

### Candax Energy Inc.

CAX : TSX : C\$0.14

**HOLD** ↓

**Target: C\$0.20** ↓

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#### COMPANY STATISTICS:

52-week Range:	C\$0.08-1.18
Shares Out (M) basic:	169.3
Shares Out (M) diluted:	169.4
Market Cap (M):	C\$23.7
NAV /shr:	C\$0.67
Net Debt (M):	C\$54.222

#### EARNINGS SUMMARY:

FYE Dec	2006A	2007A	2008E	2009E
Equivalent				
Production (boe/d):	560	465	1,536	2,683
EPS:	(0.00)	(0.05)	(0.02)	-0.01
Op EPS:	(0.01)	(0.03)	0.03	-0.01
P/Op EPS (x):	(12.4)	(5.5)	4.8	(18.6)
CFPS:	0.03	-0.02	0.10	0.15
P/CF (x):	4.6	-6.1	1.4	1.0
EV/DACF (x):			4.726	2.7
NAV /shr:		0.67		

#### 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

### REVISED ESTIMATES – CHANGE IN COMMODITY PRICE FORECAST

#### Event

We have revised our estimates for Candax Energy due to changes to our energy price assumptions. We have decreased our outlook for both 2009 and 2010 prices for WTI crude oil to US\$45.00/bbl and US\$60.00/bbl, respectively. Our previous projections were US\$62.50/bbl for 2009 and US\$75.00/bbl for 2010. Our long-term WTI crude oil price was also revised in 2011 to US\$65.00/b, escalating at a 2% inflation rate thereafter.

Furthermore, we have also decreased our NYMEX natural gas price assumption to US\$5.00/mmbtu from US\$7.00/mmbtu for 2009, and to US\$6.00/mmbtu from US\$8.00/mmbtu for 2010. Our long-term NYMEX natural gas price assumption is US\$7.00/mmbtu starting in 2011, escalating at a 2% inflation rate thereafter. Please refer to our *Daily Letter* note dated February 24, 2009, entitled “2009 industry review and commodity price deck revision” for more details

#### Impact

We have revised 2009E operating EPS (fd) to -\$0.01 from \$0.04, and 2009E CFPS (fd) to \$0.15 from \$0.19. See Figure 1 for details on our estimates.

#### Action

We have lowered our rating on Candax to HOLD from Speculative Buy, and our 12-month target price to C\$0.20 from C\$0.40.

#### Valuation

Our target price represents a multiple of 3.1 times multiple to 2009E debt-adjusted cash flow per share, compared with 3.4 times previously. We expect Candax’s capital expenditures to be constrained in the current environment and debt repayment to become a focus.

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**Figure 1: Candax Energy financial and operating results and forecasts**

(\$000's)	Q1/08A	Q2/08	Q3/08E	Q4/08E	2007	2008E	2009E
Net Income	(2,298)	2,820	1,573	(5,334)	(9,251)	(3,239)	(2,524)
Reported EPS (FD)	(0.01)	0.02	0.01	(0.03)	(0.05)	(0.02)	(0.01)
Operating EPS (FD)	(0.01)	0.02	0.01	0.02	(0.03)	0.03	(0.01)
Cash Flow	(162)	9,087	6,362	1,278	(3,886)	16,565	25,265
CFPS (FD)	(0.00)	0.05	0.04	0.01	(0.02)	0.10	0.15
Net Capital Spending	(27,348)	(13,921)	(11,345)	(5,000)	(41,756)	(57,614)	(8,000)
Net Debt/(cash) incl. Working capital	60,633	57,875	54,222	64,322	33,040	64,322	49,457
Liquids (b/d)	413	1,005	1,126	1,750	465	1,074	1,900
Gas (mmcf/d)	-	4	3	5	-	3	5
Equivalent (boe/d)	413	1,622	1,576	2,533	465	1,536	2,683

Source: Company results, Canaccord Adams estimates

### 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 issuers’ 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
1) 09/22/05	TP Speculative Buy	1.50
2) 09/26/05	TP Speculative Buy	0.83
3) 04/04/06	TP Speculative Buy	1.33
4) 10/04/06	TP Speculative Buy	0.88
5) 03/06/07	TP Speculative Buy	0.78
6) 04/09/07	TP Speculative Buy	0.81
7) 06/07/07	TP Speculative Buy	1.00
8) 10/10/07	TP Speculative Buy	1.20
9) 02/06/08	TP Speculative Buy	1.00
10) 04/02/08	TP Speculative Buy	1.12
11) 06/05/08	TP Speculative Buy	1.25
12) 09/02/08	TP Speculative Buy	1.10
13) 12/17/08	TP Speculative Buy	0.40

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

**Distribution of Ratings:**

Global Stock Ratings  
(as of 4 February 2009)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	339	60%	31	31%
Speculative Buy	68	12%	53	53%
Hold	135	24%	24	24%
Sell	23	4%	26	26%
	565	100%		

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