

Candax Energy Inc. (CAX-T; \$0.92)**Recommendation: Market Perform**Jason Squires, P.Eng (416) 640-4892; jsquires@wwcm.comGreg Colman, MBA (416) 640-4890; gcolman@wwcm.com

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All values in C\$ unless otherwise noted.

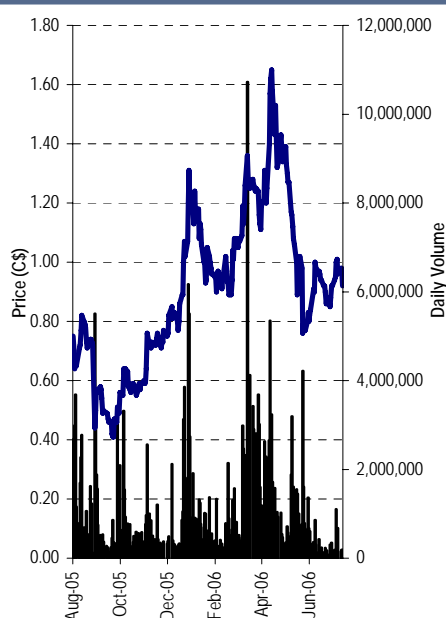
Current Price	\$0.92
Target Price (12-Month)	\$1.20
Implied Capital Gain	30 %

Changes

	Old	New
EPS 2006E	\$0.05	unchanged
DACF/sh FD 2006E	\$0.12	\$0.11
EPS 2007E	\$0.10	\$0.13
DACF/sh FD 2007E	\$0.21	\$0.25
Recommendation	Market Perform	unchanged
Target Price	\$1.20	unchanged

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 is expected to be producing more than 2,000 boepd by August 2006 and is drilling the Chaal exploration well with partner Mitsubishi.

Price Chart

Source: PCQuote

Lifting schedule conceals modest production growth; continue to wait on Chaal/El Bibane

- **Candax reported production of ~580 bopd against sales of ~187 bopd**
The lumpy lifting schedule generated \$1.1 million in revenue vs. \$9.1 mm in Q1. Production is estimated to have declined 11%, from 645 bopd*.
- **Slim-hole equipment reported to be on-site at Chaal for recompletion**
Candax hope to bypass formation damage and test a single overpressured gas zone in fractured carbonates within the area of proven reserves.
- **El Bibane still waiting for mobilization of production facility**
We suggest 2007E cash flow from El Bibane is not at risk, however H206 likely to underperform expectations. We estimate \$0.25 in 07 DACFPS.
- **Maintain \$1.20 target based on risked NPV/share; Mkt Perf rating**
Catalysts include test results from Chaal and mobilization of production facilities at El Bibane. Watch for possible acquisition in H2 2006.

**We had erroneously calculated a 35% increase quarterly production in our previous publication.*

Financial Summary

Shares O/S (M FD)	181.2	52-Week Trading Range	\$0.39-\$1.73
Market Capitalization (M)	\$167	Average Weekly Volume	5,315,702
Net Debt - 2005E (M)	-\$58	Market Float (M)	\$111
Enterprise Value (M)	\$109	Risked Portfolio NPV/share (FD)	\$1.22
Forecasts	2005	2006E	2007E
Production (boe/d)	815	1,384	4,047
% gas	57%	25%	30%
Wtd Ave Realized Price (\$/boe)	\$65.61	\$53.47	\$44.96
CapEx (M)	\$48.1	\$41.9	\$50.2
Oil and Gas Revenue (M)	\$12.9	\$27.0	\$66.4
Total Revenue (M)	\$13.9	\$30.4	\$72.7
Debt Adjusted Cash Flow (M)	\$7.4	\$18.8	\$42.8
Shares Outstanding (M)	77.1	170.0	173.8
DACFPS (FD)	\$0.04	\$0.11	\$0.25
EPS (FD)	(\$0.01)	\$0.05	\$0.13
Valuation	2005	2006E	2007E
EV/DACF	20.5x	6.2x	2.6x
EV/BOE/d (per unit production)	\$133,887	\$78,793	\$26,952
P/E	(80.0x)	18.3x	6.9x

Source: Company reports, Wellington West Capital Markets Inc.

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Candax Energy Inc.	CAX-T	-

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