

Candax Energy Inc. (CAX-T; \$0.86)**Recommendation: Speculative Buy**Malcolm Shaw, P.Geol. (416) 640-4949; mshaw@wwcm.comKyle Hunter, MBA (416) 640-4953; khunter@wwcm.comWELLINGTON WEST
Capital Markets Inc.

June 25, 2007

All values in C\$ unless otherwise noted.

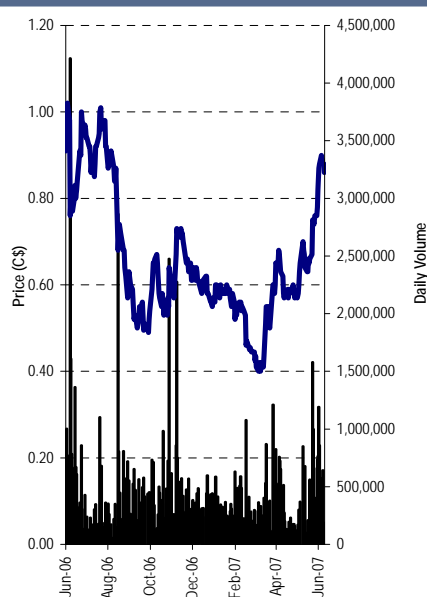
Current Price	\$0.86
Target Price (12-Month)	\$1.35
Implied Capital Gain	57%

Changes

	Old	New
EPS 2007	\$0.07	\$0.13
DACF/sh FD 2007	\$0.12	\$0.22
EPS 2008E	\$0.15	\$0.27
DACF/sh FD 2008E	\$0.26	\$0.46
Recommendation	Mkt. Perform	Speculative Buy
Target Price	\$0.90	\$1.35

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 >4,000 bopd by Q4 2007 if the El Bibane and Ezzaouia redevelopments are successful. Current Tunisian production is ~1000 bopd.

Price Chart

Source: PCQuote

Candax Banks on El Bibane and Ezzaouia Production Growth in 2007

- **Revised outlook for existing fields bumps up our production forecast**
After reviewing available information at Ezzaouia & El Bibane potential, we revise our '08 production forecast to 4,396 boepd from 3,399 boepd.
- **Ezzaouia optimization expected to boost prod^a (CAX 31.4% W.I.)**
In conjunction with 2 infill locations, CAX believes bypassed Zebbag oil pay could allow for a 2007 Ezzaouia exit rate of up to 5,000 bopd (gross).
- **El Bibane gross production of up to 4,000 bopd expected by October**
With drilling slated to begin in mid-July, 2 horizontal producers are expected to be onstream by October. CAX has a 73.8% W.I. at El Bibane.
- **Target raised to \$1.35 from 90¢; upgrade to – Speculative Buy**
Projected 2008E DACF of \$0.46/sh (up from \$0.26/sh) & risked NPV/sh of \$0.94 drive our target. Revised tax outlook positively affects DACF.

Financial Summary

Shares O/S (M FD)	171.0	52-Week Trading Range	\$0.46-\$1.73	
Market Capitalization (M)	\$147	Average Weekly Volume	3,670,008	
Net Debt - 2007E (M)	-\$35	Market Float (M)	\$139	
Enterprise Value (M)	\$112	Risked Portfolio NPV/share (FD)	\$0.94	
Forecasts	2005	2006	2007E	2008E
Production (boe/d)	815	527	2,029	4,936
% gas	57%	0%	12%	20%
Wtd Ave Realized Price (\$/boe)	\$55.03	\$68.60	\$61.73	\$56.40
CapEx (M)	\$48.1	\$26.4	\$30.0	\$20.0
Oil and Gas Revenue (M)	\$12.9	\$13.2	\$45.7	\$101.6
Total Revenue (M)	\$13.9	\$16.3	\$44.5	\$97.5
Debt Adjusted Cash Flow (M)	\$7.4	\$10.9	\$37.4	\$78.3
DACFPS (FD)	\$0.04	\$0.06	\$0.22	\$0.46
EPS (FD)	(\$0.01)	(\$0.00)	\$0.13	\$0.27
Valuation	2005	2006	2007E	2008E
EV/DACF	21.1x	23.1x	3.0x	1.4x
EV/BOE/d (per unit production)	n/m	n/m	\$55,211	\$22,698
P/E	n/m	n/m	6.5x	3.2x

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 ~2,500 bopd by Q4 2007 now that a new rig contract has been signed with Seadrill, an experienced drilling company. At their Ezzaouia field, the company has recently identified new bypassed pay potential in an upper zone previously thought to have been fully exploited. In the event of El Bibane and Ezzaouia development success, we project 2008 DACF of \$0.45/sh, which could support a share price of between \$1.35-\$1.80 using a 3x-4x multiple. With uncertainty still surrounding the future of the large Chaal (~600 Bcf net potential) and Deep Triassic (~500 Bcf net potential) upside, we believe Candax offers exposure to “free” positive surprises in the event that either of these opportunities are successful. Going forward, we expect that Candax will continue to seize opportunities for low-risk growth in the international arena with further acquisitions and/or farm-in agreements.

Operations Update – Tunisia

Ezsaouia workover program identifies bypassed Cretaceous oil pay

Following the recent workover in the Cretaceous Zebbag formation, gross production at the 31.4% CAX-owned Ezzaouia field in onshore Tunisia has increased from ~1,000 bopd to ~2,500 bopd (~750 bopd net). During workover operations on one of the wells in the field (EZZ-10), the company identified an oil-bearing interval within the Zebbag reservoir that did not appear to have been drained by existing wellbores. When perforated, the interval immediately began flowing oil at high rates, briefly taking full-field production as high as 3,000 bopd. The EZZ-10 well has since been choked back in order to limit water cuts in-line with good production practices.

After reviewing other wells in the field, the company has identified 2 additional candidates for recompletion in the Zebbag formation; if successful, Candax believes the recompletions could each initially produce 1,000-1,500 bopd (gross). Field development plans of previous operators of the field assumed that the entire Zebbag interval was in vertical communication and as a result, only the uppermost interval was completed in the vast majority of the wellbores. The additional Zebbag workovers are expected to cost approximately \$300,000/well (gross) and we believe they represent an opportunity for Candax to add significant value to the Ezzaouia field at minimal cost. The 2 additional well workovers are expected to be completed by the end of Q3.

When combined with 2 infill locations planned for the Jurassic M’Rabtime formation, the well workovers could result in gross Ezzaouia field production of 5,000-6,000 bopd by the end of 2007. The two Jurassic infill locations are expected to be drilled in Q3 or Q4 2007 and the company expects each successful well to stabilize at an initial rate of ~1,000 bopd (gross) for about 6 months before going into natural decline. Net to Candax, we believe the

Ezzaouia field has the potential to produce 1,500-1,800 bopd by the end of 2007 with modest success from the infill and re-completion programs (Exhibit 1).

El Bibane redevelopment drilling slated for mid-July

El Bibane development drilling is expected to begin in mid-July – individual horizontal development well production rates could be 1,750-2,000 bopd (gross). Candax management has completely replaced the operations team responsible for the El Bibane redevelopment in light of the poor results from last year's program. The company has since contracted Bahamas-based Seadrill 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 initial 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

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). After reviewing available El Bibane data, we expect total net El Bibane production of ~2,500 bopd and 6 mmcf/d by October 2007 (Exhibit 1) once gas handling facilities are in place. Additional upside may be present in the form of gas condensate that the company plans to evaluate during the initial production re-start. Operating costs are expected to be extraordinarily low at El Bibane, at just \$1.00-\$2.00 per barrel. The company does not expect to be taxable at El Bibane for the foreseeable future, and royalties max out at 5% after project costs are recovered (royalties are 3% in the pre-payout period). We currently carry a risked NPV/sh of \$0.40 (\$0.57 unrisked) for El Bibane.

Exhibit 1: 2007/2008 Candax Updated Production Projections – note that El Bibane and Ezzaouia constitute the bulk of the production going forward

Net Oil Production Projections								
Field	2007				2008			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
El Bibane	0	0	350	2500	2750	2500	2250	2000
Ezzaouia	300	525	1100	1700	1600	1500	1400	1300
Other	175	150	130	120	110	110	100	100
Robbana	25	25	20	20	20	20	20	20
Total	500	700	1600	4340	4480	4130	3770	3420

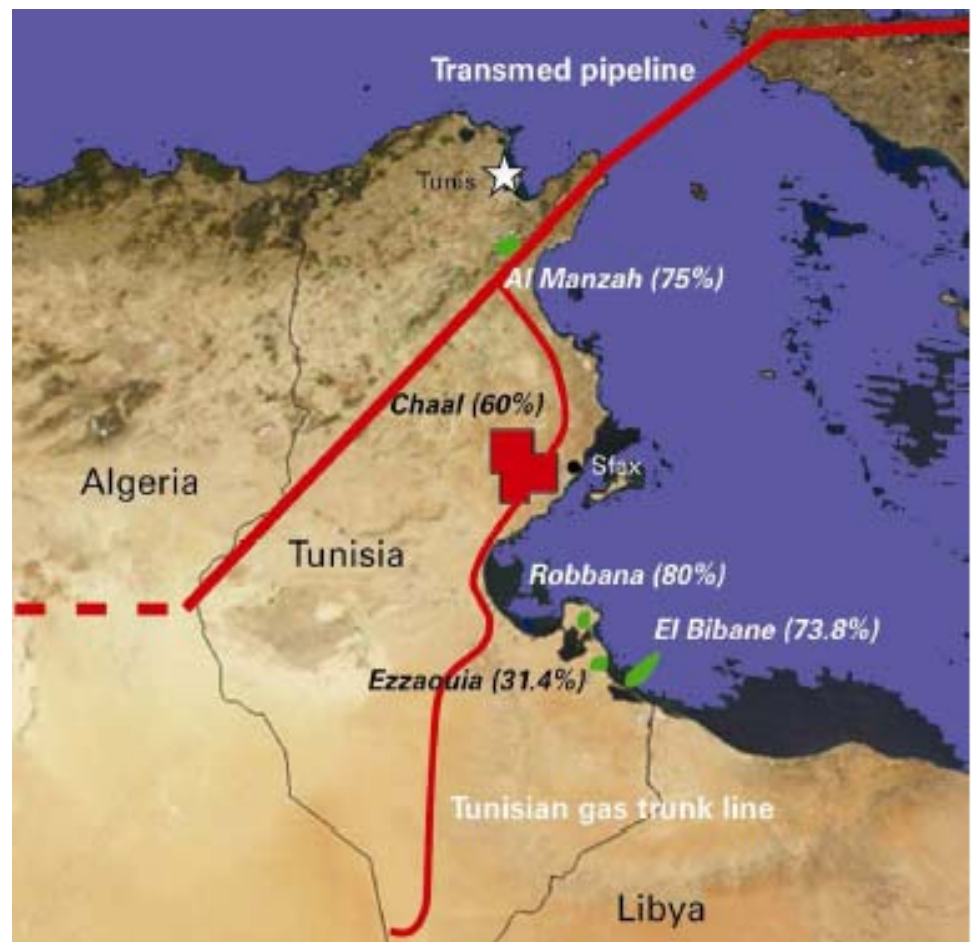
Source: Company reports, Wellington West Capital Markets Inc.

High-risk/high-reward Deep Triassic and Chaal potential remain in play

We calculate risked EMV/sh of \$0.25 for the Deep Triassic potential (~2Tcf gross upside potential below El Bibane and Ezzaouia fields) and \$0.70 for the Chaal prospect (60% W.I., ~1Tcf gross upside potential) – we believe that success on either of these heavily-risked plays could significantly change the outlook for the company. After revisiting the Chaal and Deep Triassic potential, our outlook for the plays have improved somewhat. Schlumberger and Weatherford have been consulted regarding the optimal drilling and formation evaluation procedures for Chaal, and the company still has support from their partners, Mitsubishi and SMIP. Chaal is located only 15km from a gas pipeline and the gas recovered during last year's drilling was of high quality (virtually no

H₂S or inert components). We expect the company to return to Chaal between Q4 of this year and Q2 2008. With respect to the Deep Triassic, we believe a recent government mandate to better understand Tunisia's gas potential may increase Candax's chances of gaining approval for Triassic drilling. The target depth for a Triassic test is expected to be ~5,000m and will require at least a 2,000 horsepower rig. Management suggests the Deep Triassic potential could be tested by mid-2008 depending on rig availability. Due to the relatively high technical and geologic risk associated with the Chaal and Deep Triassic plays, we assign a 25% chance of success to Chaal and a 12.5% chance of success to the Triassic. On an unrisks basis, we estimate that Chaal and the Deep Triassic represent \$2.81/sh and \$2.39/sh of potential, respectively, using a conservative \$5.00/boe valuation.

Exhibit 2: Candax Tunisian Asset Portfolio Map (El Bibane, Ezzaouia, Chaal, Al Manzah, and Robbana,)



Source: Company reports

Valuation and Summary Recommendation

We have increased our target to \$1.35 from \$0.90 to reflect our improved production outlook at Ezzaouia and El Bibane. We calculate a corporate risked NPV/sh of \$0.94 (up from \$0.66), which is driven by El Bibane (\$0.40/sh), Ezzaouia, (\$0.34/sh), and the company's cash position (\$0.20/sh). We carry equal weightings of 2008E DACF and risked NPV/sh in order to balance the limited NPV of the assets with the strong (albeit brief) cash flow generation that we project for the first 2-3 years of the El Bibane and Ezzaouia. Our target change is driven by increased cash flow projections (revised to \$0.46 in 2008E, up from \$0.26 previously) associated with: 1) our updated production estimates for El Bibane and Ezzaouia and, 2) our revised tax outlook (i.e., no tax payable at El Bibane through 2008). In order to reflect what we expect to be a short reserve-life-index for the current asset portfolio, we have cut our target cash flow multiple from 5x to 4x.

Given the replacement of the operating team in Tunisia and our updated production outlook for El Bibane and Ezzaouia, we move our recommendation from Market Perform to Speculative Buy. Our target reflects a potential return of ~57% over the current share price. We maintain our view that high-impact prospects in the Candax portfolio (i.e., Chaal and the Deep Triassic) have the potential to add significant value to the company, but at this stage we derive the bulk of our valuation on the risked NPV and projected cash flow from known producing assets. We move from a Market Perform to a Speculative Buy rating to reflect our optimistic outlook for El Bibane and Ezzaouia, but our optimism is tempered by a lack of visibility on where the company can re-deploy their projected cash flow in order to continue to generate returns for investors going forward.

Our revised production and cash flow estimates suggest Candax is currently trading at only 1.4x 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 and additional Ezzaouia redevelopment work. While we view Chaal and the Deep Triassic as essentially "free options" at this point, we believe the acquisition of new projects is critical to company if projected cash flow is to be successfully reinvested. We also note that management keeps close tabs on the international energy scene through their wide network of contacts within industry and they may have the ability to surprise to the upside with regards to capturing new opportunities.

Exhibit 3: Net Asset Valuation Table

Valuation Matrix	Forecast	Target Multiple	Value	Weighting	Weighted Value
Risked NPV/share	\$ 0.94	1.0	\$ 0.94	35%	\$ 0.33
2008 DACF Multiple	\$ 0.46	4.0	\$ 1.83	35%	\$ 0.64
Asset EMV/share	\$ 1.70	1.0	\$ 1.70	20%	\$ 0.34
Asset Acquisition Value	\$ 0.35	1.0	\$ 0.35	10%	\$ 0.04
			12 month target price		\$ 1.35

Source: Company reports, Wellington West Capital Markets Inc.

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Candax Energy Inc.	CAX-T	3

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