

Canext Energy Ltd. (CXZ -V, \$0.70)

Recommendation: Strong Buy

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WELLINGTON WEST
Capital Markets Inc.

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All values in C\$ unless otherwise noted.

Current Price	\$0.70
Target Price (12-Month)	\$1.35
Target Return (incl. yield)	93%

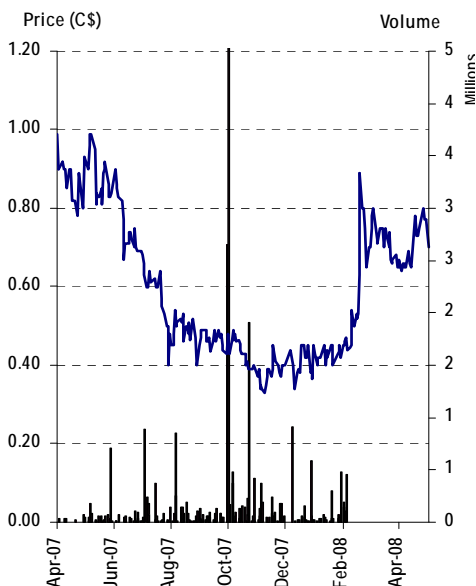
Changes

	Old	New
Production 08E boe/d	1,452	1,150
CFPS (FD)2008E	\$0.18	\$0.14
Production 09E boe/d	2,413	2,115
CFPS (FD) 2009E	\$0.33	\$0.28
Recommendation	Strong Buy	Unch.
Target Price	\$1.75	\$1.35

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

Minor Delays Soften Production Forecasts; Target Reduced

- Temporary shut-ins expected to be rectified by early-June**
 Delay at processing facility rectified earlier this month (~100 boe/d), and Clear Prairie shut-in over break-up to come back on-stream in June
- Montney drilling program expected to jump-start growth**
 A four well drilling program at Pouce Coupe targeting Doig, and Upper and Lower Montney to include two horizontal and two vertical wells.
- Upcoming asset sales allow CXZ to focus on core projects**
 Conditional sale of 220 boe/d for \$6.8mm will help fund \$16mm CapX program, focused on high netback assets.
- Delineation of Clear Prairie discovery remains catalyst for growth**
 Potential value of discovery of \$0.77 to \$2.32/sh supports consistent multiple; target reduced to \$1.35 from \$1.75, re-iterate rating Strong Buy.

Financial Summary

Shares O/S (M)	76.5	52-Week Trading Range	\$1.15-\$0.33	
Market Capitalization (M)	\$54	Average Weekly Volume	779,300	
Net Debt - 2007E (M)	\$13	Market Float (M)	\$50	
Enterprise Value (M)	\$67	NAV/Share - 2008E	\$0.86	
Forecasts	2006	2007	2008E	2009E
Production (BOE/d)	205	770	1,150	2,115
% Gas	85%	88%	85%	75%
Oil Price (US\$/bbl - WTI)	\$66.09	\$67.20	\$97.41	\$90.00
Gas Price (\$/mcf - wellhead)	\$6.53	\$6.55	\$8.31	\$8.40
Revenues (M)	\$2	\$12	\$24	\$46
Cash Flow (M)	\$1	\$4	\$11	\$21
Debt/CF	(5.1x)	3.0x	2.1x	1.0x
CFPS (FD)	\$0.03	\$0.08	\$0.14	\$0.28
EPS (FD)	\$0.02	(\$0.26)	(\$0.02)	\$0.05
Valuation		2007	2008E	2009E
EV/DACF		10.8x	6.7x	3.6x
EV/BOE/d (per unit production)		\$86,528	\$57,920	\$31,497
EV/BOE (per unit proven reserves)		\$38.22	\$21.11	\$14.12
P/E		(2.7x)	(31.0x)	15.5x
Target EV/DACF		18.2x	11.1x	5.7x

Source: WWCM, Company report

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Exhibit 1: Summary Forecasts

	2006	2007E	2008E	2009E
Production				
Crude Oil & NGLs (bbl/d)	30	90	167	532
Natural Gas (mmcf/d)	1	4	6	10
BOE/d (@ 6:1 conversion rate)	205	770	1,150	2,115
Per Share Growth		38%	6%	84%
Reserves				
Proven reserves (mmBOE)	0.5	1.7	3.2	4.7
Proven RLI (years)*	4.0	4.5	7.2	4.6
Implied all-in F&D Costs	\$21.35	\$41.60	\$10.91	\$10.07
Flow of Funds				
Cash Flow (\$mm)	\$1	\$4	\$11	\$21
Capex (\$mm)	\$11	\$65	\$20	\$24
Net Debt (\$mm)	-\$3	\$13	\$22	\$27
Debt/CF ratio (x)	-5.1	3.0	2.1	1.2
Financial Data Per BOE				
Operating Costs (\$/BOE)	\$9.55	\$11.48	\$11.09	\$10.50
G&A Costs (\$/BOE)	\$11.06	\$5.94	\$5.95	\$3.56
Cash Flow Netbacks (\$/BOE)	\$8.53	\$15.79	\$25.13	\$27.74
Recycle Ratio	0.4	0.4	2.3	2.8

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	23.6	45.5
Royalties, net of credits	(0.427)	(2.62)	(5.4)	(12.7)
Other (Interest Income)	0.1	0.1	0.0	0.0
	1.67	9.6	18.2	32.9
Expenses				
Operating and transportation	0.42	3.28	4.65	8.11
G&A	0.61	1.67	2.50	2.75
Interest	0.15	0.16	0.72	0.91
Depletion and Depreciation	1.07	20.12	12.50	15.00
Accretion	0.01	0.34	0.50	0.60
	2.3	25.6	20.9	27.4
Income Before Income Taxes	(0.59)	(16.01)	(2.66)	5.51
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)	(1.0)	2.1
Net Income	0.49	(13.47)	(1.66)	3.44
Dividends on ordinary shares	0.0	0.0	0.0	0.0
Net Income to Common	0.49	(13.47)	(1.66)	3.44
Retained earnings, beginning of period	0.0	0.5	(13.0)	(14.6)
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)	(14.6)	(11.2)
Earnings per Common Share	\$0.02	(\$0.25)	(\$0.02)	\$0.05
Earnings per Fully Diluted Common Share	\$0.02	(\$0.26)	(\$0.02)	\$0.05

Source: Company reports, WWCW

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Company Name	Ticker Symbol	Applicable Disclosure
Canext Energy Ltd.	CXZ.V	3

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