

Candax Energy Inc.

CAX : TSX : C\$0.11

HOLD

Target: C\$0.14 ↓

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COMPANY STATISTICS:

52-week Range:	C\$0.08 - 0.84
Shares Out (M) basic:	169.3
Shares Out (M) diluted:	169.4
Market Cap (M):	C\$18.6
NAV /shr:	C\$0.21
Net Debt (M):	C\$74.0

EARNINGS SUMMARY:

FYE Dec	2007A	2008E	2009E	2010E
Equivalent				
Production (boe/d):	465	1,450	1,754	2,324
EPS:	(0.05)	(0.08)	(0.14)	(0.03)
Op EPS:	(0.03)	(0.08)	(0.13)	(0.06)
P/Op EPS (x):	(4.3)	(1.5)	(0.8)	(1.9)
CFPS:	(0.02)	0.10	0.04	0.16
P/CF (x):	(4.8)	1.1	2.6	0.7
NAV /shr:	0.21			
EV/DACF (x):		4.644	8.6	2.1

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:

Candax Energy Inc. is an international energy company involved in oil and gas exploration and production and power generation. Candax has operations in Tunisia and looks to expand into the Middle East and other parts of North Africa. With an experienced, international oil and gas knowledgeable management team inclusive of Michael Wood, President and CEO, John Clarke, Executive Vice President and Chris Hopkins, CFO; Candax is primed for growth.

All amounts in C\$ unless otherwise noted.

Energy -- Oil and Gas, Exploration and Production **REPORTED Q2/09 RESULTS; STRATEGIC REVIEW ONGOING**

Event

Candax reported its second quarter results, with CFPS of \$0.03 compared to our estimate of \$0.08 and EPS of (\$0.02) compared to our estimate of \$0.14. The variance to our estimate was caused by a combination of lower production and liftings, and lower-than-expected realized prices. Production in the second quarter averaged 1,152 b/d compared to our forecast of 1,366 b/d. The company continues to experience curtailed production at El Bibane and expects remedial work to begin late-August. It also indicated that its strategic review is ongoing and it has extended the proposal submission date to September 10.

Impact

We have adjusted our forecasts to reflect the company's second quarter results. We are now forecasting 2009 CFPS of \$0.04 and EPS of (\$0.14) from \$0.14 and (\$0.19) previously. For 2010, we are forecasting CFPS of \$0.16 and EPS of (\$0.03), from \$0.20 and (\$0.15) previously. Our lower estimates reflect lower production, thus lower-than-expected liftings as well. We have also adjusted our net asset value to reflect Candax's forecasting year-end debt, and are now calculating a NAV of C\$0.21 from C\$0.29 previously.

Action

We continue to maintain our HOLD rating on Candax, but have lowered our target price to C\$0.14 from C\$0.20 previously.

Valuation

Our target price continues to reflect approximately two-thirds of our estimated NAV, excluding the SEEB non-recourse loan.

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ONGOING ISSUES CONTINUE TO PLAGUE CANDAX

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

Production averaged 1,152 b/d compared to our forecast of 1,366 b/d. Natural gas production was 2.9 mmcf/d compared to our forecast of 4.0 mmcf/d. Its natural gas volumes were considerable lower than forecasted due to a failure of one of the gas-fired turbines, reducing capacity to 50%. However, we note that 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 indicated that the proposal submission date has been pushed back to September 10.

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 made 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, with the remaining \$0.5 million used as security for a letter of credit. 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 2 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. There was no additional guidance update in the current quarterly results; however, Candax indicated that it will provide updated guidance following the commencement of remedial work at El Bibane in late-August.

REVISING OUR ESTIMATES

We have adjusted our forecasts to reflect the company's second quarter results. We have lowered our 2009 oil production forecast to 1,279 b/d from 1,447 b/d in light of ongoing constraints at El Bibane. In addition, we have also adjusted our forecast to fall in line with management's expectations on the timing of liftings. We note that our cash flow and earnings forecasts are directly dependant on the number and timing of liftings. As such, our 2009 forecasted CFPS and EPS are now \$0.04 and (\$0.14), from \$0.14 and (\$0.19) previously. For 2010, we are now forecasting CFPS and EPS of \$0.16 and (\$0.03), from \$0.20 and (\$0.15) previously. Please refer to Figure 1 for more details.

Figure 1: Candax's financial and operating results and forecasts

(\$000's)	Q1/09	Q2/09	Q3/09E	Q4/09E	2008E	2009E	2010E
Net Income	(13,943)	(3,129)	(4,241)	(1,977)	(13,149)	(23,290)	(5,168)
Reported EPS (FD)	(0.08)	(0.02)	(0.03)	(0.01)	(0.08)	(0.14)	(0.03)
Operating EPS (FD)	(0.08)	(0.01)	(0.03)	(0.00)	(0.08)	(0.13)	(0.06)
Cash Flow	(2,620)	4,568	193	5,083	16,434	7,224	27,344
CFPS (FD)	(0.02)	0.03	0.00	0.03	0.10	0.04	0.16
Net Capital Spending	(1,485)	(3,089)	(3,000)	(2,000)	(66,209)	(9,574)	(8,000)
Net Debt/(cash) incl. Working capital	74,002	61,863	63,114	61,223	66,619	61,988	41,523
Liquids (b/d)	1,065	1,152	1,293	1,593	1,042	1,279	1,624
Gas (mmcf/d)	4	3	2	3	2	3	4
Equivalent (boe/d)	1,648	1,635	1,643	2,093	1,450	1,754	2,324

Source: Company reports, Canaccord Adams estimates

We have also adjusted our net asset value to reflect our forecast for Candax's year-end debt. We are now calculating a NAV of C\$0.21, based on proven reserve values, down from C\$0.29 previously. Our NAV excludes the non-recourse SEEB loan.

Conclusion

We continue to maintain our HOLD rating on Candax, but have lowered our target price to C\$0.14 from C\$0.20 previously. Our target price continues to reflect approximately two-thirds of our estimated NAV, based on proven reserve values, excluding the SEEB non-recourse loan. We apply a two-thirds discount to our NAV to reflect the risk associated with the company's ongoing strategic review and its current financial position. However, for Candax to remain a going concern, it is contingent on the company being successful in pursuing its strategic alternatives.

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.

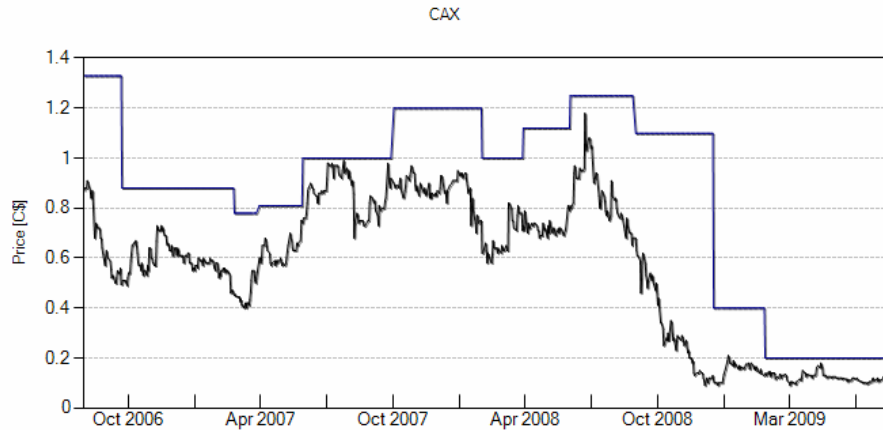
Candax acquired producing assets that are mature with a relatively short reserve life and a high water cut. There is no guarantee that all future volumes of production will occur in sufficient quantities to make existing fields commercial. Two major fields (El Bibane and Ezzaouia) currently represent 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:*



Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 10/04/2006	Peters	Speculative Buy	0.88	7) 04/02/2008	Peters	Speculative Buy	1.12
2) 03/06/2007	Peters	Speculative Buy	0.78	8) 06/05/2008	Peters	Speculative Buy	1.25
3) 04/09/2007	Peters	Speculative Buy	0.81	9) 09/02/2008	Peters	Speculative Buy	1.10
4) 06/07/2007	Peters	Speculative Buy	1.00	10) 12/17/2008	Peters	Speculative Buy	0.40
5) 10/10/2007	Peters	Speculative Buy	1.20	11) 02/25/2009	Peters	Hold	0.20
6) 02/06/2008	Peters	Speculative Buy	1.00				

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

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%	29	53.8%
Hold	171	29.0%	10	21.1%
Sell	23	3.9%	11	26.1%
	589	100.0%		

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SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.
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Company	Disclosure
Candax Energy Inc.	7

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