

Candax Energy Inc. (CAX-T, \$0.55)

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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 **SECTOR OUTPERFORM**
Target Price **\$1.15**
Risk **SPECULATIVE**

Forecast Risk	Moderate
Financial Risk	Moderate
Valuation Risk	Moderate-High
Political Risk	Low

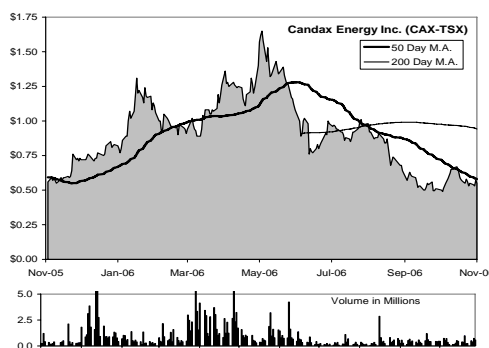
Current Price \$0.55
 Return (incl. dividend) 109%
 52-Week High / Low \$1.73 / \$0.46
 Shares O/S 168.9M (basic) / 180.4M (F/D)
 Market Capitalization \$92.9 million
 Enterprise Value \$53.7 million
 Daily Volume (3-mo. avg.) 402,000

Currency C\$ unless noted

Financial Forecast	2005	2006E	2007E	2007E/2006E
Liquids (bbl/d)	587	680	1,685	148%
Natural Gas (mmcf/d)	1.8	0.0	3.6	
Total (boe/d)	879	680	2,292	237%
% Liquids	67%	100%	74%	(26%)
Cash Flow (\$M)	5.3	9.7	35.6	269%
F/D CFPS	\$0.04	\$0.05	\$0.20	279%
F/D EPS	(\$0.03)	\$0.00	\$0.12	2692%
Capital Expenditures (\$M)	45.5	25.0	35.0	40%
Net Debt (\$M)	(11.4)	(31.2)	(31.8)	2%
WTI (US\$/bbl)	\$56.54	\$66.50	\$65.00	(2%)
AECO (\$/GJ)	\$8.37	\$6.20	\$6.30	2%
Valuation Parameters				
Price/CFPS (multiple)	14.3	10.6	2.8	(74%)
Price/EPS (multiple)	(16.5)	124.8	4.5	(96%)
EV/boe/d		\$78,936	\$23,423	(70%)

Source: Candax Energy and Haywood Securities

Price Performance



Source: Bloomberg

Industry & Company Profile	Revisions, Date of Record	Company CEO
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 – SECTOR OUTPERFORM from UNDER REVIEW, June 21, 2006 Target – \$1.15 from UNDER REVIEW, June 21, 2006 Forecast – Commodity Forecast Revisions, Nov 1, 2006	Michael Wood Company Website www.candax.com

Please see rating structure, important disclosure, risk profile parameters, disclaimers, and notes on pages 6-9 of this report..

Q3/06 Results Released and El Bibane Drilling Barge Sails for Tunisia

Third Quarter results are as expected

Candax released Q3/06 results in line with expectations. Production for the quarter averaged 519 bbl/d. However, sales volumes were lower at 278 bbl/d owing to the production of oil into storage. While this created a loss in the quarter, the Company has a very strong balance sheet. Candax has approximately \$56 million to fund the remainder of 2006 and a full 2007 capital program.

Sailing into the Mediterranean for El Bibane

The main drilling barge has finally set sail for Tunisia and is expected to arrive before the end of next week. Minor work readying the barge for drilling will be completed in Tunisia with drilling at El Bibane within the next few weeks. However, production from the first well at EBB-4 is unlikely before the end of 2006, but full field production should commence around the end Q1/07. While we are estimating 1,000 bbl/d of production per well, there is potential for production of as much as 2,000 bbl/d per well.

There is more to Candax than Chaal and El Bibane

While the ongoing delays at El Bibane and the technical difficulties on the Chaal-1 exploration well have disappointed the market, we remind investors that there is much more to the Company. Candax has significant exploration potential in its Deep Triassic prospect at Ezzaouia and is still actively pursuing acquisitions in the Middle East and North Africa regions.

Expectations – We expect that the share price of Candax will continue to languish, absent any near-term catalysts. However, commencement of the drilling at El Bibane could provide a small lift to the Company's share price later this year. We would also expect that at some point in the next 6 to 12 months, Candax may be able to close on one of the international production/development acquisition, but we have not factored this possibility into our valuation or production estimates.

Valuation – Our target price of \$1.15 includes the engineering value of 36 bcf proven plus probable net to Candax from Chaal, plus the Company's current assets. In the event that Chaal proves to be uneconomic, we still believe that the current valuation of Candax is more than supported by the Company's remaining assets and cash-flow prospects.

Catalysts – Our 2007 forecast is based on 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.

Candax Energy Inc. (CAX-T)

Rating:	SECTOR OUTPERFORM		One-Year Target Price:	\$1.15
Current Price	\$0.55		Market Capitalization (\$M)	92.9
Current Shares Outstanding (millions)	168.9	<u>Dilution</u>	Current Net Debt (est.) (\$M)	<u>(39.2)</u>
Fully Diluted Shares Outstanding (millions)	180.4	6.8%	Enterprise Value (\$M)	<u>53.7</u>
Book Value (\$M)	104.0		EV / BV (times)	0.5

Production	2004	2005	2006E	2007E	2006E / 2005	2007E / 2006E
Liquids (bbl/d)		587	680	1,685	16%	148%
Natural Gas (mmcf/d)		1.8	0.0	3.6	(100%)	
Total (boe/d)		879	680	2,292	(23%)	237%
Percent Liquids		67%	100%	74%	50%	(26%)
Percent Natural Gas		33%	0%	26%	(100%)	
Revenue (\$M)		12.9	17.4	45.9	35%	163%
Cash Flow (\$M)		5.3	9.7	35.6	82%	269%
CFPS Basic		\$0.06	\$0.07	\$0.21	5%	215%
CFPS Fully Diluted		\$0.04	\$0.05	\$0.20	36%	279%
				\$/FD Share	% of CF	
CFPS Sensitivity	Oil (US\$1.00/bbl)			\$0.003	1%	
	Gas (\$0.25/mcf)			\$0.001	1%	
	100 bbl/d			\$0.004	2%	
	1.0 mmcf/d			\$0.006	3%	
Earnings (\$M)		(1.5)	1.1	22.2	(170%)	2004%
EPS Basic		(\$0.02)	\$0.01	\$0.13	(149%)	1376%
EPS Fully Diluted		(\$0.03)	\$0.00	\$0.12	(113%)	2692%
Capital Expenditures (\$M)		45.5	25.0	35.0	(45%)	40%
Reinvestment Ratio		856%	259%	98%	(70%)	(62%)
Net Debt (\$M)		(11.4)	(31.2)	(31.8)	174%	2%
Debt / Cash Flow - Trailing (years)		(2.1)	(3.2)	(0.9)	51%	(72%)
Per BOE Analysis (\$/boe)						
Revenue		\$40.15	\$70.21	\$54.89	75%	(22%)
Operating/Transportation Expense		\$8.36	\$15.54	\$5.00	86%	(68%)
Net Operating Revenue		\$31.79	\$52.59	\$44.40	65%	(16%)
G&A		\$15.15	\$16.12	\$5.26	6%	(67%)
Cash Flow		\$11.30	\$32.98	\$42.55	192%	29%
DD&A		\$12.94	\$21.26	\$15.00	64%	(29%)
Earnings		(\$7.95)	(\$3.09)	\$26.54	(61%)	(959%)
Valuation Parameters						
Current Price / F/D CFPS (multiple)	(1.2)	14.3	10.6	2.8	(26%)	(74%)
Debt-Adjusted CF Multiple			5.5	1.9		(66%)
Target Price / F/D CFPS (multiple)	(2.6)	29.9	22.1	5.8	(26%)	(74%)
Current Price / F/D EPS (multiple)		(16.5)	124.8	4.5	(858%)	(96%)
EV / boe/d			\$78,936	\$23,423		(70%)
Target EV / boe/d			\$239,710	\$70,871		(70%)
Price Assumptions						
Crude Oil WTI (US\$/bbl)	\$41.46	\$56.54	\$66.50	\$65.00	18%	(2%)
Company Average (C\$/bbl)		\$56.93	\$70.08	\$73.74	23%	5%
AECO (C\$/GJ)	\$6.26	\$8.37	\$6.20	\$6.30	(26%)	2%
Company Average (C\$/GJ)		\$0.41	\$0.41	\$0.40	(1%)	(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 SPECULATIVE. We are maintaining our SECTOR OUTPERFORM rating of Candax Energy Inc. (CAX-T) and our 12-month target price of \$1.15 per share.

Third Quarter Results

The third quarter had no surprises; now we await the results of the pending El Bibane field redevelopment. Candax had production in the quarter of 519 bbl/d, but had sales volumes of only 278 bbl/d in the quarter owing to production into storage. The company sells the bulk of its oil only when there is a full cargo available to be removed by tanker. Candax's balance sheet remains well funded for the planned capital program with approximately \$49.7 million of available working capital at the end of Q3/06.

Third Quarter Results

	3 rd Quarter			2 nd Quarter	
	2006	2005	%	2006	Q3 vs. Q2
Production					
Liquids (bbl/d)	278	809	(66%)	188	48%
Gas (mmcf/d)	0.0	2.6	(100%)	0.0	0%
Total (boe/d)	278	1,242	(78%)	188	48%
Sales Price					
Liquids Price (\$/bbl)	\$78.31	\$67.26	16%	\$77.47	1%
Gas (\$/mcf)	\$0.00	\$0.43	(100%)	\$0.00	0%
Equivalent (\$/boe)	\$75.06	\$80.51	(7%)	\$66.61	13%
Financials					
Cash Flow (\$M)	(\$1.1)	\$5.4	(120%)	(\$1.1)	(3%)
F/D CFPS	(\$0.01)	\$0.04	(114%)	(\$0.01)	(8%)
Earnings (\$M)	(\$2.2)	\$2.9	(174%)	(\$0.5)	369%
F/D EPS	(\$0.01)	\$0.02	(157%)	(\$0.00)	346%
Net Debt (\$M)	(\$39.2)	(\$15.5)	153%	(\$50.1)	(22%)
Trailing D/CF (multiple)	9.3	(0.7)	(1395%)	11.5	(19%)
Capital Expenditures (\$M)	\$10.1	\$0.4	2191%	\$6.8	49%

Source: Candax Energy and Haywood Securities

Corporate Update

In conjunction with the Company's quarterly report, Candax indicated that the main drilling barge for the redevelopment of the El Bibane field offshore Tunisia had been mobilized. Previously, in October, management had confirmed that the majority of necessary barge work had been completed in the

shipyard in Montenegro. Candax had mobilized support barges to the seaport of Zarzis in Tunisia which will subsequently be mobilized to the El Bibane offshore drilling location. Once the main drilling barge arrives in Zarzis next week, feet must be attached to the legs of the barge—a non-critical operation that should only take a few days, as it does not require a shipyard or dry-dock to make the attachment. With this complete, the Candax drilling fleet will set sail for the offshore El Bibane drilling location.

Candax intends to drill a total of three wells at El Bibane. The first well EBB-4 is a new horizontal drilling location on the northwest flank of the El Bibane structure. This well is intended to be brought onstream as soon as possible after drilling and completion, before drilling the remaining two wells. The second well at EBB-3RE is a redrill of the original production well. Recall that this well's horizontal section is being redrilled closer to the estimated location of the current gas-oil contact within the reservoir. The final well at EBB-5 is a vertical well to be drilled as a natural gas injection well.

Included in the field redevelopment is the installation of onshore gas compression and separation facilities. The El Bibane field natural gas production is primarily processed in an onshore gas-fired electrical generation facility. However the facility is capable of burning only approximately 6.0 mmcf/d. With the field redevelopment, the two new horizontal wells are expected to produce 20 mmcf/d or more. As a result, Candax will reinject gas into the El Bibane reservoir. The reinjection will allow Candax to produce the El Bibane oil at optimal production rates without being constrained by gas consumption.

There was no additional news on the Chaal natural gas prospect released with the quarterly report. Candax and its partners continue to review their technical options for appraisal and development drilling on the Chaal prospect.

Given the time required to investigate and assess the options, then book a drilling date with a rig contractor, we believe it will be late 20/07 before Candax returns to the Chaal prospect. While management has given no further indication of the timing of Chaal except as noted above, previous presentations by Candax had indicated that a new rig may be brought into the country to drill at both Chaal and the Company's potential high-impact deep-gas prospect at Ezzaouia. Drilling the deep Triassic prospect at Ezzaouia requires reaching an agreement with the Tunisian government about a change in the cost-sharing of the well. Should reaching an agreement drive the timing of a new rig for Chaal, we estimate that a further Chaal evaluation well could be delayed until the middle or possibly second half of 2007.

Valuation

Should the Chaal well ultimately prove to be uneconomic, the potential of the prospect would be eliminated, and our value and target price for Candax would decrease marginally. However, until such a possibility is definitely established, now pushed out to 2007, we are maintaining our target price and recommendation. Also, should a prospect size of more than 120 bcf be proven at Chaal, it would cause us to review our target price with a positive view. We also note that while the market was looking for the Chaal prospect as a catalyst to value Candax, our assumption of cash flow in 2007 from the Company's current assets supports our target price.

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 year, a conservative cash-flow multiple could see us with a higher target price.

Valuation Comparison Table

	<u>Candax</u> CAX-T	<u>Oilexco</u> OIL-T	<u>TransGlobe</u> TGL-T
		(US\$ except Share & Target Price)	(US\$ except Share & Target Price)
Production (2007 estimate)			
Oil and NGL (bbl/d)	1,685	30,487	4,450
Natural Gas (mmcf/d)	3.6	0.0	9.0
Total (boe/d)	2,292	30,490	5,950
Share Price (Nov 9, 2006)	\$0.55	\$6.91	\$5.34
2007 F/D CFPS	\$0.20	\$2.45	\$0.92
Current P/CF Multiple (times)	2.8	2.5	5.2
Target Price	\$1.15	\$12.00	\$8.50
Target P/CF Multiple (times)	5.8	4.4	8.3
Current Shares Outstanding (millions)	168.9	195.5	58.7
F/D Shares Outstanding (millions)	180.4	217.0	62.0
2007 Cash Flow (\$M)	35.6	529.4	56.5
2007 Capital Expenditures (\$M)	35.0	250.0	55.0
2007 Net Debt (\$M)	(31.8)	(163.5)	(3.3)
Enterprise Value (\$M)	53.7	1272.3	263.2
Current EV / boe/d	\$23,423	\$41,730	\$44,240
Target EV / boe/d	\$70,871	\$63,706	\$74,112

Source: Company data and Haywood Securities

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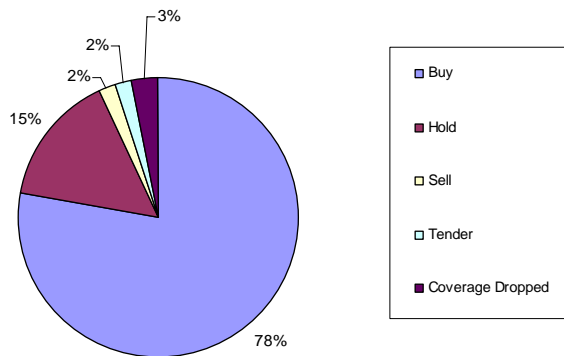
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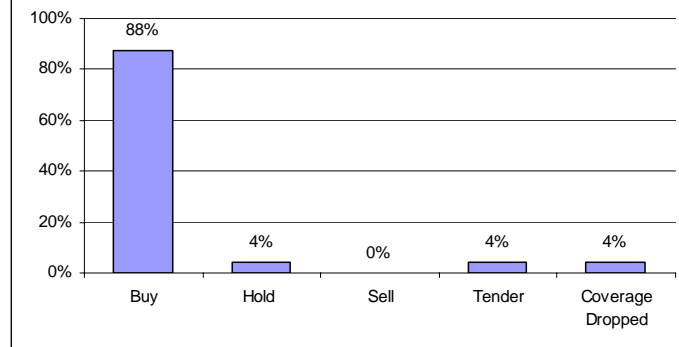
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Rating Distribution June 15, 2006 - September 15, 2006



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