

Candax Energy Inc.

CAX : TSX : C\$0.63

SPECULATIVE BUY

Target: C\$0.88

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COMPANY STATISTICS:

52-week Range: \$0.46-1.73
 Avg. Daily Vol. (000): 1038
 Market Capitalization (M): \$101.0
 Shares Out. (M) basic: 160.3
 Shares Out. (M) fd: 172.4
 Net Long-term Debt/CF: 46.1x

EARNINGS SUMMARY:

FYE Dec	2004A	2005A	2006E	2007E
Equivalent				
Prod. (boe/d):	0	1,357	581	2,885
EPS:	(0.10)	(0.02)	(0.00)	0.00
Operating EPS:	(0.01)	(0.01)	(0.00)	0.00
P/Operating				
EPS:	(67.1x)	(43.2x)	(226.8x)	132.3x
CFPS:	(0.10)	0.05	0.02	0.13
P/CF:	(6.6x)	12.2x	32.9x	4.9x

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

2007 CAPITAL EXPENDITURE BUDGET PROVIDES ROOM TO GROW

Event

Candax announced its 2007 capital expenditure budget and an operational update last evening. The company plans to spend approximately US\$25.4 million on various projects, with the majority of the monies allocated to El Bibane (Candax 73.8%) redevelopment. Additionally, capital will be expended: to boost production at Ezzaouia (Candax 31.4%), to drill a contingent appraisal well at Chaal and for exploration on a new prospect onshore Madagascar. At El Bibane, the jack-up drilling rig has arrived at the Zarzis port, however it is awaiting arrival of additional support equipment prior to the commencement of drilling operations.

Impact

Neutral. Drilling delays at El Bibane have postponed resumption of production by another month. We are now assuming production commencing late in the first quarter of 2007. However, the five-well workover program planned for Ezzaouia, in January, is expected to increase gross production during Q1/07 by 125 b/d, ramping to 500 b/d in Q2/07. The net effect is a minor decrease in our 2007 production estimate to 2,885 boe/d from 2,960 boe/d and a decrease in operating CFPS (fd) to \$0.13 from \$0.14.

Action

We maintain our SPECULATIVE BUY rating with an \$0.88 target price.

Valuation

Candax is currently trading at a 28% discount to our base NAV estimate (\$0.88). On a P/CF basis the company is trading at 4.9x our 2007 estimate. Our target price of \$0.88 represents Candax's NAV, excluding any value for Chaal.

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Waiting to jack-up

Majority of the 2007 capital spending budget is allocated to the redevelopment of the El Bibane field. During November, the Alastair jack-up rig arrived at the Zarzis port, but is currently awaiting the arrival of a jack-up support barge, from Italy, for mud handling and other equipment required for safety and environmental protocol. We are now assuming the first well will spud during late January or early February with production expected in mid-March. This delays production by another month from our previous expectations of production start-up during mid-Q1/07. Our 2007 estimate of net production from El Bibane has decreased from 2,480 boe/d to 2,280 boe/d.

Incremental production at Ezzaouia

At Ezzaouia, Candax plans to commence a five-well workover program in January 2007 which is expected to add additional net production of 157 b/d. This boosts Ezzaouia's 2007E net production 42% from 303 b/d to 430 b/d. Second, the company plans to drill two infill wells, during the H2/07, and implement a water flood program to maximize recovery from the field. Candax also plans to drill a Deep Triassic exploration well during H2/07 which is subject to rig availability and the Government's approval.

Chaal update

As discussed in our previous notes, operations at Chaal-1 were suspended without confirmation as to the potential size or commerciality of the discovery. The partners are reviewing all options to determine the next step in appraisal. Contingent capital expenditures have been included in the 2007 budget for a sidetrack or a new deviated well.

Malagasy prospect

In November 2006, Candax signed a Production Sharing Contract (PSC) for Block 1101 located onshore Madagascar. The company is the operator of the permit and has a 60% working interest, while its partner, EAX, a Dubai based company, holds 40%. During Phase I, a two-year period, Candax is committed to spend approximately US\$1.5 million on exploration.

Minimal impact on estimates

The announcement of the 2007 capital expenditure budget and new operational updates had a fairly neutral impact on our estimates. Operating CFPS decreased slightly from \$0.14 to \$0.13 and production declined from 2,960 boe/d to 2,885 boe/d. However, operating EPS (fd) remains unchanged. Please see Figure 1 for details on changes to our key estimates.

Figure 1: Financial and Operating Statistics

FYE Dec (C\$ millions)	2006E	2007E		% change
		Old	New	
Net income	(0.5)	0.9	0.9	-2.7%
Operating EPS (fd)	\$(0.00)	\$ 0.00	\$0.00	N/A
Cash flows	3.5	25.4	23.3	-8.1%
CFPS (fd)	\$0.02	\$ 0.14	\$0.13	-9.4%
Capital expenditures	33.6	20.0	28.5	42.5%
Production				
Liquids (b/d)	581	2,289	2,330	1.8%
Gas (mmcf/d)	-	4	3	-16.6%
Equivalent (boe/d)	581	2,956	2,885	-2.4%

Source: Company reports; Canaccord Adams estimates

Summary and Conclusion

The 2007 capital spending budget is focused on getting key projects off the ground and laying the foundation to generate sustainable future cash flows. The commencement of production from El Bibane and the incremental upside from Ezzaouia will provide Candax with substantial horse power to generate value for investors. The commitment to invest in current projects and the ability to track new exploration opportunities sets Candax apart as an asset-value-player that is waiting to deliver positive results.

Our NAV and target price represent Candax's proven and probable reserves in Tunisia and its cash (\$0.29/share), excluding the Chaal potential. Currently, Candax's current share price represents approximately a 28% discount to its NAV of \$0.88. The market has decided to completely discount any value for the Chaal permit until further exploration plans are announced. The next catalyst would be the expected drilling at El Bibane during Q1/07. We maintain our SPECULATIVE BUY recommendation.

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.

APPENDIX: IMPORTANT DISCLOSURES

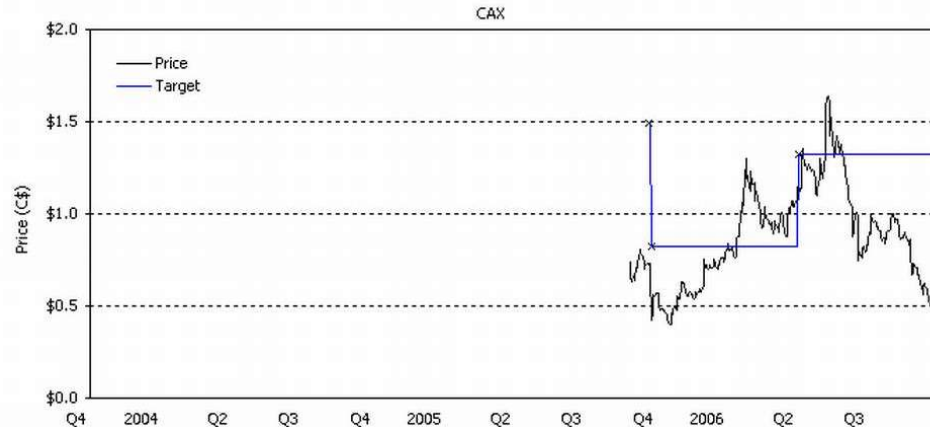
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Site Visit:

An analyst has visited the issuer's material operations in Calgary. 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

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

Distribution of Ratings:

Global Stock Ratings
(as of 1 December 2006)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	292	57.37%	43	43.84%
Speculative Buy	56	11.00%	67	67.86%
Hold	139	27.31%	30	30.22%
Sell	22	4.32%	13	13.64%
	509	100.00%		

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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.

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

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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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