

**Tristone Capital Ltd.
Producer Update**



**Candax Energy (CAX CN C\$0.99)
12 Month Target C\$1.25 (from C\$0.75), Outperform**

Peter Nicol, Ph. 44 20 7399 2478 pnicol@tristonecapital.com

Toby Pierce, Ph. 44 20 7399 2490 tpierce@tristonecapital.com

				2005A	2006A	2007E	2008E
Shares (basic, mm)	168.9	CFPS		\$0.06	\$0.03	\$0.25	\$0.35
Shares (FD, mm)	180.5	EPS		(\$0.02)	(\$0.00)	\$0.19	\$0.25
Market Cap \$mm	\$150	EV/DACF		23.1x	43.5x	2.7x	1.4x
Enterprise Value \$mm	\$124	P/EPS		nmf	nmf	5.3x	4.0x
		D/CF		nmf	nmf	nmf	nmf
Recommendation	Outperform	Oil & NGL	mb/d	0.9	0.6	1.4	2.2
Current Price	C\$0.99	Gas	mmcf/d	3	0	2	5
12 Month Target	C\$1.25	BOE (6:1)	mboe/d	1.4	0.6	1.7	3.0
Expected Return	26%						

Note: Unless otherwise stated all per share figures are diluted and all production volumes are gross of royalties.

Raising Target to C\$1.25 on Expected Cash Flow

- **Increasing Target.** We are increasing our target up C\$0.50 to C\$1.25/sh and re-iterating our Outperform rating, based on 5x our '07 cash flow multiple from Candax's anticipated production growth in H2/07.
- **Ezzaouia field.** Candax successfully completed its work-over programme on the Ezzaouia field (31.4% WI), which we include C\$0.12/sh for in our RENAV, resulting in a doubling of its current net production to 1.1 mb/d from its onshore fields in Tunisia. Two further infill development wells are scheduled for H2/07.
- **El Bibane Redevelopment.** Candax commenced its three-well development program on the El Bibane oil and gas field (73.8% WI), offshore Tunisia (Exhibit 1), which is key to re-establishing production and realising the C\$0.17/sh in our core NAV that we carry for El Bibane.
- **Drilling Schedule.** Candax will first drill the EBB4 well before moving to re-complete the EBB-3 well, and will then move on to drill a gas re-injection well at EBB-5 to complete the programme.
- **Production Targets.** Full field rehabilitation should be complete by December with estimated gross production of 3.5-4 mb/d and 6-10 mmcf/d. Candax's focus is to raise total net production to ~5 mboe/d by YE/07.
- **Increasing Target.** Success at El Bibane would significantly boost Candax's total production, which makes the shares look attractive on a cash flow multiple despite its past difficulties. We continue to like the story, are increasing our price target from C\$0.75 to C\$1.25/sh and are re-iterating our Outperform rating, ahead of a busy development drilling programme in H2/07.

**Important Disclosures:
Please see the back two
pages**

Exhibit 1: Location of Candax's Assets in Tunisia

Source: Candax Energy

Exhibit 2: Net Asset Value

Candax Energy				
	MMBOE	Unit Value (\$/BOE)	Strip Pricing PV AT US\$mm	C\$/Share
Assets (NPV10)				
Producing Assets	2.3	11.33	25.8	0.16
Cash/(Net Debt) (US\$ mm)			26.4	0.16
Undeveloped Resources	10.8	5.20	56.0	0.34
			-	-
Core NAV	13.0	8.30	108	0.67
<i>Current Price/NAV</i>				149%
Option Proceeds (US\$ mm)			-	-
Riskd Exploration Value	14.9	3.46	51.6	0.32
RENAV	28.0	5.71	160	C\$ 0.98
<i>Current Price/RENAV</i>				101%
			Current Stock Prices	C\$ 0.99

Source: Tristone Capital

CANDAX ENERGY (CAX CN)**Rating: Outperform**

Target EV/DACF:	1.3x	Recent Price:	C\$ 0.99		
Target PE Ratio:	na	Target Price:	C\$ 1.25		
Earnings Weighting:	0%	Expected Return:	26%		
			2005A	2006A	2007E
					2008E
Pricing					
WTI (\$US/b)			56.56	66.10	63.50
Corporate Oil & Liquids Price (\$/b)			40.32	64.42	67.46
Corporate Natural Gas Price (\$/mcf)			3.33	0.56	0.56
Production Volumes					
Oil & Liquids (mb/d)			0.9	0.6	1.4
Natural Gas (mmcf/d)			3	-	2
Mboe/d (@ 6:1)			1.4	0.6	1.7
Production Growth			nmf	-59%	198%
Production Per Share Growth (boe/mm shares)			nmf	-77%	179%
Gas Production Ratio (6:1)			35%	0%	19%
Financial Results					
Cash Flow to Common (US\$mm)			5	4	40
CFPS (Basic C\$/Sh.)			0.06	0.03	0.27
CFPS (Diluted C\$/Sh.)			0.06	0.03	0.25
Earnings to Common (US\$mm)			(1)	(0)	30
EPS (Diluted C\$/Sh.)			(0.02)	(0.00)	0.19
Multiples					
Price/Cash Flow			17.5x	34.3x	4.0x
EV/DACF			23.1x	43.5x	2.7x
P/E			nmf	nmf	5.3x
EV/Reserves (US\$/boe)			6.78		
EV/Production (US\$/boe/d)			78.4	213.9	61.7
Capital Structure					
Basic Shares Outstanding (mm)			130.7	168.9	168.9
Market Capitalization (US\$mm)			116	150	150
Year End Net Debt (US\$mm)			(10)	(31)	(48)
Enterprise Value (US\$mm)			106	120	103
Debt/CF			nmf	nmf	nmf
Unit Costs and Netbacks - US\$/boe (6:1)					
Revenue			23.45	57.97	49.94
Royalties			-	-	-
Operating Costs			- 4.88 -	- 19.73 -	- 4.87 -
Operating Netback			18.57	38.24	45.07
G&A			- 6.78 -	- 15.72 -	- 6.61 -
Interest			0.22	7.72	2.20
Netback (US\$/boe)			12.01	30.24	40.66
Other Information					
Capex (US\$mm)			2	24	23
Capex/CF			0.4	5.4	0.6
NAV/Share			C\$0.98		
Price/NAV			101%		

Valuation Methodology**Weighting**

12-month target established using a multiple of forecast Cashflow.	100%
12-month target established using a multiple of Price to Risked Exploration Net Asset Value.	0%

Important Disclosures

- Yes No Within the last 12 months, has Tristone Capital Inc. undertaken an underwriting liability or received compensation for investment banking services with respect to the subject company?
- Yes No Does the author(s) of this report, or a member of his household have a financial interest in securities in the subject company? If so, explanation:
- Yes No Is Tristone Capital Inc. and or its affiliates a market maker in the issuer's securities at the date of this report?
- Yes No Does the author(s) of this report or a member of his household serve as a Director or Officer or an Advisory Board Member of the subject company or have any actual material conflict of interest with the subject company? If so, explanation:
- Yes No Does Tristone Capital Inc. or its affiliates beneficially own more than 1% of any class of common equity of the issuer?
- Yes No Has the publishing analyst/associate visited a site of the issuer? If yes details available upon request. If yes did the analyst/associate receive compensation? Yes No If yes, details available upon request.

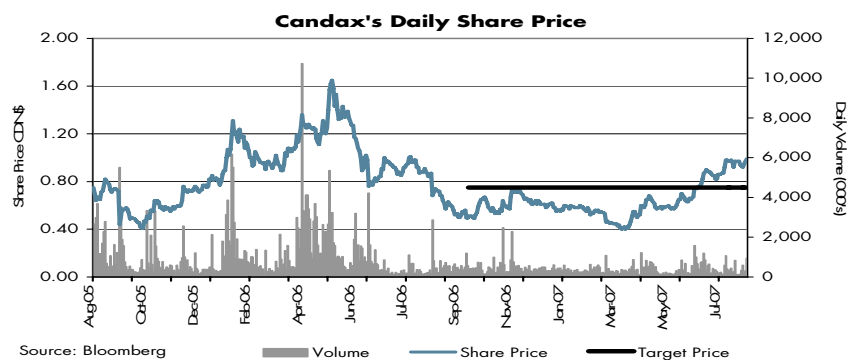
Tristone Capital Inc and or its affiliates, Tristone Capital Limited and Tristone Capital (USA) Inc. intends to seek and may receive compensation for investment banking services from all issuers covered by Tristone research within the next three months. The compensation of the author(s) of this report is in part or entirely derived from the overall profitability of Tristone Capital Inc. and its affiliated companies. The author's compensation is not directly tied to any investment banking business.

The author(s) attests that (i) the views expressed in this report accurately reflect the author's personal views about the securities described herein and (ii) the author's compensation was not, is not and will not be tied to specific recommendations or views expressed in this report.

Research Recommendations

The following is the Tristone Rating System, which includes the percentage of recommendations that fall into each category.

Rating	Expected returns versus the peer group or sector	% of Tristone Universe
Top Pick	The highest risk-adjusted return	7%
Outperform:	Greater than the average of their peer group or sector	52%
Market Perform:	On par with the average of their peer group or sector	33%
Underperform:	Below the average of their peer group or sector	4%
Speculative:	Companies that carry high operational and/or financial risk where a change in a limited number of business variables can significantly change the valuation	3%



Change Summary

Date	Rating	Target Price
05-Oct-06	Initiate at OP	C\$0.75

CALGARY

Tristone Capital Inc.
Suite 2020, 335 – 8th Avenue SW
Calgary, Alberta, Canada T2P 1C9
Tel. 403 294 9541
Fax 403 294 9543

DENVER

Tristone Capital (USA) Inc.
1225 17th Street, Suite 1600
Denver, Colorado, USA 80202
Tel. 303 952 2800
Fax 303 952 2799

BUENOS AIRES

Tristone Capital S.A. Ltd.
Victoria Ocampo 360, 3er Piso
(C1107BGA) Puerto Madero
Buenos Aires, Argentina
Tel 54 11 4515 6300
Fax 54 11 4515 6301

LONDON

Tristone Capital Limited
28 Grosvenor Street
London, UK, W1K 4QR
Tel. +44 0 207 399 2470
Fax +44 0 207 399 2479

HOUSTON

Tristone Capital LP
333 Clay Street, Suite 4060
Houston, Texas, USA 77002
Tel. 713 651 4200
Fax 713 651 4202

Chairman, President & CEO

George F.J. Gosbee

Direct

403-303-8652

UK Trading

Chris Wellesley
Mark Hodgson

Direct

+44-20-7399-2472
+44-20-7399-2473

UK Sales

Charles Lesser
Chris Grudniewicz

Direct

+44-20-7399-2485
+44-20-7399-2474

International Research

Peter Nicol
Toby Pierce

Direct

+44-20-7399-2478
+44-20-7399-2490

US Trading

Brian Racanelli
Michael Chewning

Direct

303-952-2740
303-952-2741

US Sales

Tyler Davis
Karen Acierno
Jim Ulrich

Direct

203-637-9397
303-952-2730
303-952-2731

US Research

Larry Busnardo
Joe Magner
Waqar Syed

Direct

303-952-2750
303-952-2751
303-952-2753

Canadian Trading

David M. Vanka, CFA
F. Andrew Abbott
Kelly Grosky
Chris Maurer

Direct

403-539-4364
403-303-8659
403-539-4346
403-539-4358

Canadian Sales

David G. Street
Rob Colcleugh
Kerk Hilton
Warren Robinson

Direct

403-539-4362
403-539-4363
403-539-8561
403-539-4357

Canadian Research

Chris Theal, CFA
Don Rawson
Cristina Lopez, CFA
Chris Felin, P.Eng.
John Tasdemir

Direct

403-539-4349
403-539-4356
403-539-8542
403-539-8544
403-539-8558

Email: first initial and last name @tristonecapital.com

Tristone Capital Inc. is a member of the TSX, TSX Venture, the IDA and CIPF. Tristone Capital (USA) Inc. is a member of the NASD and operates as a broker – dealer in the United States. Tristone Capital Limited is authorized and regulated in the UK by the FSA. Tristone Capital (USA) Inc. and Tristone Capital Limited are affiliated with Tristone Capital Inc. This report was prepared by Tristone Capital Limited and is being distributed in North America by Tristone Capital Inc. and in the European Economic Area by Tristone Capital Limited.

Although the information contained in this report has been obtained from sources that Tristone Capital Inc (“Tristone”) and / or its affiliates believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. Tristone and / or its affiliates, officers, directors and employees may from time to time acquire, hold or sell positions in the securities mentioned herein as principal or agent. Accordingly, this report is not being held out as impartial research.

All opinions, estimates and other information included in this report constitute Tristone’s judgment as of the date hereof and are subject to change without notice. The information contained herein is for information purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. This report has not been approved by Tristone Capital Limited for the purposes of section 21 of the Financial Services and Markets Act 2000 because it is being distributed only to persons who are investment professionals within the meaning of article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.