

Candax Energy Inc.

CAX : TSX : C\$0.07

UNDER REVIEW

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Energy -- Oil and Gas, Exploration and Production**REPORTS Q3/09 RESULTS – PRODUCTION
REMAINS LOW DUE TO ISSUES AT EL BIBANE****Event**

Candax reported its third quarter results, with negative cash flow of (\$0.02) and earnings of (\$0.02), compared with our estimates of \$0.02 and (\$0.03), respectively.

Production averaged 585 b/d of oil, which was below our estimate of 892 b/d of oil. The company also produced 1.2 mmcf/d of gas, in line with our estimates; however, this gas is sold to the SEEB plant for which it receives only a nominal fee. Production also fell below the prior quarter average of 1,152 b/d of oil (and 2.9 mmcf/d of gas) as production from its El Bibane field, which normally accounts for ~70% of total production, was largely shut in since the end of August.

The company has been experiencing issues at El Bibane and shut production to undertake workover operations. Production was shut in after an unexpected closure of the down-hole safety valve at EBB-3. Prior to that, the field was already producing at reduced rates due to water production at EBB-4.

In September the company announced that the workover, although completed, was largely unsuccessful as the level of water remained unchanged at EBB-4 (workover operations were performed to reduce water level) and at EBB-3, it was determined that a failure in production tubing near the top of the well was the cause for loss of production. A comprehensive remedial work program has been developed, which involves a two-stage workover of the two wells. The first stage involves repair of the failed tubing in EBB-3 and acquiring a comprehensive set of logs for both wells. EBB-3 should be able to resume production following this remedial work, in January 2010. The second stage, which is planned for Q2/10, will include the setting of swellable packers in both wells to reduce the level of water production.

In the meantime, the company will continue to gas lift operations on the EBB-4 well. Earlier in the year at Ezzaouia, year the company had delayed drilling two sidetrack wells – EZZ-2 and EZZ-5 – that were planned for Q2/09 due to issues securing a suitable drilling rig. However, a suitable drilling rig has now been secured and drilling of the sidetracks is expected to be completed in Q1/10.

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The company has provided revised 2009 guidance of 822 b/d of oil compared with a range of 1,700-2,100 b/d previously, as a result of its issues at El Bibane. It has also lowered its gas production guidance to 2.8 mmcf/d from 4.7 mmcf/d.

Capital expenditures totalled \$1.0 million in the quarter. The company has drawn down US\$44.4 million of its US\$45.0 million line of credit and had \$4.7 million of cash at the end of September.

Impact

Neutral. While the company is experiencing issues at El Bibane, this is not new as these problems have persisted for a period of time. The company continues to report as a going concern; however, we note that this will be dependent on its ability to restructure its balance sheet. The strategic review process is still ongoing, with no target date set for completion. This raises uncertainty that a major lender could accelerate repayment of its credit facility.

Action and valuation

The strategic review process is ongoing; we had anticipated a result mid-September, but Candax indicated that it expects to make an announcement in due course. The outcome of the strategic review process will have a significant bearing on how much shareholder value the company will be able to preserve. As such, we are placing Candax UNDER REVIEW. We previously had a C\$0.10 target and Sell rating.

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.

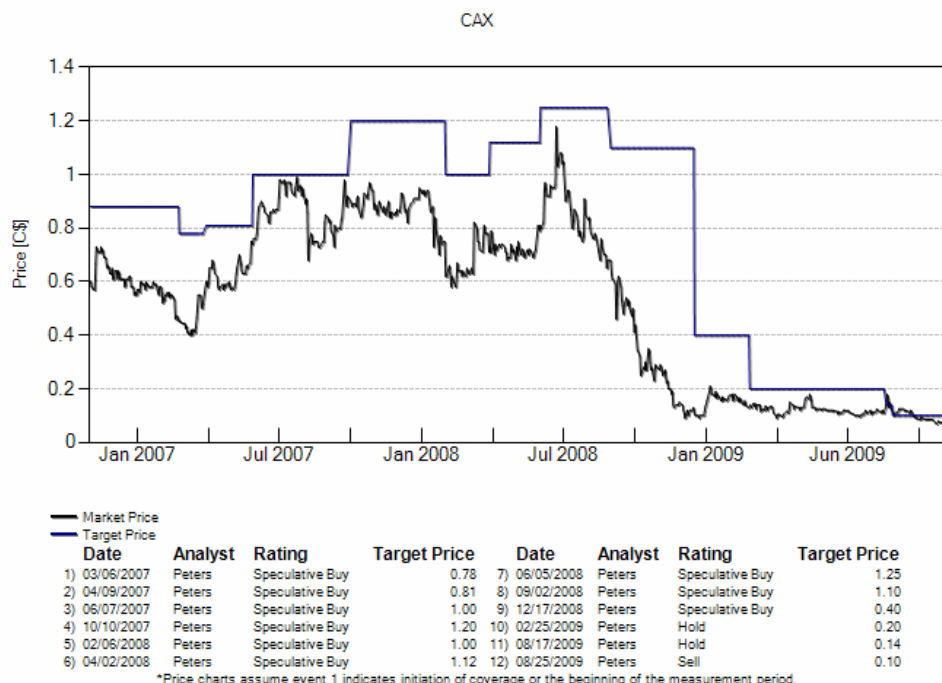
Candax currently has approximately US\$4 million of cash but as previously disclosed, there continue to be ongoing concerns relating to the Corporation's liquidity and working capital position and thus going concern issues continue to be relevant. The Company is continuing to work closely with its professional advisors and with its bankers to develop the best forward strategy to address these matters.

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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:*



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(as of 2 November 2009)

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	#	%	%
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Speculative Buy	70	10.9%	52.9%
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Company	Disclosure
Candax Energy Inc.	7

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