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

Three month period and year ended December 31, 2012

Management's discussion and analysis ("MD&A") is current to April 22, 2013 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 the Company's audited consolidated financial statements and the related notes for the years ended December 31, 2012 and 2011. 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. Unless indicated otherwise, all financial data in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Additional information relevant to the Company's activities, including the Company's Annual Information Form, can be found on the Canadian Securities Administrators' website SEDAR at www.sedar.com.

Advisory Note Regarding Forward Looking Statements

This MD&A 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 other 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 risk of CGX not being able to fund the capital and operating expenses necessary to achieve its, 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. The ability of the Company to carry out its business plan is primarily dependent upon the continued support of its shareholders, the discovery of economically recoverable reserves and the ability of the Company to obtain financing to develop such reserves. 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" and "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

Although the forward-looking statements contained in this MD&A are based on assumption that management believes to be reasonable, the Company cannot assure investors that actual results will be consistent with these forward-looking statements.

Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements contained in this document 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 document are expressly qualified by this advisory statement.

OVERVIEW

Company Profile
CGX is an oil and gas exploration company headquartered in Toronto, Canada. CGX was incorporated in 1998 for the primary purpose of exploring for hydrocarbons in Guyana, South America. As at April 22, 2013, CGX holds an interest in three Petroleum Agreements (Corentyne, Berbice, and Demerara) covering a total of approximately 3.3 million gross acres (approximately 3 million acres net) offshore and onshore Guyana.

CGX has five direct subsidiaries: (i) CGX Resources Inc., a wholly-owned subsidiary, which is incorporated pursuant to the laws of Bahamas ("CGX Resources"); (ii) ON Energy Inc., a corporation subsisting under the laws of Guyana, 62% of the voting shares of which are owned by CGX ("ON Energy"); (iii) 1524555 Alberta Ltd., a wholly-owned subsidiary, which is incorporated pursuant to the laws of Alberta; (iv) GCIE Holdings Limited, a wholly-owned subsidiary, which is incorporated pursuant to the laws of Barbados and owns 100% of the shares of Grand Canal Industrial Estates Inc., a corporation subsisting under the laws of Guyana; and (v) CGX Energy Management Corp., a wholly owned subsidiary, which is incorporated pursuant to the laws of the State of Delaware, USA.

Carrying on Business in Guyana
The exploration activities of CGX are currently conducted in Guyana through its subsidiaries. The following description of carrying on business in Guyana is taken from publicly available information provided by the Guyana Office for Investment and is available at www.guyanaconsulate.com under the heading "Investment Guide".

Guyana is situated on the northern coast of the South American continent. It is bound on the north by the Atlantic Ocean, on the east by Suriname, on the south-west by Brazil and on the north-west by Venezuela. Guyana's total area is approximately 215,000 square kilometres, slightly smaller than Great Britain. Its coastline is approximately 4.5 feet below sea level at high tide, while its hinterland contains mountains, forests, and savannahs. This topography has endowed Guyana with its extensive network of rivers and creeks as well as a large number of waterfalls. Guyana is endowed with natural resources including fertile agricultural land and rich mineral deposits (including gold, diamonds and semi-precious stones, bauxite and manganese).

Guyana is divided into three counties (Demerara, Essequibo and Berbice) and 10 administrative regions. Georgetown is the capital city of Guyana, the seat of government, the main commercial centre, and the principal port. In addition to Georgetown, Guyana has six towns of administrative and commercial importance which are recognized municipal districts; each has its own mayor, council and civic responsibilities. Guyana's population is estimated to be approximately 770,000.

The Co-operative Republic of Guyana is an independent republic headed by the president and National Assembly. The most recent elections were held in November 2011 in which the People's Progressive Party was re-elected as a minority government. Guyana is a member of the British Commonwealth of Nations, with a legal system based for the most part on British Common Law.

The Petroleum Regime in Guyana
Under the Guyana Petroleum Act, Petroleum Agreements (PA), and associated Petroleum Prospecting Licences (PPL) for petroleum exploration in Guyana are executed by, and subject to the approval of, the Minister Responsible for Petroleum. Within Guyana, subsurface rights for minerals and petroleum are vested in the state. PAs may address the following matters: (i) granting of requisite licences; (ii) conditions to be included in the granting or renewal of such licences; (iii) procedure and manner with respect to the exercise of Ministerial discretion; and, (iv) any matter incidental to or connected with the foregoing.

The Guyana Geology & Mines Commission ("GGMC") is the statutory body responsible for administering PAs and PPLs for petroleum exploration in Guyana. The GGMC has been charged with the responsibility for managing the nation's mineral resources.

In order to obtain a PPL, the licencee must:

- submit a prospecting licence application to the Minister Responsible for Petroleum, including a detailed annual work program and budget; and
- agree to comply with licence conditions stipulated by the Minister Responsible for Petroleum, including conditions stipulated in the applicable governing petroleum agreement.

A PA and an associated PPL enable the holder to conduct prospecting and exploration activities for petroleum on the subject property in accordance with the terms and conditions of such PA and PPL. A PPL is issued for an initial period not exceeding four years, and is renewable for up to two additional three-year periods. In the event of a discovery, the holder may apply for a 20 year Petroleum Production Licence, renewable for a further 10 years.

Update on CGX's Petroleum Agreements and Petroleum Prospecting Licences
On November 27, 2012, the Company was issued a new Corentyne PA and PPL covering 6,212 square kilometres, the same area as the offshore portion of the former Corentyne PPL that had been issued on June 24, 1998. Under the terms of the new Corentyne PA, during the initial period of four years CGX has an obligation to drill two wells. The Corentyne PA and PPL are renewable after four years for up to six additional years.

On February 12, 2013, the Company entered into the Demerara PA and PPL covering 3,975 square kilometres, the same area the former Annex PPL, which was a subset of the Company's original Corentyne PA. Under the terms of the Demerara PA, during the initial period of four years, CGX has an obligation to conduct a 3D seismic survey of a minimum of 1,000 square kilometres and to drill one exploration well. The Demerara PA and Demerara PPL are renewable after four years for up to six additional years.

On February 12, 2013, ON Energy entered into the Berbice PA and PPL covering 3,295 square kilometres, the same area as the former Berbice PA issued on October 1, 2003, combined with the onshore portion of the Company's former Corentyne PA. Under the terms of the new Berbice PA, during the initial period of four years, ON Energy has an obligation to conduct an airborne survey of a minimum of 1,000 square kilometres and either conduct a 2D seismic survey of a minimum of 100 square kilometres or drill one exploration well. The Berbice PA and Berbice PPL are renewable after four years for up to six additional years.

The Pomeroon Petroleum Agreement expired effective November 19, 2012. The Pomeroon PA was issued to Century Guyana, Ltd. in November 1997 and was purchased by CGX in January 2004. As has been reported since 2007, the Company has been in discussions with the Government of Guyana regarding modification of the Pomeroon PA that would have extended the PA to November 2013. During these discussions the Company was advised that the November 1997 Pomeroon PA reverted to the Government effective November 19, 2012. Additionally, the Company's Georgetown PA expired November 25, 2012, as disclosed in the 2012 third quarter financial statements. While the Company believes that continuing discussions will result in new PPLs, there can be no assurances as to the outcome or terms of these negotiations.

Company Funding and Financing
On August 17, 2010, CGX closed its financing of 40,000,000 common shares of the Company at a price of CDN$0.50 per share for total gross proceeds to the Company of CDN$20,000,000 or $19,186,500.

On December 14, 2010, CGX closed its financing of 25,587,500 common shares of the Company at a price of CDN$0.90 per share for total gross proceeds to the Company of CDN$23,028,750 or $22,880,000.

In July 2011, CGX announced a shareholders rights plan (the "Rights Plan") for fair and equal treatment of shareholders in connection with any take-over bid for the outstanding securities of the Company. The Rights Plan provides the board of directors of the Company with 60 days to assess a take-over bid and consider alternatives as a means of maximizing shareholder value. The Rights Plan becomes exercisable only if a person acquires or announces intention to acquire 20% or more of the common shares of the Company.

On October 19, 2011, CGX closed its financing of 131,445,000 common shares of the Company at a price of CDN$0.70 per share for total gross proceeds to the Company of CDN$92,011,500 or $90,190,000. These proceeds were used to fund the Company's share of the drilling of the Jaguar-1 exploration well on the Georgetown PPL, and the drilling of the Eagle-1 exploration well on the original Corentyne PPL. The funds were also used to acquire 3D seismic in preparation for drilling the final commitment well on the original Corentyne PPL. The cost estimates for both the Jaguar-1 well and the Eagle-1 well were based on the best estimate of the costs at the time (including contingency costs) associated with the planning, execution, services, and time to drill the wells and are not fixed costs.

On May 27, 2012, the Company entered into a definitive subscription with Pacific Rubiales Energy Corp. ("Pacific Rubiales") pursuant to which Pacific Rubiales subscribed for 85,714,285 units of the Company by way of private placement at a price per unit of CDN$0.35 for total gross proceeds to the Company of CDN$30,000,000. Each unit consisted of one common share and one-half of one common share purchase warrant of the Company. Each warrant is exercisable for one CGX common share at an exercise price of CDN$0.60 per common share until January 9, 2014. All common shares and warrants that comprised the units and any common shares issued on exercise of the warrants were subject to a four month hold period from the date of issuance of the units. At a Special Meeting of shareholders held on June 28, 2012, the shareholders approved the definitive subscription with Pacific Rubiales to allow them to hold 36% of the common shares outstanding of the Company with a potential, through the exercise of existing warrants, to hold 41% of the common shares outstanding of the Company. On July 9, 2012 the private placement was completed. The Company paid an advisory fee of CDN$1,200,000 or 4% of the gross proceeds of the private placement to GMP Securities L.P.

In connection with the private placement, the Company granted Pacific Rubiales the right until the earlier to occur of: (a) the date on which Pacific Rubiales owns less than 15% of the outstanding common shares of the Company, and (b) the date that is two years following the closing date of the private placement, to participate in certain subsequent offerings or private placements by the Company in order for Pacific Rubiales to maintain the lesser of: (i) its percentage ownership interest in the common shares of the Company held immediately prior to such offering or placement, and (ii) 35.06% of the issued and outstanding common shares of the Company.

In connection with the investment made by Pacific Rubiales into the Company, the Company agreed to include Dr. Marino Ostos and Mr. José Francisco Arata on management's slate of nominees for director included in the management information circular in connection with the Annual and Special Meeting of shareholders held on June 24, 2012 and to appoint a third individual nominated by Pacific Rubiales to serve on the Company's board of directors on or prior to December 31, 2012.

The Company and Pacific Rubiales also entered into an earn-in and technical cooperation agreement dated May 27, 2012 pursuant to which: (i) Pacific Rubiales would provide technical assistance to the Company in respect of its operations, and (ii) Pacific Rubiales would have the right to participate in the Company's next commitment well on each of the Corentyne PPL ("Corentyne Option") and the Annex PPL ("Annex Option") by funding 50% of all costs related to such commitment wells (and in the case of the Annex PPL, by also funding 50% of the seismic program) in exchange for a 33% interest in the applicable PPL. The Corentyne Option was exercisable on or before July 31, 2012 (Pacific Rubiales did not exercise their right on the Corentyne Option) and the Annex Option was exercisable on or before the 60th day following Pacific Rubiales being made aware by CGX of receipt by CGX of the renewed Annex PPL. This Annex Option has now expired.

In March 2013, the Company announced a proposed brokered private placement of a minimum of CDN$35,000,000 (the "Minimum Offering") and a maximum of CDN$40,000,000 of units of CGX (the "Units") at a price of CDN$0.10 per Unit (the "Offering"). Each Unit will consist of one common share and one common share purchase warrant of the Company (a "Warrant"), each Warrant being exercisable to acquire one CGX common share at an exercise price of CDN$0.17 per share for a period of five years following the date of issuance of the Units. All common shares that comprise the Units and any common shares issued on exercise of the Warrants will be subject to a four month hold period from the date of issuance of the Units. The private placement is subject to approval of the TSX Venture Exchange ("TSXV") and other customary closing conditions.

The Company entered into a subscription agreement with Pacific Rubiales, as indicated above, on March 25, 2013 (the "Pacific Rubiales Subscription Agreement") pursuant to which Pacific Rubiales has agreed to purchase all of the Units to be issued in the Minimum Offering that are not subscribed for by other investors. Pursuant to the Pacific Rubiales Subscription Agreement, it is a condition of closing of the placement of the Minimum Offering to Pacific Rubiales that the Company obtain shareholder approval for a redemption of the rights under the Company's Rights Plan (see Proposed Transactions).

GUYANA OPERATIONS

Corentyne Petroleum Agreement, Guyana

The original Corentyne PA covered approximately 2.9 million acres under two separate PPLs. The Annex PPL (1.0 million acres) was held 100%, as was the offshore portion of the Corentyne PPL (1.5 million acres), while the onshore portion of the Corentyne PPL (0.4 million acres) was held net 62% by CGX through ON Energy.

The original Corentyne PA was awarded to CGX in 1998, following which the Company began an active exploration program consisting of a 1,800 kilometre seismic acquisition and preparations to drill the Eagle well. The Eagle drilling location in 2000 was 15 kilometres within Guyana-Suriname border. However, a border dispute between Guyana and Suriname led to the Company being forced off the Eagle location before drilling could begin. As a result of that incident, all active offshore exploration in Guyana was suspended by CGX and other operators in the area, including Exxon and Maxus (Repsol YPF). On September 17, 2007, the International Tribunal on the Law of the Sea ("ITLOS") awarded a maritime boundary between Guyana and Suriname. In the decision the ITLOS Tribunal determined that it had the jurisdiction to decide on the merits of the dispute, and that the line adopted by the ITLOS Tribunal to delimit the Parties' continental shelf and exclusive economic zone follows an unadjusted equidistance line. The arbitration was compulsory and binding. CGX financed a significant portion of Guyana's legal expense at a cost of $9,800,000. The decision was beneficial for CGX, as it concluded that 93% of CGX's Corentyne PPL and 100% of the Georgetown PPL would be in Guyana territory.

Because CGX was prevented from gaining unhindered access to a portion of the original Corentyne licence area during the seven year resolution, the term of the contract was extended to June 2013.

In 2008, CGX was the first company to commit to acquire 3D seismic in Guyana when the Company shot a 505 square kilometre 3D seismic program to enhance its interpretation of its newly defined Eagle Deep prospect, a large stratigraphic trap in the Cretaceous. The cost of the seismic program was approximately US$8,000,000. Processing and interpretation of the 3D seismic was completed in 2009.

Based on the interpretation of the 3D seismic volume and recent activities on both sides of the Atlantic margin, CGX has interpreted numerous prospects on the Corentyne PPL. One significant prospect is a Turonian sand at approximately 5,600 metres. Because the offset Jaguar-1 well on the Georgetown PPL was testing another Cretaceous Turonian prospect, the Corentyne commitment well was targeted to 4,250 metres to test the Tertiary Eocene and Cretaceous Maastrichtian trend.

The Eagle-1 well spud on February 13, 2012 and was initially budgeted for 60 days of drilling but experienced weather delays and mechanical issues which extended operations to 107 days. The initial cost estimate for the Eagle-1 well was $55,000,000, however due to additional time for drilling plus additional logging of potential reservoir sands, the drilling rig was released May 16, 2012. The final costs associated with the Eagle-1 well were approximately $89,900,000. In May 2012, the Company completed the analyses of the results of its Eagle-1 well on the Company's 100% owned and operated Corentyne PPL, offshore Guyana. The well was declared a dry-hole after encountered hydrocarbon shows in three formations but potential reservoir sands proved to be water-bearing. The Company recognized these costs as a dry hole expense the total cost of Eagle-1 well in the financial statements for the year ended December 31, 2012.

On November 28, 2012, the Company received a new Corentyne petroleum agreement offshore Guyana, renewable after four years for up to six additional years. The New Corentyne PA applies to the former offshore portion of Corentyne Petroleum Prospecting Licence (PPL), covering 6,212 square kilometres.

As of March 19, 2013 and effective December 31, 2012, an Independent Resources Evaluation was completed by DeGolyer and MacNaughton of Dallas, Texas, USA (the “D&M Report”). In the D&M Report, the total best estimate (P50) of prospective resources for six oil and gas prospects within the Corentyne PA are 779 million barrels of oil, 743 million barrels of condensate, 6,943 billion cubic feet of sales gas plus 696 billion cubic feet of solution gas. If the estimate of gas resources were converted to oil on a 6:1 btu equivalence, and if the estimate of solution gas resources associated with the oil prospects were converted to sales gas assuming a 5% shrinkage, the arithmetic sum would be 2,664 million barrels of oil equivalent. The D&M Report has been filed on CGX’s website (www.cgxenergy.com). The D&M Report was prepared in accordance with the requirements of Section 5.9 of National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities.*

Georgetown Petroleum Agreement, Guyana

The Georgetown PA was granted to Maxus Guyana Ltd. (now YPF Guyana Ltd. (“YPF”)) on November 25, 1997. In 2000, AGIP Guyana B.V. earned a 25% interest in the PA by shooting a 2D seismic program, which interest was subsequently acquired in June 2002 by CGX Resources. As a result of additional divestitures by YPF the ownership of the Georgetown PPL became: Repsol (15%), YPF (30%), Tullow Guyana B.V. (30%), and CGX Resources (25%) (collectively the “Partners”). Under the Georgetown PPL and the joint operating agreement between the Partners, Repsol became the operator of the Georgetown PPL, which comprised 1.7 million acres.

In conjunction with the seismic acquisition program on the Corentyne PPL, the Partners acquired 1,700 kilometres of 2D seismic in 1999. However, due to the border dispute between Guyana and Suriname, exploration activities were suspended in 2000 as a significant portion of the Georgetown PPL was in the area of dispute. Following resolution of the maritime boundary, an additional 1,839 square kilometres of 3D seismic was acquired in 2008/2009 in conjunction with CGX’s program on the Corentyne PPL. CGX’s share of the acquisition and processing was approximately $10,000,000.

On February 9, 2012, under the terms of the PPL, Repsol spudded the Jaguar-1 well offshore Guyana. The Jaguar-1 well located on the Georgetown PPL, was plugged at a depth of 4,876 metres without reaching the primary objective in the Late Cretaceous geologic zone. On July 16, 2012, the decision to stop drilling was announced based on safety criteria after reaching a point in the well where the pressure design limits for safe operations prevented further drilling to the main objective. Whilst the primary Late Cretaceous objective was not reached, samples of light oil were successfully recovered from two Late Cretaceous turbidite sands.

Effective November 25, 2012, the Company was notified that this licence has reverted back to the government of Guyana. Subsequent to licence expiration and during fourth quarter 2012, the Company, led by the operator Repsol, was in discussions with the Government of Guyana for the issuance of a new PPL. The Company believed that these discussions would have resulted in a new PPL, but there were no assurances as to the outcome and terms of these negotiations. Currently, as a result of the Company's continued default under the Georgetown Licence and the Company's current uncertainty relating to this license, the Company recorded an impairment during the year ended December 31, 2012 of the full carrying amounts of $57,309,135 (2011 - $Nil). In the event that the Company secures the renewal of the license, the Company will revisit any impairment previously recorded.

Pomeroon Petroleum Agreement, Guyana

In January 2004, the Company, through its wholly-owned subsidiary, CGX Resources, entered into an asset purchase agreement with Century Guyana, Ltd. ("Century") to acquire Century's 100% interest in the Pomeroon PA located offshore Guyana. The Government of Guyana approved this transfer in July 2004. The purchase price consisted of a payment of $100,000 plus the issuance of 2,000,000 common shares of the Company. CGX has assigned 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 was granted for a period of 10 years and covered approximately 2.8 million acres. The Pomeroon PPL is located between CGX's 100% owned Annex portion of the Corentyne PA (now the Demerara PPL) and the Venezuela border. Like many maritime boundaries in the world, the border between Venezuela and Guyana has not yet been resolved. It is further complicated by a land border dispute by Venezuela that is being pursued at the diplomatic level, and through the United Nations Good Officer process.

The Company completed a regional reinterpretation of existing data to identify priority areas for future seismic, however, additional field seismic and exploration drilling was deferred pending resolution of the maritime boundary between Guyana and Venezuela. Pending that border resolution, exploration activity that would have required physical presence on the Pomeroon PPL to fulfill the terms of the minimum work program were deemed complete.

Effective November 19, 2012, the Company was notified that this licence has reverted back to the Government of Guyana. As a result of this licence having expired in November 2012 and the Company's current uncertainty relating to this license, the Company recorded an impairment during the year ended December 31, 2012 of the full carrying amounts of $2,040,444 (2011 - $Nil). In the event that the Company secures the renewal of the license, the Company will revisit any impairment previously recorded.

Berbice Petroleum Agreement, Guyana

In 2003, CGX, through ON Energy, applied for and was granted the Berbice PPL consisting of approximately 387,000 acres adjacent to the Corentyne onshore PPL. On the two onshore PPL's, ON Energy completed aeromag re-interpretation, a geochemical sampling program and a 2D seismic program, to fulfill the minimum work obligations, plus drilled three dry-holes.

On February 12, 2013, the Government of Guyana issued a new Berbice PA and PPL to ON Energy, comprising the former Berbice PA and the onshore portion of the former Corentyne PPL, covering 3,295 square kilometres. Under the terms of the new Berbice PA, during the initial period of four years, ON Energy has an obligation to conduct an airborne survey comprising a minimum of 1,000 square

kilometres and either conduct a 2D seismic survey comprising a minimum of 100 square kilometres or drill one exploration well.

Demerara Petroleum Agreement, Guyana
On February 12, 2013, the Government of Guyana issued the new Demerara PA and PPL to the Company. The Demerara PA and PPL applies to the former offshore portion of the Annex PPL, covering 3,975 square kilometres, which was a subset of the Company's original Corentyne PA. Under the terms of the new Demerara PA, during the initial period of four years, CGX has an obligation to conduct a 3D seismic survey comprising a minimum of 1,000 square kilometres and to drill one exploration well.

Contractual Commitments
Under the terms of the new Corentyne PA, and during the initial period of four years CGX has an obligation to drill two wells.

Under the terms of the new Demerara PA, and during the initial period of four years, CGX has an obligation to conduct a 3D seismic survey comprising a minimum of 1,000 square kilometres and to drill one exploration well.

Under the terms of the new Berbice PA, and during the initial period of four years, the Company has an obligation to conduct an airborne survey comprising a minimum of 1,000 kilometres and either conduct a 2D seismic survey comprising a minimum of 100 line kilometres or commence to drill one exploration well.

Further details of the Company's contractual commitments are included in the audited consolidated financial statements for the years ended December 31, 2012 and December 31, 2011.

Staging Facility and Wharf, Guyana
CGX is currently in the process of constructing staging facilities to be used for drilling of future wells. To date, the Company has fenced in the yard, constructed an office and sanitary services, installed two fuel tanks that can accommodate 20,000 litres, installed 200 metre by 50 metre of vertical drainage and completed an internal access road with crusher run and sand filling. Crusher run has also been placed in the entire yard. A two kilometre long by 5 metre wide access road has been constructed from the main road to the port yard site using Geotextile, reef sand, white sand, crusher run and bauxite capping. Sand filling of the port yard is currently on going and sea defense is currently being constructed. The Company's investment in the staging facility and wharf is accounted for through its wholly-owned subsidiary Grand Canal Industrial Estates Inc.

TRENDS

Financial markets are likely to be volatile in Canada for most of 2013, reflecting ongoing concerns about the stability of the global economy, sovereign debt levels and possible default, weakening global growth prospects and instability in Africa and the Middle East. Unprecedented uncertainty in the credit markets has also led to increased difficulties in borrowing/raising funds. Companies worldwide continue to be affected by these trends.

The future performance of the Company is largely tied to the exploration and development of its properties in Guyana. The Company may have difficulties raising equity or attaining debt financing for the purpose of carrying out exploration and development activities with respect to its Guyana properties, particularly without excessively diluting present shareholders of the Company. See "Risk Factors".

RESULTS OF OPERATIONS

Three month period ended December 31, 2012

The Company recorded a net loss of $59,864,295 or $0.15 a share for the three month period ended December 31, 2012, compared with a net loss of $1,764,324 or $0.01 a share for the same period in 2011. The significant increase in net loss is due to an impairment of exploration and evaluation expenditures of $59,349,690 (2011 - $Nil), offset by a gain on revaluation of warrant liability of $1,757,000 (2011 - $Nil); the warrants are recorded as a derivative liability for accounting purposes due to their exercise price being denominated in a currency other than the Company's US dollar functional currency.

CGX incurred a foreign exchange gain of $21,467 for the three month period ended December 31, 2012, compared to a gain of $640,523 for the same period in 2011. The difference is due to the changes in the foreign exchange rates from the beginning of the quarter to the end of the quarter on balances held in Canadian Dollar bank accounts as the Canadian dollar weakened against the US dollar as compared to strengthening in 2011. The decrease in the current period was also due to a lower balance held in Canadian Dollars.

General and administration costs increased by $24,489 to $1,260,388 in the three month period ended December 31, 2012 from $1,235,899 for the same period in 2011. These costs increased in 2012 as a result of an overall increase in operations. The majority of these costs related to general office operations in Canada and the United States as well as travel costs.

Professional fees for the three month period ended December 31, 2012 were $437,427 compared to $651 in the same period of 2011. These fees are higher primarily due to higher legal and audit fees relating to general corporate matters and quarterly review fees for financial reporting purposes.

Management and consulting fees decreased by $204,790 to $584,211 during the three month period ended December 31, 2012 compared to $789,001 for the same period in 2011. Management and consulting fees are expected to increase in the first quarter 2013 due to higher director, management and consulting fees as a result of special committees to pursue and review potential financings and joint venture partners.

The Company incurred a recovery of stock-based compensation during the three month period ended December 31, 2012 of $52,000, compared to an expense of $451,000, for the same period in 2011. Stock-based compensation expenses are booked based on the valuation of options using the Black-Scholes model. The expense varies based on the number of options issued and/or vested in the period and the underlying assumptions used in the model.

Year ended December 31, 2012

The Company incurred a net loss of $152,224,578, or $0.41 a share for the year ended December 31, 2012, compared with a net loss of $6,785,330, or $0.03 a share for the same period in 2011 for the reasons discussed below.

The Company had a dry hole cost of $89,900,000 (2011 - $Nil) during the year ended December 31, 2012 relating to the Eagle-1 well drilled on the Company's Corentyne PPL. In addition, the Company had an impairment of exploration and evaluation expenditures of $59,349,690 (2011 - $Nil) during the year ended December 31, 2012 as a result of the lapsing of the Georgetown and Pomeroon Licences.

Shareholder information costs increased in the year ended December 31, 2012 by $157,203 to $437,160 compared to $279,957 in the same period in 2011. This amount relates to the costs of issuing press releases, transfer agents, investor presentations, and electronic dissemination of information. The increase for the year ended December 31, 2012 is attributable to the Company utilizing a proxy solicitation service for the annual and special meeting held June 28, 2012.

General and administration costs increased by $2,591,664 to $5,427,563 in the year ended December 31, 2012 from $2,835,899 for the same period in 2011. These costs increased in 2012 as a result of an overall increase in operations. The majority of these costs related to general office operations in Canadaand the United States as well as travel costs.

Professional fees for the year ended December 31, 2012 were $1,130,672 compared to $113,348 in the same period of 2011. These fees are primarily higher due to higher legal and audit fees relating to general corporate matters and quarterly review fees for financial reporting purposes. These fees are expected to be consistent year to year.

Management and consulting fees increased by $1,027,159 to $2,724,551 during the year ended December 31, 2012 compared to $1,697,392 for the same period in 2011. Management and consulting fees include fees paid to management and increased mainly due to the use of more consultants as compared to the prior period and a $375,000 (2011 - $Nil) termination payment made to the Company's former President and CEO.

The Company incurred stock-based compensation during the year ended December 31, 2012 of $1,171,000 compared to $2,357,000 for the same period in 2011. Stock-based compensation expenses are booked based on the valuation of options using the Black-Scholes model. The expense varies based on the number of options issued and or vested in the period and the underlying assumptions used in the model.

These above costs were off-set by a gain on revaluation of warrant liability of $7,473,000 (2011 - $Nil) as a result of warrants being recorded as a derivative liability for accounting purposes due to their exercise price being denominated in a currency other than the Company's US dollar functional currency. In addition, CGX incurred a foreign exchange gain of $297,845 for the year ended December 31, 2012 compared to a gain of $366,593 in 2011. The difference is due to the changes in the foreign exchange rates during the last fiscal period on balances held in Canadian dollar bank accounts against the US dollar.

Selected Consolidated Annual Financial Information

The information below should be read in conjunction with the MD&A, the Financial Statements and related notes and other financial information.

	Year Ended December 31, 2012	**Year Ended December 31, 2011**	**Year Ended December 31, 2010**
	$	$	$
Interest Income	145,213	97,739	13,692
Other Income (Expense)	-	33,934	(92,742)
Total Revenue	145,213	131,673	(79,050)
Net Loss	152,224,578	6,785,330	4,740,489
Basic and Diluted Loss Per Share*	$0.41	$0.03	$0.03
Total Assets	46,568,125	170,535,669	81,275,214
Liabilities	18,396,602	10,919,420	1,953,561

*calculated using weighted average shares outstanding for the period

Results for the three month periods ended:

	December 31, 2012	**September 30, 2012**	**June 30, 2012**	**March 31, 2012**
	$	$	$	$
Interest Income	3,530	11,262	24,936	105,485
Total Revenue	3,530	11,262	24,936	105,485
Net (Income) Loss	59,864,295	(4,250,877)	94,093,285	2,517,875
Basic and Diluted (Income) Loss Per Share *	$0.15	($0.01)	$0.29	$0.01

	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
	$	$	$	$
Interest Income	76,034	2,387	9,536	9,782
Other Income (Expense)	(381)	(47)	(1,721)	36,083
Total Revenue	75,653	2,340	7,815	45,865
Net Loss	1,764,324	3,560,250	1,087,935	372,821
Basic and Diluted Loss Per Share *	$0.01	$0.02	$0.01	$0.00

*calculated using weighted average shares outstanding for the period

CAPITAL RESOURCES, CAPITAL EXPENDITURES AND LIQUIDITY

For the year ended December 31, 2012, the Company incurred additions of $285,696 (2011 – $5,447,959) with respect to a logistics yard and expenditures on a staging facility. The logistics yard was purchased in 2010 for $385,000 and the balance was expended on planning for the staging area for the shore based facility. The Company signed a 50 year lease for approximately 55 acres on the Berbice River as this is an ideal location for a staging facility to support off-shore drilling activities. Utilizing a local facility resulted in significant savings as compared to running the logistics from Trinidad.

As at December 31, 2012, the Company's working capital decreased to a working capital deficiency of $12,650,761 from working capital of $86,364,429 as at December 31, 2011. In order to meet its short-term and longer-term working capital and property exploration expenditures the Company must secure further financing through joint venture, property sale and/or issuance of equity to ensure that its obligations are properly discharged. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. Please refer to ***Going Concern Uncertainty and Management's Plans*** for further details.

PROPOSED TRANSACTIONS

In March 2013, the Company announced a brokered private placement (the "Offering") for CDN$0.10 per Unit, subject to the approval of the TSX Venture Exchange ("TSXV"). The Offering is subject to a minimum of CDN$35,000,000 (the "Minimum Offering") and a maximum of CDN$40,000,000 and each Unit will consist of one common share and one common share purchase warrant of the Company (a "Warrant"), each Warrant being exercisable to acquire one common share at the revised exercise price of CDN$0.17 per common share for a period of five years following the date of issuance of the Units. The private placement is subject to approval of the TSXV and other customary closing conditions. All securities issued in connection with the Offering will be subject to a statutory hold period of four months plus one day from the date of issuance in accordance with applicable securities legislation. The Company also announced that under the Offering, it has entered into a subscription agreement with Pacific Rubiales dated March 25, 2013 (the "Pacific Rubiales Subscription Agreement") pursuant to which Pacific Rubiales has agreed to purchase all of the Units to be issued in the Minimum Offering that are not subscribed for by other investors. Pursuant to the Pacific Rubiales Subscription Agreement, it is a condition of closing of the placement of the Minimum Offering to Pacific Rubiales that the Company obtain shareholder approval for a redemption of the rights under the Company's Shareholder Rights Plan and that it re-negotiate certain of its agreements with the directors, officers, employees and consultants of the Company such that the aggregate obligations payable by the Company or any of its subsidiaries under such agreements on a change of control of the Company do not exceed approximately CDN$2,000,000. The meeting to obtain shareholder approval for a redemption of the rights under the Shareholder Rights Plan and to approve the Offering is scheduled for April 25, 2013.

If the Offering is approved and completed, the pro-forma share data on closing based on the share data as of April 22, 2013 under the minimum and maximum scenario's will be as follows:

Security	Current	Offering		Post-Offering	
		Minimum	Maximum	Minimum	Maximum
Shares	411,948,218	350,000,000	400,000,000	761,948,218	811,948,218
Warrants	42,857,142	350,000,000	400,000,000	392,857,142	442,857,142
Options	10,244,730	-	-	10,244,730	10,244,730

Going Concern Uncertainty and Management's Plans

The accompanying audited consolidated financial statements for the years ended December 31, 2012 and 2011 have been prepared assuming that the Company will continue as a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

As at December 31, 2012 the Company required additional financing to meet its current obligations and ongoing activities and was negotiating various financing initiatives. In the event these negotiations were not successful, the Company would not have sufficient cash flow to meet its operating requirements for a minimum of one year, which raises significant doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on securing the additional required financing, either through issuing additional equity, debt instruments or sale of Company assets and/or payments associated with a joint venture farm-out.

As a result, the Company has entered into an engagement letter with respect to a brokered private placement for a minimum of CDN$35,000,000 and maximum of CDN$40,000,000. Refer to "Subsequent Transactions".

As announced on February 27, 2013, a special committee (the "Special Committee") of four non-management directors of the Company was constituted to consider the proposed private placement, including the Pacific Rubiales investment. The Special Committee determined unanimously that the Company is in serious financial difficulty. The board of directors of the Company made the same determination.

CGX had intended to rely on the financial hardship exemption from the minority approval requirement of Multilateral Instrument 61-101 – *Protection of Minority Security Holders In Special Transactions* for the Minimum Offering to Pacific Rubiales, however it is only entitled to rely on this exemption if there is no other requirement, corporate or otherwise, to hold a meeting to obtain any approval of the holders of any class of affected securities. As the Company is required to seek minority shareholder approval for aredemption of the rights granted under the Rights Plan, it is also seeking minority shareholder approval of the Minimum Offering to Pacific Rubiales. The Company has set a date of April 25, 2013 for a meeting of shareholders to obtain such minority shareholder approvals.

The ability of the Company to continue as a going concern is dependent on the Company securing additional required financing, either through issuing additional equity or debt instruments, sale of Company assets and/or payments associated with a joint venture farm-out. While the Company believes in the viability of its strategy and in its ability to raise additional funds and that the actions presently being taken provide the best opportunity for the Company to continue as a going concern, there can be no assurances to that effect. In the event the Offering is not completed, the Company would not have sufficient cash flow to meet its operating requirements for a minimum of one year, which raises significant doubt about the Company's ability to continue as a going concern.

RELATED-PARTY TRANSACTIONS

Certain corporate entities that are related to the Company's officers and directors provide consulting services to CGX. These expenditures have been recorded at their exchange amounts, being the amounts negotiated and agreed to by the parties to the transaction. Compensation awarded to key management included:

	December 31, 2012	December 31, 2011
Balances:		
Short-term employee benefits	**$ 3,064,000**	$ 2,510,000
Share based payments – options	**958,000**	1,945,000
Total compensation paid to key management	**$ 4,022,000**	$ 4,455,000

At December 31, 2012, included in trade and other payables is $101,000 (2011 - $547,000) due to these key management personnel.

CONTINGENCIES, CONTRACTUAL OBLIGATIONS, GUARANTEES AND COMMITMENTS

In the normal course of business, the Company has entered into arrangements and incurred obligations that will affect the Company's future operations and liquidity. These commitments primarily relate to work commitments including seismic and drilling activities under the terms of the PPLs. The Company has discretion regarding the timing of capital spending for work commitments, provided that the work is completed within the periods specified in the PPLs or the Company can negotiate extensions of such periods. Details of these commitments and obligations are discussed above under each of the respective Petroleum Agreements. See notes 10 and 18 of the audited consolidated financial statements for the years ended December 31, 2012 and 2011 for complete listings of commitments.

OFF-STATEMENT OF FINANCIAL POSITION ARRANGEMENTS

The Company has no off-statement of financial position arrangements.

DIVIDENDS

The Company has neither declared nor paid any dividends on its common shares. The Company 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.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

At the date of authorization of the audited consolidated financial statements as at December 31, 2012, the IASB and IFRIC had issued the following new and revised Standards and Interpretations for future reporting periods. The Company is in the process of assessing the impact of these standards and amendments or determined whether it will early adopt them.

- IFRS 9, *Financial Instruments (effective for annual periods beginning on or after January 1, 2015),* was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through net income (loss). IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through net income (loss) or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in net income (loss) to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement,* except that fair value changes due to credit risk for liabilities designated at fair value through net income (loss) are generally recorded in other comprehensive income

- IFRS 10 '*Consolidated Financial Statements'* – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces *SIC-12, Consolidation—Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statement.*
- IFRS 11 '*Joint Arrangements'* - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. It requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers.*
- IFRS 12 '*Disclosure of Interests in Other Entities'* - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.
- IFRS 13 '*Fair Value Measurement'* - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides the guidance on the measurement of fair value and related disclosures through a fair value hierarchy. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.
- IAS 1 '*Presentation of Financial Statements'* - the IASB amended IAS 1 with a new requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss.
- IAS 19 `Employee Benefits` - a number of amendments have been made to IAS 19, which included eliminating the use of the "corridor" approach and requiring remeasurements to be presented in OCI. The standard also includes amendments related to termination benefits as well as enhanced disclosures.
- IAS 27 `*Separate Financial Statements*`- as a result of the issue of the new consolidation suite of standards, IAS 27 has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.
- IAS 28 `*Investments in Associates and Joint Ventures*` - as a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee.
- IAS 32 '*Financial instruments, Presentation'* – In December 2011, effective for annual periods beginning on or after January 1, 2014, IAS 32 was amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right of offset must be available on the current date and cannot be contingent on a future date.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

As at December 31,	2012	2011
	($)	($)
Exploration and evaluation expenditures:		
Capitalized exploration costs (cumulative)	**34,074,625**	66,209,306
Total Assets	**46,568,125**	170,535,669

For the year ended December 31,	2012	2011
	($)	($)
Land & lease costs	**100,000**	200,000
Sale of exploration and evaluation data	**(6,000,000)**	-
Exploration: Intangible drilling and other	**60,677,353**	16,578,663
Geophysical and administrative	**62,337,656**	15,789,562
Exploration and evaluation expenditures net additions for the year	**117,115,009**	32,568,225

Corporate Expenses	Year ended December 31, 2012	Year ended December 31, 2011
	($)	($)
General and administrative	**5,427,563**	2,835,899
Interest income	**(145,213)**	(97,739)
Management and consulting	**2,724,551**	1,697,392
Stock-based compensation	**1,171,000**	2,357,000
Professional fees	**1,130,672**	113,348
Shareholders' information	**437,160**	279,957
Other income	**-**	(33,934)
Gain on revaluation of warrant liability	**(7,473,000)**	-
Dry hole costs	**89,900,000**	-
Impairment of exploration and evaluation expenditures	**59,349,690**	-
Foreign exchange gain	**(297,845)**	(366,593)
	152,224,578	6,785,330

DISCLOSURE OF OUTSTANDING SHARE DATA

Share Capital

The following table sets forth information concerning the outstanding securities of the Company as at April 22, 2013:

Common Shares of no par value	Number
Shares	411,948,218
Warrants	42,857,142
Options	10,244,730

See note 14 to the audited consolidated financial statements for the years ended December 31, 2012 and 2011 for more detailed disclosure of outstanding share data.

RISKS AND UNCERTAINTIES

Overview

The business of the Company consists of oil and gas exploration in Guyana, South America. There are a number of inherent risks associated with oil and gas exploration and development, as well as local, national and international economic and political conditions that may affect the success of CGX which are beyond CGX's control, particularly since its operations are located in a foreign country. Many of these factors involve a high degree of risk which a combination of experience, knowledge and careful evaluation may not overcome.

CGX has prioritized the risk factors. Readers are cautioned that this categorization is a subjective view of the Company and the categorization of these risk factors could change because of future events.

Stage of Development

An investment in CGX is subject to certain risks related to the nature of CGX's business and its early stage of development. There are numerous factors which may affect the success of CGX's business which are beyond CGX's control including local, national and international economic and political conditions. CGX's business involves a high degree of risk which a combination of experience, knowledge and careful evaluation may not overcome. CGX's operations in Guyana have exposed CGX to risks which may not exist for domestic operations such as political and currency risks. CGX has a limited history of operations and there can be no assurance that CGX's business will be successful or profitable or that additional commercial quantities of oil and/or natural gas will be discovered by CGX. CGX has not paid any dividends and it is unlikely to pay dividends in the immediate or foreseeable future.

Financing

The Company's future capital requirements on its existing assets exceed existing cash resources, which requires CGX to raise additional financing. The ability of CGX to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of CGX. This in turn could limit growth prospects in the short run or may even require CGX to dedicate cash flow, dispose of properties or raise new equity to continue operations under circumstances of declining energy prices, disappointing drilling results, or economic or political dislocation in foreign countries. There can be no assurance that CGX will be successful in its efforts to arrange additional financing on terms satisfactory to CGX. This may be further complicated by the limited market liquidity for shares of smaller companies such as CGX, restricting access to some institutional investors. If additional financing is raised by the issuance of shares from the treasury of CGX, control of CGX may change and shareholders may suffer additional dilution.

From time to time CGX may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may temporarily increase CGX's debt levels above industry standards.

Risks of Foreign Operations

CGX's material petroleum assets and operations are located in Guyana. As such, CGX is subject to political, economic, and contractual uncertainties, including, but not limited to, renegotiation or nullification of existing agreements and licences, expropriation of property without fair compensation, changes in energy policies or the personnel administering them, nationalization, currency fluctuations and devaluations, exchange controls and royalty and tax increases, changes in taxation policies, economic sanctions and other risks arising out of foreign governmental sovereignty over the areas in which CGX's operations are conducted.

CGX's operations may also be adversely affected by laws and policies of Canada affecting foreign trade, investment, and taxation, including proposed amendments to the *Income Tax Act* (Canada) relating to the taxation of foreign affiliates announced on August 19, 2011, which received first reading in the House of Commons on November 21, 2012 as Bill C-48.

In the event of a dispute arising in connection with CGX's operations in Guyana, CGX may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of the courts of Canada or enforcing Canadian judgments in such other jurisdictions. CGX may also be hindered or prevented from enforcing its rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. Accordingly, CGX's exploration and development activities in Guyana could be substantially affected by factors beyond CGX's control, any of which could have a material adverse effect on CGX.

Expiry and/or Termination of Petroleum Agreements and Licences
CGX's interests are held by way of participating interests in PPLs governed by PAs. If CGX, or its joint licences under an applicable PA or licence, fails to meet the specific requirement(s) of a particular PA or licence its interest may terminate or expire. There can be no assurance that any of the obligations required to maintain the Company's interests will be met and that CGX will not lose any of its participating interests in such petroleum agreements and licences.

With respect to the Corentyne, Demerara and Berbice PPLs held by the Company, annual lease rental payments were submitted as required to the applicable regulatory authority and on March 8, 2013, the Guyana Geology & Mines Commission issued a comfort letter confirming that each of the PPLs are in good standing.

Petroleum Exploration Operations
An investment in CGX is subject to certain risks related to the nature of CGX's business as an oil and gas exploration company. Petroleum exploration involves a high degree of risk and there is no assurance that expenditures made on exploration activities by CGX will result in the discovery or ultimate production of hydrocarbons. It is often difficult to project the costs of undertaking exploratory drilling programs 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 technical data and interpretations. CGX does not know if any of its exploration prospects will contain petroleum in quantities or quality that are sufficient to recover the costs of drilling and exploration, or to be economically viable.

Currently there are no reserves associated with CGX's petroleum licences in Guyana. CGX has identified exploration prospects based on seismic and geological information that indicates the possible presence of petroleum. However, the areas in which CGX has decided to drill may not produce petroleum in commercial quantities or quality, or CGX may not discover petroleum at all. The future value of CGX is therefore dependent on the success or otherwise of CGX's activities which are principally directed toward the further exploration, appraisal and development of its assets in Guyana. CGX has a right to explore and appraise such assets in Guyana but does not have a right to produce same until such time as the reserves are determined to be commercial. Exploration, appraisal and development of petroleum reserves is speculative and involves a significant degree of risk. There is no guarantee that exploration or appraisal of the Guyana assets will lead to a commercial discovery or, if there is commercial discovery, that CGX will be able to realize such reserves as intended. Not all properties that are explored are ultimately produced. If at any stage CGX is precluded from pursuing its exploration or development programs, or such programs are otherwise not continued, CGX's business, financial condition and/or results of operations and, accordingly, the trading price of the common shares, is likely to be materially adversely affected.

Offshore Operations
CGX is actively exploring for hydrocarbons offshore the coast of Guyana. Offshore operations involve a higher degree of risk than onshore operations due to their remoteness. Fires and explosions on drilling rigs and other offshore platforms are more likely to result in personal injury, loss of life and damage to property due to the remote locations and time required for rescue personnel to get to the location. Blow-outs and spills are more likely to result in significant environmental damage to the marine environment and can be difficult to contain and difficult and expensive to remediate. Although CGX intends to operate in accordance with all recommended and required health, safety and environment practices which will reduce such risks, there can be no assurance that these risks can be avoided. The occurrence of any of these events could have a materially adverse effect on the Company.

Drilling Risks and Other Operating Risks
CGX's operations are subject to all the operational risks inherent to offshore exploration and development of hydrocarbons and the drilling of wells, including among others, unsatisfactory performance of service providers engaged to carry out operations required for the drilling and analysis of wells, natural disasters, encountering unexpected formations or pressures, premature declines of reservoirs, invasion of water into producing formations, formations with abnormal pressures, mechanical problems with equipment, potential for substantial environmental damage, blow-outs, cratering, fires and spills, all of which could result in personal injuries, loss of life and damage to the property of CGX and others. In accordance with industry practice, CGX has normal and customary insurance coverage to address certain of these risks; however, such insurance in the future may not be available, may be price-prohibitive or contain limitations on liability that may not be sufficient to cover the full extent of such liabilities. While management of CGX believes that the respective insurance coverage will be sufficient, there can be no assurance that CGX will be fully covered by such insurance. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, CGX may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to CGX. CGX obtains insurance for its operations, as appropriate for each specific activity. It also generally insists that subcontractors have insurance sufficient to cover their own people and property and to indemnify CGX for such claims. CGX further requires that all subcontractors provide CGX with verified certificates of insurance for all operations for which they have been contracted by CGX. CGX obtains insurance to the extent it deems necessary based on advice from its insurance professionals and generally accepted industry practice.

CGX has health, safety and environmental policies that it applies to all operations. It also insists that contractors have verifiable health, safety and environmental standards, policies and documented implementation that attempt to reduce the possibility and size of insurance claims.

The occurrence of a significant event that CGX is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on CGX's financial position and/or its results of operations.

Significant Capital Investments and Expenses
The oil and gas exploration and production industry is capital intensive and as such the Company expects to have substantial expenditures as it continues to fulfill its commitments and explore for petroleum reserves. CGX has financed its exploration activities with funds obtained from the private placements conducted in 2012, 2011 and 2010. CGX continues to explore financing mechanisms to allow the Company to meet future work commitments and to allow the Company to fully explore its existing petroleum prospecting licences.

CGX’s future cash flow for operations and financing is subject to a number of variables, including among others: (i) the outcome of the current well program; (ii) the Company’s ability to locate or acquire reserves; (iii) the Company’s ability to extract oil from such reserves; (iv) the cost and the timeframes for government authorizations and/or licence extensions; (v) current financial market conditions and available liquidity with such markets (refer to “Recent Distress in Financial Markets” below); and (vi) the prices for which any produced oil is sold.

Seismic Data and Resource Estimates
There are numerous uncertainties inherent in estimating quantities of resources, including many factors beyond the control of the Company. When properly used and interpreted, seismic data and visualization techniques are important tools used to assist geoscientists in identifying sub-surface structures and indicators of hydrocarbons; however, these data do not allow the Company to know whether the hydrocarbons are effectively present in the structures. Estimates of resources depend largely upon the reliability of available geological and engineering data and require certain assumptions to be made in order to assign resource volumes. Geological and engineering data is used to determine the probability that a reservoir of oil and/or natural gas exists at a particular location, and whether, and to what extent, such hydrocarbons are recoverable from the reservoir. Accordingly, the ultimate resources discovered by the Company may be significantly less than its estimates.

There is also no guarantee that the prospective resources attributed to each of the Company's PPLs will be discovered or become commercially viable. The Company's drilling activities may not be successful or may not be economically viable which may have a material adverse effect on the Company's share price.

Reserves and prospective resources involve different risks associated with achieving commerciality. To be classified as reserves, estimated recoverable quantities must be associated with a project that has demonstrated commercial viability. In estimating reserves, the chance of commerciality is effectively 100%. For prospective resources, the chance of commerciality will be the product of the chance that a project will result in the discovery of petroleum and the chance that an accumulation will be commercially developed. By definition, reserves are commercially (and hence economically) recoverable. There is no guarantee that the prospective resources attributed to each of the Company PPLs will be discovered or become commercially viable.

Future Development

Development of any potential discovery may be affected by increased costs, the excessive costs of capital, or political or environmental factors. For example, the unavailability or high cost of drilling rigs or other essential equipment, materials or personnel could negatively impact the ability of the Company to economically develop future reserves. Additionally, engineering complications, political events or natural disasters could delay or prevent a development project. Additionally, the budgeting of these costs for such projects may be difficult.

Negative Operating Cash Flow

The Company had negative operating cash flow for the financial years ended December 31, 2012 and 2011. Until at least such time as the Company is able to produce oil and gas from its reserves and resources, the Company does not expect to have any positive cash flow. To the extent that the Company has negative cash flow in future periods, the Company may need to deploy a portion of its cash reserves to fund such negative cash flow.

Third Party Credit Risk

CGX is or may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, or other parties. In the event such entities fail to meet their contractual obligations to CGX, such failures could have a material adverse effect on CGX and its cash flow from operations.

Common Share Price Volatility

A number of factors could influence the volatility in the trading price of the common shares, including changes in the economy or in the financial markets, industry related developments, and the impact of changes in CGX's daily operations. Each of these factors could lead to increased volatility in the market price of the common shares. In addition, variations in earnings estimates by securities analysts and the market prices of the securities of CGX's competitors may also lead to fluctuations in the trading price of the common shares.

Recent Distress in Financial Markets

In the future, the Company may require debt financing to grow its business. The recent distress affecting the financial markets and the possibility that financial institutions may consolidate or go bankrupt has reduced levels of activity in the credit markets. This could diminish the amount of financing available to companies. In addition, such turmoil in the financial markets could significantly increase the Company's costs associated with borrowing. The Company's liquidity and its ability to access the credit or capital markets may also be adversely affected by changes in the financial markets and the global economy. Continuing turmoil in the financial markets could make it more difficult for the Company to access capital, sell assets, refinance existing indebtedness, enter into agreements for new indebtedness or obtain funding through the issuance of securities. In addition, there could be a number of follow-on effects from the credit crisis on the Company, including insolvency of customers, key suppliers and other counterparties to the Company and foreign exchange derivative instruments.

Banks have been adversely affected by the worldwide economic crisis and have severely curtailed existing liquidity lines, increased pricing and introduced new and tighter borrowing restrictions to corporate borrowers, with extremely limited access to new facilities or for new borrowers. These factors could negatively impact the Company's ability to access liquidity needed for the Company's business in the longer term.

Global Economic Downturn
In the event of a continued general economic downturn or a recession, there can be no assurance that the business, financial condition and results of operations of the Company would not be materially adversely affected.

Current global financial conditions have been subject to increased volatility and numerous commercial and financial enterprises have either gone into bankruptcy or creditor protection or have had to be rescued by governmental authorities. Access to public financing has been negatively impacted by sub-prime mortgage defaults in the United States, the liquidity crisis affecting the asset-backed commercial paper and collateralized debt obligation markets, massive investment losses by banks with resultant recapitalization efforts and deterioration in the global economy. Although economic conditions improved in 2012, the recovery from the recession since then has been slow in various jurisdictions including in Europe and the United States and has been impacted by various ongoing factors including sovereign debt levels and high levels of unemployment which continue to impact commodity prices and have resulted in high volatility in the stock market.

Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns.

These factors may impact the Company's ability to obtain equity, debt or bank financing on terms commercially reasonable to the Company, or at all. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. If these increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Company's securities could continue to be adversely affected.

Industry Conditions
The marketability and price of oil and natural gas which may be acquired or discovered by CGX will be affected by numerous factors beyond the control of CGX. The ability of CGX to market its oil and natural gas discovered may depend upon its ability to access third party transportation, processing facilities and acquire space on pipelines which deliver oil and natural gas to commercial markets. CGX is also subject to market fluctuations in the prices of petroleum, uncertainties related to the delivery and proximity of its reserves to pipelines and processing facilities, operational problems with such pipelines and facilities and extensive government regulation relating to prices, taxes, royalties, land tenure, allowable production, the export of petroleum and many other aspects of the petroleum business.

The petroleum industry is subject to varying environmental regulations in each of the jurisdictions in which CGX may operate. Environmental regulations place restrictions and prohibitions on emissions of various substances produced concurrently with petroleum and can impact on the selection of drilling sites and facility locations, potentially resulting in increased capital expenditures. CGX may be responsible for abandonment and site restoration costs. Infrastructure development in Guyana where the Company operates is limited.

All of these factors may affect the Company's ability to explore and develop its properties in a timely manner and to store and transport its petroleum production if reserves are located.

Foreign Subsidiaries
CGX conducts operations through its Bahamian, Guyanese, United States and Barbadian subsidiaries. Therefore, to the extent of operations conducted by such subsidiaries, CGX will be dependent on the cash flows of these subsidiaries to meet its obligations. The ability of its subsidiaries to make payments to CGX may be constrained by: (i) the level of taxation, particularly corporate profits and withholding taxes, in the jurisdiction in which the subsidiary operates and any changes in tax laws or treaties; and (ii) the introduction of exchange controls or repatriation restrictions or the availability of hard currency to be repatriated.

Need to Add Reserves
CGX's ability to achieve commercial production, and therefore its cash flows and earnings, are highly dependent upon CGX discovering or acquiring reserves. To the extent that cash flow from operations is insufficient and external sources of capital become limited or unavailable, CGX's ability to make the necessary capital investments to expand its petroleum reserves will be impaired. There can be no assurance that CGX will be able to find and develop or acquire reserves at commercially feasible costs.

Assessments of Value of Acquisitions
Acquisitions of petroleum companies and petroleum assets are typically based on engineering and economic assessments made by independent engineers and the acquiror's own assessments. These assessments will include a series of assumptions regarding such factors as recoverability and marketability of petroleum, future prices of petroleum and operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond CGX's control. In particular, the prices of, and markets for, petroleum products may change from those anticipated at the time of making such assessment. In addition, all such assessments involve a measure of geologic and engineering uncertainty which could result in lower production and reserves than anticipated. Initial assessments of acquisitions may be based on reports by a firm of independent engineers that are not the same as the firm that CGX may use for its year-end resource and reserve evaluations. Because each of these firms may have different evaluation methods and approaches, these initial assessments may differ significantly from the assessments of the firm used by CGX. Any such instance may offset the return on and value of the offered shares.

Environmental Regulation and Risks
Extensive national, state and local environmental laws and regulations in foreign jurisdictions affect nearly all of the operations of CGX. These laws and regulations set various standards regulating certain aspects of health and environmental quality and provide for penalties and other liabilities for the violation of such standards and establish in certain circumstances obligations to remediate current and former facilities and locations where operations are or were conducted. In addition, special provisions may be appropriate or required in environmentally sensitive areas of operation. There can be no assurance that CGX will not incur substantial financial obligations in connection with environmental compliance and that the cost of such compliance will not have a material adverse affect on CGX.

Significant liability could be imposed on CGX for damages, cleanup costs or penalties in the event of certain discharges into the environment, environmental damage caused by previous owners of properties purchased by CGX or non-compliance with environmental laws or regulations. Such liability could have a material adverse effect on CGX. Moreover, CGX cannot predict what environmental legislation or regulations will be enacted in the future or how existing or future laws or regulations will be administered or enforced. Compliance with more stringent laws or regulations, or more vigorous enforcement policies of any regulatory authority, could in the future require material expenditures by CGX for the installation and operation of systems and equipment for remedial measures, any or all of which may have a material adverse effect on CGX.

Environmental Protection
All phases of CGX's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste.

In particular, CGX is subject to the Guyana Environmental Protection Act 1996 ("Environmental Protection Act") which provides for the management, conservation, protection and improvement of the environment, the prevention/control of pollution, the assessment of the impact of economic development on the environment and the sustainable use of natural resources and the matters incidental thereto or connected therewith. This legislation also mandates the creation of the Guyana Environmental Protection Agency (the "EPA") to implement compliance with the Environmental Protection Act.

The Environmental Protection Act establishes a wide range of sanctions and penalties, both criminal and civil, for violations of the provisions of the Environmental Protection Act. These sanctions and penalties include, but are not limited to:

- varying monetary fines or imprisonment depending on the gravity of the offence (if the offender has been convicted of an offence under the Environmental Protection Act and has benefited monetarily from the violation, a court may order a fine in an amount equal to the court's estimation of the amount of monetary benefits notwithstanding the maximum fine that may be imposed. To expedite settlement, authorized officers of the EPA, may by notice, offer the option of discharging liabilities in consideration of the offender making immediate payment to the EPA equal to two-thirds of the minimum penalty prescribed within 28 days of the date of the notice sent by the officer);
- suspension, cancellation or revocation of a permit or authorization;
- order to cease (or make no changes to) construction, operation, or other activities;
- prohibition notices (similar to an injunction);
- enforcement notices;
- mandating actions to prevent, ameliorate, correct, mitigate, restore or otherwise address environmental harm within a specified time;
- community service;
- order compensation to aggrieved persons; and
- injunctions (upon application to the High Court of Guyana).

To date, applicable environmental legislation has had no material financial or operational effects upon the operations of CGX.

Political Risks

The majority of CGX's current operations are presently conducted in Guyana, South America and as such, CGX's operations are exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties vary from country to country and include, but are not limited to: currency exchange rates; high rates of inflation; labour unrest; border disputes between countries; renegotiation or nullification of existing concessions, licences, permits and contracts; changes in taxation policies; restrictions on foreign exchange; changing political conditions; currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Future political actions cannot be predicted and may adversely affect CGX. Changes, if any, in petroleum or investment policies or shifts in political attitude in the country of Guyana and border disputes affecting CGX's rights to explore and develop for oil and gas may adversely affect CGX's business, results of operations and financial condition. Future operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people and water use. The possibility that future governments may adopt substantially different policies, which may extend to the expropriation of assets, cannot be ruled out.

Failure to comply strictly with applicable laws or regulations relating to the petroleum regime, could result in loss, reduction or expropriation of entitlements. The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on CGX's consolidated business, results of operations and financial condition.

Operational Dependence
Other companies may operate some of the PPLs in which the Company has an interest. As a result, the Company will have limited ability to exercise influence over the operation of those activities or their associated costs, which could adversely affect the Company's financial performance. The Company's return on interests operated by others therefore depends upon a number of factors that may be outside of the Company's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

Regulatory
Petroleum operations are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time such as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of petroleum and many other aspects of the petroleum business. CGX's operations may require licences and permits from various governmental authorities. There can be no assurance CGX will be able to obtain all necessary licences and permits that may be required to carry out exploration and development at its projects. It is not expected that any of these controls or regulations will affect the operations of CGX in a manner materially different than they would affect other petroleum companies of similar size.

Title to Properties and Assets
Title reviews have been conducted on CGX's existing properties and to the knowledge of CGX, CGX does have good title to its existing properties and in accordance with industry standards title reviews are conducted prior to the purchase of most petroleum producing properties or the commencement of drilling wells. Such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the claim of CGX which could result in the loss of title and a reduction of the revenue received by CGX.

Fluctuations in Foreign Currency Exchange Rates
All of CGX's operations are located in foreign jurisdictions. Fluctuations in the United States dollar and the Guyanese dollar exchange rates may cause a negative impact on revenue and costs and could have a material adverse impact on CGX's operations.

Competition
Competition could adversely affect CGX's performance. The petroleum industry is characterized by intense competition and CGX competes directly with other companies that have greater technical and financial resources. Many of these competitors not only explore for and produce petroleum but also carry on refining operations and market petroleum and other products on an international basis. The industry also competes with other industries who supply non-petroleum energy products.

Potential Conflicts of Interest
There are potential conflicts of interest to which some of the directors and officers of CGX will be subject in connection with the operations of CGX. Some of the directors and officers are engaged and will continue to be engaged in the search of petroleum interests on their own behalf and on behalf of other corporations, and situations may arise where the directors and officers will be in direct competition with CGX. Conflicts of interest, if any, which arise will be subject to and be governed by procedures prescribed by the *Business Corporations Act* (Ontario) which requires a director or officer of a corporation who is a party to or is a director or an officer of or has a material interest in any person who is a party to a material contract or proposed material contract with CGX, to disclose his interest and to refrain from voting on any matter in respect of such contract unless otherwise permitted under the *Business Corporations Act* (Ontario).

Availability of Personnel and Equipment
The competition for qualified personnel in the petroleum industry is intense and there can be no assurance that CGX will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of CGX, as the case may be.

Petroleum exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for a rig suitable for the contemplated drilling activities of the Company or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities.

CRITICAL ACCOUNTING ESTIMATES

The preparation of these consolidated financial statements requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as at the date of the consolidated financial statements. On an ongoing basis, management evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgements and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates relate to asset retirement obligations, exploration and evaluation expenditures, property, plant and equipment, recoverability of trade and other receivables, valuation of deferred income tax amounts, impairment testing and the calculation of share-based payments. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below:

Exploration and evaluation ("E&E")

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgement to determine whether it is likely that future economic benefits are likely, from future either exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that requires varying degrees of uncertainty depending on how the resources are classified. These estimates directly impact when the Company defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in profit or loss in the period when the new information becomes available.

Income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change and interpretation. As such, income taxes are subject to measurement uncertainty. The Company follows the liability method for calculating deferred taxes. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to the expectations of future cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred tax assets and liabilities recorded at the statement of financial position date could be impacted. Additionally, changes in tax laws could limit the ability of the Company to obtain tax deductions in the future.

Cash generating units

Cash generating units ("CGU's") are identified to be the major producing fields, the lowest level at which there are identifiable cash inflows that are largely independent of cash inflows of other groups of assets. The determination of CGUs requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

The Company prepares and reviews separate detailed budgets and forecast calculations for each of the cash generating units. Impairment assessment is generally carried out separately for each CGU based on cash flow forecasts calculated based on proven reserves for each CGU (value in use). As at December 31, 2012, the Company has does not have any CGU's, but has identified potential CGU's based on its Petroleum Prospecting Licences ("PPL").

Functional Currency

The determination of the Company's functional currency requires analyzing facts that are considered primary factors, and if the result is not conclusive, the secondary factors. The analysis requires the Company to apply significant judgment since primary and secondary factors may be mixed. In determining its functional currency the Company analyzed both the primary and secondary factors, including the currency of the Company's operating costs in Canada, United States and Guyana, and sources of equity financing.

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

Internal Control over Financial Reporting

Disclosure controls and procedures ("DC&P"), as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, are designed to provide reasonable assurance that information required to be disclosed in its annual filings, interim filings or other reports filed or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal control over financial reporting ("ICFR"), as defined in National Instrument 52-109, includes those policies and procedures that:

1) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of CGX;

2) Are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the accounting principles used to prepare CGX's financial statements and that receipts and expenditures of CGX are being made only in accordance with authorizations of management and directors of CGX; and

3) Are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the annual financial statements or interim financial reports.

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining ICFR for CGX. They have, as at the financial year ended December 31, 2012, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. . As at December 31, 2011, due to an overall increase in operating activity during the year then ended, the Company's process relating to accounts payable and cash advances in Guyana had reportable weaknesses related to the ineffective design of the related controls. In 2012 management implemented certain new control procedures to remediate the weaknesses. Management assessed the effectiveness of the design of the Company's internal controls over financial reporting as of December 31, 2012.

Based on this assessment, the officers concluded that as of December 31, 2012, CGX maintained effective ICFR. It should be noted that while CGX's officers believe that the Company's controls provide a reasonable level of assurance with regard to their effectiveness, they do not expect that the DC&P and ICFR will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system are met.

OTHER INFORMATION

This MD&A of the financial position and results of operation as at December 31, 2012, should be read in conjunction with the Company's audited consolidated financial statements and related notes for the years ended December 31, 2012 and 2011. Additional information is accessible at the Company's website www.cgxenergy.com or through the Company's public filings at www.sedar.com.

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 International Financial Reporting Standards 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.

April 22, 2013

"signed" Kerry Sully

Kerry Sully, President and Chief Executive Officer

"signed" Tralisa Maraj

Tralisa Maraj, Chief Financial Officer

Audited Consolidated Financial Statements

For the years ended

December 31, 2012 and 2011

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of CGX Energy Inc. (the "Company") are the responsibility of the management and Board of Directors of the Company.

The consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with International Financial Reporting Standards ("IFRS"). When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

The Company maintains systems of internal controls that are designed by management to provide reasonable assurance that its assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

The Board of Directors is responsible for reviewing and approving the audited consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the audited consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the audited consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

"Kerry Sully"	"Tralisa Maraj"
President and Chief Executive Officer	Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of **CGX Energy Inc.**

We have audited the accompanying consolidated financial statements of CGX Energy Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and 2011 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

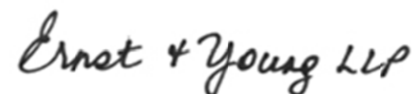
We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CGX Energy Inc. as at December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates the Company has a history of operating losses and as at December 31, 2012 has an accumulated deficit of $214,131,043 and that the Company's current liabilities exceed its current assets by $12,650,761. These conditions, along with other matters set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.



Chartered Accountants
Licensed Public Accountants

Toronto, Canada
April 22, 2013

CGX Energy Inc.
Consolidated Statements of Financial Position

(US$)

As at December 31,	2012	2011
	$	$
Assets		
Current assets		
Cash and cash equivalents *(note 6)*	**4,614,657**	83,371,228
Restricted investments *(note 7)*	**-**	13,050,000
Trade receivables and other assets *(note 8)*	**464,184**	862,621
	5,078,841	97,283,849
Property, plant and equipment *(note 9)*	**7,414,659**	7,042,514
Exploration and evaluation expenditures *(note 10)*	**34,074,625**	66,209,306
	46,568,125	170,535,669
Liabilities		
Current liabilities		
Trade and other payables *(notes 11 and 12)*	**17,729,602**	10,919,420
	17,729,602	10,919,420
Warrant liability *(note 13)*	**667,000**	-
	18,396,602	10,919,420
Equity		
Share capital *(note 14)*	**224,759,004**	205,145,980
Reserve for share based payments *(note 15)*	**17,543,562**	16,376,734
Deficit	**(214,131,043)**	(61,906,465)
	28,171,523	159,616,249
	46,568,125	170,535,669

Nature of operations and going concern uncertainty (note 1)
Commitments and contingencies (notes 10 and 18)
Subsequent Events (notes 10 and 20)

Approved on behalf of the Board of Directors on April 22, 2013:

(“Signed” Kerry Sully)
__________________________, Director
Kerry Sully

(“Signed” Suresh Narine)
______________________________, Director
Suresh Narine

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

CGX Energy Inc.
Consolidated Statements of Comprehensive Loss

(US$ Dollars)

Years ended December 31,	**2012**	2011
	$	$
Operating expenses		
Share based compensation *(note 15)*	**1,171,000**	2,357,000
General and administrative	**5,427,563**	2,835,899
Consulting	**2,724,551**	1,697,392
Professional fees	**1,130,672**	113,348
Shareholder information	**437,160**	279,957
Foreign exchange gain	**(297,845)**	(366,593)
	10,593,101	6,917,003
Interest income	**(145,213)**	(97,739)
Gain on revaluation of warrant liability (*note 13)*	**(7,473,000)**	-
Dry hole costs *(note 10)*	**89,900,000**	-
Impairment of exploration and evaluation expenditures *(note 10)*	**59,349,690**	-
Gain on marketable securities	**-**	(33,934)
Net loss and comprehensive loss	**152,224,578**	6,785,330
Basic and diluted net loss per share	**0.41**	0.03
Weighted average number of shares (000's) – basic and diluted	**367,451**	220,819

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

CGX Energy Inc.
Consolidated Statements of Changes in Equity

(US$)

	Share Capital		Reserves		
	Number of Shares	Amount	Share based	Deficit	Total
Balance at January 1, 2011	193,428,663	$119,975,965	$14,466,823	$(55,121,135)	$79,321,653
Issuance of common shares	131,445,000	84,230,176	-	-	84,230,176
Exercise of options	1,350,000	492,750	-	-	492,750
Reserve transferred on exercise of options	-	447,089	(447,089)	-	-
Share based compensation	-	-	2,357,000	-	2,357,000
Net loss and comprehensive loss for the year	-	-	-	(6,785,330)	(6,785,330)
Balance at December 31, 2011	**326,223,663**	**205,145,980**	**16,376,734**	**(61,906,465)**	**159,616,249**
Issuance of units	**85,714,285**	**19,603,406**	**-**	**-**	**19,603,406**
Exercise of options	**10,270**	**5,446**	**-**	**-**	**5,446**
Reserve transferred on exercise of options	**-**	**4,172**	**(4,172)**	**-**	**-**
Share based compensation	**-**	**-**	**1,171,000**	**-**	**1,171,000**
Net loss and comprehensive loss for the year	**-**	**-**	**-**	**(152,224,578)**	**(152,224,578)**
Balance at December 31, 2012	**411,948,218**	**$224,759,004**	**$17,543,562**	**$(214,131,043)**	**$28,171,523**

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

CGX Energy Inc.
Consolidated Statements of Cash Flow

(US$ Dollars)

Years ended December 31,	**2012**	2011
Operations	**$**	$
Net loss	**(152,224,578)**	(6,785,330)
Adjustments to reconcile net loss to cash flow from operating activities:		
Dry hole costs	**89,900,000**	-
Impairment of exploration and evaluation expenditures	**59,349,690**	-
Gain on revaluation of warrant liability	**(7,473,000)**	-
Share based compensation	**1,171,000**	2,357,000
Unrealized foreign exchange gain	**(297,845)**	(366,593)
Amortization	**174,286**	20,367
Gain on marketable securities	**-**	(33,934)
Net change in non-cash working capital items:		
Trade receivables and other assets	**398,437**	(444,649)
Trade and other payables	**(94,425)**	770,652
Cash flow used in operating activities	**(9,096,435)**	(4,482,487)
Financing		
Issuance of units (net of issuance costs)	**27,743,406**	-
Issuance of common shares (net of issuance costs)	**5,446**	84,722,926
Cash flow from financing activities	**27,748,852**	84,722,926
Investing		
Purchases of exploration and evaluation expenditures	**(115,573,754)**	(25,002,618)
Sale of exploration and evaluation data	**6,000,000**	-
Maturity of investments held to maturity	**-**	17,707,547
Purchases of property, plant and equipment	**(1,183,079)**	(5,200,139)
Receipts (Purchase) of restricted investments	**13,050,000**	(13,050,000)
Cash flow used in investing activities	**(97,706,833)**	(25,545,210)
Net (decrease) increase in cash and cash equivalents	**(79,054,416)**	54,695,229
Effect of exchange rate changes on cash held in foreign currencies	**297,845**	366,593
Cash and cash equivalents at beginning of year	**83,371,228**	28,309,406
Cash and cash equivalents at end of year	**4,614,657**	83,371,228
Supplementary Information		
Interest paid	**118,546**	-
Income tax paid	**-**	-

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

General

CGX Energy Inc. ("CGX" or the "Company") is incorporated under the laws of Ontario. The Company's head office is located at 130 Adelaide Street West, Suite 1010, Toronto, Ontario, M5H 3P5. Its principal business activity is petroleum and natural gas exploration offshore Guyana, South America.

1. Nature of Operations and Going Concern Uncertainty

The Company is in the process of exploring and evaluating petroleum and natural gas properties in the Guyana Suriname basin, a frontier basin in South America. The business of petroleum and natural gas exploration involves a high degree of risk and there can be no assurance that the Company's exploration programs will result in profitable operations. The amounts shown as exploration and evaluation expenditures represent acquisition costs to date and are not necessarily representative of present or future cash flows. The recoverability of the Company's exploration and evaluation expenditures is dependent upon the discovery of economically recoverable petroleum and natural gas reserves; securing and maintaining title and beneficial interest in the properties; the ability to obtain the necessary financing to complete exploration, development and construction of processing facilities; obtaining certain government approvals and attaining profitable production or alternatively, upon the Company's ability to dispose of its interest on an advantageous basis; all of which are uncertain.

The consolidated financial statements for the years ended December 31, 2012 and 2011 have been prepared assuming that the Company will continue as a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

The Company has a history of operating losses and as at December 31, 2012 has an accumulated deficit of $214,131,043 and the Company's current liabilities exceed its current assets by $12,650,761. The Company requires additional financing to meet its current obligations and ongoing activities and is currently in the process of negotiating a financing initiative with Pacific Rubiales Energy Corp. ("Pacific Rubiales") as disclosed in Note 20 to the financial statements. In the event this financing initiative does not close, the Company would not have sufficient cash flow to meet its operating requirements for a minimum of one year, which raises significant doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on securing the additional required financing as disclosed in Note 20 as well as through issuing additional equity, debt instruments or sale of Company assets and/or payments associated with a joint venture farm-out. Given the Company's current outstanding liabilities and the capital commitment requirements under the Company's new PPL's outlined in note 10, the Company does not have sufficient cash flow to meet its operating requirements for the 12 month period from the balance sheet date. While the Company believes in the viability of its strategy and, in its ability to raise additional funds and that the actions presently being taken provide the best opportunity for the Company to continue as a going concern, there can be no assurances to that effect.

These consolidated financial statements do not include any adjustments related to the recoverability and classification of asset amounts or the amounts and classification of liabilities that might be necessary if the Company is unable to obtain additional financing which is critical to continue as a going concern.

2. Basis of Preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved and authorized by the Board of Directors of the

Company on April 22, 2013.

2. *Basis of Preparation* *(continued)*

2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3.

2.3 Use of management estimates, judgments and measurement uncertainty

The preparation of these consolidated financial statements requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as at the date of the consolidated financial statements. On an ongoing basis, management evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgements and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates relate to asset retirement obligations, exploration and evaluation expenditures, property, plant and equipment, recoverability of trade and other receivables, valuation of deferred income tax amounts, impairment testing and the calculation of share-based payments. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below:

Exploration and evaluation ("E&E") (Note 10)

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgement to determine whether it is likely that future economic benefits are likely, from future either exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that requires varying degrees of uncertainty depending on how the resources are classified. These estimates directly impact when the Company defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in profit or loss in the period when the new information becomes available.

Income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change and interpretation. As such, income taxes are subject to measurement uncertainty. The Company follows the liability method for calculating deferred taxes. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to the expectations of future cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred tax assets and liabilities recorded at the statement of financial position date could be impacted. Additionally, changes in tax laws could limit the ability of the Company to obtain tax deductions in the future.

2. Basis of Preparation *(continued)*

2.3 Use of management estimates, judgments and measurement uncertainty *(continued)*

Cash generating units
Cash generating units ("CGU's") are identified to be the major producing fields, the lowest level at which there are identifiable cash inflows that are largely independent of cash inflows of other groups of assets. The determination of CGUs requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

The Company prepares and reviews separate detailed budgets and forecast calculations for each of the cash generating units. Impairment assessment is generally carried out separately for each CGU based on cash flow forecasts calculated based on proven reserves for each CGU (value in use). As at December 31, 2012, the Company has does not have any CGU's, but has identified potential CGU's based on its Petroleum Prospecting Licences ("PPL").

Functional Currency
The determination of the Company's functional currency requires analyzing facts that are considered primary factors, and if the result is not conclusive, the secondary factors. The analysis requires the Company to apply significant judgment since primary and secondary factors may be mixed. In determining its functional currency the Company analyzed both the primary and secondary factors, including the currency of the Company's operating costs in Canada, United States and Guyana, and sources of equity financing.

3. Summary of Significant Accounting Policies

3.1 Basis of consolidation

The consolidated financial statements include the financial statements of the Company together with its wholly owned subsidiaries CGX Resources Inc., a Bahamian registered company ("CGX Resources"), 1524555 Alberta Limited, an Alberta registered company, GCIE Holdings Limited, a Barbados registered company, CGX Energy Management Corp., a US registered company as well as its 62% interest in ON Energy Inc., a Guyana registered company ("ON Energy").

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All inter-Company and intra-Company transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination. Losses applicable to the non-controlling interests in excess of the Company's interest in the subsidiary's equity are allocated against the interests of the Company except to the extent that the non-controlling interests have a binding obligation and are able to make an additional investment to cover the losses. As at December 31, 2012 and 2011, the non-controlling interests were $Nil.

3. Summary of Significant Accounting Policies *(continued)*

3.2 Exploration and evaluation expenditures

All licence acquisition, exploration and appraisal costs of technical services and studies, seismic acquisition, exploratory drilling and testing are initially capitalized by well, field, unit of account or specific exploration unit as appropriate. Expenditures directly associated with an exploration well are capitalized as exploration and evaluation assets until the drilling of the well is complete and the results have been evaluated. These costs include material and fuel used, rig costs and payments made to contractors. If no commercial reserves are found, the exploration asset is written off as dry hole expense. Expenditures incurred during the various exploration and appraisal phases, excluding dry hole costs, are carried forward, until the existence of commercial reserves and when the technical feasibility and commercial viability are demonstrable and approved by regulator. If commercial reserves have been discovered and technical feasibility and commercial viability are demonstrable, the carrying value of the exploration and evaluation assets, after any impairment loss, is reclassified as oil and gas properties. If technical feasibility and commercial viability cannot be demonstrated upon completion of the exploration phase, the carrying value of the exploration and evaluation costs incurred are expensed in the period this determination is made.

Exploration and evaluation assets are tested for impairment when indicators of impairment are present and when exploration and evaluation assets are transferred to oil and gas properties. The Company has determined the level for assessing for impairment at the cash-generating unit level. The determination of CGUs requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality. Current the Company's CGU's are identified as it's individual licences.

3.3 Decommissioning, restoration and similar liabilities ("Asset retirement obligation" or "ARO")

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of petroleum and natural gas and PP&E, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

3.4 Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options, in the weighted average number of common shares outstanding during the year, if dilutive. The "treasury stock method" is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the year. During the years ended December 31, 2012 and 2011 all the outstanding stock options and warrants were antidilutive.

3. Summary of Significant Accounting Policies *(continued)*

3.5 Share based payments

Employees (including directors, officers and senior executives) of the Company receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share.

3.6 Property, plant and equipment

PP&E are stated at cost less accumulated amortization and accumulated impairment losses. The cost of an item of PP&E consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Amortization is provided at rates calculated to write off the cost of PP&E, less their estimated residual value, using the declining balance method at the following rates:

Office, furniture and fixtures	20%
Computer, software and equipment	30%

An item of PP&E is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statement of comprehensive income.

3. Summary of Significant Accounting Policies *(continued)*

3.6 Property, plant and equipment *(continued)*

The Company conducts an annual assessment of the residual balances, useful lives and amortization methods being used for PP&E and any changes arising from the assessment are applied by the Company prospectively.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

3.7 Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

3. Summary of Significant Accounting Policies *(continued)*

3.7 Taxation *(continued)*

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

3.8 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand, and short term deposits with a remaining maturity of 90 days or less on the date of acquisition and which are readily convertible into a known amount of cash.

3.9 Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans-and-receivables or at fair value through profit or loss (“FVTPL”).

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company’s cash and cash equivalents are classified as FVTPL.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost. The Company’s trade and other receivables are classified as loans-and-receivables, with the exception of marketable securities which are classified as FVTPL.

Financial assets classified as held-to-maturity are measured at amortized cost. The Company’s restricted investments and investments are classified as held-to-maturity.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the settlement date.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

3. Summary of Significant Accounting Policies *(continued)*

3.10 Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other-financial-liabilities.

Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial-liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's trade and other payables are classified as other-financial-liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income. At December 31, 2012 the Company has not classified any financial liabilities as FVTPL.

3.11 Impairment of assets

The Company assesses at each date of the statement of financial position whether a financial asset is impaired.

Assets carried at amortized cost
If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

The Company assesses at each date of the statement of financial position whether a financial asset is impaired.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

3. Summary of Significant Accounting Policies *(continued)*

3.11 Impairment of assets *(continued)*

Long-lived assets

The carrying amounts of the Company's long-term assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If an indication of impairment exists, then the asset's recoverable amount is estimated.

E&E assets are also assessed for impairment when they are reclassified to PP&E, and if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purpose of impairment testing, assets are grouped into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell ("FVLCTS").

Value in use is determined by estimating the present value of the pre-tax future net cash flows expected to be derived from the continued use of the asset or CGU. FVLCTS is based on available market information, where applicable. In the absence of such information, FVLCTS is determined using discounted future after tax net cash flows of proved plus probable reserves using forecast prices and costs.

E&E assets are allocated to related CGUs where they will be assessed for impairment upon their eventual reclassification to PP&E. E&E assets not reclassified to PP&E are assessed for impairment on an operating segment level.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net income (loss) in the statement of comprehensive loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

3.12 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

3. Summary of Significant Accounting Policies *(continued)*

3.13 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

3.14 Foreign currency transactions

Functional and presentation currency
Items included in the financial statements of each of the Company's consolidated entities are measured using the currency of the primary economic environment in which each entity operates ("the functional currency"). The functional currency of the Company and each of its subsidiaries is the US$. The consolidated financial statements are presented in US$'s, which is the Company's presentation currency.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive loss.

3.15 Revenue recognition

CGX recognizes interest revenue as earned on accrual basis. Gain on marketable securities includes realized and unrealized gains and losses on marketable securities which are recorded at fair market value based on level 1 quoted market prices as at the statement of financial position date.

3.16 New and revised standards and interpretations not yet adopted

At the date of authorization of these Financial Statements, the IASB and IFRIC has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods and which the Company has not early adopted these standards, amendments and interpretations. However the Company is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements of the Company.

- IFRS 7 '*Financial Instruments, Disclosures*' - effective for annual periods beginning on or after January 1, 2013, IFRS 7 has been amended to provide more extensive quantitative disclosures for financial instruments that are offset in the statement of financial position or that are subject to enforceable master netting similar arrangements.
- IFRS 9 *'Financial Instruments: Classification and Measurement'* – effective for annual periods beginning on or after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments.
- IFRS 10 '*Consolidated Financial Statements'* – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

3. Summary of Significant Accounting Policies *(continued)*

3.16 New and revised standards and interpretations not yet adopted *(continued)*

- IFRS 11 '*Joint Arrangements'* - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.
- IFRS 12 '*Disclosure of Interests in Other Entities'* - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.
- IFRS 13 '*Fair Value Measurement'* - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides the guidance on the measurement of fair value and related disclosures through a fair value hierarchy.
- IAS 1 '*Presentation of Financial Statements'* - the IASB amended IAS 1 with a new requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss.
- IAS 19 '*Employee Benefits*' - effective for annual periods beginning on or after January 1, 2013, a number of amendments have been made to IAS 19, which included eliminating the use of the "corridor" approach and requiring remeasurements to be presented in OCI. The standard also includes amendments related to termination benefits as well as enhanced disclosures.
- IAS 27 '*Separate Financial Statements*' - effective for annual periods beginning on or after January 1, 2013, as a result of the issue of the new consolidation suite of standards, IAS 27 Separate Financial Statements has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.
- IAS 28 '*Investments in Associates and Joint Ventures'* - effective for annual periods beginning on or after January 1, 2013, as a consequence of the issue of IFRS 10, IFRS 11and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee.
- IAS 32 '*Financial instruments, Presentation'* – In December 2011, effective for annual periods beginning on or after January 1, 2014, IAS 32 was amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right of offset must be available on the current date and cannot be contingent on a future date.

4. Financial instruments

Fair value

The Company has designated its cash and cash equivalents, restricted investments and marketable securities as fair value through profit and loss which are measured at fair value. Fair value of cash and cash equivalents, restricted investments and marketable securities is determined based on transaction value and is categorized as Level one measurement. Investments are classified as held to maturity and are measured at amortized cost. Trade and other receivables are classified for accounting purposes as loans and receivables, which are measured at amortized cost which approximates fair value. Trade and other payables are classified for accounting purposes as other financial liabilities, which are measured at amortized cost which also approximates fair value.

4. Financial instruments *(continued)*

Fair value (continued)

Fair value of trade and other receivables and trade and other payables are determined based on Level two measurements:

- Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level two includes inputs that are observable other than quoted prices included in level one.
- Level three includes inputs that are not based on observable market data.

As at December 31, 2012, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent due to the relatively short periods to maturity of these investments.

Fair value estimates are made at a specific point in time, based on relevant market information and information about financial instruments. These estimates are subject to and involve uncertainties and matters of significant judgment, therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

i) Credit risk

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The credit risk is attributable to various financial instruments, as noted below. The credit risk is limited to the carrying value amount carried on the statement of financial position.

a) **Cash and cash equivalents** – Cash and cash equivalents and restricted cash and cash equivalents are held with major Canadian financial institutions in Canada and therefore the risk of loss is minimal.

b) **Trade and other receivables** – The Company is not exposed to major credit risk attributable to customers. Significant portions of this amount is due from the Canadian government.

The Company's maximum exposure to credit risk as at December 31, 2012 is the carrying value of cash and cash equivalents, trade and other receivables.

ii) Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities as they become due. As at December 31, 2012, the Company had a working capital deficiency of $12,650,761 (2011 – working capital of $86,364,429). In order to meet its longer-term working capital and property exploration expenditures, the Company must secure further financing to ensure that those obligations are properly discharged (See Note 1). There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. If additional financing is raised by the issuance of shares from the treasury of the Company, control of the Company may change and shareholders may suffer additional dilution. If adequate financing is not available, the Company may be required to delay, reduce the scope of, or eliminate one or more exploration activities or relinquish rights to certain of its interests.

4. Financial instruments *(continued)*

iii) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, commodity prices and/or stock market movements (price risk).

a) **Interest rate risk**
The Company is not exposed to significant interest rate price risk due to the short-term nature of its monetary assets and liabilities. Cash not required in the short term, is invested in short-term guaranteed investment certificates, as appropriate.

b) **Currency risk**
The Company's exploration and evaluation activities are substantially denominated in US dollars. The Company's funds are predominantly kept in Canadian and US dollars, with a major Canadian financial Institution. As at December 31, 2012, the Company had approximately $700,000 in Canadian dollar denominated cash deposits.

5. Sensitivity analysis

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

i) The Company's funds are kept in Canadian and US dollars a major Canadian financial institution.

As at December 31, 2012, the Company's exposure to foreign currency balances is as follows:

Account	**Foreign Currency**	**Exposure**	
December 31,		**2012**	**2011**
Cash and cash equivalents	CDN $	**$ 700,000**	$ 38,700,000
Trade and other receivables	CDN $	**400,000**	800,000
Trade and other payables	CDN $	**(500,000)**	(1,400,000)
		$ 600,000	$ 38,100,000

The Company believes that a change of 10% in foreign exchange rates would increase/decrease net loss for the period by $60,000 (2011 - $3,810,000).

6. Cash and cash equivalents

The balance of cash and cash equivalents at December 31, 2012, consisted of $4,294,137 (2011 - $60,825,981) on deposit with major Canadian financial institutions in Canada and $320,520 (2011 - $22,545,247) in short-term guaranteed investment certificates and fixed instruments with maturities of less than 90 days.

7. Restricted investments

The balance of restricted investments at December 31, 2012, consisted of $Nil (2011 - $13,050,000) in short-term guaranteed investment certificates. These short-term guaranteed investment certificates were restricted as collateral against the Company's irrevocable letter of credit with a supplier.

8. Trade receivables and other assets

The Company's trade receivables and other assets arise from four main sources: trade receivables due from customers for premises rental and operating cost recoveries, harmonized sales tax ("HST") receivable due from government taxation authorities, marketable securities and prepaid expenses. These are broken down as follows:

	As at December 31,	
	2012	2011
Trade receivables	**$ 141,439**	$ 235,471
HST receivable	**118,154**	280,012
Marketable securities	**133,259**	110,544
Prepaid expenses	**71,332**	236,594
Total trade receivables and other assets	**$ 464,184**	$ 862,621

Below is an aged analysis of the Company's trade receivables:

	As at December 31,	
	2012	2011
1 – 30 days	**$ 89,725**	$ 149,171
31 – 90 days	**26,699**	2,153
90+ days	**25,015**	84,147
Total trade receivables	**$ 141,439**	$ 235,471

At December 31, 2012, the Company anticipates full recovery of these amounts and therefore no allowance has been recorded against these receivables. The credit risk on the receivables has been further discussed in Note 4 (i).

The Company holds no collateral for any receivable amounts outstanding as at December 31, 2012 and 2011.

9. Property, plant and equipment

	Staging Facility[1]	Logistics Yard[1]	Office, furniture and fixtures	Computer, software and equipment	Total
Cost					
As at January 1, 2011	$ 842,072	$ 391,070	$ -	$ -	$ 1,233,142
Additions	5,226,579	221,380	101,104	280,676	5,829,739
As at December 31, 2011	**6,068,651**	**612,450**	**101,104**	**280,676**	**7,062,881**
Additions	**212,035**	**73,661**	**26,774**	**233,961**	**546,431**
As at December 31, 2012	**$ 6,280,686**	**$ 686,111**	**$ 127,878**	**$ 514,637**	**$ 7,609,312**
Accumulated amortization					
As at January 1, 2011	$ -	$ -	$ -	$ -	$ -
Amortization [2]	-	-	7,730	12,637	20,367
As at December 31, 2011	**-**	**-**	**7,730**	**12,637**	**20,367**
Amortization [2]	**-**	**-**	**23,981**	**150,305**	**174,286**
As at December 31, 2012	**$ -**	**$ -**	**$ 31,711**	**$ 162,942**	**$ 194,653**
Net book value					
As at December 31, 2011	$ 6,068,651	$ 612,450	$ 93,374	$ 268,039	$ 7,042,514
As at December 31, 2012	**$ 6,280,686**	**$ 686,111**	**$ 96,167**	**$ 351,695**	**$ 7,414,659**

Notes: [1] No amortization has been recorded on these assets as they are still under construction.
[2] Amortization has been recorded within general and administrative in the statement of comprehensive loss.

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10. Exploration and evaluation expenditures

	Corentyne	Georgetown	Pomeroon	Berbice	Total
Balance, January 1, 2011	$ 19,763,030	$ 11,887,496	$ 1,990,555	$ -	$ 33,641,081
Additions	24,558,225	7,910,000	50,000	50,000	32,568,225
Balance, December 31, 2011	**$ 44,321,255**	**$ 19,797,496**	**$ 2,040,555**	**$ 50,000**	**$ 66,209,306**
Net additions	**85,603,370**	**37,511,639**	**-**	**-**	**123,115,009**
Sale of exploration and evaluation data	**(6,000,000)**	**-**	**-**	**-**	**(6,000,000)**
Dry hole costs	**(89,900,000)**	**-**	**-**	**-**	**(89,900,000)**
Impairment of exploration and evaluation expenditures	**-**	**(57,309,135)**	**(2,040,555)**	**-**	**(59,349,690)**
Balance, December 31, 2012	**$ 34,024,625**	**$ -**	**$ -**	**$ 50,000**	**$ 34,074,625**

As at December 31, 2012, the expenditures capitalized above include costs for licence acquisitions and maintenance of licences, general exploration, geological and geophysical consulting, surveys, 3D-seismic acquisition, processing and interpretation, and drill planning, drill rig mobilization and demobilization, drilling and all costs associated with abandonment.

Corentyne Petroleum Agreement (PA), Guyana

The Company's 100% owned subsidiary, CGX Resources Inc. ("CGX Resources"), was granted the Corentyne PA on June 24, 1998. Because a border dispute between Guyana and Suriname prevented unhindered access to a portion of the contract area for seven years the original 10-year term of the contract was extended to June 24, 2013 including the two renewal periods. In May 2012, the Company completed its Eagle-1 commitment well on the Company's 100% Corentyne PPL offshore Guyana. The well was declared a dry-hole after it encountered hydrocarbons in three formations but potential reservoir sands proved to be water-bearing. The total cost of the Eagle-1 well of $89,900,000 has been recognized as a dry hole expense in the financial statements for the year ended December 31, 2012.

On May 27, 2012 the Company and Pacific Rubiales entered into an earn-in and technical cooperation agreement pursuant to which: (i) Pacific Rubiales would provide technical assistance to the Company in respect of its operations, and (ii) Pacific Rubiales would have the right to participate in the Company's next commitment well on each of the Corentyne PPL ("Corentyne Option") and the Annex PPL ("Annex Option") by funding 50% of all costs related to such commitment wells (and in the case of the Annex PPL, by also funding 50% of the seismic program) in exchange for a 33% interest in the applicable petroleum licence. The Corentyne Option was exercisable on or before July 31, 2012 (Pacific Rubiales did not exercise their right on the Corentyne Option) and the Annex Option was exercisable on or before the 60th day following Pacific Rubiales being made aware by CGX of receipt by CGX of the renewed Annex PPL. This option has now expired.

On November 27, 2012, the Company was issued a new Corentyne Petroleum Agreement ("PA") and Petroleum Prospecting License ("PPL") offshore Guyana. The new PA is renewable after four years for up to ten years. Under the terms of the new Corentyne PA, and during the initial period of four years, CGX has an obligation to drill two wells.

10. Exploration and evaluation expenditures *(continued)*

Corentyne Petroleum Agreement (PA), Guyana *(continued)*

The table below outlines the commitments under the new PA:

<table>
<tr><th>Period</th><th>Phase</th><th>Exploration Obligation</th><th>Dates</th></tr>
<tr><td rowspan="3">Initial Period - 4 Years</td><td>Phase One - 30 Months</td><td>Commence to drill 1 exploration well</td><td>Nov 27, 2012 - May 27, 2015</td></tr>
<tr><td>Phase Two - 18 Months</td><td>Drill 1 exploration well</td><td>May 27, 2015 - Nov 27, 2016</td></tr>
<tr><td colspan="3">- At the end of the initial period of four (4) years, the Contractor will elect either to relinquish the entire Contract Area or fifteen (15%) percent of the Contract Area and renew the Petroleum Prospecting Licence for a further period of up to three (3) years.</td></tr>
<tr><td rowspan="4">First Renewal Period - 3 Years</td><td>Phase One - 18 Months</td><td>Commence to drill 1 exploration well</td><td>Nov 27, 2016 - May 27, 2018</td></tr>
<tr><td colspan="3">- At the end of phase one of the first renewal period, the Contractor shall elect either to relinquish the entire Contract Area except for any Discovery Area and the area contained in any Petroleum Production Licence or commit to the work programme in phase 2.</td></tr>
<tr><td>Phase Two - 18 Months</td><td>Drill 1 exploration well</td><td>May 27, 2018 - Nov 27, 2019</td></tr>
<tr><td colspan="3">- At the end of the first renewal period of three (3) years, the Contractor shall elect either to relinquish the entire Contract Area except for any Discovery Area and the area contained in any Petroleum Production Licence or relinquish twenty-five (25%) percent of the Contract Area and renew the Petroleum Prospecting Licence for a second period of three (3) years.</td></tr>
<tr><td rowspan="4">Second Renewal Period - 3 Years</td><td>Phase One - 18 Months</td><td>Commence to drill 1 exploration well</td><td>Nov 27, 2019 - May 27, 2021</td></tr>
<tr><td colspan="3">- At the end of phase one of the second renewal period, the Contractor shall elect either to relinquish the entire Contract Area except for any Discovery Area and the area contained in any Petroleum Production Licence or commit to the work programme in phase 2.</td></tr>
<tr><td>Phase Two - 18 Months</td><td>Drill 1 exploration well</td><td>May 27, 2021 - Nov 27, 2022</td></tr>
<tr><td colspan="3">- At the end of the second renewal period of three (3) years, the Contractor shall relinquish the entire Contract Area except for any Discovery Area, the area contained in any Petroleum Production Licence and any other portion of the Contract Area on which the Minister Responsible for Petroleum agrees to permit the Contractor to conduct further exploration activities.</td></tr>
</table>

If a discovery is made, CGX has the right to apply to the Minister for a Petroleum Production Licence with respect to that of the Contract Area having a significant discovery.

After commercial production begins, the Company is allowed to recover contract costs as defined in the PA from “cost oil” produced and sold from the Contract Area and limited in any Month to an amount which equals seventy-five percent (75%) of the total production from the Contract Area for such Month excluding any Crude Oil and/or Natural Gas used in Petroleum Operations or which is lost. The Company’s share of the remaining production or “profit oil” is 47%.

To the extent that in any Month, Recoverable Contract Costs exceed the value of Cost Oil and/or Cost Gas the unrecoverable amount shall be carried forward and shall be recoverable in the immediately succeeding Month, and to the extent not then recovered, in the subsequent Month or Months.

The Company has $155,000,000 of Recoverable Costs brought forward from the original Corentyne licence. This cost can be recovered against any future commercial production.

Annual Rental and Training Fees are $100,000 respectively.

10. Exploration and evaluation expenditures *(continued)*

Georgetown PA, Guyana

The Company, through its wholly-owned subsidiary CGX Resources, purchased a 25% participating interest in the Georgetown PA from ENI Guyana, B.V. for $175,000 and $1,075,000 due at the commencement of the first well in the PA that targeted one of the Tertiary turbidite prospects previously identified by ENI in which CGX participated. On September 3, 2002, the Government of Guyana approved the transfer. The original vendor retained a right to ownership of 2.7% of Profit Oil produced by the Licence. The Georgetown PA covered approximately 1.7 million acres offshore.

Exploration on the Licence was suspended in 2000 as a significant portion of the Licence was in the area of the overlapping border dispute between Guyana and Suriname. The dispute was resolved in 2007. As a result, the second renewal period of the Petroleum Agreement was extended to November 2012.

To satisfy the Minimum Work Program during the second renewal period 1 of the contract, the Georgetown participants being Repsol Exploración S.A ("Respol") (15% and operator), CGX (25%), YPF Guyana Limited (30%) and Tullow Guyana BV (30%) (collectively the "Georgetown Participants") committed to drill an exploration well during the period ending May 2011. However, due to a number of factors including weather delays, the drilling of this exploration well commenced on February 9, 2012. The Georgetown Participants advised the Government of Guyana of these circumstances which were beyond their control and were provided with an extension on the commitment to November 25, 2012.

Jaguar-1 Well

Announced on July 16, 2012, the Jaguar-1 well located on the Company's 25% owned Georgetown PPL, was plugged at a depth of 4,876 metres without reaching the primary objective in the Late Cretaceous geologic zone. The decision to stop drilling at this point was unanimously agreed by all partners based on safety criteria and was taken after reaching a point in the well where the pressure design limits for safe operations prevented further drilling to the main objective. Jaguar-1 was a high pressure, high temperature well. Whilst the primary Late Cretaceous objective was not reached, samples of light oil were successfully recovered from two Late Cretaceous turbidite sands. CGX's share of the estimated well cost based on the operators authorization for expenditures ("AFE") as at December 31, 2012 was US$42,000,000 excluding indirect charges.

On November 26, 2012, the Company was issued a default notice for its Participating Interest share of joint account expenses in the amount of $11,500,000. The Company had sixty-five business days from the date of the default notice in which to pay the entire amount in default. As at December 31, CGX has settled $30,500,000 and owes an estimated additional $15,000,000 in well related costs, indirect charges and general and administrative charges for expenses through to December 2012, all of which, has been billed and are still outstanding.

Subsequent to year-end, in March 2013, the Company has renegotiated with the Georgetown participants to settle the total outstanding debt plus interest accrued upon closing of the Company's proposed private placement subsequent to year end (See note 20).

10. Exploration and evaluation expenditures *(continued)*

Georgetown PA, Guyana *(continued)*

Relinquishment

Additionally, effective November 25, 2012, the Company was notified that this licence has reverted back to the government of Guyana. Subsequent to licence expiration and during fourth quarter 2012, The Company, led by the operator Repsol, were in discussions with the Government of Guyana for the issuance of a new PPL. The Company believed that these discussions would have resulted in a new PPL, but there were no assurances as to the outcome and terms of these negotiations. Currently, as a result of the Company's continued default under the Georgetown Licence and the Company's current uncertainty relating to this license, the Company recorded an impairment during the year ended December 31, 2012 of the full carrying amounts of $57,309,135 (2011 - $Nil). In the event that the Company participates in the renewal of the license, the Company will revisit any impairment previously recorded

Pomeroon PA, Guyana

The Company, through its wholly-owned subsidiary CGX Resources, entered into an asset purchase agreement with Century Guyana, Ltd. (Century) to acquire Century's 100% interest in the Pomeroon PA. The purchase price consisted of a payment of $100,000 plus the issuance of 2,000,000 common shares of the Company. CGX assigned 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 PA issued in November 1997 covered approximately 2.8 million acres. The area is subject to an unresolved maritime boundary with Venezuela and no work has been performed at the request of the Government of Guyana during these discussions: therefore the acreage was in standstill. All work commitments up to the end of the initial period were deemed to be completed. An application had been made to the Government of Guyana to extend the term of the contract to November 2013. In late 2012, the Company was notified that effective November 19, 2012, this licence has reverted back to the government of Guyana. As a result of this licence having expired in November 2012 and the Company discussion subsequent to year end around this licence, and the uncertainty relating to this license, the Company recorded an impairment during the year ended December 31, 2012 of the full carrying amounts of $2,040,444 (2011 - $Nil). In the event that the Company secures the renewal of the license, the Company will revisit any impairment previously recorded.

Berbice PA, Guyana

The Company, through its 62% owned subsidiary ON Energy Inc., acquired the Berbice PA comprising 0.4 million acres onshore in October 2003. The Berbice PA was renewable for up to two three-year periods. Negotiations were underway for the Second Renewal period ending October 2013 to conduct an airborne geotechnical survey at a cost of less than $1,000,000.

Subsequent to year end, on February 12, 2013, ON Energy entered into a new Berbice PA and PPL, which applies to the former Berbice license comprising 1,566 square kilometres (971 square kilometres net) and the former onshore portion of the Company's original Corentyne Petroleum Agreement comprising 1,729 square kilometres (1,072 square kilometres net) for total onshore acreage of 3,295 square kilometres.

10. Exploration and evaluation expenditures *(continued)*

Berbice PA, Guyana *(continued)*

The table below outlines the commitments under the new Berbice PA:

<table>
<tr><th>Period</th><th>Phase</th><th>Exploration Obligation</th><th>Dates</th></tr>
<tr><td rowspan="4">Initial Period - 4 Years</td><td>Phase One - 24 Months</td><td>Acquire a minimum of 1,000 km of airborne geophysical data, process and interpret the same</td><td>Feb 12, 2013 - Feb 12, 2015</td></tr>
<tr><td colspan="3">- At the end of phase one (1) of the initial period, the Contractor shall elect either to relinquish the entire Contract Area except for any Discovery Area and the area contained in any Petroleum Production License or commit to the work programme in phase two (2).</td></tr>
<tr><td>Phase Two - 24 Months</td><td>Acquire a minimum of 100 line kilometers of 2D seismic, process and interpret the same; or commence to drill 1 exploration well</td><td>Feb 12, 2015 - Feb 12, 2017</td></tr>
<tr><td colspan="3">- At the end of the initial period of four (4) years, the Contractor will elect either to relinquish the entire Contract Area or fifteen (15%) percent of the Contract Area and renew the Petroleum Prospecting Licence for a further period of up to three (3) years.</td></tr>
<tr><td rowspan="4">First Renewal Period - 3 Years</td><td>Phase One - 18 Months</td><td>Commence to drill 1 exploration well</td><td>Feb 12, 2017 - Aug 12, 2018</td></tr>
<tr><td colspan="3">- At the end of phase one (1) of the first renewal period, the Contractor shall elect either to relinquish the entire Contract Area except for any Discovery Area and the area contained in any Petroleum Production License or commit to the work programme in phase two (2).</td></tr>
<tr><td>Phase Two - 18 Months</td><td>Drill 1 exploration well</td><td>Aug 12, 2018 - Feb 12, 2020</td></tr>
<tr><td colspan="3">- At the end of the first renewal period of three (3) years, the Contractor shall elect either to relinquish the entire Contract Area except for any Discovery Area and the area contained in any Petroleum Production Licence or relinquish twenty-five (25%) percent of the Contract Area and renew the Petroleum Prospecting Licence for a second period of three (3) years.</td></tr>
<tr><td rowspan="4">Second Renewal Period - 3 Years</td><td>Phase One - 18 Months</td><td>Commence to drill 1 exploration well</td><td>Feb 12, 2020 - Aug 12, 2021</td></tr>
<tr><td colspan="3">- At the end of phase one (1) of the first renewal period, the Contractor shall elect either to relinquish the entire Contract Area except for any Discovery Area and the area contained in any Petroleum Production License or commit to the work programme in phase two (2).</td></tr>
<tr><td>Phase Two - 18 Months</td><td>Drill 1 exploration well</td><td>Aug 12, 2021 - Feb 12, 2023</td></tr>
<tr><td colspan="3">- At the end of the second renewal period of three (3) years, the Contractor shall relinquish the entire Contract Area except for any Discovery Area, the area contained in any Petroleum Production Licence and any other portion of the Contract Area on which the Minister Responsible for Petroleum agrees to permit the Contractor to conduct further exploration activities.</td></tr>
</table>

If a discovery is made, CGX has the right to apply to the Minister for a Petroleum Production Licence with respect to that of the Contract Area having a significant discovery.

After commercial production begins, the Company is allowed to recover contract costs as defined in the PA from "cost oil" produced and sold from the Contract Area and limited in any Month to an amount which equals seventy-five percent (75%) of the total production from the Contract Area for such Month excluding any Crude Oil and/or Natural Gas used in Petroleum Operations or which is lost. The Company's share of the remaining production or "profit oil" is 47%.

To the extent that in any Month, Recoverable Contract Costs exceed the value of Cost Oil and/or Cost Gas the unrecoverable amount shall be carried forward and shall be recoverable in the immediately succeeding Month, and to the extent not then recovered, in the subsequent Month or Months.

The Company has $500,000 of Recoverable Costs brought forward from the original Berbice licence. This cost can be recovered against any future commercial production.

Annual Rental and Training Fees are $25,000 respectively

10. Exploration and evaluation expenditures *(continued)*

Demerara PA, Guyana

Subsequent to year end, on February 12, 2013, the Company entered into the new Demerara PA and PPL. The new PPL applies to the former offshore portion of the Annex PPL, covering 3,975 square kilometres, which was a subset of the Company's original Corentyne Petroleum Agreement.

The table below outlines the commitments under the new PA:

<table>
<tr><th>Period</th><th>Phase</th><th>Exploration Obligation</th><th>Dates</th></tr>
<tr><td rowspan="3">Initial Period - 4 Years</td><td>Phase One - 24 Months</td><td>Conduct a new marine 3D seismic survey consisting of a minimum of 1,000 km², process and interpret data from same</td><td>Feb 12, 2013 - Feb 12, 2015</td></tr>
<tr><td>Phase Two - 24 Months</td><td>Drill 1 exploration well</td><td>Feb 12, 2015 - Feb 12, 2017</td></tr>
<tr><td colspan="3">- At the end of the initial period of four (4) years, the Contractor will elect either to relinquish the entire Contract Area or fifteen (15%) percent of the Contract Area and renew the Petroleum Prospecting Licence for a further period of up to three (3) years.</td></tr>
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<tr><td colspan="3">- At the end of phase one (1) of the first renewal period, the Contractor shall elect either to relinquish the entire Contract Area except for any Discovery Area and the area contained in any Petroleum Production Licence or commit to the work programme in phase 2.</td></tr>
<tr><td>Phase Two - 18 Months</td><td>Drill 1 exploration well</td><td>Aug 12, 2018 - Feb 12, 2020</td></tr>
<tr><td colspan="3">- At the end of the first renewal period of three (3) years, the Contractor shall elect either to relinquish the entire Contract Area except for any Discovery Area and the area contained in any Petroleum Production Licence or relinquish twenty-five (25%) percent of the Contract Area and renew the Petroleum Prospecting Licence for a second period of three (3) years.</td></tr>
<tr><td rowspan="4">Second Renewal Period - 3 Years</td><td>Phase One - 18 Months</td><td>Commence to drill 1 exploration well</td><td>Feb 12, 2020 - Aug 12, 2021</td></tr>
<tr><td colspan="3">- At the end of phase one (1) of the second renewal period, the Contractor shall elect either to relinquish the entire Contract Area except for any Discovery Area and the area contained in any Petroleum Production Licence or commit to the work programme in phase 2.</td></tr>
<tr><td>Phase Two - 18 Months</td><td>Drill 1 exploration well</td><td>Aug 12, 2021 - Feb 12, 2023</td></tr>
<tr><td colspan="3">- At the end of the second renewal period of three (3) years, the Contractor shall relinquish the entire Contract Area except for any Discovery Area, the area contained in any Petroleum Production Licence and any other portion of the Contract Area on which the Minister Responsible for Petroleum agrees to permit the Contractor to conduct further exploration activities.</td></tr>
</table>

If a discovery is made, CGX has the right to apply to the Minister for a Petroleum Production Licence with respect to that of the Contract Area having a significant discovery

After commercial production begins, the Company is allowed to recover contract costs as defined in the PA from “cost oil” produced and sold from the Contract Area and limited in any Month to an amount which equals seventy-five percent (75%) of the total production from the Contract Area for such Month excluding any Crude Oil and/or Natural Gas used in Petroleum Operations or which is lost. The Company’s share of the remaining production or “profit oil” is 47%.

To the extent that in any Month, Recoverable Contract Costs exceed the value of Cost Oil and/or Cost Gas the unrecoverable amount shall be carried forward and shall be recoverable in the immediately succeeding Month, and to the extent not then recovered, in the subsequent Month or Months.

The Company has $1,000,000 of Recoverable Costs brought forward from the original Annex licence. This cost can be recovered against any future commercial production. Annual Rental and Training Fees are $100,000 respectively.

11. Compensation of key management personnel

Key management includes the Company's directors, officers and any employees with authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly. Compensation awarded to key management included:

	December 31, 2012	December 31, 2011
Balances:		
Short-term employee benefits	**$ 3,064,000**	$ 2,510,000
Share based payments – options	**958,000**	1,945,000
Total compensation paid to key management	**$ 4,022,000**	$ 4,455,000

At December 31, 2012, included in trade and other payables is $101,000 (2011 - $547,000) due to these key management personnel.

12. Trade and other payables

Trade and other payables of the Company are principally comprised of amounts outstanding for trade purchases relating to exploration activities and amounts payable for operating and financing activities. The usual credit period taken for trade purchases is between 30 to 90 days. The following is an aged analysis of the trade and other payables:

	As at December 31,	
	2012	2011
Less than one month	**$ 1,783,586**	$ 10,678,398
One month to three months	**4,291,701**	-
Over three months	**11,654,315**	241,022
Total trade and other payables	**$ 17,729,602**	$ 10,919,420

13. Warrant Liability

During the year ended December 31, 2012, the Company issued 85,714,285 units (2011 – Nil) at CDN$0.35 per unit for gross proceeds of $29,303,000 (C$30,000,000). Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at C$0.60 for a period of 18 months (See Note 14). The Company recorded the warrants issued as a derivative liability due to their exercise price being denominated in a currency other than the Company's US dollar functional currency.

The warrant liability was re-valued at the end of the reporting period with the change in fair value of the warrant liability recorded as a gain or loss in the Company's Consolidated Statements of Loss (Income).

The warrant liability was accounted for at its fair value as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
Beginning fair value	**$ -**	$ -
Fair value of warrants issued during the period (*note* 14)	**8,140,000**	-
Change in fair value	**(7,473,000)**	-
Warrant liability, end of year	**$ 667,000**	$ -

The Company utilized the Black-Scholes valuation model to estimate the fair value of the warrants at December 31, 2012 and 2011 using the following assumptions:

	December 31, 2012	December 31, 2011
Number of warrants outstanding	42,857,142	-
Exercise price	C$0.60	-
Risk-free interest rate	1.09%	-
Expected life (years)	1.00	-
Expected volatility	107.28%	-
Expected dividends	-	-
Forfeiture rate	-	-
Fair value of warrants	$ 667,000	$ -

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14. Capital stock

Share Capital

The Company is authorized to issue an unlimited number of common shares without par value. Changes in the issued and outstanding common shares are as follows:

	Number of Shares		$
Balance at January 1, 2011	193,428,663	$	119,975,965
Issuance of common shares	131,445,000		90,190,000
Exercise of options[1]	1,350,000		492,750
Share issue costs	-		(5,959,824)
Reserve transferred on exercise of options	-		447,089
Balance at December 31, 2011	**326,223,663**	**$**	**205,145,980**
Issuance of units	**85,714,285**		**21,163,000**
Exercise of options[1]	**10,270**		**5,446**
Share issue costs	**-**		**(1,559,594)**
Reserve transferred on exercise of options	**-**		**4,172**
Balance at December 31, 2012	**411,948,218**	**$**	**224,759,004**

[1]The average fair value of the shares issued through the exercise of options on the date the options were exercised in the year ended December 31, 2012 was $1.23 (2011 - $0.73).

2012

On May 27, 2012, the Company entered into a definitive subscription agreement with Pacific Rubiales pursuant to which Pacific Rubiales subscribed for 85,714,285 units of CGX by way of private placement at a price per Unit of C$0.35 for an aggregate purchase price of C$30,000,000. Each Unit consisted of one common share and one-half of one common share purchase warrant of the Company. The Company allocated $21,163,000 to the common shares and $8,140,000 to the common share purchase warrants based upon the relative fair values. Each Warrant is exercisable for one CGX common share at an exercise price of C$0.60 per common share for a period of 18 months following the date of issuance of the Units. All common shares that comprise the Units and any common shares issued on exercise of the Warrants were subject to a four month hold period from the date of issuance of the Units. The private placement was completed on July 9, 2012. The Company paid an advisory fee of C$1,200,000 or 4% of the gross proceeds of the private placement to GMP Securities L.P.

In connection with the private placement, the Company granted Pacific Rubiales the right until the earlier to occur of: (a) the date on which Pacific Rubiales owns less than 15% of the outstanding common shares of the Company, and (b) the date that is two years following the closing date of the private placement, to participate in certain subsequent offerings or private placements by the Company in order for Pacific Rubiales to maintain the lesser of: (i) its percentage ownership interest in the common shares of the Company held immediately prior to such offering or placement, and (ii) 35.06% of the issued and outstanding common shares of the Company.

The fair value of the 42,857,142 common share purchase warrants was estimated at C$8,140,000 using the Black-Scholes pricing model with the following assumptions: exercise price C$0.60; dividend yield 0%; forfeiture rate 0%; risk free interest 0.96%; volatility 95.27% and an expected life of 18 months.

14. Capital stock *(continued)*

Share Capital *(continued)*

2011

On October 19, 2011, the Company completed a marketed public offering of common shares, with 131,445,000 common shares of the Company being issued under the Offering at C$0.70 per share for gross proceeds of US$90,190,000 (C$92,011,500). Share issue costs associated with the $0.70 Offering were $5,959,824.

Common Share Purchase Warrants

The exercise price and expiry date of the warrants outstanding at December 31, 2012 are as follows:

Warrants	Exercise Price	Expiry Date
42,857,142	C$0.60	January 9, 2014
42,857,142		

Stock Options

The Company established a share option plan to provide additional incentive to its directors, officers, employees and consultants for their efforts on behalf of the Company in the conduct of its affairs. The maximum number of common shares reserved for issuance under the share option plan comprising part of the share incentive plan may not exceed 9% of the number of common shares outstanding. Under the terms of the plan, all options vest immediately, unless otherwise specified. All options granted under the plan expire no later than the fifth anniversary of the grant date. As at December 31, 2012, the Company had 24,360,610 (2011 – 12,735,130) options available for issuance under the plan. Changes in the number of stock options outstanding are as follows:

As at December 31,	**2012**		2011	
	Weighted Average Exercise Price ($)	**No. of Options**	Weighted Average Exercise Price ($)	No. of Options
Outstanding at beginning of year	**1.21**	**16,625,000**	1.48	11,295,000
Transactions during the year:				
Granted	**0.88**	**1,350,000**	0.65	6,700,000
Exercised	**0.54**	**(10,270)**	0.37	(1,350,000)
Expired/Forfeited	**0.98**	**(5,250,000)**	1.12	(20,000)
Outstanding at end of year	**1.30**	**12,714,730**	1.21	16,625,000
Exercisable at end of year	**1.31**	**12,589,730**	1.28	14,447,500

14. Capital stock *(continued)*

Stock Options *(continued)*

The following table provides additional information about outstanding stock options as at December 31, 2012:

	No. of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	No. of Options Exercisable	Weighted Average Exercisable Exercise Price
$ 0.30 - $0.80	4,114,730	3.69	$0.58	4,114,730	$0.58
$ 1.01 - $1.37	5,930,000	2.41	$1.20	5,805,000	$1.20
$ 1.81 - $2.71	2,670,000	0.41	$2.65	2,670,000	$2.65
$ 0.30 - $2.71	**12,714,730**	**2.40**	**$1.30**	**12,589,730**	**$1.31**

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the share based compensation for the stock options granted during the year ended December 31, 2012:

	Vesting of previously issued options	January 3, 2012	January 3, 2012	January 3, 2012	May 22, 2012	Totals
Number of options granted		550,000	200,000	300,000	300,000	1,350,000
Exercise price		C$1.05	C$1.05	C$1.05	C$0.30	
Risk-free interest rate		1.31%	1.31%	1.31%	1.43%	
Expected life (years)		5.0	5.0	5.0	5.0	
Expected volatility		98.14%	98.14%	98.14%	102.32%	
Expected dividends		-	-	-	-	
Forfeiture rate		-	-	-	-	
Vesting		Immediately	100% on September 12, 2012	20% immediately, 80% on first anniversary	immediately	
Fair value of grant		$ 420,000	$ 153,000	$ 229,000	$ 67,000	$ 869,000
Share based compensation	$ 485,000	$ 420,000	$ 153,000	$ 46,000	$ 67,000	$1,171,000

Volatility for all option grants has been calculated using the Company's historical information.

The weighted average grant-date fair value of options granted during the year ended December 31, 2012 was $0.64 (2011 – $0.48) per option issued.

14. Capital stock *(continued)*

Stock Options *(continued)*

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the share based compensation for the stock options granted during the year ended December 31, 2011:

	May 17, 2011	June 7, 2011	June 27, 2011	August 15, 2011	September 12, 2011	October 20, 2011
Number of options granted	750,000	100,000	200,000	3,675,000	800,000	500,000
Exercise price	C$0.63	C$0.68	C$0.63	C$0.54	C$0.80	C$0.70
Risk-free interest rate	2.47%	2.25%	2.05%	1.61%	1.37%	1.56%
Expected life (years)	5.0	5.0	5.0	5.0	5.0	5.0
Expected volatility	98.33%	97.93%	97.93%	97.96%	98.74%	99.01%
Expected dividends	-	-	-	-	-	-
Forfeiture rate	-	-	-	-	-	-
Vesting	20% immediately, 80% on first anniversary	20% immediately, 80% on first anniversary	immediately	immediately	200,000 immediately, remainder on first anniversary	20% immediately, 80% on first anniversary
Fair value of grant	$ 362,000	$ 51,000	$ 94,000	$ 1,493,000	$ 476,000	$ 256,000
Share based compensation	$ 253,000	$ 33,000	$ 94,000	$ 1,493,000	$ 227,000	$ 91,000

	November 7, 2011	November 7, 2011	November 7, 2011	December 10, 2011	December 13, 2011	Totals
Number of options granted	25,000	250,000	250,000	100,000	500,000	6,700,000
Exercise price	C$1.00	C$1.00	C$1.00	C$1.07	C$1.07	
Risk-free interest rate	1.41%	1.41%	1.41%	1.33%	1.26%	
Expected life (years)	5.0	5.0	5.0	5.0	5.0	
Expected volatility	99.83%	99.83%	99.83%	98.14%	98.14%	
Expected dividends	-	-	-	-	-	
Forfeiture rate	-	-	-	-	-	
Vesting	20% immediately, 80% on first anniversary	80,000 immediately, 85,000 on first anniversary, remainder on second anniversary	25% immediately, 25% on each of the next three anniversaries	20% immediately, 80% on first anniversary	20% immediately, 80% on first anniversary	
Fair value of grant	$ 19,000	$ 184,000	$ 184,000	$ 78,000	$ 38,000	$3,235,000
Share based compensation	$ 6,000	$ 73,000	$ 58,000	$ 20,000	$ 9,000	$2,357,000

15. Reserve for share based payments

A summary of the changes in the Company's reserve for share based payments for the years ended December 31, 2012 and 2011 is set out below:

	December 31, 2012	December 31, 2011
	Amount	Amount
	$	$
Balance at beginning of year	**16,376,734**	14,466,823
Share based compensation	**1,171,000**	2,357,000
Reserve transferred on exercise of options	**(4,172)**	(447,089)
Balance at end of year	**$ 17,543,562**	$ 16,376,734

16. Income Taxes

The following table reconciles the income tax provision from the expected amount based on statutory rates to the amount reported:

	2012	2011
	$	$
Loss before income taxes	**(152,224,578)**	(6,785,330)
Combined Statutory rate	**26.50%**	28.25%
Estimated recovery of income taxes	**(40,340,000)**	(1,917,000)
Difference between Canadian and foreign tax rates	**40,275,000**	411,000
Difference between current and deferred tax and foreign exchange rates	**(498,000)**	243,000
Stock-based compensation	**310,000**	666,000
Deductible share issue costs	**(425,000)**	(1,495,000)
Gain on revaluation of warrant liability	**(1,980,000)**	-
Other permanent differences	**(526,000)**	50,000
Deferred tax assets not recognized	**3,184,000**	2,042,000
Deferred income tax recovery	**-**	-

The Canadian statutory income tax rate of 26.5% (2011 - 28.25%) is comprised of the federal income tax rate at approximately 15.0% (2011 – 16.5%) and the provincial income tax rate of approximately 11.5% (2011 – 11.75%). The United States income tax rate is approximately 34% (2011 - 34%). The Guyanese income tax rate is approximately 35% (2011 - 35%).

16. Income Taxes *(continued)*

Deferred Income Taxes Recoverable

The primary differences which give rise to the deferred income tax recoveries at December 31, 2012 and 2011 are as follows:

	2012	2011
Deferred income tax assets	$	$
Temporary differences	1,949,000	1,912,000
Losses carried forward	7,084,000	3,937,000
	9,033,000	5,849,000
Less : deferred tax assets not recognized	(9,033,000)	(5,849,000)
Net deferred income tax assets	-	-
Deferred tax liabilities		
Deferred income tax liabilities	-	-
Net deferred income tax assets	-	-

The Company has recorded a 100% valuation allowance against the deferred income tax asset due to uncertainty surrounding its realization.

At December 31, 2012, the Company had Canadian non-capital loss carry-forwards of C$24,588,000 (2011 - C$14,980,000) expiring at follows:

December 31,	C$
2026	1,043,000
2027	948,000
2029	3,396,000
2030	4,570,000
2031	5,032,000
2032	9,599,000
	24,588,000

In addition, as at December 31, 2012, the Company had Canadian capital losses of C$2,050,000 (2011 - C$2,050,000) and Canadian mining exploration and development expenses of C$927,000 (2011 - C$927,000). These tax benefits which have not been recognized in the accounts are available to carry forward indefinitely.

As at December 31, 2012, the Company had United States non-capital loss carry-forwards $775,000 (2011 - Nil). These tax benefits which have not been recognized in the accounts expire in 2032.

17. Capital management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of petroleum and natural gas properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of management to sustain future development of the business. The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital will be required to raise additional funding. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended December 31, 2012. The Company is not subject to externally imposed capital restrictions.

The Company considers its capital to be equity, which is comprised of share capital, reserve accounts, and deficit, which as at December 31, 2012 totaled $28,171,523 (2011 - $159,616,249).

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments, such as cash, short-term guarantee deposits, all held with major Canadian financial institutions and Canadian or United States government treasury bills.

Management plans to secure the necessary financing through a combination of the issue of new equity, debt instruments or sale of Company assets. There is no assurance, however that these initiatives will be successful.

18. Commitments and Contingencies

The Company has entered into agreements for operating leases and service contracts. The future minimum lease payments, consultancy commitments and contract commitments over the next five years are as follows:

Fiscal Year Ended December 31,	**Premises**
2013	**402,000**
2014	**155,000**
2015	**155,000**
2016	**142,000**

Operating Leases

The Company has operating leases related primarily to obligations associated with office facilities.

19. Segmented information

Operating Segments

At December 31, 2012 the Company's operations comprised a single reporting operating segment engaged in petroleum and natural gas exploration in Guyana. The Company's corporate division only earns revenues that are considered incidental to the activities of the Company and therefore does not meet the definition of an operating segment as defined in IFRS 8 *'Operating Segments'*. As the operations comprise a single reporting segment, amounts disclosed in the consolidated financial statements also represent operating segment amounts.

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker; and
- for which discrete financial information is available.

Geographic Segments

The Company currently has one reportable segment as at December 31, 2012 and 2011, being the exploration, development and production of petroleum and natural gas in Guyana. The following is a detailed breakdown of the Company's assets by geographical location:

As at December 31,	**2012**	2011
Identifiable assets		
Canada	**4,897,244**	97,190,437
Guyana	**41,670,881**	73,345,232
	46,568,125	170,535,669

20. Subsequent Events

Proposed Private Placement

Subsequent to year end, the Company announced a brokered private placement (the "Offering") for CDN$0.10 per Unit, subject to the approval of the TSX Venture Exchange ("TSXV") of a minimum of CDN$35,000,000 (the "Minimum Offering") and maximum of CDN$40,000,000. Each Unit will consist of one common share and one common share purchase warrant of the Company (a "Warrant"), each Warrant being exercisable to acquire one common share at the exercise price of CDN$0.17 per common share for a period of five years following the date of issuance of the Units. The private placement is subject to approval of the TSXV and other customary closing conditions. All securities issued in connection with the Offering will be subject to a statutory hold period of four months plus one day from the date of issuance in accordance with applicable securities legislation. The Company also announced that under the Offering, it has entered into a subscription agreement with Pacific Rubiales dated March 25, 2013 (the "Pacific Rubiales Subscription Agreement") pursuant to which Pacific Rubiales has agreed to purchase all of the Units to be issued in the Minimum Offering that are not subscribed for by other investors. Pursuant to the Pacific Rubiales Subscription Agreement, it is a condition of closing of the placement of the Minimum Offering to Pacific Rubiales that the Company obtain shareholder approval for a redemption of the rights under the Company's shareholder rights plan (the "Rights Plan") and that it re-negotiate certain of its agreements with the directors, officers, employees and consultants of the Company such that the aggregate obligations payable by the Company or any of its subsidiaries under such agreements on a change of control of the Company do not exceed approximately CDN$2,000,000. The meeting to obtain shareholder approval for a redemption of the rights under the Rights Plan is scheduled for April 25, 2013.