

Candax Energy Inc.

CAX : TSX : C\$0.11

HOLD**Target: C\$0.20****Terry Peters, MBA** 1.416.869.6597
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cynthia.yee@canaccordadams.com**Energy -- Oil and Gas, Exploration and Production****REPORTS Q2/09 RESULTS****Event**

Candax Energy reported its second quarter results, with cash flow of \$0.03 per share compared with our estimate of \$0.08 and earnings per share of (\$0.02) compared with our estimate of \$0.14. The variance from our estimate was caused by a combination of lower production and lower than expected realized prices.

Production averaged 1,152 b/d compared with our forecast of 1,366 b/d. Natural gas production was 2.9 mmcf/d compared with our forecast of 4.0 mmcf/d. While natural gas contributes to total volumes, it is sold at a nominal price to the SEEB power plant. Candax indicated that oil production at El Bibane continues to be constrained by capacity limitation in the export line as a result of higher than expected water production. Remediation work is expected to begin late August.

In June, the company announced that it had retained Scotia Waterous to examine strategic alternatives, which could include equity investments and/or other various corporate transactions in a bid to unlock the value of its assets. Candax's lower share price has hampered the company's ability to access new debt and equity in order to fund the development of its assets.

The company also reported in June that it had reached an agreement with the Bank of Scotland to waive the June re-determination. The company will make a voluntary pre-payment in June and further re-determination is scheduled for December 2009. The company has utilized US\$43.9 million of its US\$44.4 million credit facility at the end of March. Capital expenditures in the second quarter were \$3.1 million versus \$1.5 million in the first quarter. Candax's capital program for this year includes two Ezzaouia sidetracks and a workover on El Bibane. Candax currently has cash of \$11.5 million, down from \$11.7 at the end of March.

The company's guidance as provided in its first quarter release was 2009 oil production of 1,600 b/d and natural gas production of 4.2 mmcf/d. We are currently forecasting oil production of 1,447 b/d and 4.0 mmcf/d for the full year. There was no additional guidance update in the current quarterly results.

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Impact

Neutral to negative.

Action

We currently have a HOLD rating and C\$0.20 target price on Candax. Realizing on our valuation is contingent on Candax being successful in pursuing its strategic alternatives.

Valuation

Given the company's financial position, our target price represents two-thirds of our estimated NAV excluding the SEEB non-resource loan.

Investment risks

In addition to operating risks inherent in oil and gas exploration and production activities, oil and natural gas price realizations and production may be lower or higher than our forecast. Collectively, these risks could impact the company's valuation and our forecasts.

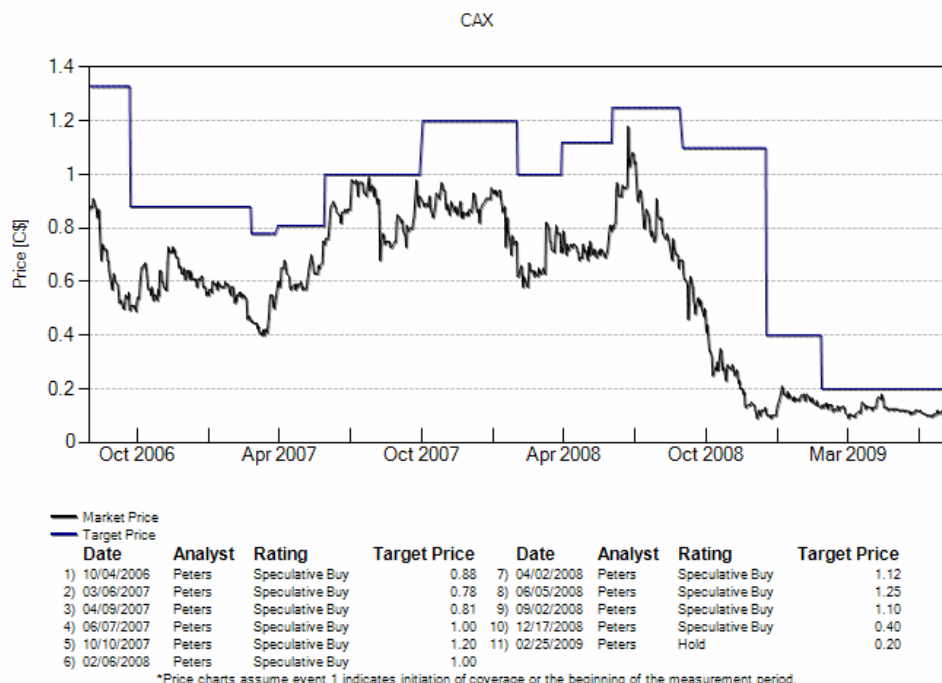
Candax acquired producing assets that are mature with a relatively short reserve life and a high water cut. There is no guarantee that all future volumes of production will occur in sufficient quantities to make existing fields commercial. Two major fields (El Bibane and Ezzaouia) currently represent greater than 95% of the proved value of Candax. Should either of these fields experience a production-related problem for a prolonged period of time, there could be a material impact on our financial and valuation estimates. Unless new discoveries or assets are acquired, future cash flows from existing assets will decline substantially, which may impact the future valuation of Candax. All producing and potential properties are presently located in Tunisia. Although currently seen as a relatively stable government, the company's operations, financial results, and valuation could be adversely affected by events beyond its control taken by the current or future governments with respect to policy changes regarding taxation, regulation, and other business environment changes.

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Site Visit: An analyst has visited the issuer’s material operations in Tunisia and corporate headquarters in Toronto. No payment or reimbursement was received from the issuer for the related travel costs.

Price Chart:*



Distribution of Ratings:
Global Stock Ratings
(as of 10 August 2009)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	330	56.0%	27	27.6%
Speculative Buy	65	11.0%	53	53.8%
Hold	171	29.0%	21	21.1%
Sell	23	3.9%	26	26.1%
	589	100.0%		

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SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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Company	Disclosure
Candax Energy Inc.	7

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