        | <b>357</b>                                     | <b>16,866</b>                                       | <b>17,223</b> |

|  | <b>Canadian Oil<br/>and Gas<br/>Properties</b> | <b>United States<br/>Oil and Gas<br/>Properties</b> | <b>Total</b>    |
|--|--|---|-----------------|
|  | \$   | \$  | \$              |
| <b>Accumulated impairment losses:</b>  |  |   |                 |
| Balance at January 1, 2016             | -  | (16,041)  | (16,041)        |
| Impairment losses                      | -  | (1,790)   | (1,790)         |
| Disposals                              | -  | 513   | 513             |
| Foreign currency translation and other | -  | 550   | 550             |
| Balance at December 31, 2016           | -  | (16,768)  | (16,768)        |
| Impairment losses (Note 5)             | (350)  | (562)   | (912)           |
| Disposals                              | -  | -   | -               |
| Foreign currency translation and other | -  | 567   | 567             |
| <b>Balance at June 30, 2017</b>        | <b>(350)</b>                                   | <b>(16,763)</b>                                     | <b>(17,113)</b> |

|                          | <b>Canadian Oil<br/>and Gas<br/>Properties</b> | <b>United States<br/>Oil and Gas<br/>Properties</b> | <b>Total</b> |
|--------------------------|--|---|--------------|
|                          | \$   | \$  | \$           |
| <b>Carrying amounts:</b> |  |   |              |
| At December 31, 2016     | 296  | 674   | 970          |
| <b>At June 30, 2017</b>  | <b>7</b>                                       | <b>103</b>  | <b>110</b>   |

Exploration and evaluation (“E&E”) assets consist of the Company’s exploration projects which are pending the determination of proven reserves.

For Canadian E&E assets, the impairment is \$350,000 and \$Nil for the six months ended June 30, 2017 and 2016, respectively. The impairment was recognized based on the difference between the carrying value of the assets and their recoverable amounts.

**DXI ENERGY INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the Six Months Ended June 30, 2017 and 2016

(All tabular amounts are expressed in thousands of Canadian dollars unless otherwise noted)

**NOTE 3 – EXPLORATION AND EVALUATION (“E&E”) ASSETS (continued)**

For U.S. E&E assets, the impairment is \$562,000 and \$580,000 for the six months ended June 30, 2017 and 2016, respectively. The impairment was recognized based on the difference between the carrying value of the assets and their recoverable amounts.

The Company determined that there were no indicators of impairment reversal for its Canadian and U.S. oil and gas interests at June 30, 2017.

**NOTE 4 – PROPERTY AND EQUIPMENT**

|  | Canadian Oil<br>and Gas<br>Properties | United States<br>Oil and Gas<br>Properties | Corporate and<br>Other Assets | Total         |
|--|---------------------------------------|--|-------------------------------|---------------|
|  | \$                                    | \$   | \$                            | \$            |
| <b>Cost:</b>                           |                                       |  |                               |               |
| Balance at January 1, 2016             | 33,376                                | 16,653                                     | 179                           | 50,208        |
| Additions                              | 300                                   | 225  | 3                             | 528           |
| Change in decommissioning provision    | (48)                                  | (4)  | -                             | (52)          |
| Foreign currency translation and other | -                                     | (502)                                      | -                             | (502)         |
| Balance at December 31, 2016           | 33,628                                | 16,372                                     | 182                           | 50,182        |
| Additions                              | 118                                   | 43   | -                             | 161           |
| Change in decommissioning provision    | 172                                   | 5  | -                             | 177           |
| Foreign currency translation and other | -                                     | (565)                                      | -                             | (565)         |
| <b>Balance at June 30, 2017</b>        | <b>33,918</b>                         | <b>15,855</b>                              | <b>182</b>                    | <b>49,955</b> |

|   | Canadian Oil<br>and Gas<br>Properties | United States<br>Oil and Gas<br>Properties | Corporate and<br>Other Assets | Total           |
|---|---------------------------------------|--|-------------------------------|-----------------|
|   | \$                                    | \$   | \$                            | \$              |
| <b>Accumulated amortization, depletion and impairment losses:</b> |                                       |  |                               |                 |
| Balance at January 1, 2016  | (26,774)                              | (1,375)                                    | (160)                         | (28,309)        |
| Amortization and depletion  | (1,248)                               | (380)                                      | (5)                           | (1,633)         |
| Impairment losses   | (1,070)                               | -  | -                             | (1,070)         |
| Foreign currency translation and other                            | -                                     | 41   | 1                             | 42              |
| Balance at December 31, 2016                                      | (29,092)                              | (1,714)                                    | (164)                         | (30,970)        |
| Amortization and depletion (Note 5)                               | (322)                                 | (118)                                      | (1)                           | (441)           |
| Impairment losses (Note 5)  | (370)                                 | -  | -                             | (370)           |
| Foreign currency translation and other                            | -                                     | 62   | 1                             | 63              |
| <b>Balance at June 30, 2017</b>                                   | <b>(29,784)</b>                       | <b>(1,770)</b>                             | <b>(164)</b>                  | <b>(31,718)</b> |

|                          | Canadian Oil<br>and Gas<br>Properties | United States<br>Oil and Gas<br>Properties | Corporate and<br>Other Assets | Total         |
|--------------------------|---------------------------------------|--|-------------------------------|---------------|
|                          | \$                                    | \$   | \$                            | \$            |
| <b>Carrying amounts:</b> |                                       |  |                               |               |
| At December 31, 2016     | 4,536                                 | 14,658                                     | 18                            | 19,212        |
| <b>At June 30, 2017</b>  | <b>4,134</b>                          | <b>14,085</b>                              | <b>18</b>                     | <b>18,237</b> |



**DXI ENERGY INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the Six Months Ended June 30, 2017 and 2016

(All tabular amounts are expressed in thousands of Canadian dollars unless otherwise noted)

**NOTE 4 – PROPERTY AND EQUIPMENT (continued)**

During the six months ended June 30, 2017, the Company capitalized \$Nil (June 30, 2016 – \$104,000) of general and administrative costs related to its Canadian oil and gas interests.

During the six months ended June 30, 2017, the Company capitalized \$8,000 (June 30, 2016 – \$13,000) of general and administrative costs related to its US oil and gas interests.

For Canadian oil and gas properties, the impairment is \$370,000 and \$330,000 for the six months ended June 30, 2017 and 2016, respectively. The Company recorded an impairment of \$370,000 (June 30, 2016 - \$200,000) on its oil and gas properties in British Columbia, Canada and \$Nil (June 30, 2016 – \$130,000) on one of the non-core oil and gas properties in Alberta, Canada. The impairment was recognized based on the difference between the carrying value of the assets and their recoverable amounts.

The Company determined that there were no indicators of impairment for its U.S. oil and gas interests or no indicators of impairment reversal for its Canadian and U.S. oil and gas interests at June 30, 2017.

**NOTE 5 – AMORTIZATION, DEPLETION AND IMPAIRMENT LOSSES**

|   | <b>Six months ended June 30</b> |             |
|---|---------------------------------|-------------|
|   | <b>2017</b>                     | <b>2016</b> |
|   | \$                              | \$          |
| <i>Exploration and Evaluation Assets (E &amp; E assets)</i> |                                 |             |
| Impairment losses (Note 3)                                  | <b>912</b>                      | 580         |
| <i>Property and Equipment (D &amp; P assets)</i>            |                                 |             |
| Amortization and depletion (Note 4)                         | <b>441</b>                      | 952         |
| Impairment losses (Note 4)                                  | <b>370</b>                      | 330         |
|   | <b>1,723</b>                    | 1,862       |

**NOTE 6 – LOANS FROM RELATED PARTIES**

**(a) Loan from Hodgkinson Equity Corporation (“HEC”)**

On March 12, 2015, as amended on May 6, 2015, June 22, 2015, September 28, 2015, November 18, 2015 and June 5, 2017, the Company issued a promissory note for \$4,500,000 to HEC, a private company controlled by the CEO of the Company. The promissory note is secured by all assets of Dejour USA and a negative pledge by the Company not to further encumber DEAL’s oil and gas properties without HEC’s prior approval. The principal and interest at Canadian prime rate plus 5% per annum was repayable by the earlier of (i) within 10 business days of receipt of written demand from HEC for the repayment and (ii) June 10, 2015 or such later date to which the term of the promissory note may be extended. On May 6, 2015, the due date of the loan was extended to September 30, 2015. On September 28, 2015, the due date of the loan was further extended to December 31, 2015. On November 18, 2015, the Company extended the due date of the loan from December 31, 2015 to November 30, 2018. Additionally, a monthly principal repayment of \$114,230 was due on the 1<sup>st</sup> day of each month commencing June 1, 2016. HEC agreed to waive the requirement of the Company to repay the total monthly principal repayments of \$1,371,000 until the loan was restructured on June 5, 2017.

In consideration for the extension, the Company issued HEC 9,000,000 Warrants. Each Warrant entitles the holder to acquire one common share at a price of C\$0.45/US\$0.35 per share any time prior to December 4, 2020. Shares acquired through the exercise of Warrants prior to April 5, 2016 were restricted from sale through the facilities of the stock exchanges for four months. On February 19, 2016, the Company rescinded the negative pledge security agreement and issued a first mortgage in favour of HEC on DEAL’s oil and gas properties. The first mortgage security so issued ranked “pari passu” with HVI’s first mortgage security interest (note 6(b)).

**DXI ENERGY INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the Six Months Ended June 30, 2017 and 2016

(All tabular amounts are expressed in thousands of Canadian dollars unless otherwise noted)

**NOTE 6 – LOANS FROM RELATED PARTIES (continued)**

**(a) Loan from Hodgkinson Equity Corporation (“HEC”) (continued)**

On June 5, 2017, the Company restructured the term of the loan with extension of the due date from November 30, 2018 to June 5, 2022; reduction of the interest rate to Canadian prime rate plus 1% per annum; and the right to convert the entire outstanding amount into 58,441,558 common shares of the Company at a price of \$0.077 per share. In exchange for the modification, HEC agreed to cancel the 9,000,000 warrants described above.

The fair value of the amended loan was determined by applying a risk-adjusted rate of 20% to discount the contractual cash flows over the 5-year life of the loan. The fair value of the liability component of \$2,346,000 is then deducted from the face value of the amended loan (\$4.5 million), with the balance being taken directly to equity. Related financing costs of \$17,000 were allocated to the liability and equity components. For equity, the costs were accounted for as a deduction from equity. For the liability, the costs were added to the carrying amount of the liability.

As a result of the loan restructure in June 2017, a loss on extinguishment is recognized as follows:

|  | \$         |
|--|------------|
| Fair value of amended loan                                   | 2,346      |
| Conversion feature   | 2,154      |
| Carrying value of old loan before restructure <sup>(1)</sup> | (3,972)    |
| <b>Loss on extinguishment</b>                                | <b>528</b> |

<sup>(1)</sup> \$3,903,000 (fair value at March 31, 2017) + \$125,000 (accretion) - \$56,000 (cash interest) = \$3,972,000

As at June 30, 2017, the carrying value of the loan liability is as follows:

|                                  | \$           |
|----------------------------------|--------------|
| Balance upon initial recognition | 2,337        |
| Accretion expense                | 30           |
| Cash interest                    | (11)         |
| Balance at June 30, 2017         | 2,356        |
| Current portion                  | (293)        |
| <b>Non-current portion</b>       | <b>2,063</b> |

Other terms of the loan are:

- the Company may repay the loan at any time without penalty;
- the Company, through DEAL, must receive HEC’s approval to further encumber DEAL’s Canadian oil and gas properties; and
- In the event of default, all the indebtedness secured by the promissory note becomes due and payable and the interest rate is immediately increased to Canadian prime rate plus 4.5% per annum.

**(b) Loan from Hodgkinson Ventures Inc. (“HVI”)**

On June 22, 2015, as amended on September 28, 2015, November 18, 2015 and June 5, 2017, the Company issued a promissory note for \$2,000,000 to HVI, a private company associated with the CEO of the Company, on a “pari passu” basis with the loan from HEC (note 6(a)). The promissory note is secured by all assets of Dejour USA and a negative pledge by the Company not to further encumber DEAL’s oil and gas properties without HVI’s prior approval. The principal and interest at Canadian prime rate plus 5% per annum were repayable on or before September 30, 2015. On September 28, 2015, the due date of the loan was extended to December 31, 2015. On November 18, 2015, the Company extended the due date of the loan from December 31, 2015 to November 30, 2018. Additionally, a monthly principal repayment of \$50,769 was due on the 1<sup>st</sup> day of each month commencing June 1, 2016. HVI agreed to waive the requirement of the Company to repay the total monthly principal repayments of \$660,000 until the loan was restructured on June 5, 2017.

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**NOTE 6 – LOANS FROM RELATED PARTIES (continued)**

**(b) Loan from Hodgkinson Ventures Inc. (“HVI”) (continued)**

In consideration for the extension, the Company issued HVI 4,000,000 Warrants. Each Warrant entitles the holder to acquire one common share at a price of C\$0.45/US\$0.35 per share any time prior to December 4, 2020. Shares acquired through the exercise of Warrants prior to April 5, 2016 were restricted from sale through the facilities of the stock exchanges for four months. On February 19, 2016, the Company rescinded the negative pledge security agreement and issued a first mortgage in favour of HVI on DEAL’s oil and gas properties. The first mortgage security so issued ranked “pari passu” with HEC’s first mortgage security interest (note 6(a)).

On June 5, 2017, the Company restructured the term of the loan with extension of the due date from November 30, 2018 to June 5, 2022; reduction of the interest rate to Canadian prime rate plus 1% per annum; and the right to convert the entire outstanding amount into 25,974,025 common shares of the Company at a price of \$0.077 per share. In exchange for the modification, HVI agreed to cancel the 4,000,000 warrants described above.

The fair value of the amended loan was determined by applying a risk-adjusted rate of 20% to discount the contractual cash flows over the 5-year life of the loan. The fair value of the liability component of \$1,043,000 is then deducted from the face value of the amended loan (\$2.0 million), with the balance being taken directly to equity. Related financing costs of \$8,000 were allocated to the liability and equity components. For equity, the costs are accounted for as a deduction from equity. For the liability, the costs are added to the carrying amount of the liability.

As a result of the loan restructure in June 2017, a loss on extinguishment is recognized as follows:

|  | \$      |
|--|---------|
| Fair value of amended loan                                   | 1,043   |
| Conversion feature   | 957     |
| Carrying value of old loan before restructure <sup>(1)</sup> | (1,610) |
| Loss on extinguishment                                       | 390     |

<sup>(1)</sup> \$1,560,000 (fair value at March 31, 2017) + \$75,000 (accretion) - \$25,000 (cash interest) = \$1,610,000

As at June 30, 2017, the carrying value of the loan liability is as follows:

|                                  | \$         |
|----------------------------------|------------|
| Balance upon initial recognition | 1,039      |
| Accretion expense                | 13         |
| Cash interest                    | (5)        |
| Balance at June 30, 2017         | 1,047      |
| Current portion                  | (130)      |
| <b>Non-current portion</b>       | <b>917</b> |

Other terms of the loan are:

- the Company may repay the loan at any time without penalty;
- the Company, through DEAL, must receive HVI’s approval to further encumber DEAL’s Canadian oil and gas properties; and
- In the event of default, all the indebtedness secured by the promissory note becomes due and payable and the interest rate is immediately increased to Canadian prime rate plus 4.5% per annum.

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**NOTE 6 – LOANS FROM RELATED PARTIES (continued)**

**(c) Loan from a director and officer of the Company and his spouse**

On September 15, 2015, as amended on January 11, 2016, March 31, 2016, June 2, 2016, September 30, 2016, December 31, 2016 and June 30, 2017, the Company issued a grid promissory note of up to \$1,000,000 to a director and officer of the Company and his spouse (the “Lenders”). The promissory note bears interest at 12% per annum. The principal and interest accrued on the loan were repayable on or before December 31, 2015. On January 11, 2016, the Company issued an additional grid promissory note of up to \$200,000 to a director and officer of the Company and his spouse and the due date of the loan was extended to March 31, 2016. On March 31, 2016, the due date of the loan was further extended to September 30, 2016.

On June 2, 2016, the Company increased the maximum amount of the non-revolving loan from \$1,200,000 to \$1,500,000. The interest rate was also reduced from 12% to 10% per annum. Additionally, the Company issued a 2<sup>nd</sup> mortgage in favour of the Lenders on DEAL’s oil and gas properties to a maximum of \$1,500,000 as partial security for the loan. On September 30, 2016, the due date of the loan was extended to December 31, 2016. On December 31, 2016, the due date of the loan was extended to June 30, 2017. On June 30, 2017, the due date of the loan was further extended to June 30, 2018. The maximum loan amount available at June 30, 2017 was \$1,500,000 (December 31, 2016 - \$1,500,000). During the six months ended June 30, 2017, \$325,000 was borrowed (2016 - \$50,000) and \$Nil was repaid (2016 - \$Nil) leaving a balance outstanding of \$1,375,000 at June 30, 2017 (December 31, 2016 - \$1,050,000).

**NOTE 7 – DECOMMISSIONING LIABILITY**

|                                       | Canadian<br>Oil and Gas<br>Properties <sup>(1)</sup> | United States<br>Oil and Gas<br>Properties <sup>(1)</sup> | Total        |
|---------------------------------------|--|---|--------------|
|                                       | \$   | \$  | \$           |
| Balance at January 1, 2016            | 3,679  | 146   | 3,825        |
| Change in estimated future cash flows | (36)   | (4)   | (40)         |
| Actual costs incurred and other       | (53)   | (5)   | (58)         |
| Unwinding of discount                 | 46   | 3   | 49           |
| Balance at December 31, 2016          | 3,636  | 140   | 3,776        |
| Change in estimated future cash flows | 227  | 6   | 233          |
| Actual costs incurred and other       | (1)  | (5)   | (6)          |
| Unwinding of discount                 | 27   | 2   | 29           |
| <b>Balance at June 30, 2017</b>       | <b>3,889</b>   | <b>143</b>  | <b>4,032</b> |

<sup>(1)</sup> relates to property and equipment (note 3)

The present value of the decommissioning liability was calculated using the following weighted average inputs:

|                                 | Canadian Oil<br>and Gas<br>Properties | United States<br>Oil and Gas<br>Properties |
|---------------------------------|---------------------------------------|--|
| <b>As at June 30, 2017:</b>     |                                       |  |
| Discount rate                   | <b>1.56%</b>                          | <b>2.06%</b>                               |
| Inflation rate                  | <b>2.00%</b>                          | <b>2.00%</b>                               |
| <b>As at December 31, 2016:</b> |                                       |  |
| Discount rate                   | 1.60%                                 | 2.34%                                      |
| Inflation rate                  | 2.00%                                 | 2.00%                                      |

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**NOTE 8 – FINANCIAL CONTRACT LIABILITY**

On December 31, 2012, Dejour USA entered into a financial contract with a U.S. oil and gas drilling fund (“Drilling Fund”) to fund the drilling of up to three wells and the completion of up to four wells in the State of Colorado. The total amount contributed by the Drilling Fund was US\$7,000,000.

The financial contract contains a provision whereby Dejour USA must purchase the Drilling Funds’ working interest in the four wells funded by the US\$7,000,000 if the Drilling Fund fails to obtain a certain minimum return on investment by September 30, 2016. A subsequent amendment limited Dejour USA’s cash exposure to a potential “put” by the Drilling Fund to US\$3,000,000, with the difference to be settled by an assignment of working interests in certain P&NG properties owned by Dejour USA. The Company is not a party to the financial contract.

On September 30, 2016, the Drilling Fund served notice to Dejour USA requiring Dejour USA to purchase the Drilling Funds’ working interest in the 4 wellbores in accordance with the contract. However, prior to serving such notice, the Drilling Fund executed certain assignments transferring ownership of its working interests in the 4 wellbores to another entity and the assignee mortgaged its interest therein. Dejour USA and its attorneys are reviewing the impact of the Drilling Fund’s actions on the validity of the financial contract between the parties.

As at June 30, 2017, Dejour USA has recorded a liability owing to the Drilling Fund of \$6,984,000, as follows:

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|   | \$    |
|---|-------|
| Balance at January 1, 2016 (US\$5,207)              | 7,207 |
| Accretion expense (US\$222)                         | 296   |
| Foreign exchange gain                               | (214) |
| Adjustment to financial contract liability (US\$47) | (63)  |
| Balance at December 31, 2016 (US\$5,382)            | 7,226 |
| Foreign exchange gain                               | (242) |
| Balance at June 30, 2017 (US\$5,382)                | 6,984 |

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This amount, if any, is subject to a resolution of the financial contract between the parties. Dejour USA has received no formal communication from the Drilling Fund since the “put” notice date of September 30, 2016.

**NOTE 9 – SHARE CAPITAL**

**Authorized**

The Company is authorized to issue an unlimited number of common voting shares, an unlimited number of first preferred shares issuable in series, and an unlimited number of second preferred shares issuable in series. No preferred shares have been issued and the terms of preferred shares have not been defined.

In June 2017, the Company completed the initial tranche of a private placement and 10,447,828 common shares were issued at a price of \$0.06 per share for gross proceeds of \$627,000. The Company paid other costs of \$5,000 related to this initial tranche. Directors and Officers of the Company purchased 8,356,071 common shares of this offering to settle the amounts owing to them for deferred salaries and interest on certain outstanding loans.

In June and July 2016, the Company completed a dual tranche private placement and 8,298,333 common shares were issued at a price of \$0.12 per share for total gross proceeds of \$995,800. The Company paid finders’ fees of \$18,000 and other costs of \$29,000 related to this offering. Directors and Officers of the Company purchased 3,600,000 common shares of this offering.

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**NOTE 10 – STOCK OPTIONS AND SHARE PURCHASE WARRANTS**

**(a) Stock Options**

The Stock Option Plan (the “Plan”) is a 10% “rolling” plan pursuant to which the number of common shares reserved for issuance is 10% of the Company’s issued and outstanding common shares as constituted on the date of any grant of options.

The Plan provides for the grant of options to purchase common shares to eligible directors, senior officers, employees and consultants of the Company (“Participants”). The exercise periods and vesting periods of options granted under the Plan are to be determined by the Company with approval from the Board of Directors. The expiration of any option will be accelerated if the participant’s employment or other relationship with the Company terminates. The exercise price of an option is to be set by the Company at the time of grant but shall not be lower than the market price (as defined in the Plan) at the time of grant.

The following table summarizes information about outstanding stock option transactions:

|   | Number of<br>options | Weighted<br>average<br>exercise price<br>\$ |
|---|----------------------|---|
| Balance at January 1, 2016                            | 140,738              | 1.20  |
| Options granted                                       | 3,400,000            | 0.16  |
| Options cancelled                                     | (52,818)             | 1.26  |
| Options forfeited                                     | (87,920)             | 1.16  |
| <b>Balance at December 31, 2016 and June 30, 2017</b> | <b>3,400,000</b>     | <b>0.16</b>                                 |

Details of the stock options as at June 30, 2017 are as follows:

|        | Outstanding          |   |                             | Exercisable          |   |                             |
|--------|----------------------|---|-----------------------------|----------------------|---|-----------------------------|
|        | Number<br>of options | Weighted average<br>exercise<br>price<br>\$ | contractual<br>life (years) | Number<br>of options | Weighted average<br>exercise<br>price<br>\$ | contractual<br>life (years) |
| \$0.16 | 3,400,000            | 0.16  | 3.93                        | 3,150,000            | 0.16  | 3.93                        |

During the six months ended June 30, 2017, the Company did not grant any stock options (2016 – 3,400,000). The fair value of the options issued during the six months ended June 30, 2016 was estimated using the Black Scholes option pricing model with the following weighted average inputs:

| For the six months ended June 30 | 2016       |
|----------------------------------|------------|
| Fair value at grant date         | \$ 0.06    |
| Expected volatility              | 80.35%     |
| Expected option life             | 1.37 years |
| Dividends                        | 0.0%       |
| Risk-free interest rate          | 0.54%      |
| Estimated forfeiture rate        | 6.85%      |

Expected volatility is based on historical volatility and average weekly stock prices were used to calculate volatility. Management believes that the annualized weekly average of volatility is the best measure of expected volatility.

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**NOTE 10 – STOCK OPTIONS AND SHARE PURCHASE WARRANTS (continued)**

**(b) Share Purchase Warrants**

The following table summarizes information about warrant transactions:

|  | Number of<br>warrants | Weighted average<br>exercise price |
|--|-----------------------|------------------------------------|
|  |                       | \$                                 |
| Balance at January 1, 2016 and December 31, 2016 | 15,719,540            | 0.85                               |
| Warrants cancelled                               | (13,000,000)          | 0.45                               |
| Warrants expired                                 | (2,719,540)           | 2.59                               |
| <b>Balance at June 30, 2017</b>                  | <b>-</b>              | <b>-</b>                           |

**NOTE 11 – SUPPLEMENTAL INFORMATION**

**(a) Changes in working capital consisted of the following:**

|  | Six months ended June 30 |            |
|--|--------------------------|------------|
|  | 2017                     | 2016       |
|  | \$                       | \$         |
| <b>Changes in working capital:</b>       |                          |            |
| Accounts receivable                      | 307                      | 1,016      |
| Prepays and deposits                     | (7)                      | 1          |
| Accounts payable and accrued liabilities | 127                      | (229)      |
|  | <b>427</b>               | <b>788</b> |
| <b>Comprised of:</b>                     |                          |            |
| Operating activities                     | 382                      | 1,676      |
| Investing activities                     | 23                       | (905)      |
| Financing activities                     | 22                       | 17         |
|  | <b>427</b>               | <b>788</b> |
| <b>Other cash flow information:</b>      |                          |            |
| Cash paid for interest                   | 180                      | 315        |
| Income taxes paid                        | -                        | -          |

**(b) Per share amounts:**

Basic loss per share amounts has been calculated by dividing the net loss for the year attributable to the shareholders' of the Company by the weighted average number of common shares outstanding. Stock options and share purchase warrants were excluded from the calculation. The basic and diluted net loss per share is the same as the stock options and share purchase warrants were anti-dilutive. The following table summarizes the common shares used in calculating basic and diluted net loss per common share:

|  | Three months ended June 30, |            | Six months ended June 30, |            |
|--|-----------------------------|------------|---------------------------|------------|
|  | 2017                        | 2016       | 2017                      | 2016       |
| Weighted average common shares outstanding |                             |            |                           |            |
| Basic                                      | 45,841,588                  | 36,745,118 | 45,327,791                | 36,627,535 |
| Diluted                                    | 45,841,588                  | 36,745,118 | 45,327,791                | 36,627,535 |

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**NOTE 12 – RELATED PARTY TRANSACTIONS**

During the six months ended June 30, 2017 and 2016 and in addition to the loans from related parties (note 6), the Company entered into the following transactions with related parties:

- (a) Compensation awarded to key management included a total of salaries and consulting fees of \$232,000 (2016 - \$237,000) and non-cash stock-based compensation of \$Nil (2016 - \$79,000). Key management includes the Company's officers and directors. The salaries and consulting fees are included in general and administrative expenses. Included in accounts payable and accrued liabilities at June 30, 2017 is \$40,000 (December 31, 2016 - \$262,000) owing to the two officers of the Company.
- (b) Interest expenses of \$180,000 (2016 - \$314,000) related to the loans from related parties were paid in cash to the CEO of the Company and his spouse or the companies controlled by or associated with the CEO of the Company. And, interest expenses of \$139,000 (2016 - \$Nil) related to the loans from related parties were paid via issuance of the Company's shares to the companies controlled by or associated with the CEO of the Company.

**NOTE 13 – OPERATING SEGMENTS**

Segment information is provided on the basis of geographic segments as the Company manages its business through two geographic regions – Canada and the United States. The two geographic segments presented reflect the way in which the Company's management reviews business performance. The Company's revenue and losses of each geographic segment are as follows:

|   | Canada         |         | United States |       | Total          |         |
|---|----------------|---------|---------------|-------|----------------|---------|
|   | 2017           | 2016    | 2017          | 2016  | 2017           | 2016    |
|   | \$             | \$      | \$            | \$    | \$             | \$      |
| <b>Six months ended June 30</b>               |                |         |               |       |                |         |
| Revenues, net of royalties                    | <b>1,203</b>   | 1,829   | <b>344</b>    | 542   | <b>1,547</b>   | 2,371   |
| Segmented loss                                | <b>(2,826)</b> | (1,564) | <b>(345)</b>  | (599) | <b>(3,171)</b> | (2,163) |
| Amortization, depletion and impairment losses | <b>1,043</b>   | 1,027   | <b>680</b>    | 835   | <b>1,723</b>   | 1,862   |
| Interest expense                              | <b>553</b>     | 667     | -             | 295   | <b>553</b>     | 962     |
| Capital expenditures                          | <b>118</b>     | 293     | <b>45</b>     | 204   | <b>163</b>     | 497     |

**NOTE 14 – SEASONALITY OF OPERATIONS**

There are factors causing quarterly variances that may not be reflective of the Company's future performance. These include, but are not limited to weather conditions, oil and gas production, drilling activities which are affected by oil and natural gas commodity prices, global economic environment, as well as unexpected production curtailment caused by activities such as plant shutdown work. As the Company has operations in the United States, the consolidated financial results may vary between periods due to the effect of foreign exchange fluctuations in translating the expenses of its operations in the United States to Canadian dollars. As a result, quarterly operating results should not be relied upon as any indication of results for any future period.