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, 2009 and the notes thereto, as well as the MD&A and the audited consolidated financial statements for the year ended December 31, 2008. 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, 2008 is available on SEDAR at www.sedar.com. This information is presented as of May 13, 2009.

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, 2009 was $1.2613 (2008 – $1.0265) and averaged $1.2446 (2008 – $1.0047) during the first quarter of 2009.

Capital Structure and Dilution
At December 31, 2008, the Company had 169,261,606 common shares outstanding. No common share capital transactions were conducted since that date and hence the outstanding common shares at May 13, 2009 remain at 169,261,606.

At December 31, 2008, the Company had 13,550,000 stock options outstanding at an average exercise price of $0.79. No stock option transactions were conducted since that date and hence the outstanding stock options at May 13, 2009 remain at 13,550,000 at an average exercise price of $0.79.

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.

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.

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 ETAP, the Tunisian state-owned oil company. Candax owns a 31.4% working interest.

Robbana Field
Robbana is an oil field onshore Tunisia. Candax is the operator and holds an 80% working interest.

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.

The 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 agreed to drill a deviated sidetrack of the Chaal-1 well using managed pressure drilling to further evaluate the commerciality of the gas discovery. The sidetrack operation had been scheduled to commence in Q4 2008 but, having regard to the changing economic and commercial environment, has been deferred.

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 program commenced in September 2008 and was completed in November 2008. Processing and interpretation are continuing. The Madagascar government has approved a twelve-month extension to the licence terms until July 2010 within which time Candax has a commitment to drill an exploration well.

Revenue
Sales, net of royalties for the three months ended March 31, 2009, were $8.3 million compared to $2.1 million for the same period in 2008. The Company sold 153,507 barrels of oil at an average price of US $37.82/bbl compared to 2008 where 25,428 barrels were sold at an average price of US $82.39/bbl. The change in sales volumes was primarily due increased production from El Bibane.

Following the recommencement of gas production from the El Bibane field, SEEB resumed operations and sales of electricity to the Tunisian state-owned utility company. The Company's share of the electricity sales for the first quarter of 2009 was $1.0 million.

Production
The following table summarizes the quarterly net after royalty production for 2009 and 2008:

	Q1	
BBLS	**2009**	**2008**
Oil (bbls/day)	1,063	454
Gas (mmcf/day)	3.5	-
BOEs/day	1,651	454

Production for the first quarter of 2009 was significantly higher than in the same period in 2008, due to increased volumes from El Bibane, which was brought back into production only in mid-March 2008. Net working interest production for the first quarter of 2009 before deduction of royalty was 1,129 bbld of oil and 3.6 mmcfd of natural gas representing together 1,729 boed.

Operating Costs
Operating costs for the three months ended March 31, 2008, were $1.6 million compared to $0.7 million for the same period in 2008. Operating costs were higher for the three months ended March 31, 2009

compared to 2008 as the El Bibane field resumed production in mid-March 2008 and prior to which field related costs were capitalized.

Depletion, Depreciation and Amortization Expense
Depletion, depreciation and amortization expense for the three months ended March 31, 2009, was $14.1 million compared to $1.1 million for the same period in 2008. The significant increase in 2009 over 2008 is due to increased sales volumes and a higher depreciable cost base due to the expenditures associated with the redevelopment of El Bibane. Depletion is calculated using the purchase price of the acquired assets, capital expenditures and proved reserves as at December 31, 2008.

General and Administrative Costs
General and administrative costs for the three months ended March 31, 2009 were $1.5 million compared to $1.8 million for the same period in 2008.

Interest Expense
Interest expense for the three months ended March 31, 2009 was $1.1 million compared to $0.3 million for the same period in 2008. The increase in 2009 over the same period in 2008 relates to the interest on the credit facility which ceased being capitalized once El Bibane production commenced in March 2008.

Foreign Exchange
The unrealized foreign exchange gain for the three months ended March 31, 2009 was $0.1 million consistent with the same period in 2008 of $0.1 million.

Selected Quarterly Financial Data ***(unaudited)***

in thousands of Canadian dollars except per share amounts	Q1	Q2	Q3	Q4	Year
2009					
Sales, net of royalties	8,288				8,288
Net income (loss)	(13,943)				(13,943)
Net income (loss) per share - basic and diluted	(0.08)				(0.80)
Total assets	193,256				193,256
Long-term financial liabilities	48,201				48,201
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

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. The US dollar based long-term financial liabilities for 2008 have increased due to the weakening of the Canadian dollar. Revenue for the second quarter of 2008 was significantly higher than either the first quarter of 2008 or the second quarter of 2007 due to the start-up of production at the El Bibane field. Revenue for the first quarter of 2008 was consistent with the revenue earned for the first quarter of 2007. Throughout the reporting period there were very considerable fluctuations in crude oil prices which impacted on 2008 revenues during the period. The long-term liabilities for the first quarter of 2008 increased significantly from the fourth quarter of 2007 as US $29 million was drawn down from the credit facility to fund the El Bibane development program.

Taxation
Candax has received a report from the Tunisian tax authorities setting forth proposed adjustments to the Company's profits tax returns for 2005, 2006 and 2007. The total amount of the proposed adjustments for profits tax payments and interest is 10.2 million Tunisian Dinars (US$7.3 million). The Company has filed a

rebuttal with the tax authorities, which are expected to issue a revised report in due course. The Company has made the appropriate accounting provisions relating to this matter in the financial statements, and has been advised that any final settlement on this matter is likely to include an agreement for a phased settlement over a number of years.

In the absence of agreement with the tax authorities, the timing, duration and outcome of any administrative and judicial proceedings that may be required involve substantial uncertainties. As the disputes are resolved, it is possible that the Company will record further adjustments to its financial statements that could be material to its financial position and results of operations and it may be required to make material cash payments. The timing and amounts of any payments the Company may be required to make are uncertain, but the Company does not anticipate that it will make any material cash payments to settle any of the disputed items during 2009.

Liquidity, Capital Resources and Capital Expenditures
During the third and fourth quarter of 2008 and into the first quarter of 2009, there has been notable market turbulence worldwide due to the credit crisis and potential of a global recession. These market conditions have and are expected to continue to have an adverse impact on the ability of oil and gas companies to secure debt and equity funding and/or could affect current and future joint venture arrangements. The Company has historically relied on debt and equity financing to raise capital and expects to be able to continue to do so, but its ability to do so may be impacted by the current global situation and economic uncertainties. The Company is also dependent upon sustained cash flow from its operations at current Brent oil prices based on forecast rates of production consistent with those reflected in the independent year-end engineering report. A material fall in the oil price or curtailment of production below certain levels would also compromise the ability of the Company to meet its obligations as they fall due.

Management 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 there is considerable uncertainty about the appropriateness of the use of the going concern basis of accounting.

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. The maturity date for the Term Loan is December 31, 2012 and the loan bears interest at US$ LIBOR +2.00%.

As of March 31, 2009 the maximum amount available under the facility was US $47.4 million. The amount of the Term Loan outstanding at this date was US $46.9 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 10(b)).

One of the Company's objectives in managing liquidity risk is to have sufficient funds to meet liabilities as they fall due for payment. As at March 31, 2009, the Company had a cash balance of $11.7 million (December 31, 2008 - $8.9 million) and accounts receivable of $5.3 million (December 31, 2008 - $5.2 million) to settle accounts payable and accrued liabilities of $21.8 million (December 31, 2008 - $14.9 million).

Sensitivity analysis
The sensitivities of the financial position of the Company to changes in key economic variables of interest rates, currency exchange rates and crude oil price are as follows: -

- 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 the loss by $0.2 million for the three months ended March 31, 2009.

- 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.
- The Company is exposed to changes in oil prices. Sensitivity to a plus or minus $1.00 change in the price of crude oil would affect the loss by $0.2 million for the three months ended March 31, 2009.

Commitments

Under the provisions of the hydrocarbon law of Tunisia, 20% of the Company's oil production must be sold to Enterprise Tunisienne d'Activités Pétrolières ("ETAP"), the Tunisian state-owned oil company. The Company receives 90% of the export sales price achieved by ETAP on sale of such production.

As of March 31, 2009, the Company had provided a standby letter of credit in the amount of US $0.5 million in favour of the Madagascar Ministry of Industry and Mines in accordance with the terms of the production sharing agreement for Block 1101 entered into in November 2006. The letter of credit will be released when the Company has satisfied the commitments set out in the agreement.

Critical Accounting Estimates

A discussion of the Company's significant accounting policies is contained in Note 2 to the 2008 audited consolidated financial statements. Preparing 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.

Business Risks

A comprehensive assessment of the Company's business risks is set out in the 2008 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 2008 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. During 2008 the price of crude oil fluctuated widely, climbing to a peak of almost $150 per barrel around mid-year. As the impact of the global financial crisis has pushed economies around the globe into recession, demand destruction caused commodity prices to collapse through the second half of the year, with oil reaching lows below $40 per barrel by year end. 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 an future 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.

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.

Madagascar has recently experienced a period of political unrest following which, on March 18, 2009 Mr. Andry Rajoelina was appointed as president. The Company's operations, assets and local staff have been unaffected by these events. However, the Company will continue to closely monitor the situation.

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

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's President and Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this management's discussion and analysis, management of the Company, with the participation of the President and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the quarter covered by this management's discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the President and Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles.

During the most recent quarter there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Recent Accounting Changes and Effective Dates

Goodwill and Intangible Assets

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064 – "Goodwill and Intangible Assets" which replaces "Goodwill and Other Intangible Assets." This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. It ensures that intangible assets meet the definition of an asset, and eliminates the "matching" principle, whereby certain costs were being deferred and expensed to match with revenue earned. Concurrent with the introduction of this standard, the CICA withdrew EIC 27, Revenues and Expenses during the pre-operating period. As a result of the withdrawal of EIC 27, the Company will no longer be able to defer costs and revenues incurred prior to commercial production at new operations.

This new standard is effective for the Company's fiscal year beginning January 1, 2009. Adoption of this standard did not have a significant impact on the Company's consolidated financial statements.

Credit Risk and Fair Value of Financial Assets and Liabilities

In January 2009, the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments.

This standard is effective for the Company's fiscal year beginning January 1. Adoption of this EIC did not have a significant effect on the Company's 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.

The Company has not yet determined the impact of the convergence of Canadian GAAP with IRFS. The Company will be assessing the impact of the convergence of Canadian GAAP with IFRS on its results of operations, financial position and disclosures in 2009 and plan its transition to IFRS accordingly.

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. Over the course of 2009, the Company will evaluate the alternatives and analyze the impact upon the implementation of IFRS.

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.

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, 2009

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Candax Energy Inc.
Consolidated Balance Sheets (unaudited)

As at *(in thousands of Canadian dollars)*		March 31, 2009		December 31, 2008
ASSETS				
Current				
Cash and cash equivalents	$	11,741	$	8,931
Restricted investment (Note 3)		978		945
Accounts receivable		5,298		5,174
Inventory		3,144		4,465
Deposits and prepaids		790		919
		21,951		20,434
Petroleum and natural gas properties		158,193		161,671
Property, plant and equipment		12,607		11,784
Long-term receivable		505		365
	$	193,256	$	194,254
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	21,839	$	14,899
Current portion of term loan (Note 4)		13,905		7,935
Current portion of limited recourse long-term debt (Note 5)		12,008		12,063
		47,752		34,897
Term loan (Note 4)		45,259		49,197
Limited recourse long-term debt (Note 5)		2,942		3,009
Asset retirement obligation (Note 6)		1,539		1,449
Future income tax liability (Note 7)		1,841		4,746
		99,333		93,298
SHAREHOLDERS' EQUITY				
Capital stock		111,791		111,791
Contributed surplus		3,338		3,237
		115,129		115,028
Accumulated other comprehensive income (Note 9)		17,930		11,121
Deficit		(39,136)		(25,193)
		(21,206)		(14,072)
		93,923		100,956
	$	193,256	$	194,254

Going concern (Note 1)

The accompanying notes are an integral part of these 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)*	2009	2008
Revenues		
Sales, net of royalties	$ 8,288	$ 2,097
Interest and other income	127	350
	8,415	2,447
Expenses		
Operating costs	1,623	704
Depletion, depreciation and amortization	14,061	1,128
General and administrative	1,527	1,794
Interest	1,101	318
Foreign exchange gain	(107)	(142)
Stock-based compensation (Note 8)	101	169
Accretion on asset retirement obligation (Note 6)	37	42
	18,343	4,013
Loss for the period before current and future income taxes	(9,928)	(1,566)
Current income tax expense	6,891	335
Future income tax expense (recovery)	(2,876)	397
	4,015	732
Loss for the period	$ (13,943)	$ (2,298)
Deficit, beginning of period	(25,193)	(12,044)
Deficit, end of period	$ (39,136)	$ (14,342)
Loss per share - basic and diluted	(0.08)	(0.01)
Weighted average number of shares outstanding		
- basic	169,261,606	169,231,606
- diluted	169,261,606	170,309,106

Going concern (Note 1)

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

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

For the three months ended March 31 *(in thousands of Canadian dollars)*		2009		2008
OPERATING ACTIVITIES				
Loss	$	(13,943)	$	(2,298)
Items not affecting cash				
Write-down of spare parts inventory		-		400
Stock-based compensation		101		169
Depletion, depreciation and amortization		14,061		1,128
Future income tax expense (recovery)		(2,876)		397
Accretion on asset retirement obligation		37		42
		(2,620)		(162)
Net change in non-cash working capital		7,717		(1,171)
		5,097		(1,333)
INVESTING ACTIVITIES				
Investment in long-term receivable		-		(100)
Additions to petroleum and natural gas properties		(1,485)		(27,348)
		(1,485)		(27,448)
FINANCING ACTIVITIES				
Proceeds from credit facility		-		29,136
		-		29,136
Foreign currency translation		(802)		1,389
Net decrease in cash and cash equivalents		2,810		1,744
Cash and cash equivalents, beginning of period		8,931		22,199
Cash and cash equivalents, end of period	$	11,741	$	23,943
Cash and cash equivalents are comprised of:				
Cash	$	11,741	$	23,943
Interest paid during the period	$	-	$	-
Income taxes paid during the period	$	259	$	1,600

Going concern (Note 1)

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

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

For the three months ended March 31 *(in thousands of Canadian dollars)*		2009		2008
Loss for the year	$	(13,943)	$	(2,298)
Other comprehensive income:				
Unrealized foreign exchange gain on translation of self-sustaining foreign operations		6,809		5,523
Income taxes		-		-
Other comprehensive income:		6,809		5,523
Comprehensive income (loss)	$	(7,134)	$	3,225

Going concern (Note 1)

The accompanying notes are an integral part of these 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 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, 2008.

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, 2008 except as described in Note 2. 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. The amount that is available to be drawn under this facility is determined by a semi-annual borrowing base review that reflects amongst other factors the Brent oil price mandated to be used for such purpose by the credit committee of the bank. The mandated Brent oil prices applicable to the second half of 2009 and for full year 2010 have in April 2009 been reduced and are significantly below current market prices. The impact of this change is to increase the estimated repayment obligation of the Company as at June 30, 2009 from US$5.6 million to US$11.0 million, an amount which the Company would not be able to meet from its forecast cash flows.

Management is presently in discussions with the bank to achieve a rescheduling of the repayment obligation and, in the event that such negotiations are not successful, believes that the Company will be able to secure the necessary financing through a combination of the issue of new equity or debt instruments. The Company has also announced previously the implementation of a cost reduction program in the last quarter of 2008, and the adoption of a flexible capital program for 2009 and is continuing to take steps to reduce its cost base. Nevertheless, there is no assurance that these initiatives will secure additional financing or reduce the Company's expenditures sufficiently to mitigate the potential adverse affects of the risks referred to above. Until the outcome of these matters is known there is considerable uncertainty about the appropriateness of the use of the going concern basis of accounting.

2. Changes in Accounting Policy

Goodwill and Intangible Assets

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064 – "Goodwill and Intangible Assets" which replaces "Goodwill and Other Intangible Assets." This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. It ensures that intangible assets meet the definition of an asset, and eliminates the "matching" principle, whereby certain costs were being deferred and expensed to match with revenue earned. Concurrent with the introduction of this standard, the CICA withdrew EIC 27, Revenues and Expenses during the pre-operating period. As a result of the withdrawal of EIC 27, the Company will no longer be able to defer costs and revenues incurred prior to commercial production at new operations.

This new standard is effective for the Company's fiscal year beginning January 1, 2009. Adoption of this standard did not have a significant impact on the Company's consolidated financial statements.

Credit Risk and Fair Value of Financial Assets and Liabilities

In January 2009, the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments.

This standard is effective for the Company's fiscal year beginning January 1, 2009. Adoption of this EIC did not have a significant effect on the Company's financial statements.

3. Restricted Investment

Restricted investment represents a $1.0 million debt service reserve held by the Arab Banking Corporation as security for principal and interest payments to be made by SEEB under its limited recourse long-term debt (see Note 5).

4. Term Loan

	Rate	**($000s)**	
		March 31, 2009	**December 31, 2008**
Term Loan	LIBOR +2%	$ 59,164	$ 57,132
Less: current portion		(13,905)	(7,935)
		$ 45,259	**$ 49,197**

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 discussed in Note 1. The maturity date for the Term Loan is December 31, 2012 and the loan bears interest at US$ LIBOR +2.00%.

As of March 31, 2009 the maximum amount available under the facility was US$47.4 million. The amount of the Term Loan outstanding at this date was US$46.9 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 10(b)).

For the 3 months ended March 31, 2009, interest expense in the amount of $0.7 million has been recorded in the consolidated statements of operations and deficit. For the three months ended March 31, 2008, $0.5 million has been recorded in the consolidated balance sheet in petroleum and natural gas properties.

5. Limited Recourse Long-Term Debt

	Rate	($000s) March 31, 2009	December 31, 2008
Limited recourse SEEB debt			
Project financing (US$ based)	LIBOR +1.5% +2% default margin*	$ 4,443	$ 4,315
Project financing (Euro based)	ADB** +2% +2% default margin*	7,449	7,647
Due to Caterpillar Power Ventures Inc.	13%	2,798	2,839
Due to Caterpillar Power Ventures Inc.	LIBOR +0.4%	260	271
		14,950	**15,072**
Amounts due within one year			
Due to Caterpillar Power Ventures Inc.		(116)	(101)
Project financing (US$ based)		(4,443)	(4,315)
Project financing (Euro based)		(7,449)	(7,647)
		(12,008)	(12,063)
		$ 2,942	**$ 3,009**

*** The 2% default margin commenced May 2006 as principal payments were deferred and the loans were technically in default.**
**** African Development Bank Base Rate**

Limited Recourse Long-Term Debt represents the indebtedness of Société d'Electricité d'El Bibane ("SEEB"), a 50%-owned subsidiary of the Group which owns and operates a 27MW electricity generating plant in Tunisia. The indebtedness comprises limited-recourse bank financing, denominated in separate tranches of US dollars and Euros, and unsecured US dollar denominated advances from Caterpillar Power Ventures Inc. ("CPVI") which owns the remaining 50% of SEEB. Security for the bank financing is limited to the project assets and a corporate non-performance guarantee from Candax 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. 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 and therefore the entire amount of the limited-recourse loans is considered current.

Amounts due to CPVI are not subject to fixed repayment terms and are subordinated to the bank financing. Since it is not anticipated that any amounts will be repaid in 2010 and that the lender cannot demand repayment this additional financing has been classified as a long-term obligation.

Also included in the limited recourse SEEB debt is an amount of $0.3 million in respect of Candax's share of funding advances made to SEEB by CPVI during 2007. The loan is repayable by SEEB in equal quarterly payments over a term of four years.

For the 3 months ended March 31, 2009, interest expense in the amount of $0.4 million (2008 – $0.3 million) has been recorded in the consolidated statements of operations and deficit.

On February 20, 2009, an Amendment and Restatement Agreement was signed between SEEB and the lending banks to allow for the restructuring of repayments of principal and interest such that SEEB would no longer be in arrears and at risk of default. The agreement was subject to a number of conditions precedent including capital restructuring through the conversion of shareholders' debt to equity and the completion of audited financial statements for 2008. It is anticipated that the conditions will be satisfied in the second quarter of 2009.

(in thousands of Canadian dollars unless otherwise stated)

6. Asset Retirement Obligation

For the three months ended March 31, 2009		
Balance at December 31, 2008	$	1,449
Accretion expense		37
Foreign exchange		53
Balance at March 31, 2009	$	1,539

The total undiscounted amount of estimated cash flows required to settle the obligation is $4.3 million at March 31, 2009, which has been discounted using a credit-adjusted risk-free rate of 9%. Most of these obligations are not expected to be paid until 2024.

7. Income taxes

The future tax liability of $1.8 million at March 31, 2009, 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 $133.1 million.

8. 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:

		Weighted Average Exercise Price	**Number of Options**
Outstanding - beginning of period	**$**	**0.79**	**13,550,000**
Transactions during the period:			
Granted		-	-
Exercised		-	-
Expired		-	-
Forfeited		-	-
Outstanding - end of period	**$**	**0.79**	**13,550,000**
Options exercisable - end of period	**$**	**0.78**	**12,200,000**

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, 2009, the Company recorded a stock-based compensation expense of $0.1 million (2008 - $0.2 million) relating to share options. The portion of the fair value charge to be recognized in future periods is $0.2 million.

(in thousands of Canadian dollars unless otherwise stated)

9. Accumulated Other Comprehensive Income

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

10. Commitments

(a) Under the provisions of the hydrocarbon law of Tunisia, 20% of the Company's oil production must be sold to Enterprise Tunisienne d'Activités Pétrolières ("ETAP"), the Tunisian state-owned oil company. The Company receives 90% of the export sales price achieved by ETAP on sale of such production.

(b) As of March 31, 2009, 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.

11. Segmented Information

By generation source:

	Oil and gas operations		Electricity generation operations		Total	
	2009	2008	2009	2008	2009	2008
For the three months ended March 31						
Sales (net of royalties)	$ 7,311	$ 2,097	$ 977	$ -	$ 8,288	$ 2,097
Depletion, depreciation and amortization	13,909	731	152	397	14,061	1,128
Interest expense	726	-	375	318	1,101	318
Net income (loss)	(14,037)	(1,531)	94	(767)	(13,943)	(2,298)
As at March 31, 2009 and December 31, 2008						
Capital assets	158,193	161,671	12,607	11,784	170,800	173,455