Candax Energy Inc. (CAX–T, $1.25)

J. Frederick Kozak, P.Eng. (403-509-1938, fkozak@haywood.com)
David Warkentin, P.Eng. (403-509-1926, dwarkentin@haywood.com)

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CAPITAL MARKETS HAYWOOD SECURITIES INC.
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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.

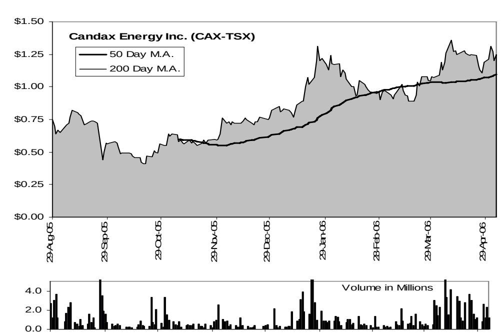
Rating	**UNDER REVIEW (Sector Outperform Speculative)**
Target Price	**UNDER REVIEW ($1.25)**

Current Price	$1.25
Return (incl. dividend)	n/a
52-Week High / Low	$1.48 / $0.39
Shares O/S	168.9M (basic) / 180.1M (F/D)
Market Capitalization	$211 million
Enterprise Value	$143 million
Daily Volume (3-mo. avg.)	1.092M
Currency	C$ unless noted
Company CEO	Michael Wood
Company Web Site	www.candax.com

Financial Forecast	2005	2006E	2007E	'07/'06
Liquids (bbl/d)	587	1,350	2,200	63%
Natural Gas (mmcf/d)	2.4	2.3	4.5	100%
Total (boe/d)	989	1,725	2,950	71%
% Liquids	59%	78%	75%	(5%)
Cash Flow ($M)	5.3	24.6	38.1	55%
F/D CFPS	$0.04	$0.14	$0.21	55%
F/D EPS	($0.03)	$0.07	$0.13	93%
Capital Expenditures ($M)	45.5	25.0	35.0	
Net Debt ($M)	(11.4)	(55.7)	(58.8)	6%
WTI (US$/bbl)	$56.54	$60.00	$55.00	(8%)
AECO ($/GJ)	$8.37	$8.30	$8.48	2%
Valuation Parameters				
Price/CFPS (multiple)	29.9	9.2	5.9	(36%)
Price/EPS (multiple)	(37.1)	18.9	9.8	(48%)
EV/boe/d	$144,280	$82,748	$48,386	(42%)

Source: Candax Energy and Haywood Securities

Price Performance



Source: Bloomberg

Reviewing Value – Potential Upside to Come?

- **Upside of 50% from current prices with Chaal success**
  We have conducted a review of the upside potential from a successful gas discovery at Chaal and find that a conservative view of 200 bcf of reserves at Chaal would see an increase in value to approximately $1.80 per share. We note that the increase is based on existing proven plus probable reserves that were evaluated using much lower prices than the current commodity price environment.
- **Further upside also available**
  Candax has additional upside from gas in Tunisia. First, there is the possible reserves of up to 844 bcf at Chaal, as well as the reserves potential from the two deep Triassic prospects at El Bibane and Ezzaouia. Combined, the risked success of all these prospects indicates a value of as much as $3.00 per share for Candax.
- **Value is not lost if Chaal uneconomic**
  While the market eagerly awaits the results from Chaal, we note that there remains immediate upside potential in Candax even without Chaal. Once the El Bibane field redevelopment is completed this summer, should production be more than our conservative assumptions of 1,000 bbl/d per well, there would be a corresponding increase in cash flow per share above our estimates. Valuing Candax on a cash-flow multiple rather than exploration potential also points to a potentially higher 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 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, our target price and recommendation remain UNDER REVIEW. Appearing less and less likely, an unsuccessful well at Chaal would see a negative impact on our target price.

Catalysts – Our 2007 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.

Industry & Company Profile
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.

Revisions, Date of Record
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

Risk Profile	Moderate
Forecast Risk	Moderate
Financial Risk	Moderate
Valuation Risk	Moderate
Political Risk	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	$1.25		Market Capitalization ($M)	211.1
Current Shares Outstanding (million)	168.9	Dilution	Current Net Debt (est.) ($M)	(68.4)
Fully Diluted Shares Outstanding (million)	180.1	6.6%	Enterprise Value ($M)	142.7
Book Value ($M)	64.5		EV / BV (multiple)	2.2

Production		2004	2005	2006E	2007E	2006 / 2005	2007 /2006
Liquids (bbl/d)			587	1,350	2,200	130%	63%
Natural Gas (mmcf/d)			2.4	2.3	4.5	(7%)	100%
Total (boe/d)			989	1,725	2,950	74%	71%
Percent Liquids			59%	78%	75%	32%	(5%)
Percent Natural Gas			41%	22%	25%	(47%)	17%
Revenue ($M)			12.9	33.6	50.3	161%	50%
Cash Flow ($M)			5.3	24.6	38.1	362%	55%
CFPS Basic			$0.06	$0.15	$0.23	131%	53%
CFPS Fully Diluted			$0.04	$0.14	$0.21	226%	55%
					$/FD Share	% of CF	
CFPS Sensitivity	Oil (US$1.00/bbl)				$0.004	2%	
	Gas ($0.25/mcf)				$0.002	1%	
	100 bbl/d				$0.004	2%	
	1.0 mmcf/d				$0.006	3%	
Earnings ($M)			(1.5)	11.9	23.0	(894%)	93%
EPS Basic			($0.02)	$0.07	$0.14	(494%)	91%
EPS Fully Diluted			($0.03)	$0.07	$0.13	(296%)	93%
Capital Expenditures ($M)			45.5	25.0	35.0	(45%)	40%
Reinvestment Ratio			856%	102%	92%	(88%)	(10%)
Net Debt ($M)			(11.4)	(55.7)	(58.8)	390%	6%
Debt / Cash Flow - Trailing (years)			(2.1)	(2.3)	(1.5)	6%	(32%)
Per BOE Analysis ($/boe)							
Revenue			$35.67	$53.36	$46.73	50%	(12%)
Operating Expense			$7.42	$5.00	$5.00	(33%)	0%
Net Operating Revenue			$28.25	$43.03	$37.05	52%	(14%)
G&A			$13.46	$6.35	$4.09	(53%)	(36%)
Cash Flow			$10.04	$39.00	$35.38	288%	(9%)
DD&A			$11.50	$13.70	$13.47	19%	(2%)
Earnings			($7.06)	$18.93	$21.33	(368%)	13%
Valuation Parameters							
Current Price / F/D CFPS (multiple)			29.9	9.2	5.9	(69%)	(36%)
Debt-Adjusted CF Multiple				6.1	4.0		(34%)
Target Price / F/D CFPS (multiple)			29.9	9.2	5.9	(69%)	(36%)
Current Price / F/D EPS (multiple)			(37.1)	18.9	9.8	(151%)	(48%)
EV / boe/d			$144,280	$82,748	$48,386		(42%)
Target EV / boe/d			$201,877	$90,092	$51,632		(43%)
Price Assumptions							
Crude Oil WTI (US$/bbl)		$41.46	$56.54	$60.00	$55.00	6%	(8%)
Company Average (C$/bbl)			$56.93	$67.50	$61.80	19%	(8%)
AECO (C$/GJ)		$6.26	$8.37	$8.30	$8.48	(1%)	2%
Company Average (C$/GJ)			$0.30	$0.39	$0.40	30%	2%

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.

Recap of Chaal-1

The deep gas exploration well at Chaal-1 reached total depth on April 16, 2006, at 4,600 metres. This was approximately 10 metres deeper than the expected total depth of 4,440 metres. The well found 450 metres of gross pay in the Lower Nara Formation, three times what was found in the original discovery well in 1963. In addition, approximately 90 metres of net pay were found over a 200-metre interval with a bottom hole pressure of more than 10,000 psi. Recall that prior to reaching total depth in the well, drilling had to be 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.

The testing program on Chaal is underway, having started approximately one week ago. Candax indicated that there were three zones of interest to be tested within the 90 metres of net pay. Production testing is a slow but thorough process, complicated by the fact that at 4,600 metres depth, all drilling operations typically take a day to run in and out of the hole. Candax's original program was intended to test each zone of interest separately and then run a combined test of all the zones, but with the high-pressure regime, it is likely that the three tests will be run separately.

Value and Upside

The deep gas exploration well at Chaal-1 reached total depth on April 16, 2006, at 4,600 metres. This was approximately 10 metres deeper than the expected total depth of 4,440 metres. The well found 450 metres of gross pay in the Lower Nara Formation, three times what was found in the original discovery well in 1963.

With the exercise of the majority of the warrants prior to expiry, Candax now has approximately $65 million in cash on the balance sheet. The following table provides an updated net asset value for Candax.

Candax Updated Net Asset Value

Estimated Net Asset Value (summary)	Proven + Probable Reserves 31-Dec-05 (Mboe)	NPV10% Value (C$M)	Per Basic Share
Proven + Probable Reserves			
Chaal Permit (60% interest)	6.0	43.0	0.25
El Bibane, Al Manzah, Ezzouia, etc.	9.7	82.2	0.49
	15.7	125.2	0.74
Estimated Cash on Hand (April 17, 2006)		65.0	0.38
Chaal - Mitsubishi Farm-in Value		8.0	0.05
Net Asset Value - Basic		198.2	1.17
Net Asset Value - Fully Diluted		207.2	1.15
Shares Outstanding (millions)			
Basic		168.9	
Fully Diluted (11.2 million options @ $0.80/share)		180.1	

Source: Candax Energy and Haywood Securities

Note that based on the cash on hand, Candax has a new net asset value of $1.15, just below the current share price. In our previous reports, we indicated an incremental $0.25 per share for the upside value in Candax as a result of a Chaal success. However, we note that this corresponded to only 120 bcf of gross reserves in a potential discovery. We should also note that the reserves report was developed using a Brent oil price of only US$56/bbl in 2006 and declining thereafter. Using prices which reflect the current oil price environment would see a higher net asset value to Candax.

As the Chaal prospect is now being tested, there is potential for positive impact on the value of Candax. There is no hydrocarbon risk, as indicated by the testing of the well in 1963, the influx of hydrocarbons during drilling, and the bottom-hole pressure of more than 10,000 psi. Candax has determined that the minimum required flow rate to move ahead with the Chaal gas development project is 5.0 mmcf/d. Based on the public data available to date, it would appear that this flow rate should be achieved, but the current probability still stands at 60% chance of success.

However, should the well test prove to be successful and Candax decide to proceed with a second well at Chaal later this year, as much as 200 bcf of reserves could be proved up. The following table provides an estimate of the potential impact on the value of Candax.

Candax Updated Net Asset Value

Estimated Net Asset Value (summary)	Proven + Probable Reserves 31-Dec-05 (Mboe)	NPV10% Value (C$M)	Per Basic Share
Proven + Probable Reserves			
Chaal Permit (60% interest)	6.0	43.0	0.25
El Bibane, Al Manzah, Ezzouia, etc.	9.7	82.2	0.49
	15.7	125.2	0.74
Estimated Cash on Hand (April 17, 2006)		65.0	0.38
Chaal - Mitsubishi Farm-in Value		8.0	0.05
Incremental in 2006:			
Chaal Success - 200 bcf Discovery, 60% Interest	14.0	100.3	0.59
Ezzaouia Waterflood	2.0	17.0	0.10
Net Asset Value - Basic		315.5	1.87
Net Asset Value - Fully Diluted		324.5	1.80
Shares Outstanding (millions)			
Basic		168.9	
Fully Diluted (11.2 million options @ $0.80/share)		180.1	

Source: Candax Energy and Haywood Securities

Incremental to the current gross proven plus probable reserves of 60 bcf at Chaal, the impact on Candax is approximately $0.60 per basic share. Note that we have also included the potential incremental value as a result of the Ezzaouia waterflood, but this is only a modest amount compared with Chaal.

However, we note that Candax and its consultants have identified a much larger possible resource potential for Chaal. Based on the existing seismic data, the Company has identified a structure which could contain as much as 844 bcf gross reserves. While it is unlikely that this potential would be determined until 2007 or later, the potential for significantly more reserves remains.

In the following table we have included the upside reserves attributable to Chaal as well as the upside potential identified in the two deep Triassic structures at El Bibane and Ezzaouia. While no plans are in place to drill either of the deep Triassic prospects to date, Candax is hopeful of drilling Ezzaouia in 2007, subject to reaching an agreement with its partners.

Candax Updated Net Asset Value

Estimated Net Asset Value (summary)	Proven + Probable Reserves 31-Dec-05 (Mboe)	NPV10% Value (C$M)	Per Basic Share
Proven + Probable Reserves			
Chaal Permit (60% interest)	6.0	43.0	0.25
El Bibane, Al Manzah, Ezzouia, etc.	9.7	82.2	0.49
	15.7	125.2	0.74
Estimated Cash on Hand (April 17, 2006)		65.0	0.38
Chaal - Mitsubishi Farm-in Value		8.0	0.05
Incremental in 2006:			
Chaal Success - 200 bcf Discovery, 60% Interest	14.0	100.3	0.59
Ezzaouia Waterflood	2.0	17.0	0.10
Potential Incremental:			
Chaal - 844 bcf, 60% Interest, 25% COS	16.1	86.5	0.51
Deep Triassic - Ezzaouia/El Bibane, 10% COS	27.0	145.1	0.86
Net Asset Value - Basic		547.2	3.24
Net Asset Value - Fully Diluted		556.2	3.09
Shares Outstanding (millions)			
Basic		168.9	
Fully Diluted (11.2 million options @ $0.80/share)		180.1	

Source: Candax Energy and Haywood Securities

As is evident, the potential upside to Candax from all of its current projects is substantial.

Valuation

Should the Chaal well prove uneconomic, 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.

However, the redevelopment of El Bibane should soon be underway. Our current production estimates for 2007 include only 1,000 bbl/d from each of the two redeveloped El Bibane wells. Should the production prove to be more in line with management's estimates of as much as 2,000 bbl/d per well, our cash flow per share for 2007 would increase to as much as $0.35 per fully diluted share. Once El Bibane is placed onstream later this summer, using a conservative cash-flow multiple could also see us with a higher target price.

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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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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