

### Candax Energy Inc.

CAX : TSX : C\$0.65

**SPECULATIVE BUY**

**Target: C\$0.81**

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#### COMPANY STATISTICS:

|                            |              |
|----------------------------|--------------|
| 52-week Range:             | \$0.39-1.48  |
| Avg. Daily Vol. (000):     | 337          |
| Market Capitalization (M): | \$109.8      |
| Shares Out. (M) basic:     | 168.9        |
| Shares Out. (M) fd:        | 168.9        |
| Net Debt (000s):           | (\$31,995.0) |

#### EARNINGS SUMMARY:

| FYE Dec                        | 2004A   | 2005A   | 2006A   | 2007E | 2008E |
|--------------------------------|---------|---------|---------|-------|-------|
| Equivalent Production (boe/d): | 0       | 1,357   | 560     | 1,605 | 4,043 |
| EPS:                           | (0.10)  | (0.02)  | (0.00)  | 0.02  | 0.02  |
| Operating EPS:                 | (0.01)  | (0.01)  | (0.01)  | 0.02  | 0.02  |
| P/Operating EPS:               | (69.2x) | (44.6x) | (57.6x) | 37.8x | 41.2x |
| CFPS:                          | (0.10)  | 0.05    | 0.03    | 0.11  | 0.23  |
| P/CF:                          | (6.8x)  | 12.6x   | 21.2x   | 6.2x  | 2.9x  |

#### 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

### Q1/07 RESULTS IN LINE AND INTRODUCING OUR 2008 ESTIMATES

#### Event

Candax Energy reported its first quarter results this week that were primarily in line with our estimates. Actual loss per share (fd) of \$0.01 and CFPS (fd) of \$0.00 were as predicted. Production during the quarter averaged 420 bopd and was lower than our estimate of 530 bopd. However, actual oil liftings (sales) drive revenue and were closer to 33,000 barrels for the quarter, slightly higher than our estimate of 27,000 barrels.

#### Impact

Neutral. We have revised our 2007 forecasts, with a lower operating EPS (fd) of \$0.02 and a higher CFPS (fd) of \$0.11 due to lower-than-expected operating costs, higher DD&A and adjustments to the timing of product liftings. We are also introducing our 2008 estimates with operating EPS (fd) flat at \$0.02 and CFPS (fd) increasing almost 110% to \$0.23. A significant increase in our cash flow estimate occurs as the El Bibane field is expected to have its first full year of uninterrupted production.

#### Action

We are maintaining our SPECULATIVE BUY recommendation with a target price of C\$0.81.

#### Valuation

Our target price of C\$0.81 represents Candax's NAV, based on its 2P reserve value, underlying cash and option proceeds, stated on a per share basis.

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**Next catalyst**

Candax has contracted a jack-up drilling rig from Seadrill which is enroute to Tunisia, and is expected to be mobilized by the end of June. Drilling will commence soon after with production expected to begin during the middle of the third quarter.

**LIGHT AT THE END OF THE TUNNEL**

Candax has contracted the West Titania jack-up drilling rig with Seadrill which is in the process of being towed, from offshore West Africa, to the El Bibane field in Tunisia. The rig is expected to be fully mobilized by the end of June. The contract with Seadrill will allow Candax to complete the three-well redevelopment drilling program and provide flexibility for additional future exploration and development drilling offshore Tunisia.

We see a flicker of light at the end of the tunnel as drilling operations at the El Bibane field are expected to commence early July, post-mobilization, with initial production starting during mid-Q3/07. Starting during the fourth quarter and beyond, incremental production from the El Bibane field and well work-overs at Ezzaouia are expected to provide Candax with a steady stream of higher cash flows. This additional cash flow will provide Candax with the room to grow by allowing it to focus its efforts and resources back on the Chaal prospect and in developing new opportunities.

**ESTIMATES – REVISING 2007 AND UPDATING 2008**

We have revised our 2007 estimates for Candax, reducing operating EPS (fd) from \$0.04 to \$0.02 and increasing CFPS (fd) from \$0.08 to \$0.11. We have changed our estimates because of lower-than-expected operating expenses and higher-than-expected DD&A, during the first quarter. As a result, we have reflected these changes through the remaining quarters of the year. During Q1/07, inventory liftings of 33,000 barrels were higher than our estimate of 27,000 barrels and, as such, we have made adjustments to our expectations for liftings in subsequent quarters. The timing of sales (liftings) varies quarterly based on accumulated oil in inventory, new production and current domestic market obligations.

Furthermore, we have introduced new estimates for 2008, with an operating EPS (fd) of \$0.02 and CFPS (fd) of \$0.23. The increase in cash flows, from 2007, is predominantly due to our expectations for the first full year of production from the El Bibane redevelopment. See Figure 1 for a summary of Candax's historical and forecasted financial and operating results.

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22 May 2007

**Figure 1: Candax forecast summary**

|                                       | Q1/06       | Q2/06        | Q3/06        | Q4/06       | Q1/07        | 2006         | 2007E<br>Old | 2007E<br>New | 2008E        |
|---------------------------------------|-------------|--------------|--------------|-------------|--------------|--------------|--------------|--------------|--------------|
| Net Income                            | 1,638       | (460)        | (2,159)      | 970         | (877)        | (11)         | 6,651        | 2,906        | 2,720        |
| <b>Reported EPS (FD)</b>              | <b>0.01</b> | <b>0.00</b>  | <b>-0.01</b> | <b>0.01</b> | <b>-0.01</b> | <b>0.00</b>  | <b>0.04</b>  | <b>0.02</b>  | <b>0.02</b>  |
| <b>Operating EPS (FD)</b>             | <b>0.01</b> | <b>0.00</b>  | <b>-0.01</b> | <b>0.00</b> | <b>-0.01</b> | <b>-0.01</b> | <b>0.04</b>  | <b>0.02</b>  | <b>0.02</b>  |
| Cash Flow                             | 5,871       | (1,087)      | (1,055)      | 1,130       | 369          | 4,860        | 14,203       | 17,847       | 39,158       |
| <b>CFPS (FD)</b>                      | <b>0.03</b> | <b>-0.01</b> | <b>-0.01</b> | <b>0.01</b> | <b>0.00</b>  | <b>0.03</b>  | <b>0.08</b>  | <b>0.11</b>  | <b>0.23</b>  |
| Net Capital Spending                  | (2,373)     | (6,751)      | (10,059)     | (7,191)     | (2,120)      | (26,374)     | (29,400)     | (29,400)     | (30,000)     |
| Net Debt/(cash) incl. Working capital | (15,476)    | (50,140)     | (39,203)     | (34,258)    | (31,995)     | (34,258)     | (19,061)     | (22,485)     | (31,643)     |
| Liquids (b/d)                         | 654         | 578          | 518          | 489         | 420          | 560          | 1,421        | 1,355        | 3,210        |
| Gas (mmcf/d)                          | 0           | 0            | 0            | 0           | 0            | 0            | 2            | 2            | 5            |
| <b>Equivalent (boe/d)</b>             | <b>654</b>  | <b>578</b>   | <b>518</b>   | <b>489</b>  | <b>420</b>   | <b>560</b>   | <b>1,671</b> | <b>1,605</b> | <b>4,043</b> |

Source: Company reports, Canaccord Adams estimates

**Summary and conclusion**

Candax has a strong balance sheet and our valuation of the company is underpinned by a cash value of approximately \$0.20 per share. Our NAV estimate for Candax, excluding Chaal, is \$0.81 per share and the current share price represents a 20% discount to this value. With the securitization of a drilling contract for El Bibane, Candax has taken an important step in reinforcing its commitment to the redevelopment of the field. This has recently been reflected in the company's stock price which has traced its path from a low of \$0.41 in March to its \$0.65 close on Friday. However, we believe that the company still needs to regain lost investor confidence by delivering on its targets (El Bibane production startup and certainty around the future of Chaal), and leveraging into new opportunities.

**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 issuers’ material operations in Tunisia and corporate headquarters in Toronto. No payment or reimbursement was received from the issuers 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         |

\* 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 1 May 2007)

| Rating          | Coverage Universe |        | IB Clients |   |
|-----------------|-------------------|--------|------------|---|
|                 | #                 | %      | #          | % |
| Buy             | 310               | 58.5%  | 41.9%      |   |
| Speculative Buy | 64                | 12.1%  | 71.9%      |   |
| Hold            | 132               | 24.9%  | 34.1%      |   |
| Sell            | 24                | 4.5%   | 4.2%       |   |
|                 | 530               | 100.0% |            |   |

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|--------------------|---------------------------------|
| Candax Energy Inc. | 1A, 2, 3, 7, 11 (John Zaozirny) |

|           |   |
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