

### Candax Energy Inc.

CAX : TSX : C\$0.67

**SPECULATIVE BUY**

**Target: C\$1.10 ↓**

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#### COMPANY STATISTICS:

52-week Range:	C\$0.56 - 1.18
Shares Out (M) basic:	169.2
Shares Out (M) diluted:	169.2
Market Cap (M):	C\$113.4
NAV /shr:	C\$0.94
Net Debt (M):	C\$57.875

#### EARNINGS SUMMARY:

FYE Dec	2006A	2007A	2008E	2009E
Equivalent Production (boe/d):	560	465	1,611	3,127
EPS:	(0.00)	(0.05)	0.04	0.18
Op EPS:	(0.01)	(0.03)	0.04	0.18
P/Op EPS (x):	(59.4)	(26.3)	17.6	3.8
CFPS:	0.03	-0.02	0.16	0.36
P/CF (x):	21.9	-29.1	4.1	1.8
EV/DACF (x):			5.542	2.1
NAV /shr:		0.94		

#### 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

## BETTER LATE THAN NEVER -- GUIDANCE AND TARGET REDUCED

#### Event

Candax has provided an operational update as well as an updated guidance for the remainder of the year. The company is forecasting Q3/08 volumes of 1,600 b/d and Q4/08 volumes of 2,800 b/d. This implies a 2008 full-year average of 1,610 b/d. The new guidance is lower than previously guided due to delays in bringing new production on-stream, in addition to optimization work at El Bibane and a more conservative outlook for production rates at Ezzaouia.

#### Impact

Negative. We have adjusted our forecasts and are now projecting 2008 production of 1,611 boe/d, down from 2,649 boe/d, while our 2009 production forecast has also been lowered to 3,127 boe/d, from 3,869 boe/d. As a result, our 2008E EPS and CFPS are now \$0.04 and \$0.16, from \$0.14 and \$0.32, previously. Our 2009E EPS remains unchanged but our CFPS has decreased to \$0.36, from \$0.42, previously.

#### Action

We are maintaining our SPECULATIVE BUY recommendation on Candax. However, our target price has been reduced to C\$1.10, from C\$1.25.

#### Valuation

Our target price is based on a 3.0 times multiple to 2009E CFPS and represents a 3.3 times multiple on a debt-adjusted basis.

Canaccord Adams is the global capital markets group of Canaccord Capital Inc. (CCI : TSX|AIM)

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## OPERATIONAL UPDATE HIGHLIGHTS

Ezzaouia 17 has commenced production on August 27, which closely follows the recent spudding of Ezzaouia 18 on August 21. Total gross production from the field is now 1,700 b/d, or 533 b/d net to Candax. Meanwhile, work is ongoing to optimize production from the El Bibane field, while facility optimization is also ongoing to handle higher-than-anticipated water production. While production volumes at El Bibane in July and August were relatively flat from Q2/08, current gross production from EBB-3 and EBB-4 is approximately 2,000 b/d oil. Candax anticipates volumes will remain around this level for the rest of 2008.

For Q3/08, the company forecasts production of 1,600 boe/d, which we note is relatively flat from the 1,622 boe/d reported in Q2/08. Despite bringing new wells on-stream, this was done relatively late in the quarter to benefit average volumes. Fourth quarter production levels are expected to be stronger, and the company is guiding for volumes of 2,800 boe/d. Based on its previously reported quarterly numbers and its new guidance, this implies 2008 full-year volumes of approximately 1,610 boe/d. This is down from its previous guidance, as we anticipated, due to delays in bringing new production on stream, optimization work at El Bibane, and a more conservative outlook for production rates at Ezzaouia.

Going forward, once Ezzaouia 18 has completed drilling (which is expected to take 45 days after spudding), the rig will be moved to a location at Chaal. Work will begin at Chaal near the end of this year; however, due to more extensive work required here, the company does not anticipate testing this well until 2009.

We have updated our forecasts in light of the company's new guidance. We have also adjusted them to reflect its Q2/08 results. We are now forecasting 2008 production of 1,611 boe/d, down from 2,649 boe/d, while our 2009 production forecast has also been lowered to 3,127 boe/d, from 3,869 boe/d. As a result, our 2008E EPS and CFPS are now \$0.04 and \$0.16, from \$0.14 and \$0.32, previously. Our 2009E EPS remains unchanged but our CFPS has decreased to \$0.36, from \$0.42, previously. Please see Figure 1 for our new forecasts.

**Figure 1: Candax Operating and Financial Results and Forecasts**

Candax Energy (\$000's)	Q3/07A	Q4/07A	Q1/08A	Q2/08	Q3/08E	Q4/08E	2007	2008E	2009E
Net Income	2,216	(6,032)	(2,298)	2,820	4,725	1,961	(9,251)	7,208	30,922
Reported EPS (FD)	0.01	(0.04)	(0.01)	0.02	0.03	0.01	(0.05)	0.04	0.18
Operating EPS (FD)	0.02	(0.02)	(0.01)	0.02	0.02	0.01	(0.03)	0.04	0.18
Cash Flow	3,441	(3,700)	(162)	9,087	9,888	9,235	(3,886)	28,049	62,741
CFPS (FD)	0.02	(0.02)	(0.00)	0.05	0.06	0.05	(0.02)	0.16	0.36
Net Capital Spending	(2,866)	(24,267)	(27,348)	(13,921)	(3,500)	(7,000)	(41,756)	(51,769)	(35,000)
Net Debt/(cash) incl. Working capital	630	33,040	60,633	57,875	51,543	48,879	33,040	48,879	22,887
Liquids (b/d)	502	424	413	1,005	1,193	2,016	465	1,157	2,344
Gas (mmcf/d)	-	-	-	4	3	5	-	3	5
Equivalent (boe/d)	502	424	413	1,622	1,610	2,800	465	1,611	3,127

Source: Company reports, Canaccord Adams estimates

## CONCLUSION

Candax has completed its redevelopment program at the El-Bibane field (73.8%) and is currently working towards maximizing field production rates. On the drilling side, the company is continuing its development drilling program at Ezzaouia (31.4%) with the recent completion of Ezzaouia-17 and the spudding of Ezzaouia-18. In early November, the Chaal (60%) well will be re-entered and side-tracked. We have not included any estimate for success in our current \$0.94/share NAV for Candax. The company has indicated a potential gross gas resource for Chaal in the order of 1.0 Tcfe. In new ventures, Candax is expected to proceed with a 2D seismic acquisition on the Madagascar Block 1101. While initial production rates from El Bibane are less than anticipated, total production for the company has turned the corner, with Q4/08 expected to average 2,800 boe/d compared to 1,610 boe/d in Q3/08 and only 434 boe/d in Q4 of 2007.

We are maintaining our SPECULATIVE BUY recommendation on Candax. However, our target price has decreased to C\$1.10, from C\$1.25, primarily reflecting the shortfall in 2008 cash flow and a lower forward multiple. Our target price is based on a 3.0 times multiple to 2009E CFPS and represents a 3.3 times multiple on a debt-adjusted basis.

### 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 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:\***

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

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

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Global Stock Ratings  
(as of 5 August 2008)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	374	64.2%	35	35.8%
Speculative Buy	59	10.1%	57	57.6%
Hold	126	21.6%	21	21.4%
Sell	24	4.1%	3	12.5%
	583	100.0%		

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