

Candax Energy Inc. (CAX-T; \$0.76)

Recommendation: Market Perform

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June 12, 2007

All values in C\$ unless otherwise noted.

Current Price	\$0.76
Target Price (12-Month)	\$0.90
Implied Capital Gain	18.4%

Changes

	Old	New
EPS 2007	\$0.07	Unch.
DACF/sh FD 2007	\$0.12	Unch.
EPS 2008E	\$0.15	Unch.
DACF/sh FD 2008E	\$0.26	Unch.
Recommendation	Mkt. Perform	Unch.
Target Price	\$0.90	Unch.

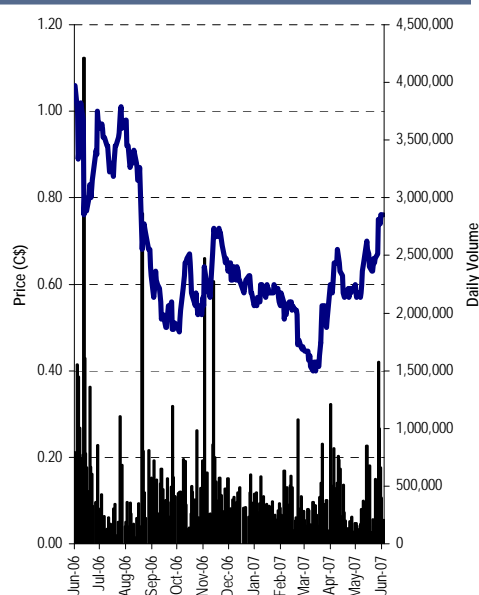
Company Profile

Candax Energy Inc. is a Canadian junior E&P with both producing and exploration assets in Tunisia. Candax began trading on the TSX on August 29th 2005 under the symbol CAX. The company has the potential to be producing ~3,000 bopd by Q4 2007 if the El Bibane Field development is successful. Current Tunisian production is ~1100 bopd.

Candax Receives Presidential Decree in Madagascar – Phase I on Course

- Presidential Decree granted for Block 1101 in Madagascar**
 Ratification paves way for planned work program on the 14,900km² property in the north of Madagascar; we assign a risked EMV of 9¢/sh.
- Madagascar work program defined through 2008**
 Phase I plan includes geological and geochemical studies in 2007 and 100 km of 2D seismic and one 800m exploration well in 2008.
- El Bibane rig enroute – drilling targets 2.4mmbbbls and 13 Bcf**
 Drill start-up is planned for late June / early July. Candax is targeting 2,500-3,000 bopd net production additions from El Bibane development.
- Strong cash position & expected prodⁿ growth remain; Mkt Perform**
 Projected 2008E DACF of \$0.26/sh & risked NPV/sh of \$0.66 drive our \$0.90 target; CAX also has \$0.26/sh in cash.

Price Chart



Source: PCQuote

Financial Summary

Shares O/S (M FD)	180.6	52-Week Trading Range	\$0.46-\$1.73	
Market Capitalization (M)	\$137	Average Weekly Volume	3,675,198	
Net Debt - 2005E (M)	-\$37	Market Float (M)	\$92	
Enterprise Value (M)	\$100	Risked Portfolio NPV/share (FD)	\$0.66	
Forecasts	2005	2006	2007E	2008E
Production (boe/d)	815	527	1,662	3,399
% gas	57%	0%	18%	21%
Wtd Ave Realized Price (\$/boe)	\$55.03	\$68.60	\$58.22	\$56.01
CapEx (M)	\$48.1	\$26.4	\$30.0	\$20.0
Oil and Gas Revenue (M)	\$12.9	\$13.2	\$35.3	\$69.5
Total Revenue (M)	\$13.9	\$16.3	\$38.3	\$70.3
Debt Adjusted Cash Flow (M)	\$7.4	\$10.9	\$29.4	\$44.8
DACFPS (FD)	\$0.04	\$0.06	\$0.12	\$0.26
EPS (FD)	(\$0.01)	(\$0.00)	\$0.07	\$0.15
Valuation	2005	2006	2007E	2008E
EV/DACF	18.8x	20.6x	3.9x	2.3x
EV/BOE/d (per unit production)	n/m	n/m	\$60,100	\$29,389
P/E	n/m	n/m	10.8x	5.0x

Source: Company reports, Wellington West Capital Markets Inc.

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Investment Summary and Outlook

Since late 2004 Candax has shown the ability to leverage relationships and gain access to quality assets under favourable terms while minimizing their capital at risk. Unfortunately, a series of operational incidents have marred this story since September 2005. Production from El Bibane has been shut-in but is expected to build to >2,000 bopd by Q4 2007 now that a new rig contract has been signed with Seadrill, an experienced drilling company. In the event of El Bibane development success, we project 2008 DACF of \$0.26/sh, which could support a share price in the \$1.00-\$1.25 range at a 4x-5x multiple. With uncertainty still surrounding the future of the large Chaal (360 Bcf net recoverable potential) and Deep Triassic (multi-Tcf potential) upside, we believe Candax offers exposure to “free” positive surprise potential in the event that either of these opportunities are successful. Going forward, we expect Candax will continue to seize opportunities for low-risk growth throughout the region with further acquisitions and/or farm-in agreements.

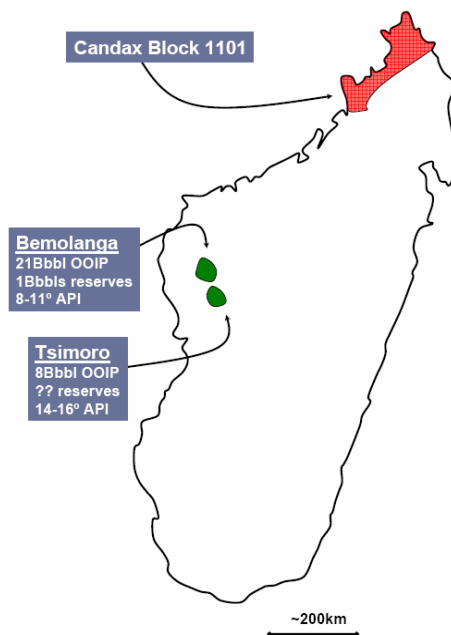
Madagascar Update

Presidential Decree Signals ‘Go-ahead’ for Phase I at Block 1101

Candax has defined a 2-year US\$1.5mm work program for block 1101 in northern Madagascar – well planned for H2 2008. The work program is Candax’s first planned investment under a production sharing agreement that Candax entered into with the Government of Madagascar in which Candax is the operator with 60% interest. The program is estimated to cost US\$1.5mm and is expected to extend through to 2008. Geological and geochemical studies on the 14,900km² property are expected to be completed in 2007. In 2008, the company plans to acquire 100 km of 2D seismic and drill one 800m exploration well.

The Presidential Decree formalizes the block 1101 production sharing agreement; however, our risked Madagascar EMV/sh of \$0.09/sh remains unchanged. We value the block based on a 5% chance of success in recovering 350mmbbls gross of heavy oil, valued at \$1.50/bbl. Our low chance of success is due to the early stage of the play, and our ultimate resource potential is based on a conservative notional field consistent with historic resources in-country. Madagascar is a proven hydrocarbon province, with significant heavy oil discoveries including the Bemolanga field, containing 21Bbbls of 8^o-11^oAPI oil at a suggested 5% recovery rate, and the Tsimiroro field, estimated to contain 8Bbbls of 14^o-16^o API. Additionally, lighter 22^o-40^o API oil has been discovered downdip of heavy oil deposits, with minimal information available as to the size or commerciality of the lighter oil finds.

Exhibit 1: Candax's Block 1101 in Madagascar; 60% CAX, 40% EAX (Dubai)



Source: Company Reports, Wellington West Capital Markets Inc.

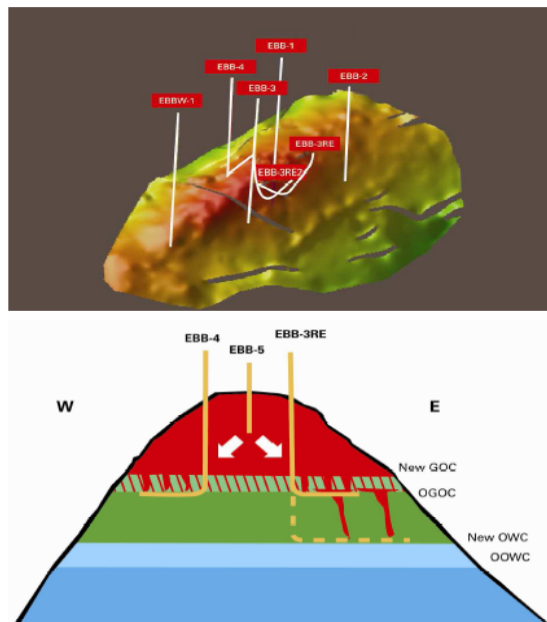
El Bibane Drilling Expected in Late June – Seadrill Rig Enroute

El Bibane development drilling is expected to begin in late June or early July – individual horizontal development well initial rates could be 1,500-2,500 bopd (gross). Bahamas-based Seadrill has been contracted to provide the West Titania rig for the El Bibane development drilling. Seadrill is a worldwide operator that has been in the drilling business for over 30 years. Supporting onshore and offshore facilities are 80% completed with production from the previously shut-in field expected to come onstream as early as August. Candax has a 73.8% interest in the El Bibane concession.

El Bibane development plans call for 2 horizontal producing wells and 1 gas injector, targeting 2.4mmbbls and 13 Bcf of net 2P reserves (2.3mmbbls and 11.4 Bcf post-royalties). We include a conceptual image of the proposed development in Exhibit 2. We expect both development wells to be producing ~2,000 bopd net to Candax by Q4 2007 (Exhibit 3). We carry a risked NPV/sh of \$0.30 (\$0.43 unrisked) for the El Bibane re-development project.

El Bibane production estimates drive our 2008 DACF of \$0.26/sh – other properties are expected to contribute about 800-1,000 bopd to the projected 2008 average production of 3,400 boepd. Current production from the Ezzouia and Al Manzah fields is expected to remain relatively stable at ~1,000 bopd. Expected El Bibane gas production of ~4-5 mmcf/d is planned to be used in the SEEB power generating facility and is expected to generate minor incremental cash flow (~US\$1 million per year).

Exhibit 2: El Bibane Redevelopment Plan Schematic – bottom image shows intended gas injection well and 2 horizontal oil producers



Source: Company reports

Exhibit 3: 2007/2008 Candax Production Projections – Note that El Bibane Constitutes the Bulk of the Production Going Forward

WWCM Candax Modeled Net Oil Production Projections (gas not included)								
Field	2007				2008			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
El Bibane	0	0	350	2000	2000	1850	1700	1600
Ezzaouia	300	525	950	900	850	800	750	700
Al Manzah	175	150	130	120	110	110	100	100
Robbana	25	25	20	20	20	20	20	20
Total	500	700	1450	3040	2980	2780	2570	2420

Source: Company reports, Wellington West Capital Markets Inc.

High-risk/High-reward Deep Triassic and Chaal Potential Remain in Play

We calculate risked EMV/sh of only \$0.24 for the Deep Triassic (1-2Tcf gross upside potential below El Bibane and Ezzaouia) and Chaal prospects (60% W.I., ~1Tcf gross upside potential), but we believe that success on either of these heavily-risked plays could significantly change the outlook for the company. Due to the relatively high technical and geologic risk associated with the Chaal and Deep Triassic plays, we assign just a 10% chance of success to each. The company continues to evaluate options with regards to the technically challenging Chaal appraisal program. Additionally, Candax continues to negotiate with the Tunisian government regarding Deep Triassic contract terms before committing to a deep exploration well on the Ezzaouia permit.

Valuation and Summary Recommendation

Our target price remains at \$0.90 based on Candax's strong cash position and production growth that is expected to continue at Ezzaouia and El Bibane. We calculate a corporate risked NPV/sh of \$0.66, most of which is associated with El Bibane (\$0.30/sh) and the company's cash position (\$0.26/sh). We currently carry a 70% chance of Candax recovering their stated net 2P reserves of 2.3mmbbls of oil and 11.4Bcf of gas at El Bibane. We carry equal weightings of 2008E DACF and risked NPV/sh in order to reflect our cautious optimism that El Bibane production will ramp up to the 2000 bopd + 5mmcf/d gas level by the end of 2007. The value we assign to Madagascar at this stage is minimal.

Our Market Perform recommendation remains, despite a suggested return of ~18% over current prices, reflecting the fact that prior delays have seen production timing targets missed considerably. Although we maintain our view that several of the prospects in the Candax portfolio could add significant value to the company, prior delays with respect to estimated spud dates have tempered our optimistic outlook and we maintain a Market Perform rating. We view the expected late June / early July El Bibane spud date as positive, but we remain cautious ahead of the drill date.

Our production and cash flow estimates suggest Candax is currently trading at only 2.2x 2008E EV/DACF. Given the proven reserve base and strong cash position of the company, we believe a compelling argument exists for gaining exposure ahead of El Bibane drilling. We also note that management keeps close tabs on the international energy scene through their wide network of contacts within the industry and they may have the ability to surprise to the upside with regards to capturing new opportunities.

Exhibit 4: Net Asset Valuation Table

Valuation Matrix	Forecast	Target Multiple	Value	Weighting	Weighted Value
Risked NPV/share	\$ 0.66	1.0	\$ 0.66	35%	\$ 0.23
2008 DACF Multiple	\$ 0.26	5.0	\$ 1.32	35%	\$ 0.46
Asset EMV/share	\$ 0.92	1.0	\$ 0.92	20%	\$ 0.18
Asset Acquisition Value	\$ 0.23	1.0	\$ 0.23	10%	\$ 0.02
12 month target price					\$ 0.90

Source: Company reports, Wellington West Capital Markets Inc.

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