

Candax Energy Inc. ¹

(CAX-T, \$0.55)

November 2, 2005




Strong Assets and Management – An Undervalued Buying Opportunity

INITIATING COVERAGE

Target Price: \$1.25

Rating: SECTOR OUTPERFORM (SPECULATIVE)

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 initiating coverage of Candax Energy Inc. (CAX-T) with a SECTOR OUTPERFORM (SPECULATIVE) rating and a 12-month target price of \$1.25 per share.

-  Candax management has strong international business and operational experience.
-  Candax has producing assets with production upside
-  Candax has exploration targets on producing blocks as well as separate exploration blocks.

Valuation – Our target price of \$1.25 represents our estimate of the Company's risked current net asset value as well as a \$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 6.3x multiple, well within the range of international junior companies that trade at as much as 10x FD CFPS.

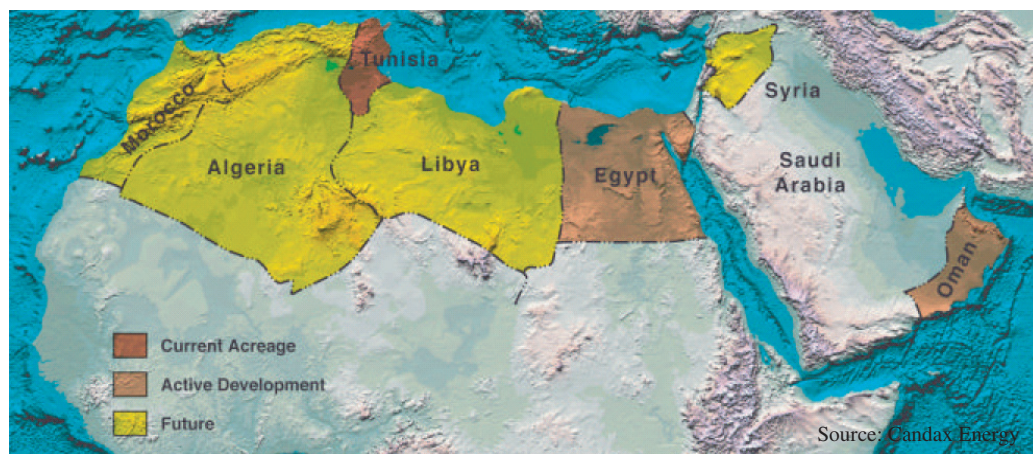


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Executive Summary

Target Price \$1.25
Rating SECTOR OUTPERFORM (SPECULATIVE)
 Current Price \$0.55
 Return (incl. dividend) 127%
 52-Week High / Low \$0.93 / \$0.39
 Dividend / Yield N/A
 Shares O/S 130.7 million (basic)
 183.2 million (F/D)
 Market Capitalization \$72 million
 Daily Volume (3-month average) N/A
 Currency C\$ unless noted
 Company CEO Michael Wood
 Company Web site www.candax.com

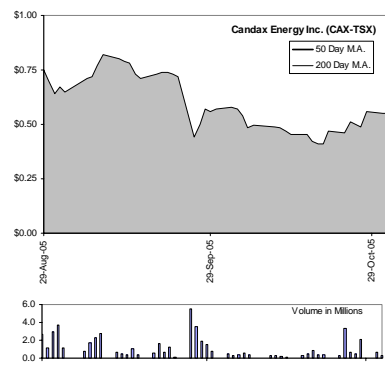
Revisions, Date of Record
 Rating – New, November 2, 2005
 Target – New, November 2, 2005
 Forecast – New, November 2, 2005

Risk Profile **Moderate**
 Forecast Risk Moderate
 Financial Risk Moderate
 Valuation Risk Moderate

Industry – Oil and Gas

Company Profile
 Candax is a junior oil and gas exploration company focused on oil and natural gas in North Africa and the Middle East.

Price Performance



Source: Bloomberg

Initiating Coverage: Strong Assets and Management – An Undervalued Buying Opportunity

Investment Brief – Candax Energy Inc. is a public junior international oil and gas company which 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.

Highlights

- **Candax management has strong international business and operational experience.** Senior members of Candax have extensive expertise in the Company’s focus areas, which include business relationships at high levels. The most recent example is the October 28 announcement of a farm-out of an interest in the Chaal Permit to Mitsubishi Corporation.
- **Candax has producing assets with production upside.** All the Company’s existing assets have the potential to increase current production. Based on the potential of increased production from the El Bibane field, Candax will generate \$0.20 in cash flow per fully diluted share in 2006.
- **Candax has exploration targets on producing blocks as well as separate exploration blocks.** Most notable is the Company’s 60% interest in the Chaal Permit in northern Tunisia, which offers exposure to a known gas discovery as well as to a large unexplored structure. Candax envisages a 50 mmcf/d gas project from this block to target the domestic gas market, which would more than double the Company’s cash flow.

Valuation – Our target price of \$1.25 represents our estimate of the Company’s risked current net asset value as well as a \$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 6.3x multiple, well within the range of international junior companies that trade at as much as 10x FD 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 Societé d’Electricité El Bibane (SEEB) electrical power-generation facility. Better than expected production results would have a positive effect on our view of Candax

Financial Forecast	2004	2005E	2006E	2006/2005
Liquids (bbl/d)		550	1,900	245%
Natural Gas (mmcf/d)		1.4	4.4	209%
Total (boe/d)		786	2,629	235%
% Liquids		70%	72%	3%
Cash Flow (\$M)		3.6	33.8	832%
F/D CFPS		\$0.03	\$0.18	616%
F/D EPS		(\$0.03)	\$0.09	(469%)
Capital Expenditures (\$M)		50.7	25.0	
Net Debt (\$M)		(13.8)	(22.5)	64%
WTI (US\$/bbl)		\$57.00	\$60.00	5%
AECO (\$/GJ)		\$7.58	\$8.30	9%

Valuation Parameters

Price/CFPS (multiple)	21.4	3.0	(86%)
Price/EPS (multiple)	(21.9)	5.9	(127%)
EV/boe/d	\$75,571	\$22,583	(70%)

Source: Candax Energy and Haywood Securities

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 initiating coverage of Candax Energy Inc. (CAX-T) with a SECTOR OUTPERFORM (SPECULATIVE) rating and a 12-month target price of \$1.25 per share.

Investment Profile

Positives

Candax Energy has an internationally experienced team. Candax shareholders will benefit from the fact that the senior management of the Company has extensive international oil and gas exposure. Also, the Company has brought in advisors who have the requisite experience to supplement and complement the expertise of management.

Candax has a defined corporate strategy. The Company intends to capitalize on political contacts and management experience in its focus areas of North Africa and the Middle East. This strategy includes developing key local and regional relationships and controlling key assets where appropriate. The initial focus of the Company has been on producing assets with upside potential as well as on discovered but undervalued oil and or gas fields that would benefit from the application of proven oil and gas technology and operating practices.

The Company has a good-quality asset base with upside potential. While current production of approximately 500 bbl/d of oil has been curtailed after production of approximately 1,100 boe/d was shut in on El Bibane, the Company has upside potential from its existing fields. In addition, the Company has intermediate-term production potential from exploration/exploitation drilling to be done on the Chaal Permit.

Risks

Exploration, exploitation, and development drilling is inherently risky. Candax Energy faces the reality that despite the technical work done on existing and upcoming projects, there is no guarantee oil and gas will be found where the technical team believes it to be. However, we note that the technical team is currently focused on drilling where hydrocarbons have already been identified.

Forecast Risk. Our rating on assessment of this risk is **moderate**. We believe that management is realistic in its guidance on production, after our review of Candax's producing assets. Our forecast does not require exploration success for 2006, and although we used what we believe to be realistic production rates for 2006 drilling to arrive at our forecast, the geologic risk still remains.

Financial Risk. Our rating on assessment of this risk is **moderate**. The Company's capital program is fully funded, assuming management's production estimates are met. Depending on the timing for adding potential new country projects, they would likely require additional capital expenditures. With a significant amount of equity capital in the form of warrants outstanding, the Company could be more than self-financing for 2006 and possibly 2007.

Valuation Risk. Our rating on assessment of this risk is **moderate**, with the current valuation of the sector at the high end of historic values. Candax Energy trades at a discount to a peer group of international companies owing to the recent but temporary loss of production.

Political Risk. We assess the political risk as **low**. Candax currently has production from Tunisia, which has extensive oil and gas operations. The country has regularly held elections as a republic and runs primarily on a French civil law system. It has a diverse economy but currently consumes more energy than it produces, making oil and gas a necessary industry.

Management and Directors

The Chief Executive Officer, President, and Director for Candax is Michael Wood. Mr. Wood joined Candax in 2004. Prior to joining Candax, he was President and CEO of another Canadian-listed international oil and gas company (Heritage Oil Corporation) with operations in Africa and the Middle East, where he was instrumental in increasing that company's valuation from US\$1.0 million in 1996 to more than US\$100 million by 2003. Mr. Wood has extensive financial/commercial expertise, with more than 20 years of energy experience with U.K. and international oil and gas companies of varying size. Mr. Wood is based out of Candax's London, U.K., office.

Serving Candax as Executive Vice President Corporate and Director is John Clarke. Mr. Clarke also joined the Company in 2004 and has more than 30 years of international experience, including 18 years of exploration and production experience for U.S.-based multinational Texaco Inc., which included working within its global exploration planning group. He subsequently became involved in the capital markets as an oil and gas analyst, where he worked for approximately eight years leading up to joining Candax. Mr. Clarke is based in Toronto, Canada.

Executive Vice President Business Development for Candax is Dr. Donald Munn. Dr. Munn has approximately 22 years of broad-based oil and gas experience focusing primarily on all aspects of technical exploration and production. His experience includes work at a large multinational producer and smaller independent companies, and oil and gas consulting. Notable expertise is in carbonate reservoirs, as well as in operations in the Arabian Sea and North Africa. Dr. Munn is also based out of London, U.K., and joined Candax in 2004.

Executive Vice President Technical of Candax is David Wilson. Mr. Wilson has more than 30 years of experience in the oil and gas industry through technical and Board of Director positions at a number of internationally focused oil and gas production companies. Mr. Wilson has been involved in all aspects of the technical oil and gas business and previously worked with Dr. Munn at an oil and gas company focused on the resource base of the Arabian Sea. He joined Candax in 2004 and is located in Dubai, United Arab Emirates.

The Chief Financial Officer for Candax is Christopher Hopkins. Mr. Hopkins joined Candax in 2005 and is a Chartered Accountant with approximately 18 years of varied industry experience. Mr. Hopkins has worked primarily in publicly traded companies and also has an MBA degree. Mr. Hopkins is based in Toronto, Canada.

Overseas, Candax's country manager for Tunisia is Keith Howells. He comes to Candax through the 2005 acquisition of its assets in Tunisia. Mr. Howells has 30 years of oil and gas experience, 25 years of which have been spent internationally. Mr. Howells is President of the Tunisian operating company, a position he has held since 2000 with predecessor companies that owned the Tunisian assets. Mr. Howells is located in Tunis, Tunisia.

As well as the two senior officers of Candax on the Board of Directors, there are three other members. They include co-founder John Cullen of Canada, a director of a number of publicly traded resource companies, Adrian Jackson, an energy-sector equity analyst in London, U.K., and recent addition John Zaozirny, legal counsel to a leading international law firm, of Calgary, Canada.

Along with its Board of Directors, Candax has a Technical Committee active in the review of Company operations and projects. On the committee, in addition to Messrs. Wood, Clarke, Howells, and Dr. Munn, is Mr. Alexander Kulpecz, currently President of an international consulting group that provides services to oil and gas companies around the world.

Valuation

Candax's share price saw a significant drop when the announcement was made that efforts to restart the El Bibane field were unsuccessful. The Company's share price dropped almost 40%, reducing its market capitalization by \$36 million as investors reacted to this news. While the production shut-in has affected cash flow, it is not a critical event. Candax receives payment from the field based on tanker liftings of crude oil. As the liftings occur only when necessary, historically every few months, the cash flow from the area is lumpy, as opposed to a continuous stream such as that received from onshore production in North America.

The shut-in of the El Bibane field results in lost production for approximately four months, just over two months more than originally planned. However, the pending workover of El Bibane #3 includes redrilling the horizontal section to a point closer to the gas-oil contact. It also includes the installation of artificial lift that will be powered primarily from natural gas produced from the El Bibane reservoir. We note that the workover on El Bibane #3 was planned for late 2005/early 2006, before the well was shut down for mechanical reasons. Therefore, while it has affected current levels of production, the resultant reduction in stock price presents a unique buying opportunity.

While the shut-in of the El Bibane field has temporarily reduced the Company's cash flow, we do not believe it has affected the reserves base. In the Company's engineering report, the engineers estimate that the El Bibane #3 well, with artificial lift installed, will be capable of recovering an additional 0.7 million barrels of oil over the next five or more years. Note that the well already produced approximately 3.1 million barrels to December 31, 2004.

Therefore, after discussing the issue with management and reviewing the engineering and geology of the El Bibane field, we conclude that the value of the Company remains intact.

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 have included the original reserves report data, which has 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 the Company's 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	US\$50/bbl	US\$45/bbl	Candax
		NPV10% Value (C\$M)	NPV10% Value (C\$M)	NPV10% Value (C\$M)	NPV10% Value (C\$M)
Tunisian Assets (Centurion acquisition - Ryder Scott Report)*	5.1	38.3	84.9	78.3	55.0
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 and 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.

2006 Valuation and Cash-Flow Comparisons

	<u>Candax</u> CAX-T	<u>Oilexco*</u> OIL-T	<u>PanOcean</u> POC.SV.B-T	<u>TransGlobe</u> TGL-T
		(Q4/06 annualized, after tax)	(US\$ except share & target price)	(US\$ except share & target price)
Production (2006 estimate)				
Oil and NGL (bbl/d)	1,900	24,000	15,001	4,950
Natural Gas (mmcf/d)	4.4	0.1	0.0	7.6
Total (boe/d)	2,629	24,017	15,001	6,217
Share Price (Nov 1/05)	\$0.55	\$4.01	\$26.49	\$6.29
2006 F/D CFPS	\$0.20	\$2.00	\$5.97	\$0.84
Current P/CF Multiple (times)	2.3	2.0	3.7	6.2
Target Price	\$1.25	\$8.00	\$50.00	\$9.00
Target P/CF Multiple (times)	5.2	4.0	7.0	8.9
Current Shares Outstanding (millions)	130.7	149.8	24.1	58.0
F/D Shares Outstanding (millions)	183.2	168.6	26.7	60.9
2006 Cash Flow (\$M)	33	330	152	51
2006 Capital Expenditures (\$M)	25	176	112	38
2006 Net Debt (\$M)	(22)	90	(20)	(11)
Enterprise Value (\$M)	59	641	510	297
Current EV / boe/d	\$22,583	\$26,698	\$33,990	\$47,749
Target EV / boe/d	\$57,376	\$53,646	\$78,995	\$82,716

*Note: Valuation reflects Q4 annualized cash flow per share for Oilexco owing to the Brenda field onstream date.

Source: Company data and Haywood Securities

Candax History

Candax has a brief corporate history, being founded in only mid-2004. The Company was originally founded as a private company called “Addax Energy Inc.” in June 2004. In late June 2004, the name was changed to “Candax Energy Inc.”, and in September 2004, its Articles of Incorporation were changed to remove the private company restriction. The Company’s registered office is in Toronto, Canada, with offices in London, U.K., Dubai, United Arab Emirates, and Tunis, Tunisia.

In September 2004, Candax entered into a joint-venture agreement with a local Tunisian partner (SMIP) to pursue oil and gas opportunities in that country. Included in the joint-venture agreement was a provision to jointly evaluate “regional opportunities”. To date, the only transaction that has been executed under this agreement is the participation by Candax and SMIP in the Chaal Permit. However, the partners in the joint venture continue to evaluate different opportunities for future developments.

In late 2004, the Company raised a total of \$4.5 million through private placement of Special Warrants. These warrants were later exchanged for common shares in the Company, but were issued in two tranches—one of \$1.0 million with 10 million shares issued at \$0.10 per share and a second one of \$3.4 million with shares issued at \$0.25 per warrant.

With operating capital now in the company, Candax's management set about the business of oil and gas. In January 2005, the Company finalized terms with the Tunisian national oil company ETAP for the Production Sharing Agreement on the Chaal Permit in the northern half of the country. These terms and conditions were approved in March 2005. Until late October, Candax had an 80% interest in the prospect, which has been reduced to 60% as a result of the farm-out of 20% interest to the Mitsubishi Corporation.

In addition, in April 2005 Candax completed the acquisition of production and raised C\$66 million of new equity. Candax issued 82.5 million shares at \$0.80 per share and warrants of 41.25 million with a price of \$1.20. Candax used the proceeds of the issue to acquire all the Tunisian assets of Centurion Energy International Inc. for a sum of \$43.7 million. The acquired assets included a 73.8% working interest in the offshore El Bibane oil and gas field, a 31.4% working interest in the onshore Ezzaouia oil and gas field, an 80% working interest in the Robbana oil field, 75% working interest in the non-producing Al Manzah field, as well as a 50% interest in the Soci t  d'Electricit  El Bibane (SEEB) power plant, which generates electricity using previously flared gas from El Bibane and Ezzaouia.

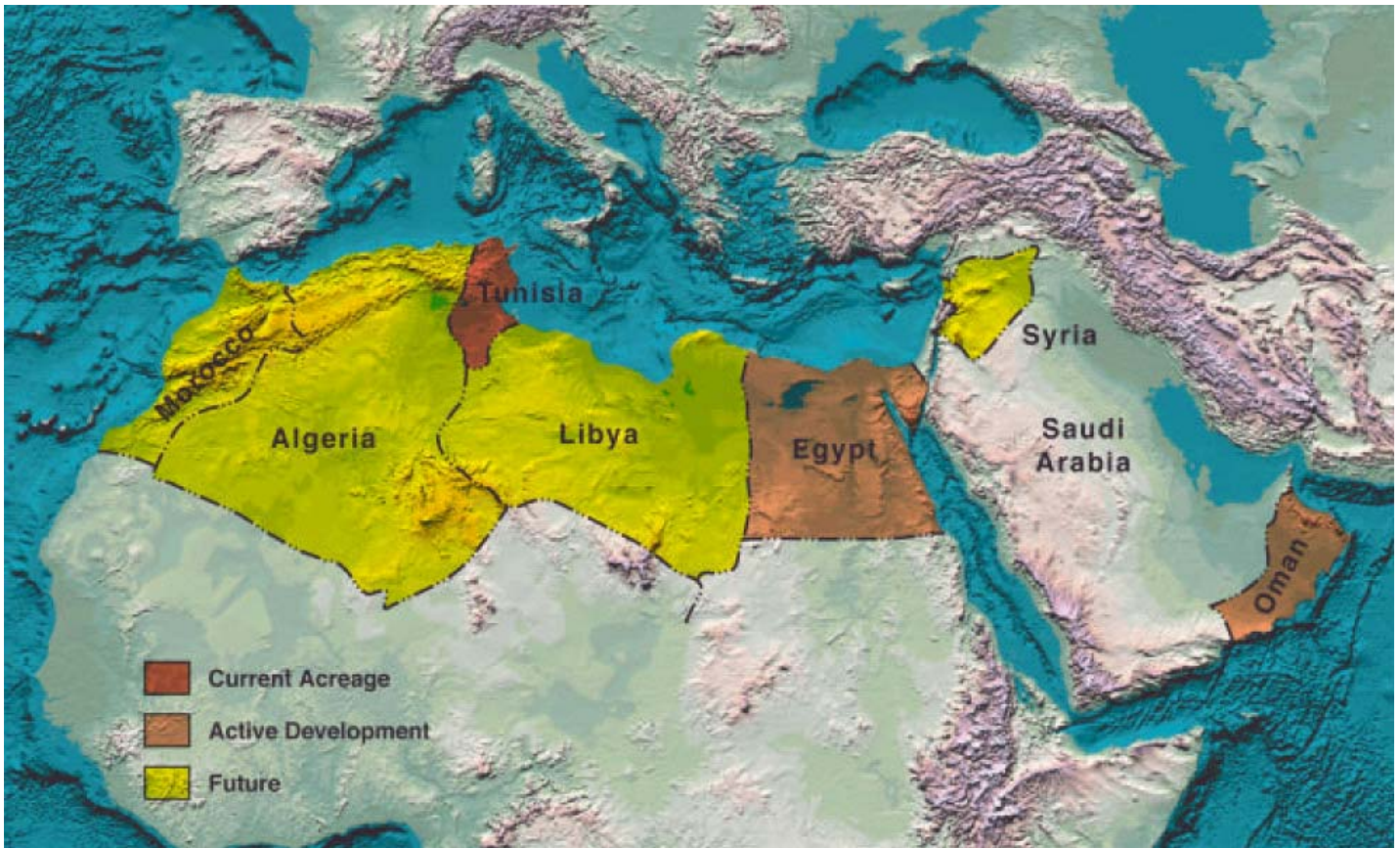
Candax completed the transition from private to public company at the end of August 2005 when it commenced trading on the Toronto-based TSX.

Production Operations

Candax is a full-cycle exploration company with a focus on specific countries and areas in which it has contacts and technical expertise. The Company's production operations are in Tunisia, with an exploration block also located there. As we reviewed in the Valuation section, just over half the Company's value is in the assets with reserves assigned, but the exploration assets have the potential to add materially to Candax's value.

As highlighted on the following map, Candax is focused on North Africa and the Middle East. This focus takes advantage of the strengths of the technical team and leverages the existing business relationships it has developed.

Candax Focus Areas



Source: Candax Energy

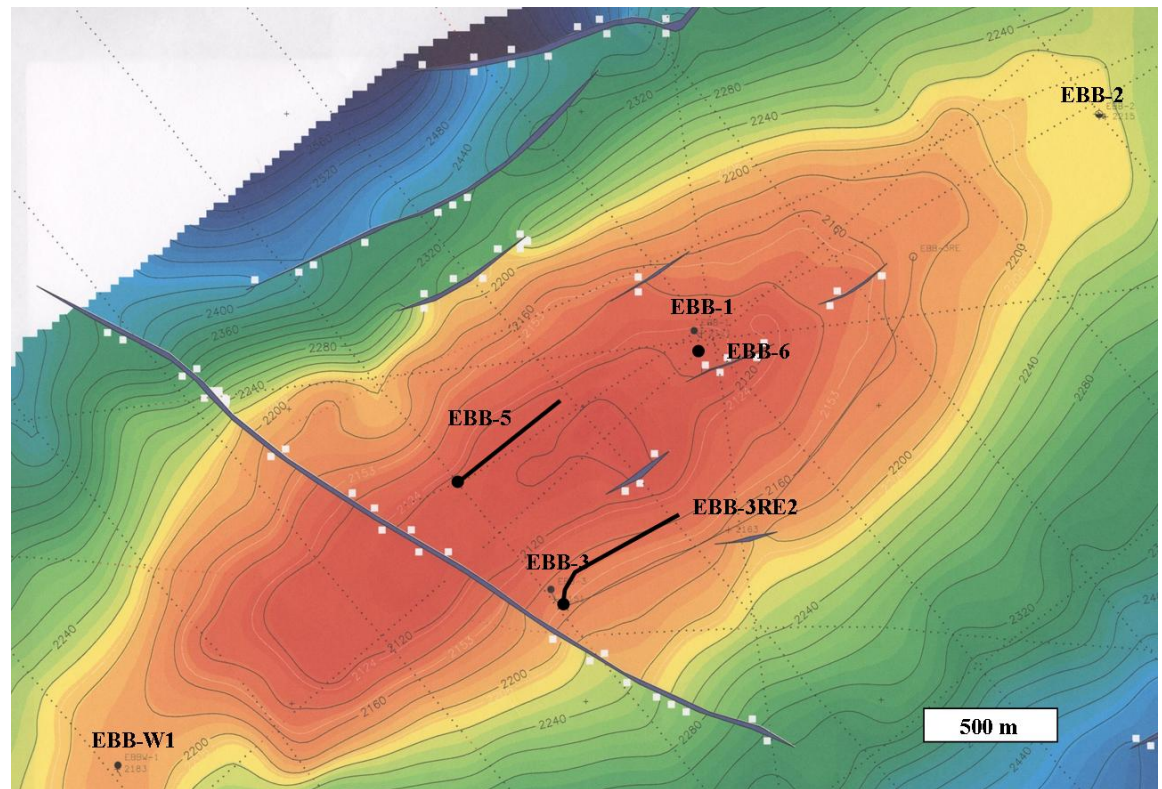
Through the assets acquired in early 2005, Candax holds four properties that are capable of production in Tunisia. Until recently, three of these properties were producing, with the fourth being prepared to resume production. Unfortunately, operational issues have caused the Company's major property at El Bibane to be shut in until January or February 2006. While this is a setback for the Company, it is only temporary, as new infill drilling will see the property produce at higher levels than previously. Each of the producing assets appears to be relatively mature, but provides a stable foundation of cash flow as Candax grows its international asset base.

El Bibane Concession

El Bibane is Candax's cornerstone producing asset. The Company has a 73.8% working interest in the field and is the operator. It holds the right to produce hydrocarbons from this 56,316-acre concession until 2014, since the original concession was granted in 1984 with a 30-year term. The concession is located approximately 18 kilometres offshore of the east coast of Tunisia in the Gulf of Gabes. The production from the concession comes from an oil and gas field also referred to as the El Bibane field.

Production from El Bibane began in 1998. The field was first discovered in 1982, but it was not until 1996, when El Bibane #3 was successfully re-entered and tested with a horizontal extension of the wellbore, that the field was revealed to be economic. An 18-kilometre pipeline was then built to an onshore processing facility, and the field was placed on production in 1998.

El Bibane Field Map

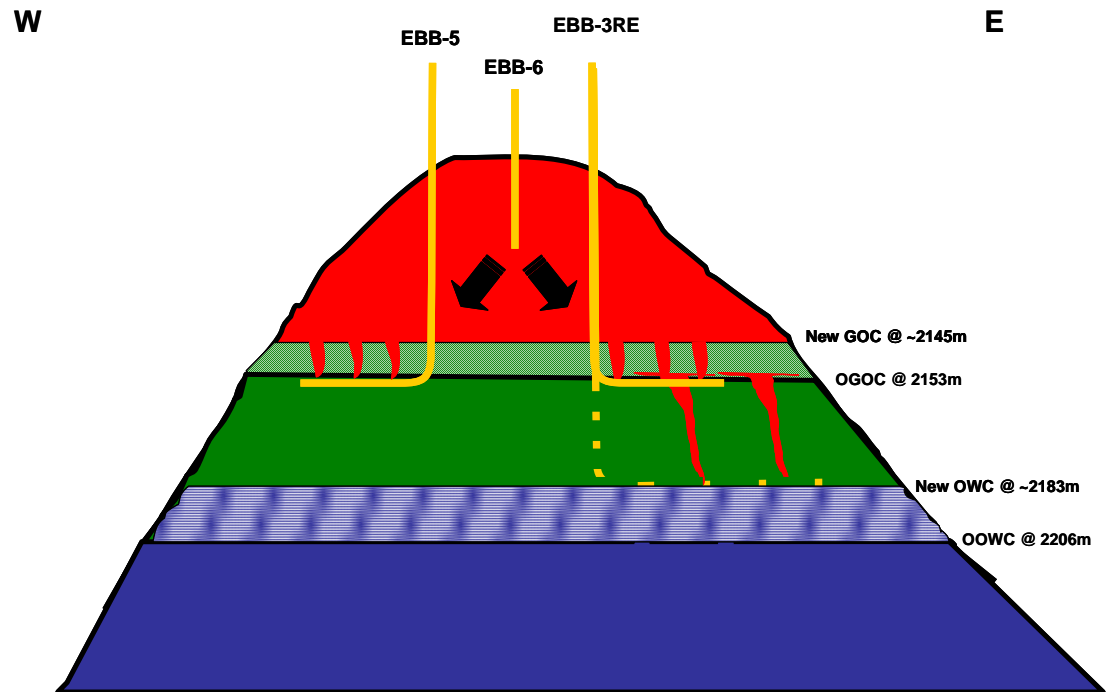


Source: Candax Energy

The field produces light oil, natural gas, and water from a Cretaceous-age carbonate formation. The produced fluids are transported to shore, where they are separated for sale and disposal. The crude oil is sent by pipeline to a storage facility at Zarzis with capacity of approximately 200,000 barrels of oil. Here it is combined with oil from two other properties, with the natural gas shipped to the SEEB electrical-generation facility. The crude is then sold in liftings scheduled for when the storage tanks become full. On the assumption that the workover and new well drilled at El Bibane are successful, liftings are expected to be approximately every 45 days.

The field has produced approximately 3.2 million barrels of oil to date. Engineering estimates put remaining reserves net to Candax (after royalties) at 1.5 million barrels of oil and 12.4 bcf of natural gas. Prior to the El Bibane #3 producing well being shut in for routine maintenance inspection, the field was producing net to Candax approximately 530 bbl/d of oil and 3.7 mmcf/d of natural gas.

Schematic El Bibane Cross Section



Source: Candax Energy

The field is an anticlinal structure that has a gas cap, oil leg, and water leg. The one producing well is on the southeast flank of the structure and appears to be producing reserves from only that side of the anticline. The field has a strong underlying water aquifer, which maintains reservoir pressure. However, the approximate oil-water contact on the southeast flank of the pool has risen close to the current production well at El Bibane #3 as oil has been extracted, necessitating the proposed workover of the well. In early 2006, Candax plans to drill another horizontal well, but opposite the current producer, located on the northwest flank of the field (El Bibane #5) to access new reserves. As we have represented in the schematic cross section above, El Bibane #5 (and El Bibane #3's new wellbore) will be drilled into the reservoir at approximately the level of the old gas-oil contact. The Company believes that significant new reserves can be accessed by these wells.

With both new wellbores closer to the gas cap, there is limited potential for water production. However, with the installation of artificial lift on El Bibane #3 and El Bibane #5, production should see a significant increase with higher gas rates owing to the proximity of the new wellbores to the gas-oil contact. Gross production of 3,000 bbl/d to 4,000 bbl/d is possible. However, oil production will likely be constrained by the gas-consumption capacity of the SEEB power plant, currently 6.5 mmcf/d. We assume that there will be a higher gas production rate than in the original El Bibane #3 horizontal well, as both wellbores will be higher in the formation. Candax should see net production of approximately 2,200 bbl/d and 4.8 mmcf/d from El Bibane, or a total of 3,000 boe/d. Our assumption is that the wells should produce water-free for approximately 12 months.

We note that while the upside in the field has been simplified in this discussion, it may not represent the final work plan for this field. Candax and its partners are currently reviewing and negotiating for a development plan that suits all involved parties. As noted in the schematic diagram above, one option is to drill a new well in the gas cap (El Bibane #6), which would re-

inject excess gas and allow Candax to produce oil not limited by the SEEB plant's gas-consumption capacity.

SEEB Power Plant

Owned 50% by Candax, the Société d'Electricité El Bibane (SEEB) power plant is a joint venture constructed to utilize previously flared gas from El Bibane and Ezzaouia. At peak operation with full consumption of approximately 6.5 mmcf/d, it would generate annual power revenue and natural gas sales of approximately \$1.0 million net to Candax. Built in 2003, the facility currently has two gas turbine generators, but is not operating, because of gas from El Bibane currently being shut in.

SEEB Power Generation Plant



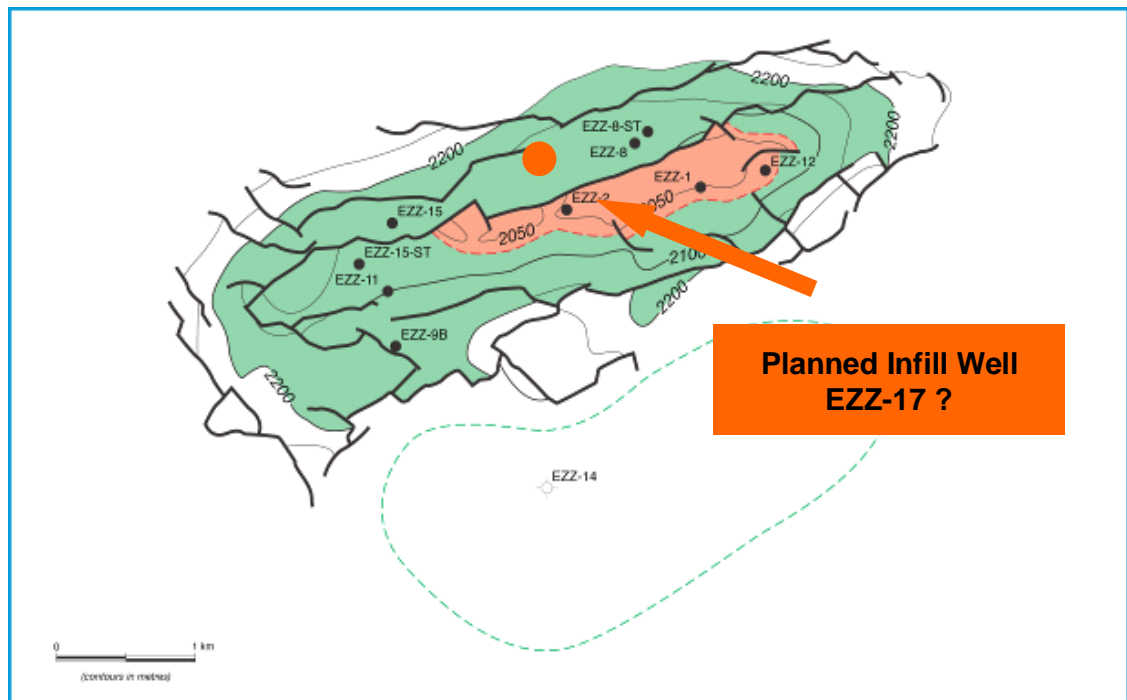
Source: Candax Energy

Ezzaouia Concession

The **Ezzaouia concession is a small onshore block that contributes approximately 400 bbl/d of oil and 0.4 mmcf/d of natural gas net to Candax.** The Company has a 31.4% working interest in the field, which is operated by the Company’s joint-venture partner. The Company has the right to produce hydrocarbons from this 9,880-acre concession until 2020—again a concession with a 30-year term. The concession is located onshore on a small peninsula of land approximately 8 kilometres away from the El Bibane onshore production facility. Reservoir fluids are processed at the Ezzaouia concession facility, with oil transported via pipeline to the same storage facility at Zarzis as that used for the El Bibane field. Natural gas is transported to the El Bibane facility, where the combined gas streams are pipelined to the SEEB power-generating facility.

This is a mature field that has produced approximately 27 million barrels and has net reserves of 1.2 million barrels remaining. Production is also from a Cretaceous-age carbonate as well as a Jurassic-age sandstone. Candax has plans to drill one more infill well to maximize reserves recovery and is also considering a secondary recovery waterflood program for the Jurassic horizon. No decision has been made on this secondary recovery plan, but we note that if it is implemented in 2006, results should become evident by the end of the year, as reflected by higher production volumes and an increase in recoverable reserves.

Ezzaouia Field Map



Source: Candax Energy

Robbana Concession

Candax has an 80% working interest in this small oil field. Located north of Ezzaouia on the island of D'Jerba, one well produced 40 bbl/d (32 bbl/d net) of oil. Candax is the operator of this field and has until 2023 for this 30-year concession. Production is trucked to El Bibane, where the oil is shipped to the storage facility at Zarzis. As this is a mature property, no further development plans are currently contemplated.

Al Manzah Concession

The Al Manzah Concession is located in northern Tunisia, approximately 60 kilometres south of the capital city of Tunis. Candax has a 75% working interest and is the operator of the concession. The field currently is shut in, as the last producer watered out in late 2004. However, in early 2005, Candax did a workover on the well, Al Manzah #1, which tested approximately 400 bbl/d of clean oil. A pumpjack is being mobilized to Tunisia at this time, and the field should resume production in December 2005 at 200 bbl/d to 300 bbl/d net. Production is trucked to the sales point and will result in regular cash flow not subject to the timing of tanker liftings.

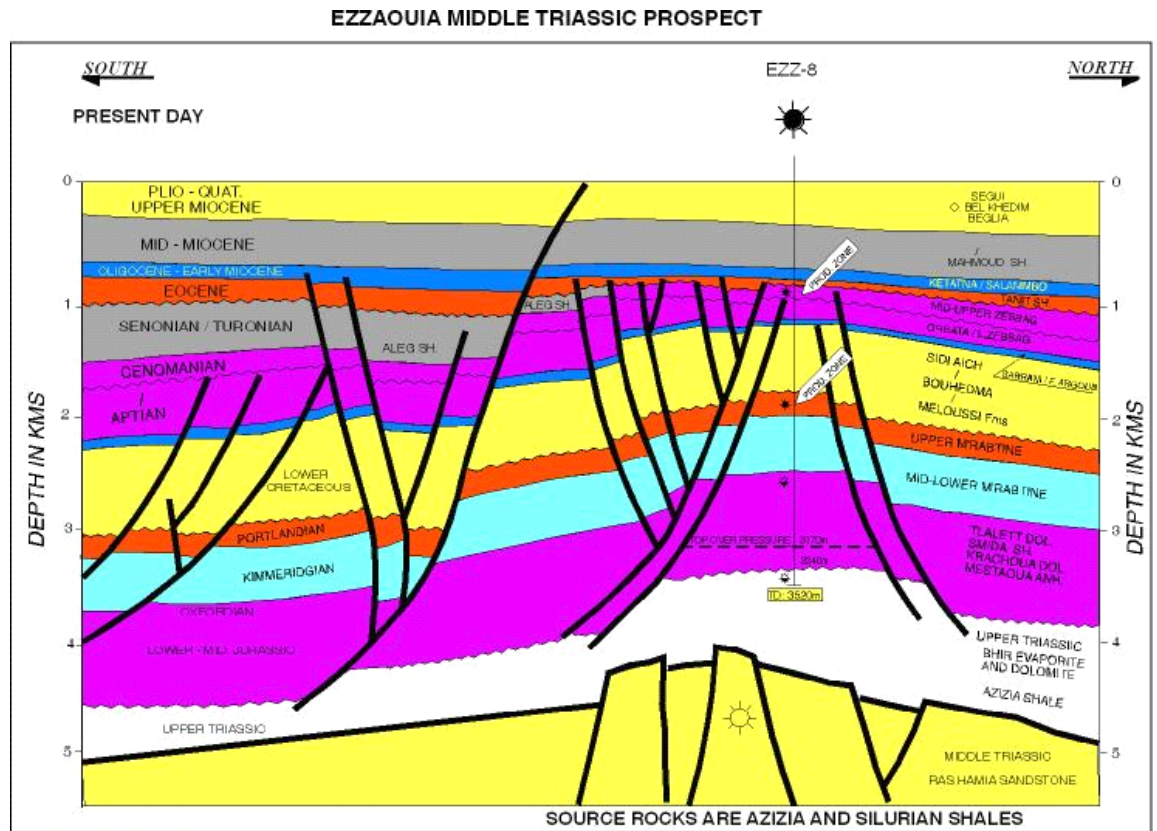
Exploration Potential

On both El Bibane and Ezzaouia, there is a deep exploration target. Large structures have been identified on seismic in Triassic-age rock in the TAGI Formation. There are very large regional reserves in both Tunisia and Algeria, with accumulations of 2 tcf to 3 tcf of natural gas.

At Ezzaouia, Candax has a large structure that shows strongly on seismic. The structure has approximately 134 square kilometres of aerial extent mapped with 2D and 3D seismic and has four-way closure, meaning that any hydrocarbons present should be trapped by the structure. Candax has calculated that this Ezzaouia structure could have as much as 3 tcf to 5 tcf of natural gas reserves. Candax has a 31.4% interest in this structure, although as a condition of sale of these Tunisian assets to Candax, the former owner has the right to participate in up to 50% of Candax's working interest. In addition, there are two uphole productive horizons with production potential as well. One well may be drilled in the first half of 2006, but this remains to be finalized.

The value of a potential discovery of this size to Candax is very large. Assuming the minimum size of 3 tcf and a 15.2% working interest, the impact on Candax would be almost 500 bcf of reserves to the Company. It would equal the value impact of the possible reserves of the Chaal Permit ABK discovery.

Ezzaouia Middle Triassic Prospect



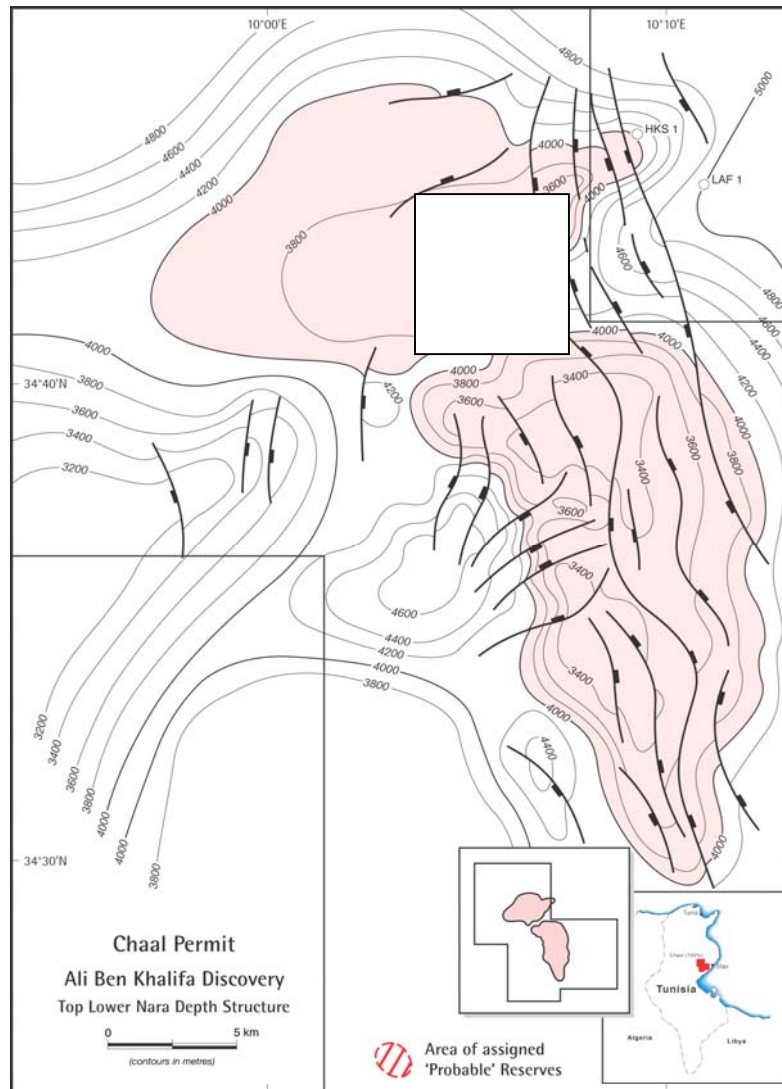
Source: Candax Energy

Chaal Permit

This is an exploration block that offers significant future upside potential to Candax. In theory, the immediate drilling on the prospect is also relatively low risk. Located in northern Tunisia, approximately 350 kilometres south of Tunis, this large block, in which Candax has a 60% working interest, covers almost 300,000 acres.

On the block, there are two very large structures. These have been identified by approximately 1,200 square kilometres of seismic that was shot in the 1980s.

Chaal Permit Structure Map

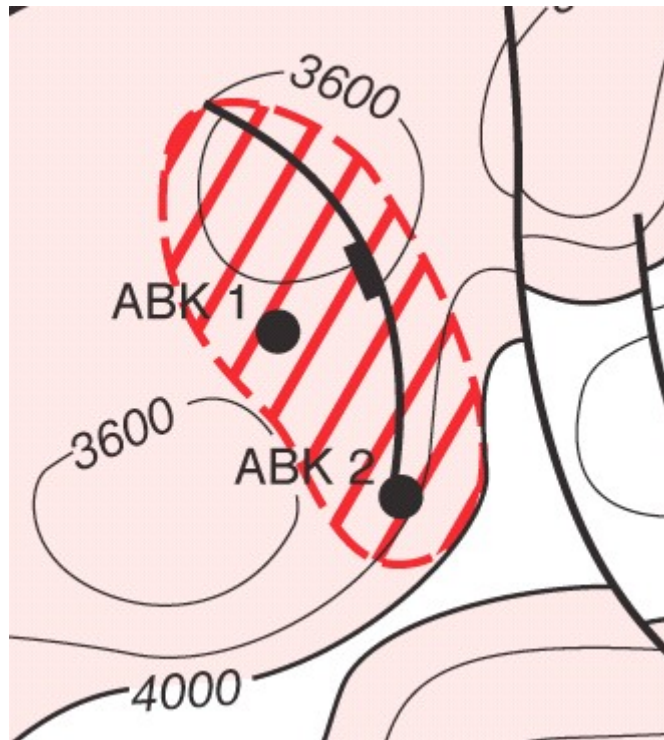


Source: Candax Energy

The block was first drilled in the early 1960s. Two wells of primary interest, as shown on the detailed map below, were drilled into the Jurassic-age rock. The Lower Nara Formation is a carbonate with interbedded shales and limestones that had hydrocarbon shows in the two wells (ABK1, ABK2).

By today's metrics, the wells looked very promising. Both wells had approximately 150 metres of hydrocarbon column. Testing on ABK1 resulted in natural gas from several zones 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.

Expanded View of Chaal Exploration Structure



Source: Candax Energy

The hatched area on the detail map surrounding the ABK wells has been evaluated for reserves potential. Glendower International Limited, a reserves evaluator based in Calgary, Canada, reviewed the technical data on the wells and the structure and has assigned proven plus probable reserves of 60 bcf, and proven plus probable plus possible reserves of 844 bcf. The report also estimates an additional 1.1 tcf of prospective reserves. All reserves are gross, and Candax has a 60% interest in these volumes.

Candax plans to drill the first new well on this block starting in December 2005. The well will twin the ABK1 discovery well 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 has the rig contracted for one well plus an option well. A successful twin of ABK1 could result in a second well to be drilled and tested.

Should the two wells prove up the potential of the structure, this would become a third project area for Candax. The number of wells to be drilled depends on individual well productivity, but the Company envisages a 50 mmcf/d initial project to tap the domestic gas market. Pipeline infrastructure approximately 15 kilometres east of the Chaal Permit makes this a short tie-in and a new source of cash flow, possibly by mid-2007.

Candax's working interest has recently been reduced through a farm-out arrangement with Mitsubishi Corporation. On October 28, 2005, Candax announced that it had signed an agreement to farm out a 20% interest in the Chaal Permit to Mitsubishi. Mitsubishi has agreed to pay a maximum of US\$8 million in the upcoming Chaal well, twinning the 1963 ABK1 discovery, to earn the 20% interest in the entire permit. Mitsubishi can also earn an additional 5% in the permit prior to the drilling of a second well, under certain conditions.

Middle East

Candax is also interested in pursuing oil and gas opportunities in the Middle East. As highlighted in the Candax Focus Areas map on page 9, two countries in particular are Egypt and Oman. The Company and its advisors have established business contacts in these countries and are pursuing a number of potential opportunities.

Candax has also embarked on a joint project in an as-yet-unnamed Middle Eastern country. As announced on October 28, Candax and Mitsubishi Corporation have established a team to jointly undertake the evaluation of a major gas development project. We expect that more information on this project area will be forthcoming in the near future.

Forecast

Our forecast for 2006 is based on our assessment of the production from existing operations as well as from the El Bibane field new well and workover. The Company currently expects to spend approximately \$7 million in 2005, excluding the acquisition, and \$25 million in 2005 and 2006. Next year, the Company plans to drill four wells, weighted to three development wells, one exploration well, and two contingent locations. Success on the Chaal Permit could see an additional number of wells drilled to bring a potential gas discovery onstream, but we have not factored that possibility into our estimates for next year.

Based on our estimates of workover and drilling success, we forecast 2006 average production to be approximately 2,600 boe/d, with a relatively flat production profile throughout the year. The 2006 average production generates cash flow of \$33.5 million or \$0.20 per fully diluted share. Looking forward to 2007, production volumes will depend on drilling success at Chaal, as well as on the potential for a deep Triassic well at Ezzaouia. In our view, the Chaal Permit should bring production in 2007, but the results of the first well will be available early in 2006. At that time, we will revisit our forecast and attempt to quantify the impact of Chaal drilling success on our estimates.

Candax Energy Inc. (CAX-T)
Candax Energy Ltd

Rating:	SECTOR OUTPERFORM (SPECULATIVE)			One-Year Target Price:	\$1.25
Current Price	\$0.55		Market Capitalization (\$M)		71.9
Current Shares Outstanding (million)	130.7	<u>Dilution</u>	Current Net Debt (est) (\$M)		(12.5)
Fully Diluted Shares Outstanding (million)	183.2	40.2%	Enterprise Value (\$M)		59.4
Book Value (\$M)	64.8		EV / BV (multiple)		0.9

Production	2003	2004	2005E	2006E	2005 / 2004	2006 / 2005
Liquids (bbl/d)			550	1,900		245%
Natural Gas (mmcf/d)			1.4	4.4		209%
Total (boe/d)			786	2,629		235%
Percent Liquids			70%	72%		3%
Percent Natural Gas			30%	28%		(8%)

Revenue (\$M)			8.3	47.5		469%
Cash Flow (\$M)			3.6	33.8		832%
CFPS Basic			\$0.05	\$0.26		431%
CFPS Fully Diluted			\$0.03	\$0.18		616%

CFPS Sensitivity		<u>\$/FD Share</u>	<u>% of CF</u>
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)			(2.8)	17.0		(712%)
EPS Basic			(\$0.03)	\$0.13		(618%)
EPS Fully Diluted			(\$0.03)	\$0.09		(469%)

Capital Expenditures (\$M)			50.7	25.0		(51%)
Reinvestment Ratio			1399%	74%		(95%)

Net Debt (\$M)			(13.8)	(22.5)		64%
Debt / Cash Flow - Trailing (years)			(3.8)	(0.7)		(82%)

Per BOE Analysis (\$/boe)

Revenue			\$29.11	\$49.50		70%
Operating Expense			\$4.33	\$5.00		16%
Net Operating Revenue			\$22.65	\$39.55		75%
G&A			\$10.46	\$4.17		(60%)
Cash Flow			\$11.97	\$35.18		194%
DD&A			\$10.80	\$13.34		24%
Earnings			(\$10.22)	\$17.75		(274%)

Valuation Parameters

Current Price / F/D CFPS (multiple)			21.4	3.0		(86%)
Debt-Adjusted CF Multiple			15.9	1.7		(89%)
Target Price / F/D CFPS (multiple)			48.6	6.8		(86%)
Current Price / F/D EPS (multiple)			(21.9)	5.9		(127%)
EV / boe/d			\$75,571	\$22,583		(70%)
Target EV / boe/d			\$190,406	\$53,565		(72%)

Price Assumptions

Crude Oil WTI (US\$/bbl)	\$31.06	\$41.46	\$57.00	\$60.00	37%	5%
Company Average (C\$/bbl)			\$54.88	\$67.50		23%
AECO (C\$/GJ)	\$6.33	\$6.26	\$7.58	\$8.30	21%	9%
Company Average (C\$/GJ)			\$0.41	\$0.41		(0%)

Source: Candax Energy and Haywood Securities

Balance Sheet

	2005E	2006E
(\$M)		
Current Assets	29.1	39.1
Fixed Assets	65.3	77.5
Other Assets	0.5	0.5
Total Assets	94.9	117.1
Accounts Payable	1.8	3.0
Bank & Current Portion of Long-term Debt	0.0	0.0
Current Liabilities	1.8	3.0
Long-term Debt	13.5	13.5
Future Taxes	7.5	11.4
Provision for Site Restoration	2.4	2.4
Other Liabilities	0.0	0.0
Total Liabilities	25.2	30.4
Share Capital	74.9	74.9
Contributed Surplus & Other	(1.5)	(1.5)
Retained Earnings	(3.7)	13.3
Total Shareholders' Equity	69.7	86.7
Total Liabilities & Equity	94.9	117.1

Source: Candax Energy and Haywood Securities

Earnings Statement

	2005E	2006E
(\$M)		
Production Revenue	8.3	47.5
Net Royalties	(0.6)	(4.8)
Net Production Revenue	7.7	42.8
Hedging & Other	0.1	0.0
Net Revenue	7.9	42.8
Operating Costs	(1.2)	(4.8)
General & Administrative	(3.0)	(4.0)
Gain/(Loss) on Disposal of Assets	0.0	0.0
EBITDA	3.7	34.2
DD&A	(3.1)	(12.8)
Site Restoration	0.0	0.0
Other	0.1	0.3
EBIT	0.6	21.4
Interest	(0.2)	0.0
Foreign Exchange Gain/(Loss)	0.0	0.0
EBT	0.5	21.4
Current Taxes	(0.0)	(0.4)
Future Income Taxes	(3.3)	(3.9)
Earnings from Operations	(2.8)	17.0

Source: Candax Energy and 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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