

Candax Energy Inc. (CAX-T, \$0.82)

Recommendation: Market Perform

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January 11, 2006

All values in C\$ unless otherwise noted.

Current Price	\$0.82
Target Price (12-Month)	\$0.95
Implied Capital Gain	16%

Changes

	Old	New
EPS 2006E	n.a.	\$0.14
DACF/sh FD 2006E	n.a.	\$0.22
EPS 2007E	n.a.	\$0.23
DACF/sh FD 2007E	n.a.	\$0.37
Recommendation	n.a.	Market Perform
Target Price	n.a.	\$0.95

Company Profile

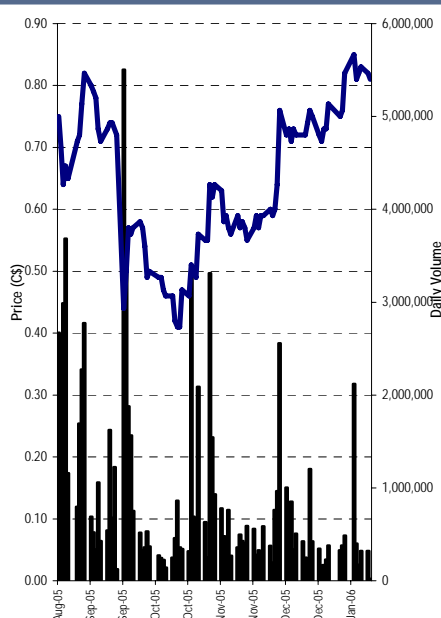
Candax Energy Inc. is a Canadian junior E&P with both producing and exploration assets in Tunisia. Candax began trading on the TSX on August 29th 2005 under the symbol CAX. The company is expected to be producing more than 2,000 boepd by April 2006 and is drilling the Chaal exploration well in February with partner Mitsubishi.

Ambitious growth in experienced hands

- Experienced management team with a track record of results**
 Senior management has built a number of companies throughout Africa and the Middle East and has considerable technical and fiscal expertise.
- High-impact exploration potential with very little capital-at-risk**
 We feel market has fairly valued existing production assets. Upside in Chaal permit is under full promote, while Triassic potential is world-class
- Initiating coverage: \$0.95 target, Mkt Perform recommendation.**
 We calculate a fully risked NPV of \$0.87 per share enhanced by a forecast 2006 cash flow of \$0.23 per share based on success at Chaal.
- Significant accretive acquisition could act as a catalyst for upgrade**
 Our model does not consider the impact of a significant acquisition, which could have a material impact on both our target and rating.

Share prices are as at the close of markets, 9 January 2006.

Price Chart



Source: PCQuote

Financial Summary

Shares O/S (M)	130.7	52-Week Trading Range	\$0.39-\$0.86
Market Capitalization (M)	\$107	Average Weekly Volume	4,468,410
Net Debt - 2005E (M)	-\$17	Market Float (M)	\$99
Enterprise Value (M)	\$90	NAV/Share - 2005E	\$0.87
Forecasts	2005E	2006E	2007E
Production (boe/d)	834	2,141	4,209
% gas	55%	28%	32%
Wtd Ave Realized Price (\$/boe)	\$62.2	\$56.5	\$51.6
CapEx (M)	\$45.2	\$23.4	\$49.5
Oil and Gas Revenue (M)	\$12.5	\$44.1	\$79.3
Total Revenue (M)	\$14.8	\$49.6	\$85.6
Debt Adjusted Cash Flow (M)	\$8.3	\$29.6	\$51.6
Shares Outstanding (M)	77.1	134.5	138.3
DACFPS (FD)	\$0.06	\$0.22	\$0.37
EPS (FD)	\$0.02	\$0.14	\$0.23
Valuation	2005E	2006E	2007E
EV/DACF	12.0x	3.2x	1.8x
EV/BOE/d (per unit production)	\$108,277	\$42,162	\$21,443
P/E	34.0x	5.9x	3.6x

Source: Company reports, Wellington West Capital Markets Inc.

Please see disclaimers at the end of this report.

Investment Summary and Outlook

Since late 2004 Candax has shown the ability to leverage relationships and gain access to high quality assets under favourable terms while minimizing their capital at risk. World-class technical competence has allowed short-term production issues in mature fields to be dealt with swiftly, strengthening the long-term asset value. A stable production base in Tunisia can be enhanced with success in high-impact exploration prospects. We expect that Candax will seize opportunities for low-risk growth throughout the region with further acquisitions and farm-in agreements.

Investment Highlights

Experienced management team with a track record of results.

The senior management of Candax has participated in the creation of private oil and gas companies which grow through production, exploration and acquisitions towards an eventual TSX listing. They bring executive experience from a Canadian company with focus in Africa and have built an operation in the Middle East from scratch; eventually divesting for US\$215 million. This is complemented by sound technical foundation from international employment at majors; Shell, Texaco, and Conoco. The capital markets experience of Executive V.P. John Clarke should keep this enterprise focused on shareholder value.

Tension between fairly valued assets and strong cash flow in 2006.

In our estimates fully risked EMV of exploration assets is worth \$0.38 per share and increases to more than \$4 per share in the event of success. This upside potential sits on top of producing reserves valued at \$0.35 per share. We feel the market has fairly valued these assets at this time. However, assuming only production from existing assets we expect Candax to generate \$0.23 per share in cash flow in 2006. This suggests that the re-instatement of this production could act as a catalyst for near-term cash flow-focused investors as this stock currently trading at only 3.2x this value. Additional value through acquisitions or farm-in deals throughout the region is very difficult to quantify, but could set-up this stock for further appreciation in 2006 beyond our conservative estimates.

Material exploration potential with very little capital-at-risk.

Direct negotiation and award of the Chaal permit with joint venture partner SMIP demonstrated the ability to leverage local relationships into shareholder value. The contract terms on Chaal are excellent with low entry costs associated with probable reserves of at least 60 Bcf. Access costs are reduced further though the farm-out of their interest in this permit for a 4:1 promote to a strong regional partner. Upside resources associated with the licence are on the order of 850 Bcf with the reasonable expectation of a sales price above \$3/mcf.

Massive targets within the deep Triassic play will require some negotiation before any value can be realized. Furthermore, we suggest that these prospects carry significant geologic risk being outside of the proven paleozoic source rock

fairway. However, given the scale of these opportunities and the discussions to include ETAP in the stage of most capital-at-risk they provide tremendous upside to a profitable production base.

World-class technical abilities applied to short-term production delays will make long-term production scenario stronger.

Shut-in production at El-Bibane for the entirety of the fourth quarter demonstrates the risks associated with mature assets and dependence upon a limited number of wells. However, Candax approached this downturn as an opportunity to re-develop the field and communicated clearly and quickly with shareholders. This will allow the longer-term production to become more dependable and will likely improve the ultimate recovery of the field – enhancing shareholder value.

Despite exploration and regional acquisition plans, Candax appears to have retained a focus on the details of their current assets. Re-completions, proposed secondary recovery, and gas recycling programs show how this team plans to deploy its strong technical skills to maximize the reserves and realized value of these mature fields.

Near-term catalysts dominated by expected announcements of regional growth

We expect Candax to announce the acquisition or farm-in of a large development asset in the Middle East in the near future. Potential candidates which have been described by Candax include:

- >10,000 bopd of offshore production in Egypt.
- A large-scale development project in Oman.
- A partnership with Mitsubishi which may include one or more of the possibilities above.

These projects would have a significant impact upon the value of Candax. For example 10,000 bopd in Egypt could carry a value of more than 3-4 times the current enterprise value of the company. However, there is significant risk of shareholder dilution due to the magnitude of this potential purchase. Other catalysts for this stock include:

- Exploration success at Chaal.
- Re-instatement of production at El Bibane.
- Successful negotiations in deep Triassic prospects, bringing ETAP to the table at the earliest stage.

Operational Risks

Companies who generate the majority of their shareholder value through exploration face a number of risks which may prevent them from realizing their full potential. Additionally, a diverse portfolio of international assets introduces a number of different factors which can act to discount the value of reserve

additions. Candax faces operational risks in Tunisia which can influence our valuation model. In particular:

- **Mature assets:** The shut-in at El Bibane has demonstrated the risks of dependence upon a small number of producers in mature assets. Mature offshore assets typically generate higher costs through increasing fluid handling requirements and infrastructure maintenance. The installation of gas-lift and intelligent pigging of the El Bibane tie-back will provide substantial confidence going forward that this asset can remain a stable production base.
- **Dilution:** The ambitious growth plans of Candax could come at a cost to existing shareholders. The acquisition of 10,000 boepd would likely cost in excess of \$100 million. Equity financing on this scale would more than double the number of outstanding shares in the company. Debt of this magnitude would be too burdensome even as a convertible debenture. We expect that a combination equity, share exchange and debt are most likely in the event of such an acquisition.
- **Reserve growth and replacement:** Near-term production growth is expected through a second well at El Bibane. However, additional reserves with this well are not risk-free. The potential for fault compartmentalization is present, limiting recovery from a new well. Reserve additions through exploration success carry significant risk.
- **Domestic gas market:** Producers of natural gas in Tunisia are expected to meet the demands of the domestic market before export. Prices in Tunisia are tied to local fuel oil prices. Therefore, a surplus of fuel oil may lead to a rapid decline in realized gas prices. We currently estimate realized gas prices at more than US\$3/mcf, at which the current probable reserves at Chaal are just economic. A significant reduction below this value may make this field uneconomic without further reserve growth.
- **Geologic risks:** Geologic risks within the Triassic play are significant; related to the potential lack of source rock and limited reservoir development. Triassic discoveries to the south are dependent upon the presence of a Silurian source rock for charge while the producing fields in the offshore rely on a Jurassic source. Additionally, the presence of reservoir quality rocks at a reasonable depth is a risk, as a near-by test of the Triassic by Antrim Energy in 2003 found no producible reservoir
- **Cost inflation:** Given the extremely tight rig market in North Africa drilling costs are likely to continue increasing. A global shortage of rigs may also cause delays in proposed drilling schedules. With the current portfolio it is unlikely that Candax would be able to employ a rig on a long-term contract. A rig capable of drilling the deep Triassic tests will likely be unavailable until early 2007.

Additionally there are several industry-wide risks which are detailed on page 23.

Valuation and Summary Recommendation

We are initiating coverage with a \$0.95 target based on a fully risked portfolio NPV of \$0.87 per share. Our target incorporates an asset EMV of \$0.78/share representing the risked exploration potential and enhanced by a

conservative acquisition value of \$0.86/sh. Our estimates of 2007 cash flow are highly dependent upon exploration success and therefore are difficult to employ as a primary forecasting tool. Although we place little importance on near-term cash flow in the valuation of international oil and gas juniors, we do appreciate that the market will consider such factors, and therefore include it in our calculations at a reduced weighting.

We believe that a robust discounted future cash flow calculation is the most accurate representation of the future value of this company accommodating for above-ground risks, and therefore receives the highest weight. The risked NPV calculation captures exploration risk and upside potential and we consider it of greater importance than an acquisition at this time. Acquisition values are based on 2004 averages in North Africa, including the related Centurion disposition in early 2005.

Exhibit 1: Net Asset Valuation Table

Valuation Matrix	Forecast	Target Multiple	Value	Weighting	Weighted Value
Risked NPV/share	\$ 0.87	1.0	\$ 0.87	60%	\$ 0.52
2007 DACF Multiple	\$ 0.36	5.0	\$ 1.82	10%	\$ 0.18
Asset EMV/share	\$ 0.78	1.0	\$ 0.78	20%	\$ 0.16
EV/BOE - 2004 Acquisition Value	\$ 0.86	1.0	\$ 0.86	10%	\$ 0.09
			12 month target price		\$ 0.94

Source: Company reports, Wellington West Capital Markets Inc.

History and Management – Record of Success

Candax Energy was formed in June of 2004 to engage in exploration, development and production of hydrocarbons in the Middle East and North Africa. Between June and September Candax began to build and appoint the current executive management team. In September the company signed a joint venture agreement with SMIP to pursue oil and gas ventures in Tunisia. Between October 2004 and April 2005 Candax raised more than \$70 million for the Centurion assets and additional growth. This included a \$30 million investment by Actis, an emerging market private equity investor, who currently own 29% of the company.

In February Candax agreed to purchase Centurion Energy’s Tunisian assets for \$42.7 million, providing 5.1 million boe of 2P reserves. Negotiations began with ETAP (Enterprise Tunisienne d’activites Petrolieres) on the Chaal permit in November 2004. Contract terms were finalized in January 2005, and the licence was awarded in April.

Candax began trading on the Toronto Stock Exchange on August 29th, 2005 under the symbol CAX. The stock opened at \$0.93 with 130.7 million outstanding common shares providing a market capitalization of \$121.5 million. Unfortunately, less than a month later a scheduled workover on El-Bibane lead to a short-term production decline from ~1,100 boepd to 500 boepd. This resulted in a dramatic decline in share price to as low as \$0.39 on October 19th. A work-over and a new drill at El-Bibane in Q1 2006 are expected to increase gross production to more than 2000 boepd.

Going forward we expect Candax to continue to grow their production from two fields in Tunisia and begin exploration on their Chaal permit in February with their partner Mitsubishi. This ambitious management team will likely add significant new development and low-risk exploration projects to their portfolio in either Egypt or Oman in early 2006.

Exhibit 2: Key Management and Directors

Michael Wood, President and Chief Executive Officer

Mr. Wood has more than 20 years experience in the international oil and gas industry. He was a member of the UK senior management team at Conoco and President, Chief Executive Officer, and Chief Financial Officer of Heritage Oil. During Mr. Wood's tenure the valuation of Heritage Oil grew from \$1 million in 1996 to \$100 million in 2003.

John Clarke, Executive Vice President, Corporate

Mr. Clarke has over 30 years of experience in the international energy sector. He acquired 18 years of E&P experience at Texaco and was a member of Texaco's global exploration planning group. He has broad capital markets background including 8 years as a Vice-president and senior oil and gas analyst with Deutsche Bank and Octagon Capital. Mr. Clarke was ranked top North American Oil and Gas analyst in 2003.

Dr. Donald Munn, Executive Vice President, Business Development

Dr. Munn has more than 20 years experience in the international oil and gas industry. In 1996, after a long tenure with Shell working the Middle East and North Africa he co-founded Atlantis Holding Norway. In 2002, as a division of PGS, Atlantis Holding was sold to Sinochem for US\$215 million. In the acquisition announcement Sinochem noted that they were "impressed with the Atlantis management team, their expertise and vision."

David Wilson, Executive Vice President, Technical

Mr. Wilson has more than 30 years experience in the upstream oil and gas industry. He has broad experience in all aspects of the upstream industry gained in managerial and technical positions with some of the world's major oil companies. As well as establishing Energy Resource Consultants, an upstream consultancy company, he was a founding shareholder and President of Atlantis Holding Norway. Currently, Mr. Wilson is the Managing Director of ERC Dubai Ltd., a petroleum consulting company.

Christopher Hopkins, Chief Financial Officer

Mr. Hopkins has held a series of senior financial positions with publicly listed resource companies such as Rio Algom and Suncor. He has 18 years experience in financial management, strategic planning, M&A, corporate finance and financial reporting.

Board of Directors

Michael Wood – President and Chief Executive Officer, Candax Energy

John Clarke – Executive Vice President, Corporate, Candax Energy

John Cullen – Corporate Director

John Zaozirny – Counsel, McCarthy Tetrault and Vice-Chairman, Cannaccord Capital

Adrian Jackson – Analyst, Investec Asset Management

Ben McKeown – Investment Principal, Actis

Source: Company reports

Operating Areas – Focus on Tunisia

Candax operates solely within Tunisia in three segments; exploration, production and power generation. In April 2005 the company entered into an acquisition agreement with Centurion Energy to purchase a stake in the El Bibane, Ezzaouia, Al Manzah, and Robbana properties and the SEEB power generation facility for

\$43.7 million. Additionally, through direct negotiation Candax was granted an 80% position in the Chaal permit. Key development projects are El Bibane and Ezzaouia – each with more than 1 million barrels of net remaining oil reserves. Exploration potential ranges from high-risk high-impact plays in the deep Triassic to moderate-risk step-out exploration at Chaal. The SEEB power facility allows Candax to monetize the gas from both El Bibane and Ezzaouia, albeit for a modest reward.

Tunisia – Growth through optimizing mature assets

Tunisia Highlights:

- Production is expected to grow to more than 2,000 bopd in Q2 2006 from under 500 bopd today.
- A carried exploration well at Chaal has the potential to add \$1.48 per share in the event of a discovery.
- Innovative operations, including gas recycling and secondary recovery programs, can add significant incremental value to these mature assets.

Producing Assets – Fresh eyes reveal upside

El Bibane Field – Operational hurdles will strengthen the asset

Estimated Present Value: \$30.90 million (\$0.24/share)

In April 2005 Candax acquired a 73.77% interest in the El Bibane concession as part of the Centurion acquisition. ETAP chose not to participate in this concession at commerciality and therefore have relinquished their right to back-in to this field or any subsequent activity. The remaining 26.23% is held by PA Resources, a Swedish oil and gas company with operations throughout Tunisia and Equatorial Guinea. The El Bibane field has produced more than 3.1 million barrels of oil since its discovery and is estimated to contain an additional 1.6 million barrels of oil and 14.4 Bcf of gas.

In 1998 production began from El Bibane 3; a horizontal well drilled by Marathon and the sole producer in the field. The field contains a thin oil leg in a Cretaceous dolomite at approximately 2,150 m depth with an overlying gas-cap and down-dip water. Natural water drive provides pressure support, with only 200 psi depletion after 7 years of production. During a routine inspection in September 2005 unexpected corrosion was noticed which forced the well to be shut-in. A subsequent work-over was unable to re-start production in the well, and the field remains shut-in until the installation of gas-lift valves in early 2006.

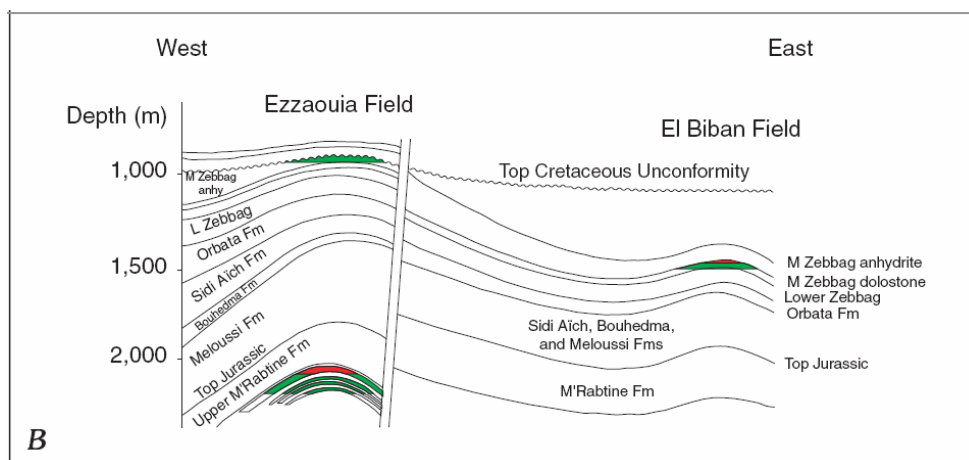
Production from El Bibane is approximately 60% gas and 40% waxy light oil. The production stream from El Bibane is transported to an onshore production facility at Zarzis. Natural gas is then transported to the SEEB Power facility, while oil is piped to a 200,000 barrel oil storage facility where it is commingled with production from Ezzaouia and Robbana and lifted to market when storage reaches capacity. Oil production is sold at ~\$3.00 discount to Brent, and

gas production which was previously flared is sold to the SEEB facility at \$0.44/mcf.

Candax has commissioned a rig to be used in the recompletion of El Bibane 3 and the drilling of a new horizontal producer, El Bibane #5. El Bibane 3 is expected to come back on stream at 700 bopd and #5 expected to start at 1,300 bopd, providing an additional 2,000 barrels of daily oil production in April 2006. Total operations are expected to cost \$18.5 million and add approximately 1 million barrels of reserves. Typically for a mature development, this leads to a relatively expensive F&D cost of \$18.50 per barrel but an excellent producing capital efficiency of just over \$9,000/bopd.

Despite a large fraction of low-value natural gas, we calculate an NPV/boe of \$10.92, valuing the Candax share of this property at \$30.9 million or \$0.24 per share. Fiscal terms at El Bibane are outstanding. Candax receives payment for its production net of taxes and royalties (estimated at 5%). We expect gross remaining recoverable reserves to stand at 4.5 million boe, made-up of 1.6 million barrels of oil and 16.9 Bcf. Candax has proposed to recycle gas production at El Bibane and attempt to capture up to 1 million barrels of associated condensate. We have not attributed any value to this upside potential at this time, but the reward of such an operation could be significant and it is something we will continue to monitor.

Exhibit 3: Schematic cross-section – Ezzaouia and El Bibane Fields



Source: USGS

Ezzaouia Field – Upside in secondary recovery

Estimated Present Value: \$13.45 million (\$0.10/sh)

In April 2005 Candax acquired 31.38% of the onshore Ezzaouia concession from Centurion Energy. Partners in this field include ETAP at 55% and PA Resources with the remaining 13.6%. The Ezzaouia field has produced more than 27.8 million barrels of oil by year end 2004 with approximately 1.4 million barrels of oil and 1.5 Bcf of natural gas in gross remaining reserves.

In August 2005 there were 6 producing wells with a cumulative flow of 425 bopd and 0.5 mmcf/d. The Ezzaouia Field produces waxy crude from both the Cretaceous Zebbag dolomite and the Jurassic lower M'Rabtime sandstone. Production decline is relatively steep, decreasing from more than 600 bopd at year end 2004. The partnership is currently reviewing ways to offset these declines with infill drilling and the potential for secondary recovery in the Jurassic. A pilot well in mid 2006 will test the potential to increase the recovery factor of this mature field through simple water dumping. This project has the potential to add a tremendous volume of low-cost reserves.

Ezzaouia production is transported to a production facility at Zarzis, as at El Bibane. Natural gas is separated then transported to the SEEB Power facility, while oil is transported to a 200,000 barrel oil storage facility. Oil at the Zarzis facility is co-mingled with production from El Bibane and Robbana and lifted to market when storage reaches capacity.

Activity on Ezzaouia is likely to be overwhelmed by the negotiating table regarding exploration in the Triassic. Current discussions are aimed at reducing the capital at risk by having ETAP participate at the ground-floor. Additionally, Centurion retained the right to participate in any Triassic test at either El Bibane or Ezzaouia for up to 50% of Candax's working interest, and would be expected to exercise this option in the event of ETAP participation.

We have calculated the value of the producing field at Ezzaouia net to Candax at \$13.45 million or \$0.10 per share. This value includes an estimate of gross remaining resources of 3.8 million barrels of oil and 3.8 Bcf. The valuation of Ezzaouia exploration potential is accounted for separately below. The potential exists for Candax to greatly improve the total recovery from this field which will be tested by a pilot well in early 2006. Incremental value from this operation could be significant but has not been accounted for here.

Robbana Field – Modest production with marginal value

Estimated Present Value: \$0.6 million (\$0.00/sh)

In April 2005 Candax acquired 80.0% of the onshore Robanna concession from Centurion Energy. Candax operates this single well development with a small local partner at 20% and net production of 56 bopd. Robbana has produced just 0.37 million barrels of oil by year-end 2004, and had approximately 0.08 million barrels of oil in gross remaining reserves.

A concession granted in November 2004 authorized the field as a development activity. From 1993 to 2004 this field was producing under authorization for an extended long-term production test. Oil produced from this field is trucked to the El Bibane facility where it follows the processing and sales of El Bibane crude.

We currently attribute only marginal value to Robbana of less than 1¢ per share. There are no capital expenditures planned for this modest field, and it will require little oversight to manage recovery of the remaining reserves.

Al Manzah Field – Evidence of technical strength in a modest asset

Estimated Present Value: \$0.8 million (\$0.01/sh)

In December Candax announced it had completed the installation of a gas lift on a single well now producing 240 bopd net. Candax holds a 75% working interest in the field and acquired it as a non-producing asset with no associated reserves. Candax reported that net recoverable reserves could reach 200,000 barrels and that the field is currently under an engineering review.

The optimization of this mature field clearly demonstrates the technical abilities of Candax. We attribute \$0.8 million in risked value to this field which could increase upon the completion of the third-party reserves audit. In our calculations we have assumed 150,000 bbls of net reserves with a 50% probability of recovery.

Producing Asset Summary – Current NPV exceeds purchase price

According to our calculations valuation accorded to solely the three producing assets sum to \$45.76 million, almost \$2 million more than the price tag on the Centurion acquisition. This equates to a base valuation of \$0.34 per share. The remainder of the valuation of this company is within the exploration potential of Chaal and the deep Triassic.

Exhibit 4: Summary of Candax Producing Property Reserve Valuation

Property	Valuation	Value per Share
El Bibane	\$30.90 million	\$0.24
Ezzaouia	\$13.45 million	\$0.10
Al Manzah	\$0.81 million	\$0.01
Robbana	\$0.60 million	\$0.00

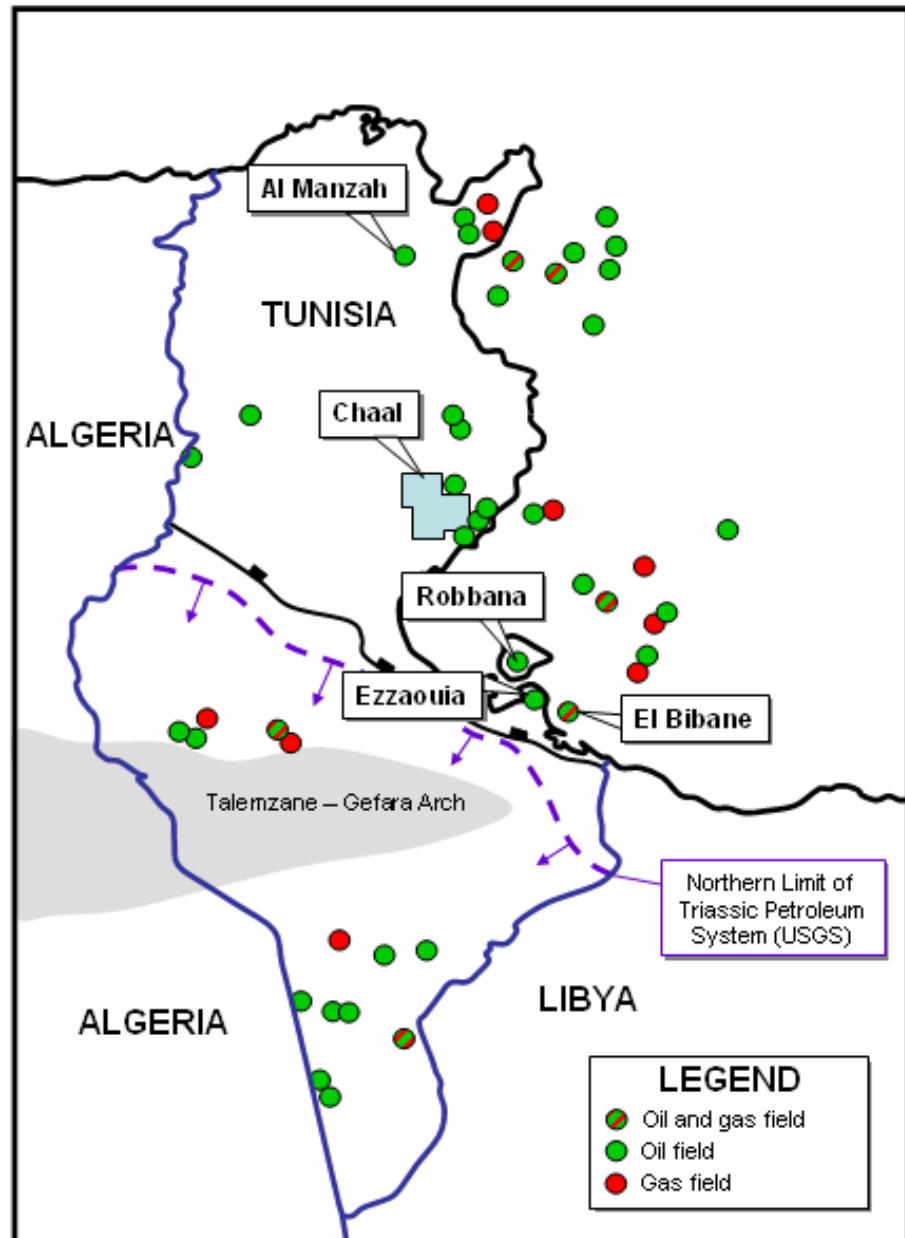
Source: Company Reports, Wellington West Capital Markets Inc.

Exploration Assets – Portfolio of big plays

Deep Triassic at El Bibane and Ezzaouia – High-risk but big upside

Estimated Present Value: \$10.49 million (\$0.08/share)

Candax has identified potential within the deep Triassic at both El Bibane and Ezzaouia. The Triassic sandstones of North Africa have garnered a lot of attention of late due to some recent very large discoveries (i.e. the MLE Field of First Calgary Petroleum). These discoveries have covered eastern Algeria, southern Tunisia, and western Libya in the Ghadames/Berkine basin. The play is defined by very rich (up to 10% TOC) thermally mature Silurian to Devonian mudstones generating hydrocarbons which migrate to structural accumulations within stratigraphically younger sediments. In particular the TAGI sandstones of the Middle Triassic have been the most important exploration target in the Tunisian Ghadames basin since the giant El Borma discovery in 1963.

Exhibit 5: Map of Tunisia with key oil and gas fields and Candax properties


Source: Company Reports, Wellington West Capital Markets Inc.

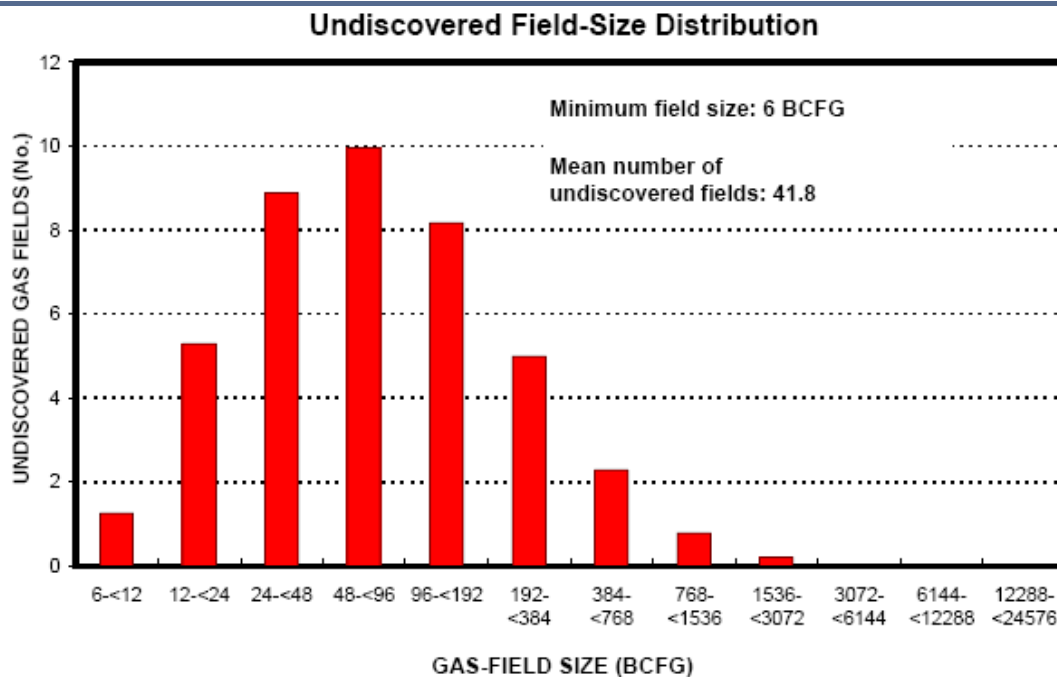
The Ezzaouia and El Bibane concessions have the potential for mid-Triassic reservoir development within large structural closures. These fields lie in the Pelagian basin in hanging-wall structures of the large Gafsa-Gefara fault system, which is outside the conventional Triassic play fairway.

While we still consider the Triassic a valid exploration target on these blocks, we now accord a very high geologic risk and corresponding low chance of exploration success at 5%. Current geologic understanding suggests that the absence of Silurian and Devonian source rocks would require an adjacent Jurassic source rock to charge a footwall closure within the Pelagian basin

offshore. Additionally, the Triassic in littoral Tunisia is understood to be largely Upper Triassic evaporates, with the target Middle Triassic only present at great depth. ETAP (2000) have suggested that the El Bibane and Ezzaouia structures are salt-cored anticlines, greatly diminishing the potential for older Triassic reservoir potential at economic depths.

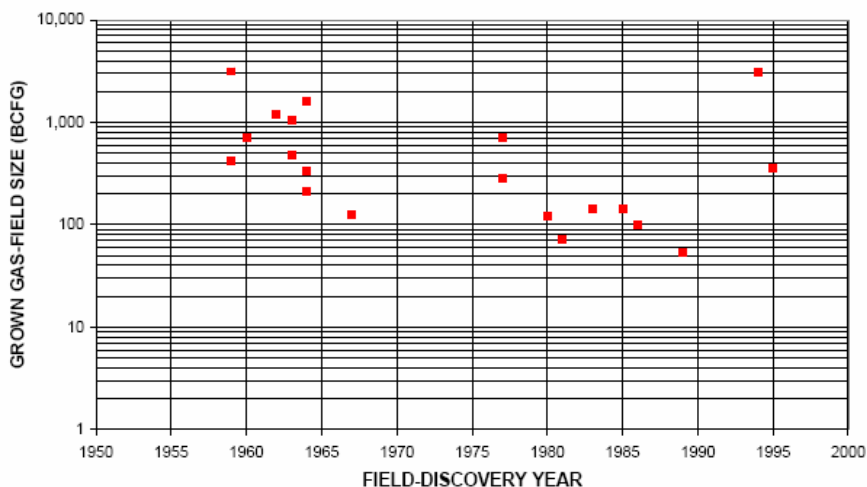
Candax has suggested that they would first try to test the Triassic potential in the area with an onshore well at Ezzaouia. However, they are unlikely to do so without equitable participation from ETAP. Negotiations on this front are likely to delay a Triassic test until early 2007. Additionally, Centurion is likely to participate up to their full allowance of 50% of Candax’s stake in the permit. Success at Ezzaouia would enhance the value of El Bibane where ETAP participation is not an option. Unfortunately, these inherited contractual arrangements limit the upside potential of the licences by reducing the Candax share in the Triassic to 15.7% at Ezzaouia and 36.9% at El Bibane.

Exhibit 6: Undiscovered field size in the Triassic of Tunisia



Source: USGS

Exhibit 7: Discovered field size in the Triassic of Tunisia vs. time

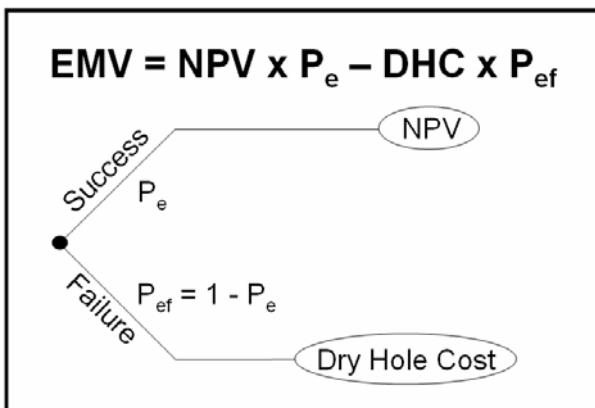


Source: USGS

We are modeling a prospect size of 1.8 Tcf, based on estimates from the USGS of the largest undiscovered field size in this play. Assuming sales into the domestic market our economic model places a net NPV/boe for gas in Tunisia of \$2.28/boe. At Ezzaouia this would represent a current EMV of \$3.13 million or \$0.02 per share, at El Bibane an EMV of \$7.36 million, or \$0.06 per share. Thus in our estimation, due to the high risk associated with them, these huge prospects garner only \$0.08 per share of EMV. However, in a success case these are company makers – with a cumulative success case value of \$2.75 per share or \$359.8 million.

Exhibit 8: EMV Conceptual Decision Tree and Calculations – Deep Triassic Play

Prospect	EMV-success	EMV-risked	EMV/sh success	EMV/sh risked	Minimum Commerical Field Size (MCFS)
El Bibane	\$252.4 million	\$7.36 million	\$1.93	\$0.06	125 million boe
Ezsaouia	\$107.4 million	\$3.13 million	\$0.82	\$0.02	125 million boe



Source: Wellington West Capital Markets Inc.

Chaal

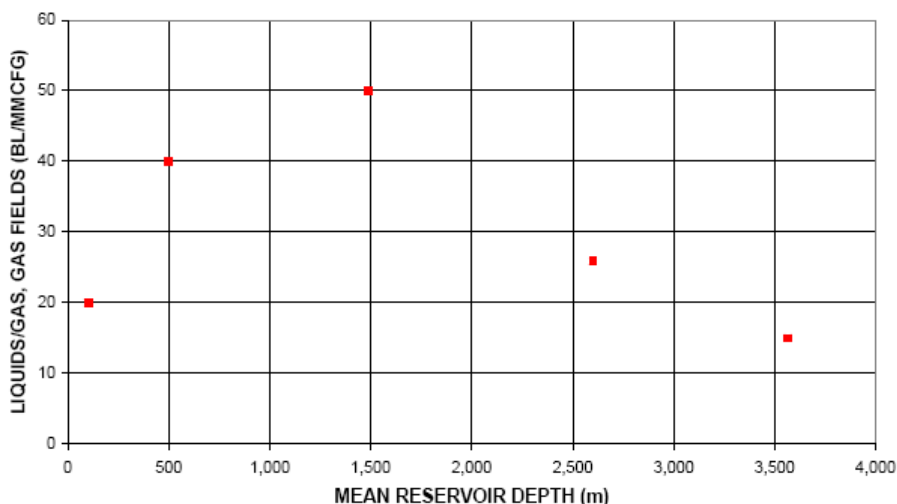
Estimated Present Value: \$38.6 million (\$0.30/share)

Candax acquired the Chaal permit under a production sharing contract (PSC) in March 2005 through direct negotiation with the Tunisian government. Tunisia has only recently begun to award PSCs as an incentive to encourage industry activity. Candax originally held 80% of the permit with the remaining 20% held by their joint venture partner SMIP. In October 2005 Candax announced that Mitsubishi Corporation had farmed-in to the licence in a 4:1 promote on the first exploration well, offering to pay all of Candax’s costs (up to \$8 million) in return for a 20% interest in the permit.

The Chaal partnership is mandated to acquire 90 kilometers of 2D seismic data at an estimated cost of \$1 million before June 14, 2007. Once this has been completed the permit may be converted to an exploration permit with a minimum work obligation of an exploration or appraisal well within 4 years of conversion. Two three-year renewal periods also carry a single well commitment. Seismic acquisition efforts are currently on-going and a rig is contracted to drill the first exploration well in December 2005.

The permit is currently tested by three wells and has been awarded 60 Bcf of probable reserves in a 2005 Glendower audit. The ABK-1 well was drilled in 1963 and tested at aggregate rates of up to 3.3 mmcf/d with 25 to 80 bbls/mmcf of condensate. Condensate volumes can add significant value to a discovery in Tunisia and while these test values are notably high, liquids are not uncommon. A follow-up well demonstrated strong gas shows in the target Jurassic interval but was not tested.

Exhibit 9: Jurassic Condensate Yield vs. Depth – Pelagian Basin, Tunisia



Source: USGS

Candax estimates a possible resource at Chaal of 844 Bcf based on existing wells and the area under 4-way structural closure. This volume is interpreted as being broken into two large accumulations and has a total upside potential in

the order of 2 Tcf. Well costs are estimated at \$10 million as the target interval is between 3,400 and 4,000 m in depth. Gas prices in the domestic market are pegged to 80% of Mediterranean Low Sulphur Fuel Oil, which provides CDN\$5.80/mcf at US\$50 Brent. Gas infrastructure lies approximately 15 km to the east of the licence allowing for an inexpensive tie-back.

Assuming a 20% chance of success and a potential resource of 844 Bcf (gross) we assign a risked value to Candax of \$0.30 per share or \$38.6 million. We estimate an NPV for natural gas accumulations sold into the domestic Tunisian market at \$2.28/boe. The relatively low chance of success is related to the possible resource value, and therefore does not reflect the existence of an existing test.

Importantly, we estimate a minimum commercial threshold slightly greater than the probable reserve value accorded to the discovery by Glendower suggesting the optimal location for an economic test is outside of the area of probable reserves. However, given that Candax will be carried through the exploration well this is a very low-risk opportunity to add significant value. In a success case this prospect is worth as much as \$193 million net to Candax, or \$1.48 per share.

Exhibit 10: Chaal EMV Calculations

Prospect	EMV-success	EMV-risked	EMV/sh success	EMV/sh risked	Minimum Commercial Field Size (MCFS)
Chaal	\$192.9 million	\$38.6 million	\$1.48	\$0.30	80 Bcf

Source: Wellington West Capital Markets Inc.

Exploration Asset Summary – Tremendous upside with varied risk

Despite the very low chance of exploration success that we have assigned to the Triassic we still attribute \$0.38 per share in fully risked EMV to the existing Candax exploration portfolio. This value is dominated by Chaal which will be tested with a carried exploration well in February 2006. In the event of success at Chaal share price appreciation could be considerable.

Exhibit 11: Summary of Candax Exploration Property EMV

Property	Valuation	Value per Share
El Bibane - Triassic	\$7.36 million	\$0.06
Ezzaouia - Triassic	\$3.13 million	\$0.02
Chaal	\$44.85 million	\$0.30

Source: Company Reports, Wellington West Capital Markets Inc.

Other

Candax have been insistent that Tunisia is only the first step towards building a large regional exploration and production business in North Africa and the Middle East. The company hopes to build upon relationships

established in previous ventures to gain access to large-scale near-term production and development projects.

Candax is highlighting negotiations to acquire significant working interest in two projects in the Gulf of Suez and a number of opportunities in Oman. In Egypt they state the current negotiations could provide access to more than 20 million boe of reserves and production approaching 10,000 boepd. This is an ambitious move; if we use average 2004 Egyptian acquisition costs of US\$12,800/boepd this implies a deal far larger than their current market capitalization.

However, we do not expect Candax to act in isolation. In a recent announcement the company signed an agreement with Mitsubishi to form a 50:50 joint project team to evaluate a large gas development project in the Middle East. This is an excellent move and will allow Candax to participate in deals far larger than they would on their own. We expect a series of significant acquisitions throughout 2006 to quickly establish a large base of low-risk producing assets with the potential to add value through the company's technical prowess.

Operating and Financial Forecasts

In the short term, our forecast is based on production resumption and growth in Tunisia, specifically at El Bibane. We expect an additional 1,500 boe/d to result from \$18.5 million in capital expenditures by April 2006. Longer-term, we have based our forecast upon the ability to add reserves in mature assets and through exploration at Chaal. Reserve growth is forecast at 1.9 and 3.8 million barrels in 2006 and 2007 respectively. Cash flows are derived from project specific forecasts incorporating taxes, royalties, realized prices and a country specific discount rate to account for above-ground risks. Capital expenditures are funded entirely from existing working capital or cash flow from operations.

Production from the Centurion assets will continue to be the sole revenue stream until at least late 2006. Recompletion and a new well at El Bibane will add more than 1,500 bopd of high-netback production. Resumption of production from this field will allow Candax to realize netbacks of almost \$50/boe. Secondary recovery at Ezzaouia and gas recycling at El Bibane will squeeze additional revenue out of this production stream at very low incremental costs.

A discovery at Chaal and the potential acquisition of producing assets elsewhere in the region will introduce additional revenue by year-end 2006. Fiscal terms on the Chaal permit are excellent and produced gas can be sold at reasonable prices. The possibility of liquids within the gas of up to 80 bbls/mcf greatly increases the value of any discovery. We have assumed only 10 bbls/mcf in our calculations at Chaal, leaving significant upside. A significant acquisition on the order of 10,000 bopd would vault this company into another league but has not been included in our analysis at this time.

Exhibit 12: Summary of Operating and Financial Forecasts

Shares O/S (M)	130.7	52-Week Trading Range	\$0.39-\$0.86	
Market Capitalization (M)	\$107	Average Weekly Volume	4,468,410	
Net Debt - 2005E (M)	-\$17	Market Float (M)	\$99	
Enterprise Value (M)	\$90	NAV/Share - 2005E	\$0.87	
Forecasts		2005E	2006E	2007E
Production (boe/d)		834	2,141	4,209
% gas		55%	28%	32%
Wtd Ave Realized Price (\$/boe)		\$62.2	\$56.5	\$51.6
CapEx (M)		\$45.2	\$23.4	\$49.5
Oil and Gas Revenue (M)		\$12.5	\$44.1	\$79.3
Total Revenue (M)		\$14.8	\$49.6	\$85.6
Debt Adjusted Cash Flow (M)		\$8.3	\$29.6	\$51.6
Shares Outstanding (M)		77.1	134.5	138.3
DACFPS (FD)		\$0.06	\$0.22	\$0.37
EPS (FD)		\$0.02	\$0.14	\$0.23
Valuation		2005E	2006E	2007E
EV/DACF		12.0x	3.2x	1.8x
EV/BOE/d (per unit production)		\$108,277	\$42,162	\$21,443
P/E		34.0x	5.9x	3.6x

Source: Company reports, Wellington West Capital Markets Inc.

International E&P Checklist – Low-risk profile

The following checklist is used to review the controlling elements of risk in every international oil and gas venture. The ideal criteria are bolded with company specific details in the following text.

Candax Energy

- ✓ **Abundant risked resource potential** – According to the USGS Tunisia has 3.7 Billion barrels of yet-to-find reserves, of which 78% is oil. The 10 year average discovery size is approximately 11.5 mmboe but increasing as 2004 showed an average of 25 mmboe. Including neighbors Libya and Algeria to reflect the entire petroleum system raises the average to 35 mmboe. Exploration success rate has been consistent within Tunisia at 33%.
- ✓ **Cost of entry well below the asset value** – Candax paid NAV for the Centurion assets, but according to our estimates have increased their value already. Additionally, secondary recovery operations and liquids recycling should add significant reserves to these mature assets beyond the acquisition price. The Chaal permit provides tremendous upside with only minor commitments. Being carried through the exploration program greatly reduces access costs and enhances their present value.
- ✓ **Upside growth potential** – Beyond the significant growth potential on Candax’s existing properties Tunisia is beginning to encourage upstream investment and provides a wide-range of opportunities; from wildcat exploration to development. Candax is also looking beyond Tunisia for growth. Late-cycle assets of significant scale are available throughout the region, and we expect Candax to use the acquisition of these assets as they key vehicle of growth.
- ✓ **Strong partners** – Candax has recognized the value of a well-connected local partner. This is reflected in the excellent contract terms negotiated at Chaal by partner SMIP. Beyond simply reducing Candax’s risk exposure at Chaal, Mitsubishi will add capital strength and experience in development projects in the Middle East. PA Resources is a relative newcomer to the area, growing through the acquisition of SOCO’s interests for US\$25 million in 2004. They currently produce 1,500 boepd net in a variety of Tunisian on- and offshore operations.
- ✓ **Legal contract in-place** – Candax has legal title to production from their concessions within Tunisia, against which royalties and taxes are deducted. The Chaal permit however is a Production Sharing Agreement-type of contract through which title to the hydrocarbons remains with the state. Further, the company must provide all the financing and technology required for the operations and bare the associated risk. In return, revenues can be used to recover costs and only then apportioned based on a “Profit-Oil” formula.
- ✗ **Political stability and rule of law** – Tunisia has been so politically stable that it receives some criticism as a result. Since independence

from France in 1956 they have had only two leaders. Current President Zine El Abidine Ben Ali has been in power since 1987 and in 2002 oversaw amendments to the constitution allowing him to run for his fourth and fifth consecutive terms (to 2014). Tunisia's judiciary has come under frequent criticism for a lack of independence, especially in political trials.



Stable macro-economic indicators – Tunisia's economic reform since a financial crisis in the mid 1980's has been used as a model by international financial institutions. Tunisia has liberalized prices, reduced tariffs, lowered debt ratios and a free-trade agreement with the US. GDP growth was 4.1% in 2004 with unemployment at 13.8%. Inflation is low at only 4.1% while public debt is less than 60% of GDP.



Positive corruption and human rights record – Former-President Bourguiba placed a strong emphasis on education, employment and the status of women providing social and political stability. However, at the same time he was unopposed in elections and was named "President for Life" through a constitutional amendment in 1974. President Ben Ali came to power under the promise of democratic openness and respect for human rights. His regime has been criticized for political repression and the lack of opposition. Of some concern, the constitution has been amended to allow President Ben Ali judicial immunity during and after his presidency.



Clear timing and magnitude of state equity in license – ETAP the Tunisian state oil company can elect to back-in to discoveries by paying cash for its share of completion and tie-in costs at the time of its election and by paying back-costs for drilling and exploration through its share of future production revenues. In such cases, ETAP is responsible for future development and operating costs proportional to its equity in the field. In this case, ETAP has elected to participate at Ezzaouia, but not El Bibane. Candax is trying to entice ETAP to participate in the exploration phase of a Triassic test at Ezzaouia to reduce their capital at risk.



Favorable fiscal terms (Tax-royalty, production sharing, or service contract) – Candax is party to both concessions and contracts within the Tunisian properties. Tunisia has begun to improve fiscal terms of petroleum licences with state take decreasing to approximately 60%. Recently negotiated production sharing contracts under a new Hydrocarbon Code provide for greater profitability and the ability to recover costs from production revenues. Royalty and Tax rates under the Hydrocarbon Law of 1999 are demonstrated in the Exhibit below.

Exhibit 13: Summary of Tunisian Royalty and Income Tax Rates

ROYALTY AND INCOME TAX RATES			
LIQUID HYDROCARBONS ROYALTY		INCOME TAX FOR OIL PRODUCTION CONCESSIONS	
RATES	R Values	RATES	R Values
2 %	0 to .5	50 %	0 to 1.5
5 %	.05 to .8	55 %	1.5 to 2
7 %	.8 to 1.1	60 %	2 to 2.5
10 %	1.1 to 1.5	65 %	2.5 to 3
12 %	1.5 to 2	70 %	3 to 3.5
14 %	2 to 2.5	75 %	3.5 and over
15 %	2.5 and over		

ROYALTY AND INCOME TAX RATES			
ROYALTY OIL GAS		INCOME TAX FOR GAS PRODUCTION CONCESSIONS	
RATES	R Values	RATES	R Values
2 %	0 to .5	50 %	0 to 2.5
4 %	.5 to .8	55 %	2.5 to 3
6 %	.8 to 1.1	60 %	3 to 3.5
8 %	1.1 to 1.5	65 %	3.5 and over
9 %	1.5 to 2		
10 %	2 to 2.5		
11 %	2.5 to 3		
13 %	3 to 3.5		
15 %	3.5 and over		

Source: ETAP (Entreprise Tunisienne D'Activites Petrolieres)



Profitable product quality – Oil is mixed from a number of fields in holding tanks for lifting where the 34° API mixed blend receives an approximate discount of US\$2.50 to Brent. Natural gas is of excellent quality with only minor CO₂ content in associated gas production streams.



Minimal export restrictions – Within Tunisia producers of oil are entitled to negotiate sales contracts directly with foreign oil purchasers with the provision that 20% of output is available to the domestic market at a price equal to 90% of the average export price. Legally, producers of natural gas are free to export it after meeting the needs of the domestic market. Practically however Tunisia imports approximately 65 Bcf per year, and therefore export of gas is unlikely without a world-class discovery. Domestic gas sales prices are approximately 85% of Mediterranean fuel oil export prices. Oil prices are world prices dependent upon product quality.



Presence of existing infrastructure – Due to a lack of refinery capacity, Tunisia exports crude and imports refined products. However, there are plans to build a new \$150 million refinery at La Skhirra. Crude

production from Candax fields is transported to a single facility where export schedules are dictated by production volumes without constraint. Gas infrastructure is dominated by the TransMed system which ships 3.6 Bcf/day of Algerian gas to Europe. In May 2005 ENI agreed to expand the capacity of the Tunisian section by 300 mmcf/d in 2008, and 300 mmcf/d again in 2012.

Exhibit 14: Map of Key Petroleum Infrastructure in Tunisia



Unobtrusive physical operating conditions – Weather in coastal Tunisia is excellent with regards to operations. A Mediterranean climate combined with lesser development allows for uninhibited drilling and production operations.

- ✓ **Maturity of petroleum industry** – Tunisia has had significant petroleum industry activity since the discovery of El Borma in 1964. Activity has waned through the 1990s and encouraged the government towards a more progressive fiscal regime. Recent offshore discoveries have provided cash flow to ETAP to allow them to participate in exploration activities and reduce investment capital at risk. An educated labour force and industry savvy government combine to make an attractive operating environment.
- ✗ **Access to adequate services and labor** – Rigs are difficult to obtain in North Africa with current rig utilization reported at 100%. Beyond El Bibane, Candax will require rigs capable of deep drilling and potentially high pressures. Such a rig may take as much as 6 months to obtain and at a considerable cost. Despite the maturity of the petroleum industry providing a capable workforce, recent activity combined with a shortage of skilled workers in Tunisia will force the import of workers with drilling equipment. Although this is common in turn-key operations, it leads to less operational control and slightly higher costs.
- ✓ **Management focus, patience and staying power** – Candax has just over one year of operational experience as a combined management team. However, in their short history they have demonstrated the ability to be patient and make sound technical decisions despite adverse market reaction. Candax reacted well to the difficulties at El Bibane and stuck to the most prudent technical and economic course with a longer-term perspective.
- ✓ **Strong relationship with partners and host government** – Candax has stated that it will build on previously established relationships with governments and local operating companies. A joint venture with SMIP, a local operating company, appears to be paying dividends in the excellent contract terms awarded at Chaal. Focusing on strong relationships will allow for a stable development platform over the long term.

Conclusion: Candax has chosen wisely to select coastal Tunisia as the location for a stable production base to fund more ambitious growth. Politically, Tunisia is marred by a prohibition on political opposition, a lack of judicial independence and lifetime presidential reigns. Although social conditions are excellent for North Africa, the political environment sets-up the potential for exploitation and only token democracy. From the perspective of investment in the petroleum industry Tunisia is on the upswing. Recent discoveries and new play trends have opened up a maturing industry. Increasing domestic demand and excellent product quality generate strong commodity prices. The ability of Candax to build on previous relationships will provide them a competitive advantage and should allow them to outperform their peers in the region.

Investment Risks

Our fundamental outlook for oil and gas producers remains favorable, however, several normal industry risks do exist that could impact Candax's ability to achieve our forecasts, including:

- **Commodity price fluctuations** could have a material impact on the company's re-investment capacity, and hence ultimate growth potential. High netback reserves and low cost structure, along with a healthy balance sheet helps to mitigate commodity price exposure, coupled periodically with price protection through hedging strategies.
- **Adverse well or reservoir performance** in any one or a number of producing pools could result in abnormally high production decline rates impacting overall corporate volumes. Long life reserves, operated under prudent production practices and more diversity in producing areas helps mitigate exposure to a small number of high-decline assets.
- **Field operational hazards** such as well blowouts, explosions and fires within pipeline/gathering/facility infrastructure, mechanical equipment failures could lead to uncontrolled releases, spills, personal injuries and/or damage to the environment. Industry insurance policies, particularly those which include business disruption, help to mitigate financial exposure to such mishaps.
- **Industry capacity constraints** due to high levels of activities can result in shortages of services, products, equipment, or man power in many or all necessary components of the exploration and development drilling cycle. Increased competition leads to escalated land costs, along with other service costs during peak activity levels.
- **Political instability and changes in fiscal policy** can result in; a forced reduction in equity or nationalization of assets, higher taxes and royalties, endangerment to employees, and terrorist threats to physical assets (pipelines or processing facilities). Instability and changes can lead to a reduction in the company's share of profits and/or shut-down operations.
- **Extraordinary hazards** such as unusual swings in weather patterns, changes in regulatory operating terms, or actions by certain groups such as industry organizations, local communities, or militant groups could impact the company's ability to re-invest for future growth.

Exhibit 15: Consolidated Income Statement

Millions, except per share amounts	<u>2005E</u>	<u>2006E</u>	<u>2007E</u>
Revenue			
Oil and Gas Revenues	\$ 12.5	\$ 44.1	\$ 79.3
Royalties	\$ -	\$ -	\$ -
	<u>\$ 12.5</u>	<u>\$ 44.1</u>	<u>\$ 79.3</u>
Interest and other income	\$ 2.3	\$ 5.5	\$ 6.3
	<u>\$ 14.8</u>	<u>\$ 49.6</u>	<u>\$ 85.6</u>
Expenses			
Operating	\$ 3.1	\$ 4.4	\$ 6.1
General and Administrative	\$ 3.2	\$ 5.9	\$ 11.5
Stock based compensation	\$ -	\$ -	\$ -
Depletion and depreciation	\$ 4.1	\$ 9.8	\$ 19.2
Accretion of asset retirement obligations	\$ -	\$ -	\$ -
Foreign Exchange Loss (gain)	\$ 0.1	\$ -	\$ -
Write-off of impaired assets	\$ -	\$ -	\$ -
Interest on long-term debt	\$ 0.8	\$ 1.2	\$ 1.2
Non-cash items	\$ 0.2	\$ 0.2	\$ 0.2
	<u>\$ 11.4</u>	<u>\$ 21.4</u>	<u>\$ 38.3</u>
Income before taxes and dispositions	\$ 3.5	\$ 28.2	\$ 47.3
Gain on disposition of oil and gas properties	\$ -	\$ -	\$ -
Income before taxes	\$ 3.5	\$ 28.2	\$ 47.3
Current taxes	\$ -	\$ 9.6	\$ 16.1
Capital taxes	\$ -	\$ -	\$ -
Future taxes	\$ 0.3	\$ -	\$ -
	<u>\$ 0.3</u>	<u>\$ 9.6</u>	<u>\$ 16.1</u>
Net income	<u>\$ 3.2</u>	<u>\$ 18.6</u>	<u>\$ 31.2</u>
Dividends on common shares	\$ -	\$ -	\$ -
Net income to common	\$ 3.2	\$ 18.6	\$ 31.2
Retained earnings, beginning of period	\$ -	\$ 3.2	\$ 21.8
Redemption of shares	\$ -	\$ -	\$ -
Retained earnings, end of period	<u>\$ 3.2</u>	<u>\$ 21.8</u>	<u>\$ 53.0</u>
Earnings per common share	\$0.04	\$0.14	\$0.23
Earnings per fully diluted common share	\$0.02	\$0.14	\$0.23
EBITDA	<u>\$ 8.3</u>	<u>\$ 39.2</u>	<u>\$ 67.7</u>
EBITDA per common share	<u>\$0.11</u>	<u>\$0.29</u>	<u>\$0.49</u>
EBITDA per fully diluted common share	<u>\$0.06</u>	<u>\$0.29</u>	<u>\$0.49</u>

Source: Company reports, Wellington West Capital Markets Inc.

Exhibit 16: Consolidated Balance Sheet

Millions, except per share amounts	<u>2005E</u>	<u>2006E</u>	<u>2007E</u>
Assets			
Current Assets			
Cash	\$ 28.2	\$ 22.2	\$ 23.0
Inventory and Other	\$ 1.6	\$ 1.6	\$ 1.6
Accounts Receivable	\$ 1.7	\$ 1.7	\$ 1.7
	<u>\$ 31.5</u>	<u>\$ 25.5</u>	<u>\$ 26.3</u>
Plants, Properties and Equipment	\$ 56.1	\$ 69.8	\$ 100.1
Other Assets	\$ -	\$ -	\$ -
	<u>\$ 56.1</u>	<u>\$ 69.8</u>	<u>\$ 100.1</u>
Total Assets	<u>\$ 87.6</u>	<u>\$ 95.2</u>	<u>\$ 126.4</u>
Liabilities			
Current Liabilities			
Accounts Payable and Accrued Liabilities	\$ 3.3	\$ 3.3	\$ 3.3
Income taxes payable	\$ 0.3	\$ 0.3	\$ 0.3
Current portion of obligations under capital leas	\$ -	\$ -	\$ -
Current portion of long-term debt	\$ -	\$ -	\$ -
	<u>\$ 3.6</u>	<u>\$ 3.6</u>	<u>\$ 3.6</u>
Long-term debt and capital leases	\$ 11.0	\$ -	\$ -
Provision for abandonment and site restoration	\$ 2.4	\$ 2.4	\$ 2.4
Future taxes	\$ -	\$ -	\$ -
	<u>\$ 13.4</u>	<u>\$ 2.4</u>	<u>\$ 2.4</u>
	<u>\$ 17.0</u>	<u>\$ 6.0</u>	<u>\$ 6.0</u>
Shareholders Equity			
Share Capital	\$ 67.4	\$ 67.4	\$ 67.4
Contributed Surplus	\$ -	\$ -	\$ -
Retained Earnings	\$ 3.2	\$ 21.8	\$ 53.0
	<u>\$ 70.6</u>	<u>\$ 89.2</u>	<u>\$ 120.4</u>
Total Liabilities and Shareholders Equity	<u>\$ 87.6</u>	<u>\$ 95.2</u>	<u>\$ 126.4</u>
Book Value	\$ 70.6	\$ 89.2	\$ 120.4
Book Value per share (common)	\$0.92	\$0.66	\$0.87
Book Value per share (diluted)	\$0.54	\$0.66	\$0.87

Source: Company reports, Wellington West Capital Markets Inc.

Exhibit 17: Consolidated Statement of Cash Flows

Millions, except per share amounts	<u>2005E</u>	<u>2006E</u>	<u>2007E</u>
Operating Activities			
Net income	\$ 3.2	\$ 18.6	\$ 31.2
Items not involving cash			
Depletion and depreciation	\$ 4.1	\$ 9.8	\$ 19.2
Accretion of asset retirement obligations	\$ -	\$ -	\$ -
Write-off of impaired assets	\$ -	\$ -	\$ -
Stock based compensation expense	\$ -	\$ -	\$ -
Disposition of oil and gas properties	\$ -	\$ -	\$ -
Future income taxes	\$ 0.3	\$ -	\$ -
	<u>\$ 7.6</u>	<u>\$ 28.4</u>	<u>\$ 50.4</u>
Change in non-cash working capital items	\$ -	\$ -	\$ -
	<u>\$ 7.6</u>	<u>\$ 28.4</u>	<u>\$ 50.4</u>
Financing Activities			
Debt receipts (repayments), net	\$ (1.0)	\$ (11.0)	\$ -
Issue of common shares	\$ 66.0	\$ -	\$ -
Share issue costs	\$ (3.0)	\$ -	\$ -
Repayments from shareholder	\$ -	\$ -	\$ -
Refundable dividend taxes	\$ -	\$ -	\$ -
Dividends	\$ -	\$ -	\$ -
Other	\$ -	\$ -	\$ -
	<u>\$ 62.1</u>	<u>\$ (11.0)</u>	<u>\$ -</u>
Cash available for investing activities	\$ 69.6	\$ 17.4	\$ 50.4
Investing Activities			
Oil and gas properties	\$ (45.2)	\$ (23.4)	\$ (49.5)
Other Equipment	\$ -	\$ -	\$ -
Proceeds from sale of properties	\$ -	\$ -	\$ -
Change in non-cash working capital items	\$ -	\$ -	\$ -
	<u>\$ (45.2)</u>	<u>\$ (23.4)</u>	<u>\$ (49.5)</u>
Increase (decrease) in cash	\$ 24.4	\$ (6.1)	\$ 0.9
Cash and short-term deposits - beginning of year	\$ 3.8	\$ 28.2	\$ 22.2
Cash and short-term deposits - end of year	\$ 28.2	\$ 22.2	\$ 23.0
Operating CF Per share	\$0.10	\$0.21	\$0.36
Operating CF Per FD Share	\$0.06	\$0.21	\$0.36

Source: Company reports, Wellington West Capital Markets Inc.

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Company Name	Ticker Symbol	Applicable Disclosure
Candax Energy Inc.	CAX-T	-

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