

Candax Energy Inc. (CAX-T; \$0.69)

Recommendation: Speculative Buy

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All values in C\$ unless otherwise noted.

| | |
|-------------------------|--------|
| Current Price | \$0.69 |
| Target Price (12-Month) | \$1.35 |
| Implied Capital Gain | 96% |

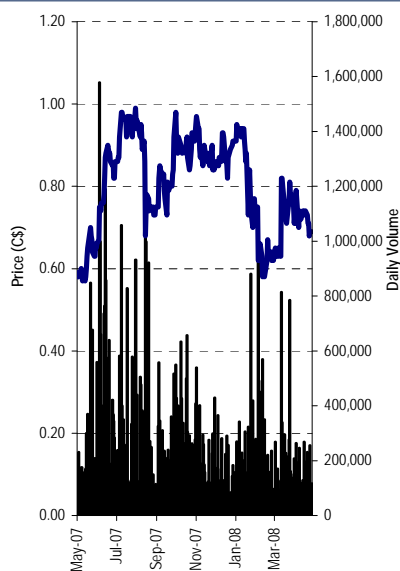
Changes

| | Old | New |
|----------------|-----------|-------|
| EPS 2008E | \$0.29 | Unch. |
| CFPS 2008E | \$0.37 | Unch. |
| EPS 2009E | \$0.26 | Unch. |
| CFPS 2009E | \$0.34 | Unch. |
| Recommendation | Spec. Buy | Unch. |
| Target Price | \$1.35 | 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 Q2 with more development success at their El Bibane and Ezzaouia fields; current combined production is ~1,600 bopd.

Price Chart



Source: PCQuote

Candax Set to Turn the Drill Bit Again in Active 2008 Tunisia Program

- Ezzaouia infill program set to kick-off in mid-May**
 Two wells expected to separately target east and west sides of Ezzaouia field and to be completed as producers if successful; CAX has 31.4% W.I.
- Ezzaouia net prodⁿ could reach 900 bopd w/ drilling success**
 EZZ-10 currently producing 400+ bopd; we carry a risked NPV/sh of \$0.34 for Ezzaouia. Deep Triassic explⁿ remains on CAX radar – H1 '09.
- Chaal and Robbana appraisal drilling planned for H2 2008**
 Chaal in focus for Sept. w/ 854 Bcf (high case) in play (60% W.I.); we carry \$0.82 risked NPV/sh for Chaal. Robbana puts 3.6 mmbbls in play.
- Risked NPV/sh of \$0.70 supports CAX share price – Spec Buy**
 2009E CFPS of \$0.37/sh & risked NPV/sh of \$0.70 drive our \$1.35 target price. Tunisian gas plays offer ~\$8/sh in unrisked upside.

Financial Summary

| | | | | |
|------------------------------------|-------------|---------------------------------|---------------|--------------|
| Shares O/S (M FD), TSM | 171.3 | 52-Week Trading Range | \$0.55-\$1.00 | |
| Market Capitalization (M) | \$118 | Average Weekly Volume | 1,421,955 | |
| Net Debt (M) | \$39 | Market Float (M) | \$112 | |
| Enterprise Value (M) | \$157 | Risked Portfolio NPV/share (FD) | \$0.70 | |
| Forecasts | 2006 | 2007 | 2008E | 2009E |
| Production (boe/d) ** | 527 | 465 | 2,357 | 2,340 |
| % gas ** | 0% | 0% | 0% | 0% |
| Wtd Ave Realized Price (\$/boe) ** | \$68.60 | \$77.53 | \$93.63 | \$86.00 |
| CapEx (M) | \$26.4 | \$30.0 | \$30.0 | \$30.0 |
| Oil and Gas Revenue (M) | \$13.2 | \$13.1 | \$81.2 | \$74.3 |
| Total Net Revenue (M) | \$16.3 | \$14.8 | \$79.7 | \$72.9 |
| Debt Adjusted Cash Flow (M) | \$10.9 | (\$2.7) | \$63.4 | \$58.8 |
| CFPS (FD) | \$0.06 | (\$0.02) | \$0.37 | \$0.34 |
| EPS (FD) | (\$0.00) | (\$0.05) | \$0.29 | \$0.26 |
| Valuation | 2006 | 2007 | 2008E | 2009E |
| EV/DACF | n/m | n/m | 2.5x | 2.7x |
| EV/BOE/d (per unit production) | n/m | n/m | \$66,670 | \$67,152 |
| P/E | n/m | n/m | 2.4x | 2.6x |

** 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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|--------------------|---------------|-----------------------|
| Candax Energy Inc. | CAX-T | 3 |

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