

February 7, 2006

## Candax Energy Inc.<sup>1</sup> (CAX-T, \$1.18)

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**Rating and 12-month Target: SECTOR OUTPERFORM (SPECULATIVE), \$1.25**

**Impact: Short-term Neutral**

### Event:

- Candax announced on February 7, 2006, that the long-awaited exploration well at Chaal-1 in Tunisia has been spudded. The well is currently drilling at approximately 205 meters depth.
- Candax also announced that the mobilization of the offshore drilling unit for the El Bibane field redevelopment has been delayed. While Candax management did not provide a timeframe for the rig to be moved to the El Bibane location, Candax personnel are working with the contractor to accelerate the process. Candax has indicated that it will provide an update in mid-February on the El Bibane drilling schedule.

### Implications:

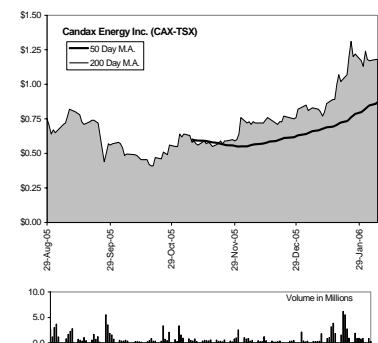
- The Chaal-1 well is being drilled to test the current productive capability of the 1963 hydrocarbon discovery and to determine whether this formation can be commercially developed. Reserve estimates range from 60 bcf to as much as 1.0- tcf of natural gas in-place. The drilling time of approximately 50 days and additional testing time of approximately 30 days means that well results will be available sometime between the end of March and end of April. We have factored a modestly successful well into our valuation estimates, but have not modelled additional cash flow. An unsuccessful well will reduce our valuation of the company.
- The delay of El Bibane may result in a reduction of our full-year estimates for production and cash flow for the company. We had assumed the restart of production from El Bibane in early Q2/06. However, until we receive further clarification from management as to timing of the drilling of the two new production wells and the one gas re-injection well, our estimates remain unchanged. Our model assumes net production to Candax of approximately 2,000 bbl/d from this field – better than expected production results, despite a later than expected return to production, could have the net effect of no changes to our 2006 averages.

Last Research: January 16, 2006

<b>Target Price</b>	<b>\$1.25</b>
Current Price	\$1.18
Return (incl. dist'n)	5.9 %
52-Week High / Low	\$1.38 / \$0.39
Shares O/S	130.7 million (basic) 183.1 million (F/D)
Market Capitalization	\$154 million
Enterprise Value	\$139 million
Daily Volume (3 mo avg)	904,000
Currency	C\$ unless noted
Web Site	<a href="http://www.candax.com">www.candax.com</a>
CEO	Michael Wood



### Price Performance



Please see rating structure, risk profile parameters, disclaimers and notes at the end of this report.

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