Update 2006

Management's Discussion & Analysis

Consolidated Financial Statements
for the year ended December 31, 2006

cgx energy inc

Update 2006

Corporate Profile

CGX Energy Inc. is an oil and gas exploration company with an interest in 9.8 million acres (7.7 million net) offshore Guyana, South America—an area ranked 2nd among the world's under-explored basins where we are exploring for giants. Based on IHS Energy data, in April 2004 CGX was the 7th largest concession holder offshore South America. On our Corentyne Licence, we have identified three significant targets offshore: Eagle has giant potential (>500 million barrels), and Wishbone West is in the elephant category (>100 million barrels) that have been independently reviewed. A new and priority target is Eagle Deep, a large anticlinal structure below 16,000 feet. Many other targets are in various stages of interpretation.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this annual report that are subject to significant risks and uncertainties. These statements concern CGX's plans, expectations and objectives for future operations and, most importantly, discussions of the undiscovered resource potential of CGX's licences in Guyana. No discoveries have been drilled in Guyana, so CGX has no proven, probable or possible reserves. A portion of the Company's Corentyne concession is in an area where Guyana and Suriname have overlapping border claims for which resolution is being sought under the United Nations Convention on Law of the Sea. Similarly, the Company's Pomeroon concession is an area of unresolved claims by Venezuela.

President’s Message

On May 4, 2007, Guyana’s Minister of Foreign Affairs Mr. Rudy Insanally informed a press conference that the United Nations International Tribunal on the Law of the Sea based in Hamburg is expected to hand-down its decision on the Guyana/Suriname border dispute this August. We eagerly await that decision after seven years of no physical activity offshore Guyana, either by ourselves or the other concession operators, Exxon and Repsol YPF.

Over nine years we’ve acquired an interest in four Petroleum Prospecting Licences (PPL) covering 9.8 million acres (7.7 million acres net) in Guyana, South America. Our four exploration concessions include our original Corentyne PPL (100%); the adjacent Georgetown PPL (25% with Repsol as operator); our onshore Berbice PPL (800,000 acres held by our 62% subsidiary, ON Energy Inc.); and the Pomeroon PPL (100%), approved by the Government of Guyana in July 2004.

Our portfolio has expanded significantly from the target for which we have historically been known, that being the Eagle turbidite having an independent mid-point resource estimate of 610 million barrels. Of significance is Eagle Deep, a large structural anticline below 16,000 feet. Following resolution we intend to retain an agent to farmout an interest in the Corentyne PPL to a major joint venture partner in return for financing a significant portion of additional seismic and exploration drilling, and for providing access to seismic vessels and jackup rigs that would otherwise have excessive lead times.

Suriname Maritime Border Delimitation

Since CGX was forced off its Eagle location by Surinamese gunboats in June 2000, physical activity offshore Guyana has been deferred by each of the offshore operators; CGX, Repsol and Exxon. To break the stalemate after failure of bilateral negotiations, in February 2004 the Government of Guyana announced the startup of procedures under the United Nations Convention on the Law of the Sea to demarcate its maritime boundary with Suriname. To assist in this peaceful process, CGX has funded the majority of Guyana’s legal costs and assisted in retrieving archival records of past oil and gas exploration. To the end of March 2007, CGX has funded approximately $9.1 million. Under our licences, legal services for the protection of our interest in the contract are ultimately recoverable from the Cost Oil share of potential future production.

Both sides have agreed to keep the proceedings confidential. In a press conference by the Guyanese Legal team in January 2006 detail on the process was provided. In the summer of 2004, the judges were chosen under the Annex VII procedures of the International Tribunal on the Law of the Sea (ITLOS). Both countries have filed their case as a Memorial, and subsequently provided written challenge in their respective Replies. Oral hearings were held in December 2006, following which the Tribunal will make its awards.

The two-part award will first determine whether the Tribunal does have jurisdiction to decide on the merits of the dispute. Suriname has objected to the tribunal arguing that it does not have jurisdiction to decide on the merits of the dispute. However, objection to the jurisdiction of the Tribunal is quite normal in these cases.

Assuming the Tribunal concludes it does have jurisdiction, it will then issue part two of the award. That award will consist of a maritime boundary line through the territorial sea and the continental shelf for a distance of 200 miles. Although Suriname has requested a boundary line projected N10E and Guyana a boundary line of N34E, the award may or may not be a straight line. In recent press conferences, both Guyana and Suriname have stated that they expect a decision by August.

The award will be binding on both states and will constitute the internationally recognized maritime boundary between Guyana and Suriname and will have the consequences of allowing Guyana and Suriname to exploit the resources on each side that may lie within or under the sea.

Corentyne Offshore PPL

Offshore, the 3-million-acre Corentyne PPL is still our primary focus, and where we eagerly await the opportunity to drill our Eagle target. We've interpreted Eagle to be a large turbidite target covering 29,000 acres and approximately 750 feet thick. An independent study prepared by David Birney, P.Geoph., estimates the mean resource potential of Eagle to be 610 million barrels. Further to the east, our Wishbone West turbidite target is similarly well defined, but appears to be about half the size of Eagle.

Within our Corentyne PPL we have undertaken extensive re-interpretation of the solid-state 2D seismic data we had shot in 1999. Depth-to-time reprocessing has significantly enhanced our understanding of the basin. This has led to state-of-the-art tomography reprocessing, which although expensive, reinforces and adds to all prior interpretations. Our Eagle target is in the Paleocene at a depth of approximately 13,000 feet. Our new interpretation has identified a second target in the Cretaceous at approximately 18,000 feet. It appears to be a growth fault structure with 4-way closure, a target that may be somewhat less risky than our original turbidite. If this can be confirmed with new seismic, there appears to be a number of secondary zones between the two targets. There also appears to be a number of targets in the shelf margin.

Adjacent to our Corentyne PPL, in 2004-2005, three 2D seismic programs totalling 13,000 kilometres were completed offshore Suriname by Repsol-YPF, Maersk and Staatsolie respectively. Also, Occidental Petroleum acquired Block 32, a 4.3 million acre concession on which they shot a 3,800 km 2D program. Encouraged by their 2D interpretation, Repsol launched a 3,250 sq km 3D survey in late 2005 on Block 30, one of the largest 3D surveys in South America in the last year. Staatsolie, the state oil company of Suriname, have revealed that five play leads have been identified on Block 30, and are forecasting a two well drilling program to commence in the first half of 2008 at an estimated cost of US$100 million.

Georgetown Offshore PPL

On the 2.8-million-acre Georgetown PPL, we acquired AGIP's 25% interest offsetting our existing concession in April 2002. Our regional interpretation concludes the turbidite and deep trend both continue west onto this concession, offsetting and below Shell's Abary #1 well drilled in 1974. Exploration on the Abary offset turbidite was planned for 2000, but has also been deferred because it too is in the area of overlapping border claims. Fortunately, this issue will also be resolved in the current UNCLOS proceedings.

Pomeroon Offshore PPL

Pomeroon is our newest Licence. In December 2003, we entered into an agreement to acquire Century Guyana's 100% interest in the 2.8 million-acre block that was approved by the Government of Guyana in July 2004. Our regional analysis led to our basic understanding of the potential of this area. Drilling on adjacent licences granted by Venezuela in the Deltana Platform is adding significant interest to this area.

We acquired approximately 6,000 km of vintage seismic from the area. We have reprocessed and reinterpreted a portion of this seismic, conducted satellite seepage analysis, and integrated regional aeromag, gravity and geological data. Subsequent work will include shooting new seismic and exploration drilling. Our analysis shows a significant trend developing to the west on the Deltana Platform clipping the northwest corner of our licence. In addition, there are a number of features along the edge of the continental shelf. And finally, there are several shallow targets near shore, for which our current interpretation is that they may be heavy-oil prone.

The Pomeroon is in the East Venezuela Basin on the southern flank of the Orinoco delta. This portion of the basin was virtually unexplored until recently, but within the last three years, an estimated 14.5 trillion cubic feet of gas has been found, with estimated ultimate potential resource of 38 trillion cubic feet. Eight wells have been drilled, with significant discoveries reported.

ChevronTexaco with partner ConocoPhillips drilled four wells on Deltana Platform Block 2 with a giant 7 tcf discovery reported in the press; on Block 3, a second discovery found a reported 0.5 tcf. On Block 4, Statoil and TOTAL are conducting a multi well exploration program, where the first well has an estimated resource discovery of 7 tcf. As we advance our re-interpretation of the Pomeroon Licence, the success by adjacent operators will make this a prime candidate to secure a major joint venture partner.

Venezuela has challenged the land border with Guyana that was set by Treaty in 1899, and as a result, the maritime border between Guyana and Venezuela is unresolved. President Jagdeo of Guyana in an address to the Guyana Defense Force in March 2005, stated that, “As regards to Venezuela, the President said he is pleased with the recent pronouncements of President Hugo Chavez. According to the Guyanese leader, President Chavez had indicated that the border claim may have originated from what was taking place in Guyana in the 1960s. There was some discussion between the US and Venezuela at the time about concerns that Guyana could become like Cuba. This, the President said, could have led to certain moves to destabilise the country at that time, hence the claim. However, Jagdeo said that the Good Officer process of the United Nations Secretary General will continue to be explored.”

Berbice Onshore Block

In September 2003, CGX created a wholly-owned subsidiary company, ON Energy Inc. (“ON”) registered in Guyana to explore onshore. Subsequently, the 380,000 acre Berbice PPL was acquired, that when combined with the 415,000 acre onshore portion of the Corentyne PPL is known as the Berbice Block. Following two private placements, ON raised a total of $9,131,825 in which CGX invested $4,572,185 and as a result of these private placements, CGX's interest in ON was reduced to 62%.

A geochemical survey and 2D seismic program supported a recommendation to proceed with several wildcat exploration wells in a country that has not had a commercial discovery. Drilling commenced in May 2005, resulting in three dry and abandoned wells. All activities took longer than anticipated and costs were significantly higher than budgeted. At September 30, 2005, the onshore exploration costs were written-off. Although no significant hydrocarbons were encountered, one dry gas show was seen in the Hermitage well.

The new onshore data has been re-interpreted, supporting the concept of an exploration fairway on the Berbice PPL, further inland than the initial three wells. ON intends to farmout an interest in the Berbice PPL in return for the drilling of one or more exploration wells. Exploration drilling by Sahdna Petroleum on the west bank of the Berbice and by Ground Star to the south in the Takatu Basin will maintain interest in the potential of the Berbice Block. To the east, Staatsolie has announced that remaining proven reserves are 57 million barrels at Tambaredjo, and new discoveries of 18 million barrels at Tambaredjo NW, and 13 million barrels at Calcutta. In addition, Tullow Oil have entered into an agreement for multi-well exploration program onshore Suriname, as a follow-up to encouraging results in their exploration offshore French Guiana.

Outlook

On the offshore, activity will increase over the next two years. Good progress is being made on the resolution of maritime boundaries. Seismic and drilling is intensifying on the adjacent Deltana Platform offshore Venezuela, and to the south, in the Guyana-Suriname basin offshore Suriname.

In June 2000, the United States Geological Survey (USGS) estimated the mean undiscovered resource potential of the Guyana/Suriname Basin to be 15.2 billion barrels of oil and 42 trillion cubic feet of gas. By comparison, at year-end 2004, the remaining proven reserves in the United States were estimated to be 21.9 billion barrels. If the USGS is correct in its assessment, the Basin could become a major supplier of energy to the western hemisphere.

In closing, I'd like to reiterate my thanks to shareholders and extend it to the directors, officers, employees and consultants of CGX and ON Energy who have contributed so much to advancing CGX to where it is today—on the forefront of exploration in one of the world's most exciting basins.

On behalf of the Board of Directors,

Kerry E. Sully
President and Chief Executive Officer
May 11, 2007

CORPORATE INFORMATION

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Share Trading Information:

Trading Symbol	OYL.U
TSX Venture Exchange (TSX-V)	www.tsx.com
2006 High	US$0.65
2006 Low	US$0.26
2006 Close	US$0.60
As of May 11, 2007	US$1.03
Common Shares Outstanding	105,255,913
Fully Diluted	113,439,913

Registrar and Transfer Agent:	Equity Transfer Services Inc. 200 University Avenue, Suite 400 Toronto, Ontario, Canada M5H 4H1
Auditors:	parker simone, Chartered Accountants LLP 129 Lakeshore Road East, Suite 201 Mississauga, Ontario, Canada L5G 1E5
Bankers:	Royal Bank of Canada, Toronto
Legal Counsel:	raser Milner Casgrain LLP 1 First Canadian Place, Suite 3900 100 King Street West Toronto, Ontario, Canada M5X 1B2

Annual & Special Meeting:

The Annual & Special Meeting of shareholders will take place on Monday, June 25, 2007 at 4 pm at The Toronto Board of Trade, 1 First Canadian Place, Adelaide Street entrance, Toronto, Ontario.

The Management Proxy Circular and Form of Proxy are being mailed to each shareholder with this report. Shareholders unable to attend the Annual General Meeting are encouraged to complete and return the From of Proxy.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Management's discussion and analysis (MD&A) is current ***to*** *April 27, 2007 and is management's assessment of the operations and the financial results together with future prospects of CGX Energy Inc. ("CGX" or the "Company"). All figures are in United States Dollars, unless otherwise stated. This MD&A should be read in conjunction with our audited consolidated financial statements and related notes for the years ended December 31, 2006 and 2005. This discussion contains forward-looking statements that are not historical in nature and involves risks and uncertainties. Forward-looking statements are not guarantees as to CGX's future results as there are inherent difficulties in predicting future results. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements. The Company has adopted National Instrument 51-102F1 as the guideline in presenting the MD&A. Additional information relevant to the Company's activities, including the Company's Annual Report, can be found on SEDAR at www.sedar.com*.

OVERVIEW

CGX Energy Inc. was created for the primary purpose of exploring offshore Guyana, South America. Our focus of activity has been the 3.8 million acre Corentyne Petroleum Prospecting Licence (PPL). Exploration was actively underway with an 1800 km seismic program in 1999, leading to the start-up of drilling at our Eagle target in June 2000. However, a border dispute between Guyana and Suriname led to us being forced off the Eagle location by gunboats from Suriname. As a result of that incident, all active exploration offshore by CGX and the other operators in the area, including Exxon, and Maxus (Repsol YPF), was suspended.

Since June 2000, many meetings were held between Guyana and Suriname, but failed to lead to a bilateral resolution. In February 2004, Guyana filed a claim under the United Nations Convention on the Law of the Sea seeking peaceful and binding resolution of the dispute. Because CGX would be a significant beneficiary of a border settlement, we undertook to finance a significant portion of Guyana's legal expense, which has cost CGX $9.1 million to the end of March, 2007. The arbitral proceedings on the Guyana/Suriname dispute are proceeding as per the arbitral tribunal's schedule. Guyana submitted its Memorial in February, 2005, and Suriname's Counter-Memorial response was filed in November, 2005. Guyana filed its reply in April 2006, and Suriname filed its Rejoinder in September, 2006. Oral hearings were held in December 2006. Suriname has challenged the jurisdiction of the Tribunal, but if the Tribunal concludes it has jurisdiction, the final and binding decision by the Tribunal, resolving the dispute and fixing the maritime boundary between Guyana and Suriname, is anticipated within approximately six to eight months after the oral hearing.

During the intervening period, we expanded our regional understanding of the Basin by acquiring and reinterpreting historic information, mainly seismic data, and acquiring interests in the surrounding concessions.

In January 2001, we acquired an extension to our Corentyne PPL, the one-million-acre Annex, after relinquishing a similar-sized portion of the Corentyne PPL we viewed as less prospective. We subsequently acquired 3800 kms of vintage seismic and have been reprocessing and reinterpreting our data from and adjacent to the Annex.

In June 2002, we purchased AGIP Guyana's 25% interest in the adjoining 2.7-million-acre Georgetown PPL. Through a data exchange, we already had 1700 kms of seismic that had been shot in 1999 in conjunction with our own 1800-kilometer program on the Corentyne PPL. Since then, we have continued to reinterpret some of the data on the Georgetown PPL.

In December 2003, we purchased Century Guyana Inc.'s 100% interest in the 2.8-million-acre Pomeroon PPL. The Government of Guyana approved the transfer in July 2004. We have completed a regional reinterpretation of existing data to identify priority areas for future seismic. However, additional field seismic and exploration drilling on the Pomeroon PPL has been deferred pending concurrence by Guyana and Venezuela of the location of the maritime boundary between the two countries.

During 2002 and 2003, Staatsolie, the national oil company of Suriname was reporting success in using aeromagnetic data and geochemical analysis to develop exploration leads between their onshore Tambaredjo field and the Corentyne River, a distance of approximately 200 kms. This provided us with the encouragement to actively explore the 415,000-acre-onshore portion of our Corentyne PPL, and to acquire the new 387,000-acre Berbice PPL, collectively the Berbice Block. In 2003, we completed a very large geochemical survey and reinterpreted existing aeromagnetic data that covered the Berbice Block and surrounding region.

Initial exploration on the Berbice Block was encouraging. In September 2003, CGX created a wholly-owned subsidiary company, ON Energy Inc. ("ON") registered in Guyana to conduct a pilot geochemical exploration on the 415,000-acre portion of the Corentyne Licence. In return for the onshore interest, ON issued CGX 59.5 million Common Shares having a value of $0.3 million. Following two private placements within ON raising a total of $9.1 million in which CGX invested $4.6 million, CGX's interest has been reduced to 62% in ON. A labour intensive seismic survey was conducted, employing up to 250 local personnel. Data from the seismic survey was high quality, supporting a recommendation to proceed with 4 wildcat exploration wells in a country that has not had a commercial discovery.

Drilling commenced in May 2005, resulting in three dry and abandoned wells. All activities took longer than anticipated and costs were significantly higher than budgeted. Because of very limited wharfage in the Berbice area, unloading of many barges of supplies and equipment was delayed, and transportation in-country was slow, with many power and telephone lines having to be raised each time a truck passed. Access roads and leases were well-constructed, but being at sea-level, were expensive to maintain during the frequent rains. On Energy owes CGX approximately $4 million at December 31, 2006, and we are currently examining our alternatives to reduce or eliminate the inter-company debt.

During 2005, the onshore exploration costs were written-off and all 2006 expenditures were expensed. Overall, the results of the program showed that no significant hydrocarbons were encountered. One dry gas show was seen in the Hermitage well. All well locations were associated with surface geochemical features and the presence of hydrocarbons in the analysis of the surface samples were verified numerous times with multiple locations and analysis techniques. In hindsight, we've concluded that the anomalous geochemical indicators from our surveys support the continuing migration of hydrocarbon from a deep marine source and breach to surface, they do not confirm a trap presence. The calibration of our data set to a known accumulation may help us to discern possible accumulations on our license. At the termination of our program, we had concluded that the geochemical and seismic features were not sufficiently different from the three drilled locations to warrant any further drilling.

During fiscal 2006, a third-party review has concluded that the most attractive exploration fairway on the Berbice Block exists further inland, with a potential trap being formed against the rising basement rock. ON Energy has presented this analysis to several parties that may be interested in earning an interest in the Berbice PPL by drilling one or more exploration wells.

On the offshore, activity is expected to increase over the next two years. Progress is being made on the resolution of maritime boundaries, seismic and drilling is intensifying on the adjacent Deltana Platform offshore Venezuela, and to the south, in the Guyana-Suriname basin offshore Suriname.

Guyana Operations

Corentyne PPL, Guyana

The Company holds a Petroleum Prospecting Licence for the approximately 3.8 million acre Corentyne Block offshore Guyana. The Petroleum Agreement was for a period of four years beginning June 1998 and was renewable for up to two three-year periods. The Petroleum Agreement was amended on December 9, 1998, June 2, 2000, January 12, 2001 and again on June 29, 2006. The required work program for the Initial Period, ending June 2, 2002, was completed. On November 30, 2002, the first renewal of the Petroleum Agreement was granted, under two Petroleum Prospecting Licences which include renegotiated work commitments and separate obligations for the eastern main area and the western annex area (the "Annex"). Because sovereign issues between Guyana and Suriname prevent unhindered access to a portion of the contract area, in June 2006, the term of the contract was extended to June 2013.

If a discovery is made, the Company shall notify the Minister and has the right to convert the Discovery Area plus reasonable coverage to 25-year Production Licence, subtracting this area from the Contract Area.

In summary, the fiscal regime provides that after commercial production begins, the Licensee is allowed to recover all capital and operating costs from "cost oil", which for the first three years is up to 75% of the production and thereafter up to 65% of production. The Licensee share of the remaining production or "profit oil", for the first five years are 50% of the first 40,000 barrels of oil per day and 47% for additional production; and thereafter 45% in full satisfaction of all income taxes and royalties.

Berbice PPL, Guyana

CGX also applied to the government of Guyana for an approximately 387,000 acre extension to the Berbice Block (the 'Berbice Extension'), which was granted in October 2003 and has been registered directly to ON. By completing aeromag re-interpretation, a geochemical sampling program and a 2D seismic program, the minimum work obligations have been substantially fulfilled through October 2006 under Phase 2 Year 1. During 2007, an exploration well is required to complete the minimum work program for the Initial Period. The licence has a term of 4 years, which may be renewed up to twice at the Company's election. In 2005, the expenditures were written-off.

Georgetown PPL, Guyana

The Company purchased a 25% participating interest in the Georgetown PPL (offshore Guyana, South America) from ENI Guyana, B.V. for $0.2 million and $1.1 million at the spud of the first well on the Licence in which CGX participates.

The principal terms of the Petroleum Agreement are similar to those for the Corentyne PPL. Exploration has been suspended since 2000 as a significant portion of the Licence is also in the area of overlapping boarder claims between Guyana and Suriname.

Pomeroon PPL, Guyana

The Company, through its wholly-owned subsidiary, CGX Resources Inc., entered into an asset purchase agreement with Century Guyana, Ltd. (Century) to acquire Century's 100% interest in the Pomeroon PPL located offshore in the Guyana Basin. The Government of Guyana approved this transfer in July, 2004. The purchase price consisted of a payment of $0.1 million plus the issuance of 2,000,000 unrestricted common shares of the Company. CGX shall assign to Century an overriding royalty interest consisting of 2.5% of all revenues to the extent that the revenues are directly attributable to the contractor's share of Profit Oil.

The Pomeroon PPL issued by the Government of Guyana in November 1997 is approximately 11,254 square kms (2.8 million acres) in size and is located between CGX's 100%-owned Annex portion of the Corentyne license, and Plataforma Deltana, which is offshore Venezuela.

The principal terms of the Petroleum Agreement are similar to those for the Corentyne Block. The terms of the Agreement has been extended to November 2009. All minimum work commitments up to the end of the initial period were deemed to be completed, and substantially all the seismic reprocessing required under the 1st Renewal Phase 1 was completed. Under the First Renewal Phase 2, an extension beyond November 2006 has been requested to complete either 100 square kilometers of 3D seismic or 500 kilometers of 2D seismic or drill an exploration well.

RESULTS OF OPERATIONS

The Company incurred a net loss of $6,102,788 or $0.06 a share for the year ended December 31, 2006, compared with a net loss of $11,132,924 or $0.12 a share for the same period in 2005.

CGX incurred a foreign exchange loss of $68,575 for the year ended December 31, 2006 versus a gain of $36,060 in 2005 as a result of the Canadian dollar appreciation against the US dollar.

Shareholder information costs increased in the year ended December 31, 2006 by $4,713 to $70,795, compared to $66,082 in the same period in 2005.

Border dispute resolution legal fees were higher during the year ended December 31, 2006 compared to the same period in 2005. In fiscal 2006, Guyana prepared and subsequently filed in April 2006 its Reply to Suriname's Counter-Memorial. In the year ended December 31, 2006, the Company spent $3,659,535 on legal fees in assisting Guyana to resolve the dispute through the United Nations Convention on the Law of the Sea compared to $1,952,979 in the same period in 2005. In February 2004, the Government of Guyana announced that it had begun peaceful and binding dispute settlement procedures to demarcate the maritime boundary between Guyana and Suriname. In February 2005, Guyana filed its claim of Memorial, and Suriname filed its Counter-Memorial in November, 2005. These fees should be substantially lower in future periods.

General and administration costs increased to $496,447 in fiscal 2006 from $427,799 in 2005. The Company is attempting to reduce costs where possible.

Professional fees for the year ended December 31, 2006 were $67,990 compared to $69,954 in the same period of 2005. These fees are expected to be maintained at these levels.

Consulting fees decreased by $111,898 to $372,696 during the year ended December 31, 2006 compared to $484,594 in 2005. The decrease is attributable to fewer consultants being used by the Company during the year.

The Company incurred stock-based compensation expense during the year ended December 31, 2006 of $563,000, compared to $548,000 in the year ended December 31, 2005. There were 1,700,000 options granted at an exercise price of $0.365 on June 29, 2006.

The Company wrote down $424,740 of its drilling supplies compared to Nil in the same period in 2005. The writedown was based on the net realizable value of the inventory which was sold in October 2006. The Company also wrote down $275,986 of its petroleum and natural gas properties compared to $11,132,007 in the same period in 2005.

Quarterly Results

The Company incurred a net loss of $1,668,285 or $0.01 a share for three month period ended December 31, 2006, compared with a net loss of $1,686,083 or $0.02 a share for the same period in 2005.

CGX incurred a foreign exchange gain of $37,280 for the three month period ended December 31, 2006 versus a gain of $20,985 in 2005 as a result of the Canadian dollar appreciation against the US dollar.

Shareholder information costs increased during the three month period ended December 31, 2006 by $2,665 compared to nil in the same period in 2005.

During the three month period ended December 31, 2006, the Company spent $1,500,004 on legal fees in assisting Guyana to resolve the dispute through the United Nations Convention on the Law of the Sea compared to $874,218 in the same period in 2005.

General and administration costs increased to $288,828 in 2006 from $156,829 in 2005. The Company is attempting to reduce costs where possible.

Professional fees for the three month period ended December 31, 2006 was $3,032 compared to $31,043 in the same period of 2005.

The Company incurred stock-based compensation expense during the three month period ended December 31, 2006 of $70,000, compared to ($383,500) in the same period in 2005.

The Company wrote down $275,986 of its mineral properties during the three month period ended December 31, 2006 compared to $1,070,992 in the same period in 2005.

Selected Consolidated Financial Information

The information below should be read in conjunction with the management's discussion and analysis, the consolidated financial statements and related notes and other financial information.

	December 31, 2006	**December 31, 2005**	**December 31, 2004**	**December 31, 2003**
	$	$	$	$
Net Revenue	28,832	49,683	78,046	161,626
Loss before income taxes and minority interest	6,102,788	11,132,924	4,888,268	895,963
Net Loss	6,102,788	11,132,924	4,888,268	895,963
Loss Per Share	$0.06	$0.12	$0.07	$0.02
Total Assets	7,580,264	12,292,084	17,544,120	6,432,605
Liabilities	1,715,179	887,211	1,542,798	456,624

Results for the three months ended:

	December 31, 2006	**September 30, 2006**	**June 30, 2006**	**March 31, 2006**
	$	$	$	$
Total Revenue	4,833	9,667	7,690	6,642
Loss before income taxes and minority interest	1,668,285	615,842	1,627,131	2,191,530
Net Loss	1,668,285	615,842	1,627,131	2,191,530
Loss Per Share	$0.01	$0.01	$0.02	$0.02

	December 31, 2005	**September 30, 2005**	**June 30, 2005**	**March 31, 2005**
	$	$	$	$
Total Revenue	17,569	21,007	(6,642)	17,749
Loss before income taxes and minority interest	1,686,083	6,916,398	725,227	1,805,216
Net Loss	1,686,083	6,916,398	725,227	1,805,216
Loss Per Share	$0.02	$0.07	$0.01	$0.02

CAPITAL RESOURCES, CAPITAL EXPENDITURES AND LIQUIDITY

As at December 31, 2006, the Company's working capital decreased to $1,021,595 from $6,642,504 as at December 31, 2005. There were approximately $1.5 million due to the lawyers with respect to the law of the sea process at December 31, 2006.

In March 2005, the Company raised $8,412,000 through the issuance of 10,515,000 units at $0.80 per unit. Each unit consisted of one common share and one-half common share purchase warrant. Each full warrant entitled the holder to purchase an additional common share at a price of $1.10 for a period of 18 months until September 21, 2006. The fair value of the warrants has been calculated using the Black-Scholes model at $1,109,000. On September 7, 2006, the warrants expiry date was extended to March 21, 2007. Subsequent to year end, these warrants had expired.

No shares were issued during fiscal 2006.

As at December 31, 2006, CGX had receivables and other of $810,167. This amount is comprised of: receivables from companies for rent, equipment purchased and expense reimbursement ($279,395, the majority was repaid subsequent to the reporting period), GST recoverable ($55,413), other receivables ($38,798), prepaid expenses ($51,561), and receivables for drilling supplies sold ($385,000, the majority of the balance was paid subsequent to year end).

For the year ended December 31, 2006, the Company spent $319,827 on petroleum and natural gas properties compared to $7,780,571 for the same period in 2005. The 2005 amounts relate to the Berbice programs.

Subsequent to year end, CGX completed a private placement for 10,000,000 common shares for gross proceeds of $8 million.

CGX is dependent on obtaining future financings for the exploration and development of its properties and for the acquisition of any new projects. There is no assurance that such financings will be available when required, or under terms that are favourable to the Company.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED-PARTY TRANSACTIONS

Denis Clement and Associates ("DCA") was paid by the Company a total of $60,000 for the year ended December 31, 2006 in respect of the services of Denis Clement. Denis Clement, a director of the Company, beneficially owns DCA.

Jaguar Holdings (1998) Inc. ("JHI") was paid by the Company a total of $50,000 for the year ended December 31, 2006 in respect of the services of John Cullen. John Cullen, a director of the Company, beneficially owns JHI.

Kutu Energy Inc. ("KEI") was paid by the company a total of CAD$73,000 for the year ended December 31, 2006 in respect of the services of James Fairbairn and his staff. James Fairbairn, CFO and Treasurer, beneficially owns KEI.

Workman Energy ("WE") was paid by the Company a total of $59,000 for the year ended December 31, 2006 in respect of the services of Warren Workman. Warren Workman, an officer of the Company, beneficially owns WE.

Kerry Sully, President, CEO and a director of the Company, was paid by the Company a total of $120,000 for the year ended December 31, 2006 for his services.

Kamal Dookie, an officer of the Company, was paid by the Company a total of $116,637 for the year ended December 31, 2006 for his services and in-country expenses.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITITAL ADOPTION

There were no changes in the accounting policies for the year ended December 31, 2006.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

	Year ended December 31, 2006	Year ended December 31, 2005
Petroleum and natural gas properties:		
Capitalized exploration costs	**$ 357,107**	$ 7,780,571
Expensed production and exploration	**445,122**	11,176,309
Corporate expenses	**5,468,174**	3,557,650
Total Assets	**7,580,264**	12,292,084

	Year ended December 31, 2006		Year ended December 31, 2005	
	Capitalized	**Expensed**	**Capitalized**	**Expensed**
	$	$	$	$
Drilling supplies	**-**	**169,136**	1,028,217	-
Land & lease costs	**60,000**	**-**	233,161	-
Exploration: Geological, geophysics	**-**	**-**	861,932	4,169,464
Exploration: Intangible drilling and other	**297,107**	**275,986**	5,546,139	6,997,459
Project administration and travel	**-**	**-**	111,122	9,386
	357,107	**445,122**	7,780,571	11,176,309

Corporate Expenses	Year ended December 31, 2006	Year ended December 31, 2005
General and administrative:		
Rent and office expenses	**340,610**	331,471
Travel and entertainment	**155,837**	96,328
Consulting	**372,696**	484,594
Production and exploration	**169,136**	44,302
Stock-based compensation	**563,000**	548,000
Professional fees	**67,990**	69,954
Border dispute resolution fees	**3,659,535**	1,952,979
Shareholders' information	**70,795**	66,082
Foreign exchange (gain) loss	**68,575**	(36,060)
	5,468,174	3,557,650

DIVIDENDS

The Corporation has neither declared nor paid any dividends on its Common Shares. The Corporation intends to retain its earnings, if any, to finance growth and expand its operation and does not anticipate paying any dividends on its Common Shares in the foreseeable future.

RISKS AND UNCERTAINTIES

Political Risk

We operate in Guyana, which is an immature and emerging economy with associated risk factors. Land and maritime boundaries have not been resolved with either Suriname or Venezuela. Our operations and related assets are subject to the risks of actions by governmental authorities, insurgent groups or terrorists. We conduct our business and financial affairs to protect against political, legal, regulatory and economic risks applicable to our operations. However, there can be no assurance that we will be successful in protecting ourselves from the impact of these risks.

Both Guyana and Suriname are signatories to the United Nations Convention on the Law of the Sea (UNCLOS), which provides that any border disputes be resolved peacefully. On February 25, 2004, Guyana applied under UNCLOS to begin proceedings to resolve the maritime border issue between the 2 countries. In response, Suriname has challenged whether UNCLOS has the authority to adjudicate on this claim. If the process continues to resolution, it cannot be determined if the Guyana claim will be fully upheld, and hence, if the full Corentyne or Georgetown licences granted by Guyana to CGX will be maintained.

The border resolution with Venezuela is being conducted through the United Nations Good Officer Process. These discussions have been on-going for many years, however, significant hydrocarbon discoveries offshore Venezuela in the Deltana Platform may provide the incentive for both governments to resolve the border discussions.

Business Risk

The oil and gas industry is highly competitive, particularly with respect to searching for and developing new sources of crude oil and natural gas reserves, constructing and operating crude oil and natural gas pipelines and facilities, and transporting and marketing crude oil, natural gas and other petroleum products.

Our competitors include major integrated oil and gas companies and numerous other independent oil and gas companies that have significant financial and internal technical capabilities that are only available to CGX externally.

In Guyana, we are pursuing a pure exploration program that is extremely risky, and there is no assurance that hydrocarbon reserves will be discovered and economically produced. Financial risks in the petroleum industry include fluctuations in commodity prices, and interest and currency exchange rates. Operational risks during drilling include a complete lack of infrastructure, with the closest base of service companies located in Trinidad. Operational risks, if a discovery were made, include reservoir performance uncertainties, reliance on partners, competition, environmental and safety issues, and a complex regulatory environment.

CGX is exploring its oil and gas properties in Guyana and has not yet determined whether the properties contain any reserves. The recovery of both the costs of acquiring the oil and gas properties and the related deferred exploration costs depends on the existence of economically recoverable reserves, our ability to obtain the financing necessary to complete the exploration and development of the oil and gas properties, and future profitable production or, alternatively, on the sufficiency of proceeds from disposition.

A portion of our onshore exploration in Guyana was funded by local investors, through our subsidiary, ON Energy Inc., which is one of the first new companies to have been financed under the Guyana Securities

Act 1998. Operating a foreign registered subsidiary presents risks associated with differences in business regulations and practices compared with operating a Canadian corporation. We are a responsible member of the Guyanese community and are building relationships with its members and involving them in key decisions that will have an impact on their lives.

The amounts recorded for depletion and amortization of petroleum and natural gas properties and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test calculation is based on estimates of proven reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements from changes in such estimates in future years could be significant.

Commodity Risk
There are risks of volatility in world oil prices and other risks that the Company cannot control. CGX has no current plans to hedge its production to eliminate pricing risk.

Currency Risk
The Company's expenses are recorded in U.S. dollars except for costs and revenue in Canada and the expenses associated with conducting business in Guyana. As a result, CGX is exposed to market risks resulting from fluctuations in currency exchange rates.

Foreign Currency Translation
The Company uses the temporal method of foreign currency translation in accounting for its integrated foreign operations. Under this method, monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the exchange rate prevailing at the balance sheet date, while non-monetary assets and liabilities are translated into U.S. dollars at the exchange rate prevailing on the transaction date. Revenues and expenditures denominated in foreign currencies are translated into U.S. dollars at the exchange rate prevailing on the date of the transaction. Foreign exchange gains and losses arising from the translation of transactions denominated in foreign currencies are reflected in operations for the year.

Accounting Estimate / Change in Accounting Policy
As at December 31, 2006, the Company did not change any of its accounting policies.

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 CEO and CFO have ensured the design of internal control over financial reporting.

During the most recent year 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.

Management's Responsibility

Management is responsible for all information contained in this MD&A. The audited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include amounts based on management's informed judgments and estimates. The financial and operating information included in this MD&A is consistent with that contained in the audited consolidated financial statements in all material aspects.

Management maintains internal controls to provide reasonable assurance that financial information is reliable and accurate and assets are safeguarded.

External auditors, appointed by the shareholders, have independently examined the December 31, 2006 audited consolidated financial statements and performed the tests deemed necessary to enable them to express an opinion on those consolidated financial statements.

The Audit Committee has reviewed the audited consolidated financial statements with management. The Board of Directors has approved these audited consolidated financial statements on the recommendation of the Audit Committee.

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 CGX 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 CGX to fund the capital and operating expenses necessary to achieve the business objectives of CGX, 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 CGX. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in securities of CGX 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.

April 27, 2007

James N. Fairbairn, C.A., Chief Financial Officer
Kerry E. Sully, President and Chief Executive Officer