

Candax Energy Inc.

CAX : TSX : C\$0.77

SPECULATIVE BUY

Target: C\$1.00

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COMPANY STATISTICS:

52-week Range: C\$0.40 - 1.00
 Shares Out (M) basic: 169.1
 Shares Out (M) diluted: 171.0
 Market Cap (M): C\$130.2
 NAV /shr: C\$0.81
 Net Debt (M): C\$12.854
 EV/DACF (x): 3.2

EARNINGS SUMMARY:

FYE Dec	2005A	2006A	2007E	2008E
Equivalent				
Production (boe/d):	1,357	560	469	3,687
EPS:	(0.02)	(0.00)	(0.02)	0.03
Op EPS:	(0.01)	(0.01)	(0.01)	0.03
P/Op EPS (x):	(52.8)	(68.2)	(136.9)	23.9
CFPS:	0.05	0.03	-0.00	0.25
P/CF (x):	14.9	25.1	-215.0	3.1

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

PRODUCTION FROM THE FIRST EL BIBANE WELL STARTS UP

Event

Candax Energy announced the start up of production from the El Bibane field offshore Tunisia. The EBB-4 well commenced oil production during the week of March 16, however, the production rates have been variable due to onshore plant commissioning and weather related delays to the offshore tie-in activities, both of which have resulted in several shut downs. EBB-4 has flowed at a peak production rate of 1,400 bopd. Oil production is expected to rise as the commissioning of the facilities is completed and the EBB-3 well is tied-in and brought on stream.

Impact

While results from the El Bibane field are preliminary, we believe the announcement of first production from the field is a positive. Candax stock price has strengthened in the last week on speculation of production start up from the field.

Action

We maintain our SPECULATIVE BUY rating and C\$1.00 target price.

Valuation

Our current target price is based on a multiple of 4.0 times 2008E CFPS and 3.8 times on a debt-adjusted basis. We note that when El Bibane is fully commissioned there is room for our multiples to expand based on successful project execution and the commencement of cash flow growth.

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Next Catalyst

We expect commissioning of El Bibane facilities and EBB-3 tie-in to be completed by mid to late April. Candax is expected to release its Q4/07 results and 2007 reserve update on March 28 or 31.

EL BIBANE UPDATE

While EBB-4 has started producing oil, we believe that it is still early days for the El Bibane field. Candax is in the process of commissioning the field's onshore facilities (including the SEEB power plant), tying in the EBB-3 well, and optimizing gas re-injection at EBB-5. The EBB-4 well flowed at a peak rate of 1,400 bopd and is expected to produce higher volumes as additional gas is re-injected via EBB-5 which should facilitate increased throughput. Candax is planning to perform an acid run on EBB-5 to be able to maximize the flow of re-injected gas through the reservoir and to increase future production rates at EBB-3 and EBB-4.

The EBB-3 well was completed on March 18 and the West Titania rig is being demobilized to Malta. Candax is currently in the process of installing the EBB-3 platform and pipeline hookups with other wells. The SEEB power plant is also being commissioned and will be ready to commence power generation once gas production has been stabilized in April. Gas produced at the El Bibane field will be compressed and transported to the SEEB plant for power generation. Any excess gas will be re-injected via EBB-5 to increase production from EBB-3 and EBB-4. See Figure 1 for a picture of the EBB-4 platform and the West Titania rig.

Figure 1: West Titania rig and EBB-4 jacket



Source: Company reports

Candax has guided toward a production range of approximately 3,000 to 4,000 bopd from the El Bibane field. We expect production from the field to average approximately 2,600 bopd in 2008 and then stabilizing at 3,500 bopd in the future. Once SEEB is fully operational, Candax plans to generate approximately \$1.0 million in cash flows from the plant.

Summary and conclusion

Candax is expected to release its Q4/07 and full year results and 2007 reserve update either on March 28 or 31. We estimate a Q4/07 CFPS (fd) and operating EPS (fd) of \$0.00 and a full-year CFPS (fd) of \$0.00 and operating EPS (fd) of (\$0.01). Production start up from the El Bibane field is good news for Candax. However, we realize that these are early days at El Bibane and additional commissioning and tie-up is required before the field is producing at expected rates. The company expects both wells to be producing by late April and production gradually ramping up to 3,000 to 4,000 bopd. In addition to production from El Bibane, during 2008, we expect Candax to explore deeper prospects at Ezzaouia and potentially Chaal, and invest in new business ventures.

Our C\$1.00 target price is based on a multiple of 4.0 times 2008E CFPS and 3.8 times on a debt-adjusted basis. Our SPECULATIVE BUY rating and low cash flow multiple reflects Candax's execution and financial risk. We believe that when the El Bibane field is successfully executed, there may be room for multiple and target expansion.

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

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

Distribution of Ratings:
Global Stock Ratings
(as of 29 February 2008)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	310	60.9%	43	43.9%
Speculative Buy	63	12.4%	45	71.4%
Hold	119	23.4%	5	22.7%
Sell	17	3.3%	1	5.9%
	509	100.0%		

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