MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") for Candax Energy Inc. and its wholly-owned subsidiaries ("Candax" or the "Company") should be read in conjunction with the accompanying unaudited interim consolidated financial statements for the three months ended March 31, 2010 and the notes thereto, as well as the MD&A and the audited consolidated financial statements for the year ended December 31, 2009. Readers should also refer to a discussion of forward-looking statements contained at the end of this MD&A. Additional information relating to the Company, including its Annual Information Form for the year ended December 31, 2009 is available on SEDAR at www.sedar.com. This information is presented as of May 14, 2010.

Company Overview
Candax is engaged in the exploration for and the acquisition, development and production of natural gas and crude oil. Its assets are located in Tunisia and Madagascar. Candax also owns a 50% interest in Société d'Electricité d'El Bibane ("SEEB"), a Tunisian power generation company.

Foreign Exchange Fluctuations
Candax operates primarily in a US dollar-based environment. The majority of the Company's revenues and expenses are paid in US dollars, although Candax is also exposed to Canadian dollar, Pounds Sterling and Tunisian Dinar costs. However, being a Canadian company trading on the TSX, Candax has elected to report its financial results in Canadian dollars. Accordingly, all foreign currency amounts presented in Candax's consolidated statements of operations and deficit and cash flows are converted to Canadian dollars for reporting purposes based on the average Canadian to US dollar exchange rate prevailing during the reporting period. The US to Canadian dollar closing exchange rate on March 31, 2010 was $1.0158 (December 31, 2009 – $1.0510) and averaged $1.0401 (2009 – $1.2446) during the first quarter of 2010.

Capital Structure and Dilution
At December 31, 2009, the Company had 169,261,606 common shares outstanding. On March 31, 2010 the Company issued 144,444,444 common shares at $0.09 per common share through a private placement to bring the total number of common shares outstanding at May 14, 2010 to 313,706,050.

At December 31, 2009, the Company did not have any warrants outstanding, however, in connection with the above-mentioned private placement the Company issued 86,666,666 warrants on March 31, 2010 which is the amount outstanding at May 14, 2010.

At December 31, 2009, the Company had 10,700,000 stock options outstanding at an average exercise price of $0.78. There were no transactions during the period with respect to the stock options and hence the outstanding stock options at May 14, 2010 remain at 10,700,000 at an average exercise price of $0.78.

Business Development Activities
Candax's objective is to build a high-growth international portfolio of oil and gas assets.

Review of Operations

El Bibane
El Bibane is an oil and gas field offshore Tunisia. Candax is the operator and holds a 73.8% working interest. The field development plan comprised three wells, EBB-3, 4 & 5. Oil production was constrained initially by capacity limitations in the export line, which, as a consequence of higher than expected water production, had prevented simultaneous production from the EBB-3 and EBB-4 wells. Production has been further constrained by mechanical failures in these two wells identified in the course of a barge-based intervention programme in September 2009. Remedial work programmes to restore

production have been prepared for both EBB-4 and EBB-3 wells. The first of these programmes, to restore production from EBB-3 commenced in March and was completed in April 2010. The work-over successfully retrieved the parted tubing from the well and it was determined that a packer failure and slippage of the entire down-hole production string had occurred which caused the original tubing break. After repair, the well was initially restarted under gas-lift on April 12, 2010 with evidence of liquids coming to surface, but this was curtailed by surface valve problems. Once the surface valve was reopened the gas-lift pressure remained low and no further liquids were seen on surface. Subsequent tests indicate that the replaced tubing failed, most likely at approximately the same depth as the original break. Although this result is disappointing, the reconnection work-over was considered to be a temporary fix to the existing tubing configuration, and it was recognized from the outset that further work would be required for a permanent solution, which work is planned for Phase 2 of the well interventions.

The planning of Phase 2 of the EBB-3 and EBB-4 well interventions is under way. Phase 2 will replace the entire damaged tubing string and reduce water production with the objective being the restoration of oil production to levels at or above those last experienced in mid-2009. Phase 2 will be a rig-based intervention that is expected to commence mid-year and until the well interventions are undertaken, wells EBB-3 and EBB-4 will remain shut-in. Candax is approaching the design and implementation of Phase 2 with due care and attention, in consultation with partners and other stakeholders.

SEEB

Candax has a 50% equity interest in Société d'Electricité d'El Bibane ("SEEB"), a Tunisian company which owns and operates a gas-fired 27 MW single cycle electricity generation plant. Gas is supplied to SEEB primarily from El Bibane. The generating capacity of the power plant was reduced by 50% from early May to December 2009 as a consequence of the failure of one of the two gas-fired turbines. The damaged turbine has been replaced though operations are presently constrained by the interruption of gas supply form the El Bibane field.

As a result of reduced generating capacity, SEEB has been unable to meet its obligations under bank financing arrangements to make repayments of principal and interest. As a consequence of the payment arrears, SEEB is at risk of being placed in default whereby the loans can be called by the lenders at anytime.

Due to the interruption in gas supply from the El Bibane field, SEEB has not produced any power since early January 2010. Due to the uncertaintes as to the timing of the Phase 2 programme on the El Bibane field, it is not possible at this stage to predict when SEEB will resume its operations.

Ezzaouia

Ezzaouia is primarily an oil field onshore Tunisia producing small quantities of associated gas. The Ezzaouia field is operated by Maretap, a company owned by the interest holders in the field which include Entreprise Tunisienne d'Activités Pétrolières ("ETAP"), the Tunisian state-owned oil company. Candax owns a 31.4% working interest.

The rig which will be used for the side-track campaign on EZZ-2 and EZZ-5 arrived in Zarzis on April 15, 2010, and mobilization to the EZZ-5 well location was completed around April 21, 2010. The rig-up was completed on May 7, 2010 and the rig is now undergoing a final inspection prior to commencing work. Discussions are ongoing to use that same rig to complete workovers of wells 1, 9 and 11, in addition to the sidetracks of wells 2 and 5.

Robbana Field

Robbana is an oil field onshore Tunisia. Candax is the operator and holds an 80% working interest. As a consequence of declining well productivity, production from the field was suspended in May 2009 pending drilling and completion of a planned sidetrack of the Robbana-1 well.

Chaal

Chaal is an exploration permit onshore Tunisia. Candax is the operator and holds a 60% working interest. The Chaal Permit is located in central Tunisia approximately 50 kilometres west of the city of Sfax, covering an area of 1,200 square kilometres.

An initial exploration well, Chaal-1, was drilled in 2006 but could not be tested due to formation damage caused by the heavy mud weights required to manage the high pressures encountered. Candax and its partners subsequently committed to drill a deviated sidetrack of the Chaal-1 well using managed pressure drilling to further evaluate the commerciality of the gas discovery and as a condition of securing an extension to the Chaal Permit to May 25, 2010.

The Company entered into a farm-out agreement with Sacoil Holdings Limited ("Sacoil") on May 10, 2010. The farm-out agreement is still subject to certain conditions precedent, including the approval of the transaction by the Tunisian authorities and the extension of the permit. The Tunisian authorities have been informed of the situation and a response is awaited as to the possibility of securing an extension to the expiration date of the permit. The farm-out agreement provides that Sacoil will earn a 55% interest in the Chaal permit by carrying the Company for up to US $4.8 million (representing 60% of the estimated cost of the sidetrack) in relation to the drilling of a sidetrack to Chaal-1. After the effective date of the farm-out, Falcan Chaal Petroleum Ltd (a subsidiary of the Company) will retain an 18.75% interest in the field. Sacoil will also pay the Company US $3.6 million at the time a development plan for the field is approved by the Tunisian authorities.

In the event that the Company and its partners in the Chaal Permit do not reach agreement with the Tunisian authorities for the Chaal-1 well sidetrack to be drilled, then, upon expiry of the permit on May 25, 2010, it is possible that the authorities could seek to impose penalties arising from the non fulfillment of the committed work programme.

Madagascar

Block 1101 is an exploration permit located onshore, northwest Madagascar and covers 14,900 square kilometers. Candax is the operator with a 60% working interest.

Results from the initial geological fieldwork, geochemistry and gravity/magnetics confirmed the excellent exploration potential of Block 1101, indicating up to 9,000 metres of sedimentary section beneath the block together with numerous oil shows. A 2D seismic acquisition programme commenced in September 2008 and was completed in November 2008.

In 2009 the Madagascar government approved a twelve-month extension to the licence terms until July 2010 within which time Candax has a commitment to drill an exploration well.

Work has been continuing to identify a drilling location. Two alternative sites have been identified and discussions are continuing to determine the preferred location. Once this has been determined, contracts will be awarded to allow for completion of an Environmental Impact Assessment as a precondition of Ministry approval for the well programme. It will not be possible to meet the commitment to drill an exploration well by July 2010 and the Madagascar government has been approached to seek a further extension of the license terms. Initial feedback is encouraging and it is expected that an extension will be secured in due course.

The Company is in negotiations with third parties to farm out a portion of its interests in the permit, for a carry on the future well to be drilled. A non-binding heads of agreement was executed on May 14, 2010 and negotiations to execute a farm-out agreement are ongoing.

Equity Investment

On March 31, 2010, the Company completed an investment agreement with Geofinance NV, an international upstream oil and gas company ("Geofinance"). Under the terms of the agreement, Geofinance invested $13.0 million in the Company to purchase 144,444,444 units of the Company at a price of $0.09 per unit, each unit comprising one common share and 0.6 of one common share purchase warrant. The warrants may be exercised for a period of one year from the date of the closing of the transaction at a price equal to the current market price (calculated on the basis of a five day volume weighted average trading price for the common shares of the Company) on the date of exercise. At closing, Geofinance owned 144,444,444 common shares of the Company representing approximately 46% of the issued and outstanding shares. If all of the warrants are exercised, Geofinance will own 231,111,110 common shares in aggregate, representing approximately 58% of the issued and outstanding common shares of the Company.

Board of Directors

As part of the additional terms of the transaction, John Cullen, Adrian Jackson and Michael Wood have tendered their resignations as directors of Candax. New members of the board are Thomas Rebilly, Dr. Richard Norris and Stephen Drinkwater. Biographies of the new directors were disclosed in the Company's press release of March 10, 2010. Messrs. Adrian Loader, Murray Grant and Christopher Irwin will remain on the board of directors of Candax.

Candax Management

Management changes included the resignations of Don Munn, Executive Vice President, Business Development, John Willis, Chief Operating Officer, and David Wilson, Executive Vice President, Technical on March 31, 2010. Michael Wood, President & Chief Executive Officer and Hywel John, Chief Financial Officer resigned on April 2, 2010. All resigning management members entered into settlement agreements and agreed to assist with the transition for a period of time. New members of management are Dr. Richard Norris, who will replace Michael Wood as President & Chief Executive Officer, Matthieu Milandri who will replace Hywel John as Chief Financial Officer and Bertrand Launois, who will replace John Willis as Chief Operating Officer. Biographies of the new members of Candax management were disclosed in the Company's press release of March 10, 2010.

Bank Loan Restructuring

On March 31, 2010 the Company concluded an Amendment and Restatement Agreement with the Bank of Scotland by which the terms of the Borrowing Base Facility Agreement were amended and restated. The agreement provided for the extension of the final maturity date of the facility to June 30, 2014 and rescheduling of repayments while splitting outstanding amounts into two tranches; the Borrowing Base Amount and an Excess Tranche. Interest on the Borrowing Base Amount is calculated at US$ LIBOR plus 4% and on the Excess Tranche at US$ LIBOR plus 9.5 %. Restructuring fees of US $0.9 million are payable on December 31, 2010.

Revenue

Sales, net of royalties for the three months ended March 31, 2010, were $ nil compared to $8.3 million for the same period in 2009. The Company did not have any sales during the first quarter as the El Bibane field was shut-in as discussed earlier.

Due to the shut-in of the El Bibane field, no gas was delivered to SEEB during the quarter. The Company's share of the electricity sales for the first quarter of 2010 was $ nil (2009 - $1.0 million).

Production
The following table summarizes the quarterly net after royalty production for 2010 and 2009:

	Q1	
BBLS	**2010**	**2009**
Oil (bbls/day)	265	1,063
Gas (mmcf/day)	-	3.5
BOEs/day	265	1,651

Production for the year 2010 was lower than the same period in 2009 due to reduced production from the El Bibane field as discussed earlier.

Where amounts are expressed on a barrel of oil equivalent (boe) basis, natural gas volumes have been converted to barrels of oil equivalent at 6,000 cubic feet to one barrel of oil equivalent (6 mcf = 1 boe). This conversion ratio is the convention used in the oil and natural gas industry and is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. The use of boe may be misleading, particularly if used in isolation.

Operating Costs
Operating costs for the three months ended March 31, 2010, were $ nil compared to $1.6 million for the same period in 2009. There were no operating costs during the quarter as the year end accrual for the over-lifting was reversed and offset the Q1 2010 actual operating costs and the accrual for the current quarter over-lift position.

Depletion, Depreciation and Amortization Expense
Depletion, depreciation and amortization expense for the three months ended March 31, 2010, was $0.1 million compared to $14.1 million for the same period in 2009. Depletion is calculated using the purchase price of the acquired assets, capital expenditures and proved reserves as at year-end. There was no depletion expense in the quarter as there were no sales and depletion is charged on barrels of oil sold.

General and Administrative Costs
General and administrative costs for the three months ended March 31, 2010 were $2.5 million compared to $1.5 million for the same period in 2009. The significant increase in costs during 2010 was due to the $1.0 million in severance payments made to the previous management as discussed previously.

Interest Expense
Interest expense for the three months ended March 31, 2009 was $0.6 million compared to $1.1 million for the same period in 2009. The decrease in interest expense for 2010 compared to the same period in 2009 was due to the restructuring of the SEEB debt which occurred in June 2009 and also due to a stronger Canadian dollar as the loan from BOS is denominated in US dollars and the loans to SEEB from ABC Bank are denominated in US dollars and Euros.

Foreign Exchange
The unrealized foreign exchange gain for the three months ended March 31, 2009 was $ nil compared to a gain of $0.1 million for the same period in 2009.

Related Party Transactions
During the year the Company had gas sales to SEEB of $ nil (2009 - $ 0.2) and as at March 31, 2010 the Company had a receivable from SEEB in the amount of $0.8 million (2009 – $0.8 million).

Selected Quarterly Financial Data *(unaudited)*

in thousands of Canadian dollars except per share amounts	Q1	Q2	Q3	Q4	Year
2010					
Sales, net of royalties	-				-
Loss	(3,614)				(3,614)
Loss per share - basic and diluted	(0.02)				(0.02)
Total assets	89,063				89,063
Long-term financial liabilities	38,906				38,906
2009					
Sales, net of royalties	8,288	8,548	2,181	9,123	28,140
Loss	(13,943)	(3,129)	(3,681)	(40,443)	(61,196)
Loss per share - basic and diluted	(0.08)	(0.02)	(0.02)	(0.24)	(0.36)
Total assets	193,256	159,745	136,576	95,518	95,518
Long-term financial liabilities	48,201	32,755	28,619	39,315	39,315
2008					
Sales, net of royalties	2,097	14,909	13,864	3,896	34,766
Net income (loss)	(2,298)	2,820	1,573	(15,244)	(13,149)
Net income (loss) per share - basic and diluted	(0.01)	0.02	0.01	(0.09)	(0.08)
Total assets	185,802	183,811	183,812	194,254	194,254
Long-term financial liabilities	38,129	39,400	40,928	52,206	52,206

There were no sales in the first quarter of 2010 as the El Bibane field was shut-in. The assets and long-term financial liabilities for the first quarter of 2010 were consistent with the fourth quarter of 2009. Revenue for the fourth quarter of 2009 was higher than the third quarter of 2009 due to the lifting in late December. The loss for the fourth quarter of 2009 is significantly higher than the previous three quarters due to the asset impairments and related writedowns. Revenue for the third quarter of 2009 was lower than each of the first and second quarters of 2009 due to lower production at El Bibane. The long-term financial liabilities were lower in the third quarter of 2009 due to the stronger Canadian dollar against the US dollar which resulted in a lower liability for the US dollar-based term loan. Revenue for the second quarter of 2009 was consistent with the first quarter of 2009. Revenue for the first quarter of 2009 was higher than the fourth quarter of 2008 due to the timing of the liftings. Revenue for the fourth quarter of 2008 was lower than the third quarter of 2008 due to the timing of liftings. Revenue for the second quarter of 2008 was significantly higher than the first quarter of 2008 due to the start-up of production at the El Bibane field. The long-term financial liabilities for the second quarter of 2009 were lower than the first quarter of 2009 and the fourth quarter of 2008 due to principal repayments made and the increase in the amount recorded in the current portion. The increase in the long-term liabilities in the fourth quarter of 2008 over the first three quarters of 2008 was due to a drawdown in the credit facility.

Liquidity, Capital Resources and Capital Expenditures

The Company has historically relied on debt and equity financing to raise capital and expects to be able to continue to do so. The Company is also dependent upon sustained cash flow from its operations. A material fall in the oil price or prolonged curtailment of production below certain levels would risk compromising the ability of the Company to meet its obligations as they fall due.

As at March 31, 2010, the Company reported a cash balance of $1.8 million (December 31, 2009 - $9.8 million) and accounts receivable of $2.2 million (December 31, 2009 - $4.1 million) as compared to accounts payable and accrued liabilities of $12.0 million (December 31, 2009 - $17.9 million). The working capital deficit before financing at March 31, 2010 is, therefore, $8.0 million.

The Company's work programmes for 2010 include well intervention work on the offshore El Bibane field and rig-based prgrammes for the drilling of sidetracks and workovers on the onshore Ezzaouia field. The Company's net share of expenditure associated with these projects is estimated at approximately

US$10.0 million. Production from the El Bibane field has been substantially curtailed by the matters referred to above and the objective of the work programme is to restore production from the field.

As noted above, on March 31, 2010 the Company completed an investment agreement with Geofinance NV, an international upstream oil and gas company ("Geofinance") by which Geofinance contributed new equity of $13.0 million which will be used to finance work programmes and for general working capital purposes.

The term loan is provided by Bank of Scotland as sole lender under a Borrowing Base Facility Agreement which is secured by the Company's oil producing assets in Tunisia. The amount that is available to be drawn under this facility is determined by a semi-annual borrowing base review.

As of March 31, 2010, the maximum amount available under the facility was US $45.0 million. The amount of the term loan outstanding at this date was US $43.9 million and an additional US $0.5 million of the facility is being used as security for a letter of credit provided by the Company. On March 31, 2010 the Company entered into an Amendment and Restatement Agreement with the bank which, among other matters provided for a new repayment schedule. The timing of the repayment obligations of the Company which amount to a minimum of US $6.9 million for the next twelve months will be dependent upon cash flow generated from operations but are required to be paid, in any case, no later than December 31, 2010.

The Company has considered how these conditions have impacted the Company's viability and considers that until the outcome of the matters referred to in Note 1 to the unaudited interim consolidated financial statements is known, these factors lend significant doubt about the ability of the Company to continue as a going concern.

Capital Management and Risk Sensitivities

The Company manages its capital to ensure that the Company and its subsidiaries will be able to continue as a going concern while attempting to maximize the return to shareholders through the optimization of debt and equity financing. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the Company. The capital structure consists of debt, cash and cash equivalents and shareholders' equity excluding accumulated other comprehensive income (loss). Candax monitors its capital through its net cash position calculated as cash less term loan debt. The Company maintains this structure by managing working capital, capital spending programmes and debt repayment terms. The Company raises capital, as necessary and the optimal balance between debt and equity may change over time.

Included in total debt is $8.5 million of limited recourse long term debt relating to the SEEB power generation facility. This debt is serviced from the operating cash flow of SEEB and in the event of default recourse to Candax is limited to US $0.8 million.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the quarter ended March 31, 2010 compared to the year ended December 31, 2009.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three-month period:

- Cash and cash equivalents include deposits which are at variable interest rates. Term debt and non-recourse project financing are also at variable interest rates. Sensitivity to a plus or minus 1% change in rates would affect net loss by $0.1 million for the three-month period ended March 31, 2010.

- The Company does not hold significant balances or debt in currencies other than the US dollar to give rise to exposure to significant foreign exchange risk.

Commitments and Contingencies

Under the provisions of the hydrocarbon law of Tunisia, 20% of the Company's oil production must be sold to ETAP. The Company receives 90% of the export sales price achieved by ETAP on sale of such production.

As at March 31, 2010, the Company had provided a standby letter of credit in the amount of US $0.5 million in favour of Madagascar Ministry of Industry and Mines in accordance with the terms of the production sharing agreement entered into in November 2006. The letter of credit will be released when the Company has satisfied the commitments as outlined in the agreement.

One of the Company's joint venture partners has initiated arbitration proceedings in connection with claims that it is seeking to assert arising from its audit of the costs of the El Bibane redevelopment programme. The Company has accrued US $0.8 million in this regard.

The Company's joint venture partners in the Chaal permit have submitted reports arising from their audit of the expenditures associated with the initial Chaal exploration well. Amongst other matters, the reports assert claims for credit which, if sustained would result in the Company incurring additional liability of US$0.4 million. The Company has assessed the reports and responded to the partners at the end of April 2010. It is not anticipated that any additional material liability will be incurred and, accordingly no amounts have been accrued for in this regard

Critical Accounting Estimates

These unaudited interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the annual audited consolidated financial statements for the year ended December 31, 2009. In the opinion of management, all adjustments required for a fair presentation are included in these unaudited interim consolidated financial statements in accordance with the accounting policies of the Company.

The Company has a Term Loan provided by Bank of Scotland (the "bank") as sole lender under a Borrowing Base Facility Agreement which is secured by the Company's oil producing assets in Tunisia. On March 31, 2010, the Company entered into an Amendment and Restatement Agreement with the bank which, among other matters, provided for a new repayment schedule such that the Company would be required to make a repayment of US $6.9 million on December 31, 2010.

During 2010, the Company is planning capital projects for the Ezzaouia field and remediation programmes in the El Bibane field to restore and optimize oil production from these wells.

In addition, management will pursue other funding opportunities as considered necessary to continue to meet company obligations as they come due. Nevertheless, there is no assurance that this will be sufficient or successful.

The ability of the Company to meet its estimated repayment obligations to the bank or fund the above capital programmes from projected cash flows generated by operations is dependent upon the successful outcome of the programmes. These factors lend significant doubt about the ability of the Company to continue as a going concern.

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates relate primarily to the future development costs associated with proved undeveloped reserves, reserve volumes, future production and revenues, and future costs associated with asset retirement obligations. The Company has its oil and gas reserves, future development costs and future cash flows from those reserves evaluated and reported on by Ryder-Scott Company Petroleum Consultants, independent petroleum reserve engineering consultants. The estimation of these amounts is a subjective process, based on engineering data, forecasted prices and production levels and the timing of expenditures. All of these estimates are subject to numerous uncertainties and various interpretations, and consequently will change over time to reflect updated information as it is received.

Candax follows the full cost method of accounting, whereby all costs incurred in exploring for and developing oil and gas reserves are capitalized. Such expenditures include geological and geophysical expenses, carrying charges for unproved properties, costs of drilling both productive and non-productive wells, gathering and production facilities and general and administrative costs directly related to exploration and development activities. Capitalized costs are accumulated on a country-by-country basis and are amortized and depleted using the unit-of-production method based upon estimated proved reserves. For those properties that are still in the development stage, related costs are capitalized until either commercial production commences or it is determined that the invested amounts will never be recovered.

Natural gas reserves are converted to equivalent barrels of oil on the basis of their relative energy content (6 mcf equals 1 barrel). Costs directly associated with the acquisition and evaluation of unproved properties are initially excluded from the computation of depletion. These unproved properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered impaired, the cost of the property or the amount of the impairment is added to all other capitalized costs subject to amortization and depletion.

The Company calculates a ceiling test whereby the net capitalized costs of properties cannot exceed discounted cash flows from proved and probable reserves. Cash flows are calculated based on third-party quoted forward prices and adjusted for the Company's contracted prices and quality differentials. If there is impairment, the magnitude of it would be calculated by comparing the carrying amount of property, plant and equipment to the estimated net present value of future cash flows from proved plus risked probable reserves. A risk-free interest rate is used to arrive at the net present value of the future cash flows. Any excess carrying value above the net present value of future cash flows would be recorded as a permanent impairment and charged as additional depletion expense in the consolidated statements of operations and deficit.

Sales of oil and gas properties are accounted for as adjustments to capitalized costs, with no gain or loss recognized unless such adjustments would alter the rate of depletion and amortization by more than 20%.

Business Risks

A comprehensive assessment of the Company's business risks is set out in the 2009 Annual Information Form. There are a number of inherent risks associated with oil and gas operations and development. Many of these risks are beyond the control of the Company. The following outlines some of the principal risks and their potential impact on the Company:

Exploration, Development and Production Risks

A portion of the current working capital of Candax will be expended on petroleum and natural gas exploration, exploitation and development activities, which are high-risk ventures with uncertain prospects for success. Oil and gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration activities by the Company will result in new discoveries of oil,

condensate or natural gas that are commercially viable or economically producible. Holders of securities of the Company must rely on the ability, expertise, judgment, discretion, integrity and good faith of management of the Company. It is difficult to project the costs of implementing any exploratory or developmental drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over-pressured zones and tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof. Few properties that are explored are ultimately developed into new reserves. In certain instances, the Company may be precluded from pursuing an exploration program or decide not to continue with an exploration program and such an occurrence may have a negative effect on the value of the securities of the Company.

Future oil exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include: delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Petroleum and Natural Gas Reserves

All evaluations of future net revenues are before consideration of indirect costs such as administrative overhead, other miscellaneous expenses and income taxes. The future net revenues may not be representative of the fair market value of the reserves. There is no assurance that the forecast price and cost assumptions contained in the year end 2009 Ryder Scott Report will be attained and variances may be material. There are numerous uncertainties inherent in estimating quantities of proved and probable reserves, including many factors beyond the control of the Company. The reserves data and net present value of future cash flows set forth represent estimates only.

In general, estimates of economically recoverable petroleum and natural gas reserves and the future net revenues therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, commodity prices, the assumed effects of regulation by governmental agencies and future operating costs, each of which may vary considerably from actual results. Estimates of the economically recoverable petroleum and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom, prepared by different engineers or by the same engineers at different times, may vary substantially.

Fluctuation of Commodity Prices

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors all of which are beyond the control of the Company. Crude oil price is influenced by many factors, including the world economy, OPEC's ability to adjust supply to demand and political events. Where natural gas prices are not legislated to be linked to the price of oil, they are characterized more by regional supply and demand considerations, as in North America, Europe, and the Middle East, where pipeline infrastructure between producing and consuming nations plays a key role in price setting. More recently, LNG cargoes are setting the marginal cost for trans-ocean supply from gas rich producing nations when pipeline delivery is impossible. Based on concerns for future oil supply and huge undeveloped gas reserves, natural gas demand growth is transforming economics for both export and domestic markets around the world.

World prices for oil and natural gas have fluctuated widely in recent years. Future price fluctuations in world prices may continue and may have a significant impact upon the projected revenue of the Company, the projected return from its existing and future reserves and the general financial viability of the Company.

The oil and natural gas prices realized by the Company are affected by factors such as supply and demand, oil quality and transportation adjustments. The Company expects to market its oil and natural gas production in a manner consistent with past practices. In the case of natural gas, the Company has fixed rate sales contracts. The Company's current natural gas production is subject to the provisions of the Petroleum Law, which provides for sales into the Tunisian domestic market at rates less than those which would be realized in the international market. While the Company sells the majority of its Tunisian oil to arms-length purchasers priced on a sale by sale basis at prevailing market conditions, a portion of the oil produced by the Company is required to be sold domestically in Tunisia at rates less than those which would be realized in the international market. There is no assurance that the price paid for the oil produced by the Company will remain at current levels. A decrease in the price obtained for its oil may have a material adverse effect on the financial condition of the Company and its future operations.

Asset Impairment Risk

As discussed above, future additional declines in commodity prices and uncertainty in the capital markets could lead to additional impairments of the carrying value of the oil and gas assets held by the Company and thus may require a future significant charge to earnings and could potentially lead to a reduction of the Company's borrowing capacity. Similarly, the Company may be required to record an asset impairment charge if the Phase 2 programme of El Bibane fails.

Foreign Currency Exchange Rates

The Company's reporting currency is the Canadian dollar and its functional currency is the US dollar as all major business dealings are transacted in US dollars. The Company sells its oil production pursuant to marketing agreements that are denominated in US dollars. Many of the operational and other expenses incurred by the Company are paid in US dollars or in local currency of the country where operations are performed. The Company funds the majority of its transactions using US dollar currency from its US dollar bank account held with a European bank. The term loan debt is also US dollar denominated. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk. The reported assets and liabilities of the Company (including reserve information) are recorded in Canadian dollars. As a result, fluctuations in the US dollar against the Canadian dollar and each of these currencies against local currencies in jurisdictions where properties of the Company are located could result in unanticipated and material fluctuations in the reported accounting financial results of the Company.

Competition

A number of other oil and gas companies operate and are allowed to bid for exploration and production licenses and other services in countries in Africa and the Middle East which are the focus of the business and operations of the Company, thereby providing competition to the Company. Larger companies may have access to greater resources than the Company, may be more successful in the recruitment and retention of qualified employees and may conduct their own refining and petroleum marketing operations, which may give such companies a competitive advantage over the Company. Some of these companies have been conducting operations in Tunisia for considerably longer periods of time than has the Company and thus these companies may be more familiar with the political and business landscape in Tunisia than the Company. In addition, actual or potential competitors may be strengthened through the acquisition of additional assets and interests.

Environmental Regulation

The current and future operations of the Company that are conducted in Tunisia are subject to environmental regulations enforced by the Government of Tunisia. Should the Company initiate operations in other countries, such operations will be subject to environmental legislation in such

jurisdictions. Current environmental legislation in Tunisia provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil, condensate and natural gas operations. In addition, certain types of operations may require the submission and approval of environmental impact assessments. The existing operations of the Company are subject to such environmental policies and legislation. Environmental legislation and policy is periodically amended. Such amendments may result in stricter standards and enforcement and in more stringent fines and penalties for non-compliance. Environmental assessments of existing and proposed projects carry a heightened degree of responsibility for companies and their directors, officers and employees. The costs of compliance associated with changes in environmental regulations could require significant expenditures, and breaches of such regulations may result in the imposition of material fines and penalties. In an extreme case, such regulations may result in temporary or permanent suspension of production operations. There can be no assurance that these environmental costs or effects will not have a material adverse effect on the future financial condition or results of the operations of the Company.

Political Risks

Tunisia has experienced relative prosperity and stability under the leadership of President Ben Ali over the past two decades. Notwithstanding this relative stability, in the past, Tunisia has been affected by extremist Islamic militant activity. Tunisian authorities have implemented anti-terrorism policies and security precautions. By law, parties organized on the basis of religion, region, race or language are forbidden. Despite this, there are groups in Tunisia dedicated to turning the country into an Islamic republic. The Tunisian government has taken steps to prevent the Islamic militant struggle in neighbouring Algeria from affecting Tunisia by increasing its military presence along the Tunisia/Algeria border, imposing visa restrictions and imposing strict controls on local militants. Tunisia is bordered by both Algeria and Libya. Both countries have experienced periods of civil, political and militant unrest and Libya has been the subject of international sanctions; future unrest in any of the neighbouring countries could affect Tunisia.

In addition to the political risks, the Company is also subject to the laws of the various levels of government in the countries in which it conducts business. Such legislation may be changed from time to time in response to economic or political conditions, and the implementation of new legislation or modification of existing legislation affecting the oil and gas industry could change the Company's revenues and/or costs and have a material adverse impact on the business, results of operations, financial condition and liquidity.

Internal Control over Financial Reporting

Internal controls over financial reporting are procedures designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to the reliability of financial reporting and financial statement preparation.

Evaluation of Disclosure Controls and Procedures and Internal Control over Financial Reporting

The Canadian Securities Administrators have issued National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings which requires public companies in Canada to submit annual and interim certificates relating to the design and effectiveness of the disclosure controls and procedures that are in use at the company. Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, to enable this information to be reviewed and discussed so that appropriate decisions can be made regarding the timely public disclosure of the information.

As of March 31, 2010, management has evaluated the effectiveness of the design and the operating effectiveness of the disclosure controls and procedures as defined by National Instrument 52-109. This evaluation was performed under the supervision of and with the participation of the Company's Chief

Executive Officer and Chief Financial Officer. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the disclosure controls and procedures were effective as of March 31, 2010.

Internal Control over Financial Reporting

Internal controls over financial reporting are procedures designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to the reliability of financial reporting and financial statement preparation.

Changes in Internal Control over Financial Reporting

National Instrument 52-109 also requires public companies in Canada to disclose in their MD&A any change in ICFR during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting. There were no changes in ICFR during the quarter ended March 31, 2010 that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Recent Accounting Pronouncements

In January 2009, the Canadian Institute of Chartered Accountants ("CICA") issued Section 1582 "Business Combinations" to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination.

The CICA concurrently issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-controlling Interests," which replace Section 1600 "Consolidated Financial Statements." Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582.

The Company is currently assessing the impact of the adoption of these new standards on its consolidated financial statements

International Financial Reporting Standards

On February 13, 2008, the CICA Accounting Standards Board announced the adoption of International Financial Reporting Standards ("IFRS") for publically accountable enterprises. IFRS will replace Canadian GAAP. The implementation will apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

In 2008, the Company undertook an IFRS diagnostic study with a view to assessing the impact of the transition to IFRS on the Company's accounting policies and to establish a project plan to implement IFRS. A number of key accounting areas where IFRS differs from current accounting policies and accounting alternatives in those and other key accounting areas were reviewed. While an analysis will be required for all current accounting policies, the initial key areas of assessment included:

- Evaluation of full-cost oil and gas accounting;
- Exploration and development expenditures;
- Property, plant and equipment (measurement and valuation);
- Provisions, including asset retirement obligations;

- Stock-based compensation;
- Accounting for joint ventures;
- Accounting for income taxes; and
- First-time adoption of International Financial Reporting Standards (IFRS 1)

The IFRS diagnostic study also identified key system and business process areas that will be addressed as part of the conversion project. These include: the development of an accounting policy manual that defines the Company's IFRS accounting policies; identification of the significant financial data required from the Company's financial systems in order to define the transition adjustments and produce IFRS financial statements on an on-going basis; possible system modifications; and maintenance of effective disclosure controls and controls over financial reporting throughout the IFRS transition period.

The table below summarizes the expected timing of activities related to the Company's transition to IFRS.

Initial analysis of key areas for which changes to accounting policies may be required.	Completed during 2008
Detailed analysis of all relevant IFRS requirements and identification of areas requiring accounting policy changes or those with accounting policy alternatives.	Q2 2010
Assessment of first-time adoption (IFRS 1) requirements and alternatives.	Q2 2010
Final determination of changes to accounting policies and choices to be made with respect to first-time adoption alternatives	Q4 2009 – Q3 2010
Resolution of the accounting policy change implications on information technology, internal controls and contractual arrangements	Q4 2009 – Q3 2010
Management and employee education and training	Throughout the transition process
Quantification of the Financial Statement impact of changes in accounting policies	Throughout 2010

Forward-Looking Statements
This Management's Discussion and Analysis includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of Management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Such risks and uncertainties include, but are not limited to, risks associated with the oil and gas industry (including operational risks in exploration development and production; delays or

changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections in relation to production, costs and expenses; the uncertainty surrounding the ability of Candax. to obtain all permits, consents or authorizations required for its operations and activities; and health safety and environmental risks), the risk of commodity price and foreign exchange rate fluctuations, the ability of Candax to fund the capital and operating expenses necessary to achieve the business objectives of Candax, the uncertainty associated with commercial negotiations and negotiating with foreign governments and risks associated with international business activities, as well as those risks described in public disclosure documents filed by Candax. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in securities of Candax should not place undue reliance on these forward-looking statements. Statements in relation to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements contained in this MD&A or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Candax Energy Inc.

Interim Consolidated Financial Statements
(unaudited)
For the period ended March 31, 2010

Candax Energy Inc.
Consolidated Balance Sheets (unaudited)

As at *(in thousands of Canadian dollars)*	March 31, 2010	December 31, 2009
ASSETS		
Current		
Cash and cash equivalents	$ 1,761	$ 9,782
Accounts receivable	2,189	4,089
Inventory	107	137
Deposits, prepaids and other	13,319	505
	17,376	14,513
Deferred financing fees	-	163
Petroleum and natural gas properties	60,677	69,699
Property, plant and equipment	11,010	11,143
	$ 89,063	$ 95,518
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 12,018	$ 17,886
Current portion of term loan (Note 4)	7,016	8,408
Current portion of long-term debt (Note 3)	203	210
Limited recourse long-term debt (Note 5)	8,514	9,109
	27,751	35,613
Term loan (Note 4)	37,585	37,738
Long-term debt (Note 3)	1,321	1,577
Asset retirement obligation (Note 6)	1,923	1,945
Future income tax liability (Note 7)	3,906	3,257
	72,486	80,130
SHAREHOLDERS' EQUITY		
Capital stock (Note 8)	123,899	111,791
Contributed surplus	3,546	3,513
	127,445	115,304
Accumulated other comprehensive loss (Note 9)	(20,865)	(13,527)
Deficit	(90,003)	(86,389)
	(110,868)	(99,916)
	16,577	15,388
	$ 89,063	$ 95,518

Going concern (Note 1)

The accompanying notes are an integral part of these interim consolidated financial statements.

Candax Energy Inc.
Consolidated Statements of Operations and Deficit (unaudited)

For the three months ended March 31 ***(in thousands of Canadian dollars except for per share amounts)***	2010	2009
Revenues		
Sales, net of royalties	$ 45	$ 8,288
Interest and other income	149	127
	194	8,415
Expenses		
Operating costs	-	1,623
Depletion, depreciation and amortization	114	14,061
General and administrative	2,483	1,527
Interest	576	1,101
Foreign exchange (gain) loss	45	(107)
Stock-based compensation (Note 8)	33	101
Accretion on asset retirement obligation (Note 6)	44	37
	3,295	18,343
Loss for the period before current and future income taxes	(3,101)	(9,928)
Current income tax expense	-	6,891
Future income tax expense (recovery)	513	(2,876)
	513	4,015
Loss for the period	$ (3,614)	$ (13,943)
Deficit, beginning of period	(86,389)	(25,193)
Deficit, end of period	$ (90,003)	$ (39,136)
Loss per share - basic and diluted	(0.02)	(0.08)
Weighted average number of shares outstanding - basic and diluted	170,866,544	169,261,606

The accompanying notes are an integral part of these interim consolidated financial statements.

Candax Energy Inc.
Consolidated Statements of Cash Flows (unaudited)

For the three months ended March 31 ***(in thousands of Canadian dollars)***	2010	2009
OPERATING ACTIVITIES		
Loss	$ (3,614)	$ (13,943)
Items not affecting cash		
Stock-based compensation	33	101
Depletion, depreciation and amortization	114	14,061
Future income tax expense (recovery)	513	(2,876)
Accretion on asset retirement obligation	44	37
	(2,910)	(2,620)
Net change in non-cash working capital	(5,872)	7,717
	(8,782)	5,097
INVESTING ACTIVITIES		
Additions to petroleum and natural gas properties	(1,278)	(1,485)
	(1,278)	(1,485)
Foreign currency translation	2,039	(802)
Net decrease in cash and cash equivalents	(8,021)	2,810
Cash and cash equivalents, beginning of period	9,782	8,931
Cash and cash equivalents, end of period	$ 1,761	$ 11,741
Cash and cash equivalents are comprised of:		
Cash	$ 1,761	$ 11,741
Interest paid during the period	$ 35	$ -
Income taxes paid during the period	$ 785	$ 259

The accompanying notes are an integral part of these interim consolidated financial statements.

Candax Energy Inc.
Consolidated Statements of Comprehensive loss (unaudited)

For the three months ended March 31 *(in thousands of Canadian dollars)*	2010	2009
Loss for the period	$ (3,614)	$ (13,943)
Other comprehensive income (loss):		
Unrealized foreign exchange gain (loss) on translation of self-sustaining foreign operations	(7,338)	6,809
Income taxes	-	-
Other comprehensive income (loss)	(7,338)	6,809
Comprehensive loss	$ (10,952)	$ (7,134)

The accompanying notes are an integral part of these interim consolidated financial statements.

1. Going Concern and Basis of Presentation

These unaudited interim consolidated financial statements include the accounts of Candax Energy Inc. ("Candax" or the "Company") and its subsidiaries and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern, which assumes that the Company will be able to settle its liabilities in the normal course of business as they come due and continue its operations for a period of at least twelve months from the reporting date. Accordingly, the accompanying unaudited interim consolidated financial statements do not include any adjustments to the carrying values of assets and liabilities, the reported expenses, and the balance sheet classifications used, that might be necessary if the Company was unable to realize its assets and settle its liabilities as a going concern in the normal course of business. Such adjustments could be material. These unaudited interim consolidated financial statements do not include all disclosures required by GAAP for annual financial statements and, accordingly, should be read in conjunction with the Company's audited consolidated financial statements and notes for the year ended December 31, 2009.

These unaudited interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the annual audited consolidated financial statements for the year ended December 31, 2009. In the opinion of management, all adjustments required for a fair presentation are included in these unaudited interim consolidated financial statements in accordance with the accounting policies of the Company.

The Company has a Term Loan provided by Bank of Scotland (the "bank") as sole lender under a Borrowing Base Facility Agreement which is secured by the Company's oil producing assets in Tunisia. On March 31, 2010, the Company entered into an Amendment and Restatement Agreement with the bank which, among other matters, provided for a new repayment schedule such that the Company would be required to make a repayment of US $6.9 million on December 31, 2010.

During 2010, the Company is planning capital projects for the Ezzaouia field and remediation programmes in the El Bibane field to restore and optimise oil production from these wells.

In addition, management will pursue other funding opportunities as considered necessary to continue to meet company obligations as they come due. Nevertheless, there is no assurance that this will be sufficient or successful.

The ability of the Company to meet its estimated repayment obligations to the bank or fund the above capital programmes from projected cash flows generated by operations is dependent upon the successful outcome of the programmes. These factors lend significant doubt about the ability of the Company to continue as a going concern.

Recent Accounting Pronouncements

In January 2009, the Canadian Institute of Chartered Accountants ("CICA") issued Section 1582 "Business Combinations" to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination.

The CICA concurrently issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-controlling Interests," which replace Section 1600 "Consolidated Financial Statements." Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582.

The Company is currently assessing the impact of the adoption of these new standards on its consolidated financial statements.

2. Equity Investment

On March 31, 2010, the Company completed an investment agreement with Geofinance NV, an international upstream oil and gas company ("Geofinance"). Under the terms of the agreement, Geofinance invested $13.0 million in the Company to purchase 144,444,444 units of the Company at a price of $0.09 per unit, each unit comprising one common share and 0.6 of one common share purchase warrant. The warrants may be exercised for a period of one year from the date of the closing of the transaction at a price equal to the current market price (calculated on the basis of a five day volume weighted average trading price for the common shares of the Company) on the date of exercise. At closing, Geofinance owned 144,444,444 common shares of the Company representing approximately 46% of the issued and outstanding shares. If all of the warrants are exercised, Geofinance will own 231,111,110 common shares in aggregate, representing approximately 58% of the issued and outstanding common shares of the Company.

Included in deposits, prepaids and other is an amount of $13.0 million representing the proceeds of the share issuance which were received on April 1, 2010.

3. Long-term Debt

Effective March 31, 2006, the Company entered into an agreement with Caterpillar Power Ventures International Ltd. ("Caterpillar") to purchase, over time, 50% of Caterpillar's US $5 million loan to SEEB, a Tunisian power generation company in which the Company and Caterpillar each have a 50% interest. Under the terms of the agreement, the Company was obligated to increase its participation in Caterpillar's loan to SEEB from zero to US $2.5 million through payments made to Caterpillar. The Company is required to pay Caterpillar US $0.2 million annually on or before March 31 of each year and made the first such payment in April 2006. In addition, any amount collected by the Company from SEEB on account of the gas receivables which were outstanding on March 31, 2006, in the amount of US $0.7 million would be required to be applied in accelerating the fulfilment of the Company's payment obligations to Caterpillar.

In June 2009, the Company and Caterpillar agreed that the US $5 million loan to SEEB should be converted from debt to equity and that new shares issued by SEEB should be allotted equally between the Company and Caterpillar. Upon the debt to equity conversion, the Company became unconditionally liable to Caterpillar for the remaining balance of the US $2.5 million which at March 31, 2010 amounted to US $1.5 million, of which US $0.2 million is current. The Company's payment obligations were unchanged.

4. Term Loan

	Rate	($000s) March 31, 2010	December 31, 2009
Term Loan - borrowing base amount	LIBOR +4%	$ 17,495	$ 46,146
Term Loan - excess tranche amount	LIBOR +9.5%	$ 27,106	
Less: current portion		(7,016)	(8,408)
		$ 37,585	**$ 37,738**

The term loan is provided by Bank of Scotland as sole lender under a Borrowing Base Facility Agreement which is secured by the Company's oil producing assets in Tunisia. The amount that is available to be drawn under this facility is determined by a semi-annual borrowing base review.

On March 31, 2010, the Company concluded an Amendment and Restatement Agreement with the Bank of Scotland by which the terms of the Borrowing Base Facility Agreement were amended and restated. The Agreement provided for the extension of the final maturity date of the facility from December 31, 2012 to June 30, 2014 and rescheduling of repayments while splitting outstanding amounts into two tranches; the borrowing base amount and an excess tranche. Restructuring fees of US $0.9 million are payable on December 31, 2010.

As of March 31, 2010, the maximum amount available under the facility was US $45.0 million. The amount of the term loan outstanding at this date was US $43.9 million and an additional US $0.5 million of the facility is being used as security for a letter of credit provided by the Company (see Note 11(b)).

For the three months ended March 31, 2010, interest expense in the amount of $0.4 million (2009 – $0.7 million) has been recorded in the consolidated statements of operations and deficit.

5. Limited Recourse Long-Term Debt

	Rate	($000s) March 31, 2010	December 31, 2009
Limited recourse SEEB debt			
Project financing (US$ based)	LIBOR +2.25% +2% default margin*	$ 3,131	$ 3,210
Project financing (Euro based)	ADB** +2.25% +2% default margin*	5,383	5,899
		8,514	**9,109**
Amounts due within one year			
Project financing (US$ based)		(3,131)	(3,210)
Project financing (Euro based)		(5,383)	(5,899)
		(8,514)	(9,109)
		$ -	**$ -**

*** The 2% default margin commenced August 2009 as principal payments were deferred and the loans were technically in default.**

**** African Development Bank Base Rate**

Limited Recourse Long-Term Debt represents the Company's share of the indebtedness of SEEB. The indebtedness comprises limited-recourse bank financing, denominated in separate tranches of US dollars and Euros. Security for the bank financing is limited to the project assets, the Company's shareholding in SEEB and a fully collateralized non-performance guarantee from the Company of US $0.8 million.

Due to an extended interruption to production from the El Bibane field from August 2005 to April 2008, SEEB was unable to meet interest and repayment obligations to the lending banks. On June 26, 2009, an Amendment and Restatement Agreement was finalized between SEEB and the lending banks to allow for the restructuring of repayments of principal and interest.

Due to reduced generating capacity from May 2009 to May 2010 and the extended interruption to gas supply from the El Bibane field, SEEB has been unable to meet repayments of principal due under the provisions of the Amendment and Restatement Agreement. As a consequence of the payment arrears, SEEB has received formal notice from the lending banks that it is in default such that the loans can be

called by the lenders at anytime and therefore the entire amount of the limited-recourse loans is considered current.

For the three months ended March 31, 2010, interest expense in the amount of $0.1 million (2009 – $0.4 million) has been recorded in the consolidated statements of operations and deficit.

6. Asset Retirement Obligation

For the three months ended March 31, 2010		
Balance at January 1, 2010	$	1,945
Accretion expense		44
Foreign exchange		(66)
Balance at March 31, 2010	$	1,923

The total undiscounted amount of estimated cash flows required to settle the obligation is $5.7 million at March 31, 2010 which has been discounted using a credit-adjusted risk-free rate of 9%. Most of these obligations are not expected to be paid until 2020.

7. Income taxes

The future tax liability of $3.9 million at March 31, 2010, relates to the difference in the unclaimed tax deductible costs of capital assets in Tunisia and the related carrying value. The carrying value is based on the fair value of net assets acquired in the acquisition. When the assets are amortized there will be an associated tax benefit for accounting purposes. The liability is based on consolidated accounting values and any cash liability for income tax purposes is not triggered unless the underlying assets are sold. The approximate value of tax pools available in Tunisia is $118.1 million (2009 - $133.1 million).

8. Capital Stock

Common shares

Candax is authorized to issue an unlimited number of common shares without par value. The Company's issued and outstanding common shares consist of the following:

	Number		Amount
Balance at December 31, 2009	**169,261,606**	**$**	**111,791,446**
Issuance of shares through private placement	144,444,444		13,000,000
Share issuance costs			(892,686)
Balance at March 31, 2010	**313,706,050**	**$**	**123,898,760**

As described in Note 2, on March 31, 2010, the Company issued 144,444,444 common shares at $0.09 per common share for gross proceeds of $13.0 million and net proceeds of $12.1 million after deducting share issuance costs of $0.9 million.

Stock Options

In April 2005, the Board of Directors established a share incentive plan to provide additional incentive to its directors, officers, employees and consultants for their efforts on behalf of the Company in the conduct of its affairs. The maximum number of common shares reserved for issuance under the share option plan comprising part of the share incentive plan may not exceed 10% of the number of common shares

outstanding. Under the terms of the plan, all options vest immediately, unless otherwise specified. All options granted under the plan expire no later than the tenth anniversary of the grant date.

The following table summarizes the options outstanding in accordance with the Company's share incentive plan as at March 31, 2010:

	2010	
	Weighted Average Exercise Price	**Number of Options**
Outstanding - beginning of period	$ 0.78	10,700,000
Transactions during the period:		
Granted	-	-
Exercised	-	-
Expired	-	-
Forfeited	-	-
Outstanding - end of period	$ 0.78	10,700,000
Options exercisable - end of period	$ 0.78	9,975,000

Using the fair value method, the compensation expense is amortized over the three-year vesting period of the options. For the three months ended March 31, 2010, the Company recorded a stock-based compensation expense of $ nil (2009 - $0.1 million) relating to share options. The portion of the fair value charge to be recognized in future periods is $ nil.

9. Accumulated Other Comprehensive Loss

The balance in accumulated other comprehensive loss represents the cumulative amount of unrealized foreign exchange losses on translation of self-sustaining foreign operations.

10. Related Party Transactions

As described in Note 3, the Company has a 50% interest in SEEB. For the three months ended March 31, 2010, the Company had gas sales to SEEB of $ nil (2009 - $ 0.2) and as at March 31, 2010 the Company had a receivable from SEEB in the amount of $0.8 million (2009 – $0.8 million).

11. Commitments and Contingencies

(a) Under the provisions of the hydrocarbon law of Tunisia, 20% of the Company's oil production must be sold to ETAP. The Company receives 90% of the export sales price achieved by ETAP on sale of such production.

(b) As at March 31, 2010, the Company had provided a standby letter of credit in the amount of US $0.5 million in favour of Madagascar Ministry of Industry and Mines in accordance with the terms of the production sharing agreement entered into in November 2006. The letter of credit will be released when the Company has satisfied the commitments as outlined in the agreement.

(c) One of the Company's joint venture partners has initiated arbitration proceedings in connection with claims that it is seeking to assert arising from its audit of the costs of the El Bibane redevelopment programme. The Company has accrued US $0.8 million in this regard.

(d) The Company's joint venture partners in the Chaal permit have submitted reports arising from their audit of the expenditures associated with the initial Chaal exploration well. Amongst other matters, the reports assert claims for credit which, if sustained would result in the Company incurring additional liability of US$0.4 million. The Company has assessed the reports and responded to the partners at the end of April 2010. It is not anticipated that any additional

material liability will be incurred and, accordingly no amounts have been accrued for in this regard.

12. Segmented Information

	Oil and gas operations		Electricity generation operations		Total	
	2010	2009	2010	2009	2010	2009
For the three months ended March 31						
Sales (net of royalties)	$ 3	$ 7,311	$ 42	$ 977	$ 45	$ 8,288
Depletion, depreciation and amortization	(19)	13,909	133	152	114	14,061
Interest	441	726	135	375	576	1,101
Net income (loss) for the period	(3,030)	(14,037)	(584)	94	(3,614)	(13,943)
Capital assets as at						
March 31, 2010 and December 31, 2009	60,677	69,699	11,010	11,143	71,687	80,842

13. Subsequent Events

(a) The Company entered into a farm-out agreement with Sacoil Holdings Limited ("Sacoil") on May 10, 2010. The farm-out agreement is still subject to certain conditions precedent, including the approval of the transaction by the Tunisian authorities and the extension of the permit. The Tunisian authorities have been informed of the situation and a response is awaited as to the possibility of securing an extension to the expiration date of the permit. The farm-out agreement provides that Sacoil will earn a 55% interest in the Chaal permit by carrying the Company for up to US $4.8 million (representing 60% of the estimated cost of the sidetrack) in relation to the drilling of a sidetrack to Chaal-1. After the effective date of the farm-out, Falcan Chaal Petroleum Ltd (a subsidiary of the Company) will retain an 18.75% interest in the field. Sacoil will also pay the Company US $3.6 million at the time a development plan for the field is approved by the Tunisian authorities.

(b) The Company is in negotiations with third parties to farm out a portion of its interests in the Block 1101 permit located in Madagascar, for a carry on the future well to be drilled. A non-binding heads of agreement was executed on May 14, 2010 and negotiations to execute a farm-out agreement are ongoing.