

Equity Research

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SPECULATIVE BUY

CAX : TSX : C\$0.74

TARGET PRICE: C\$1.50

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Energy, Oil and Gas

Candax Energy Inc.

An emerging E&P company trading at a discount to NAV

Harvesting cash while exploring for growth

Candax Energy Inc. is a newly listed international exploration company that is positioning itself for significant growth. Within eight months of its creation, Candax announced the acquisition of producing assets in Tunisia, providing a production and cash flow base to support the build out of an exploitation and exploration portfolio focused on opportunities in North Africa and the Middle East. In April, 2005, Candax augmented its Tunisian assets when it was awarded an 80% interest in the undeveloped Chaal Permit.

Proven, experienced, international management team

Each of Candax Energy's seven-person senior management team has more than 20 years experience. The breadth and depth of management is expected to enhance the chances of success in negotiating new exploitation/exploration concessions. Specifically, Candax is investigating significant new opportunities in Egypt and Oman.

Existing assets have significant upside

While its producing properties are relatively mature, significant exploration opportunities exist. At both Ezzouia (31.4%) and El Bibane (73.8%), a deeper Triassic structure, if successful, would have the potential for a multi-Tcfe discovery. On its Chaal Permit (80.0%), which is expected to commence drilling before year-end, Candax estimates unrisks potential of up to 844 Bcf in the smaller of two structures.

Valuation and recommendation

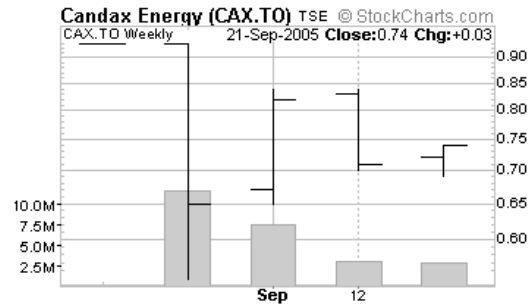
We estimate Candax's current NAV per share is approximately \$0.99 fd. Exploration upside, risked by a chance of success averaging 15.0% could add a further \$0.63 to NAV. With Chaal drilling before year-end, we anticipate increased speculative interest. We are initiating coverage with a SPECULATIVE BUY rating. Our target price of \$1.50 reflects our current NAV plus an estimate of risked exploration upside.

For important information, please see the Important Disclosures section at the back of this document.

Company Statistics

Recommendation: **SPECULATIVE BUY**
 12-month target price: C\$1.50
 Price: C\$0.73M
 52-week Range: C\$0.64-0.82
 Avg. Daily Vol. (000): 1,011,068
 Market Capitalization (M): \$96.7
 Shares Out. (M) basic: 130.7
 Shares Out. (M) fd: 183.1
 Net Debt: (11,206)
 Website: www.candax.com

Price Chart



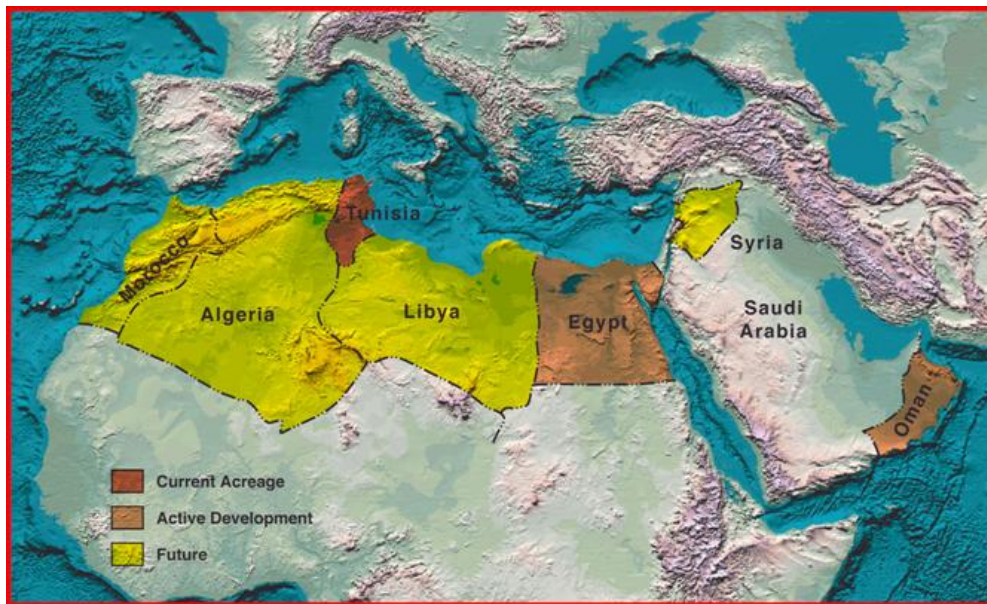
Earnings Summary

FYE Dec	2005E	2006E
Equivalent Production (boe/d):	1,757	2,320
EPS (FD):	\$0.02	\$0.05
P/Operating EPS:	38.7x	13.4x
CFPS (FD):	\$0.09	\$0.16
P/CF:	8.1x	4.6x

Company Description

Candax Energy Inc. is a newly listed oil and natural gas company. Founded in June 2004, Candax presently has operations in Tunisia and looks to expand in the Middle East and North African market. With an experienced internationally based management team, inclusive of Michael Wood, President and CEO, John Clarke, Executive Vice President and Chris Hopkins, CFO; Candax is primed for growth.

Figure 1: Candax focus areas



Source: Candax Energy Inc.

CORPORATE PROFILE

Candax Energy Inc. (“CAX”, “Candax”, or the “company”) was incorporated on June 4, 2004 under the name “Addax Energy Inc.,” and subsequently changed its name to Candax later that month. Candax is a Toronto-based oil and natural gas company engaged in the exploration and production of natural gas and crude oil internationally. The company’s primary focus is in North Africa and the Middle East.

Key events since incorporation include the following:

- September, 2004 – Agreement with Tunisian joint venture partner, SMIP (a local Tunisian company) to jointly pursue regional oil and gas opportunities.
- October/November, 2004 – Private placements of \$987,000 and \$3,351,730
- February, 2005 – Agreement signed to acquire Centurion’s Tunisian assets.
- April, 2005 – Grant of PSA and prospect license for the Chaal Permit (80.0%).
- April, 2005 – Private placement of \$66,000,000.

On April 26, 2005 Candax completed the acquisition of the majority of Centurion’s Tunisian assets for \$43.7 million dollars. These assets included the El Bibane (WI 73.8%), Ezzaouia (WI 31.4%), Robbana (WI 80.0%), Al Manzah (WI 75.0%) fields, and the SEEB power plant (50.0%). Via continuous development, these properties give Candax the ability to sustain a reasonable level of cash flow while exploring new areas in its core focus region in North Africa and the Middle East.

The company’s five-year goal is “to build a world class, full cycle, exploration and production company, combining a strong production base with an emphasis on exploitation upside and associated exploration potential.” With a strong balance sheet, a base of cash flow, and experienced management focused in areas of previous expertise, we believe Candax is well positioned to execute on its five-year plan.

MANAGEMENT

Each of Candax Energy's seven-person senior management team has more than 20 years of knowledge in Exploration and Production of oil and gas overseas. As summarized below, senior industry positions have been held by Candax executives in core disciplines in both major and independent oil and gas companies. The breadth and depth of management is expected to enhance the chances of success in negotiating new exploitation/exploration concessions. Specifically, Candax is actively investigating significant new opportunities in Egypt and Oman.

Michael I.T. Wood – President and CEO

Michael Wood has 20 years of experience as an energy professional in the international oil and gas industry, based out of the UK. He has worked with both large multi-national and small independent companies. Mr. Wood worked with Conoco Inc. for ten years in exploration and development of Europe and North Africa properties. Mr. Wood has also worked in senior positions as a director, chief executive officer and a president of several independent, public exploration and production companies, one of which was Heritage Oil Corporation.

John A. Clarke – Executive Vice President, Corporate

John Clarke has 30 years of international oil and gas industry and capital markets experience. This experience includes 18 years of exploration and production experience within the Texaco group of companies and eight years in the capital markets as a Vice President and Senior Oil & Gas analyst with Deutsche Bank and Octagon Capital Corporation. John Clarke built and managed the Canadian oil and gas research group for Deutsche Bank Securities and was ranked top North American Oil & Gas analyst in 2003 and 2004 by Forbes/Starmine.

Christopher J. Hopkins – Chief Financial Officer

Christopher Hopkins has 18 years of experience in financial management, strategic planning, M&A, corporate finance and financial and management reporting. His experience includes such companies as Suncor Inc., CIBC and Rio Algom Limited. He received his Bachelor of Commerce degree from the University of Toronto, his Chartered Accountant designation from the Canadian Institute of Chartered Accountants and his MBA from the Schulich School of Business at York University, where he was awarded a gold medal for academic achievement.

Donald Munn – Executive Vice President, Business Development

Don Munn has 22 years of industry experience in the managerial, commercial and technical aspects of the exploration and production industry. His experience was gained from senior positions at Royal Dutch Shell, Energy Resource Consultants and Atlantis Technology Ltd. In 1996, he became Vice-President and a founding executive of Atlantis Holdings, an exploration and production company operating in the Arabian

Gulf and North Africa. SinoChem Corporation acquired Atlantis in early 2003. Don Munn's expertise is highlighted in carbonate reservoir interpretation, production and exploration geo-science, and field development and joint venture execution.

David C. Wilson – Executive Vice President, Technical Member

David Wilson has over 30 years experience in the upstream oil and gas industry gained at board and senior technical levels. David Wilson was President and a founding shareholder of Atlantis Holding, an independent oil and gas exploration and production company based in the Arabian Gulf that was sold to SinoChem. He founded Energy Resource Consultants in 1977, a company that provided independent reserve evaluations and advice to the UK government, the majority of North Sea operators and UK based multinationals and independents.

Keith D.M. Howells – President of Tunisia Operations

Keith Howells has approximately 30 years experience in the oil industry, of which 25 years have been spent working internationally. Mr. Howells since January 2000 has been the President and General Manager of each of the acquired companies under Centurion's oversight and he remains in this position with Candax. Mr. Howells' intimate knowledge of the Centurion assets is considered an intangible asset to Candax.

Alexander A. Kulpecz – Member, Technical Committee

Alexander Kulpecz has over 25 years experience as a geologist with large international oil and gas companies. He is currently President of The Omega Group, a consultancy group of senior executives that provides consulting and managerial support to private equity, banking and energy clients. While Executive Director of Shell International Gas, Power and Coal, he led the re-organization of a global exploration and production business. Mr. Kulpecz also has experience in upstream oil and gas business as the chief petroleum engineer for various fields in Al-Furat, Damascus and the North Sea.

DIRECTORS

Candax has acknowledged the need to for strong Corporate Governance and relies upon external Directors and an advisory council. At the board level, management Directors includes Michael Wood and John Clarke. Candax's three outside Directors are highlighted below.

John R. Cullen - Director

Mr. Cullen brings a high degree of experience in a Director roll. Suiting up regularly as the director of a number of public resource companies including CGX Energy Inc. from 1997 to present, Dumont Nickel Inc. from 2002 to present, Quincy Energy Corp. from 2004 to present, HMZ Metals Inc. from 2003 to present, Garrison International Ltd, from 2004 to present, and Vena Resources Inc. from 2004 to present, Mr. Cullen addition to this team is a benefit.

Adrian Jackson - Director

Mr. Jackson is an equity Analyst for Investec Asset Management Limited since September, 2004. His experience in the capital markets includes Corporate Finance, Standard Bank (a securities dealer) from March 2004 to August 2004; Chief Financial Officer of Atlantic Energy Services Ltd. From 2001 to 2004; and Vice President, Corporate Finance with JP Morgan Chase (a securities dealer) from 1995 to 2001.

John B. Zaozirny - Director

John Zaozirny has been Counsel to the law firm of McCarthy Tétrault LLP since 1987 and Vice Chairman of Canaccord Capital Corporation since 1996. He is a Director and strategic advisor to a number of public and private corporations, and a Governor of the Business Council of British Columbia. He served as Alberta's Minister of Energy and Natural Resources from 1982 to 1986, having first been elected as a Member of the Alberta Legislature in 1979. He also served as Chairman of the Cabinet Committee on Economic Development, the Chairman of the Private Bills Committee and as Alberta's Energy Minister.

EQUITY CAPITAL AND MAJOR SHAREHOLDERS

Candax was incorporated on June 4, 2004. From inception to September 22, 2004, without any significant assets or operations, the company issued 24.3 million shares to founding shareholders as seed capital for nominal consideration. As the management team was being put into place and potential prospects were being identified, Candax issued a further 23.8 million shares for proceeds of approximately \$4.4 million.

On February 28, 2005, the company announced the proposed acquisition of assets in Tunisia from Centurion Energy for \$41.2 million plus working capital adjustments. Funding for the major acquisition was comprised of a private placement of 82.5 million subscription receipts at a unit price of \$0.80. Each subscription receipt was convertible into one common share and one-half of a common share purchase warrant, exercisable until April 14, 2006 at a strike price of \$1.20 per share. Candax commenced trading on the Toronto Stock Exchange August 29, 2005 under the symbol "CAX." Today, the company has 130.7 million common shares outstanding, 41.3 million share purchase warrants and 11.2 million options.

Actis, a leading private equity investor in the UK, is the largest shareholder of Candax with a 29.0% shareholding. Actis acquired its ownership in the major financing to acquire the Centurion assets under the same terms as other private investors. Currently Actis is allowed to nominate two representatives as directors, which decreases to one representative, should its ownership fall below 10.0%. Managers and Directors own 7.4 million shares, while employees and consultants own 3.8 million. All shares to these individuals (including Actis) fall under escrow arrangements whereby 20.0% of the shares were released upon final prospectus receipt and the balance, on an annual basis over the next four years.

TUNISIA OVERVIEW

Located in the Arab Magreb (North Africa) zone, Tunisia has a stable government that has shown strong and consistent GDP growth of 5.0% since 1997. Tunisia has a Democratic legislative body in place (minimum 20.0% opposition), currently presided over by President Zine al-Abidine Ben Ali, leader of the Constitutional Democratic Assembly (RCD).

In recent years, the Tunisian government has become more supportive of issues facing oil and gas operators as the country's oil production, which peaked in the 1980s at 120,000 b/d, has now declined to approximately 75,000 b/d, representing a reserve life of 11 years. In 2000, Tunisia became a net oil importer and as a result, the government reformed its Hydrocarbon law, allowing for more favourable investment terms. In addition, state owned companies Societe Tunisienne des Industries de Raffinage (STIR) and Enterprises Tunisienne D'activites Petrolieres (ETAP) have been willing to negotiate more favourable permit terms. ETAP is presently working to attract companies such as Candax Energy Inc. with experience in the country to fund exploration of its smaller fields.

The Tunisian government has also been pro-active in external trade issues. Traditionally high tariffs, designed to protect domestic interests, were lowered in 1998 through an association agreement with the European Union. Since then, the Tunisian government has worked to strengthen relationships with its North African neighbours. One initiative has been the establishment of a free trade zone with partners Egypt, Jordan, and Morocco. Expansion to encompass 10 Arab nations in the Great Arab Free Trade zone is currently expected in 2010.

OPERATIONS

MAJOR PROPERTY REVIEW

Candax Energy's oil and gas assets are located in Tunisia and its primary growth focus is directed toward opportunities in North Africa and the Middle East. Current production for FY05 is estimated to average 1,757 boe/d, consisting of 1,025 b/d of oil and net sales of 4.4 mmcf/d of natural gas. Development drilling at El Bibane is expected to result in an increase in production to an average of 2,320 boe/d in FY06. In early April 2005, Candax was awarded an 80.0% interest in the 296,525 acre Chaal Permit, a large unexplored area in central Tunisia where Candax has identified two large gas/condensate prospects. The first well at Chaal is anticipated to commence drilling by year-end 2005.

The following provides of review of the major properties acquired from Centurion in April, 2005 and the Chaal Permit negotiated and signed by Candax. All the assets are in Tunisia and include the following properties: El Bibane (73.5% WI), SEEB power plant (50.0% WI), Ezzaouia (31.4%), Robbana (80.0% WI), Al Manzah (75.0% WI), along with existing production facilities and local Centurion operating personnel and the Chaal Permit (80.0% WI). Candax has also identified two deep Triassic structures that would have multi-Tcfe potential upon success.

El Bibane Concession

In 1984, Ecumed Petroleum Tunisia (operator) and several other companies contracted out the "El Bibane" concession authorizing the management, development and production for a 30-year term. Covering an area of 56,316 acres, the concession is located 18 kilometers off the east coast of Tunisia in the Gulf of Gabes (Tunisia's most robust oil resources area). Candax has a 73.8% working interest and until January 2014 has the right to produce hydrocarbon resources from the block. Current production (August) is approximately net 530 b/d and 3.7 mmcf/d, representing 69.0% of total current production. In a recent routine maintenance check El Bibane 3, the sole producing well in the El Bibane field, unexpected corrosion was noticed and the well was temporarily shut in. Candax expects a workover to be completed and production to resume to previous levels by late September. The loss represents less than 1% of expected average production for the year.

Future work anticipated by Candax, includes drilling of a new horizontal well on the northwest flank of the concession and the addition of an artificial lift in EBB-3. (nitrogen lift tested and flowed clean oil). Management believes that these initiatives should more than double net production to 975 b/d in FY06 from an expected 475 b/d of average production in FY05.

Figure 2: El Bibane structure map



Source: Candax Energy Inc.

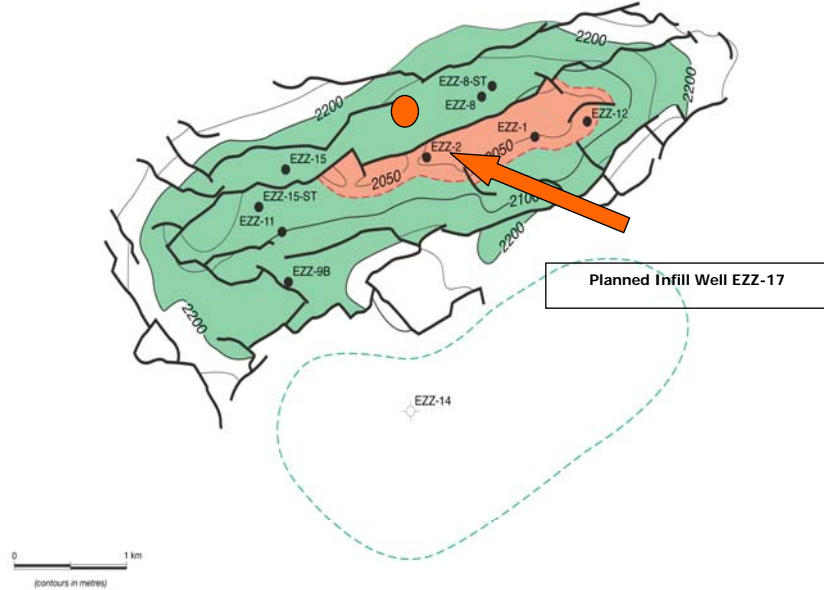
SEEB Power Plant

The SEEB power plant uses gas previously flared from the El Bibane and Ezzaouia fields and is a 50/50 joint venture project between Candax Energy Inc. and Caterpillar Power Ventures. The power plant, which commenced operations in May of 2003, was included in the purchase of the assets from Centurion. Consisting of two Solar Titan gas turbines in a simple cycle operation, SEEB produces 27 MW/hour of electricity, and Candax shares in the power generation revenues.

Ezsaouia Concession

Comprising an area of approximately 9,880 acres, Candax has a 31.4% participating interest in the Ezzaouia property. Presently the second largest producing property, Ezzaouia is currently producing (August) approximately net 425 b/d and 0.5 mmcf/d. Total remaining net reserves in the area are approximately 1.2 mmbbls and 1.2 Bcf, providing a reserve life index of approximately 7.7 years. This field presently has six wells in production. Candax intends to continue with further infill drilling in this Concession and is presently in the process of undertaking reservoir studies to ensure the resources are properly exploited and to examine possible secondary recovery options in the Jurassic.

Figure 3: Ezzaouia Structure map

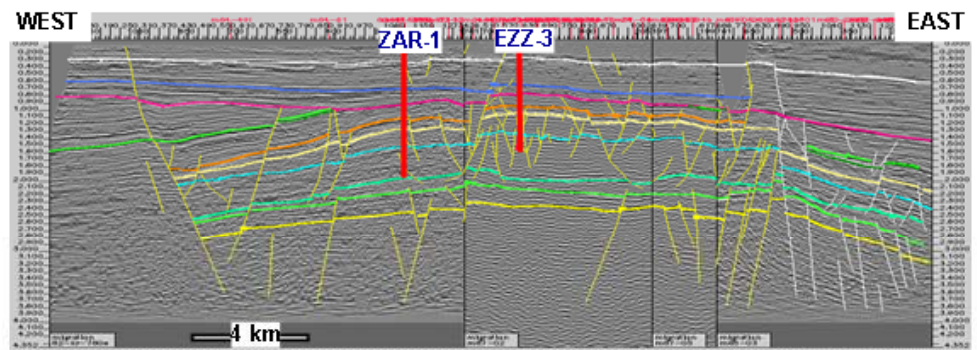


Source: Candax Energy Inc.

Deep Triassic Potential

Ezzaouia and El Bibane each have deeper gas potential. Candax and its partners are studying the potential to drill two large prospective Triassic structures, one onshore and another offshore. Both prospects have encountered up-hole gas zones and both have multi-Tcf potential. Centurion Energy still has the right to elect to participate in up to 50.0% of Candax's working interest in this play. Below is the seismic that shows the TAGI formation, the potential deep Triassic target below the Ezzaouia field.

Figure 4: Deep Triassic potential



Source: Candax Energy Inc.

Robbana Concession

Located in Southern Tunisia, Candax acquired an 80.0% working interest and operator status for this field when the company purchased its Tunisian assets from Centurion. Situated on 11,856 acres of land, Robbana is located in the southeast of the country on the island of Djerba. Currently this field is producing 40 b/d and had an estimated 40,000 (net after royalty) bbls of remaining proven reserves.

Al Manzah

Presently watered out and shut in as of late 2004, Candax has a 75.0% working interest in this property, located 60 kilometers from the city of Tunis on approximately 6,918 acres. Candax believes that following a successful work-over in August, the installation of artificial lift could result in net production of approximately 300 b/d being restored in Q4/05.

Chaal Permit

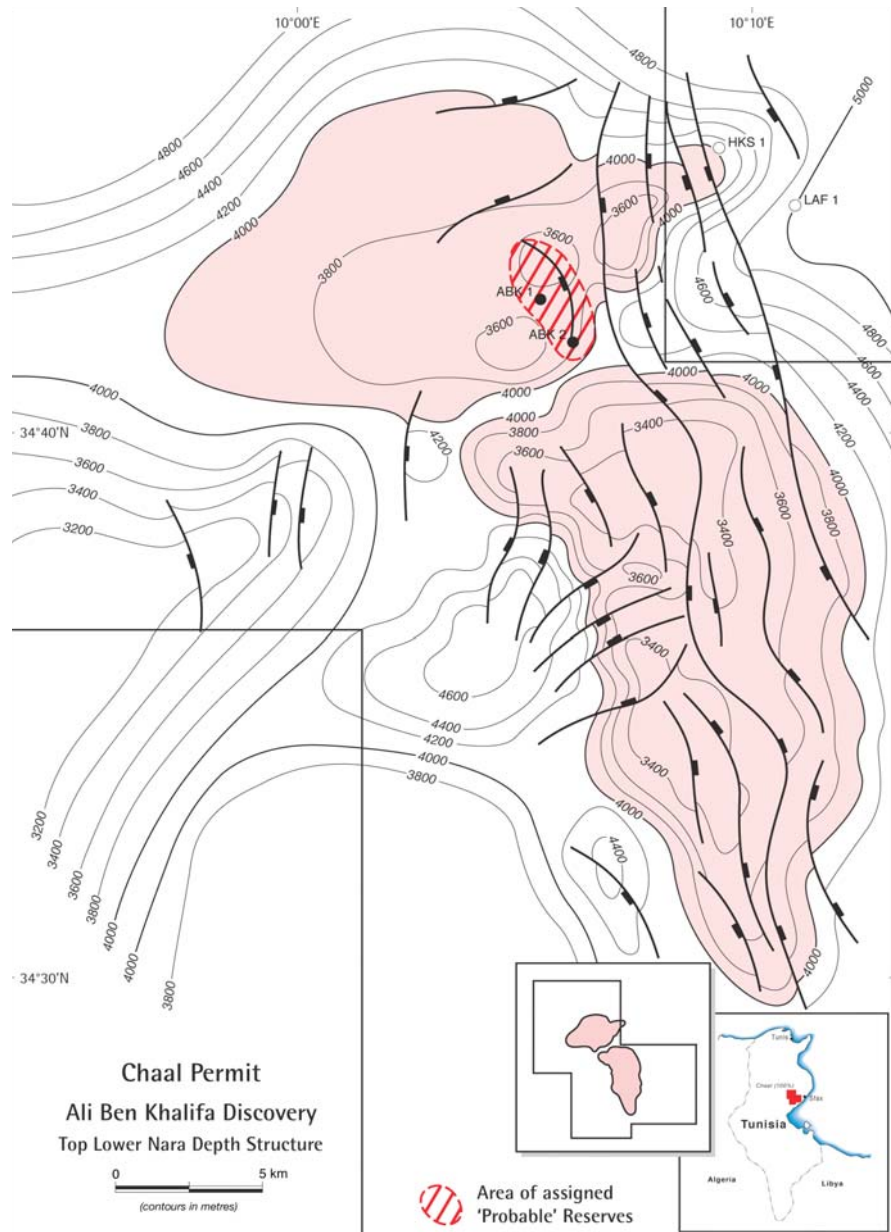
At Chaal, Candax has an 80.0% working interest under a production sharing contract (“PSC”) with ETAP. The contract, awarded in March of 2005 covers 296,525 acres and has a history that supports its potential. The property is a gas play with gross working interest probable gas reserves of 48 Bcf and gross probable condensate reserves of 1,454 mmbbls, as per the evaluation done of the Ali Ben Khalifa (“ABK”) discovery by Glendower International Limited. This report also estimates gross working interest 3P reserves of 675 Bcf for the northern structure and prospective resources of 911 Bcf for the southern structure. No wells have been drilled in the southern structure.

Three wells have been previously drilled on the property, ABK-1 in 1963 was tested with positive results from several zones, testing at rates up to 3 MMcf/d and condensate at rates between 25 and 80 bbls/mmcf from the Lower Nara formation of the Jurassic. ABK-2 showed a similar pattern on logs, but was not tested. The unrelated Hachichina-1 was drilled in 1986 and was dry.

In order to convert the permit to an exploration permit, Candax must conduct a work program before June 14, 2007, consisting of a minimum 90 km² of 2D seismic at a cost of approximately US\$1.0 million. Upon conversion to an exploration permit, the minimum work commitment would comprise the drilling of one exploration/appraisal well during each of an initial four-year period and two subsequent two-year periods. The estimated cost of a 4,500 metre exploration/appraisal well is US\$8.0 million. In the event of a discovery, capital costs would be recoverable (based on the PSC agreement) and production would be shared on a sliding scale basis reaching a maximum of 45.0% and 55.0% for oil and gas, respectively. Chaal offers greater than 1 Tcf of upside to our valuation of Candax.

Please see Figure 5 for a structure map of the Chaal Permit. The hatched area is aerial extent of currently assigned probable reserves of a gross 60 Bcf (48 Bcf net working interest to Candax).

Figure 5: Chaal Structure map



Source: Candax Energy Inc.

RESERVES, LAND AND ASSET VALUATION

On acquisition, Ryder Scott evaluated Candax's acquired assets and determined a reserve value in compliance with NI 51-101 standards and the COGE Handbook. In April of 2005, Glendower International Limited evaluated the Chaal permit and did so under the standards contained in the COGE Handbook as well. These evaluation(s) were based on year-end reserves and a price forecast that started at approximately US\$40.00/b Brent, declining to US\$28.00/b. A summary of the combined reserves, as of December 31, 2004 appears in Figure 6.

On a pro-forma basis, Candax year-end combined reserves were 4.3 mmb oil natural gas liquids (NGL) and 61.7 Bcf of natural gas, with a 10.0% net present value before tax of \$54.6 million. Approximately three-quarters of the value are associated with the acquired proven and probable reserves from Centurion, of which over 60.0% is attributed to proven reserves. Candax has significant probable gas reserves of 48 Bcf for the Chaal permit, which by itself represents 25.0% of the overall combined reserve valuation. We would note that while the gas reserves in the acquired assets have nominal value due to the contractual relationship to supply the SEEB power plant, the Chaal permit gas would receive a "domestic price" related to low sulphur residual fuel oil, which at current Brent oil prices is in excess of US\$5.50 per mcf.

Figure 6: December 2004 Reserves, Ryder Scott and Glendower reports

	Oil & NGL		Natural Gas		Pre Tax
	Gross mstb	Net	Gross mmcf	Net	10% NPV M\$
Tunisia - Acquired					
Proved Developed Producing	953	866	2,486	2,155	17,737
Proved Developed Non-producing	32	29	23	19	382
Proved Undeveloped	1,043	988	4,684	4,283	6,999
Total Proved	2,028	1,883	7,193	6,457	25,118
Probable Additional	1,072	958	8,534	7,219	14,421
Proved and Probable	3,100	2,841	15,727	13,676	39,539
Tunisia - Chaal Permit					
Proved Developed Producing	0	0	0	0	0
Proved Developed Non-producing	0	0	0	0	0
Proved Undeveloped	0	0	0	0	0
Total Proved	0	0	0	0	0
Probable Additional	1,454	1,454	48,000	48,000	15,042
Proved and Probable	1,454	1,454	48,000	48,000	15,042
Company Total					
Proved Developed Producing	953	866	2,486	2,155	17,737
Proved Developed Non-producing	32	29	23	19	382
Proved Undeveloped	1,043	988	4,684	4,283	6,999
Total Proved	2,028	1,883	7,193	6,457	25,118
Probable Additional	2,526	2,412	56,534	55,219	29,463
Proved and Probable	4,554	4,295	63,727	61,676	54,581

Source: Company reports

We have remodeled the reports under two different price scenarios, one that starts at US\$55.00/b and a second that starts at US\$65.00/b for the next three years. The comparative price forecasts are shown in Figure 7, below.

Figure 7: Oil price sensitivity case assumptions

	2005	2006	2007	2008	2009	2010
Base Case - Ryder Scott, Glendower*	\$40	\$36	\$33	\$32	\$31	\$30
\$55 Case sensitivity	55	54	50	45	42	40
\$65 Case sensitivity	65	65	65	45	42	40

Source: Company reports, Canaccord estimates

Candax acquired its assets in Tunisia on the basis of the Ryder Scott year-end valuation using the base case oil price highlighted above. Our sensitivity cases are meant capture the incremental value due to the dramatic increase in oil prices since year-end. Moreover, the acquired assets are relatively mature and in decline, and as a result, the impact of higher near-term oil prices has a significant impact on the value of Candax properties. Figure 8, provides our estimate of the impact of running our \$55.00 case and \$65.00 case on the value of Candax's oil and gas properties. We have run our sensitivity based on varying the price assumptions only, leaving other assumptions unchanged as per the engineering reserves reports of Ryder Scott and Glendower.

Figure 8: Reserve Valuation Sensitivity – NPV@ 10% before tax (thousands of dollars)

	Base	US\$55/b	US\$65/b
Acquired Assets*	\$41,200	\$72,463	\$88,047
Chaal Permit	15,042	30,548	33,477
Total oil and gas	\$56,242	\$103,010	\$121,524

* Acquired assets base case represents acquisition costs plus closing adjustments
Source: Company reports, Canaccord estimates.

Candax's asset leverage to a change in prices is significant compared to the base case price scenario upon which the acquired assets were purchased. Under our \$55.00/b scenario, the asset value increases by almost \$50.0 million, and more than doubles under a \$65.00/b case. The impact on our net asset value is summarized in Figure 9.

Figure 9: Net asset value and asset value sensitivity

Net asset value calculation	Base	US\$55/b	US\$65/b
Proven Reserves Value, pre tax, disc. at 10% (\$mm)	\$26,779	\$49,621	\$62,367
Probable Reserve Value, pre tax, disc. at 10%(\$mm)	29,463	53,390	59,157
Value of oil and gas assets	\$56,242	\$103,010	\$121,524
Cash	\$25,000	\$20,000	\$20,000
Warrant proceeds	\$49,500	\$49,500	\$49,500
Option proceeds	\$8,800	\$8,800	\$8,800
Net asset value	\$139,542	\$181,310	\$199,824
Per Share (basic)	\$0.62	\$0.94	\$1.08
Per Share (fd)	\$0.76	\$0.99	\$1.09

Source: Company reports, Canaccord estimates

Under our US\$55.00/b declining oil price case assumption, we estimate Candax net asset value per share to be \$0.99(fd). The dilution accounts for the exercise proceeds from warrants and options. We believe this represents a reasonably conservative proxy for its net asset value under the current price environment. Under our US\$65.00/b case, we estimate Candax net asset value to be \$1.09(fd). At its current trading price of \$0.74 per share, Candax is trading at a discount of 25.0-30.0% of its NAV based on our sensitivity analysis. Perhaps more importantly, about 43.2% of the company's fully diluted NAV is comprised of cash and warrant/options proceeds, with no valuation given for the upside potential of its deeper Triassic prospects at El Bibane and Ezzaouia or the ultimate potential of the Chaal Permit.

UPSIDE TO OUR NET ASSET VALUATION

The upside to our NAV for Candax will come from successful exploitation of the existing opportunities on its assets in Tunisia and potential from expanding its opportunities and investing its cash and cash flow into new areas. In the near-term, Candax plans to drill its first well on the Chaal prospect prior to year-end. Upside at Chaal is significant and would have both a meaningful impact on our net asset value as well as providing a potential new source of cash flow. The Glendower report indicated a gross 3P potential on the Chaal permit of 844 Bcf, compared to its assigned reserves around the ABK-1 discovery well of 60 Bcf proven and probable.

We have attempted to quantify the potential upside to our NAV through successful exploitation at Chaal and in the deeper Triassic horizons at Ezzaouia and El Bibane. Estimates of the potential from the latter two prospects are in the multi-Tcfe range. Figure 10 provides a risked and un-risked potential impact on our fully diluted NAV. We have arbitrarily assigned a chance of success (COS) ranging from 10.0-50.0% with an average for the overall prospects of 15.0%. Our results indicate that existing prospects have a risked potential to add \$0.63 to our NAV and an un-risked potential of just over \$4.00 per share. It should be understood that while we attempt to risk pre-drill reserve estimates by a chance of success, the actual reserve results following drilling might also prove to be different. In any event, it is evident that Candax has prospects that could have a material impact on its current net asset value, and that the first of these prospects at Chaal will commence drilling prior to year-end. The first deep test of the Triassic at Ezzaouia could occur in the first half of 2006, dependent on rig availability.

Figure 10: Upside potential to NAV from existing prospects

Prospect	Unrisked Value (mm\$)	COS(%)	Risked Value (mm\$)	Unrisked per (fd) share	Risked per (fd) Share
Chaal incremental to 190 Bcf	41	50.0%	20	0.21	0.11
Chaal incremental 190 to 844 Bcf	223	20.0%	45	1.15	0.24
Deep Triassic**					
Ezzaouia (31.4%), 2.5 Tcfe	153	10.0%	15	0.79	0.08
El Bibane (73.8%), 2.5 Tcfe	360	10.0%	36	1.86	0.20
	776	15.0%	116	4.02	0.63

* Assigned a value of US\$2.00/b compared to Glendower Chaal 2P value of US\$3.25/boe,

** Assumes that Centurion exercises its right to participate to 50%

Source: Company reports, Canaccord estimates

ESTIMATE OF OPERATING AND FINANCIAL RESULTS

Candax acquired its oil and gas producing assets effective January 1, 2005. The transaction closed April 26, 2005, and adjustments to the purchase price from the effective date were made. Consequently, Candax's second quarter report included revenues and expenses from its newly acquired oil and gas operations for two months of the quarter. Our full year 2005 forecasts are not pro-forma from the effective date but instead reflect the first half reported results, which had minimal operating revenues or expenses. Candax financial results will also vary significantly on a quarter-to-quarter basis as the company records revenue receipts from oil not when it was produced, but when the crude is sold from storage. Liftings occur when port storage facilities at Zarzis are full and consequently depend on production levels and domestic market sales requirements. It is important to realize that until the company develops an additional producing area, quarterly results are going to be volatile, however as long as production levels are met, cash flows will eventually match. We expect this will take some getting used to by analysts and the market.

We have based our forecast production volumes and operating cost assumptions on engineering reports of Ryder Scott. Annualized 2005 production is expected to average 1,757 boe/d and increase by approximately 30.0% to 2,320 boe/d in 2006. The increase is driven by drilling an additional development well at the El Bibane field along with the installation of artificial lift to the existing producing well. The timing of drilling will depend upon rig availability, but is currently expected in the first quarter of 2006.

Candax receives Brent related prices for its crude oil, less a discount of approximately US\$2.50/b. Our financial forecasts assume a WTI price of US\$57.50/b (Brent US\$55.70/b) for 2005 and WTI of US\$60.00/b (Brent US\$58.20/b) for 2006. Natural gas prices are nominal at approximately US\$0.36/mcf, as Candax current gas sales are exclusively dedicated to the SEEB power facility (50.0% Candax).

Operating costs for Candax's first full year of production in 2006 is forecast to average \$5.08/boe, representing a reasonably competitive cost structure. General and administrative (G&A) costs of approximately \$6.00/boe, however, are high relative to its current production base. In addition, we surveyed a peer group of 11 exploration and production companies with market capitalization in the \$100.0 to \$150.0 million range and calculated an average current G&A cost of \$4.34/boe. We would note, however, that none of these companies had international operations. Moreover, Candax does expect to grow into its G&A costs and should the Chaal permit yield a gas discovery there will be a substantial reduction in unit costs for both G&A and operating expenses.

Candax has indicated its capital spending plans would approximate \$23.0 million in each of 2005 and 2006. We have assumed that only \$18.0 million is actually spent this year and shifted the additional expenditure to 2006, which allows for delays in procuring services and rigs in what is currently a tight oil field services market. The

company's balance sheet is strong, with cash exceeding current debt levels. The existing debt is non-recourse, and is associated with and serviced by electricity sales from the SEEB power facility.

Figure 11 summarizes our financial projections and valuation metrics. We would note that our fully diluted estimates assume the exercise of the 41.3 million existing warrants by April 14, 2006 at their strike price of \$1.20. However, should the warrants not be exercised, our forecast still indicate the company would be in a net cash position at the end of 2006 and fully able to fund its capital programme through cash flow from operations.

Figure 11: Estimates Summary

Share Information				
Current price	0.74	Market cap (\$M)	\$96.7	
Shares O/S – basic (M)	130.7	Net debt/(cash) (\$M)	(\$11.2)	
Shares O/S – float (M)	93.2	Enterprise Value (\$M)	\$85.5	
Shares O/S – fd (M)	183.1	Avg. Daily Volume (M)	1.0	
Operating Highlights		2004A	2005E	2006E
Oil & NGLs (b/d)		NA	1,025	1,594
Gas (mmcf/d)		NA	4.4	4.4
Total (6:1 boe/d)		NA	1,757	2,320
% Natural Gas		NA	42%	31%
Y/Y Growth per share		NA	na	32%
Financial Highlights		2004A	2005E	2006E
Cash flow (\$M)		(\$0.4)	\$10.6	\$29.7
CFPS (basic)		(\$0.10)	\$0.14	\$0.19
CFPS (fd)		(\$0.10)	\$0.09	\$0.16
Net income (\$M)		(\$0.4)	\$2.2	\$10.0
EPS (basic)		(\$0.10)	\$0.03	\$0.06
EPS (fd)		(\$0.10)	\$0.02	\$0.05
P/CFPS		NM	8.1x	4.6x
EV/DACFPS		NM	8.1x	2.9x
P/EPS		NM	39.3x	13.6x
Capex		\$0.1	\$62.5	\$28.0
Year-end Net Debt/(Cash)		(\$3.7)	(\$3.4)	(\$54.6)
Net Debt/Cash Flow		NM	NM	NM

Source: Company reports, Canaccord estimates

OUTLOOK AND VALUATION

We have reviewed the valuation of Candax on both a multiple of cash flow basis and relative to our estimate of net asset value (NAV). As illustrated in Figure 11, Candax is currently trading at a multiple of 8.1 times and 4.6 times fully diluted 2005 and 2006 cash flow. The higher near-term cash flow reflects the partial year acquisition of its major assets, while the 2006 multiple reflects the fully year effect and a successful development well at El Bibane. On a debt-adjusted basis, Candax's current enterprise value to debt-adjusted cash flow is a low 2.9 times, highlighting the strength in the company's balance sheet and cash flows that are projected to exceed its capital spending in 2006. While this valuation metric is low, we would suggest that a multiple of cash flow is not a very appropriate valuation metric for Candax at this point in its history. In particular, the company's primary producing assets are mature with a generally declining cash flow profile. As such, applying a normal cash flow multiple approach would tend to ignore the risks should the timing of new production not offset declines in existing assets and existing cash flows. In the future, a more conventional approach may apply.

We believe a more appropriate valuation tool for Candax is to utilize a net asset value (NAV) approach. In Figure 9 we calculated, based on recent engineering reports and our price assumptions, a fully diluted net asset value that ranges between \$0.99 and \$1.09 per share based on a US\$55.00/b declining oil price and a US\$65.00/b scenario, respectively. In addition to the asset value of its existing proven and probable reserves, Candax has substantial upside potential on the Chaal Permit and in the deeper Triassic plays at El Bibane and Ezzaouia. In Figure 10, we valued these 3P reserves on a risked basis at an arbitrary nominal amount of US\$2.00/b. Based on a weighted average chance of success of 15%, we believe a reasonable risked value of Candax's current high potential exploration prospects is \$0.63 per fully diluted share. On an unrisked basis, this value is closer to \$4.00 per share. As a consequence, we believe a reasonable target price for Candax is \$1.50, representing approximately \$0.99 in value for its existing producing assets plus an estimate of risked exploration upside.

RECOMMENDATION

With the first exploration well at Chaal expected to commence before year-end, we anticipate the market will begin to discount the potential impact of an exploration success. Even without this upside potential, Candax shares are currently trading at a 25.0% discount to our estimated NAV of its current producing assets. We believe this discount is excessive for a company with cash on hand, a cash producing property, exploration upside and a management team that is committed to create a significant international exploration and production company. Our target price of \$1.50 indicates a significant potential return that reflects only the value of its existing assets plus a risked assessment of its exploration upside. We are initiating coverage of Candax with a SPECULATIVE BUY rating.

INVESTMENT RISKS

In addition to operating risks inherent in oil and gas exploration and production activities, oil and natural gas price realization and production may be lower or higher than our forecast. Collectively these risks could impact the company's valuation and our forecasts.

Other risks include:

- Candax acquired producing assets are mature with a short reserve life and a high water cut. There is no guarantee that all future volumes of production will occur in sufficient quantities to make existing fields commercial.
- Two major fields (El Bibane and Ezzaouia) currently represent greater than 95% of the proved value of Candax. Should either of these fields experience a production related problem for a prolonged period of time, then there could be a material impact on our financial and valuation estimates.
- Unless new discoveries or assets are acquired, future cash flows from existing assets will decline substantially, which may impact the future valuation of Candax.
- All producing and potential properties are presently located in Tunisia. Although currently seen as a relatively stable government, the company's operations, financial results and valuation could be adversely affected by events beyond its control taken by the current or future governments with respect to policy changes regarding taxation, regulation, and other business environment changes.

An analyst has visited the company's head office but not its field operations. No payment or reimbursement was received from the issuer for the related travel costs.

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(as of September 13, 2005)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	126	40.6%	42.6%
Speculative Buy	45	14.5%	44.4%
Hold	110	35.5%	27.2%
Sell	29	9.4%	21.4%
	310	100.0%	

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Company	Disclosure
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