

Candax Energy Inc.

CAX : TSX : C\$0.495

SPECULATIVE BUY

Target: C\$0.88 ↓

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COMPANY STATISTICS:

52-week Range:	\$0.39-1.73
Avg. Daily Vol. (000):	1038
Market Capitalization (M):	\$90.0
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 Production (boe/d):	0	1,357	1,216	2,956
EPS:	(0.10)	(0.02)	(0.00)	0.03
Operating EPS:	(0.01)	(0.01)	(0.00)	0.03
P/Operating EPS:	(52.7x)	(34.0x)	(170.7x)	19.6x
CFPS:	(0.10)	0.05	0.02	0.12
P/CF:	(5.2x)	9.6x	26.1x	4.0x

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

RIG MARKET DELAYS EL BIBANE PRODUCTION

Event

On October 3, 2006, Candax Energy announced contractor delays to the mobilization of the jack-up drilling barge to drill the three well redevelopment program at El Bibane. Management is working on alternate drilling solutions, but a drilling rig has not been secured due to the tight rig market.

Impact

The expected arrival of the drilling barge in November delays production from El Bibane to Q1/07. Production is now anticipated to be fully ramped by the end of Q1/07 or early Q2/07. The delay in production reduces our 2007E CFPS (fd) estimate from \$0.17 to \$0.12 and operating EPS (fd) estimate from \$0.05 to \$0.03.

Action

We maintain our SPECULATIVE BUY rating; however, due to production delays at El Bibane and the uncertain timing for the resumption of activities on the Chaal discovery, we have reduced our target price from C\$1.08 to C\$0.88 (this new valuation excludes the probable reserve values at Chaal).

Valuation

Candax is currently trading at a 44% discount to our base NAV estimate (\$0.88). On a P/CF basis the company is trading at 4.1 times our 2007 estimate. Our target price of \$0.88 represents Candax's NAV excluding any value for Chaal.

Next catalyst

We expect that the arrival of a rig at El Bibane in November will be a positive catalyst, with production expected to re-start during Q1/07.

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Lowered expectations drive new production estimates

The unavailability of a drilling barge has delayed production at El Bibane which is now expected to re-start production in Q1/07. As a result, our operating and financial estimates have been revised. Please see Figure 1 for details on changes to our key estimates.

Figure 1: Financial and Operating Statistics

(\$ millions)	2006E		2007E	
	Old	New	Old	New
Net income	\$(3.4)	\$(0.5)	\$9.0	\$4.6
Operating EPS (fd)	\$ (0.02)	\$ (0.00)	\$ 0.05	\$ 0.03
Cash flows	\$0.9	\$3.5	\$30.8	\$22.3
CFPS (fd)	\$ 0.01	\$ 0.02	\$ 0.17	\$ 0.12
Production				
Liquids (b/d)	1,096	816	2,504	2,289
Gas (mmcf/d)	2	2	4	4
Equivalent (boe/d)	1,496	1,216	3,170	2,956

Source: Canaccord Adams estimates

NAV revisited

As discussed in our last note, 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. The delays at Chaal-1 and El-Bibane have lowered the market's expectations for positive results from Candax. Consequently, we are taking a more conservative view in our target valuation and now exclude any value for the probable reserves at Chaal. Our NAV now represents Candax's proven and probable reserves in Tunisia and its cash, excluding the Chaal potential. Currently, Candax's current share price represents approximately a 44% discount to its NAV of \$0.88. See Figure 2 for a calculation of the company's NAV, excluding Chaal, and its P/CF multiple.

Figure 2: Calculation of Candax NAV

	\$ million	Per Share Diluted
Net asset value calculation		
Proven Reserves, 10% pre-tax	47,900	0.28
Probable Reserves, 10% pre-tax	44,700	0.26
Value of reserves excluding Chaal	92,600	0.54
Cash less LTD	\$50,140	\$0.29
Option proceeds	9,208	0.05
Net Asset Value excluding Chaal (fd)	151,948	0.88
Shares Outstanding (million fully diluted)		172,355
Current share price		\$0.495
Discount to NAV excluding Chaal		43.9%
2007e CFPS		0.12
P/CF		4.08

Source: Company reports, Canaccord Adams estimates

Conclusion

The market reacted negatively to the El Bibane news, reducing Candax's share price to \$0.495, a decrease of approximately 12% from the previous close. We expect that after initial selling pressure Candax shares will receive support from its underlying NAV, which includes a net cash position of \$0.29 per share. Our NAV estimate for Candax, excluding Chaal, is \$0.88 and the current share price of \$0.495 represents a 44% discount to this value.

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 rig mobilization at El Bibane during November. We continue to 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, then there could be a material impact on our financial and valuation estimates.

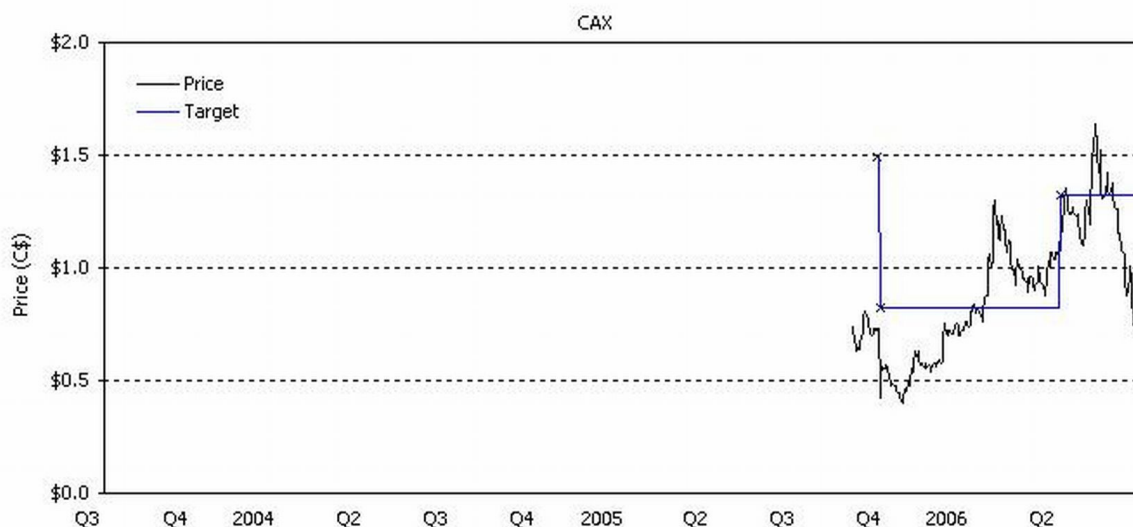
Unless new discoveries or assets are acquired, future cash flows from existing assets will decline substantially, which may impact the future valuation of Candax. All producing and potential properties are presently located in Tunisia. Although currently seen as a relatively stable government, the company's 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.

An analyst has visited the issuer's head office in Toronto and its field operations in Tunisia. No payment or reimbursement was received from the issuer for the related travel costs.

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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 September 2006)

Rating	Coverage Universe		IB Clients	
	#	%	%	
Buy	290	57.9%	45.2%	
Speculative Buy	52	10.4%	59.6%	
Hold	143	28.5%	29.4%	
Sell	16	3.2%	18.8%	
	501	100.0%		

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Candax Energy Inc.	1A, 2, 3, 7, 11 (John Zaozirny)

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