

Candax Energy Inc.¹ (CAX-T, \$0.86)

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Investment Brief – Candax Energy Inc. is a public junior international oil and gas company that is less than one year old. Run by an internationally experienced management team, Candax is executing a strategy that utilizes all its business and technical expertise to develop and produce oil and gas assets in North Africa and the Middle East.

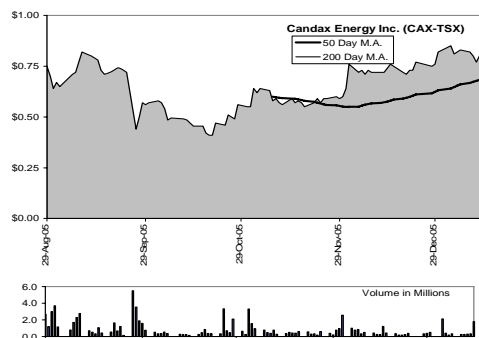
Rating **SECTOR OUTPERFORM**
(SPECULATIVE)
Target Price **\$1.25**

Current Price	\$0.86
Return (incl. dividend)	45%
52-Week High / Low	\$0.93 / \$0.39
Shares O/S	130.7M (basic) / 183.1M (F/D)
Market Capitalization	\$112.4 million
Enterprise Value	\$96.9 million
Daily Volume	810,500
Currency	C\$ unless noted
Company CEO	Michael Wood
Company Web Site	www.candax.com

Financial Forecast	2004	2005E	2006E	'06/'05
Liquids (bbl/d)		583	1,900	226%
Natural Gas (mmcf/d)		1.8	4.4	149%
Total (boe/d)		875	2,629	200%
% Liquids		67%	72%	9%
Cash Flow (\$M)		6.9	32.3	371%
F/D CFPS		\$0.06	\$0.18	217%
F/D EPS		(\$0.01)	\$0.09	(1096%)
Capital Expenditures (\$M)		50.7	25.0	
Net Debt (\$M)		(17.4)	(24.7)	42%
WTI (US\$/bbl)		\$56.54	\$60.00	6%
AECO (\$/GJ)		\$8.37	\$8.30	(1%)
Valuation Parameters				
Price/CFPS (multiple)		15.4	4.9	(68%)
Price/EPS (multiple)		(100.5)	10.1	(110%)
EV/boe/d		\$110,729	\$36,850	(67%)

Source: Candax Energy and Haywood Securities

Price Performance



Source: Bloomberg

Drilling Dates Confirmed – an Active Q1/06 Leading to Q2/06 Production

■ Candax has announced the drilling dates for two rigs in Tunisia

The rig for the El Bibane offshore oilfield redevelopment is to be mobilized on January 23, 2006. The drilling rig for the Chaal-1 gas exploration well is currently being mobilized to the Chaal Permit.

■ Both rigs expected to start drilling in February

The offshore rig on El Bibane is expected to spud the first of three wells by mid-February. The gas well at Chaal should spud in early February. While these are both slightly later than expected, the good news is that the wells are about to be drilled.

■ El Bibane field redevelopment on full production in April

The first horizontal development well to be drilled will be EBB-4, a new well on the northwest flank of the structure. It will be followed by the redrill of EBB-3 and a gas injection well. Production from the field could amount to 2,000 bbl/d to 3,000 bbl/d net to Candax once the field is back onstream.

Expectations – We expect that the redrilling of the El Bibane field could result in production that exceeds our forecasted numbers. We note that when the field first came onstream in 1998, it produced at rates of almost 5,000 bbl/d from one well. A successful well will likely also be a market catalyst for a higher share price.

Valuation – Our target price of \$1.25 represents our estimate of the Company's risked current net asset value as well as the \$0.25-per-share impact of one successful exploration prospect on its Chaal Permit in Tunisia. However, we note that based on 2006 production and fully diluted CFPS, the target price represents a 7.1x multiple, well within the range of international junior companies that trade at as much as 10x fully diluted CFPS.

Catalysts – Our 2006 forecast is based on the successful work at El Bibane, with an expected oil production rate limited by gas consumption at the Company's Société d'Electricité El Bibane (SEEB) electrical power-generation facility. Better than expected production results or exploration success would have a positive effect on our view of Candax.

Industry & Company Profile	Revisions, Date of Record	Risk Profile	Moderate
Oil and Gas – Candax is a junior oil and gas exploration company focused on oil and natural gas in North Africa and the Middle East.	Rating – New, November 2, 2005 Target – New, November 2, 2005 Forecast – New, November 2, 2005	Forecast Risk Financial Risk Valuation Risk Political Risk	Moderate Moderate Moderate Low

Please see rating structure, risk profile parameters, disclaimers, and notes at the end of this report.

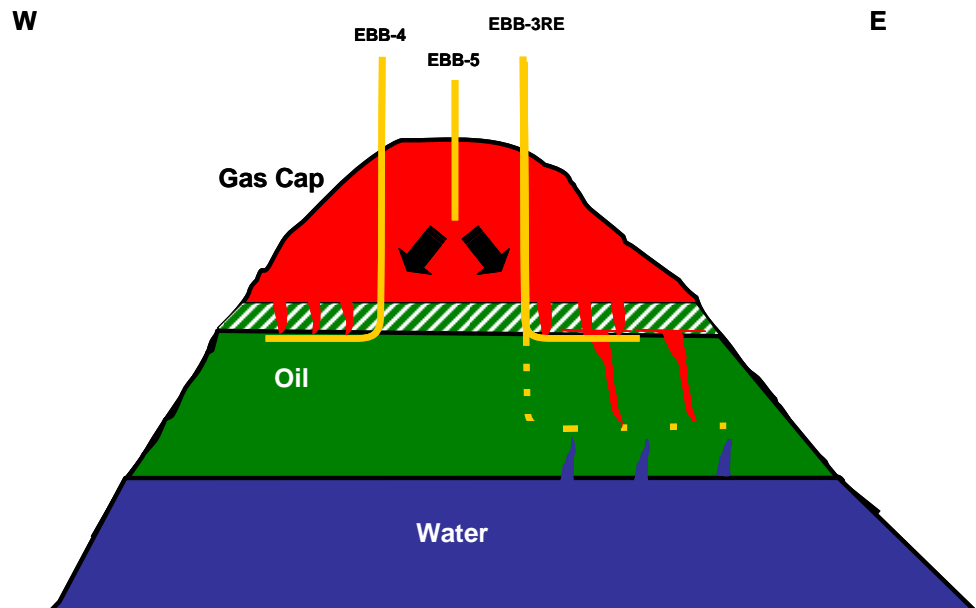
Investment Thesis

Candax Energy's management is a well-experienced, hands-on team that has founded, run, and sold private and public oil and gas companies. Combining the international expertise of senior management and its advisers with the technical skills of the remainder of the team, Candax should be able to deliver meaningful exploration-driven production growth with risked production potential that could more than double the Company's cash flow. We recommend the Company to investors for this exposure, and rank the overall risk profile as moderate. We are maintaining our rating of Candax Energy Inc. (CAX-T) at SECTOR OUTPERFORM (SPECULATIVE), and our 12-month target price of \$1.25 per share remains unchanged.

Corporate Update

Candax has signed the drilling contract for the El Bibane field redevelopment. The drilling rig is supposed to have a mobilization date of January 23, 2006, to the El Bibane field, located approximately 18 kilometres offshore. The field redevelopment work will start with the drilling of a new horizontal well (EBB-4) and be followed by the recompletion of the existing horizontal well (EBB-3). EBB-4 will be drilled opposite the EBB-3 well, into the northwest flank of the pool, and is expected to access significant new reserves. The full field redevelopment will also include the drilling of a gas reinjection well (EBB-5) and the installation of associated onshore and offshore equipment, including gas compression and a gas pipeline.

El Bibane Field Schematic Cross Section



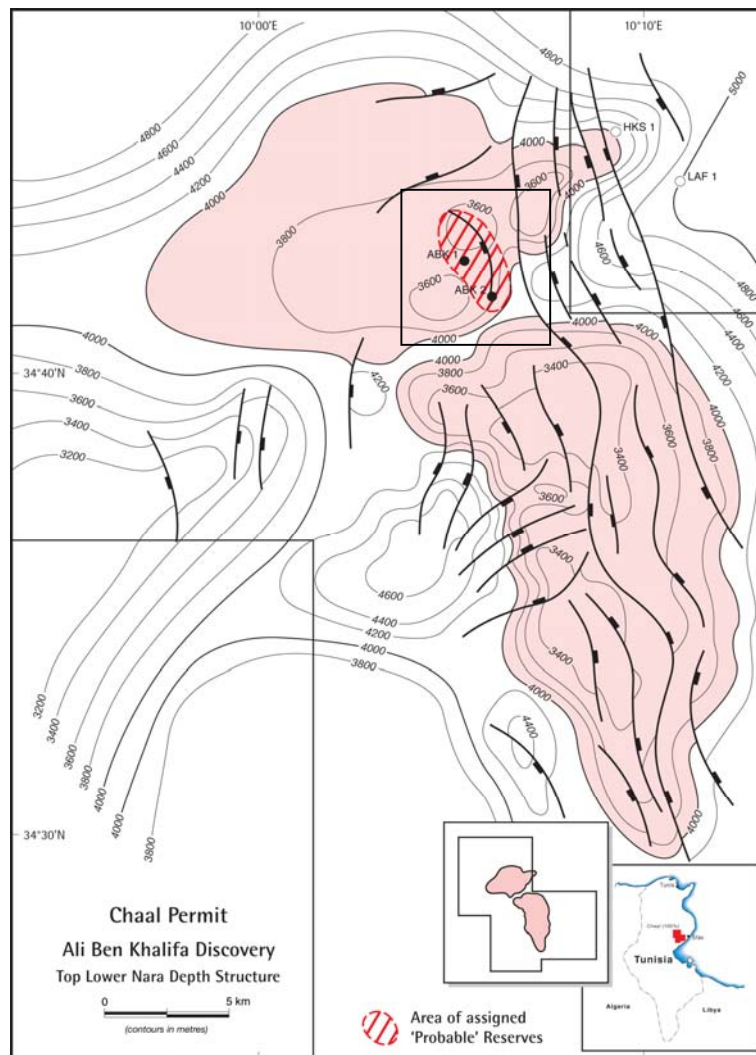
Source: Candax Energy

The schedule announced is slightly later than an originally expected spud date of mid-January, but is in line with our recent revised expectations of

drilling time. Full production from the field should be back sometime in April 2006, but we expect that a successful well at EBB-5 could be brought onstream once it has been completed. The result would be partial production from the field prior to the redrilling of the EBB-3 well.

Owing to the close proximity of the new horizontal wells to the gas cap of El Bibane, much more gas will be produced at El Bibane than from the previous well. Therefore, full field production is contingent on the drilling of the gas injection well at EBB-5, as well as on the completion of the required surface facilities, as gas consumption at the SEEB power plant is limited to approximately 6.5 mmcf./d. The full field redevelopment is expected to cost Candax approximately US\$20 million for its 74% interest. The Company is fully funded for this expenditure.

Chaal Permit Structure Map



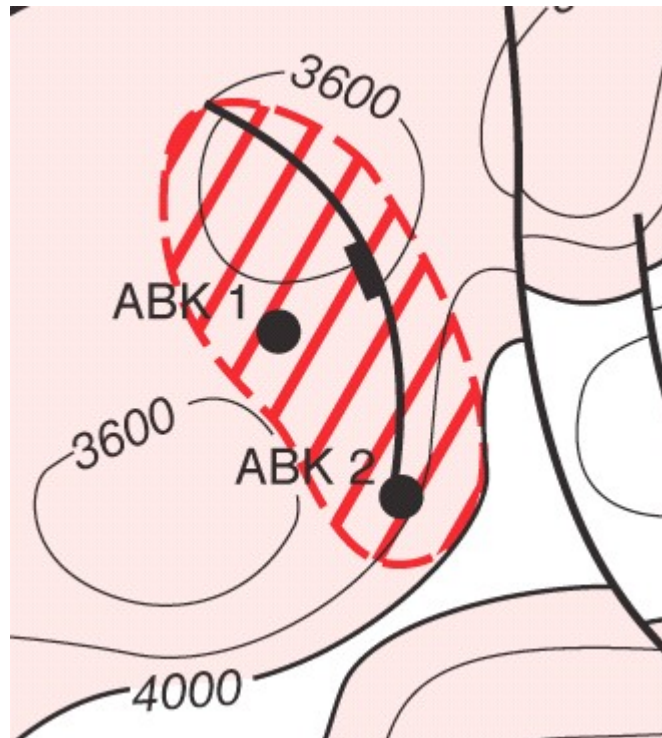
Source: Candax Energy

Candax also announced that the exploration well on the Chaal Permit is expected to spud in the first week in February. Candax announced that the

CTF-06 drilling rig, previously contracted to drill the Chaal-1 exploration well, has been released from its last drilling location and is currently mobilizing to the Chaal-1 location.

Candax and Mitsubishi are drilling a twin of a well that in 1963 tested gas and condensate from a 150-metre hydrocarbon section on the Permit. The map above shows the potential size of the two anomalies on the Permit, one of which has not yet been drilled. The northern anomaly was drilled in the early 1960s at ABK1 and ABK2. The ABK1 well tested natural gas and varying amounts of natural gas liquids at rates up to 3.0 mmcf/d, and condensate volumes that ranged from 25 bbl/mmcf to 80 bbl/mmcf over an extended test period. However, it is believed that the Company which drilled the wells was looking for oil and left the block after the two wells proved unsuccessful.

Expanded View of Chaal Exploration Structure



Source: Candax Energy

Candax plans to drill the first new well to twin the ABK1 discovery well. The well will be drilled to confirm the old production-test results, including flow rates and condensate ratios. The formation is approximately 4,500 metres in depth and will take between 35 and 40 days to drill. Candax farmed out the drilling of this well to Mitsubishi Corporation for a 20% interest in the Chaal Permit, and as a result, has no capital exposure to the drilling and testing of the well to a maximum well cost of US\$8.0 million. The hatched area in the map above has gross reserves assigned of approximately 60 bcf. However, the full structure could be 200 bcf to 500 bcf in size. A successful well at Chaal-1 would result in a second well drilled immediately on the prospect. Candax has the rig for one well plus an option to drill a second well.

Valuation

In the following table, we summarize a series of calculations that reflect the estimated net asset value for the Company. We note that the last reserves report was done on December 31, 2004, at a time when prices were much lower than at present, and reserves reports were compiled using future price curves not representative of the current view. We also note that the table does not attribute any value to the Al Manzah field, which just came onstream. However, we have included the original reserves report data, which have been adjusted for Candax's revised Chaal Permit interest of 60%, and two price scenarios using our current price outlook (2005 US\$57/bbl, 2006 US\$ 60/bbl, and 2007 US\$ 55/bbl), plus a long-term price as noted. As well, we have included Candax's comparative calculation of NAV using its price outlook, also adjusted for the revised working interest in the Chaal Permit.

Net Asset Value

Estimated Net Asset Value (Summary)	Net Reserves Dec 31, 2004 (Mboe)	Commodity-Price Scenarios			
		Dec 31/04 NPV10% Value (C\$M)	US\$50/bbl NPV10% Value (C\$M)	US\$45/bbl NPV10% Value (C\$M)	Candax NPV10% Value (C\$M)
		Tunisian Assets (Centurion acquisition - Ryder Scott Report)*	5.1	38.3	84.9
Chaal Permit (Glendower International Limited Report)	6.0	11.3	33.0	30.4	29.6
Cash in Bank	0.0	25.0	25.0	25.0	25.0
	11.1	\$74.6	\$142.9	\$133.7	\$109.6
Shares Outstanding					
Basic	130.7				
Fully Diluted	183.2				
Net Asset Value per Share					
Basic		\$0.57	\$1.09	\$1.02	\$0.84
Fully Diluted		\$0.73	\$1.10	\$1.05	\$0.92
41.3 Million Warrants @ \$1.20/Share = \$49.6M					
11.2 Million Options @ \$0.80/Share = \$9.0M					

* Note that the Centurion assets were evaluated in US\$ and converted at our current exchange rate of \$0.83.

Source: Candax Energy and Haywood Securities

Based on the above summary, estimates of net asset value range from \$0.84 to \$1.09 per basic share. We note that under the current commodity-price scenario, the assumptions used generate little difference in NAV, owing to the impact of high prices used over the next three years.

However, we note the potential for upside to this evaluation based on the size of the Chaal Permit and future exploration potential. In our view, unexplored risked upside potential on the Chaal Permit should have a value equivalent to the reserves value assigned to the known discovery on the block (the ABK wells). This value represents approximately \$30 million or \$0.25 per basic share. Should the possible reserves, up to 844 bcf, associated with the ABK wells be found to

be real, the impact on Candax could result in a doubling of the Company's asset value—significantly higher than our risked reserves assumption.

Our target price represents our estimation of the net asset value of the current assets in the Company. Using \$1.00 per basic share from existing reserves and an incremental \$0.25 per share for undetermined exploration upside potential on the Chaal Permit, we establish a 12- to 18-month target price of \$1.25. We note, however, that exploration drilling on the Chaal Permit, as well as other potential opportunities, will result in share-price volatility—of which investors should be mindful along with the likely short-term buying or selling opportunities presented.

For comparative purposes, we are including a table of international oil and gas producers. While not based on cash flow, we note that our target price for Candax derived from a multiple of cash flow is in line with companies of a similar type in the current market.

Valuation Comparison Table

	<u>Candax</u> ¹ CAX-T (Based on 2007 estimates)	<u>Oilexco</u> ^{1,2,4} OIL-T	<u>PanOcean</u> ^{1,2,4,6} POC.SV.B-T (US\$ except Share & Target Price)	<u>TransGlobe</u> ¹ TGL-T (US\$ except Share & Target Price)
Production (2006 estimate)				
Oil and NGL (bbl/d)	1,900	26,997	2,509	15,001
Natural Gas (mmcf/d)	4.4	0.0	20.6	0.0
Total (boe/d)	2,629	26,998	5,934	15,001
Share Price (Jan 13/06)	\$0.86	\$3.87	\$10.40	\$29.72
2006 F/D CFPS	\$0.18	\$2.28	\$0.95	\$5.97
Current P/CF Multiple (times)	4.9	1.7	10.9	4.1
Target Price	\$1.25	\$8.00	\$17.00	\$50.00
Target P/CF Multiple (times)	7.1	3.5	17.9	7.0
Current Shares Outstanding (millions)	130.7	193.4	58.8	24.7
F/D Shares Outstanding (millions)	183.1	212.8	63.7	26.8
2006 Cash Flow (\$M)	32	485	56	152
2006 Capital Expenditures (\$M)	25	200	37	112
2006 Net Debt (\$M)	(25)	(291)	19	(7)
Enterprise Value (\$M)	97	636	652	589
Current EV / boe/d	\$36,850	\$23,568	\$109,879	\$39,283
Target EV / boe/d	\$52,735	\$52,002	\$175,278	\$80,995

Source: Company data and Haywood Securities

Candax Energy Ltd. (CAX-T)

Rating:	SECTOR OUTPERFORM (SPECULATIVE)		One-Year Target Price:	\$1.25
Current Price	\$0.86		Market Capitalization (\$M)	112.4
Current Shares Outstanding (millions)	130.7	<u>Dilution</u>	Current Net Debt (est) (\$M)	<u>(15.5)</u>
Fully Diluted Shares Outstanding (millions)	183.1	40.1%	Enterprise Value (\$M)	<u>96.9</u>
Book Value (\$M)	66.4		EV / BV (multiple)	1.5

Production			2005E	2006E	2005/2004	2006/2005
Liquids (bbl/d)			583	1,900		226%
Natural Gas (mmcf/d)			1.8	4.4		149%
Total (boe/d)			875	2,629		200%
Percent Liquids			67%	72%		9%
Percent Natural Gas			33%	28%		(17%)
Revenue (\$M)			13.0	45.9		253%
Cash Flow (\$M)			6.9	32.3		371%
CFPS Basic			\$0.10	\$0.25		142%
CFPS Fully Diluted			\$0.06	\$0.18		217%
CFPS Sensitivity				\$/FD Share		% of CF
	Oil (US\$1.00/bbl)			\$0.004		1%
	Gas (\$0.25/mcf)			\$0.002		1%
	100 bbl/d			\$0.004		2%
	1.0 mmcf/d			\$0.006		2%
Earnings (\$M)			(0.6)	15.6		(2524%)
EPS Basic			\$0.01	\$0.12		1585%
EPS Fully Diluted			(\$0.01)	\$0.09		(1096%)
Capital Expenditures (\$M)			50.7	25.0		(51%)
Reinvestment Ratio			740%	77%		(90%)
Net Debt (\$M)			(17.4)	(24.7)		42%
Debt / Cash Flow - Trailing (years)			(2.5)	(0.8)		(70%)
Per BOE Analysis (\$/boe)						
Revenue			\$40.66	\$47.78		18%
Operating Expense			\$8.88	\$5.00		(44%)
Net Operating Revenue			\$31.30	\$38.00		21%
G&A			\$9.39	\$4.17		(56%)
Cash Flow			\$20.77	\$33.66		62%
DD&A			\$13.07	\$13.34		2%
Earnings			(\$2.78)	\$16.26		(685%)
Valuation Parameters						
Current Price / F/D CFPS (multiple)			15.4	4.9		(68%)
Debt-Adjusted CF Multiple			13.2	3.0		(78%)
Target Price / F/D CFPS (multiple)			22.4	7.1		(68%)
Current Price / F/D EPS (multiple)			(100.5)	10.1		(110%)
EV / boe/d			\$110,729	\$36,850		(67%)
Target EV / boe/d			\$166,804	\$52,735		(68%)
Price Assumptions						
Crude Oil WTI (US\$/bbl)	\$31.06	\$41.46	\$56.54	\$60.00	36%	6%
Company Average (C\$/bbl)			\$54.11	\$65.21		21%
AECO (C\$/GJ)	\$6.33	\$6.26	\$8.37	\$8.30	34%	(1%)
Company Average (C\$/GJ)			\$0.41	\$0.37		(9%)

Source: Haywood Securities

Rating Structure

SECTOR OUTPERFORM – Haywood’s top rating category. The analyst believes that the security will outperform its sector. Furthermore, the shares are forecast to provide attractive returns measured against alternative investments when considering risk profiles. The rating carries a minimum total return threshold of 15% for equities and 12% for trusts. The rating applies to companies that have tangible underlying assets that give a measure of support to the market valuation. The rating category considers both the absolute and relative values in assigning the highest rating on the security. **SECTOR OUTPERFORM (SPECULATIVE)** – Investment for risk accounts only. The security has strong upside although its risk profile leaves the potential for significant downside. Return expectations should generally exceed those of **SECTOR OUTPERFORM** to allow for the additional risk. Companies in this rating category carry greater financial and/or execution risk without tangible assets for underlying support. **SECTOR PERFORM** – The analyst believes that the security will trade with tight correlation to its underlying sector. Furthermore, the target price (together with any anticipated distributions) is at or above the market price, and forecast risk-adjusted returns are attractive relative to alternative investments. **SECTOR UNDERPERFORM** – Investors are advised to sell the security or hold alternative securities within the sector. Stocks in this category are expected to underperform relative to their sector. The category also represents stocks with unattractive forecast returns relative to alternative investments. **RESEARCH COMMENT** – An analyst comment about an issuer event that does not include a rating. **COVERAGE DROPPED** – Haywood Securities will no longer cover the issuer. Haywood will provide notice to clients whenever coverage of an issuer is discontinued. The termination of coverage will not occur unless clients have been provided with advice relating to positions they may still hold, such as a recommendation to sell their securities.

Risk Profile Parameters – Oil and Gas Sector

Forecast Risk: High – Haywood forecasts are below guidance. The Company has a history of missing targets and/or Haywood expects guidance to be lowered. Limited hedging increases commodity risk beyond peers. To raise expectations requires higher commodity prices or production that is ahead of guidance. **Moderate** – Haywood forecasts are generally in line with guidance. The Company has a history of meeting or exceeding guidance. Forecasts are consistent with current commodity pricing and production guidance. Hedging practices are in line with peers. **Low** – Haywood forecasts exceed guidance. The Company has a history of meeting or exceeding guidance. Forecasts allow for modestly lower commodity pricing or production levels. Commodity hedging lowers volatility relative to peers.

Financial Risk: High – The capital expenditure program in the current year or the next year of the forecast is not fully funded but requires additional debt and/or equity financing. This categorization does not necessarily predict whether the additional funds will be raised. **Moderate** – The capital expenditure program in the current year or the next year is fully funded with cash flow and limited debt. **Low** – The capital expenditure program in the current year or the next year is fully funded with cash flow and no new debt.

Political Risk: High – Properties are located in an area with limited petroleum industry activity or infrastructure. An environment unfriendly to the industry makes obtaining permits to drill or produce hydrocarbons challenging. Significant government or local opposition exists. **Moderate** – Properties are located in an area with minimal petroleum industry activity or infrastructure. An environment friendly to the industry makes obtaining permits relatively straightforward. All levels of government are considered indifferent to hydrocarbon activity. **Low** – Properties are located in an area with established petroleum exploration and development activity. Oil and gas Production Sharing Agreements or Exploration Permits are in hand. Government at all levels supports the sector.

Valuation Risk: High – The current valuation is at the high end of historic levels and/or at a premium to peers. The valuation reflects continued production growth and/or continuing strong commodity prices or further appreciation. Where applicable, the market capitalization exceeds the NAV by more than 30%. **Moderate** – The current valuation is within historic ranges and generally consistent with peers. The valuation reflects reasonable production growth and/or commodity price appreciation. Where applicable, the market capitalization exceeds the NAV by 15% to 30%. **Low** – The current valuation is at the low end of historic ranges and/or at a discount to peer valuations. The valuation reflects limited production growth and/or no commodity price appreciation. Where applicable, the market capitalization exceeds the NAV by less than 15% or falls below the capitalization.

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- (b) in the event of a dispute, access to the UK’s Financial Ombudsman Service;
- (c) protection of money held on your behalf under the FSA’s Client Money Rules.

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