

Candax Energy Inc.

CAX : TSX : C\$0.23

SPECULATIVE BUY**Target: C\$0.74**

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Energy -- Oil and Gas, Exploration and Production**REPORTS Q3/08 AND PROVIDES 2009 INITIAL GUIDANCE****Event**

Candax reported its third quarter results, with cash flow of \$0.04, compared with our estimate of \$0.05, and net income of \$0.01, compared with our estimate of \$0.02. Production in the quarter averaged 1,576 boe/d, which comprised 1,126 b/d of oil and 2.7 mmcf/d of gas. We were forecasting 1,610 boe/d, comprising 1,193 b/d of oil and 2.5 mmcf/d of gas. Current production volumes are approximately 1,833 b/d and 4.7 mmcf/d.

However, due to operational difficulties drilling Ezzaouia-18, which has caused a delay of approximately 60 days in bringing the well on stream, the company has lowered its Q4/08 guidance to 2,400 boe/d (1,750 b/d and 3.9 mmcf/d) from 2,800 boe/d previously (2,000 b/d and 4.7 mmcf/d). Additionally, Candax is deferring several activities that had been planned for 2008 (re-entry and sidetrack of Chaal-1 and Robbana exploration wells), pushing them into 2009, in light of the market conditions. For 2009, operational activity is expected to be limited and production is anticipated to be flat at between 1,700 and 2,100 b/d and approximately 4.7 mmcf/d.

Impact

Slightly negative. While the company's third quarter results essentially fell in line with our estimates, we will be revising our forecasts in light of the company's Q4/08 and initial 2009 guidance, which are lower than our previous estimates.

Action

We currently have a SPECULATIVE BUY rating and 12-month target price of C\$0.74 on Candax.

Valuation

Our target price represents a multiple of 2.5 times to 2009E CFPS and 3.2 times on a debt-adjusted basis. It also equates to our estimated NAV, excluding and exploration upside.

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

* 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 November 2008)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	371	62.1%	34	34.5%
Speculative Buy	68	11.4%	27	52.9%
Hold	139	23.3%	13	18.0%
Sell	19	3.2%	2	10.5%
	597	100.0%		

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.
SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.
NOT RATED: Canaccord Adams does not provide research coverage of the relevant issuer.

“Risk-adjusted return” refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier:

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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