

Canext Energy Ltd. (CXZ -V, \$0.74)

Recommendation: Strong Buy

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All values in C\$ unless otherwise noted.

Current Price	\$0.74
Target Price (12-Month)	\$1.50
Target Return (incl. yield)	103%

Changes

	Old	New
Production 08E boe/d	1,452	Unch.
CFPS (FD)2008E	\$0.15	Unch.
Production 09E boe/d	2,413	Unch.
CFPS (FD) 2009E	\$0.28	Unch.
Recommendation	Strong Buy	Unch.
Target Price	\$1.50	Unch.

Company Profile

Canext Energy Ltd. ("CXZ") is a Calgary based junior oil and natural gas company, engaged in the exploration, development, acquisition and production of natural gas and medium to light gravity crude oil. Operations are focused in the Peace River Arch area of NW Alberta, accounting for >75% of CXZ's undeveloped land of over 105,000 net acres, with activities centered on a Montney play at Pouce Coupe.

Price Chart



Source: PC Quote

Pouce Coupe Montney Project and Clear Prairie Light Oil Discovery Driving Valuation

- Gearing up for active Montney drilling program**
 CXZ plans 10 Montney wells (5 new drills + 5 re-completions) in H2/08 while continuing to monitor industry results with hztl vs. vertical wells.
- Clear Prairie completion issue noted – company investigating**
 A failed completion operation while running/cementing liner on the step-out well drilled Q1 has resulted in water invasion from overlying zone.
- P.C. & C.P. each have potential to double 3mm boe yr-end reserves**
 The Montney play at Pouce Coupe with ~40 net vertical drilling locations could add 30 Bcf (5mm boe); similarly for Clear Prairie project.
- Asset sales to raise cash, Strong Buy rating re-iterated**
 Asset sale planned by May 30th expected to boost CapX program. Our \$1.50 target driven by F09E EV/DACF multiple of 6.1x vs. peers @ 6.5x.

Financial Summary

Shares O/S (M)	76.5	52-Week Trading Range	\$1.15-\$0.33	
Market Capitalization (M)	\$57	Average Weekly Volume	768,366	
Net Debt - 2007E (M)	\$13	Market Float (M)	\$53	
Enterprise Value (M)	\$70	NAV/Share - 2008E	\$0.72	
Forecasts	2006	2007	2008E	2009E
Production (BOE/d)	205	770	1,452	2,413
% Gas	85%	88%	86%	73%
Oil Price (US\$/bbl - WTI)	\$66.09	\$67.20	\$73.75	\$70.00
Gas Price (\$/mcf - wellhead)	\$6.53	\$6.55	\$7.45	\$7.45
Revenues (M)	\$2	\$12	\$25	\$44
Cash Flow (M)	\$1	\$4	\$12	\$22
Debt/CF	(5.1x)	3.0x	1.8x	1.1x
CFPS (FD)	\$0.03	\$0.08	\$0.15	\$0.28
EPS (FD)	\$0.02	(\$0.26)	(\$0.01)	\$0.04
Valuation		2007	2008E	2009E
EV/DACF		11.3x	6.2x	3.6x
EV/BOE/d (per unit production)		\$90,501	\$47,993	\$28,879
EV/BOE (per unit proven reserves)		\$39.97	\$22.87	\$15.49
P/E		(2.8x)	(54.7x)	16.5x
Target EV/DACF		19.9x	10.9x	6.1x

Source: WWCM, Company report

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Exhibit 1: Summary Forecasts

	2006	2007E	2008E	2009E
Production				
Crude Oil & NGLs (bbl/d)	30	90	202	663
Natural Gas (mmcf/d)	1	4	8	11
BOE/d (@ 6:1 conversion rate)	205	770	1,452	2,413
Per Share Growth		42%	31%	66%
Reserves				
Proven reserves (mmBOE)	0.5	1.7	3.0	4.5
Proven RLI (years)*	4.0	4.5	5.1	4.5
Implied all-in F&D Costs	\$21.35	\$7.28	\$10.91	\$10.07
Flow of Funds				
Cash Flow (\$mm)	\$1	\$4	\$12	\$22
Capex (\$mm)	\$11	\$11	\$20	\$24
Net Debt (\$mm)	-\$3	\$13	\$21	\$23
Debt/CF ratio (x)	- 5.1	3.0	1.8	1.1
Financial Data Per BOE				
Operating Costs (\$/BOE)	\$9.55	\$11.48	\$9.98	\$9.35
G&A Costs (\$/BOE)	\$11.06	\$5.94	\$4.72	\$3.12
Cash Flow Netbacks (\$/BOE)	\$8.53	\$15.79	\$21.98	\$24.43
Recycle Ratio	0.4	2.2	2.0	2.4

Source: Company Reports, Wellington West Capital Markets Inc.

Exhibit 2: Income Statement

	2006	2007	2008E	2009E
Operating Income				
Oil and natural gas revenues	2.0	12.1	25.5	44.2
Royalties, net of credits	(0.427)	(2.62)	(5.6)	(11.1)
Other (Interest Income)	0.1	0.1	0.0	0.0
	1.67	9.6	19.9	33.1
Expenses				
Operating and transportation	0.42	3.28	5.29	8.24
G&A	0.61	1.67	2.50	2.75
Interest	0.15	0.16	0.75	1.04
Depletion and Depreciation	1.07	20.12	12.50	15.00
Accretion	0.01	0.34	0.50	0.60
	2.3	25.6	21.5	27.6
Income Before Income Taxes	(0.59)	(16.01)	(1.60)	5.48
Future income tax recovery	0.0	0.0	0.0	0.0
Capital taxes	0.0	0.0	0.0	0.0
Current taxes	0.0	0.0	0.0	0.0
Future taxes	(1.1)	(2.5)	(0.6)	2.1
Net Income	0.49	(13.47)	(1.00)	3.42
Dividends on ordinary shares	0.0	0.0	0.0	0.0
Net Income to Common	0.49	(13.47)	(1.00)	3.42
Retained earnings, beginning of period	0.0	0.5	(13.0)	(14.0)
Refundable dividend taxes	0.0	0.0	0.0	0.0
Adjustment for taxes	0.0	0.0	0.0	0.0
Retained earnings (deficit), end of period	0.5	(13.0)	(14.0)	(10.6)
Earnings per Common Share	\$0.02	(\$0.25)	(\$0.01)	\$0.04
Earnings per Fully Diluted Common Share	\$0.02	(\$0.25)	(\$0.01)	\$0.04

Source: Company reports, WWCM

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Company Name	Ticker Symbol	Applicable Disclosure
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