



**Candax Energy Inc.**

**Annual Information Form  
For the year ended December 31, 2006**

**March 31, 2006**

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## **GLOSSARY OF SELECTED TERMS**

The following are selected abbreviations and definitions of terms used herein:

"ABC/Amen Loan" means a loan of up to US \$20.2 million from ABC International Bank PLC and Amen Bank to SEEB granted pursuant to a facility agreement dated March 13, 2002;

"Acquired Assets" means the assets acquired by the Corporation pursuant to the Acquisition;

"Acquired Companies" means Ecumed Petroleum Tunisia, Ltd., Ecumed Petroleum Zarzis, Ltd. and Ecumed Petroleum Grombalia, Ltd., companies existing under the laws of the Commonwealth of Barbados;

"Acquisition" means the acquisition by the Corporation on April 26, 2005 from subsidiaries of Centurion of all of the shares of the Acquired Companies, which companies held the Tunisian oil and gas properties of Centurion and certain related assets, including a 50% interest in SEEB;

"Actis" means Actis Africa Fund 2 LP and certain designated affiliates thereof (collectively "Actis");

"Al Manzah Concession" means the onshore oil and gas concession located near the Cape Bon Peninsula in northern Tunisia covering approximately 6,918 acres;

"Al Manzah Field" means the onshore producing oil reservoir situated within the Al Manzah Concession;

"bbl" means barrel and "bbls" means barrels;

"bcf" means billions of cubic feet;

"boe" means barrels of oil equivalent natural gas converted at 6 mscf of natural gas per barrel of oil; "boe/day" means barrels of oil equivalent per day;

"bopd" means barrels of oil per day;

"Candax" or the "Corporation" means Candax Energy Inc., a corporation incorporated under the OBCA;

"Chaal Permit" means the prospecting permit covering onshore surface area in central Tunisia of 1,200 square kilometres issued to the Corporation and SMIP pursuant to a petroleum prospection agreement dated March 17, 2005 between the Government of Tunisia, ETAP, the Corporation and SMIP;

"Centurion" means Centurion Energy International Inc.;

"Common Shares" means the common shares of Candax;

"CPVI" means Caterpillar Power Ventures International Ltd., a subsidiary of Caterpillar Inc.;

"CPVI Loan" means a loan of up to US \$5.0 million for CPVI to SEEB granted pursuant to a loan agreement dated December 19, 2002;

"Ecumed Grombalia" means Ecumed Petroleum Grombalia, Ltd., a subsidiary of Candax and holder of certain oil and gas assets in Tunisia;

"Ecumed Tunisia" means Ecumed Petroleum Tunisia, Ltd., a subsidiary of Candax and holder of certain oil and gas assets in Tunisia;

"Ecumed Zarzis" means Ecumed Petroleum Zarzis, Ltd., a subsidiary of Candax and holder of certain oil and gas assets in Tunisia;

"El Bibane Concession" means the offshore oil and gas concession located off the east coast of Tunisia in the Gulf of Gables covering approximately 56,316 acres;

"El Bibane Field" means an offshore producing oil and gas reservoir situated within the El Bibane Concession;

"ETAP" means Entreprise Tunisienne d'Activités Pétrolières, being Tunisia's national oil company;

"Ezzaouia Concession" means the onshore oil and gas concession located in southern Tunisia approximately 12 kilometres north of the Town of Zarzis covering approximately 9,880 acres;

"Ezzaouia Field" means an onshore producing gas field situated within the Ezzaouia Concession;

"Farmout Agreement" means the farmout agreement in respect of the Chaal Permit dated November 30, 2005 between Candax and Mitsubishi Corporation;

"Interestholders Agreement" means an Interestholders Agreement dated effective November 6, 2001 (as amended pursuant to the First Amendment to Interestholders Agreement) between Ecumed Tunisia, Ecumed Zarzis and Ecumed Grombalia and CPVI in respect of the joint development, operation and ownership of an electrical power generation facility at Zarzis, Tunisia;

"mdbl" means thousands of barrels; "mmbbl" means millions of barrels; "mmbtu" means millions of British Thermal Units; "mboe" means thousands of barrels of oil equivalent; "mcf" means thousands of cubic feet; "mmcf" means millions of cubic feet; "mmscf" means millions of standard cubic feet; "mmscf/day" means millions of standard cubic feet per day; "mmstb" means millions of stock tank barrels; "mscf" means thousands of standard cubic feet;

"NI 51-101" means National instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities*;

"OBCA" means the *Business Corporations Act* (Ontario);

"Participating Interest" means a working interest in an oil and gas concession or field that includes an obligation to pay capital and operating costs and the right to receive hydrocarbon production and production revenue;

"Robbana Concession" means an onshore oil and gas concession located in southern Tunisia on the island of D'Jerba covering approximately 11,856 acres;

"Robbana Field" means an onshore producing oil reservoir situated within the Robbana Concession;

"Ryder Scott" means Ryder Scott Company, Petroleum Consultants, independent engineering consultants;

"Ryder Scott Report" means the report dated March 29, 2007 prepared by Ryder Scott regarding the Corporation's oil and natural gas reserves as at December 31, 2006;

"SEEB" means Société d'Electricité d'El Bibane, the company that owns the SEEB Power Plant;

"SEEB Power Plant" means a 27 megawatt electrical power generation facility located near Zarzis, Tunisia near Ecumed Tunisia's existing El Bibane Field production facility;

"SMIP" means the Société de Maintenance d'Installation Pétrolières, a company existing under the laws of Tunisia;

"STEG" means Société Tunisienne d'Electricite et du Gaz, being Tunisian's national power company;

"Subscription Receipts" means the 82,500,000 subscription receipts of Candax which were issued to the purchasers thereof on April 14, 2005, each of which entitled the holders thereof to acquire, without payment of any additional consideration, one common share of Candax and one-half of one common share purchase warrant, each such whole warrant providing the holder thereof the right to purchase one common share of Candax until 5:00 p.m. (Toronto Time) on April 14, 2006 (with all of subscription receipts having been deemed to be exchanged by the holders thereof for the underlying common shares and warrants on August 24, 2005);

"TSX" means The Toronto Stock Exchange; and

"Tunisian Ministry" means the Ministry of Industry established by the national government of Tunisia.

## **MONETARY REFERENCES**

All monetary references contained in this Annual Information Form are in Canadian dollars unless otherwise specified.

## **FORWARD LOOKING STATEMENTS**

This Annual Information Form includes "forward looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of management of Candax and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Such risks and uncertainties include, but are not limited to, risks associated with the oil and gas industry (including operational risks in exploration development and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections in relation to production, costs and expenses; the uncertainty surrounding the ability of Candax to obtain all permits, consents or authorizations required for its operations and activities; and health safety and environmental risks), the risk of commodity price and foreign exchange rate fluctuations, the ability of Candax to fund the capital and operating expenses necessary to achieve the business objectives of Candax, the uncertainty associated with commercial negotiations and negotiating with foreign governments and risks associated with international business activities, as well as those risks described in public disclosure documents filed by Candax. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in securities of Candax should not place undue reliance on these forward-looking statements.

This Annual Information Form contains disclosure in respect of crude oil and natural gas production expressed as barrels of oil equivalent per day ("boepd"). All crude oil and natural gas equivalency volumes have been derived by converting gas to oil in the ratio of six thousand cubic feet of gas to one barrel of crude oil. Equivalency measures may be misleading, particularly if used in isolation. This conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Statements in relation to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained in this Annual Information Form are made as of the date hereof and the Corporation undertakes no obligation to update publicly or revise any forward-looking statements contained in this Annual Information Form or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements contained in this Annual Information Form are expressly qualified by this cautionary statement.

## **CORPORATE STRUCTURE**

### **Name and incorporation**

Candax Energy Inc. (the "Corporation" or "Candax") was incorporated pursuant to the *Business Corporation Act* (Ontario) on June 4, 2004 under the name "Addax Energy Inc.". On June 25, 2004, Articles of Amendment were filed to change the name of the Corporation to "Candax Energy Inc.". On September 14, 2004, Articles of Amendment were filed to remove the "private company" restrictions from the Articles of the Corporation.

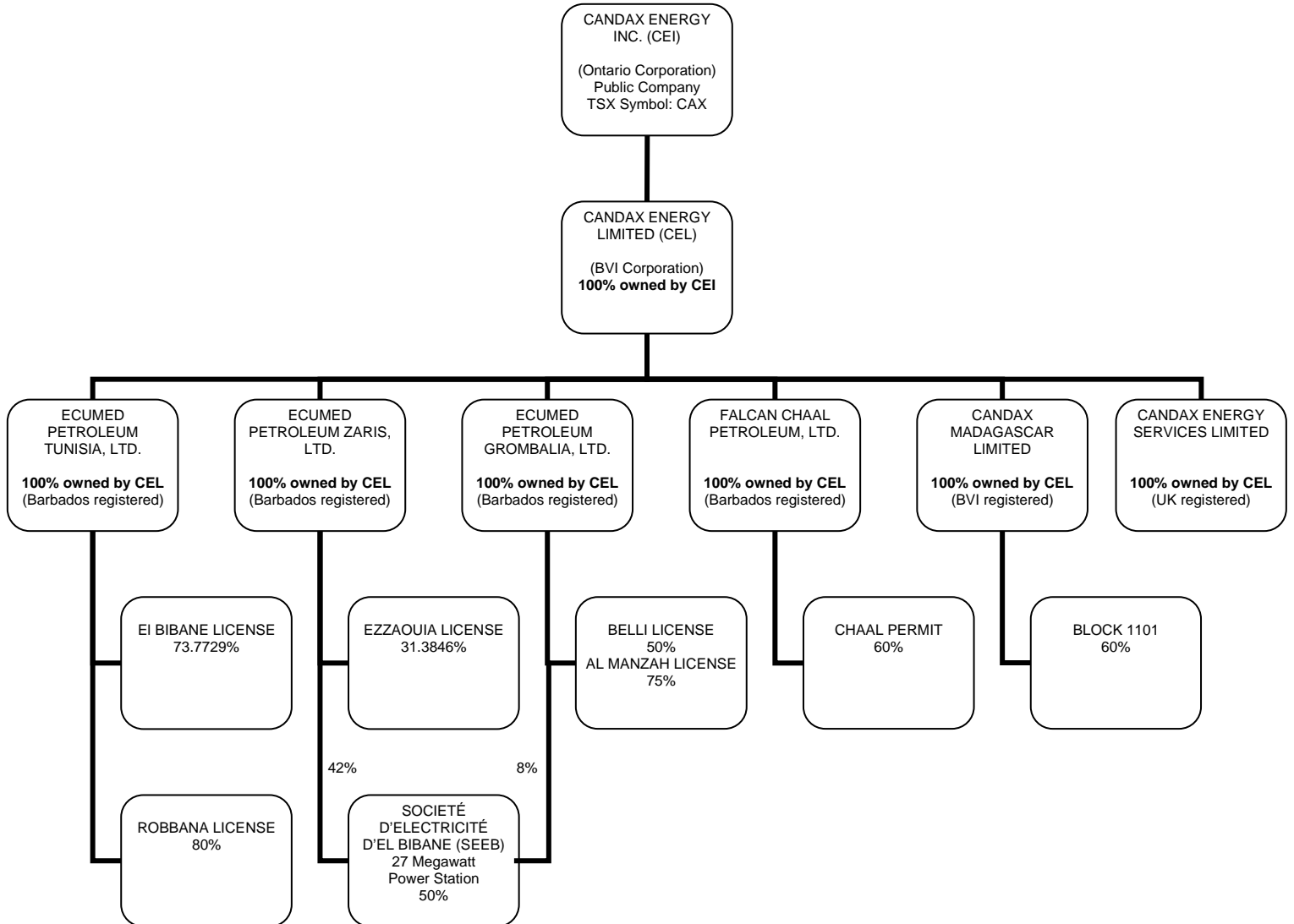
The registered and head office of the Corporation is located at Suite 2700, 130 Adelaide Street West, Toronto, Ontario M5H 3P5. The Corporation also maintains local offices in London, England, Guernsey, Channel Islands, Dubai, United Arab Emirates ("UAE") and Tunis, Tunisia.

Since August 29, 2005, the Common Shares have traded on the TSX under the trading symbol "CAX".

## Intercorporate Relationships

As at December 31, 2006, Candax has six wholly owned subsidiaries that collectively hold all of its Participating Interests in its producing and non-producing oil and gas properties. Candax also owns 50% of the shares of a seventh subsidiary that owns a natural gas supplied electrical power generation facility located in Tunisia.

The corporate structure of Candax, including details of the jurisdiction of incorporation and the percentage of voting securities of each subsidiary beneficially owned by Candax, is set forth in the organizational chart below.



## **GENERAL DEVELOPMENT OF THE BUSINESS**

Candax is a Toronto-based international oil and gas company whose operations include the exploration, development and production of oil and gas from numerous properties located in Tunisia, as well as the sale of electricity from the 50% interest of Candax in the SEEB Power Plant.

### **History of Candax**

A description of the general development of Candax since its inception in June 2004 is set out below.

- June – September 2004 - Organization and appointment of an experienced executive management team.
- September 2004 – Memorandum of Understanding signed by Candax with SMIP, the Tunisian joint venture partner of Candax, to pursue oil and gas interests in Tunisia and jointly evaluate regional opportunities.
- October 2004 - Private placement of special warrants of the Corporation completed to raise \$987,000 (such special warrants having been exchanged for Common Shares on April 27, 2005).
- November 2004 - Private placement of special warrants of the Corporation completed to raise \$3,351,750 (such special warrants having been exchanged for Common Shares on April 27, 2005).
- January 2005 - Production sharing terms finalized with ETAP for the Chaal Permit.
- February 2005 - Agreement signed with Centurion to complete the Acquisition.
- March 2005 - Grant of Production Sharing Agreement and Petroleum Prospection License for the Chaal Permit.
- April 2005 - Private placement of Subscription Receipts completed to raise gross proceeds of \$66,000,000.
- April 2005 - Completion of the Acquisition.
- August 2005 – Candax files a (final) prospectus with securities regulatory authorities in Canada and becomes a reporting issuer in the provinces of British Columbia, Alberta, Ontario and New Brunswick.
- August 2005 - The Common Shares are listed and posted for trading on the TSX.
- November 2005 – Candax and Mitsubishi enter into the Mitsubishi Farmout Agreement.
- February 2006 – The Chaal-1 exploration well was spudded within the Chaal Permit area.
- April 2006 - Initial log results indicate a total gas bearing section of some 450 metres was penetrated by the Chaal-1 well in the Middle/Lower Nara formation. An indicated net reservoir interval of approximately 90 metres was encountered in a gross limestone section of approximately 200 metres in the gas bearing section.
- April 2006 - A total of 35,497,106 warrants were exercised into common shares for total proceeds to the Company of \$42,596,527, representing 86% of the warrants outstanding which were issued from the financing completed April 2005. Additionally, 2,700,000 broker warrants held by Canaccord Capital Corporation and Orion Securities, issued as part of their commission as underwriters of the financing were exercised at \$0.80 for proceeds of \$2,160,000 to Candax.
- August 2006 - Operations were suspended on the Chaal-1 well after efforts to utilize a coiled-tubing unit to displace heavy mud in the well could not be safely undertaken. Candax and its partners are reviewing all options to decide on the best plan for the appraisal of the discovery.
- November 2006 – Candax signs a Production Sharing Contract (the “PSC”) for Block 1101 onshore Madagascar with OMNIS (Office des Mines Nationales et des Industries Strategiques) representing the Government of Madagascar. The PSC is currently awaiting the Presidential signature.

- December 2006 - Board approves a net capital expenditure budget for 2007 of US\$25.4 million (firm plus contingent). The major portion of the budget is dedicated to the El Bibane re-development project.
- February 2007 - John Willis is appointed Chief Operating Officer effective February 1, 2007. Mr. Willis is a very experienced energy executive, and brings a strong operational track record to the team.
- March 2007 – Candax terminates the Offshore Drilling Contract for the re-development of the El Bibane field after serving the contractor with several Notices of Default related to the provision of necessary rig certifications, and failure to comply with essential health, safety and environmental standards.

### **Plans for 2007**

Candax intends to undertake a major field re-development at the El Bibane Field which is expected to include the following: (i) the restart of the El Bibane #3 well and drilling of the El Bibane #4 well with horizontal sections, (ii) the installation of a gas injector for the El Bibane #5 well, (iii) the installation of a gas lift in the production wells, and (iv) the installation of new offshore facilities.

In 2007, Candax also plans additional development at the Ezzaouia Field, including: (i) further infill drilling, (ii) secondary recovery for a Jurassic reservoir, and (iii) the installation of pilot water injection.

Candax also intends to complete a net capital expenditure budget for 2007 of US\$30.0 million (firm plus contingent). The major portion of the budget is dedicated to the El Bibane re-development project.

Subject to Presidential signature of the PSA for Block 1101 onshore Madagascar, Candax will begin geological studies, which include geological fieldwork and limited 2D seismic acquisition.

The Company remains committed to drilling the Ezzaouia Deep Triassic exploration prospect and is in negotiations with ETAP to determine when this can be achieved.

Candax is evaluating and negotiating several project and acquisition opportunities in North Africa, the Middle East, and elsewhere.

### **THE ACQUISITION**

On February 25, 2005, Candax entered into an agreement with Centurion and its subsidiaries, Eagle Holdings (Barbados) Limited and Duraham Petroleum Limited (the "Acquisition Agreement"), providing for the purchase by Candax of all of the outstanding shares of the Acquired Companies, which, at the time, collectively held the Tunisian oil and gas properties of Centurion and certain related assets including Centurion's 50% interest in SEEB, for cash consideration of \$43,709,128, including closing adjustments. The Acquisition was completed on April 26, 2005 with an effective date as of January 1, 2005.

As a result of the completion of the Acquisition, the Corporation acquired a 73.7729% working interest in the El Bibane Concession, an 80% working interest in the Robanna Concession, a 31.3846% working interest in the Ezzaouia Concession, a 75% working interest in the Al Manzah Concession and a 50% interest in the SEEB Power Plant. See "Other Oil and Gas Information".

In connection with the Acquisition, Centurion retained the right to participate for up to 50% of the working interest of the Corporation in any Deep Triassic exploration well located at either or both of the Ezzaouia and El Bibane Concessions.

### **BUSINESS OF THE CORPORATION**

All of the oil and gas production of Candax comes from Tunisia where Candax has oil and gas concession interests, production facilities and operations and exploration opportunities. The strategy of Candax is to exploit lower risk development opportunities in countries where it can take advantage of its knowledge of doing business and where the low cost environment helps Candax to deliver operating profits and positive operating cash flows.

The four main elements of the business strategy of Candax are: (i) the continued exploitation of the existing concession properties of Candax; (ii) commencing production at certain other sites within existing concessions in Tunisia; (iii) exploration drilling at certain other sites in existing permits in Tunisia which management believes are most likely to lead to commercially exploitable oil and gas discoveries; and (d) acquiring or farming into new exploration and production acreage principally in the Middle East and Africa.

## **Production and Revenue Summary**

During the fiscal year ended December 31, 2006, the gross share of Candax of production from properties in which it has a Participating Interest was 204,200 barrels of oil and no gas from its Tunisian properties. The average gross share of Candax's oil production from all of its properties was 560 bopd for the year ended December 31, 2006. See "Statement of Reserves Data and Other Oil and Gas information".

Candax's aggregate oil sales for the fiscal year ended December 31, 2006 was 191,722 barrels for revenues (net of royalties) of \$13,152,000. The average price realized during the year ended December 31, 2006 was US\$61.23 per barrel.

## **Principal Markets and Distribution**

Gas produced by Candax from the El Bibane and Ezzaouia Fields is sold to the SEEB Power Plant. Pursuant to separate gas purchase agreements dated December 17, 2001, gas for the SEEB Power Plant is provided from the El Bibane Field where Candax holds an approximate 73.8% Participating Interest and the Ezzaouia Field where Candax holds approximately a 31.4% Participating Interest. The sale price of the gas was set at the time of Tunisian government approval for the SEEB Power Plant at US\$0.30 per mmbtu escalating at 1.5% per annum for the life of the SEEB Power Plant. Prior to the completion of the SEEB Power Plant, gas produced from the El Bibane and Ezzaouia Fields was flared. Although the price of the gas is less than current world market prices, Candax receives 50% of the net revenues generated from electricity sales by the SEEB Power Plant (after the deduction of all operating and debt servicing costs).

Candax has not entered into any long-term sales or other agreements, nor does it have any future material commitments to sell its oil and condensate.

## **Specialized Skill and Knowledge**

Candax's seven senior executives have over 210 years of cumulative oil and gas experience. In particular, the President and Chief Executive Officer of Candax, Michael Wood, worked in the European and North African oil and gas industry for over 20 years prior to becoming the President and Chief Executive Officer of an oil and gas company listed on the TSX. John Willis, Chief Operating Officer, has over 30 years of major project development and drilling experience with both international and independent oil and gas companies, including a number of senior positions with Conoco Inc. in the UK. John Clarke, Executive Vice President, Corporate of Candax, has over 30 years of oil and gas industry experience and has a broad capital markets background, including over eight years as a Vice President and Senior Oil & Gas Analyst with Deutsche Bank and Octagon Capital Corporation. Mr. Clarke was ranked as the top North American Oil & Gas analyst in 2003 and 2004 by Forbes/Starmine. Dr. Donald Munn, Executive Vice President, Business Development of Candax, has broad oil and gas industry experience in the managerial, commercial and technical aspects of the exploration and production industry, gained at senior positions at, among other companies, Royal Dutch Shell. David Wilson, Executive Vice President, Technical of Candax, has extensive experience in all aspects of the upstream oil and gas industry gained in managerial and technical positions with some of the world's major oil and gas companies. Chris Hopkins, Chief Financial Officer, has over 18 years experience in financial management, strategic planning, M&A, corporate finance and financial reporting primarily in the natural resource sector in Canada. Alex Kulpecz, Executive Vice President, has over 25 years experience in the energy sector working as a senior executive in large multinational corporations. In addition, the Company office in Tunis is staffed with geotechnical employees with particular expertise in Tunisian oil and gas operations, including exploration and development activities.

## **Competitive Conditions**

Candax enjoys a competitive advantage in the Tunisian market from having its own production, oil processing and lifting facilities in Tunisia. The network of business contacts and regional operating knowledge held by the senior management team of Candax also provides an advantage.

## **Economic Dependence**

For a discussion of the contracts upon which the business of Candax is substantially dependent, please refer to "Risk Factors" under the heading "Dependence upon Tunisian Government for the Sale of Tunisian Gas".

## Environmental Protection

For a discussion of the effects of environmental protection requirements on Candax, please refer to "Risk Factors" under the heading "Environmental Regulation".

## Offices and Employees

The head office of Candax is located in Toronto, Ontario. It also has operations offices in Tunis, Tunisia and business development offices in Guernsey, Channel Islands, London, England and Dubai, UAE. The following table sets out the number of employees and consultants of Candax by geographic location at the most recently completed financial year.

<u>Location</u>	<u>Toronto, Ontario</u>	<u>Tunis, Tunisia</u>	<u>Guernsey/ London, England</u>	<u>Dubai, U.A.E.</u>
Number of Employees	4	27	1	-
Number of Consultants	1	3	3	1
Total	5	30	4	1

## **STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION**

The following Statement of Reserves Data and Other Oil and Gas information for Candax is effective December 31, 2006 and has a preparation date of March 29, 2007.

Ryder Scott has prepared the Ryder Scott Report which evaluates all of the proved and probable crude oil and natural gas reserves attributable to the Participating Interests of Candax in Tunisia and net present value of future cash flow from such reserves, based on both forecasted and constant price and cost assumptions. The reserves information contained in the Ryder Scott Report was prepared and is presented in accordance with the requirements of NI 51-101. Additional information not required by NI 51-101 has been presented to provide continuity, which, information management believes is important to readers of this Annual Information Form.

In preparing its report, Ryder Scott obtained basic information from Candax, which included land data, well information, geological information, reservoir studies, estimates of on-stream dates, contract information, current hydrocarbon product prices, operating cost data, capital budget forecasts, financial data and future operating plans. Other engineering, geological or economic data required to conduct the evaluation and upon which the Ryder Scott Report is based, was obtained from public records, other operators and from the non-confidential files of Ryder Scott. The extent and character of ownership and the accuracy of all factual data supplied for the independent evaluation, from all sources, was accepted by Ryder Scott as represented.

The following tables, based on the Ryder Scott Report, show the estimated share of Candax's crude oil and natural gas reserves in its properties and the net present value of estimated future net revenue for these reserves, using constant and forecast prices and costs as indicated. All evaluations of the present value of estimated future net revenue in the Ryder Scott Report are stated after provision for estimated future capital expenditures and prior to provision for future site restoration and reclamation costs, income taxes and indirect costs and do not necessarily represent the fair market value of the reserves. The recovery and reserve estimates of the oil and natural gas reserves of Candax provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates provided herein.

References to oil, gas, reserves (gross, net, proved, probable, possible, developed, developed producing, developed non-producing, underdeveloped), constant prices and costs, forecast prices and costs, operating, costs, development costs, future net revenue and future income tax expenses shall, unless expressly stated to be to the contrary, have the meaning attributed to such terms as set out in NI 51-101 Companion Policy and all forms referenced therein.

**TUNISIA**

**Summary of Oil and Gas Reserves  
and Net Present Values of Future Net Revenue  
as at December 31, 2006**

**Constant Prices and Costs**

	Oil/Condensate		Natural Gas	
	Gross (Mbbbl)	Net (Mbbbl)	Gross (MMcf)	Net (MMcf)
Proved Developed Producing	2,702	817	2,724	472
Proved Developed Non-Producing	985	273	1,915	361
Proved Undeveloped	2,088	1,453	11,663	8,080
Total Proved	5,775	2,544	16,302	8,913
Probable	5,940	2,180	13,546	5,290
Total Proved Plus Probable	11,715	4,724	29,848	14,203

**Net Present Values of Future Net Revenue (CDN \$ Millions)**

	Before Income Tax Discounted at					After Income Tax Discounted at				
	0%	5%	10%	15%	20%	0%	5%	10%	15%	20%
	Proved Developed Producing	33.8	27.5	22.9	19.6	17.0	30.8	24.6	20.1	16.9
Proved Developed Non-Producing	16.5	12.9	10.4	8.6	7.3	16.5	12.9	10.4	8.6	7.3
Proved Undeveloped	48.7	38.2	29.6	22.7	17.0	48.7	38.2	29.6	22.7	17.0
Total Proved	99.1	78.6	63.0	50.9	41.4	96.0	75.7	60.2	48.2	38.8
Probable	109.5	77.4	58.1	45.6	36.9	87.3	61.0	45.8	36.3	29.8
Total Proved Plus Probable	208.6	156.0	121.1	96.5	78.3	183.3	136.6	106.0	84.5	68.6

**Total Future Net Revenue  
(Undiscounted)  
as at December 31, 2006**

**Constant Prices and Costs (\$000s)**

Reserves Category	Revenue	Royalties	Operating Costs	Development Costs	Well Abandonment Costs	Future Net Revenue Before Income Taxes	Future Net Revenue After Income Taxes
Proved	182,466	14,934	29,180	38,447	834	99,971	3,954
Proved Plus Probable	344,522	32,782	57,834	44,409	936	208,560	25,272

**Future Net Revenue  
By Production Group  
as at December 31, 2006**

**Constant Prices and Costs (\$000s)**

Reserves Category	Production Group	Future Net Revenue Before Income Taxes (discounted at 10%/year)
Proved	Crude Oil/Condensate	61,285
	Natural Gas	1,735
Proved Plus Probable	Crude Oil/Condensate	117,788
	Natural Gas	3,332

**Summary of Oil and Gas Reserves  
and Net Present Values of Future Net Reserves  
as at December 31, 2006**

**Forecast Prices and Costs**

	Oil		Natural Gas	
	Gross (Mbbbl)	Net (Mbbbl)	Gross (MMcf)	Net (MMcf)
Proved Developed Producing	2,697	814	2,724	472
Proved Developed Non-Producing	985	274	1,915	361
Proved Undeveloped	2,088	1,453	11,663	8,080
Total Proved	5,770	2,541	16,302	8,913
Probable	5,790	2,136	13,322	5,290
Total Proved Plus Probable	11,559	4,677	29,624	14,203

**Net Present Values of Future Net Revenue  
as at December 31, 2006 (\$000s)**

Reserves Category	Before Income Tax Discounted at					After Income Tax Discounted at				
	0%	5%	10%	15%	20%	0%	5%	10%	15%	20%
Proved Developed Producing	30.3	25.1	21.3	18.4	16.1	27.3	22.2	18.4	15.7	13.5
Proved Developed Non-Producing	15.9	12.5	10.1	8.4	7.1	15.9	12.5	10.1	8.4	7.1
Proved Undeveloped	44.5	35.0	27.2	20.8	15.6	44.5	35.0	27.2	20.8	15.6
Total Proved	90.8	72.6	58.6	47.6	38.9	87.8	69.7	55.8	44.9	36.3
Probable	102.9	73.6	55.6	43.8	35.6	86.4	61.1	46.2	36.6	30.1
Total Proved and Probable	193.7	146.2	114.2	91.5	74.5	174.2	130.8	102.0	81.5	66.4

**Total Future Net Revenue  
(Undiscounted)  
as at December 31, 2006**

**Forecast Prices and Costs (\$000s)**

Reserves Category	Revenue	Royalties	Operating Costs	Develop- ment Costs	Well Abandon- ment Costs	Future Net Revenue Before Income Taxes	Income Taxes	Future Net Revenue After Income Taxes
Proved	177,141	14,466	31,484	38,950	1,100	90,777	3,026	87,751
Proved Plus Probable	338,078	32,223	65,368	45,486	1,285	193,716	19,564	174,152

**Future Net Revenue  
By Production Group  
as at December 31, 2006**

**Forecast Prices and Costs (\$000s)**

Reserves Category	Production Group	Future Net Revenue Before Income Taxes (discounted at 10%/year)
Proved	Crude Oil/Condensate	56,922
	Natural Gas	1,633
Proved Plus Probable	Crude Oil/Condensate	111,005
	Natural Gas	3,204

**Notes to Tables**

- (1) Columns may not add due to rounding.
- (2) "Gross" means the Corporation's total working interest before deduction of royalties owned by others.

"Net" means the Corporation's total working interest and/or royalty interest in production or reserves after deducting the amounts attributable to royalties owned by others.

"Royalties" refers to royalties paid to others. The royalties deducted from the reserves are based on the percentage royalty calculated by applying the applicable royalty rate or formula. In the case of government sliding scale royalties which are dependent on selling prices, the price forecasts for the individual properties in question have been employed.

"Reserves" are the estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on: analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable. Reserves are classified according to the degree of certainty associated with the estimates.

"Proved Reserves" are those Reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated Proved Reserves. At least a 90% probability that the quantities actually recovered will equal or exceed the estimated Proved Reserves is the targeted level of certainty.

"Probable Reserves" are those additional Reserves that are less certain to be recovered than Proved Reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated Proved plus Probable Reserves. At least a 50% probability that the quantities actually recovered will equal or exceed the sum of the estimated Proved plus Probable Reserves is the targeted level of certainty.

"Proved Developed Reserves" are those Reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the Reserves on production. The developed category may be subdivided into producing and non-producing.

"Developed Producing Reserves" are those Reserves that are expected to be recovered from completion intervals open at the time of the estimate. These Reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

"Developed Non-Producing Reserves" are those Reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.

"Undeveloped Reserves" are those Reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the Reserves classification (proved, probable) to which they are assigned.

- (3) The escalating cost and price assumptions assume the continuance of current laws and regulations and increases in wellhead selling prices, and take into account inflation with respect to future operating and capital costs. In the Ryder Scott Report operating costs are assumed to escalate at 1.5% per annum beginning in 2006. Crude oil and natural gas base case prices, and exchange rates utilized by Ryder Scott in the Ryder Scott Report were as follows:

### Summary of Pricing and Inflation Rate Assumptions

#### Forecast Prices and Costs

Year	SEEB Contract Natural Gas Price (Ryder Scott Report) (\$US/MMbtu)	SEEB Contract Natural Gas Price (Ryder Scott Report) (\$US/Mcf)	Inflation Rates <sup>(a)</sup> %/year	Adjusted Oil Price <sup>(b)</sup> (Ryder Scott Report) (\$US/Bbl)
Forecast				
2007	0.338	0.394	0	59.15
2008	0.343	0.399	2.00	59.15
2009	0.349	0.405	2.00	58.10
2010	0.354	0.412	2.00	56.00
2011	0.359	0.418	2.00	54.96
2012	0.465	0.540	2.00	53.91
2013	0.472	0.548	2.00	53.91
2014	0.479	0.557	2.00	54.96
2015	0.486	0.565	2.00	56.15
2016	0.493	0.573	2.00	57.37
2017	0.500	0.582	2.00	58.61
Thereafter	+ 2.0% / year	+ 1.5% / year	2.00	+ 2.0% / year

(a) Inflation rates for forecasting prices and costs.

(b) Price adjusted for discount to Brent (\$US2.50) and Domestic Market Obligation (DMO).

(c) Price adjusted to reflect DMO discount.

Weighted average historical prices realized by Candax in respect of the Corporation's oil and gas for the year ended December 31, 2006, was \$61.23/bbl for crude oil and \$Nil for natural gas as the Corporation did not produce any natural gas in 2006.

- (4) The constant price assumptions assume the continuance of current laws, regulations and operating costs in effect on December 31, 2006, in the case of the Corporation's oil and gas assets. In addition, operating and capital costs have not been increased on an inflationary basis.
- (5) The crude oil price used for the constant price model was US \$55.33. This was based on the December 31, 2006 Brent price of US \$58.96, adjusted for discount to Brent and DMO proportion. In the constant price model, gas prices are those contracted, as shown in the table above. The price of gas in Tunisia is calculated according to a formula established under Tunisian Law pursuant to which the price is related to the price of low sulphur fuel oil. The price of condensate in Tunisia is based on international market prices, save and except for up to 20% of production which may be required to satisfy the DMO. Such gas and condensate prices are based on the relevant prices as of December 31, 2006.
- (6) Estimated future abandonment and reclamation costs related to the producing properties have been taken into account by Ryder Scott in determining reserves that should be attributed to a property and in determining the aggregate future net revenue therefrom, there was deducted the reasonable estimated future well abandonment costs.
- (7) The extent and character of all factual data supplied to Ryder Scott were accepted by Ryder Scott as represented. No field inspections were conducted.

## Reconciliation of Changes in Reserves and Future Net Revenue

### Reconciliation of Company Net Reserves by Principal Product Type As at December 31, 2006 (Constant Prices and Costs)

	OIL			NATURAL GAS			NATURAL GAS LIQUIDS		
	Proved (Mbbbl)	Probable (Mbbbl)	Proved Plus Probable (Mbbbl)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (Mbbbl)	Probable (Mbbbl)	Proved Plus Probable (Mbbbl)
<b>TUNISIA</b>									
<b>December 31, 2005</b>	<b>2,398</b>	<b>1,702</b>	<b>4,101</b>	<b>9,703</b>	<b>51,801</b>	<b>61,504</b>	<b>-</b>	<b>1,454</b>	<b>1,454</b>
Discoveries									
Extensions									
Infill Drilling									
Improved Recovery	-	198	198		231	231			
Technical Revisions	357	199	556	(101)	(46,511)	(47,301)	-	(1,454)	(1,454)
Acquisitions									
Dispositions									
Economic Factors	(38)	81	43	(689)	890	201			
Production	(204)	-	(204)	-	-	-			
<b>December 31, 2006</b>	<b>2,544</b>	<b>2180</b>	<b>4724</b>	<b>8,913</b>	<b>5,290</b>	<b>14,203</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### Notes:

- (1) Technical revisions include the reclassification of 48,000 mmcf net probable Natural Gas reserves, and 1,454 mbbbl net probable Natural Gas Liquids reserves attributed to the Chaal Structure in the Glendower Report at year end 2005.
- (2) Due to the technical difficulties which prevented full testing of the Chaal-1 well following drilling in 2006, Ryder Scott were unable to assign year end 2006 "Probable Reserves" to the structure under the guidelines of NI 51-101.

**Reconciliation of Changes in Present Value of Net Revenue**  
**(After Tax, Discounted at 10%)**  
**Proved Reserves Constant Prices and Costs**  
**(CDN \$000's)**

		<b>NPV Total</b>
<b>Estimated Future Net Revenue at Dec 31, 2005</b>		<b>58,267</b>
Sales and transfers of oil and gas produced, net of production costs and royalties	(1)	(10,042)
Net changes due to prices and economic factors	(2)	(6,467)
Actual development costs during the period	(1)	14,009
Changes in estimated future development costs	(2)	(16,641)
Extensions, infill drilling and improved recovery	(2)	-
Discoveries	(2)	-
Acquisition of reserves	(2)	-
Disposition of reserves	(2)	-
Accretion of discount	(3)	(6,381)
Changes in exchange rate	(4)	-
Net change in income taxes	(4)	1,708
Changes from technical reserves revisions plus effects of timing	(2)	25,608
<b>Estimated Future Net Revenue at Dec 31, 2006</b>		<b>60,062</b>

- (1) Undiscounted before income taxes
- (2) Discounted before income taxes
- (3) 10% of beginning of year net present value before income taxes
- (4) Discounted

Notes:

- (1) At December 31, 2006 values were converted to Canadian currency using a currency exchange rate of 1.1659 \$US/\$CDN, and at December 31, 2006 at an exchange rate of 1.1654 \$US/\$CDN.

**Additional Information Relating to Reserves Data**

*Undeveloped Reserves*

The Corporation plans to schedule development plans for the proved and/or probable undeveloped reserves and expects to develop these reserves within one to two years. There are a number of factors that could result in delayed or cancelled development, including the following:

- changing economic conditions (due to pricing, operating and capital expenditure fluctuations);
- changing technical conditions (production anomalies, such as water breakthrough or accelerated depletion);
- multi-zone developments (for example, a prospective formation completion may be delayed until the initial completion is no longer economic);
- a larger development program may need to be spread out over several years to optimize capital allocation and facility utilization;
- surface access issues (including dealings with landowners, unfavourable weather conditions and obtaining regulatory approvals); and
- availability of drilling rigs, work crews, equipment and materials.

### Significant Factors or Uncertainties

The Corporation does not anticipate any significant economic factors or that significant uncertainties will affect any particular component of the reserves data. However, the reserves can be affected significantly by fluctuations in product pricing, capital expenditures, access to facilities for processing and transportation, operating costs, royalty regimes and well performance that are beyond the Corporation's control (see "Risk Factors").

### Future Development Costs

The following table sets forth development costs deducted in the estimation of the Corporation's future net revenue attributable to the reserve categories noted above (\$000s).

Year	Tunisian Assets		Undiscounted
	Undiscounted Forecast Prices and Costs		Constant Prices and
	Proved Reserves	Proved Plus Probable Reserves	Costs
2007	34,695	39,118	34,695
2008		1,541	
2008	0		0
2010	0	0	
2011		0	
2012	0	0	
Thereafter			
Total Undiscounted	34,695	40,659	34,695
Total discounted at 10%	34,695	40,518	34,695

The Corporation expects that the capital listed in the preceding table will be funded through internally generated cash flows and will not have any associated funding costs. Therefore, the capital commitments will not affect the disclosed reserves or future net revenue.

### Other Oil and Gas Information

#### Oil and Gas Properties and Wells

Location in Tunisia	Oil				Gas			
	Producing		Non-Producing		Producing		Non-Producing	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
El Bibane (offshore)			4	2.93	-	-	-	-
Robbana (onshore)	1	0.80	1	0.80	-	-	-	-
Ezzaouia (onshore)	5	1.59	11	3.4	-	-	-	-
Al Manzah (onshore)	1	0.75	2	1.50	-	-	-	-
Belli (onshore)	-	-	7	3.50	-	-	-	-
Chaal (onshore)	-	-	3	1.80	-	-	-	-
Total	7	3.14	28	13.93	-	-	-	-

For further information regarding the oil and gas properties and wells of the Corporation, see "Other Oil and Gas Information – Properties, Plants, Facilities and Installations".

In connection with the Acquisition, Centurion retained the right to participate for up to 50% of the working interest of the Corporation in any Deep Triassic exploration well located at either or both of the Ezzaouia Concession and the El Bibane Concession. See "The Acquisition".

#### Properties with No Attributable Reserves

The Corporation has the Chaal Permit, onshore Tunisia, in respect of which no proven or probable reserves have been attributed. For a detailed summary on the Chaal Permit, please refer to the section entitled "Other Oil and Gas Information – Properties, Plants, Facilities and Installations – Chaal Permit" commencing on page 22.

*Additional Information Concerning Abandonment and Reclamation Costs*

The Corporation uses the same assumptions as those used in the Ryder Scott Report to estimate its abandonment and reclamation costs when available. The costs are estimated on an area by area basis. The industry's historical costs are used when available. If representative comparisons are not readily available, an estimate is prepared based on the various applicable regulatory abandonment requirements.

The Corporation has interests in 17.1 net wells for which it expects to incur abandonment and reclamation costs. The total of such costs, forecast net of estimated salvage value, is \$5.17 million (undiscounted) and \$2.24 million (discounted at 10%) for the Corporation's oil and gas assets. Of such amounts, 100% was deducted as abandonment and reclamation costs in estimating future net revenue of the Corporation in respect of proved reserves as disclosed above.

The aggregate abandonment costs as estimated in the Ryder Scott Report are as follows:

Forecast Prices and Costs (\$000s)

Year	Abandonment Costs (Undiscounted)	Abandonment Costs (Discounted at 10%)
2007	-	-
2008	-	-
2009	-	-
Thereafter	5,168	2,240
Total	5,168	2,240

Constant Prices and Costs (\$000s)

Year	Abandonment Costs (Undiscounted)	Abandonment Costs (Discounted at 10%)
2006	-	-
2007	-	-
2008	-	-
Thereafter	4,400	1,935
Total	4,400	1,935

*Capital Expenditures (Net)*

The following table sets forth capital expenditures related to the Corporation's activities for the year ended December 31, 2006 (US\$000s).

	Year Ended December 31, 2006
Property acquisition costs	
Proved properties	-
Undeveloped properties	-
Exploration costs	8,460
Development costs	14,013
Dispositions	-
Total	22,473

*Exploration and Development Activities*

The following table sets forth the gross and net exploration and development wells which were drilled on the Corporation's oil and gas properties during the year ended December 31, 2006.

	Exploration Wells	
	Year Ended December 31, 2006	
	Gross	Net
Oil	-	-
Natural Gas	1	0.6
Service	-	-
Dry	-	-
Total	1	0.6

See "Other Oil and Gas Information – Properties, Plants, Facilities and Installations" for a description of the exploration and development plans of the Corporation.

*Production Estimates*

The following tables set forth the volume of the Corporation's average production estimated for 2007 reflected in the estimates of future net revenue in the Ryder Scott Report in total.

Estimated Net Production by Significant Fields: 2007 Proved

	Natural Gas (mmcf/d)	Oil/Condensate (bopd)	Boe (boe/d)
El Bibane Field	0.959	420	580
Robbana Field	-	31	31
Ezzaouia Field	0.336	336	356
Al Manzah Field	-	89	89
Total Proved	1.295	876	1,056

Estimated Net Production by Significant Fields: 2007 Proved Plus Probable

	Natural Gas (mmcf/d)	Oil/Condensate (bopd)	Boe (boe/d)
El Bibane Field	0.959	479	639
Robbana Field	-	35	35
Ezzaouia Field	0.129	347	369
Al Manzah Field	-	104	104
Total Proved Plus Probable	1.088	965	1,146

### Production History

The following table summarizes certain information in respect of production, product prices received, royalties paid, operating expenses and resulting operating netback attributed to the Corporation's oil and gas assets for the periods indicated below.

	2006			
	31-Dec	30-Sep	30-Jun	31-Mar
<b>Average Daily Production <sup>(1)</sup></b>				
Gas (MMcf/d)	-	-	-	-
Oil/Condensate(bbls/d)	489	520	578	654
Combined (boe/d)	<b>489</b>	<b>520</b>	<b>578</b>	<b>654</b>
<b>Average Price Received</b>				
Gas (\$/MMcf)	-	-	-	-
Oil/Condensate (\$/bbl)	59.54	67.19	68.92	59.31
Combined (\$/boe)	<b>59.54</b>	<b>67.19</b>	<b>68.92</b>	<b>59.31</b>
<b>Royalties</b>				
Gas (\$/MMcf)	-	-	-	-
Oil/Condensate (\$/bbl)	6.80	7.74	7.90	6.86
Combined (\$/boe)	<b>6.80</b>	<b>7.74</b>	<b>7.90</b>	<b>6.86</b>
<b>Operating expenses</b>				
Gas (\$/MMcf)	-	-	-	-
Oil/Condensate (\$/bbl)	12.54	9.96	10.05	7.61
Combined (\$/boe)	<b>12.54</b>	<b>9.96</b>	<b>10.05</b>	<b>7.61</b>
<b>Netbacks</b>				
Gas (\$/MMcf)	-	-	-	-
Oil/Condensate (\$/bbl)	40.21	49.49	50.97	44.83
Combined (\$/boe)	<b>40.21</b>	<b>49.49</b>	<b>50.97</b>	<b>44.83</b>

<sup>(1)</sup> Before deduction of royalties

The following table sets forth the average daily production from the important fields for the year ended December 31, 2006.

	Crude Oil (bopd)	Natural Gas (mmcf/d)	Boe (boe/d)
El Bibane Field	-	-	-
Robbana Field	36	-	36
Ezzaouia Field	326	-	326
Al Manzah Field	197	-	197
Total	<b>559</b>		<b>559</b>

### Future Commitments

As at the date hereof, the Corporation has no crude oil or natural gas hedges or forward contracts in place.

### OTHER OIL AND GAS INFORMATION

#### Properties, Plants, Facilities and Installations

The properties of Candax are currently located in Tunisia, where the Corporation has acquired or has leased plants, facilities and other installations necessary to produce, lift, transport and sell oil and gas. A description of the properties, plants, facilities and installations of Candax is set out below.

Certain of the information set out below is summarized from the Ryder Scott Report.

The reserve estimates set out below are presented in accordance with the requirements of NI 51-101. Additional information not required by NI 51-101 has been presented to provide additional information which management of Candax believes is important to readers of this information.

#### *El Bibane Concession*

In January 1984, the Tunisian Ministry granted Ecumed Petroleum Tunisia, Ltd. and several other companies the El Bibane Concession authorizing the exploitation, development and production of the lands subject thereto (including the El Bibane Field) for a term of 30 years. The Corporation acquired all of the outstanding shares of Ecumed Petroleum Tunisia, Ltd. in April 2005 and currently holds a 73.7729% working interest in the El Bibane Concession.

The El Bibane Concession covers an area of approximately 56,316 acres and is situated approximately 18 kilometres offshore of the east coast of Tunisia in the Gulf of Gabes. Production of the El Bibane #3 well commenced in March 1998 following the successful re-entry of the well in September 1996 and the completion in February 1998 of an 18 kilometre pipeline connecting the El Bibane #3 well to an onshore production facility at the Town of Zarzis. Reservoir fluids produced from the El Bibane Field are transported through the pipeline to the processing facility where the crude oil, water and natural gas are separated and processed. Once separated, the natural gas is transported to the SEEB Power Plant. Oil is transported through an interconnecting pipeline to a 200,000 barrel oil storage facility (the "Zarzis Storage Facility") owned by the owners of the Ezzaouia Concession (as hereinafter defined) where it is co-mingled and stored with oil from the Ezzaouia and Robbana Fields. Liftings occur at scheduled intervals as the storage facilities reach capacity. Pursuant to existing lifting agreements, when the storage facility reaches capacity, the owner of the largest quantity of oil in the storage tank is entitled to lift and sell all of the oil on its behalf. A record of oil production debits and lifting credits is maintained for each producer that stores oil in the facilities.

At the end of 2006, the cumulative gross production for the El Bibane Field was 3.3 million barrels. It is estimated by Ryder Scott that the El Bibane Field has proved plus probable remaining gross reserves as at December 31, 2006 of 3.36 million barrels of oil and 17.1 bcf of gas. Net proved plus probable reserves to Candax (after royalty) are 2.30 million barrels of oil and 11.6 bcf of gas.

The reservoir interval comprises dolomites of the Cretaceous Zebbag formation. The oil is present as an original 50 metre oil rim below a well-defined gas cap.

The reservoir has been produced through a single horizontal producer, via an 8" flow line to the onshore processing facility at Zarzis. Oil is exported through the Maretap storage and offloading facility. Gas is sold to the SEEB electricity generator located adjacent to the El Bibane processing plant.

Candax announced on September 1, 2005 that during routine maintenance unexpected corrosion of the El Bibane #3 wellhead was discovered. In the interests of safety and good environmental practice it was decided to shut-in the well. Prior to shut-in, the El Bibane #3 well was producing approximately 530 bopd and 3.7 mmcf/d of sales gas net to Candax. Efforts to restart the well were unsuccessful and it was announced on September 26, 2005 that restart operations were suspended and the resumption of production would await the previously announced re-development program for El Bibane. A full field development program had already been planned by Candax to optimize production and recovery of the reserves at El Bibane, and this program will now include reinstating production from the El Bibane #3 well. The plan comprises the drilling of a further development well, the re-completion of the existing well and the drilling of a gas re-injection well.

The El Bibane Field was not producing as at December 31, 2006.

In March 2007, the Company terminated the off-shore drilling contract. This decision followed a year of successive delays and missed deadlines despite repeated assurances to the contrary by the contractor and thus their failure to perform the operations contemplated by the contract. After serving the contractor with several Notices of Default, and in light of its continued inability to provide the necessary rig certifications, Candax was of the opinion that the drilling equipment was not in compliance with essential health, safety and environmental standards. As a result, formal notice to terminate the contract was served upon the contractor. Candax did not incur any costs with or make any payments to the contractor relating to the re-development drilling contract.

Candax is focused on obtaining an alternate drilling option. The water depth at El Bibane (6 to 8 metres) severely limits the number of jack-up rigs capable of undertaking the program. Candax is now negotiating with a number of contractors, but the market for suitable jack-up drill rigs remains tight, although somewhat better than a year ago and the nearest term availability is unlikely to be before mid-year 2007. When completed, it is expected to lead to higher

levels of oil production, more efficient recovery of reserves and also enable remote restart of production in the event of a temporary future shut-in of a well.

#### *Robbana Concession*

The Robbana Concession is located in southern Tunisia on the island of D'Jerba and covers approximately 11,856 acres. Candax, through Ecumed Petroleum Tunisia, Ltd., has an 80% working interest in the Robbana Concession and is the operator of the Robbana Field. The 1.68 acre Robbana Field began production in September 1993 and, at the end of 2005, had a cumulative gross production of 385,000 barrels. The field produces from a single well, Robbana #1 well, which at the end of 2006 was producing on a gross basis approximately 46 bopd. Remaining proven plus probable gross reserves as at December 31, 2006 are estimated by Ryder Scott to be 88,304 barrels with net to the Corporation (after royalty) of 69,230 barrels.

In 1993, Ecumed Petroleum Tunisia, Ltd. made a formal application to the Tunisian Ministry for a petroleum concession licence covering the Robbana Field. The Robbana Concession was granted on November 5, 2004 and authorizes the exploitation, development and production of the lands subject thereto (including the Robbana Field) for a period of 30 years which commenced in January 1993. Prior to the grant of the Robbana Concession, oil produced from the Robbana Field was sold pursuant to an authorization from the Tunisian Ministry to conduct an extended long-term production test.

Reservoir fluids produced from the Robbana Field are trucked to a production facility for the El Bibane Concession where they are separated and processed. The oil is then transported by pipeline to the Zarzis Storage Facility where it is lifted and sold along with oil from the Ezzaouia and El Bibane Fields.

There are no further plans for the field other than to effectively manage and optimize the economic recovery of the remaining reserves.

#### *Ezzaouia Concession*

On January 1, 1990, Ecumed Petroleum Zarzis, Ltd. and several other companies acquired the Ezzaouia Concession which authorized the exploitation, development and production of the lands subject thereto (including the Ezzaouia Field) for a term of 30 years. The Corporation acquired all of the outstanding shares of Ecumed Zarzis in April 2005 and currently holds a 31.3846% working interest in the Ezzaouia Concession. The Ezzaouia Field is located onshore southern Tunisia approximately 12 kilometres north of the Town of Zarzis. It began production in 1990 and is operated by Maretap, a joint venture company between the Corporation and ETAP.

The Ezzaouia Concession comprises an area of approximately 9,880 acres. The Ezzaouia field has two productive intervals: the Cretaceous Zebbag dolomite and the lower M'Rabrine reservoir of the Jurassic, and currently has six wells in production. Reservoir fluids produced from the Ezzaouia Field are processed at the Ezzaouia processing facility where the crude oil, natural gas and water are separated and processed. Separated natural gas is transported via pipeline to the El Bibane production facility and, from there, to the SEEB Power Plant. Oil is transported through a separate eight kilometre pipeline to the Zarzis Storage Facility where it is co-mingled and stored with oil from the El Bibane and Robbana Fields. Liftings occur at scheduled intervals as the storage facilities reach capacity. Pursuant to existing lifting agreements, when the storage facility reaches capacity, the owner of the largest quantity of oil in the storage tank is entitled to lift and sell all of the oil on its behalf. A record of oil production debits and lifting credits is maintained for each producer that stores oil in the facilities.

At the end of 2006, the cumulative gross production from the Ezzaouia Field was 28.7 million barrels. Ryder Scott estimates the remaining proven and probable gross reserves as at December 31, 2006 to be 7.9 million barrels of oil and 12.5 bcf of gas. The net remaining reserves to Candax (after royalty) are 2.2 million barrels of oil and 2.6 bcf of gas.

The gross average daily production for 2006 was 1,037 bopd. This was a net production to Candax of 326 bopd.

The Corporation and its partners have recently completed reservoir studies and will undertake an infill drilling and a pilot water flood program, before finalizing the future late-stage development plan for the field.

### *Al Manzah Concession*

In November 2001, the Tunisian Ministry granted Ecumed Petroleum Grombalia, Ltd. and a third party the Al Manzah Concession authorizing the exploitation, development and production of the lands subject thereto (including the Al Manzah Field) for a term of 30 years. As a result of ETAP electing to not exercise its right under a permit referred to as the Grombalia permit to maintain up to a 50% working interest in the Al Manzah Concession, the Corporation, through Ecumed Grombalia, now holds a 75% working interest in the Al Manzah Concession and is the operator of the Al Manzah Field.

The Al Manzah Field is located in the Cap Bon Peninsula of northern Tunisia 60 kilometres from the city of Tunis. The field began production in 1999 and at the end of 2005 had a cumulative gross production of 1.7 million barrels.

The Al Manzah Field was shut-in in late 2004, however a successful workover in August 2005 and the installation of artificial lift resulted in production resuming in December 2005.

Ryder Scott estimates the remaining proven and probable gross reserves as at December 31, 2006 to be 159,737 barrels of oil. The net remaining reserves to Candax (after royalty) are 104,040 barrels of oil.

### *SEEB Power Plant*

The Corporation, through Ecumed Petroleum Zarzis, Ltd. (42%) and Ecumed Petroleum Grombalia, Ltd. (8%) is the owner of 50% of the outstanding shares of SEEB and, consequently, a 50% interest in SEEB Power Plant. The remaining 50% interest in SEEB is owned by CPVI.

On November 6, 2001, the Acquired Companies, CPVI, and CME International, Inc. entered into an interestholders' agreement (the "Interestholders Agreement") setting out the manner in which the affairs of SEEB are to be conducted including the development, construction and operation of the SEEB Power Plant. The Interestholders Agreement governs, among other things, the payment of "distributable cash" to interestholders in SEEB (which is paid pro rata among the interestholders in SEEB), matters relating to the management of SEEB and meetings of interestholders thereof and requirements relating to the transfer of interests in SEEB. The Interestholders Agreement further provides that additional capital requirements of SEEB are to be funded by interestholders on a pro rata basis, with the interest of any interestholder in SEEB that fails to make a required capital contribution being diluted in accordance with the provisions of the Interestholders Agreement.

The SEEB Power Plant was developed jointly by Centurion and CPVI and was completed in February 2003. Load testing was conducted during March 2003 and the SEEB Power Plant commenced commercial operations in early May 2003, under the terms of a power purchase agreement dated December 18, 2002.

Construction financing of the SEEB Power Plant has been provided by ABC International Bank plc ("ABC") and Amen Bank ("Amen") pursuant to the ABC/Amen Loan, which loan is secured against the assets of SEEB and the Acquired Companies. The ABC/Amen Loan required Centurion and CPVI to fund a 30% share of the project costs. CPVI and Candax are liable (up to US\$750,000) should each of them not perform certain support functions in respect of the ABC/Amen Loan. In December 2002, SEEB obtained US\$5.0 million in additional funding in the form of a subordinated loan facility from CPVI (the "CPVI Loan") to finance additional construction costs of the SEEB Power Plant. Costs of constructing the SEEB Power Plant in excess of the proceeds from the ABC/Amen Loan and the CPVI Loan were funded equally by Centurion and CPVI. The proceeds from the sale of electricity will be used to repay the ABC/Amen Loan and the CPVI Loan, as applicable. Cash flow in excess of debt service costs will be distributed to the owners of SEEB.

The SEEB Power Plant consists of two new Solar Titan gas turbines in simple cycle operation. The SEEB Power Plant is located adjacent to the El Bibane processing facilities and burns raw gas from both the El Bibane Field and the Ezzaouia Field. Gas supplied from the Ezzaouia Field is compressed and transported to the SEEB Power Plant via pipeline. The Solar Titan gas turbines include a dry, low nitrogen oxide combustion system that is capable of reaching emission limits as low as 25 parts per million. The SEEB Power Plant also has a switchyard and control room and provides electricity to the STEG substation at 50 Hz and 150 kV through a 10 km above-ground transmission line.

Due to the lack of production from the El Bibane Field, the SEEB Power Plant has not generated revenues since late August 2005 and, as a result, SEEB has been unable to meet its obligations under the ABC/Amen Loan. The lenders, ABC and Amen, agreed to: (i) defer the principal payments required pursuant to the ABC/Amen Loan until May 2,

2006, and (ii) after receiving payment from SEEB of the interest owing thereunder, waive the event of default that would otherwise have arisen. SEEB paid such interest in the first quarter of 2006 from the proceeds received under a business interruption insurance policy.

On March 18, 2002, SEEB and its joint venture partner closed a US \$22.2 million limited-recourse project financing, 50% of which was subsequently converted into Euros. Security for the financing is limited to the project assets and a corporate non-performance guarantee of US \$750,000. Candax's share of the project financing at December 31, 2006 is \$10.9 million (2005 - \$10.3 million). All required interest and principal payments were expected to be repaid through operating cash flows of the SEEB power plant. The proceeds of this project financing were used to fund construction costs of the SEEB plant which commenced operations May 9, 2003. The required principal payments have not been made due to a lack of cash resources at SEEB and as a result the loan is in default. Since the loan is in default, it may be called by the lenders at anytime.

#### *Chaal Permit*

The area comprising the Chaal Permit is located in central Tunisia approximately 50 kilometres west of the City of Sfax. Candax originally held an 80% working interest in the Chaal Permit under a production sharing agreement and a petroleum prospecting permit with ETAP signed in April 2005. The Chaal Permit covers an area measuring 1,200 square kilometres. The area comprising the Chaal Permit lies close to existing gas infrastructure (15 kilometres) operated by STEG.

The Corporation was formally granted its interest in the Chaal Permit on March 17, 2005. Under the original terms, the Chaal Permit was valid for a period of two years from the date of the publication of its decree in the Journal Officiel de la Republique Tunisienne, which publication was made on June 14, 2005. In order to comply with the terms of the Chaal Permit and to render the permit capable of being converted into an exploration permit, the Corporation and its partner in the permit, SMIP, committed to carry out a work program prior to June 14, 2007 which required the acquisition of 90 kilometres of 2D seismic data at an estimated cost of US\$1,000,000 (the Corporation's share of which was US\$800,000), provided that in the event that the work program was completed at a lesser cost, the obligations of the Corporation and SMIP will be deemed to have been fulfilled.

On August 10, 2005, Candax and SMIP applied to the Direction Générale de l'Energie (the "DGE") for approval to forgo the seismic commitment under the Prospecting Permit in return for a commitment to drill an exploration well.

On November 11, 2005, the DGE gave their approval for the seismic commitment to be replaced by the well proposed by Candax and SMIP. However, under Tunisian regulations, drilling can only take place under the terms of an exploration permit. Candax and SMIP were therefore invited to file an official application to convert the prospecting permit into an exploration permit.

The application for such conversion was submitted on November 29, 2005 and the DGE gave their approval for the conversion on December 16, 2005. The resulting exploration permit has a two year term and carries a commitment to drill one exploration well to evaluate the Jurassic Nara Formation with a financial commitment of US \$3 million. The convention detailing the terms and conditions applicable to the exploration permit in respect of the area comprising the Chaal Permit was signed on January 12, 2006.

In December 2005, the Corporation entered into the Farmout Agreement with Mitsubishi Corporation ("Mitsubishi") pursuant to which the Corporation granted Mitsubishi the right to earn a 20% Participating Interest in the Chaal Permit.

Subject to the satisfaction of certain conditions subsequent, pursuant to the Farmout Agreement, the Corporation agreed to assign to Mitsubishi 20% of the 80% Participating Interest of the Corporation in the Chaal Permit. Upon the completion of the transactions contemplated in the Farmout Agreement, the Corporation would hold an effective 60% Participating Interest in the Chaal Permit, Mitsubishi would hold a 20% Participating Interest and SMIP would hold the remaining 20%.

In consideration for the assignment of such Participating Interest, Mitsubishi agreed to pay 100% of the Corporation's 80% share of all costs, liabilities and expenses incurred in connection with the drilling, testing and, if applicable, the suspension or abandonment of the first well drilled in the area comprising the Chaal Permit up to a maximum of US \$8 million. Upon the completion of the Chaal-1 well and Mitsubishi having paid US \$8 million in connection with the foregoing, Mitsubishi will be liable only for its *pro rata* portion of such costs.

In addition to the payments described above, Mitsubishi also agreed to make the following payments to the Corporation: (a) US \$1 million on the date which is 30 days following the later of: (i) the approval of a development plan for the area comprising the Chaal Permit by ETAP, and (ii) the completion of an agreement for the sale of gas recovered from the area comprising the Chaal Permit (the "Gas Sales Agreement"); and (b) the following additional reserves bonuses will be payable by Mitsubishi to the Corporation on the later of: (i) the fulfillment of the condition in (a), and (ii) the date upon which the levels of gas sold under the Gas Sales Agreement reach the following amounts against the corresponding reserve bonus: US \$2.5 million on attaining a Gas Sale Agreement for the sale of 250 bcf of gas, and an additional US\$2.5 million on attaining a Gas Sales Agreement for the sale of 500 bcf of gas.

Pursuant to the Farmout Agreement, Mitsubishi has the right to increase its share of the total Participating Interest for the Chaal Permit by a further 5% by way of a transfer from the Corporation out of the Participating Interest of the Corporation. Mitsubishi may only exercise such right by serving notice to that effect upon the Corporation at least 60 days prior to the rig commitment for drilling of a second well in the Chaal Permit area. If Mitsubishi exercises that right, it will bear 20% of all costs, liabilities and expenses incurred in connection with the drilling and other work in respect of such second well.

In the event of an economically exploitable discovery, all hydrocarbons produced pursuant to the Chaal Permit will be sold in accordance with the production sharing terms set out therein. The Corporation anticipates that, subsequent to the successful appraisal drilling of the area comprising the Chaal Permit and prior to the commencement of commercial production, a definitive gas sales agreement will need to be negotiated with the relevant authorities in Tunisia. Pursuant to the Chaal Permit, the significant terms of the production sharing arrangement between ETAP and the Contractor (being Candax, SMIP and Mitsubishi) are:

#### For Gas

Cost Gas <sup>(1)</sup> : 55%	<b>R Factor</b>	<b>Contractor</b>	<b>ETAP</b>
Profit Gas <sup>(2)</sup> :	R <= 0.7	49%	51%
	0.7 < R <= 1.2	44%	56%
	1.2 < R <= 1.5	39%	61%
	1.5 < R <= 2.0	34%	66%
	2.0 < R <= 2.5	29%	71%
	R > 2.5	24%	76%

#### For Oil

Cost Oil <sup>(1)</sup> : 45%	<b>R Factor</b>	<b>Contractor</b>	<b>ETAP</b>
Profit Oil <sup>(2)</sup> :	R <= 0.7	44%	56%
	0.7 < R <= 1.2	39%	61%
	1.2 < R <= 1.8	34%	66%
	1.8 < R <= 2.3	29%	71%
	2.3 < R <= 3.0	24%	76%
	R > 3.0	19%	81%

Notes:

- (1) Cost Gas/Oil is the proportion of gross revenue set aside for the recovery of capital and operating costs by the Contractor. If the Cost Gas/Oil amount is greater than the outstanding capital and operating costs then the excess is considered as Profit Gas/Oil and proportioned accordingly.
- (2) Profit Gas/Oil are the proportions of remaining revenue (gross revenue minus cost gas/oil). This is assigned to the Contractor and Government in proportions that are based upon R-Factor bands.

Based on preliminary negotiations between ETAP and the Contractor, it is anticipated that the R factor will be determined as follows;

R Factor =

[ Cumulative Hydrocarbon Production (net) times FOB price ]

divided by

[ Cumulative Expenses of Exploration, Development and Exploitation ]

Prior to the drilling of the Chaal-1 well by the Corporation in 2006, three wells had previously been drilled within the area covered by the Chaal Permit. The Ali Ben Khalifa-1 well ("ABK-1") was drilled in 1963 and tested gas at aggregate rates of up to 3 mmcf/d and condensate at rates between 25 and 80 bbls/mmcf from the Lower Nara formation of the Jurassic. The Ali Ben Khalifa-2 well ("ABK-2") drilled two kilometres to the south-east of the discovery well in the same structure exhibited good gas shows across the same geological interval tested in ABK-1. The ABK-2 well was not tested. The Hachichina-1 well was drilled in 1986 on a separate structure and targeted a shallower interval but was dry.

The Chaal-1 exploration well was spudded on February 5, 2006. During April 2006, the drilling operations were completed and the well was drilled to a total depth of 4,600 metres. The results of logging indicated that a total gas bearing section of 450 metres was penetrated by the well in the Middle/Lower Nara. A gross limestone section of approximately 200 metres was evaluated within this gas bearing section, with a net reservoir interval estimated to be approximately 90 metres. An analysis of the produced gas confirmed the good quality of the gas, with over 99% hydrocarbon content, little evidence of CO<sub>2</sub>, N<sub>2</sub> of 0.82% and H<sub>2</sub>S of 0.04%. Due to high mud weights used during drilling as a result of the high pressure, the lack of suitable equipment in Tunisia and mechanical difficulties, a flow test could not be successfully completed. In August, a rig-less program was undertaken utilizing a coiled-tubing unit to displace the remaining heavy mud in the well which had adversely affected the initial tests, and then to re-perforate and perform an acid squeeze on prospective zones. This program was suspended on August 28, 2006 due to mechanical difficulties. While the well was being flowed back after an acid injectivity test on part of the DST-2 zone, a sudden loss of annulus pressure was observed, which on examination was clearly due to the development of a leak between the annulus and the tubing. In order to resolve the communication problem, the completion would have needed to be pulled, and this operation would have required a rig. As no rig was immediately available, the completion of the perforating, acidizing and testing operations on the well could not be safely undertaken, and the decision to suspend operations on the well was made. Candax and its partners are reviewing all technical options and are developing a forward program and budget for 2007 for the appraisal of the Chaal discovery.

Mitsubishi satisfied its funding commitments under the Farm-out Agreement with the result that it now holds a 20% interest in the Chaal Permit. The interest of Candax in the Chaal Permit has consequently been reduced to 60%.

### Land Holdings

The following table summarizes the gross and net acres of properties in which Candax has an interest and the number of net acres for which the rights of Candax to explore, develop and exploit will, absent further action, expire within one year.

	<u>Gross Acres</u>	<u>Net Acres</u>	<u>Net Acres Expiring Within One Year</u>
Al Manzah	6,916	5,187	-
El Bibane	56,316	41,546	-
Ezzaouia	9,880	3,101	-
Robbana	11,856	9,485	-
Belli	10,868	5,434	-
Chaal	296,526	177,915	-
Total	392,362	242,668	-

### Forward Contracts and Financial Instruments

#### Gas Sales Contracts

Upon the completion of the Acquisition, the operations of Candax became subject to certain contracts which require gas sales to its 50% owned subsidiary, SEEB, pursuant to which Candax is obligated to sell gas from its El Bibane Field and its Ezzaouia Field for use by SEEB at the SEEB Power Plant. The sale price of the gas was set at the time of Tunisian government approval for the SEEB Power Plant at US\$0.30 per mmbtu escalating at 1.5% per annum commencing on the first anniversary of first gas sales to SEEB. Gas sales from the El Bibane Field commenced in May 2003. Gas sales from the Ezzaouia Field commenced in August 2004. The term of the gas sales contracts is the earlier of 20 years or the date of expiry of the El Bibane Concession, in the case of gas supplied from the El Bibane Field or the Ezzaouia Concession in the case of gas supplied from the Ezzaouia Field.

### Abandonment and Reclamation Costs

Candax records a liability in its financial statements for the estimated future costs associated with abandoning and reclaiming all the lands associated with wells, facilities and pipelines. These costs are estimated using historical unit cost experience in each field area for well construction and field construction work combined with engineering estimates of the complexity and future level of work effort required. At December 31, 2006, a liability of \$1.7 million has been recorded in the financial statements of Candax. This liability is reviewed annually in conjunction with the audit of the financial statements, and any increase required in the liability is charged to earnings. When abandonment work is performed, the costs are removed from this liability. Candax currently does not anticipate incurring abandonment or reclamation costs in the next three financial years.

### Tax Horizon

In Tunisia, Candax pays an income tax based on 50% of taxable profits as defined by Tunisian tax laws. Candax currently has unclaimed capital costs approximating \$35 million (39 million Tunisian Dinars) which will serve to offset future taxes payable on current proved producing reserves on a concession by concession basis.

### Acquisition, Exploration and Developments Costs Incurred

The following table sets out the property acquisition, exploration and development costs of Candax for the fiscal year ended December 31, 2006.

	Property Acquisition Costs		Exploration Costs	Development Costs
	Proved	Unproved		
	(CDN \$ Millions)			
Total	-	-	9.810	16.250

### Exploration and Development Drilling Activity

The following table sets out the number of exploration and development wells in which Candax has an interest, on a gross and net basis for the years indicated.

	Year Ended December 31, 2006			
	Exploration		Development	
	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>
Crude Oil	-	-	-	-
Natural Gas	-	-	-	-
Suspended (Gas)	1.0	0.6	-	-
Dry/Abandoned <sup>(3)</sup>	-	-	-	-
Total	-	-	-	-

Notes:

- (1) "Gross Wells" are wells in which Candax has a Participating Interest.
- (2) "Net Wells" are the aggregate percentage of Candax's Participating Interest in Gross Wells.

### Future Anticipated Exploration and Development Activities

The Corporation plans to drill two development wells and a gas reinjection well to reinstate production and optimize oil and gas reserves on the El Bibane Concession

Additionally, the Corporation plans to drill two infill development wells to increase production and optimize oil reserves on the Ezzaouia Concession. Drilling in respect of these wells is expected to commence in the second half of 2007 and to be completed before year end.

### Production Estimates

The following table sets out the estimated production of oil and natural gas for Candax for the fiscal year ended December 31, 2007 as set out in the Ryder Scott Report.

**Net Future Production Estimates  
Constant Prices and Cost**

	Estimated Production for Year Ended December 31, 2007	
	Oil (bbls)	Natural Gas (mmcf)
Total (proved)	320,300	394

**ARRANGEMENTS WITH ACTIS**

In connection with the purchase of 37,500,000 Subscription Receipts by Actis in the offering of Subscription Receipts completed by the Corporation in April 2005, the Corporation, Actis and Michael Wood, John Clarke, Donald Munn, David Wilson and Alexander Kulpecz (in this section, collectively "Candax Management") entered into an investment rights agreement dated April 14, 2005 (the "Investment Rights Agreement"). In addition, Candax Management entered into an escrow agreement dated April 14, 2005 (the "Escrow Agreement") with Actis and Equity Transfer Services Inc., as escrow agent. The terms of the Investment Rights Agreement and the Escrow Agreement are summarized below.

**Investment Rights Agreement**

*Nomination and Related Rights*

Pursuant to the Investment Rights Agreement, for so long as Actis and certain designated affiliates thereof (in this section, collectively "Actis") own or exercise control or direction over 20% or more of the outstanding Common Shares (calculated on a non-diluted basis), Actis has the right to nominate up to two representatives as directors of the Corporation and one representative as director of the Corporation for so long as Actis owns or exercises control or direction over 10% or more (but less than 20%) of the outstanding Common Shares (calculated on a non-diluted basis). In the Investment Rights Agreement, each member of Candax Management has agreed to vote all Common Shares and other voting securities of the Corporation held by him and to take such reasonable actions not inconsistent with his fiduciary duties under applicable law to provide for the election or appointment of the foregoing nominees of Actis. If requested by Actis from time to time, subject to applicable securities legislation, one of the nominees of Actis is required to be appointed to each key operational and/or strategic committee of directors formed by the board of directors of the Corporation, including the audit committee, the compensation committee and the corporate governance committee. The Investment Rights Agreement provides that, in the event that the number of directors of the Corporation is increased to more than seven directors, Actis is entitled (subject to the provisions of the OBCA and the articles and by-laws of the Corporation) to such number of additional representatives (if any) as directors of the Corporation as is proportional to the percentage of Common Shares (calculated on a non-diluted basis) owned or controlled by Actis at the relevant time.

In the Investment Rights Agreement, the Corporation has covenanted with Actis that the board of directors of the Corporation will consist of at least two independent directors where the board size is five directors, three independent directors where the board size is six directors and four independent directors where the board size is seven directors.

*Registration Rights*

The Investment Rights Agreement provides that, at any time and from time to time after the earlier of: (i) April 14, 2006, or (ii) six months after the date the Corporation becomes a "reporting issuer" under the *Securities Act* (Ontario), Actis may require the Corporation to file and obtain a receipt for a prospectus (a "Demand Registration") under applicable securities legislation in Canada qualifying for distribution some or all of the Common Shares or other securities of the Corporation held by Actis ("Actis Securities"). The Corporation is required to pay the fees and expenses of its own counsel incurred in connection with each Demand Registration, with Actis being required to pay the fees and expenses of its own counsel and the underwriters' or agents' fees or commissions on the Actis Securities being distributed and all direct incremental third party costs and expenses incurred in connection with the Demand Registration. If any Demand Registration also involves an underwritten or agency offering by the Corporation and the lead underwriter or agent advises the Corporation and Actis that the number of Actis Securities to be included in such offering exceeds the number which can be sold in an orderly manner within an acceptable price range (the "Maximum Offering Size"), the Corporation is required to include in the qualification for distribution (i) first, as many of the Actis Securities subject to the Demand Registration as will not cause the offering to exceed the

Maximum Offering Size, and (ii) second, as many of any Common Shares proposed to be qualified for distribution by the Corporation as will not cause the offering to exceed the Maximum Offering Size.

The Corporation is obligated to affect a total of five Demand Registrations, with no more than two Demand Registrations in any calendar year, and provided that no single Demand Registration may be requested by Actis where the Actis Securities to be qualified have an aggregate market value of less than \$10 million. The Corporation is entitled to postpone, for a reasonable period of time not exceeding 60 days, a Demand Registration if it reasonably believes that such postponement is in the reasonable interests of the Corporation. In addition, if a Demand Registration would result in the disclosure of material information which the Corporation has a bona fide business purpose for preserving as confidential and where disclosure would be seriously detrimental to the Corporation, the Corporation is not required to effect the Demand Registration until the earlier of (i) the date upon which such material information is disclosed to the public or ceases to be material, or (ii) 60 days after the Corporation makes such good faith determination.

Whenever the Corporation proposes to qualify the distribution of securities under applicable securities legislation in Canada in a form and manner which would permit qualification of Actis Securities, Actis is entitled to have included in such qualification such number of Actis Securities as is required by Actis (a "Piggyback Registration"), provided, however, that (i) if the Piggyback Registration is a distribution on behalf of the Corporation and the lead underwriter or agent advises the Corporation that the number of Common Shares or other securities of the Corporation to be included in such offering exceeds the Maximum Offering Size, the Corporation is required to include in the qualification for distribution (A) first, as many of such Common Shares or other securities of the Corporation which the Corporation proposes to sell as will not cause the offering to exceed the Maximum Offering Size, and (B) second, as many of the Actis Securities proposed to be qualified for distribution as will not cause the offering to exceed the Maximum Offering Size, and (ii) if the Piggyback Registration is requested in conjunction with a secondary distribution of securities of the Corporation and the lead underwriter or agent advises the Corporation that the number of Common Shares or other securities of the Corporation to be included in such offering exceeds the Maximum Offering Size, the Corporation is required to include in the qualification for distribution the Actis Securities requested to be included in such distribution and the other securities of the Corporation sought to be included in such distribution pro rata based upon each securityholder's relative securityholding in the Corporation. The costs and expenses of a Piggyback Registration are required to be paid by the Corporation, excluding the fees and expenses of counsel to Actis, the underwriters' or agents' fees or commissions on the Actis Securities being qualified for distribution and other direct incremental third party costs and expenses incurred as a result of the Piggyback Registration.

Pursuant to the Investment Rights Agreement, the Corporation has agreed to indemnify Actis and certain other persons against losses, claims, damages, liabilities and expenses caused by any untrue or alleged untrue statement of material fact contained in a prospectus of the Corporation or any omission or alleged omission of a material fact required to be stated therein to make any statement therein not misleading, other than certain information therein relating to Actis in respect of which the Corporation is entitled, as a condition to the qualification of Actis Securities, to require Actis to indemnify the Corporation.

#### *Corporate Governance*

In the Investment Rights Agreement, the Corporation has covenanted with Actis that, among other things, the business of the Corporation will be conducted in a way that: (i) provides safe and healthy working conditions for the Corporation and its employees, (ii) encourages the efficient use of natural resources and promotes the protection of the environment, (iii) treats all employees fairly in terms of recruitment, progression, remuneration and conditions of work, irrespective of gender, race, colour, language, disability, political opinion, age, religion, or national/social origin, (iv) allows consultative work-place structures and associations which provide employees with an opportunity to present their views to management, (v) takes account of the impact of the Corporation's operations on the local community and seeks to ensure that potentially harmful occupational health and safety, environmental and social effects are properly assessed, addressed and monitored, and (vi) upholds high standards of business integrity and honesty, and operates in accordance with local laws and international good practice (including those intended to fight extortion, bribery and financial crime).

#### *Termination*

The Investment Rights Agreement will terminate on the earlier of: (i) the entering into of a written agreement by the parties thereto providing for such termination, and (ii) at the time that Actis no longer owns or exercises control or direction over 10% or more of the outstanding Common Shares (calculated on a non-diluted basis); provided that the Corporation's obligations under the Investment Rights Agreement relating to corporate governance matters will

survive and be binding upon the Corporation until Actis no longer owns or exercises control or direction over any securities of the Corporation.

### **Escrow Agreement**

Pursuant to the Escrow Agreement, Candax Management deposited into escrow with Equity Transfer Services Inc., as escrow agent, an aggregate of 14,450,000 special warrants of the Corporation (all of which were exchanged for Common Shares on April 27, 2005, with such Common Shares now being held pursuant to the provisions of the Escrow Agreement) and options to purchase an aggregate of 5,250,000 Common Shares (collectively the "Escrowed Securities"). As at March 31, 2007, the number of Common Shares and options to purchase Common Shares subject to the foregoing escrow requirements represented 5.1% of the outstanding Common Shares and 24.8% of the outstanding options to purchase Common Shares, respectively.

Under the terms of the Escrow Agreement, 20% of the Escrowed Securities were released from escrow on April 14, 2005 and 2006. The remaining Escrowed Securities will be released from escrow under the Escrow Agreement as to 20% of the original number of Escrowed Securities on each anniversary of April 14, 2007 until April 14, 2009.

Prior to their release from escrow under the Escrow Agreement, the Escrowed Securities may not be sold, transferred or assigned by Candax Management, other than in certain cases for bona fide estate planning transactions to spouses, wholly-owned corporations or family trusts. The Escrow Agreement provides that, to the extent required, the Escrowed Securities may be delivered to an escrow agent pursuant to any escrow agreement required by a securities regulatory authority or stock exchange or market having jurisdiction over the Corporation, provided that if released from escrow thereunder at a time when the Escrowed Securities would still be subject to escrow under the Escrow Agreement, the required number of Escrowed Securities are required to be redeposited with the escrow agent to be held in accordance with the provisions of the Escrow Agreement.

The Escrow Agreement provides in certain cases that if a formal take-over bid is made for all of the outstanding Common Shares or the Corporation proposes to complete an amalgamation, arrangement or other business combination transaction, the Escrowed Securities may be released from escrow thereunder. In addition, the Escrow Agreement provides that, in the event of the resignation or termination of the employment of a member of Candax Management, the Escrowed Securities held by such member will remain subject to escrow under the Escrow Agreement unless the compensation committee of the directors of the Corporation determines otherwise, other than in the case of a resignation or termination requested or effected in relation to certain take-over bids, amalgamations, arrangements or other business combination transactions involving the Corporation, which transactions will result in the Escrowed Securities of Candax Management being released from escrow under the Escrow Agreement.

## **RISK FACTORS**

### **Overview**

The business of the Corporation consists of the exploration and development of oil and gas in Tunisia. There are a number of inherent risks associated with oil and gas operations and development, particularly where such operations are located in foreign countries. There are also risks inherent in the generation and sale of electricity, a business in which the Corporation is engaged through its 50% ownership interest in the SEEB Power Plant. Many of these risks are beyond the control of the Corporation.

### **Exploration, Development and Production Risks**

A portion of the current working capital of Candax will be expended on petroleum and natural gas exploration, exploitation and development activities, which are high-risk ventures with uncertain prospects for success. Oil and gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration activities by the Corporation will result in new discoveries of oil, condensate or natural gas that are commercially viable or economically producible. Holders of securities of the Corporation must rely on the ability, expertise, judgment, discretion, integrity and good faith of management of the Corporation. It is difficult to project the costs of implementing any exploratory or developmental drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as overpressured zones and tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof. Few properties that are explored are ultimately developed into new reserves. In certain instances the Corporation may be precluded from pursuing an exploration program or decide not to continue with an exploration program, such an occurrence may have a negative effect on the value of the securities of the Corporation.

Future oil exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include: delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

### **Operating Hazards**

The operations conducted by the Corporation are subject to all of the operating risks normally associated with drilling for and producing oil and natural gas. One of the properties of the Corporation is located offshore. Exploration, production and development of offshore oil and natural gas properties involves an increased degree of risk and expense relative to onshore exploration, production and development due primarily to greater technical obstacles. The Corporation will therefore face higher costs in exploring, developing and producing its offshore property.

There are risks associated with the drilling of oil and natural gas wells, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, craterings, sour gas releases, fires and spills. Reduced revenues or losses resulting from the occurrence of any of these risks could have a material adverse effect on the Corporation and its future results of operations. The Corporation may become subject to liability for pollution, blow-outs or other hazards. The Corporation has insurance with respect to these hazards; however, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. The payment of such liabilities could reduce the funds available to the Corporation or could in an extreme case, result in a total loss of its properties and assets. Moreover, there can be no assurance that the Corporation will be able to maintain adequate insurance in the future at rates that are considered reasonable. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations.

The Corporation may become responsible for costs associated with abandoning and reclaiming wells, facilities and pipelines, which it uses for production of its oil and gas reserves. Abandonment and reclamation of its current facilities and the costs associated therewith is often referred to as "decommissioning". There are no immediate plans to establish a reserve account for these potential costs in respect of any of its current properties or facilities; rather, the costs of decommissioning are expected to be paid from the proceeds of production in accordance with the practice generally employed in onshore and offshore oilfield operations. Should decommissioning be required prior to economic depletion of the current properties of the Corporation or should the estimates of the costs of decommissioning exceed the value of the reserves remaining at any particular time to cover such decommissioning costs, the Corporation may have to draw on funds from other sources to satisfy such costs. The use of other funds to satisfy such decommissioning costs could have a material adverse effect on the financial position and future results of the operations of the Corporation.

### **Petroleum and Natural Gas Reserves**

All evaluations of future net revenues are before consideration of indirect costs such as administrative overhead, other miscellaneous expenses and income taxes. The future net revenues may not be representative of the fair market value of the reserves. There is no assurance that the forecast price and cost assumptions contained in the Ryder Scott Report will be attained and variances may be material. There are numerous uncertainties inherent in estimating quantities of proved and probable reserves, including many factors beyond the control of the Corporation. The reserves data and net present value of future cash flows set forth herein represent estimates only and in some cases are a management compilation of the Ryder Scott Report (and the Glendower Report for year end 2005 reporting on the Chaal Permit). The Glendower Report had recognized reserves at the "probable" level of confidence on the Chaal Permit, but as a result of the drilling of Chaal-1 in 2006 and the subsequent suspension of the well without testing commercial quantities of gas, the Chaal prospect has had reserves reclassified to contingent resources at year end 2006.

In general, estimates of economically recoverable petroleum and natural gas reserves and the future net revenues therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, commodity prices, the assumed effects of regulation by governmental agencies and future operating costs, each of which may vary considerably from actual results. Estimates of the economically recoverable petroleum

and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom, prepared by different engineers or by the same engineers at different times, may vary substantially. The reserve estimates included herein may be materially different from the quantities and values ultimately realized.

#### **No Assurance of Commerciality of Existing Fields or Future Discoveries**

There is no assurance that oil or natural gas will be capable of production in sufficient quantities to make existing fields or future discoveries commercially viable or economic for the Corporation or that the existing fields will be able to maintain their economic viability as projected. The long-term viability of the Corporation depends on its ability to find or acquire, develop and commercially produce additional oil, condensate and gas reserves. Without the addition of reserves through exploration, acquisition or development activities, the reserves and production of the Corporation will decline over time as reserves are exploited. The future of the reserves of the Corporation will depend not only on the ability of the Corporation to develop its present properties, but also on its abilities to select and acquire suitable producing properties or prospects.

#### **Fluctuation of Commodity Prices**

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors all of which are beyond the control of the Corporation. Crude oil is influenced by the world economy and OPEC's ability to adjust supply to world demand. Recently crude oil prices have also been affected by political events causing disruptions in the supply of oil, and concern over potential supply disruptions in the Middle East. Political events can trigger large fluctuations in oil price levels. Natural gas prices are influenced by regional factors and local market supply/demand and pricing conditions and are less exposed to the impact of global externalities. In particular, the gas prices in Tunisia fluctuate with short term changes in fuel oil prices. In the longer term, the impact of European demand and supply may have an impact on North African gas supplies and pricing.

World prices for oil and natural gas have fluctuated widely in recent years. Future price fluctuations in world prices are expected and may have a significant impact upon the projected revenue of the Corporation, the projected return from its existing and future reserves and the general financial viability of the Corporation.

The oil and natural gas prices realized by the Corporation are affected by factors such as supply and demand, oil quality and transportation adjustments. The Corporation expects to market its oil and natural gas production in a manner consistent with past practices. In the case of natural gas, the Corporation has fixed rate sales contracts. The Corporation's current natural gas production is subject to the provisions of the Tunisian Petroleum Law, which provides for sales into the Tunisian domestic market at rates less than those which would be realized in the international market. While the Corporation sells the majority of its Tunisian oil to arms-length purchasers priced on a sale by sale basis at prevailing market conditions, a portion of the oil produced by the Corporation is required to be sold domestically in Tunisia at rates less than those which would be realized in the international market.

There is no assurance that the price paid for the oil produced by the Corporation will remain at current levels. A decrease in the price obtained for its oil may have a material adverse effect on the financial condition of the Corporation and its future results of operations.

#### **Dependence upon Tunisian Government for the Sale of Tunisian Gas**

All sales of natural gas produced by the Corporation in Tunisia are to a single purchaser for the purpose of generating electricity within Tunisia. The Corporation sells the natural gas it produces from its Ezzaouia and El Bibane Concessions in Tunisia to its 50% owned subsidiary SEEB at a fixed price that is below current world market prices for gas and is not able to sell the natural gas it produces in Tunisia on the world markets. Continued sales of the natural gas produced by the Corporation in Tunisia, and the ability of the Corporation to obtain a positive financial return from the SEEB Power Plant, depend upon the ability of SEEB to produce electricity for sale to STEG (the power purchase agreement entered into between SEEB and STEG does, however, include a "take-or-pay" provision whereby STEG is under an obligation to purchase the electricity produced by SEEB, failing which an equivalent compensation is due and payable by STEG).

### **Risks Associated with the SEEB Power Plant**

The Corporation owns 50% of the outstanding shares of SEEB, which in turn is the owner of the SEEB Power Plant. The SEEB Power Plant utilizes natural gas produced solely from the El Bibane Concession and the Ezzaouia Concession to generate electricity. SEEB sells all of the electricity generated from the SEEB Power Plant at a fixed price to STEG pursuant to a power purchase agreement. Continued sales of electricity and the ability of the Corporation to obtain a return on its investment in the SEEB Power Plant is dependent upon an ongoing supply of natural gas from its El Bibane and Ezzaouia Fields and the ability of SEEB to continue to produce electricity for sale to STEG and to receive payment from STEG. In the event that SEEB cannot obtain adequate quantities of natural gas from the El Bibane or Ezzaouia Fields or STEG refuses to accept (notwithstanding the "take-or-pay" provisions in the power purchase agreement referred to above) or fails to pay for electricity generated from the SEEB Power Plant, the value of the interest of the Corporation in SEEB could be adversely effected.

### **Conflicts of Interest**

There are potential conflicts of interest to which the directors, officers and principal shareholders of the Corporation will be subject in connection with the operations of the Corporation. Some of the directors, officers and principal shareholders may be or become engaged in other oil and gas interests on their own behalf and on behalf of other corporations, and situations may arise where the directors and officers will be in direct competition with the Corporation. Conflicts, if any, will be subject to the procedures and remedies under the *Business Corporations Act* (Ontario). The directors and officers of the Corporation may not devote their time on a full-time basis to the affairs of the Corporation.

### **Environmental Regulation**

The current and future operations of the Corporation that are conducted in Tunisia are subject to environmental regulations promulgated by the Government of Tunisia. Should the Corporation initiate operations in other countries, such operations will be subject to environmental legislation in such jurisdictions. Current environmental legislation in Tunisia provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil, condensate and natural gas operations. In addition, certain types of operations may require the submission and approval of environmental impact assessments. The existing operations of the Corporation are subject to such environmental policies and legislation. Environmental legislation and policy is periodically amended. Such amendments may result in stricter standards and enforcement and in more stringent fines and penalties non-compliance. Environmental assessments of existing and proposed projects carry a heightened degree of responsibility for companies and their directors, officers and employees. The costs of compliance associated with changes in environmental regulations could require significant expenditures, and breaches of such regulations may result in the imposition of material fines and penalties. In an extreme case, such regulations may result in temporary or permanent suspension of production operations. There can be no assurance that these environmental costs or effects will not have a material adverse effect on the future financial condition or results of the operations of the Corporation.

### **Availability of Drilling Equipment and Access**

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities.

### **Title Issues**

The Corporation has investigated the rights to explore the various oil and gas properties it holds or proposes to participate in and, to the best of its knowledge, those rights are in good standing. However, no assurance can be given that applicable governments will not revoke, or significantly alter the conditions of, the applicable exploration and development authorizations and that such exploration and development authorizations will not be challenged or impugned by third parties. There is no certainty that such rights or additional rights applied for will be granted or renewed on terms satisfactory to the Corporation. There can be no assurance that claims by third parties against the properties of the Corporation will not be asserted at a future date.

## **Political Risks**

Tunisia has experienced relative prosperity and stability under the leadership of President Ben Ali over the past two decades. Notwithstanding this relative stability, in the past, Tunisia has been affected by extremist Islamic militant activity. Tunisian authorities have implemented anti-terrorism policies and security precautions. By law, parties organized on the basis of religion, region, race or language are forbidden. Despite this, there are groups in Tunisia dedicated to turning the country into an Islamic republic. The Tunisian government has taken steps to prevent the Islamic militant struggle in neighbouring Algeria from affecting Tunisia by increasing its military presence along the Tunisia/Algeria border, imposing visa restrictions and imposing strict controls on local militants. Tunisia is bordered by both Algeria and Libya. Both countries have experienced periods of civil, political and military unrest and Libya has been the subject of international sanctions; future unrest in any of the neighbouring countries could affect Tunisia.

In addition to the political risks, the Corporation is also subject to the laws of the various levels of government in the countries in which it conducts business. Such legislation may be changed from time to time in response to economic or political conditions, and the implementation of new legislation or modification of existing legislation affecting the oil and gas industry could change the Corporation's revenues and/or costs and have a material adverse impact on the business, results of operations, financial condition and liquidity.

## **Insurance**

The involvement of the Corporation in the exploration for and development of oil and natural gas properties may result in the Corporation becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. Although prior to drilling the Corporation will obtain insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, the Corporation may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Corporation's financial position, results of operations or prospects.

## **Management of Growth**

The Corporation may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Corporation to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Corporation to deal with this growth could have a material adverse impact on its business, operations and prospects.

## **Foreign Currency Exchange Rates**

The Corporation sells its oil production pursuant to marketing agreements that are denominated in US dollars. Many of the operational and other expenses incurred by the Corporation are paid in US dollars or in local currency of the country where operations are performed. The assets and liabilities of the Corporation (including reserve information) are recorded in Canadian dollars. As a result, fluctuations in the US dollar against the Canadian dollar and each of these currencies against local currencies in jurisdictions where properties of the Corporation are located could result in unanticipated and material fluctuations in the financial results of the Corporation.

## **Reserve Replacement**

The future oil and natural gas reserves, production, and cash flows to be derived therefrom, of the Corporation are highly dependent on the Corporation successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves the Corporation may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the reserves of the Corporation will depend not only on the ability of the Corporation to develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that the future exploration and development efforts of the Corporation will result in the discovery and development of additional commercial accumulations of oil and natural gas. Should the Corporation not discover additional reserves, current operations may not be sustainable.

## **Competition**

A number of other oil and gas companies operate and are allowed to bid for exploration and production licenses and other services in countries in North Africa and the Middle East which are the focus of the business and operations of the Corporation, thereby providing competition to the Corporation. Larger companies, may have access to greater resources than the Corporation, may be more successful in the recruitment and retention of qualified employees and may conduct their own refining and petroleum marketing operations, which may give such companies a competitive advantage over the Corporation. Some of these companies have been conducting operations in Tunisia for considerably longer periods of time than has the Corporation and thus may be more familiar with the political and business landscape in Tunisia than the Corporation. In addition, actual or potential competitors may be strengthened through the acquisition of additional assets and interests.

## **Third Party Credit Risk**

The Corporation is or may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Corporation, such failures could have a material adverse effect on the Corporation and its cash flow from operations. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Corporation's ongoing capital program, potentially delaying the program and the results of such program until the Corporation finds a suitable alternative partner.

## **Requirement for Permits and Licenses**

The operations of the Corporation require licenses, permits and in some cases renewals of existing licenses and permits from the Government of Tunisia (named the Licensing Authority in the Conventions). The Corporation believes that it currently holds or has applied for all necessary licenses and permits to carry on the activities which it is currently conducting under applicable laws and regulations in respect of its properties, and also believes that it is complying in all material respects with the terms of such licenses and permits. However, the ability of the Corporation to obtain, sustain or renew such licenses and permits on acceptable terms are subject to change in regulations and policies and to the discretion of the applicable governments.

## **Legal Systems**

The jurisdictions in which the Corporation operates may have less developed legal systems than more established economies which may result in risks such as: (i) effective legal redress in the courts of such jurisdictions, whether in respect of a breach of law or regulation, or, in an ownership dispute, being difficult to obtain; (ii) a higher degree of discretion on the part of governmental authorities; (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iv) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; or (v) relative inexperience of the judiciary and courts in such matters; in certain jurisdictions the commitment of local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to licenses and agreements for business. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurance that joint ventures, licenses, license applications or other legal arrangements will not be adversely affected by the actions of government authorities and the effectiveness of and enforcement of such arrangements in these jurisdictions cannot be assured. As a result of the limited infrastructure present in Tunisia, land titles systems are not developed to the extent found in many more developed nations. Although the Corporation believes that it has good title to its oil and gas properties, there is little it can do to control this risk.

## **Finance Risks**

All interest and principal payments on the ABC/Amen Loan are paid through operating cash flows from the SEEB Power Plant. Failure to pay interest and principal payments in accordance with the terms of the ABC/Amen Loan could result in the lenders enforcing their security and taking title to all of the assets of SEEB without compensation to SEEB or the Corporation. In the event that SEEB is unable to generate electricity or sell the electricity generated for any reason, the Corporation could lose its interest in SEEB.

**Additional Requirements for Capital**

The Corporation presently does not have sufficient financial resources to undertake all of its currently planned exploration and development programs although the majority of its exploration and development programs are discretionary and can be scaled back or postponed if there is insufficient financing. The development of any reserves found on the exploration properties of the Corporation may depend upon the ability of the Corporation to obtain financing through any or all of the following: joint venturing of projects, debt financing, equity financing or other means. There is no assurance that the Corporation will be successful in obtaining the required financing. The location of the oil and gas properties of the Corporation may make it more difficult to obtain such financing. Failure to obtain additional financing on a timely basis could cause the Corporation to forfeit its interest in such properties and reduce or terminate its operations. If the revenues of the Corporation decrease as a result of lower oil and natural gas prices or otherwise, it will affect the ability of the Corporation to expend the necessary capital to replace its reserves or to maintain production at current levels. If the cash flow from the operations of the Corporation is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements.

**Tax Risks**

The Corporation is required to pay tax and royalties on oil and gas production in Tunisia. Going forward, a change in mix of production between oil and gas production or a change in the form of production could have a significant impact on the tax payable by the Corporation. In addition, Tunisian tax is calculated on a field-by-field basis and tax losses available for carry forward in one field cannot be offset against taxable profits in other fields. The tax payable going forward in Tunisia could therefore be significantly impacted by which Tunisian fields are profitable and the availability of tax losses to offset those profits.

**Hedging**

From time to time the Corporation may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Corporation will not benefit from such increases. Similarly, from time to time the Corporation may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar; however, if the Canadian dollar declines in value compared to the United States dollar, the Corporation will not benefit from the fluctuating exchange rate.

**Reliance on Strategic Relationships**

The Corporation's existing business relies on strategic relationships in the form of joint ventures with local government bodies, other oil and gas companies and other overseas companies. There can be no assurances that these strategic relationships will continue to be maintained, although at present management is not aware of any issues regarding its strategic relationships.

**Attraction and Retention of Key Personnel Including Directors**

The Corporation has a small management team and the loss of a key individual or inability to attract suitably qualified staff could have a material adverse impact on the business of the Corporation. The Corporation may also encounter difficulties in obtaining and maintaining suitably qualified staff in certain of the jurisdictions in which the Corporation conducts business. The success of the Corporation depends on the ability of management to interpret market and geological data correctly and to interpret and respond to economic, market and other conditions in order to locate and adopt appropriate investment opportunities, monitor such investments and ultimately, if required, successfully divest such investments. Further no assurance can be given that the investment strategies of the Corporation will be successfully implemented in the future, that individuals with the required skills will continue their association or employment with the Corporation or that replacement personnel with comparable skills can be found. The Corporation has sought to and will continue to ensure that directors and any key employees are provided with appropriate incentives, however, their services cannot be guaranteed.

### **Enforcement of Civil Liabilities**

As a substantial amount of the assets of the Corporation are located outside of Canada, it may be difficult or impossible to enforce judgments granted by a Canadian court against its assets, subsidiaries or directors and officers which are resident outside of Canada.

### **Market for Securities of the Corporation**

In recent years, the securities markets in Canada and the United States have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered to be development stage companies, have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It is likely that the quoted market price, if any, for the securities of the Corporation will be subject to market trends generally, notwithstanding the financial and operational performance of the Corporation.

### **Absence of Dividends**

The Corporation has not paid any dividends on its outstanding Common Shares to date, nor does management intend to pay dividends in the foreseeable future.

### **DIVIDEND RECORD AND POLICY**

Candax has not paid any dividends on its shares since incorporation and does not intend to pay dividends in the foreseeable future. The future payment of dividends will be dependent upon the financial requirements of Candax to fund future growth, the financial condition of Candax including the status of its outstanding debt instruments and other factors which the directors of Candax may consider appropriate in the circumstances.

### **DESCRIPTION OF SHARE CAPITAL**

Candax is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. As at March 31, 2007, Candax has a total of 168,874,106 Common Shares issued and outstanding. The Corporation has no preferred shares issued and outstanding. In addition, Candax has reserved 12,725,000 Common Shares for issuance upon the exercise of outstanding stock options as of March 31, 2007.

The following is a general description of the material rights, privileges, restrictions and conditions attaching to each class of shares.

#### **Common Shares**

The holders of Common Shares are entitled to receive notice of, to attend and vote at any meetings of the shareholders of Candax, to receive dividends declared by the Board of Directors of Candax and to receive the remaining property of Candax on dissolution after the claims of creditors and holders of preferred shares outstanding at the time have been satisfied.

#### **Preferred Shares**

Candax is authorized to issue an unlimited number of preferred shares issuable in series, each series consisting of such number of shares and having such rights, privileges, restrictions and conditions as may be determined by the Board of Directors of Candax at the time of the issuance thereof. At the time of creation of each series of preferred shares, the preferred shares will have such preferences as to the payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up of Candax, whether voluntary or involuntary, and such preferences over any other shares as may be determined by the board of directors of Candax. There are no preferred shares outstanding.

**MARKET FOR SECURITIES**

The Common Shares are listed for trading on the TSX under the trading symbol "CAX".

**Trading Price and Volume**

The following table sets out the price range and trading volumes of the Common Shares on the TSX during the most recently completed financial year of Candax and for periods subsequent thereto up to the date of this Annual Information Form.

	<u>Price Range</u>		<u>Volume</u>
	<u>High</u>	<u>Low</u>	
<b>2007</b>			
March	0.55	0.40	5,366,413
February	0.61	0.51	6,383,625
January	0.65	0.52	7,321,086
<b>2006</b>			
December	0.70	0.58	6,600,118
November	0.76	0.52	13,866,976
October	0.69	0.46	9,447,401
September	0.74	0.49	8,622,187
August	1.08	0.66	9,684,879
July	1.04	0.81	4,832,537
June	1.33	0.63	26,504,060
May	1.73	1.19	32,519,413
April	1.48	1.07	51,127,031
March	1.11	0.88	14,903,411
February	1.24	0.88	14,746,690
January	1.38	0.75	36,321,757
<b>2005</b>			
December	0.82	0.60	12,010,279
November	0.67	0.52	14,253,667
October	0.61	0.39	12,760,300
September	0.84	0.41	32,828,400
August (from August 29)	0.93	0.56	6,838,000

As at March 31, 2007, 5.1% of the outstanding Common Shares were subject to escrow pursuant to the Escrow Agreement. See "Arrangements with Actis – Escrow Agreement".

**DIRECTORS AND EXECUTIVE OFFICERS**

All of the directors of the Corporation are elected until the next annual meeting of the shareholders of the Corporation or until their respective successors are elected directors of the Corporation or until the earlier of their death, resignation or removal. Each officer of the Corporation serves at the discretion of the directors of the Corporation.

The following table sets forth the name, place of residence, present position or positions held with the Corporation and principal occupation of each director and officer of the Corporation and the period during which each present director of the Corporation has served as a director of the Corporation. I BELIEVE WE'RE MISSING KULPECZ

<u>Name and Place of Residence</u>	<u>Position with the Corporation</u>	<u>Director of the Corporation Since</u>	<u>Principal Occupation</u>
Michael I.T. Wood <sup>(3)(4)</sup> Guernsey, Channel Islands	President, Chief Executive Officer and Director	Sep 9, 2004	President and Chief Executive Officer of the Corporation since September 2004; President, Chief Executive Officer and Chief Financial Officer of Heritage Oil Corporation, a TSX-listed company, from 1999 to 2003.
John Willis Lubersac, France	Chief Operating Officer	Not applicable	Chief Operating Officer of the Corporation since February 1, 2007; Founder, TransMed International since 2004; Founder and Director of Consort Resources from 2000 to 2003; Manager, Energy Finance and Consultant to Barclays de Zoete Wedd (Barclays Capital) from 1994 to 1999.
Christopher J. Hopkins <sup>(3)(4)</sup> Ontario, Canada	Chief Financial Officer	Oct 27, 2005	Chief Financial Officer of the Corporation since May 23, 2005; Vice President, Finance, Canadian Bearings Ltd. (a manufacturing company) from March 2004 to May 2005; Senior Director, Finance, Canadian Imperial Bank of Commerce from 2002 to 2004; Director, Financial Planning and Analysis, Rio Algom Limited (a mining company) from 1997 to 2002; and Planning Analyst, Resources Group and Manager, Special Projects, Suncor Inc. (an oil & gas company) from 1993 to 1997.
John A. Clarke <sup>(4)</sup> Ontario, Canada	Executive Vice President, Corporate and Director	Sep 17, 2004	Executive Vice President, Corporate of the Corporation since September 2004; Vice President and Senior Oil & Gas Analyst, Octagon Capital Corporation (a securities dealer) from 2001 to 2004; Vice President, Northern Securities Inc. (a securities dealer) from 2000 to 2001; and Vice President, Deutsche Bank Securities (Canada) (a securities dealer) from 1996 to 2000.

<u>Name and Place of Residence</u>	<u>Position with the Corporation</u>	<u>Director of the Corporation Since</u>	<u>Principal Occupation</u>
Dr. Donald Munn Northampton, UK	Executive Vice President, Business Development	Not applicable	Executive Vice President, Business Development of the Corporation since September 2004; a director of Draig Resources Ltd. (a petroleum consulting company) since 2004; Vice President of Atlantis Holding Norway AS (a petroleum consulting company) from 1996 to 2003 and, from 2003 to 2004, its successor, SinoChem Corporation.
David C. Wilson Dubai, UAE	Executive Vice President, Technical	Not applicable	Executive Vice President, Technical of the Corporation since September 2004; Managing Director of ERC Dubai Ltd. (a petroleum consulting company) since 2003; President of Atlantis Holding Norway AS (a petroleum exploration and production company) from 1997 to 2003.
Alexander A. Kulpecz Surrey, UK	Executive Vice President	Not applicable	Executive Vice President of the Corporation since May 9, 2006 and Member of Technical Committee since September 2004; President of The Omega Group (an equity and banking consulting company) 2002 to 2004; President International of Azurix UK from 1998 to 2000; Various positions with Royal Dutch Shell Corporation from 1985 to 1998 including Vice President and Executive Committee Director responsible for development of business for Africa, Europe, South American and Russia.
John R. Cullen <sup>(1)(2)</sup> Ontario, Canada	Director	Jun 4, 2004	Director of CGX Energy Inc. from 1997 to present, Quincy Energy Corp. from 2003 to 2006 and Vena Resources Inc. and Garrison International Ltd. from 2004 to 2006.
Murray Grant <sup>(1)(2)</sup> London, UK	Director	Sep 27, 2006	Partner of Actis Capital LLP (a private equity investment company) since July 2004; Director of CDC Capital Partners, a division of CDC Group PLC (predecessor company to Actis Capital LLP) from 2000 to 2004.
Adrian C. Jackson <sup>(1)(2)</sup> Surrey, UK	Director	Aug 13, 2004	Equity Analyst, Investec Asset Management Limited (an investment management company) since September 2004; Contract position in Corporate Finance, Standard Bank (a securities dealer) from March 2004 to August 2004; Chief Financial Officer of Atlantic Energy Services Ltd. (an energy services company) from 2001 to 2004; and Vice President, Corporate Finance with JP Morgan Chase (a securities dealer) from 1995 to 2001.

<u>Name and Place of Residence</u>	<u>Position with the Corporation</u>	<u>Director of the Corporation Since</u>	<u>Principal Occupation</u>
John B. Zaozirny, Q.C. <sup>(3)</sup> Alberta, Canada	Director	May 4, 2005	Counsel to McCarthy Tétrault LLP (a law firm) since 1987; Vice Chairman of Canaccord Capital Corporation (a securities dealer) since 1996; and a director and strategic advisor to a number of public and private corporations.
Charlotte M. May <sup>(4)</sup> Ontario, Canada	Corporate Secretary	Not applicable	Corporate Secretary of the Corporation since June 2004; President of CMA Corporate Management Associates Inc. (a consulting company) since 1994; President and a director of Compressario Corporation (a waste management company) and its predecessor companies, Enviro Waste Technologies Inc. and Compact Waste Systems Inc. from 1996 to 2003.

- (1) Member of the Audit Committee.  
(2) Member of the Compensation Committee.  
(3) Member of the Governance Committee.  
(4) Member of the Disclosure Committee.

The Corporation has four sub-committees of the board, the Audit Committee (the "Audit Committee"), the Compensation Committee (the "Compensation Committee"), the Governance Committee (the "Governance Committee") and the Disclosure Committee (the "Disclosure Committee"). The Audit Committee and Compensation Committees both consist of three independent directors of the Corporation, the Governance Committee has one independent director and the Disclosure Committee has no independent directors. As well, the Corporation has established a technical committee consisting of six members, each of whom is an experienced industry professional. The purpose of the technical committee of the Corporation is to review business opportunities and technical matters relating thereto for the Corporation and to make recommendations thereon to the directors of the Corporation, as well as to provide the Corporation with technical advice relating to its operations.

As at December 31, 2006, the directors and executive officers of the Corporation, as a group, beneficially owned, directly or indirectly, 18,580,422 Common Shares representing 11% of the outstanding Common Shares.

## **Audit Committee Disclosure**

### *Composition of the Audit Committee*

The Audit Committee consists of three directors, being Messrs. Cullen, Jackson and Grant. The directors of the Corporation have determined that each member of the Audit Committee is "independent" from the Corporation and "financially literate" for the purposes of Multilateral Instrument 52-110 - Audit Committees ("MI 52-110"). Each member of the Audit Committee has the ability to perform his responsibilities as an Audit Committee member based on his education and/or experience as summarized below.

Mr. Cullen is director of the Corporation. Mr. Cullen spent several years as an investment advisor with Nesbitt Burns Inc. Mr. Cullen is a director of CGX Energy Inc.

Mr. Jackson is a director of the Corporation. Mr. Jackson has worked at JPMorgan Chase as an oil & gas corporate financier and as the Chief Financial Officer of a private equity-backed oil company. He is currently an energy equity analyst at Investec Asset Management Limited. Mr Jackson is a director of CGX Energy Inc.

Mr. Grant is a director of the Corporation. Mr. Grant is a Partner with Actis Inc., a significant shareholder of Candax. He is responsible for managing Actis North Africa and managing Actis's London-based team of sector specialists. Over his lengthy career in the investment community, Mr. Grant has been involved in a diverse range of investment businesses and he is currently a director with a number of North Africa businesses. Mr. Grant has an MBA from the London School of Business and a BSc (Honours) in engineering from Edinburgh University.

### Audit Committee Charter

The responsibilities and duties of the members of the Audit Committee are set out in the audit committee charter, the text of which is attached to this Annual Information Form.

### Audit Committee Oversight

At no time since the commencement of the most recently completed financial year of the Corporation was a recommendation of the audit committee to nominate or compensate an external auditor not adopted by the directors of the Corporation.

### External Auditor Service Fees (By Category)

The aggregate fees billed by the external auditor of the Corporation in each of the last two financial years of the Corporation are as follows:

	<u>2006</u>	<u>2005</u>
Audit Fees <sup>1</sup> .....	\$197,675	\$78,720
Audit-related fees <sup>2</sup> .....	-	-
Tax Fees <sup>3</sup> .....	-	-
All other fees.....	-	92,550
Total.....	<u>\$197,675</u>	<u>\$171,270</u>

### Conflicts of Interest

Certain officers and directors of Candax are also officers and/or directors of other companies engaged in the oil and gas business generally. As a result, situations arise where the interests of such directors and officers conflict with their interests as directors and officer of other companies. The resolution of such conflicts is governed by applicable corporate laws which require that directors act honestly, in good faith and with a view to the best interests of Candax and pursuant to Candax's governing statute, the OBCA, that directors declare and refrain from voting on, any matter in which a director may have a conflict of interest.

### Cease Trade Orders Bankruptcies, Penalties or Sanctions

John Cullen was formerly a director of Biogan International, Inc. ("Biogan"), a corporation incorporated under the laws of Delaware. Mr. Cullen resigned as a director of Biogan shortly before the filing by Biogan on August 15, 2004 of a liquidation plan under Chapter 11 of the United States *Bankruptcy Code*. The U.S. court declared the liquidation plan effective in April 2005.

Donald Munn, the Executive Vice President, Business Development of Candax, was a director of Sakhalin Petroleum plc, a UK-based petroleum company, in 2001 at a time during which it was obliged to cease trading on the Ofex market, a UK trading facility for unquoted and unlisted securities, due to a lack of funding to continue to carry on operations. Sakhalin Petroleum plc was liquidated in 2001.

David Wilson, the Executive Vice President, Technical of Candax, was a director of Sakhalin Petroleum plc, a UK-based petroleum company. In 2001 at a time during which it was obliged to cease trading on the Ofex market, a UK trading facility for unquoted and unlisted securities, due to a lack of funding to continue to carry on operations. Sakhalin Petroleum plc was liquidated in 2001.

While Charlotte May, the Corporate Secretary of Candax, was the President and a director of Compressario Corporation in 2003, Compressario Corporation was subjected to a cease trade order for the failure to file financial statements. The foregoing cease trade order remains in effect as of the date hereof.

<sup>1</sup> "Audit fees" include the aggregate professional fees paid to PricewaterhouseCoopers LLP (2006 and 2005) and Parker Simone, Chartered Accountants LLP (2005) for the audit of the annual consolidated financial statements and other regulatory audits and filings.

<sup>2</sup> "Audit related fees" include the aggregate fees paid to PricewaterhouseCoopers LLP (2006 and 2005) and Parker Simone, Chartered Accountants LLP (2005) for the provision of technical, accounting and financial reporting advice services.

<sup>3</sup> "Tax fees" include the aggregate fees paid to PricewaterhouseCoopers LLP (2006 and 2005) and Parker Simone, Chartered Accountants LLP (2005) for the provision of corporate tax planning and other tax related services.

### **PROMOTER**

John Cullen took the initiative in founding and organizing the business of the Corporation in June 2004 and may be considered to be a promoter of the Corporation within the meaning of applicable securities legislation. No consideration was paid or is payable to Mr. Cullen in connection with assets acquired, or to be acquired, by the Corporation. In his capacity as a consultant of the Corporation, Mr. Cullen has been granted options to purchase 1,500,000 Common Shares pursuant to the Share Incentive Plan. As a director of the Corporation, Mr. Cullen is also entitled to be reimbursed for out-of-pocket expenses in carrying out his duties.

As at December 31, 2006, Mr. Cullen owns, directly or indirectly, or exercises control or direction over an aggregate of 1,882,500 Common Shares, representing approximately 1% of the outstanding Common Shares. Mr. Cullen was formerly a director of Biogan International, Inc. ("Biogan"), a corporation incorporated under the laws of Delaware. Mr. Cullen resigned as a director of Biogan shortly before the filing by Biogan on August 15, 2004 of a liquidation plan under Chapter 11 of the United States *Bankruptcy Code*. The U.S. court declared the liquidation plan effective in April 2005.

### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

Candax is and has not been a party to, and none of its properties are or were the subject of, any legal proceedings during the financial year of the Corporation ended December 31, 2006 and no legal proceedings are known to Candax to be contemplated. There were no penalties or sanctions imposed against the Corporation by a Court relating to securities legislation or by a securities regulatory authority during the financial year of the Corporation ended December 31, 2006, no other penalties or sanctions have been imposed by a Court or regulatory body against the Corporation that would likely be considered important to a reasonable investor in making an investment decision with respect to the securities of Candax, and no settlement agreements were entered into with a Court relating to securities legislation or with a securities regulatory authority during the financial year of the Corporation ended December 31, 2006.

### **INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

The Corporation is not aware of any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the financial year of the Corporation ended December 31, 2006 involving any director, executive officer, proposed nominee for election as a director or any shareholder holding more than 10% of the voting rights attached to the Common Shares or any associate or affiliate of any of the foregoing that has materially affected or will materially affect the Corporation, other than as set forth herein or as previously disclosed.

### **REGISTRAR AND TRANSFER AGENT**

The registrar and transfer agent for the Common Shares is Equity Transfer Services Inc., 200 University Avenue, Suite 400, Toronto, Ontario, Canada M5H 4H1.

### **MATERIAL CONTRACTS**

Except for contracts entered into in the ordinary course of business and other than as described in this section, the only material contracts entered into by the Corporation since its incorporation which can reasonably be regarded as presently material to the Corporation are the following:

- (1) the Investment Rights Agreement described under the heading "Arrangements with Actis";
- (2) the Memorandum of Understanding dated September 30, 2004 between the Corporation and SMIP described under the heading "General Development of the Business";
- (3) the Petroleum Prospecting License dated March 17, 2005 among the Corporation, SMIP and ETAP, which, among other things, sets out the production sharing terms for the Chaal Permit, which license is described under the sub-heading "Other Oil and Gas Information - Properties, Plants, Facilities and Installations – Chaal Permit"
- (4) the Farmout Agreement described under the sub-heading "Other Oil and Gas Information - Properties, Plants, Facilities and Installations – Chaal Permit";
- (5) the Exploration Permit in respect of the area comprising the Chaal Permit dated December 16, 2005 among Candax, SMIP and ETAP, which, among other things, sets out the required work commitments for the area comprising the Chaal Permit, which exploration permit is described under the sub-heading "Other Oil and Gas Information" – Properties, Plants, Facilities and Installations – Chaal Permit; and
- (6) the Interestholders Agreement described under the sub-heading "Other Oil and Gas Information - Properties, Plants, Facilities and Installations – SEEB Power Plant".
- (7) the Production Sharing Contract (the "PSC") for Block 1101 onshore Madagascar with OMNIS (Office des Mines Nationales et des Industries Strategiques) representing the Government of Madagascar. The PSC is currently awaiting the Presidential Signature.

### **INTEREST OF EXPERTS**

Ryder Scott has prepared the Ryder Scott Report and Glendower has prepared the Glendower Report, each included in this Annual information Form as required pursuant to NI 51-101. To the best of the knowledge of Candax, directors, officers and employees of Ryder Scott and Glendower each own less than 1% of the outstanding Common Shares.

PricewaterhouseCoopers LLP, the external auditors of the Corporation, have prepared the audit report on the consolidated financial statements of the Corporation for its most recently completed financial year. PricewaterhouseCoopers LLP have advised that they are independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

### **ADDITIONAL INFORMATION**

Additional information regarding Candax may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans, if applicable, is contained in the Corporation's Information Circular for its most recent annual meeting of securityholders that involves the election of directors. Additional financial information is provided in Candax's financial statements and Management Discussion and Analysis for its most recently completed financial year which is also available on SEDAR.

**REPORT ON RESERVES DATA BY RYDER SCOTT IN FORM 51-101F2**

To the board of directors of Candax Energy Inc. (the "Corporation")

1. We have evaluated the reserves data of the Corporation as at December 31, 2006. The reserves data consists of the following:
  - (a)
    - (i) proved and proved plus probable oil and gas reserves estimated as at December 31, 2006 using forecast prices and costs; and
    - (ii) the related estimated future net revenue; and
  - (b)
    - (i) proved oil and gas reserves estimated as at December 31, 2006 using constant prices and costs; and
    - (ii) the related estimated future net revenue.
2. The reserves data are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the reserves data based on our evaluation. We carried out our evaluation and review in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).
3. Those standards require that we plan and perform an evaluation and review to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation and review also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10%, included in the reserves data of the Corporation evaluated by us for the year ended December 31, 2006, and identifies the respective portions thereof that we have evaluated and reviewed and reported on to the Corporation's board of directors.

Independent Qualified Reserves Evaluator	Description and Preparation Date of Evaluation Report	Location of Reserves (Country or Foreign Geographic Area)	Net present Value of Future Net Revenue (before income taxes, 10% discount rate, in CDN \$ Millions)		
			Evaluated	Reviewed	Audited
Ryder Scott Company	Evaluation of Tunisian Oil and Gas Reserves as at December 31, 2006 prepared March 29, 2007	Tunisia	113,685	N/A	N/A
		Total	<u>113,685</u>	<u>N/A</u>	<u>N/A</u>

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook.
6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.
7. Because the reserves data are based on judgments regarding future events, actual results will vary and variations may be material.

Executed as to our report referred to above:

RYDER SCOTT COMPANY

(Signed) Howard Lam  
Vice President

Dated as of the 29<sup>th</sup> of March, 2007.

**REPORT OF MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE IN FORM 51-101F3**

Management of the Corporation is responsible for the preparation and disclosure of information with respect to the Corporation's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which consist of the following:

- (a) (i) proved and proved plus probable oil and gas reserves estimated as at December 31, 2005 using forecast prices and costs; and
- (ii) the related estimated future net revenue; and
- (b) (i) proved oil and gas reserves estimated as at December 31, 2005 using constant prices and costs; and
- (ii) the related estimated future net revenue.

Ryder Scott Company, an independent qualified reserves evaluator, has evaluated and reviewed Candax's reserves data. The report of the independent qualified reserves evaluator is included herein.

The Reserves Committee of the board of directors of Candax has:

- (a) reviewed Candax's procedures for providing information to the independent qualified reserves evaluator;
- (b) met with independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Reserves Committee of the board of directors has reviewed Candax's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has, on the recommendation of the Reserves Committee, approved:

- (a) the content and filing with securities regulatory authorities of Candax's reserves data and other oil and gas information;
- (b) the filing of the report of the independent qualified reserves evaluators on the reserves data; and
- (c) the content and filing of this report.

Because Candax's reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Dated as of the 30<sup>th</sup> day of March, 2007.

(Signed) MICHAEL I.T. WOOD  
President and Chief Executive Officer

(Signed) JOHN CLARKE  
Director

(Signed) CHRISTOPHER J. HOPKINS  
Chief Financial Officer

(Signed) JOHN CULLEN  
Director

**CANDAX ENERGY INC.****AUDIT COMMITTEE CHARTER**

## 1. Overall Purpose and Objectives

The audit committee (the "Committee") will assist the directors (the "Directors") of Candax Energy Inc. (the "Corporation") in fulfilling their responsibilities under applicable legal and regulatory requirements. To the extent considered appropriate by the Committee or as required by applicable legal or regulatory requirements, the Committee will review the financial reporting process of the Corporation, the system of internal controls and management of the financial risks of the Corporation and the audit process of the financial information of the Corporation. In fulfilling its responsibilities, the Committee should maintain an effective working relationship with the Directors, management of the Corporation and the external auditor of the Corporation as well as monitor the independence of the external auditor.

## 2. Authority

- (a) The Committee shall have the authority to:
  - (i) engage independent counsel and other advisors as the Committee determines necessary to carry out its duties;
  - (ii) set and pay the compensation for any advisors employed by the Committee;
  - (iii) communicate directly with the internal and external auditor of the Corporation and require that the external auditor of the Corporation report directly to the Committee; and
  - (iv) seek any information considered appropriate by the Committee from any employee of the Corporation.
- (b) The Committee shall have unrestricted and unfettered access to all personnel and documents of the Corporation and shall be provided with the resources reasonably necessary to fulfill its responsibilities.

## 3. Membership and Organization

- (a) The Committee will be composed of at least three members. The members of the Committee shall be appointed by the Directors to serve one-year terms and shall be permitted to serve an unlimited number of consecutive terms. Every member of the Committee must be a Director who is independent and financially literate to the extent required by (and subject to the exemptions and other provisions set out in) applicable laws, rules and regulations, and stock exchange requirements ("Applicable Laws"). In this Charter, the terms "independent" and "financially literate" have the meaning ascribed to such terms by Applicable Laws, and include the meanings given to similar terms by Applicable Laws, including in the case of the term "independent" the terms "outside" and "unrelated" to the extent such latter terms are applicable under Applicable Laws.
- (b) The chairman of the Committee will be appointed by the Committee from time to time and must have such accounting or related financial management expertise as the Directors may determine in their business judgement.
- (c) The secretary of the Committee will be the Secretary of the Corporation or such other person as is chosen by the Committee.
- (d) The Committee may invite such persons to meetings of the Committee as the Committee considers appropriate, except to the extent exclusion of certain persons is required pursuant to this Charter or Applicable Laws.

- (e) The Committee may invite the external auditor of the Corporation to be present at any meeting of the Committee and to comment on any financial statements, or on any of the financial aspects, of the Corporation.
- (f) The Committee will meet as considered appropriate or desirable by the Committee. Any member of the Committee or the external auditor of the Corporation may call a meeting of the Committee at any time upon 48 hours prior written notice.
- (g) All decisions of the Committee shall be by simple majority and the chairman of the Committee shall not have a deciding or casting vote.
- (h) Minutes shall be kept in respect of the proceedings of all meetings of the Committee.
- (i) No business shall be transacted by the Committee except at a meeting of the members thereof at which a majority of the members thereof is present.
- (j) The Committee may transact its business by a resolution in writing signed by all the members of the Committee in lieu of a meeting of the Committee.

#### 4. Role and Responsibilities

To the extent considered appropriate or desirable or required by applicable legal or regulatory requirements, the Committee shall:

- (a) recommend to the Directors
  - (i) the external auditor to be nominated for the purpose of preparing or issuing an auditor's report on the annual financial statements of the Corporation or performing other audit, review or attest services for the Corporation, and
  - (ii) the compensation to be paid to the external auditor of the Corporation;
- (b) review the proposed audit scope and approach of the external auditor of the Corporation and ensure no unjustifiable restriction or limitations have been placed on the scope of the proposed audit;
- (c) meet separately and periodically with the management of the Corporation, the external auditor of the Corporation and the internal auditor (or other personnel responsible for the internal audit function of the Corporation) of the Corporation to discuss any matters that the Committee, the external auditor of the Corporation or the internal auditor of the Corporation, respectively, believes should be discussed privately;
- (d) be directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report on the annual financial statements of the Corporation or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management of the Corporation and the external auditor of the Corporation regarding any financial reporting matter and review the performance of the external auditor of the Corporation;
- (e) review judgmental areas, for example those involving a valuation of the assets and liabilities and commitments and contingencies of the Corporation;
- (f) review audit issues related to the material associated and affiliated entities of the Corporation that may have a significant impact on the equity investment therein of the Corporation;
- (g) meet with management and the external auditor of the Corporation to review the annual financial statements of the Corporation and the results of the audit thereof;

- (h) review and determine if internal control recommendations made by the external auditor of the Corporation have been implemented by management of the Corporation;
- (i) pre-approve all non-audit services to be provided to the Corporation or any subsidiary entities thereof by the external auditor of the Corporation and, to the extent considered appropriate: (i) adopt specific policies and procedures in accordance with Applicable Laws for the engagement of such non-audit services; and/or (ii) delegate to one or more independent members of the Committee the authority to pre-approve all non-audit services to be provided to the Corporation or any subsidiary entities thereof by the external auditor of the Corporation provided that the other members of the Committee are informed of each such non-audit service;
- (j) consider the qualification and independence of the external auditor of the Corporation, including reviewing the range of services provided by the external auditor of the Corporation in the context of all consulting services obtained by the Corporation;
- (k) consider the fairness of the interim financial statements and financial disclosure of the Corporation and review with management of the Corporation whether,
  - (i) actual financial results for the interim period varied significantly from budgeted or projected results,
  - (ii) generally accepted accounting principles have been consistently applied,
  - (iii) there are any actual or proposed changes in accounting or financial reporting practices of the Corporation, and
  - (iv) there are any significant or unusual events or transactions which require disclosure and, if so, consider the adequacy of that disclosure;
- (l) review the financial statements of the Corporation, management's discussion and analysis and any annual and interim earnings press releases of the Corporation before the Corporation publicly discloses such information and discuss these documents with the external auditor and with management of the Corporation, as appropriate;
- (m) review and be satisfied that adequate procedures are in place for the review of the public disclosure of the Corporation of financial information extracted or derived from the financial statements of the Corporation, other than the public disclosure referred to in paragraph 4(l) above, and periodically assess the adequacy of those procedures;
- (n) establish procedures for,
  - (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, and
  - (ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters relating to the Corporation;
- (o) review and approve the hiring policies of the Corporation regarding partners, employees and former partners and employees of the present and any former external auditor of the Corporation;
- (p) review the areas of greatest financial risk to the Corporation and whether management of the Corporation is managing these risks effectively;
- (q) review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and consider their impact on the financial statements of the Corporation;
- (r) review any legal matters which could significantly impact the financial statements of the Corporation as reported on by counsel and meet with counsel to the Corporation whenever deemed appropriate;

- (s) institute special investigations and, if appropriate, hire special counsel or experts to assist in such special investigations;
- (t) at least annually, obtain and review a report prepared by the external auditor of the Corporation describing: the firm's quality-control procedures; any material issues raised by the most recent internal quality-control review or peer review of the firm or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, in respect of one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (to assess the auditor's independence) all relationships between the independent auditor and the Corporation;
- (u) review with the external auditor of the Corporation any audit problems or difficulties and management's response to such problems or difficulties;
- (v) discuss the Corporation's earnings press releases, as well as financial information and earning guidance provided to analysts and rating agencies, if applicable; and
- (w) review this charter and recommend changes to this charter to the Directors from time to time.

5. Communication with the Directors

- (a) The Committee shall produce and provide the Directors with a written summary of all actions taken at each Committee meeting or by written resolution.
- (b) The Committee shall produce and provide the Directors with all reports or other information required to be prepared under Applicable Laws.