

Candax Energy Inc.

CAX : TSX : C\$0.12

SELL ↓

Target: C\$0.10 ↓

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COMPANY STATISTICS:

52-week Range: C\$0.08 - 0.75
 Shares Out (M) basic: 169.3
 Shares Out (M) diluted: 169.4
 Market Cap (M): C\$20.3
 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	1,500	2,324
EPS:	(0.05)	(0.08)	(0.12)	(0.06)
Op EPS:	(0.03)	(0.08)	(0.11)	(0.09)
P/Op EPS (x):	(4.7)	(1.6)	(1.1)	(1.3)
CFPS:	(0.02)	0.10	0.04	0.11
P/CF (x):	(5.2)	1.2	2.7	1.1
NAV /shr:	0.21			
EV/DACF (x):		4.736	8.4	3.4

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

UNPLANNED MAINTENANCE REDUCES NEAR-TERM PRODUCTION

Event

Candax reported that it has shut-in all production from its El Bibane field following an unexpected closure of the down-hole safety valve at the EBB-3 well. Testing is currently underway to determine the cause of the problem. El Bibane accounts for almost 70% of the company's oil production.

Management indicated that production from the field was minimal prior to the decision to shut-in, as the safety valve at EBB-3 was tripped in early August, with only EBB-5 producing at minimal rates since then. The company indicated that further tests for EBB-3 are necessary, and will require wire-line and possibly coil tubing investigation. This investigation will take place from the jack-up barge that has been contracted by the company, initially to work over EBB-4 (previously shut-in due to water production). Following its work on EBB-4, it will then proceed to EBB-3.

The barge is scheduled to arrive on August 25 for a minimum of 14 days. Production will remain shut-in for at least the period in which EBB-4 is undergoing intervention.

Impact

Negative.

Action

We have adjusted our 2009 oil production forecast to 1,071 b/d from 1,279 b/d and our 2009 gas production forecast to 2,575 mmcf/d from 2,850 mmcf/d previously, to account for the lower and subsequently shut-in production at El Bibane.

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Our 2009E CFPS and EPS remain relatively unchanged at \$0.04 and (\$0.12), as our forecast for the number of inventory liftings is unchanged.

For 2010, our production forecast is unchanged; however, we have reduced our forecast for liftings as a result of lower production in 2009. As such, we are now forecasting 2010 CFPS and EPS of \$0.11 and (\$0.09) from \$0.16 and (\$0.06), respectively.

Valuation

While we recognize that Candax is in the midst of a strategic review, the unexpected downtime at its major asset, El Bibane, has increased the risk of a successful result.

Consequently, with this added operational uncertainty and its existing financial risks, we are lowering our rating on the company to SELL from Hold.

We are also lowering our target price to C\$0.10 from C\$0.14 previously. This reflects a discount of approximately one-half, down from two-thirds previously, of our estimated NAV excluding the SEEB non-recourse loan. We have adjusted our discount factor to account for the risk associated with bringing EBB-3 back onstream and increased uncertainty as to the future reservoir performance. At the same time, the delay to re-establishing production may negatively impact the company's ongoing strategic review process and its ability to negotiate appropriate terms with its lender (Bank of Scotland).

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.

All producing and potential properties are presently located in Tunisia. The company's operations, financial results, and valuation could be affected by events beyond the company's control taken by the current or future governments with respect to policy changes regarding taxation, regulation, and other business environment changes.

APPENDIX: IMPORTANT DISCLOSURES

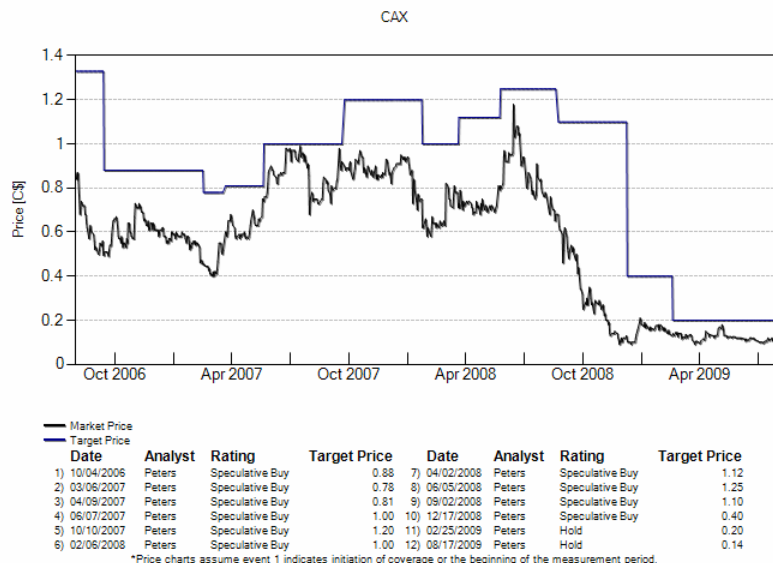
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Site Visit:

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%	29	53.8%
Hold	171	29.0%	10	21.1%
Sell	23	3.9%	6	26.1%
	589	100.0%		

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Company	Disclosure
Candax Energy Inc.	7

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