

Candax Energy Inc.

CAX : TSX : C\$0.13

HOLD**Target: C\$0.20**

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Energy -- Oil and Gas, Exploration and Production**REPORTS Q1/09 RESULTS; LOWERING GUIDANCE AND FOCUS ON DEBT RESCHEDULING****Event**

Candax reported its first-quarter results, with cash flow of \$5.1 million or \$0.03 per share, compared to \$1.1 million in the prior quarter and -\$0.2 million in Q1/08. The company reported a net loss of \$9.9 million, or \$0.06 per share, which can be attributed to higher depletion expenses and a \$6.9 million current tax charge booked in the quarter. The large tax charge is a result of Candax receiving a report from the Tunisian tax authorities proposing adjustments to its profit tax returns for the years 2005 to 2007. The profit tax payments and interest amount to US\$7.3 million. Candax has filed a rebuttal and is expecting a revised report shortly, but has made the accounting provisions in its financial statements, and has been advised that any final settlement will allow for the repayment to be phased over several years.

Production in the quarter averaged 1,651 boe/d, which comprised 1,063 b/d of oil and 3.5 mmcf/d gas. This is compared to 1,624 b/d of oil and 3.4 mmcf/d of gas in the previous quarter. The company provided updated 2009 production guidance of 1,600 b/d of oil and 4.2 mmcf/d of natural gas. This has been revised down from its original guidance of 1,700 – 2,100 b/d oil and 4.7 mmcf/d gas, due to lower production at El Bibane, where production continues to be constrained. Capacity limitations on the pipeline have prevented simultaneous production from the EBB-3 and EBB-4 wells. Candax plans to work over EBB-4 in Q3/09 to isolate and reduce water production. Following the workover, the company anticipates that the two wells will be able to concurrently produce at gross rates of 2,500 b/d (Candax holds a 74% interest), up from production of 1,250 b/d gross from only EBB-3 presently.

Capital expenditures totaled \$1.5 million in the quarter and the company's cash balance was \$11.7 million at the end of March.

Candax has nearly maxed out its existing credit line of US\$50 million (drawn down US\$47.4 million at March 31), and indicated that its ability to operate as a going concern is dependant on reaching an agreement with its bank to renegotiate the repayment of its debt, or secure additional financing through an equity issue or debt instruments. The company remains confident that it will be able to renegotiate the debt repayments, and expects an agreement to be finalized in the upcoming weeks.

Impact

Negative. The company has revised its guidance downwards due to ongoing constraints at El Bibane. Additionally, uncertainties exist with regards to the outcome of the tax assessment in Tunisia and the timing and success of a renegotiated debt facility. Given the uncertain timing of the debt facility negotiations, Candax had to indicate that its ability to continue as a going concern was dependent on rescheduling of debt payments and/or the ability to secure additional financing.

Action

We currently have a HOLD rating and C\$0.20 target price on Candax Energy.

Valuation

Our target price represents a multiple of 3.1 times our current 2009E debt-adjusted cash flow per share, prior to the announced lower guidance. We expect Candax will continue to limit its capital expenditures in the current environment until its debt rescheduling is resolved.

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.

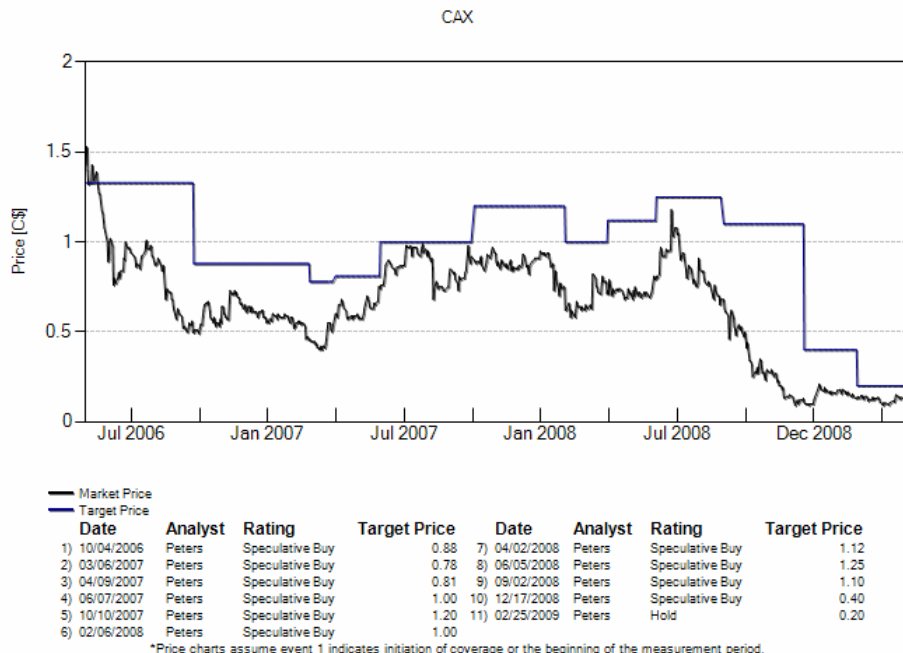
Candax acquired producing assets that are mature with a relatively short reserve life and a high water cut. There is no guarantee that all future volumes of production will occur in sufficient quantities to make existing fields commercial. Two major fields (El Bibane and Ezzaouia) currently represent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



Distribution of Ratings:

Global Stock Ratings
(as of 1 May 2009)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	305	53%	26%
Speculative Buy	81	14%	36%
Hold	157	28%	23%
Sell	30	5%	20%
	573	100%	

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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, 11 (John Zaozirny)

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