



Candax Energy Inc.
Management's Discussion and Analysis
For the period ended June 30, 2008

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 and six months ended June 30, 2008 and the notes thereto, as well as the MD&A and the audited consolidated financial statements for the year ended December 31, 2007. 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, 2007 is available on SEDAR at www.sedar.com. This information is presented as of August 12, 2008.

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.

Commodity Prices

A combination of supply factors, stock inventory levels, transportation limitations and geopolitical concerns has combined to support oil prices with Brent averaging US \$120 per barrel during the second quarter of 2008 and US \$109 for the first six months of the year. Brent oil prices continue to have a great deal of volatility and are currently trading in a range of US \$110-120 per barrel.

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 June 30, 2008 was \$1.0197 (2007 – \$1.0654) and averaged \$1.0101 (2007 – \$1.0986) during the second quarter and \$1.0074 (2007 - \$1.1350) for the first six months of 2008.

Capital Structure and Dilution

At December 31, 2007, the Company had 169,231,606 common shares outstanding. During the second quarter, 30,000 shares were issued under the Company's share incentive plan to bring the number of common shares outstanding at August 12, 2008 to 169,261,606.

At December 31, 2007, the Company had 12,067,500 stock options outstanding at an average exercise price of \$0.78. During the first quarter of 2008, 1,050,000 options were granted at \$0.92 and during the second quarter, 1,000,000 options were granted at \$0.73, 60,000 options expired at an average exercise price of \$1.16, 30,000 options were exercised at \$0.94 and on July 15, 2008, 25,000 options were issued at \$0.80 to bring the total number of options currently issued to 14,052,500 at August 12, 2008 at an average exercise price of \$0.79.

Business Development Activities

Candax's strategy is to build a high-growth international portfolio of oil and gas assets.

Review of Operations

El Bibane

Candax is the operator of El Bibane and holds a 73.8% working interest in the field. The EBB-4 well commenced commercial production during the week commencing March 16, 2008 and the EBB-5 well was also tied in during the same period; and was subsequently production tested during the second quarter. The drilling



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of the EBB-3 well, the last of the three well program, was completed in March 2008, however the platform and pipeline installation for full field development was not completed until July 2008 and the completion and gas lift for EBB-3 was delayed as commissioning of the gas compressors took longer than anticipated. EBB-3 has been on production test since the last week in July under natural flow and as reported on July 31, 2008, production from EBB-3 had not yet stabilized and oil production rates were over 1,000 bopd and rising. Production has been tested from all three wells.

Candax is currently undertaking engineering operations to commence gas recycling and fully optimize oil production from the field. Candax is also encouraged by the higher than expected levels of condensate measured when testing gas production from EBB-5 during the second quarter. Condensate was measured at approximately 70 barrels per million cubic feet of gas, almost double the ratio anticipated. As full field production is optimized with the completion of all three wells, oil production rates are expected to increase and crude oil sales volumes will also rise.

SEEB

Candax and Caterpillar Power Ventures Inc. each hold a 50% interest in the SEEB power facility. Gas sales to SEEB as well as electricity generation and power sales resumed from the SEEB power plant during the second quarter following the recommencement of natural gas production from the El Bibane field.

Ezzaouia Field

The Ezzaouia field is operated by Maretap, a joint venture company between Candax and ETAP, the Tunisian state-owned oil company. Candax has a 31.4% working interest in this field. Production operations from the Ezzaouia field continued uninterrupted during the second quarter 2008. The spudding of a new well, Ezzaouia 17, was announced on May 30, 2008 and on July 31, 2008 Candax announced that Ezzaouia 17 encountered all of the producing Jurassic zones in the main Ezzaouia field, all of which were interpreted as oil bearing. Net pay of approximately 20 metres was identified, with porosities of about 15% and oil saturations of about 70%. Temporary production facilities have been mobilized and crude trucking operations will commence in August 2008.

Robbana Field

Candax is the operator of Robbana and holds an 80% working interest in the field. Production operations at Robbana continued during the second quarter 2008 as well as the technical evaluation of the further reserves potential in the permit.

Chaal

Candax is the operator of Chaal and holds a 60% working interest in the field. The area comprising 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 first phase of the exploration permit expired May 25, 2008. A two-year extension to the permit has been agreed to, and administrative formalities with the Tunisian Government have been completed, which require no additional work program commitments beyond the planned drilling of a sidetrack well.

Following the suspension of the Chaal-1 well in 2006, Candax and its partners undertook a full review of the results and potential future strategies. Candax intends to drill a deviated sidetrack of the Chaal-1 well which is expected to spud in October. In order to minimize formational damage, which the Company believes was the main cause of the lack of gas production in the original well, the drilling will be undertaken using managed pressure drilling. A contract has been signed with drilling specialists with extensive experience in high-pressure/high-temperature operations. The objective of the Chaal sidetrack is to further evaluate the commerciality of the gas discovery.

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. Block 1101 is located north of a number



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of large onshore fields with reported heavy oil in place of approximately 30 billion barrels as well as several lighter oil discoveries.

Following the results from the initial geological fieldwork, geochemistry and gravity/magnetics have confirmed the excellent potential of Block 1101, indicating in excess of 5,000 metres of sedimentary section beneath our block together with numerous oils shows. Candax has completed the tendering for the acquisition of a 2D seismic program, which is due to be commenced late in the third quarter of 2008. Following the encouraging results from initial exploration studies, planned seismic coverage has been increased to include additional areas of Block 1101. Subject to interpretation of the 2D seismic results and further field work planned for 2008, it is anticipated that the first exploration well will be drilled in 2009.

Revenue

Sales, net of royalties for the three months ended June 30, 2008, were \$14.9 million (2007 - \$0.6 million) and for the six months ended June 30, 2008 were \$17.0 million (2007 - \$2.6 million). During the second quarter of 2008, the Company sold 120,577 barrels of oil at an average price of US \$116.00 (2007 - 8,099 barrels at an average price of US \$69.41) and on a year-to-date basis for 2008 the Company sold 146,019 barrels of oil at an average price of US \$110.08 (2007 - 41,819 barrels at an average price of US \$55.93). The increase in barrels sold during both the three and six-month periods in 2008 compared to the same periods in 2007 was due to the start-up of production at the El Bibane field in March 2008.

With the resumption of production at the El Bibane field, gas was produced and sold to SEEB which was able to generate electricity and sell the power to the Tunisian state-owned power generation company. The Company's share of the electricity sales for the second quarter of 2008 was \$0.7 million.

Production

The following table summarizes the quarterly production for 2008 and 2007:

BBLs	Q1		Q2	
	2008	2007	2008	2007
Oil (bbls/day)	413	420	1,005	513
Gas (mmcf/day)	-	-	3.7	-
BOEs/day	413	420	1,227	513

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.

The boed production in the second quarter of 2008 was significantly higher than in the same period in 2007, due to the start-up of production at El Bibane, which commenced in March 2008, following the completion and tie in of the first well, EBB-4.

The SEEB plant resumed power generation during the second quarter though remains in arrears with principal payments due to its senior lenders; negotiations are continuing with the senior lenders to reschedule repayment terms. There is, however, no commitment from the lenders to continue to defer principal or interest payments. In the event of a declaration of default by the lenders, the lenders would take control of the SEEB plant and Candax would owe a default payment of US \$0.8 million but would not be liable for the balance of the loans outstanding.



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Operating Costs

For the three months ended June 30, 2007, operating costs were \$2.0 million, an increase of \$0.6 million over the same period in 2007 due to the production from El Bibane and work-over costs incurred at the Ezzaouia field. Operating costs for the six-month period ended June 30, 2008 were \$2.7 million, an increase of \$0.8 million for the same period in 2007 due to significantly higher sales volumes in 2008.

Depletion, Depreciation and Amortization Expense

For the three and six months ended June 30, 2008, depletion, depreciation and amortization was \$5.3 million and \$6.4 million, respectively (2007 - \$0.7 million and \$1.7 million, respectively). The increase in 2008 over the same periods in 2007 was due to significantly higher sales volumes and the commencement of depletion charges for El Bibane.

General and Administrative Costs

For the three and six months ended June 30, 2008, general and administrative costs were \$1.9 million and \$3.7 million, respectively (2007 - \$1.1 million and \$2.2 million, respectively). The increase in 2008 over the same periods in 2007 is a result of financing expenses related to the acquisition of the credit facility and a decrease in the amount of management time capitalized on development projects.

Interest Expense

Interest expense for the three months ended June 30, 2008 was \$0.3 million (2007 - \$0.3 million). Interest expense for the six months ended June 30, 2008 was \$0.7 million (2007 - \$0.7 million). The interest expense on the credit facility is being capitalized in accordance with the Company's accounting policy.

Foreign Exchange

The unrealized foreign exchange loss for the three and six months ended June 30, 2008 was \$0.2 million and \$2.2 million respectively (2007 - \$2.1 million and \$2.2 million respectively). The decrease in the loss was due to the revaluation of the US dollar bonds into Canadian dollars during 2007 as a result of the strengthening of the Canadian dollar.



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Selected Quarterly Financial Data (unaudited)

<i>in thousands of Canadian dollars except per share amounts</i>	Q1	Q2	Q3	Q4	Year
<i>2008</i>					
Sales, net of royalties	2,097	14,909	-	-	17,006
Net income (loss)	(2,298)	2,820	-	-	522
Net income (loss) per share - basic and diluted	(0.01)	0.02	-	-	-
Total assets	185,802	183,811	-	-	183,811
Long-term financial liabilities	38,129	39,400	-	-	39,400
<i>2007</i>					
Sales, net of royalties	2,059	552	10,083	167	12,861
Net income (loss)	(894)	(4,541)	2,216	(6,032)	(9,251)
Net income (loss) per share - basic and diluted	(0.01)	(0.03)	0.01	(0.04)	(0.05)
Total assets	136,790	121,274	126,909	147,887	147,887
Long-term financial liabilities	3,046	2,797	2,624	13,565	13,565
<i>2006</i>					
Sales, net of royalties	9,193	1,139	1,923	897	13,152
Net income (loss)	1,638	(460)	(2,159)	970	(11)
Net income (loss) per share - basic and diluted	0.01	(0.00)	(0.01)	(0.00)	(0.00)
Total assets	101,894	140,932	137,984	143,896	143,896
Long-term financial liabilities	11,773	11,174	10,455	3,056	3,056

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. 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. Revenue for the fourth quarter of 2007 was significantly lower than the fourth quarter of 2006 due to the timing of the crude liftings. Revenue for the third quarter of 2007 was higher than that of the third quarter of 2006 and higher than that of the first or second quarters of 2007 due to the timing of crude oil liftings. Revenue for the first quarter of 2007 was significantly lower than the first quarter of 2006 also due to the timing of the liftings. Revenue for the second, third and fourth quarters of 2006 was significantly lower than that earned in the first quarter of 2006 due to the timing of the liftings. The long-term financial liabilities as at the end of 2007 were higher than at the end of the third quarter of 2007 due to the draw down of the credit facility as discussed earlier. The long-term financial liabilities as at the end of the first, second and third quarters of 2007 and the fourth quarter 2006 were significantly lower than the other quarters in 2006 as the limited recourse loans were reclassified from long-term to current effective December 31, 2006.

Liquidity, Capital Resources and Capital Expenditures

The Company has a facility with the Bank of Scotland which provides a line of credit of up to US \$50 million. The facility bears interest at the London Interbank Overnight Rate plus 2% and there are no fixed repayment terms. On November 30, 2007, the Company drew down US \$14 million from the facility, and allocated US \$6.0 million, US \$4.5 million of which was released on March 31, 2008, to be used as security for letters of credit provided by the Company. On February 4, 2008, the Company drew down US \$29 million from the facility bringing the outstanding amount on the facility to US \$44.5 million at June 30, 2008.

As at June 30, 2008, the Company held \$31.5 million in cash and cash equivalents. Current cash resources, cash from operations and funds available from the credit facility are expected to be adequate to allow the Company to meet its obligations as they become due.



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Commitments

Under the terms of an agreement with the Tunisian government, 20% of the Company's oil production must be sold to the state-owned oil company, ETAP. The production sold under this domestic market obligation receives a price equal to approximately 90% of the US dollar price for the export sales.

Oil production is accumulated in a storage facility until a marketable cargo is achieved. Under this agreement, the state-owned company, ETAP, with respect to its 55% rights on the Ezzaouia field production and on behalf of the Government with respect to the domestic market obligation and the Company's Tunisian entities have agreed to optimize tanker lifting volumes. As a result of this reciprocal practice, a short-term volumetric imbalance may arise through an "under/over" lift position. This short-term situation is corrected from future production allocations.

The financial commitments of the Company in relation to construction and drilling programs and related costs for the redevelopment of El Bibane have been substantially fulfilled.

As of June 30, 2008, the Company had provided a standby letter of credit in the amount of US \$1.5 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 2007 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 2007 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.



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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 2007 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 is influenced by the world economy and OPEC's ability to adjust supply to world demand. Recently crude oil prices have been kept high by political events causing disruptions in the supply of oil, and concern over potential supply disruptions triggered by unrest in the Middle East. Political events trigger large fluctuations in oil price levels. Natural gas prices are influenced by factors within North America. The continued tight supply demand balance for natural gas is causing significant elasticity in pricing. Despite record drilling activity, a strong economy, weather, fuel switching and demand for electrical generation there still exists a tight supply causing prices to remain high.

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



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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 results of operations.

Foreign Currency Exchange Rates

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 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 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 North 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 promulgated 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



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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

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 year 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. The Company's Chief Executive Officer and Chief Financial Officer have ensured the design of internal control over financial reporting.

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

Effective January 1, 2009

The CICA has issued a new standard which may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning January 1, 2009. The Company will adopt the



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requirements commencing in the quarter ended March 31, 2009 and is considering the impact this will have on the Company's financial statements.

Section 3064, Goodwill and intangible assets, establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. 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.

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 press release 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 press release 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 press release are expressly qualified by this cautionary statement.



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Interim Consolidated Financial Statements
(unaudited)

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Candax Energy Inc.
Consolidated Balance Sheets (unaudited)

As at (in thousands of Canadian dollars) June 30, 2008 December 31, 2007

ASSETS

Current

Cash and cash equivalents	\$	31,499	\$	22,199
Restricted investment (Note 2)		791		769
Accounts receivable		743		5,560
Inventory		1,967		2,338
Deposits and prepaids		488		401
		<u>35,488</u>		<u>31,267</u>

Petroleum and natural gas properties		135,923		103,663
Property, plant and equipment		12,094		12,759
Long-term receivable		306		198
	\$	<u>183,811</u>	\$	<u>147,887</u>

LIABILITIES

Current

Accounts payable and accrued liabilities	\$	36,196	\$	38,119
Current portion of term loan (Note 3)		6,966		2,696
Current portion of limited recourse long-term debt (Note 4)		10,801		9,927
		<u>53,963</u>		<u>50,742</u>

Term loan (Note 3)		36,882		11,182
Limited recourse long-term debt (Note 4)		2,518		2,383
Asset retirement obligation (Note 5)		1,980		1,842
Future income tax liability (Note 6)		4,391		3,342
		<u>99,734</u>		<u>69,491</u>

SHAREHOLDERS' EQUITY

Capital stock		111,763		111,753
Contributed surplus		2,899		2,419
Accumulated other comprehensive loss (Note 9)		(19,063)		(23,732)
Deficit		(11,522)		(12,044)
		<u>84,077</u>		<u>78,396</u>
	\$	<u>183,811</u>	\$	<u>147,887</u>

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

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

<i>(in thousands of Canadian dollars except for per share amounts)</i>	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Revenues				
Sales, net of royalties	\$ 14,909	\$ 552	\$ 17,006	\$ 2,611
Interest and other income	116	459	466	1,186
	<u>15,025</u>	<u>1,011</u>	<u>17,472</u>	<u>3,797</u>
Expenses				
Operating costs	2,036	1,444	2,740	1,868
Depletion, depreciation and amortization	5,267	704	6,395	1,670
General and administrative	1,878	1,130	3,672	2,246
Interest	336	323	654	667
Foreign exchange	158	2,110	16	2,200
Stock-based compensation	321	96	490	335
Accretion on asset retirement obligation	42	38	84	79
	<u>10,038</u>	<u>5,845</u>	<u>14,051</u>	<u>9,065</u>
Income (loss) for the period before current and future income taxes	<u>4,987</u>	<u>(4,834)</u>	<u>3,421</u>	<u>(5,268)</u>
Current income tax expense (recovery)	1,480	(17)	1,815	443
Future income tax expense (recovery)	687	(276)	1,084	(276)
	<u>2,167</u>	<u>(293)</u>	<u>2,899</u>	<u>167</u>
Net income (loss) for the period	<u>\$ 2,820</u>	<u>\$ (4,541)</u>	<u>\$ 522</u>	<u>\$ (5,435)</u>
Deficit, beginning of period,	(14,342)	(3,687)	(12,044)	(2,793)
Deficit, end of period	<u>\$ (11,522)</u>	<u>\$ (8,228)</u>	<u>\$ (11,522)</u>	<u>\$ (8,228)</u>
Net income (loss) per share - basic and diluted	0.02	(0.03)	-	(0.03)
Weighted average number of shares outstanding				
- basic	169,233,254	168,874,106	169,232,430	168,874,106
- diluted	171,310,754	168,874,106	171,309,930	168,874,106

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

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

<i>(in thousands of Canadian dollars)</i>	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
OPERATING ACTIVITIES				
Net income (loss)	\$ 2,820	\$ (4,541)	\$ 522	\$ (5,435)
Items not affecting cash				
(Gain) loss on sale of inventory	(50)	-	350	
Stock-based compensation	321	96	490	335
Depletion, depreciation and amortization	5,267	704	6,395	1,670
Future income tax expense (recovery)	687	(276)	1,084	(276)
Accretion on asset retirement obligation	42	38	84	79
	9,087	(3,979)	8,925	(3,627)
Net change in non-cash working capital	14,730	2,795	13,559	(1,549)
	23,817	(1,184)	22,484	(5,176)
INVESTING ACTIVITIES				
Decrease in restricted investments	-	248	-	513
Investment in long-term receivable	-	-	(100)	(117)
Additions to petroleum and natural gas properties	(13,921)	(12,503)	(41,269)	(14,623)
	(13,921)	(12,255)	(41,369)	(14,227)
FINANCING ACTIVITIES				
Proceeds from credit facility	-	-	29,136	-
	-	-	29,136	-
Foreign currency translation	(2,340)	(691)	(951)	(1,132)
Net increase (decrease) in cash and cash equivalents	7,556	(14,130)	9,300	(20,535)
Cash and cash equivalents, beginning of period	23,943	45,028	22,199	51,433
Cash and cash equivalents, end of period	\$ 31,499	\$ 30,898	\$ 31,499	\$ 30,898
Cash and cash equivalents are comprised of:				
Cash	\$ 31,499	\$ 13,176	\$ 31,499	\$ 13,176
Short-term investments	-	17,722	-	17,722
	\$ 31,499	\$ 30,898	\$ 31,499	\$ 30,898
Interest paid during the period	\$ 494	\$ 249	\$ 494	\$ 513
Income taxes paid during the period	\$ 558	\$ 14	\$ 2,158	\$ 2,873

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

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

<i>(in thousands of Canadian dollars)</i>	2008	2007	2008	2007
Net income (loss) for the period	\$ 2,820	\$ (4,541)	\$ 522	\$ (5,435)
Other comprehensive income (loss):				
Unrealized foreign exchange gain (loss) on translation of self-sustaining foreign operations	(854)	(12,937)	4,669	(13,847)
Income taxes	-	-	-	-
Other comprehensive income (loss):	(854)	(12,937)	4,669	(13,847)
Comprehensive income (loss)	\$ 1,966	\$ (17,478)	\$ 5,191	\$ (19,282)

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

1. Summary of Significant Accounting Policies

The accompanying 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 applicable for interim reporting periods. These unaudited notes to the interim consolidated financial statements do not include all disclosures required in the annual financial statements and should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2007.

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, 2007 except as described below. 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.

Capital disclosures and financial instruments – disclosures and presentation

On December 1, 2006, the CICA issued three new accounting standards: Capital Disclosures (Handbook Section 1535), Financial Instruments – Disclosures (Handbook Section 3862), and Financial Instruments – Presentation (Handbook Section 3863). These new standards became effective for the Company on January 1, 2008. Handbook Section 1535 specifies the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the new Handbook section in note 8 to these interim financial statements.

Financial Instruments

Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Recent Accounting Pronouncements

Effective January 1, 2009

The CICA has issued a new standard which may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning January 1, 2009. The Company will adopt the requirements commencing in the quarter ended March 31, 2009 and is considering the impact this will have on the Company's financial statements.

Section 3064, Goodwill and intangible assets, establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. 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.

2. Restricted Investment

Restricted investment represents a \$0.8 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 4).

Candax Energy Inc.
Notes to the Consolidated Financial Statements (unaudited)
(in thousands of Canadian dollars unless otherwise stated)

3. Term Loan

	Rate	(\$000s)	
		June 30, 2008	December 31, 2007
Term Loan	LIBOR +2%	\$ 43,847	\$ 13,878
Less: current portion		(6,966)	(2,696)
		\$ 36,882	\$ 11,182

On January 30, 2008, the credit facility was increased from US \$20 million to US \$50 million under the same terms and conditions. On February 4, 2008, the Company drew down US \$29 million from the facility bringing the outstanding amount on the facility to US \$43 million at June 30, 2008. The term of the loan is 5 years and bears interest at LIBOR +2%. The loan is secured by the Company's oil producing assets in Tunisia. US \$1.5 million of the credit facility is being used as security for a letter of credit provided by the Company (see Note 10(b)).

For the three and six months ended June 30, 2008, interest expense in the amount of \$0.6 million and \$1.1 million, respectively, (2007 – nil and nil, respectively) have been recorded in the consolidated balance sheets in petroleum and natural gas properties.

4. Limited Recourse Long-Term Debt

	Rate	(\$000s)	
		June 30, 2008	December 31, 2007
Limited recourse SEEB debt			
Project financing (US\$ based)	LIBOR +1.5% +2% default margin*	\$ 3,586	\$ 3,475
Project financing (Euro based)	ADB** +2% +2% default margin*	7,150	6,452
Due to Caterpillar Power Ventures Inc.	13%	2,358	2,383
Due to Caterpillar Power Ventures Inc.	LIBOR +0.4%	225	-
		13,319	12,310
Amounts due within one year			
Due to Caterpillar Power Ventures Inc.		(65)	-
Project financing (US\$ based)		(3,586)	(3,475)
Project financing (Euro based)		(7,150)	(6,452)
		(10,801)	(9,927)
		\$ 2,518	\$ 2,383

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

** African Development Bank Base Rate

On March 18, 2002, SEEB and its joint venture partner closed a US \$22.2 million limited-recourse project financing, 50% of which was subsequently converted into Euros. Security for the financing is limited to the project assets and a corporate non-performance guarantee of US \$0.8 million. Candax's share of the project financing at June 30, 2008 is \$10.7 million. All required interest and principal payments are expected to be repaid through operating cash flows of the SEEB power plant. The proceeds of this project financing were used to fund construction costs of the SEEB plant which commenced operations May 9, 2003. As disclosed in Note 12, the required principal payments have not been made due to a lack of cash resources at SEEB and as a result the loan is in default. Since the loan is in default it may be called by the lenders at anytime and therefore the entire amount of the non-recourse loan is considered current.

Also included in the limited recourse SEEB debt is an amount of \$2.4 million in respect of Candax's share of additional project financing provided by Caterpillar Power Ventures Inc. ("CPVI") to complete the SEEB project. There are no fixed repayment terms nor will the lender demand repayment in 2008. The venture plans to repay this debt with SEEB operating cash flows, however this is not anticipated to occur until the third quarter of 2008. Accordingly, this additional financing has been classified as a long-term obligation.

Also included in the limited recourse SEEB debt is an amount of \$0.2 million in respect of Candax's share of funding advances made to SEEB by CPVI during 2007. These were reclassified to long-term debt subject to a loan agreement executed during the quarter. The loan is repayable by SEEB in equal quarterly payments over a term of four years.

For the three and six months ended June 30, 2008, interest expense in the amount of \$0.3 million and \$0.7 million, respectively, (2007 - \$0.3 million and \$ 0.7 million, respectively) has been recorded in the consolidated statements of operations and deficit.

5. Asset Retirement Obligation

For the three months ended June 30, 2008		
Balance at March 31, 2008	\$	1,950
Accretion expense		42
Foreign exchange		(12)
Balance at June 30, 2008	\$	1,980
For the six months ended June 30, 2008		
Balance at December 31, 2007	\$	1,842
Accretion expense		84
Foreign exchange		54
Balance at June 30, 2008	\$	1,980

The total undiscounted amount of estimated cash flows required to settle the obligation is \$5.3 million at June 30, 2008, which has been discounted using a credit-adjusted risk-free rate of 9%. Most of these obligations are not expected to be paid until 2021.

6. Income taxes

The future tax liability of \$4.4 million at June 30, 2008, 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 are \$122.1 million.

7. Capital Stock

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	\$ 0.78	12,067,500
Transactions during the period:		
Granted	0.83	2,050,000
Exercised	0.94	(30,000)
Expired	1.16	(60,000)
Outstanding - end of period	\$ 0.79	14,027,500
Options exercisable - end of period	\$ 0.79	11,952,499

Even though the average market price of the common shares during the period was higher than the exercise price of some of the outstanding options, there is no dilutive effect on the earnings per share.

Using the fair value method, the compensation expense is amortized over the three-year vesting period of the options. For the three and six months ended June 30, 2008, the Company recorded a stock-based compensation expense of \$0.3 million and \$0.5 million, respectively, (2007 - \$0.1 million and \$0.3 million, respectively,) relating to share options. The fair value of the share options granted during the three and six months ended June 30, 2008 was \$0.5 million and \$1.1 million, respectively, and the unamortized cost is \$0.5 million.

The fair value was estimated on the date of the grant using the Black-Scholes fair value option-pricing model and the following assumptions:

	2008	2007
Expected volatility	75%	60%
Risk-free interest rate	3.76%	3.88%
Term	5 years	5 years
Dividend yield	nil	nil

8. Capital Management

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 a reasonable debt and equity balance commensurate with current operating requirements. The capital structure consists of debt, (notes 3 and 4), cash and cash equivalents and shareholders' equity excluding accumulated other comprehensive income (loss). The Company raises capital, as

Candax Energy Inc.
Notes to the Consolidated Financial Statements (unaudited)
(in thousands of Canadian dollars unless otherwise stated)

necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure.

	June 30, 2008		December 31, 2007	
Total debt	\$	57,167	\$	26,188
Less: Cash and cash equivalents		31,499		22,199
Net debt		25,668		3,989
Shareholders' equity		84,077		78,396
Total Capital	\$	109,745	\$	82,385

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. Commitments

- (a) Under the terms of an agreement with the Tunisian government, 20% of the Company's oil production must be dedicated to the domestic market. The production sold under this domestic market obligation receives a price equal to 90% of the US dollar price for the Brent-based export sales. Oil production is accumulated in a storage facility until a marketable cargo is achieved. Under this agreement, the state-owned oil company, ETAP, with respect to its 55% rights on the Ezzaouia field production and on behalf of the Government with respect to the domestic market obligation and the Company's Tunisian entities have agreed to optimize tanker lifting volumes. As a result of this reciprocal practice, a short-term volumetric imbalance may arise through an "under/over" lift position. This short-term situation is corrected from future production allocations.
- (b) As of June 30, 2008, the Company had provided a standby letter of credit in the amount of US \$1.5 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	
	2008	2007	2008	2007	2008	2007
For the three months ended June 30						
Sales (net of royalties)	\$ 14,111	\$ 552	\$ 799	\$ -	\$ 14,909	\$ 552
Depletion, depreciation and amortization	4,999	138	268	566	5,267	704
Interest expense	-	-	336	323	336	323
Net income (loss)	3,107	(4,056)	(287)	(485)	2,820	(4,541)
Capital assets as at						
June 30, 2008 and December 31, 2007	135,923	103,663	12,094	12,759	148,017	116,422
For the six months ended June 30						
Sales (net of royalties)	\$ 16,208	\$ 2,611	\$ 799	\$ -	\$ 17,006	\$ 2,611
Depletion, depreciation and amortization	5,730	616	665	1,054	6,395	1,670
Interest expense	-	-	654	667	654	667
Net income (loss)	1,576	(3,944)	(1,054)	(1,491)	522	(5,435)

12. Subsequent Events

Limited recourse long-term debt default.

As described in Note 4, the Company has a 50% joint venture interest in the SEEB power plant and as a result, has limited recourse long-term debt in the amount of \$10.7 million. Due to an extended interruption to production from the El Bibane field from August 2005 to April 2008, SEEB was unable to meet its repayment obligations under the credit facility. Negotiations with the lenders are on-going as there is no commitment from the lenders to continue to defer principal payments. In the event of a declaration of default by the lenders, the lenders would take control of the SEEB plant and Candax would owe a default payment of US \$0.8 million but would not be liable for the balance of the loans outstanding nor for the deferred principal amounts.