

Success is in the



orion
SECURITIES INC.

COMPANY PROFILE: CANDAX ENERGY INC.

January 16, 2006

Energy – Foreign Producers (Overweight)

CAX, TSX – \$0.86

Profile

- **Candax is a Canadian-based oil and natural gas company engaged in E&D activities in the Middle East and Africa.** The company's focus involves the development of properties with high growth potential, generating strong near term cash flows and reserve base development.

Operations

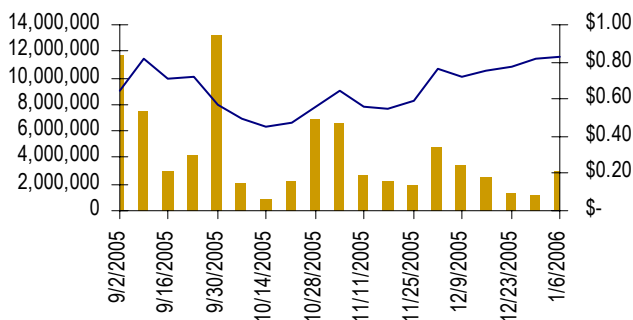
- **Operations are located in Tunisia with additional opportunities for growth in Egypt and Oman, which the company is currently evaluating.** However, the company's current production continues to be derived from the Centurion acquisition in February 2005.

History

- **Initially commencing operations as a private entity, Candax has grown in size through a combination of financings and land acquisitions.** The company announced its filing on the Toronto Stock Exchange in August 2005.

Recent Highlights

- **El Bibane.** A major field re-development at the El Bibane Field is expected in Q1/06. Activity was slowed due to unexpected corrosion at the #3 wellhead. The company has planned a full field development program with the drilling of further development wells commencing in February 2006.
- **First well at Chaal is on track for Q1/06.** To date, a drilling rig has been contracted and is scheduled to commence drilling at the Chaal permit sometime in Q1/06. Targets include the highly prospective Jurassic Lower Nara Formation.
- **Mitsubishi Corporation farm-in.** The agreement enables Mitsubishi the right to farm-in for up to a 20% interest in the Chaal Permit with Candax retaining a 60% interest in the play, while maintaining operatorship rights.
- **Tunisian production is up 70%.** The company recently announced that it had increased production from onshore oil fields in Tunisia by 70%. The increase is due mainly to the start-up of production from the Al-Manzah field following the successful installation of artificial lift on a single well.



Mark Heim, CFA
(403) 218-6652
mheim@orionsecurities.ca

Matt Donohue
(403) 218-6658
mdonohue@orionsecurities.ca

WWW.ORIONSECURITIES.CA

Please see important disclaimers
at the end of this report.

Summary

Candax Energy Inc. is a growth-orientated oil and gas company with producing assets in Tunisia; the company commenced operations primarily focusing on Africa and the Middle East. In October 2004, Candax entered Tunisia through an agreement with a joint venture partner to pursue oil and gas interests in the country. Upon raising the necessary seed financing, the company strengthened its position through the acquisition of Centurion Energy International's producing assets (El Bibane, Ezzaouia, Robbana, and Al Manzah). Additional efforts towards increasing growth have been made, including the acquisition of the Société d'Électricité d'El Bibane (SEEB) electric generating power plant and the signing of the Chaal Permit. Candax remains committed to building a full cycle exploration and production company; combining both a strong production base with an emphasis towards exploitation and associated exploration potential.

History and Background

Candax Energy Inc. commenced operations as a private company late in September 2004 before going public in August 2005. After completing an agreement with a Tunisian JV partner to pursue oil and gas opportunities, the company completed a seed financing transaction in November 2004. The private placement consisted of 13.6 million special warrants for proceeds of approximately C\$3.4 million. In April 2005, the company completed a second private placement issuing 82.5 million subscription receipts for total proceeds of C\$66.0 million, which was used predominately in the acquisition of Centurion's Tunisian assets. Candax paid C\$43.7 million (including working capital adjustments) for three of Centurion's wholly owned subsidiaries in Tunisia, plus a 50% interest in the SEEB power plant. Centurion's interests included the Ezzaouia (31.4%), El Bibane (73.8%), Robbana (80.0%), and Al Manzah (75.0%) fields. Centurion retained the right to participate for up to 50% of its former working interest in the Triassic prospects on the Ezzaouia and El Bibane permits. The company continues to actively explore opportunities in Africa and the Middle East, particularly Egypt and Oman.

The Team

Michael Wood, President, Chief Executive Officer, and Director. Mr. Wood has over 20 years of experience in international oil and gas. His diverse background includes both senior executive and financial commercial management positions within large multinationals and smaller independent companies. As part of Conoco's U.K. senior management team, Mr. Wood delivered substantial growth through fast track development to a number of major E&P capital projects, and developed and implemented the company's integrated gas strategy. As President and Chief Executive Officer of Heritage Oil Corporation, Mr. Wood was instrumental in increasing the company's valuation substantially over a short timeframe.

John Clarke, Executive Vice President, Corporate, and Director. Mr. Clarke has over 30 years experience in the energy sector, with exposure to both international and domestic markets. Prior to joining Candax, Mr. Clarke worked 18 years with Texaco, and spent eight years as Vice President and Senior Oil and Gas Analyst with Deutsche Bank and Octagon Capital Corporation. In addition to his upstream experience in the industry, Mr. Clarke brings a broad background in the capital markets, particularly within corporate financing and M&A advisory services.

David Wilson, Executive Vice President, Technical. Mr. Wilson also has extensive experience within the upstream oil and gas industry. In 1977, he established the upstream consultancy group, Energy Resource Consultants, which provided independent reserve evaluations to a wide spectrum of firms within the U.K.'s oil and gas sector. Mr. Wilson was also President and founding shareholder of Atlantis Holding Norway, until the company's acquisition in 2003. Mr. Wilson was instrumental in developing Atlantis to one of the largest acreage holders in the Arabian Gulf by 2003.

Dr. Donald Munn, Executive Vice President, Business Development. Dr. Munn has 22 years of experience ranging in scope and position within companies such as Shell, ERC, and Atlantis. Prior to joining Candax, Dr. Munn was Vice President and a founding executive of Atlantis Holding Norway, operating in the Arabian Gulf. On joining Candax, Dr. Munn assumed responsibility for all day-to-day exploration and operational activities of the company.

Christopher Hopkins, Chief Financial Officer. Mr. Hopkins is a finance professional with over 18 years of experience in financial management, strategic planning, M&A, corporate finance, economic evaluation, systems design and implementation, and financial and management reporting. Mr. Hopkins was previously employed as Vice President, Finance for Canada Bearings Ltd., an international multi-branch industrial distributor with revenue in excess of C\$150 million. Mr. Hopkins has also held senior financial positions at CIBC, Rio Algom Limited, and Suncor.

Keith Howells, President Tunisia Operations. With over 30 years of experience (25 years internationally) within the oil and gas industry, Mr. Howells brings a wealth of experience to Candax's management team. Mr. Howells started his career in Canada, where he worked for Shell Canada Resources and Amerada Minerals Corporation. In 1981, Mr. Howells joined Occidental Oil and Gas Corporation, where he held various senior geological and management positions gaining tremendous experience in Middle Eastern countries including Iran, Libya, Syria, and Yemen.

Alexander Kulpecz, Executive Advisory Committee. Alex is highly respected in the energy sector, most notably as an Executive Director of Shell International's Executive Committee, responsible for development of business for Africa, South America, and Russia/Europe. Alex has over 25 years experience within the oil and gas industry. He is currently the President of The Omega Group, providing services to private equity and banking clients in both the upstream and downstream industries. Alex has experience in negotiating multi-billion dollar oil and gas projects at Presidential, Prime Minister, and Energy Ministerial levels.

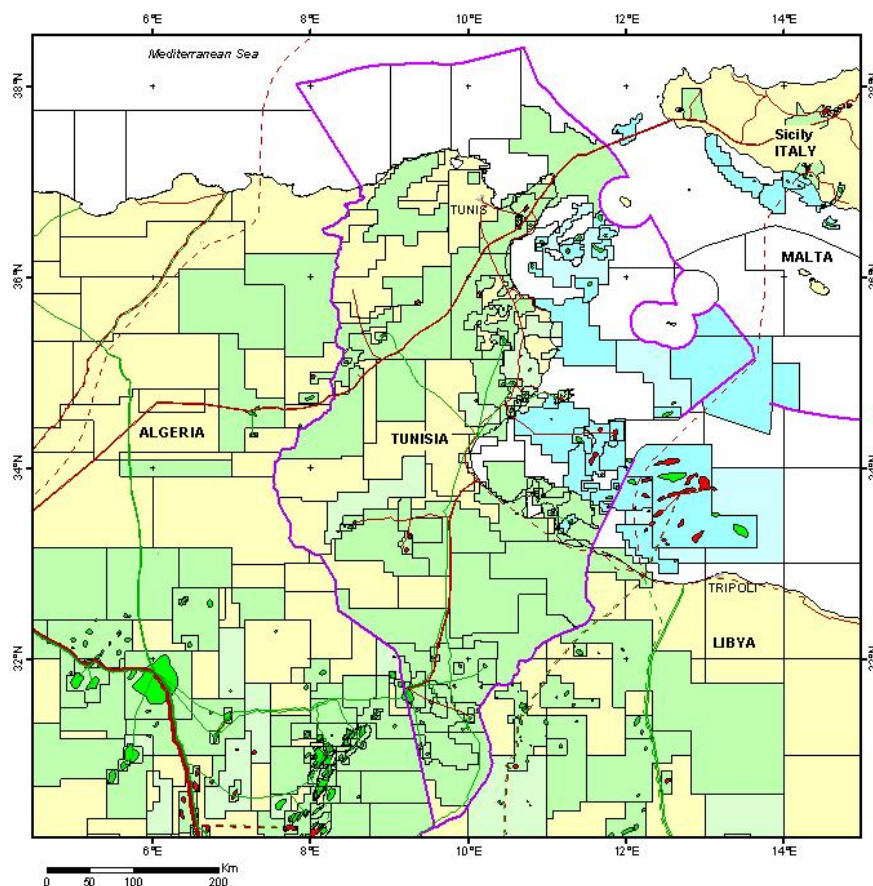
Directors. Other board members of Candax include John Zaozirny, former Minister of Energy of Alberta; Adrian Jackson, professional businessman; John Cullen, co-founder of Candax; and Ben McKeown, Actis Minerals Oil and Gas Team.

Principal Properties

Candax currently operates out of Tunisia with interests in Egypt and Oman. Current production is derived from the acquired Centurion assets (Ezzaouia, El Bibane, Robbana, and Al Manzah fields). Candax also holds a 60% interest in the Chaal Exploration licence (after farming-out a 20% interest to Mitsubishi), which was signed by the Government of Tunisia and ETAP in early April 2005. Opportunities outside Tunisia are expected to expand the company's breadth throughout the region; Candax is currently in negotiations to acquire working interests in two projects in the Gulf of Suez with the potential to add over 20 MMBoe in reserves and 10,000 Boe/d in production. In Oman, Candax's opportunities include the MOG offering and PDO relinquishment with various additional exploration farm-ins available.

Tunisia

Despite some setbacks in earlier E&P activities, hydrocarbons continue to be an important part of the country's economy. Key issues at hand include the increasing deficit of supply versus demand. It is expected that by 2010, the country will lack self-sufficiency in terms of supplying domestic demand. Even today, the supply-demand imbalance is supported by Algerian gas taken in kind as a fee for allowing the TransMed pipeline to traverse the country. Governing bodies have begun to recognize some of these issues and are now encouraging oil exploration and domestic gas consumption. The end result is a renewed emergence of smaller independent E&P's entering the country to pursue exploration. Targets remain in high impact deeper plays, with Tunisia representing one of the best gas markets outside of the U.S. and Western Europe as pricing remains competitive with major markets.

Exhibit 56. Tunisian Licensed Blocks

Source: Wood Mackenzie Upstream Service

Exhibit 57. Tunisian Licence Awards

Basin	Licence	Issue Date	Expiry Date	Area (km ²)	Participants
Chotts Basin	Fawar	Nov-05	Nov-10	4,300.00	Dominion Energy (50%), Geosat (50%)
Chotts Basin	Sud Tozeur (Prospecting)	Feb-05	Feb-07	2,800.00	Cygam Energy (100%)
Chotts Basin	Tozeur (Prospecting)	Sep-05	Sep-07	4,908.00	Al-Thani Emirates Petroleum (100%)
Ghadames Basin	Borj El Khadra Sud	Jul-05	Jul-10	2,096.00	Geosat (33%), Pascal International (67%)
Pelagian Shelf	Bargou (Prospecting)	Jul-05	Jul-07	4,600.00	Cooper Energy (100%)
Pelagian Shelf	Chaal (Prospecting)	Apr-05	Apr-07	1,200.00	Candax (80%), SMIP (20%)
Pelagian Shelf	El Jem	Feb-05	Feb-10	4,224.00	Al-Thani Emirates Petroleum (100%)
Pelagian Shelf	Hammamet Offshore	May-05	Sep-10	4,200.00	Storm Ventures International (100%)
Pelagian Shelf	Louza (Prospecting)	May-05	May-06	4,100.00	MedOil (95%) TGS-Nopec (5%)
Pelagian Shelf	Nabeul (Prospecting)	Oct-05	Oct-07	3,300.00	Robertson Research (100%)
Pelagian Shelf	Sfax Offshore	Jul-05	Jul-09	3,676.00	Eurogas (45%), Gaither Petroleum (55%)
Pelagian Shelf	Sidi Mansour (Prospecting)	Sep-05	Sep-07	6,592.00	Al-Thani Emirates Petroleum (100%)
Southern Tunisian Atlas	Mezzouna	Nov-05	Nov-10	4,700.00	Dominion Energy (50%), Geosat (50%)

Source: Wood Mackenzie Upstream Service, Orion Securities

Operations

Candax's asset base is primarily located in both onshore and offshore Tunisia with near-term additional opportunities for growth in Oman and Egypt. To this point all production has been derived from the Centurion acquisition, with the company's two largest production fields being El Bibane (prior to shutdown) and Ezzaouia.

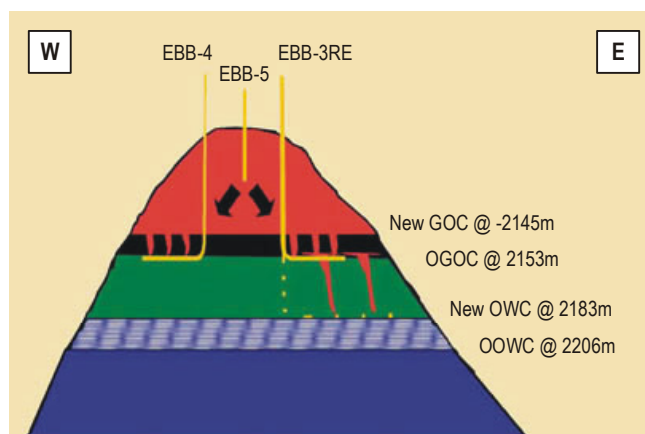
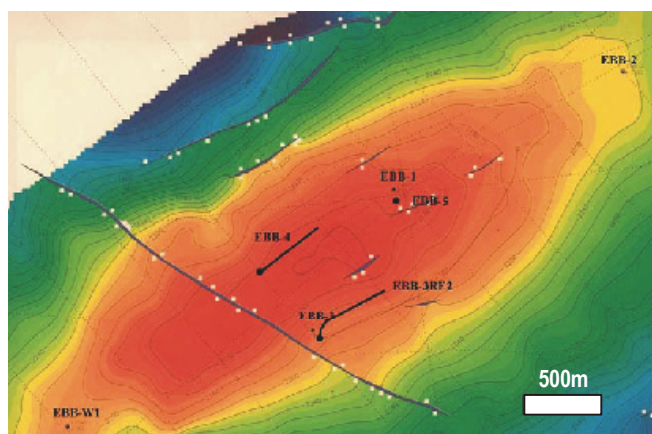
Exhibit 58. Tunisian Assets Purchased from Centurion

Field	Interest %	Net Remaining Reserves (MMBoe)	2004 Average (Boe/d)	2004 Exit (Boe/d)	Net Remaining PV (US\$ millions)	Published Consideration (US\$ millions)
Al Manzah	75.0%	0.20	160	-	1.50	-
El Bibane	73.8%	5.20	969	1,250	15.40	-
Ezzaouia	31.4%	1.40	446	610	4.30	-
Robbana	80.0%	0.1				
Total		6.80			21.20	33.30

Source: Wood Mackenzie Upstream Service, Orion Securities

The El Bibane field (WI 73.8%). Spanning 56,316 acres and located 30 km southeast of Djerba Island in the Gulf of Gabes, the El Bibane field represents one of Candax's key producing properties. Production from the single producing well (El Bibane #3), commenced in March 1998 following the successful re-entry operations and the completion of a pipeline connecting the well to an onshore production facility in Zarzis. At the end of 2004, gross production from the field was 3.1 MMBbl, equating to 762 Bbl/d liquids and 7.3 MMcf/d of natural gas. The area's prospectivity derives from a reservoir interval comprised of dolomites in the Cretaceous Zebbag Formation with oil present as a 50-metre oil rim below a well-defined gas cap. Production is enabled through a single horizontal producer, via an eight-inch flowline connected to an onshore processing facility at Zarzis. A temporary shutdown in production from the El Bibane #3 well due to unexpected corrosion has been remedied, as the corroded parts have now been replaced. The company has also planned a full field development program in order to improve production and recovery of reserves from the field. The program will see the drilling of an additional development well along with the installation of permanent gas lift capability on both wells; the company plans to spud its first well in mid February, with production commencing in April. According to estimates by Ryder Scott Consultants, (December 31, 2004) the El Bibane field has proven plus probable reserves of 1.6 MMBbl of oil and 14.4 Bcf of gas.

Exhibit 59. El Bibane Field

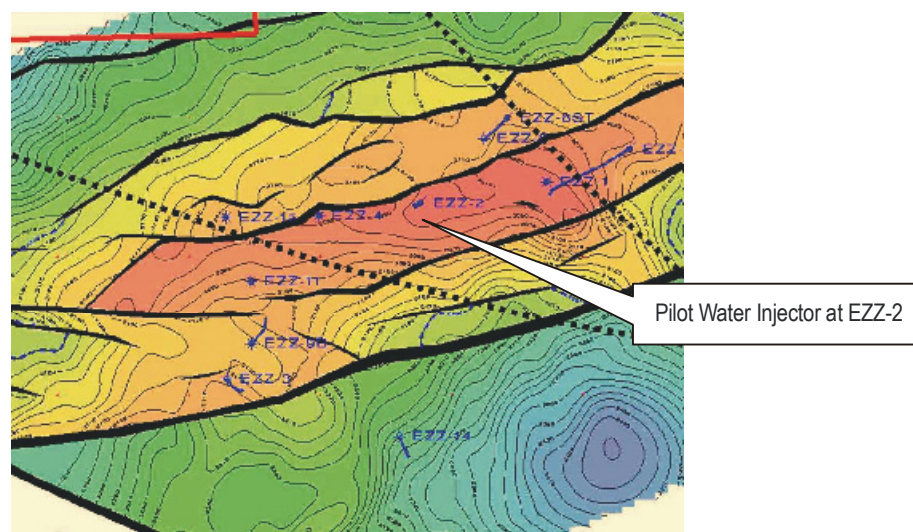


Source: Company reports, Orion Securities

The Ezzaouia field (WI 31.4%). Located onshore in the southern parts of Tunisia, the field was acquired as part of the Centurion deal in April 2005. In 2004, prior to the acquisition, three wells (Ezzaouia 14, 15, and 16) were drilled in this field. The only success was Ezzaouia 15, which tested at 1,500 Bbl/d from 17 metres of pay. Oil and natural gas production from the field is handled at the Ezzaouia processing facility with separated natural gas transported through pipeline to the El Bibane production facility and from there to the SEEB power facility; oil is then transported to the Zarzis Storage Facility. Prospectivity within the field is derived from two productive intervals; the Cretaceous Zeebag dolomite and the lower Jurassic M'Rabine reservoir. Candax and its partners are currently analyzing reservoir studies before commencing on infill drilling and secondary recovery alternatives in the Jurassic. 2004 gross daily production from the field was 1,960 Boe/d (615 Boe/d net) in liquids and 1.3 MMcf/d (0.6 MMcf/d) in natural gas. Candax has announced that a pilot secondary water-flood project will commence in Q1/06, which if successful could lead to a full field secondary recovery program being implemented and a significant upgrade in future reserves.

Candax is also reviewing the potential for drilling the deep Triassic Formation at Ezzaouia. Prospectivity is in the 2.0 Tcf - 3.0 Tcf range. Centurion has retained a right to participate for up to 50% of its former working interest in the Triassic prospects on the Ezzaouia and El Bibane permits.

Exhibit 60. Ezzaouia Triassic Map

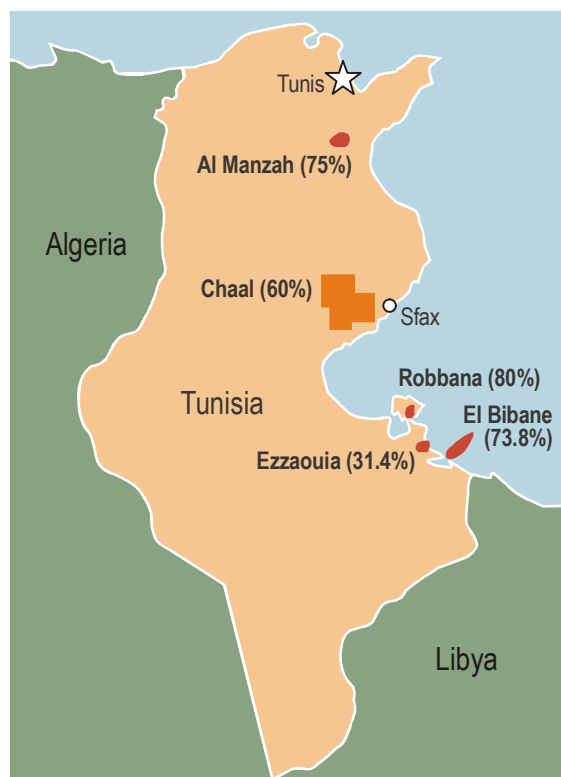


Source: Company reports, Orion Securities

Robbana Concession (WI 80%). The Robanna Concession was granted on November 5, 2005, as part of a formal application between the Tunisian Ministry and Ecumed Petroleum Ltd. Prior to its licensing, oil production from the field was sold to an authorization institution from the Tunisian ministry. The area covers approximately 11,856 acres and is located in southern Tunisia, on the island of D'Jerba. Infrastructure in the area is limited as fluids produced from the field are trucked to a production facility for the El Bibane Concession, with the oil then transported to the Zarzis Storage Facility, where it is sold along with production from the Ezzaouia and El Bibane Fields. Through 2004, production from the single Robbana-1 well, the sole producing well on the concession, was approximately 50 bopd; however, recent workover operations have increased production to 75 bopd (56 bopd net). The concession is estimated to have remaining proven plus probable gross reserves of 81,733 Bbl (77,695 net Bbl) - Ryder Scott, January 1, 2004.

Al Manzah Concession (WI 75%). Located 60 km from Tunis in the Cap Bon Peninsula of northern Tunisia, production from Al Manzah Concession commenced in 1999 until the field watered out in 2004. Workover operations began on the Al Manzah-1 well in Q2/05 with oil flowing through the aid of nitrogen lift assistance. The well was shut-in temporarily before being brought onstream in late December 2005 at a rate of 320 bopd (240 bopd net). Daily production rates have steadily increased and have not yet stabilized. The company estimates net recoverable reserves of 100 MBbl - 200 MBbl of oil may be booked to the concession.

Exhibit 61. Acquired Properties



Source: Candax Energy, Orion Securities

Size of the Prize

Candax exploration potential offers high impact on net asset value. We have computed a base case net asset value of around \$0.98/sh, with the possibility of more than 4x that from Chaal and the Deep Triassic.

Exhibit 63. Current NAV Valuation

Assumptions Post Acquisition	Net Reserves (MMBoe)	Value C\$MM	Y/E 2005 C\$MM
Base Case Acquired Assets (2P Ryder Scott)	5.1	41.2	80.00
Chaal (60 Bcf-2P Glendower Report)	8.0	15.0 (80%)	27.0 (80%)
Cash in Bank		25.0	21.00
Total NAV	13.1	81.2	128.00
Per Share (130.7 MM in Issue)		\$0.62	
Current Candax View (2006 Price Forecast at \$54 Brent)			\$0.98
Fully Diluted			
41.3 MM Warrants @ \$1.20			\$49.6
11.2 MM Options @ \$0.80			\$9.0
Total			\$186.6
Per share (183.2 Million Fully Diluted)			\$1.02
Exploration Upside (\$mm)			
Chaal (1 Tcf)			\$200
Deep Triassic			520
Total (\$MM)			\$720
Per share			\$3.93
Total per Share			\$4.95

Source: Candax Energy, Orion Securities

Markets and Infrastructure

Infrastructure is relatively well developed throughout the country. The Transmed gas pipeline (two 48" pipelines) traverses Tunisia from Algeria to Italy. Domestically, oil pipelines connect fields in the south and central regions of the country with the La Skhira terminal on the Gulf of Gabes. The construction of additional gas pipelines is underway.

The south-north gas trunk line crosses the Chaal permit approximately 15 km from the ABK-1 discovery well, and the domestic market currently has capacity of over 100 MMcf/d. Domestic gas price is fixed to 80% of Mediterranean low sulphur fuel oil prices.

SEEB Power Plant (WI 50%)

In addition to the acquisition of producing assets through the Centurion acquisition, Candax also acquired an interest in the SEEB power plant. The SEEB power plant was completed in May 2003 under a joint development plan with Centurion and Caterpillar Power Ventures (CPVI). The plant consists of two new Solar Titan gas turbines and is powered by gas from the adjacent El Bibane and Ezzaouia fields. Gas supplied from these fields is compressed and transported via pipeline. The plant cost approximately US\$30 million and is capable of generating 27 megawatts of power per hour. This power is sold to the Tunisian national power company, La Société Tunisienne d'Électricité et du Gaz (STEG), under a long-term power purchase contract.