Candax Energy Inc. – CAX:TSX $0.56

Operational Update – Slow Progress at El Bibane

Jamie Somerville 403-705-3027 jsomerville@mgisecurities.com
Allison Morley, Associate 403-705-3035 amorley@mgisecurities.com

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Stock Rating: Speculative Buy

Target Price: $1.18

Year-end Dec. 31	F05A	F06E	F07E
Oil and Liquids (bbl/d)	493	634	2,512
Natural Gas (mcf/d)	1,095	0	4,600
BOE/d (boe/d 6:1)	675	634	3,279
CFPS, f.d.	$0.05	$0.04	$0.23
Net Debt (mm)	($11.4)	($34.1)	($23.0)
Enterprise Value (mm)	$71	$60	$72
EV to BOE/D	$104,614	$95,347	$21,817
Projected Return			110.7%
Shares Outstanding (basic) (mm)			168.9
Shares Outstanding (f.d.) (mm)			180.4
Market Capitalization			$94.6
NAVPS ($/f.d. share), end 2006 Forecast			$1.18
P/NAVPS			0.5

Source: Company reports, MGI Securities Inc.

Candax Energy has published an update for operations at its El Bibane redevelopment project in Tunisia. This release confirms that contractor delays have continued, but that slow progress is being made.

CAX now expects to complete drilling of the first well in the program by year-end and production to start up shortly thereafter. Based on this slow progress, we expect CAX to continue to trade at depressed levels in the short term.

However, we welcome slow progress as being better than no progress at all, and stress that we still see substantial long-term value in the company's assets and management's ability to create further value through potential transactions going forward.

Developments

Candax has experienced further delays during August and September due to the mobilization of the drilling barge contracted for the three well redevelopment of the El Bibane field. Although the company continued to consider alternative contractor options, none of these have been executed.

The mobilization of support barges and vessels has commenced in mid-September, and the main drilling barge unit is expected to be mobilized to Tunisia within the next two weeks. As assembly of the drilling unit is still required post-mobilization, drilling is unlikely to commence before November. Assuming no further significant delays, the first of the three wells is expected to be completed by end 2006. This should be followed by completion of the full redevelopment project during Q1 2007.

In addition, the company has announced a reorganization of its management. Keith Howells, who has been managing CAX's Tunisian operations since the company acquired producing assets from Centurion Energy in early 2005, will be relocating to Dubai to provide additional focus on business development opportunities. We expect that CAX will announce a new General Manager for its Tunisian operations in the near future, and expect this to lead to an increased focus on operations and engineering project management going forward.

Recommendation

We are maintaining our Speculative BUY recommendation for Candax Energy with an unchanged target price of $1.18 per share. Our target price is based on 1.0x our updated estimate of future NAV using a risked expected monetary value. Our estimate of future NAV is only negligibly affected by our updated modeling, accounting for the further delayed redevelopment at El Bibane. We highlight that continued share price declines have put CAX at a large discount to our risked NAV valuation. Our target price now implies a potential return of 110.7% from yesterday's closing price of $0.56. Although we prefer to base our recommendations on NAV estimates, we also note that our cash flow forecast for 2007 would also justify a significantly higher share price.

We remain convinced of management's technical abilities and expect the company to continue to look for ways to improve its operating record in Tunisia. However, the key El Bibane re-development still holds the potential for minor disappointments in the form of further small delays, and as a result, we expect that market valuation will remain depressed until the company can issue significant positive news, either in the form of production at El Bibane or a value-creating transaction. (CAX's management continues to pursue large acquisition opportunities that could potentially change the nature of the company.)

MGI SECURITIES

Candax Energy Inc.

TSX - CAX

Current Price $0.56

SHARES		TARGET PRICE	RECOMMENDATION	
Shares Outstanding Basic (MM)	168.9		Buy	
Shares Outstanding F.D. (MM)	180.4	**$1.18**	**Spec Buy**	**Speculative BUY**
Market Capitalization (MM$)	$94.6		Hold	
Percent of Shares Held by Management	11%	Return to Target 110.7%	Sell	

Production (Net Sales)

Units	Year-end Dec.31	2004A	2005A	2006F	2007F
(bbl/d)	Oil & Liquids	0	493	634	2,512
(mmcf/d)	Natural Gas	0.0	1.1	0.0	4.6
(6:1)	BOEPD	0	675	634	3,279

Financial Results

Units	Year-end Dec.31	2004A	2005A	2006F	2007F
(MM)	Cash Flow	n/a	$5.3	$7.7	$41.6
	CFPS - Basic	n/a	0.06	0.05	0.25
	CFPS - Fully Diluted	n/a	0.05	0.04	0.23
(MM)	Net Income	n/a	($1.5)	($0.7)	$12.4
	EPS - Basic	n/a	(0.02)	(0.00)	0.07
	EPS - Fully Diluted	n/a	(0.01)	(0.00)	0.07
Comment:					

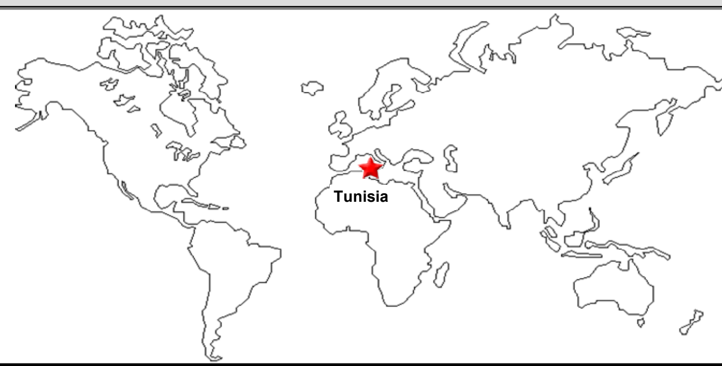
Valuation Metrics

Units	Year-end Dec.31	2004A	2005A	2006F	2007F
	P/CF - Fully Diluted	n/a	13.7 x	13.1 x	2.4 x
	P/E - Fully Diluted	n/a	(43.2) x	(146.7) x	8.1 x
	EV/DACF	n/a	10.1 x	7.2 x	1.5 x
($/BOEPD)	EV/BOEPD	n/a	$104,614	$95,347	$21,817
($/BOE)	EV/BOE - P+P Reserves	n/a	$4.51		
Comment:	2005A metrics based on weighted average 2005 share price				

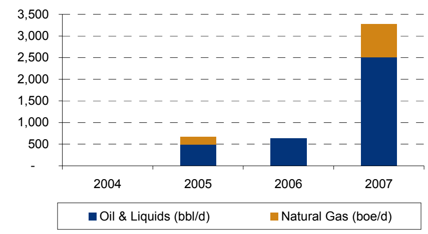
Capital Structure

Units	Year-end Dec.31	2004A	2005A	2006F	2007F
(MM)	Basic Shares O/S	4.7	130.7	168.9	168.9
(MM)	F.D. Shares O/S	4.7	183.1	180.4	180.4
(MM)	Market Capitalization	n/a	$82.0	$94.6	$94.6
(MM)	Net Debt	($3.7)	($11.4)	($34.1)	($23.0)
(MM)	Enterprise Value	n/a	$71	$60	$72
(MM)	Capex	$0.1	$46.3	$25.8	$28.0
	Net Debt to Cash Flow	8.2 x	(2.1) x	(4.4) x	(0.6) x

Core Areas



Production Mix



Per Share Growth

	2006F	2007F
Production per share	-76.8%	384.6%
Cash Flow per share	-23.5%	404.0%

Net Asset Value

	2005A	2006F
NAV per Share ($/share)	$ 1.06	$ 1.18
P/NAVPS	0.6 x	0.5 x
Net Land (acres)	301,973	254,529

Sensitivities

Cash Flow Per Share, Fully Diluted

	2007F
WTI +/- US$1.00/bbl	$1.05
Gas +/- $1.00/mcf	$0.19
Oil +/- 100 bbl	$0.26
Gas +/- 1 Mmcf	$0.00

Financing History

Date	Issue Price	# of Shares	Proceeds
22-Nov-04		13,607,000	$3,401,750
04/14/2005*	$0.80	82,500,000	$66,000,000
04/18/2006**	$1.20	35,497,106	$42,596,527

* Units included half a warrant exerciseable at $1.20 for one year

** 86% of previously awarded warrants exercised

RESERVES

Proven Reserves		P + P Reserves	
Oil & Liquids (mbbl)	2,362	Oil & Liquids (mbbl)	5,424
Natural Gas (Bcf)	9,765.0	Natural Gas (Bcf)	61,410
Total mboe (6:1)	3,990	Total mboe (6:1)	15,659
Proven Reserve Growth	n/a	P + P Reserve Growth	n/a
Proven RLI (years)	16.7	P + P RLI (years)	65.6

FINDING & DEVELOPMENT

Proven		P + P	
Reserve Additions	3,989.5	Reserve Additions	15,659.0
F&D ($/BOE)	$12.61	F&D ($/BOE)	$3.96
Replacement Ratio	16.2	Replacement Ratio	63.5
Recycle Ratio	1.6	Recycle Ratio	5.2

COMMODITY PRICE ASSUMPTIONS

WTI (US$/bbl)		Brent (US$/bbl)		Foreign Exchange (C$/US$)	
2005	$56.59	2005	$54.51	2005	$0.83
2006	$66.00	2006	$66.50	2006	$0.88
2007	$60.00	2007	$57.50	2007	$0.89

Source: Company reports, MGI Securities Inc.

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3. The analyst has visited the issuers London (UK) and Tunis (Tunisia). No payment or reimbursement was received from the issuer for the associated travel costs.

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