

Candax Energy Inc. (CAX-T; \$0.91)

Recommendation: Speculative Buy

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All values in C\$ unless otherwise noted.

Current Price	\$0.91
Target Price (12-Month)	\$1.65
Implied Capital Gain	81%

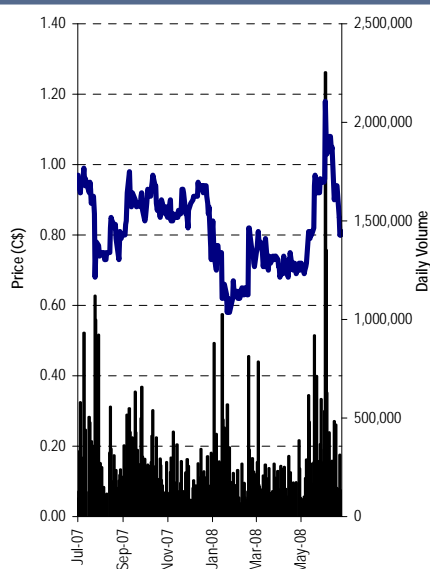
Changes

	Old	New
EPS 2008E	\$0.40	\$0.33
CFPS 2008E	\$0.48	\$0.40
EPS 2009E	\$0.41	\$0.40
CFPS 2009E	\$0.49	\$0.48
Recommendation	Spec. Buy	Unch.
Target Price	\$1.65	Unch.

Company Profile

Candax Energy Inc. is a Canadian junior E&P with production and exploration projects in Tunisia. Candax began trading on the TSX on August 29th 2005 under the symbol CAX. We believe the company has the potential to be producing >3,000 bopd in Q3 with more development success at their El Bibane and Ezzaouia fields; current combined production is ~2,300 bopd.

Price Chart



Source: PCQuote

El Bibane Production Set to Fund Candax's Exploration and Appraisal Program

- **EBB-3 comes online at >1,000 bopd gross; well still cleaning up**
EBB-3 prodⁿ rate still increasing and not yet stabilized; we expect El-Bibane peak gross production to be ~2.5–3 kbopd; CAX has 73.8% W.I.
- **Ezzaouia infill program on-track w/ 1st of 2 wells drilled successfully**
EZZ-17 intersected reservoir similar to past wells; test & prodⁿ equipment being mobilized. Ezzaouia prodⁿ could reach 900 bopd net w/ success.
- **Tunisia cashflow to fund explⁿ and appraisal – Chaal now in focus**
Chaal appraisal is planned for Q4 and puts 854 Bcf (high case) in play (60% W.I.); we carry \$0.82 risked EMV/sh for Chaal in our model.
- **Risked NPV/sh of \$0.86 supports CAX share price – Spec Buy**
2009E CFPS of \$0.48/sh & risked NPV/sh of \$0.86 drives our \$1.65 target; '08E CFPS lowered by 7¢ to \$0.40 on El-Bibane prodⁿ delay.

Financial Summary

Shares O/S (M FD), TSM	171.2	52-Week Trading Range	\$0.56-\$1.18	
Market Capitalization (M)	\$139	Average Weekly Volume	1,359,866	
Net Debt (M)	\$58	Market Float (M)	\$131	
Enterprise Value (M)	\$197	Risked Portfolio NPV/share (FD)	\$0.86	
Forecasts	2006	2007	2008E	2009E
Production (boe/d) **	527	464	1,910	2,307
% gas **	0%	0%	0%	0%
Wtd Ave Realized Price (\$/boe) **	\$68.60	\$77.53	\$126.68	\$121.00
CapEx (M)	\$26.4	\$30.0	\$30.0	\$30.0
Oil and Gas Revenue (M)	\$13.2	\$13.1	\$89.0	\$102.8
Total Net Revenue (M)	\$16.3	\$14.8	\$87.5	\$100.7
Debt Adjusted Cash Flow (M)	\$10.9	(\$2.7)	\$69.3	\$83.1
CFPS (FD)	\$0.06	(\$0.02)	\$0.40	\$0.48
EPS (FD)	(\$0.00)	(\$0.05)	\$0.33	\$0.40
Valuation	2006	2007	2008E	2009E
EV/DACF	n/m	n/m	2.8x	2.4x
EV/BOE/d (per unit production)	n/m	n/m	\$102,994	\$85,261
P/E	n/m	n/m	2.5x	2.0x

** Excludes 6 mmcf/d in gas production from El Bibane sold to SEEB power facility at ~\$0.40/mcf

Source: Company reports, Wellington West Capital Markets Inc.

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Company Name	Ticker Symbol	Applicable Disclosure
Candax Energy Inc.	CAX-T	

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