



Candax Energy Inc.
Management's Discussion and Analysis
For the period ended September 30, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") for Candax Energy Inc. ("Candax" or the "Company") should be read in conjunction with the accompanying unaudited interim consolidated financial statements for the three and nine months ended September 30, 2007 and the notes thereto, as well as the MD&A and the audited consolidated financial statements for the year ended December 31, 2006. 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, 2006 is available on SEDAR at www.sedar.com. This information is presented as of November 12, 2007.

Company Overview

Candax is a Toronto-based oil and natural gas company engaged in the exploration for, and the acquisition, development and production of, natural gas and crude oil, with emphasis on the Middle East and North Africa. Candax targets mainly oil and natural gas, but also has natural gas liquids in its portfolio. Candax also owns a 50% interest in Société d'Electricité d'El Bibane ("SEEB"), a Tunisian power generation company. At present, all of the operating assets of the Company are located in Tunisia.

Commodity Prices

Crude oil prices and volatility remained relatively high during the first nine months of 2007. A combination of supply factors, transportation limitations, geopolitical concerns and market speculation have continued to combine to support Brent oil prices averaging approximately US \$75 per barrel during the third quarter of 2007 and US \$67 per barrel for the first nine months of the year. Brent is currently trading in the US \$90 per barrel range.

Foreign Exchange Fluctuations

Candax operates primarily in a US dollar-based environment. The majority of the Company's revenues and expenses (both capital and operating) are paid in US dollars, although Candax is also exposed to Canadian dollar, Pounds Sterling and Tunisian Dinar expenses. 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 funds 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 September 30, 2007 was \$0.9948 (2006 – \$1.1165) and averaged \$1.0461 (2006 – \$1.1215) during the third quarter and \$1.1057 (2006 – \$1.1327) for the first nine months of 2007. The stronger Canadian dollar resulted in a non-cash foreign exchange loss in the Consolidated Statements of Operations and Deficit due to the revaluation of the USD bonds into Canadian dollars at a significantly lower rate than in previous periods.

Capital Structure and Dilution

At December 31, 2006, the Company had 168,874,106 common shares outstanding. During the third quarter of 2007, the Company issued 357,500 common shares through the exercise of stock options to bring the number of common shares outstanding at November 12, 2007 to 169,231,606.

At December 31, 2006, the Company had 11,650,000 stock options outstanding at an average exercise price of \$0.80. On February 6, 2007, 1,000,000 options were granted at an exercise price of \$0.58; on March 19, 2007, 75,000 options were granted at an exercise price of \$0.50; on March 9, 2007, 500,000 options were forfeited at an exercise price of \$0.80; on June 12, 2007 a further 200,000 options were granted at \$0.80; on July 31, 2007, 300,000 options were exercised at \$0.80 and in August 2007 57,500



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options were exercised at an average exercise price of \$0.50 bringing the total number of options currently issued to 12,067,500 at November 12, 2007 at an average exercise price of \$0.78.

Chaal Licence

The area comprising the Chaal Permit is located in central Tunisia approximately 50 kilometres west of the city of Sfax. The Chaal Permit covers an area measuring 1,200 square kilometres. At December 31, 2006, Candax held a 60% working interest in the Chaal Permit with its partners Mitsubishi and SMIP holding 20% each. There has been no change in the ownership structure during the first nine months of 2007 nor is any change in ownership structure currently contemplated during the remainder of the year.

Following the 2006 drilling program, the well was suspended due to formation damage, equipment availability and a mechanical failure during the testing of the well which prevented the completion of the flow test program. The partners are currently preparing a drilling program for a re-entry of the Chaal-1 well to appraise the discovery. Further drilling is currently anticipated early next year subject to rig availability and the results of technical analysis. The partners hold an exploration permit, the first phase of which expires May 25, 2008. The partners have met all the obligations under this initial exploration permit after which the permit provides for additional renewal periods.

Madagascar

On June 27th, 2007, the Company received the Presidential Decree for Block 1101, onshore Madagascar. The Production Sharing Agreement was originally signed with the Government of Madagascar in November 2006.

Block 1101 is a large exploration permit located onshore, North West Madagascar and covers 14,900 square kilometers. Candax is the operator with a 60% equity interest. The Block is located north of a number of large onshore fields with reported heavy oil in place of approximately 30 billion barrels as well as several lighter oil discoveries.

During the third quarter, exploration activity on Block 1101 commenced and the geological fieldwork over the focus area was completed with very encouraging results. The Company now plans to undertake a seismic program in early 2008, followed by the drilling of the first exploration well on this block in the latter half of 2008.

Business Development Activities

Candax is actively pursuing an on-going strategy to build a portfolio of high-growth international energy properties, focused primarily in Africa and the Middle East. The Company continues to expend considerable energy in assessing and bidding for projects that meet the Company's investment criteria.

Review of Operations

New Accounting Standards

As disclosed in Note 2 to the Company's unaudited interim consolidated financial statements as at September 30, 2007, commencing January 1, 2007, the Company adopted new accounting standards issued by the Canadian Institute of Chartered Accountants relating to the accounting for and disclosure of financial instruments and comprehensive income.

Adoption of these standards required the Company to write off the deferred financing fees as a transition adjustment to opening retained earnings. These financing fees were previously treated as a deferred charge and capitalized on the balance sheet. Under the new standard, transaction costs associated with the acquisition of a financial asset or liability must either be written off completely, or if certain criteria are met, netted against the carrying value of the asset or liability.

In addition, adoption of these standards required the Company to include a statement of comprehensive income (loss) in the Company's unaudited interim consolidated financial statements as at September 30,



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2007. Comprehensive income (loss) is comprised of net income (loss) for the period and other comprehensive income (loss). Other comprehensive income (loss) includes the unrealized foreign exchange loss on the translation of self-sustaining foreign operations which was previously included as a separate component of shareholders' equity called the cumulative translation adjustment; these losses will now form a component of accumulated other comprehensive loss which is also included as a separate component of shareholders' equity.

In July 2006, the CICA revised Section 1506, "Accounting Changes" which requires that: (1) voluntary changes in accounting policy are made only if they result in the financial statements providing reliable and more relevant information; (2) changes in accounting policy are generally applied retrospectively; and (3) prior period errors are corrected retrospectively. Section 1506 is effective for fiscal years beginning on or after January 1, 2007. The implementation of this guidance did not have an impact on the Company's consolidated financial statements.

Organizational Changes

The Company appointed a Chief Operating Officer in February 2007 and has also undertaken a restructuring of the front line operations in Tunisia. These changes have been focused on improving the Company's operating capability. This increased focus on the operations has resulted in the redeployment and termination of staff with a net full time head count reduction of approximately 20% in Tunis. The costs of approximately \$0.4 million relating to these changes were included in general and administrative expenses in the second quarter.

Revenue

Sales, net of royalties for the three months ended September 30, 2007, were \$10.1 million compared to \$1.9 million for the third quarter of 2006 and for the nine months ended September 30, 2007 were \$12.7 million comparable to \$12.3 million for the same period in 2006. This significant increase in sales for the third quarter of 2007 compared to the third quarter of 2006 was due to the timing of the crude oil tanker liftings/sales. During the third quarter of 2007, the Company sold 121,466 barrels of oil at an average price of US \$75.54 compared to the third quarter of 2006 where 25,620 barrels were sold at an average price of US \$68.90 and on a year-to-date basis for 2007 the Company sold 163,285 barrels of oil at an average price of US \$70.52 compared to the same period in 2006 where 177,620 barrels were sold at an average price of US \$61.80. On a year-to-date basis the number of barrels sold in 2007 is comparable to 2006 however the significant increase in barrels sold during the third quarter of 2007 compared to the third quarter of 2006 was due to the scheduling of the crude oil liftings. There was no revenue earned during the year from gas or electricity sales as the El Bibane field was shut-in and as a result, electricity generating activities continued to be suspended as described below.

Production

The following table summarizes the quarterly production for 2007 and 2006:

BBLs	Q1		Q2		Q3		Q4		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Oil (bbls/day)	420	654	513	578	502	519	-	489	478	559
Gas (mmcf/day)	-	-	-	-	-	-	-	-	-	-
BOEs/day	420	654	513	578	502	519	-	489	478	559

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 BOEs/day produced in Q3 2007 were consistent with Q2 2007 but higher than Q1 2007 due to a work-over program on the Company's onshore Ezzaouia field which resulted in an increase in production in



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June 2007. For the three and nine month periods production for 2007 was lower than the same periods in 2006 due to natural declines partially offset by the increased production at Ezzaouia.

Candax announced on September 1, 2005, that during routine maintenance some unexpected corrosion of the El Bibane 3 wellhead was discovered. In the interests of safety and good environmental practice it was decided to shut-in the well. Subsequent efforts to restart the well were unsuccessful.

Prior to this unexpected shut-in, a full-field development program had already been planned by Candax to optimize production and recovery of the reserves at El Bibane. The El Bibane development includes the drilling of a new horizontal development well, the re-completion of the existing well and also the drilling of a gas re-injection well. The implementation of this development program was expected to be initiated late in the fourth quarter of 2005 but was delayed due to engineering and certification delays related to the fabrication and construction of a jack-up barge system. This contract was terminated in March 2007 and in April 2007, the Company entered into a new contract with another offshore drilling contractor to supply a jack-up rig for the El Bibane redevelopment program. On July 31, 2007, the drilling of the first well of the three-well development program on the El Bibane oil and gas field commenced. First oil and gas production from EBB-4 is expected in November 2007.

Total investment as at September 30, 2007 on the redevelopment project is approximately US\$42 million (on a net basis), which includes drilling tangibles and intangibles, project engineering for the onshore and offshore facilities upgrades and pipeline and platform installation contracts. All outstanding work on these related contracts will be phased in and completed in time for immediate hook up to the wells at El Bibane as they are drilled and completed. As of November 12th, 2007 the first well has been completed and is currently being tied-in with initial production expected later this month. The rig has been moved to the next drilling location. Completion of all work and full field production is expected early in the first quarter of 2008.

Since gas production from El Bibane ceased, operations at the SEEB power plant have also been suspended. The plant has been placed on care and maintenance mode and all excess staff has been released reducing the carrying costs to an absolute minimum. The Company's share of the operating and maintenance costs for the nine months ended September 30, 2007 were \$0.3 million similar to the same period in 2006 of \$0.4 million. The plant will restart once gas is produced from El Bibane. Due to the lack of production from the El Bibane field, the SEEB power plant has not generated revenues during 2007 and as a result was unable to meet its current obligations under the credit facility. Interest payments were made during February, May and August 2007 from the debt service reserve however principal amounts in the aggregate of \$1.7 million (Candax's share \$0.8 million) were deferred, bringing the accumulated deferred principal amounts to \$4.2 million (Candax's share \$2.1 million).

On November 1, 2007, \$0.2 million of interest and \$0.4 million of principal (Candax's share) were owed to the lender. As SEEB's operations were still suspended there were insufficient cash resources to make these payments. It is expected, as has been done previously, interest will be deducted from the debt service reserve account held by the lender and the principal payment will be deferred.

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.

Operating Costs

For the three months ended September 30, 2007, operating costs were \$3.0 million, an increase of \$1.8 million over the same period in 2006 due to higher sales volumes and reduced operating expenses charged to inventory. Operating costs for the nine-month period ended September 30, 2007 were \$4.8 million, an increase of \$1.3 million over the same period in 2006 due to higher sales volumes and reduced operating expenses charged to inventory.



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Depletion, Depreciation and Amortization expense

For the three months ended September 30, 2007, depletion, depreciation and amortization was \$1.9 million, an increase of \$0.9 million over the same period in 2006 due to higher sales volumes. For the nine months ended September 30, 2007, depletion, depreciation and amortization was \$3.6 million, a decrease of \$0.6 million from the same period in 2006. This amount is calculated using the purchase price of the acquired assets and the proved reserves information as at December 31, 2006.

General and Administrative Costs

General and administrative costs for the three months ended September 30, 2007 were \$1.0 million, an increase of \$0.3 million from the same period in 2006 due to a decrease in the amount of management time capitalized on development projects. General and administrative costs for the nine months ended September 30, 2007 were \$3.3 million, an increase of \$0.3 million from the same period in 2006 due to a decrease in the amount of management time capitalized on development projects.

Interest expense

Interest expense for the three months ended September 30, 2007 was \$0.3 million, consistent with the same period in 2006 of \$0.4 million. Interest expense for the nine months ended September 30, 2007 was \$1.0 million, consistent with the same period in 2006 of \$1.0 million.

Foreign exchange loss

The unrealized foreign exchange loss for the three and six months ended September 30, 2007 was \$0.7 million and \$2.9 million respectively, a significant increase from the three and nine months ended September 30, 2006 of \$0.1 million and \$0.8 million respectively. The increase in the loss was due to the revaluation of the USD bonds into Canadian dollars at a significantly lower rate than in previous periods due to the strengthening of the Canadian dollar.

Selected Quarterly Financial Data (unaudited)

<i>in thousands of Canadian dollars except per share amounts</i>	Q1	Q2	Q3	Q4	Year
2007					
Sales, net of royalties	2,059	552	10,083		12,694
Net income (loss)	(894)	(4,541)	2,216		(3,219)
Net income (loss) per share - basic and diluted	(0.01)	(0.03)	0.01		(0.02)
Total assets	136,790	121,274	126,909		126,909
Long-term financial liabilities	3,046	2,797	2,624		2,624
2006					
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
2005					
Sales, net of royalties	-	2,233	9,202	1,447	12,882
Net income (loss)	(520)	(186)	2,966	(3,762)	(1,502)
Net income (loss) per share - basic and diluted	(0.11)	-	0.04	-	(0.02)
Total assets	3,716	89,305	91,051	91,737	91,737
Long-term financial liabilities	-	13,524	11,807	12,225	12,225

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.



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Since the acquisition was not completed until the end of April 2005 there was no revenue for the first quarter of 2005 and the second quarter of 2005 only represented two months of revenue. The revenue in the fourth quarter of 2005 was significantly less than the third quarter of 2005 because of timing of liftings and the suspension of the operations of El Bibane and SEEB as discussed earlier. Revenue for the first quarter of 2006 was similar to that earned in the third quarter of 2005 due to the similar contractual nature of the Company's sales agreements. Revenue for the second, third and fourth quarters of 2006 were 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 the first, second and third quarters of 2007 and the fourth quarter 2006 were significantly lower than the other quarters in 2006 and 2005 as the limited recourse loans were reclassified from long-term to current effective December 31, 2006.

Liquidity, Capital Resources and Capital Expenditures

In April 2006, the Company signed a credit facility with the Bank of Scotland. The initial facility amount was US \$10 million although the assets in Tunisia could support a higher amount if required. The primary purpose of the facility is to fund the Company's new venture activities and to provide operational flexibility for the redevelopment of the El Bibane field and potentially the fast-track of new project development activities. The facility bears interest at the London Interbank Overnight Rate plus 2% and there are no fixed repayment terms. No funds have been drawn on this facility to date.

As at September 30, 2007, the Company had \$28.6 million in cash and cash equivalents. Of this amount, \$12.7 million was invested in highly liquid investments. The Company has no exposure to asset backed commercial paper. As mentioned previously, the Company has entered into a contract with an offshore drilling contractor to supply a jack-up rig for the El Bibane redevelopment program. The Company has committed to a drilling program and related mobilization and day rate costs that cover the expected drilling program for El Bibane. In addition, the Company has future obligations for the completion of the onshore and offshore facilities for El Bibane. Current cash resources, cash from operations and funds available from the existing or increased credit facility are expected to provide more than enough capital to complete the program.

Commitments

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 U.S. 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 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.

As outlined above, the Company has contractually committed to construction and drilling programs and related costs for the redevelopment of El Bibane.

As of September 30, 2007, the Company has issued a standby letter of credit in the amount of US \$4.5 million in favour of Ashbourne Shipping Company (an operating subsidiary of Seadrill, the drilling contractor) in accordance with the terms of the contract entered into for the El Bibane drilling program. The letter of credit will be released when the Company has satisfied the payment terms as outlined in the contract.

As of September 30, 2007, the Company has issued 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.



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Critical Accounting Estimates

A discussion of the Company's significant accounting policies is contained in Note 2 to the 2006 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.

For the impact of new accounting standards related to financial instruments and comprehensive income please refer to "New Accounting Standards" on page 2 of this MD&A and Note 2 of the unaudited interim consolidated financial statements as at September 30, 2007.

Business Risks

A comprehensive assessment of the Company's business risks is set out in the 2006 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.



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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 2006 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 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



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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 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.



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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.

During the most recent quarter end 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.

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.



Candax Energy Inc.

Interim Consolidated Financial Statements
(unaudited)
For the period ended September 30, 2007

Candax Energy Inc.
Consolidated Balance Sheets *(unaudited)*

As at (in thousands of Canadian dollars)

September 30, 2007 December 31, 2006

ASSETS

Current

Cash and cash equivalents	\$	28,566	\$	51,433
Restricted investment (Note 3)		721		1,637
Accounts receivable		7,597		6,486
Inventory		708		1,745
Deposits and prepaids		730		984
		<u>38,322</u>		<u>62,285</u>

Deferred financing fees (Note 2)		-		831
Petroleum and natural gas properties		77,232		66,151
Property, plant and equipment		11,156		14,512
Long-term receivable		199		117
	\$	<u>126,909</u>	\$	<u>143,896</u>

LIABILITIES

Current

Accounts payable and accrued liabilities	\$	26,481	\$	14,023
Current portion of limited recourse long-term debt (Note 4)		9,847		10,948
		<u>36,328</u>		<u>24,971</u>

Limited recourse long-term debt (Note 4)		2,624		3,056
Asset retirement obligation (Note 5)		1,584		1,733
Future income tax liability (Note 6)		4,778		4,435
		<u>45,314</u>		<u>34,195</u>

SHAREHOLDERS' EQUITY

Capital stock		111,753		111,434
Contributed surplus		2,342		1,991
Accumulated other comprehensive loss (Note 7)		(26,488)		(1,762)
Deficit		(6,012)		(1,962)
		<u>81,595</u>		<u>109,701</u>
	\$	<u>126,909</u>	\$	<u>143,896</u>

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

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

(in thousands of Canadian dollars except for per share amounts)	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Revenues				
Sales, net of royalties	\$ 10,083	\$ 1,923	\$ 12,694	\$ 12,255
Interest and other income	368	739	1,554	1,822
	10,451	2,662	14,248	14,077
Expenses				
Operating costs	2,964	1,076	4,832	3,503
Depletion, depreciation and amortization	1,899	967	3,569	4,219
General and administrative	1,038	687	3,284	3,011
Interest	316	420	983	1,019
Foreign exchange (Note 7)	727	95	2,927	799
Stock-based compensation	67	89	402	446
Accretion on asset retirement obligation	37	49	116	151
	7,048	3,383	16,113	13,148
Income (loss) for the period before current and future income taxes	3,403	(721)	(1,865)	929
Current income tax expense	1,965	1,438	2,408	2,015
Future income tax recovery	(778)	-	(1,054)	(105)
	1,187	1,438	1,354	1,910
Net income (loss) for the period	\$ 2,216	\$ (2,159)	\$ (3,219)	\$ (981)
Deficit, beginning of period, prior to change in accounting policy	(8,228)	(773)	(1,962)	(1,951)
Adjustment to deficit resulting from change in accounting policy (Note 2)			(831)	
Deficit, beginning of period, as restated			(2,793)	
Deficit, end of period	\$ (6,012)	\$ (2,932)	\$ (6,012)	\$ (2,932)
Net income (loss) per share - basic and diluted	0.01	(0.01)	(0.02)	(0.01)
Weighted average number of shares outstanding				
- basic	169,115,030	168,874,106	168,955,296	154,116,368
- diluted	181,000,030	168,874,106	170,040,296	154,116,368

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 September 30		Nine months ended September 30	
	2007	2006	2007	2006
OPERATING ACTIVITIES				
Net income (loss)	\$ 2,216	\$ (2,159)	\$ (3,219)	\$ (981)
Items not affecting cash				
Stock-based compensation	67	89	402	446
Depletion, depreciation and amortization	1,899	967	3,569	4,219
Future income tax recovery	(778)	-	(1,054)	(105)
Accretion on asset retirement obligation	37	49	116	151
	3,441	(1,054)	(186)	3,730
Net change in non-cash working capital	(2,698)	843	(4,247)	(503)
	743	(211)	(4,433)	3,227
INVESTING ACTIVITIES				
Decrease in restricted investments	239	2,740	752	2,512
Investment in long-term receivable	-	-	(117)	(117)
Additions to petroleum and natural gas properties	(2,866)	(10,059)	(17,489)	(19,183)
	(2,627)	(7,319)	(16,854)	(16,788)
FINANCING ACTIVITIES				
Issuance of common shares	269	-	269	44,757
Deferred financing fees	-	-	-	(831)
	269	-	269	43,926
Foreign currency translation	(717)	1,036	(1,849)	2,916
Net increase (decrease) in cash and cash equivalents	(2,332)	(6,494)	(22,867)	33,281
Cash and cash equivalents, beginning of period	30,898	62,359	51,433	22,584
Cash and cash equivalents, end of period	\$ 28,566	\$ 55,865	\$ 28,566	\$ 55,865
Cash and cash equivalents are comprised of:				
Cash	\$ 15,907	\$ 4,419	\$ 15,907	\$ 4,419
Short-term investments	12,659	51,446	12,659	51,446
	\$ 28,566	\$ 55,865	\$ 28,566	\$ 55,865
Interest paid during the period	\$ 250	\$ 336	\$ 763	\$ 975
Income taxes paid during the period	\$ 139	\$ 22	\$ 3,012	\$ 785

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

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

<u>(in thousands of Canadian dollars)</u>	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Net income (loss) for the period	\$ 2,216	\$ (2,159)	\$ (3,219)	\$ (981)
Other comprehensive income (loss):				
Unrealized foreign exchange gain (loss) on translation of self-sustaining foreign operations	(10,879)	623	(24,726)	(4,675)
Income taxes	-	-	-	-
Other comprehensive income (loss):	(10,879)	623	(24,726)	(4,675)
Comprehensive loss	<u>\$ (8,663)</u>	<u>\$ (1,536)</u>	<u>\$ (27,945)</u>	<u>\$ (5,656)</u>

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

1. 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, 2006.

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, 2006 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.

2. Changes in Accounting Policy

Comprehensive Income, Equity and Financial Instruments

Effective January 1, 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") relating to the accounting for and disclosure of financial instruments and comprehensive income:

- Section 1530 – "Comprehensive Income" introduces the concept of comprehensive income to Canadian GAAP. Comprehensive income is the change in equity (net assets) of the Company during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes to equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income is comprised of net income for the period and other comprehensive income. Other comprehensive income includes the unrealized foreign exchange gain or loss on the translation of self-sustaining foreign operations. The cumulative translation adjustment, which was previously a separate component of shareholders' equity is now recorded as part of accumulated other comprehensive income.
- Section 3251 – "Equity" replaces Section 3250 – "Surplus" and establishes standards for the presentation of equity and changes in equity during a reporting period including the disclosure of the components of accumulated other comprehensive income.
- Section 3855 – "Financial Instruments – Recognition and Measurement" prescribes when a financial asset, financial liability, or non-financial derivative should be recognized on the balance sheet as well as its measurement amount. This section also specifies how financial instruments gains and losses are to be presented.

Adoption of these standards required the Company to write off the deferred financing fees as a transition adjustment to opening retained earnings. These financing fees were previously treated as a deferred charge and capitalized on the balance sheet. Under the new standard, transaction costs associated with the acquisition of a financial asset or liability must either be written off completely, or if certain criteria are met, netted against the carrying value of the asset or liability.

In addition, adoption of these standards required the Company to include statements of comprehensive income (loss) in the Company's unaudited interim consolidated financial statements as at September 30, 2007, as well as to disclose the components of accumulated other comprehensive loss (see Note 7).

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

The Company has not restated prior periods other than the reclassification of cumulative translation amounts to accumulated other comprehensive loss, as these new standards have been adopted prospectively, but the transitional effects of adopting these new standards have been recorded as an adjustment to deficit as at January 1, 2007.

Accounting Changes

In July 2006, the CICA revised Section 1506, "Accounting Changes" which requires that: (1) voluntary changes in accounting policy are made only if they result in the financial statements providing reliable and more relevant information; (2) changes in accounting policy are generally applied retrospectively; and (3) prior period errors are corrected retrospectively. Section 1506 is effective for fiscal years beginning on or after January 1, 2007. The implementation of this guidance did not have an impact on the Company's consolidated financial statements.

3. Restricted Investment

Restricted investment represents a \$0.7 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).

4. Limited Recourse Long-Term Debt

	<u>Rate</u>	<u>(\$000s)</u>	
		September 30, 2007	December 31, 2006
Limited recourse SEEB debt			
Project financing (US\$ based)	LIBOR +1.5% +2% default margin*	\$ 3,532	\$ 4,113
Project financing (Euro based)	ADB** +2% +2% default margin*	6,315	6,835
Due to Caterpillar Power Ventures Inc.	13%	2,624	3,056
		12,471	14,004
Amounts due within one year			
Project financing (US\$ based)		(3,532)	(4,113)
Project financing (Euro based)		(6,315)	(6,835)
		(9,847)	(10,948)
		\$ 2,624	\$ 3,056

* 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 September 30, 2007 is \$9.8 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 11, the required principal payments have not been made due to a lack

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

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 \$2.6 million in respect of Candax's share of additional project financing provided by Caterpillar Power Ventures Inc. to complete the SEEB project. There are no fixed repayment terms nor will the lender demand repayment in 2008. Accordingly, this additional financing has been classified as a long-term obligation.

For the nine months ended September 30, 2007, interest expense in the amount of \$1.0 million has been recorded in the consolidated statements of operations and deficit.

5. Asset Retirement Obligation

For the three months ended September 30, 2007		
Balance at June 30, 2007	\$	1,659
Accretion expense		37
Foreign exchange		(112)
Balance at September 30, 2007	\$	1,584

For the nine months ended September 30, 2007		
Balance at December 31, 2006	\$	1,733
Accretion expense		116
Foreign exchange		(265)
Balance at September 30, 2007	\$	1,584

The total undiscounted amount of estimated cash flows required to settle the obligation is \$5.7 million at December 31, 2006, 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 income tax liability of \$4.8 million at September 30, 2007 relates to the difference in the unclaimed tax deductible costs of capital assets in Tunisia and the related carrying value. 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.

7. Accumulated Other Comprehensive Loss and Foreign exchange

The balance in accumulated other comprehensive loss represents the cumulative amount of unrealized foreign exchange losses on translation of self-sustaining foreign operations. The foreign exchange loss is due to the revaluation of the USD bonds into Canadian dollars at a significantly lower rate than in previous periods due to the strengthening of the Canadian dollar.

8. Stock Options

The following table summarize the options outstanding in accordance with the Company's share incentive plan:

	2007	
	Weighted Average Exercise Price	Number of Options
Outstanding - beginning of period	\$ 0.80	11,650,000
Transactions during the period:		
Granted	0.61	1,275,000
Exercised	0.75	(357,500)
Forfeited	0.80	(500,000)
Expired	-	-
Outstanding - end of period	\$ 0.78	12,067,500
Options exercisable - end of period	\$ 0.80	11,081,666

As the average market price of the common shares during the period was higher than the exercise price of many of the outstanding options, the dilutive effect of the outstanding options has been included in computing net income per share.

The fair value of all options granted in fiscal 2007 and 2006 has been estimated at the date of grant using a Black-Scholes option pricing model. The current year's valuation was calculated with the following assumptions: weighted average risk free interest rate of 3.88 % (2006: 4.23%); volatility factor of the expected market price of the Company's common stock of 60% (2006: 60%); and a weighted average expected life of the options of 5 years (2006 - 5 years).

9. 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 September 30, 2007, the Company has issued a standby letter of credit in the amount of US \$4.5 million in favour of Ashbourne Shipping Company in accordance with the terms of the contract entered into for the El Bibane drilling program. The letter of credit will be released when the Company has satisfied the payment terms as outlined in the contract.

(c) As of September 30, 2007, the Company has issued 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.

10. Segmented Information

By generation source:

	Oil and gas operations		Electricity generation operations		Total	
	2007	2006	2007	2006	2007	2006
For the three months ended September 30						
Sales (net of royalties)	\$ 10,083	\$ 1,923	\$ -	\$ -	\$ 10,083	\$ 1,923
Depletion, depreciation and amortization	1,584	401	315	566	1,899	967
Interest expense	-	-	316	420	316	420
Net income (loss)	2,843	(1,005)	(627)	(1,154)	2,216	(2,159)
Capital assets as at						
Sept. 30, 2007 and December 31, 2006	77,232	66,151	11,156	14,512	88,388	80,663
For the nine months ended September 30						
Sales (net of royalties)	\$ 12,694	\$ 12,255	\$ -	\$ -	\$ 12,694	\$ 12,255
Depletion, depreciation and amortization	2,200	2,726	1,369	1,493	3,569	4,219
Interest expense	-	-	983	1,019	983	1,019
Net income (loss)	(1,101)	1,566	(2,118)	(2,547)	(3,219)	(981)

11. Subsequent Event

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 \$9.8 million. Due to the lack of production from the El Bibane field, the SEEB power plant has not generated revenues during 2007 and as a result was unable to meet its current obligations under the credit facility. Interest payments were made during February, May and August 2007 from the debt service reserve however principal amounts in the aggregate of \$1.7 million (Candax's share \$0.8 million) were deferred, bringing the accumulated deferred principal amounts to \$4.2 million (Candax's share \$2.1 million).

On November 1, 2007, \$0.2 million of interest and \$0.4 million of principal (Candax's share) were owed to the lender. As SEEB's operations were still suspended there were insufficient cash resources to make these payments. It is expected, as has been done previously, interest will be deducted from the debt service reserve account held by the lender and the principal payment will be deferred.

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.