

Candax Energy Inc. (CAX-T, \$1.36)

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

Rating **UNDER REVIEW**
(Sector Outperform Speculative)

Target Price **UNDER REVIEW**
(\$1.25)

Current Price \$1.36
 Return (incl. dividend) n/a
 52-Week High / Low \$1.48 / \$0.39
 Shares O/S 130.7M (basic) / 183.1M (F/D)
 Market Capitalization \$178 million
 Enterprise Value \$154 million
 Daily Volume 1.092M
 Currency C\$ unless noted
 Company CEO Michael Wood
 Company Web Site www.candax.com

Financial Forecast	2004	2005	2006E	'06/'05
Liquids (bbl/d)	587	1,350	1,350	130%
Natural Gas (mmcf/d)	2.3	2.3	2.3	(2%)
Total (boe/d)	968	1,725	1,725	78%
% Liquids		61%	78%	29%
Cash Flow (\$M)	5.3	23.2	23.2	336%
F/D CFPS	\$0.04	\$0.13	\$0.13	196%
F/D EPS	(\$0.03)	\$0.06	\$0.06	(272%)
Capital Expenditures (\$M)	45.5	25.0	25.0	
Net Debt (\$M)	(11.4)	(9.5)	(9.5)	(16%)
WTI (US\$/bbl)	\$41.46	\$56.54	\$60.00	6%
AECO (\$/GJ)	\$6.26	\$8.37	\$8.30	(1%)
Valuation Parameters				
Price/CFPS (multiple)		31.8	10.7	(66%)
Price/EPS (multiple)		(40.4)	23.5	(158%)
EV/boe/d		\$159,195	\$89,348	(44%)

Source: Candax Energy and Haywood Securities

Chaal Well Results Near – Looking Gassy

▪ Preliminary drilling update on the Chaal-1 well in Tunisia

The Company has stopped drilling on the Chaal-1 well while a significant gas kick is being circulated out of the wellbore. Candax is using this opportunity to run intermediate logs to assess the quality of the Middle/Lower Nara Formation that has been drilled to date. Candax has so far penetrated 304 metres of gross formation, with 100 metres remaining to drill before the planned total depth of 4,440 metres is reached.

▪ Despite the inflow of gas, it is too early to determine the potential of Chaal

While we are optimistic that the inflow of gas while drilling represents a positive indicator of the Chaal-1 potential, there still remains the question as to the productive potential of the well. Production testing will take 20 to 30 days, once the well has reached total depth.

▪ Chaal well determines the value of the Company

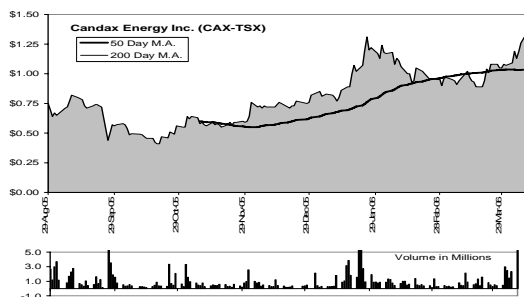
The market has seized on the potential of this well and has increased the Company's share price beyond our target price of \$1.25. Until the production potential of Chaal has been fully evaluated, we are forced to place our target and rating UNDER REVIEW, as we are not inclined to downgrade our rating but do not have enough information to change our target price.

Expectations – We expect that the drilling of the Chaal 1 exploration well could result in reserves and value that exceed our estimates in our net asset value calculation. However, we note that there is no guarantee as to the production potential of the well, and this potential will not be realized until the completion of the well test around late April/early May.

Valuation – Our target price of \$1.25 was slightly less than the risked exploration value of a successful Chaal well plus the Company's current assets. However, owing to the timing of the Chaal results, we are placing our target price and recommendation UNDER REVIEW. Appearing less and less likely, an unsuccessful well at Chaal would see a negative impact on our target price.

Catalysts – Our 2006 forecast is based on the successful redevelopment at El Bibane, with an expected oil production rate limited by the reservoir characteristics. Better than expected production results or exploration success would have a positive effect on our view of Candax.

Price Performance



Source: Bloomberg

Industry & Company Profile	Revisions, Date of Record	Risk Profile	Moderate
Oil and Gas – Candax is a junior oil and gas exploration company focused on oil and natural gas exploration and production in North Africa and the Middle East.	Rating – UNDER REVIEW - Sector Outperform (Speculative) to, April 11, 2006 Target – UNDER REVIEW - \$1.25, April 11, 2006 Forecast – Revised production forecast, February 20, 2006	Forecast Risk Financial Risk Valuation Risk Political Risk	Moderate Moderate Moderate Low

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

Candax Energy Ltd. (CAX-T)

Rating:	UNDER REVIEW		One-Year Target Price:	UNDER REVIEW	
Current Price	\$1.36		Market Capitalization (\$M)	177.7	
Current Shares Outstanding (million)	130.7	<u>Dilution</u>	Current Net Debt (est.) (\$M)	<u>(23.6)</u>	
Fully Diluted Shares Outstanding (million)	183.1	40.1%	Enterprise Value (\$M)	<u>154.1</u>	
Book Value (\$M)	64.5		EV / BV (multiple)	2.4	

Production	2003	2004	2005	2006E	2005 / 2004	2006 / 2005
Liquids (bbl/d)			587	1,350		130%
Natural Gas (mmcf/d)			2.3	2.3		(2%)
Total (boe/d)			968	1,725		78%
Percent Liquids			61%	78%		29%
Percent Natural Gas			39%	22%		(45%)
Revenue (\$M)			12.9	33.6		161%
Cash Flow (\$M)			5.3	23.2		336%
CFPS Basic			\$0.06	\$0.18		178%
CFPS Fully Diluted			\$0.04	\$0.13		196%

CFPS Sensitivity		<u>\$/FD Share</u>	<u>% of CF</u>
Oil (US\$1.00/bbl)		\$0.003	1%
Gas (\$0.25/mcf)		\$0.001	0%
100 bbl/d		\$0.004	2%
1.0 mmcf/d		\$0.006	3%

Earnings (\$M)		(1.5)	10.6	(805%)
EPS Basic		(\$0.02)	\$0.08	(549%)
EPS Fully Diluted		(\$0.03)	\$0.06	(272%)
Capital Expenditures (\$M)		45.5	25.0	(45%)
Reinvestment Ratio		856%	108%	(87%)
Net Debt (\$M)		(11.4)	(9.5)	(16%)
Debt / Cash Flow - Trailing (years)		(2.1)	(0.4)	(81%)

Per BOE Analysis (\$/boe)				
Revenue		\$36.45	\$53.36	46%
Operating Expense		\$7.59	\$5.00	(34%)
Net Operating Revenue		\$28.87	\$43.03	49%
G&A		\$13.76	\$6.35	(54%)
Cash Flow		\$10.26	\$36.81	259%
DD&A		\$11.75	\$13.70	17%
Earnings		(\$7.22)	\$16.81	(333%)

Valuation Parameters				
Current Price / F/D CFPS (multiple)		31.8	10.7	(66%)
Debt-Adjusted CF Multiple		24.1	6.6	(73%)
Target Price / F/D CFPS (multiple)		29.3	9.9	(66%)
Current Price / F/D EPS (multiple)		(40.4)	23.5	(158%)
EV / boe/d		\$159,195	\$89,348	(44%)
Target EV / boe/d		\$156,975	\$89,161	(43%)

Price Assumptions							
Crude Oil WTI (US\$/bbl)	\$31.06	\$41.46	\$56.54	\$60.00	36%	6%	
Company Average (C\$/bbl)			\$56.93	\$67.50		19%	
AECO (C\$/GJ)	\$6.33	\$6.26	\$8.37	\$8.30	34%	(1%)	
Company Average (C\$/GJ)			\$0.32	\$0.39		23%	

Source: 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 placing our SECTOR OUTPERFORM (SPECULATIVE) rating of Candax Energy Inc. (CAX-T) and our 12-month target price of \$1.25 per share UNDER REVIEW.

Drilling Update

The deep gas exploration well at Chaal-1 was spudded on February 5, 2006. On April 10, 2006, Candax announced that drilling had been suspended, as a porous streak in the Middle/Lower Nara Formation at 4,340 metres depth had caused an inflow of gas into the well bore (a "gas kick"). It was decided to suspend drilling to bring the inflow of hydrocarbons into the wellbore under control and to use this opportunity to run a set of intermediate logs in the formation.

The Chaal-1 well is being drilled approximately 500 metres southeast of the original discovery well ABK-1. In this short distance, considerable structural height has been gained, possibly as much as 300 metres. This is a positive development for the Chaal-1 well and the Chaal prospect overall.

Candax has so far penetrated approximately 304 metres of hydrocarbon-bearing rock in the Middle/Lower Nara Formation. While drilling has been suspended at 4,340 metres, the well plan remains to drill to a planned total depth of 4,440 metres, or another 100 metres in total. However, we note that the well will not stop drilling until the total hydrocarbon-bearing rock in the Nara Formation has been penetrated. That could mean drilling might stop before the planned total depth of 4,440 metres or will continue until the full column of rock has been drilled. Based on drilling results to date, we expect that the Nara Formation might be thicker than previously thought, resulting in a deeper than expected total depth for this well.

Drilling is unlikely to be completed before the end of this week. Drilling is now suspended as the well is being brought under control with higher weight drilling mud. Once the wellbore has stabilized, a set of intermediate well logs will be run to examine the formation characteristics of the rock drilled to date. Once the logs have been run, drilling the well will continue to completion. Typical drilling penetration rates on this well have ranged from three metres per hour to as much as nine metres per hour. Drilling could therefore be completed in approximately one day of drilling time, once drilling recommences. Once the well has reached total depth, a final set of logs will be run, a new string of casing will be run and cemented in place, and the well will then be ready for testing.

Drilling Operations on the Chaal-1 Well



Source: Candax Energy and Haywood Securities

Expect another announcement this week on the results of the intermediate well logs, which will give Candax a first look at the potential of the Middle/Lower Nara Formation. However, we must again caution investors that these logs are only an indication of what might come from the formation. No indication of productive capability will be available until the production tests have been run. These logs, in conjunction with logs run after the well has reached total depth, will be used to determine exactly which parts of the formation will be tested.

Production testing is a slow but thorough process. Candax will start by testing each zone of interest separately. These zones will be identified from the intermediate and final logs as well as from the inflow of hydrocarbons encountered while drilling. Testing commences at the bottom of the well. Each zone will be perforated and tested and then plugged off so that Candax can move uphole to test the next zone. In the Company's current testing program, once all the zones have been tested separately, the entire productive section will then be re-perforated and tested all together to determine the productive potential of the whole formation. It is expected that this testing program could take up to 20 to 30 days to complete.

We anticipate additional news on the well in the next few days and expect that it will come out just before the warrants expire on April 17. If the results continue to be good, the Company's share price could be held above the \$1.20

exercise price of the warrants. Full exercise of these warrants would bring in just under \$50 million.

As previously reported, the exploration well at Chaal is a joint venture between Candax and Mitsubishi. Recall that the ABK-1 well in 1963 tested gas and condensate from a 150-metre hydrocarbon section on the Permit. The ABK-1 well tested natural gas and varying amounts of natural gas liquids at rates up to 3.0 mmcf/d, and condensate volumes that ranged from 25 bbl/mmcf to 80 bbl/mmcf over an extended test period. This well was followed by a second well, which found a similar hydrocarbon column but was left untested. So far, Candax has penetrated double the hydrocarbon column found in both ABK wells, with more drilling to come.

Candax is drilling the Chaal-1 well to confirm the old production-test results, including flow rates and condensate ratios. Gross reserves of approximately 60 bcf have been assigned to the structure identified by the ABK-1 and ABK-2 wells. However, the full structure could be 200 bcf to 500 bcf in size, with potential for as much as 844 bcf of reserves.

Candax has refined the parameters for a successful well. The well is being drilled to evaluate the productivity of the Lower Nara Formation. Flow rates of less than 5.0 mmcf/d would cause the technical team to go back and re-evaluate the prospect. However, a flow rate from the well of more than 5.0 mmcf/d would be deemed successful and would cause Candax to move ahead with preliminary field development plans plus the drilling of a second well.

A second well is planned, but not until later in 2006. It was previously assumed that should the Chaal-1 well be a success, the rig would immediately move to a second drilling location. We can now confirm that this is not the case—a second well on the Chaal Permit will not be drilled until later in 2006. While Candax retains its option on the rig to drill a second well, the rig will move to drill for another operator while the results of the Chaal-1 well are fully evaluated by the Candax technical team.

Valuation

In the following table, we summarize a series of calculations that reflect the estimated net asset value for the Company. We note that the reserves report was done effective December 31, 2005, and the new reserves report reflects a material increase in reserves and reserves value. The increased reserves and value mainly reflect the incremental reserves attributable to the redevelopment of the El Bibane oil field. However, the upside in the Company's value still remains with a larger gas reserve at Chaal than is currently accounted for in the latest reserves report, which has given the prospect gross proven plus probable reserves of 60 bcf.

Net Asset Value

Estimated Net Asset Value (summary)	Dec 31, 2005, Reserves		Dec 31, 2004, Reserves	
	Net Reserves	NPV10%	Net Reserves	NPV10%
	Dec 31, 2005 (Mboe)	Value (C\$M)	Dec 31, 2004 (Mboe)	Value (C\$M)
Proven Reserves	4.0	45.3	3.0	25.1
Proven Plus Probable Reserves	11.7	79.9	11.6	29.5
Total Reserves	15.7	125.2	14.6	54.6
Cash in Bank		21.0		21.0
		146.2		75.6
Shares Outstanding (millions)				
Basic		130.7		130.7
Fully Diluted		183.1		183.1
Net Asset Value per Share				
Basic		1.12		0.58
Fully Diluted		1.12		0.73
41.3 Million Warrants @ \$1.20/Share = \$49.6M				
11.2 Million Options @ \$0.80/Share = \$9.0M				

Source: Candax Energy and Haywood Securities

In our previous calculation of our \$1.25 target price for Candax, we included \$0.25 per share for upside from the drilling of the Chaal-1 well. We note that our value for potential upside from Chaal to Candax equates to only 120 bcf gross reserves for the Chaal feature. However, despite the fact that the drilling of Chaal-1 is nearing total depth, and well results are approximately one month away, market sentiment has taken the Company's share price above our previous target price of \$1.25. Again, we reiterate that it is premature to make any changes to our target price, but in light of market sentiment, we are placing our target and rating UNDER REVIEW until the well results are definitive. It is much too early to speculate on the results, but we do not wish to downgrade our view of the Company based on the vagaries of the market that is ebullient with potential drilling results as well as the pending expiry of the \$1.20 warrants on April 17, 2006.

Should the Chaal well come up dry, the short-term potential of the prospect would likely be eliminated, and our value and target price for Candax would see a decrease. However, a prospect size of more than 120 bcf would cause us to reinstate a target price higher than our previous \$1.25.

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.

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TENDER – The analyst is recommending that investors tender to a specific offering for the company’s stock.

RESEARCH COMMENT – An analyst comment about an issuer event that does not include a rating.

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Haywood Securities, Inc. has reviewed lead projects of Candax Energy Inc. (CAX-T) and a portion of the expenses for this travel have been reimbursed by the issuer.

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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.

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