



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

**Three month period ended March 31, 2012**

Management's discussion and analysis ("MD&A") is current to May 30, 2012 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 unaudited interim consolidated financial statements and the related notes for the three month periods ended March 31, 2012 and 2011 and the audited consolidated financial statements and the related notes for the years ended December 31, 2011 and 2010. 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 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](http://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 ability of CGX to fund the capital and operating expenses necessary to achieve the business objectives, 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 and production company operating in Guyana, South America and headquartered in Toronto, Canada. The Company through its foreign subsidiaries holds interests in four petroleum agreements (“PAs”) in the Guyana-Suriname Basin, a frontier basin in South America. The Company’s licences in Guyana cover 7.8 million acres gross, 6.2 million acres net. The common shares of the Company are traded on the TSX Venture Exchange (“TSXV”) under the symbol OYL.

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 which corporation 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 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](http://www.guyanaconsulate.com) under the heading "Guyana 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.

### **Petroleum Agreements (“PAs”) and Petroleum Prospecting Licences (“PPLs”)**

CGX was incorporated in 1998 for the primary purpose of exploring for hydrocarbons in Guyana, South America. As at December 31, 2011, CGX holds an interest in four PAs (Corentyne, Georgetown, Berbice, and Pomeroon) covering a total of approximately 7.8 million gross acres (approximately 6.2 million acres net) offshore and onshore Guyana.

Each Petroleum Agreement corresponds to a separate PPL, with the exception of the Corentyne PA. The Corentyne PA covers two PPL's, the Annex PPL and the offshore Corentyne PPL, each owned 100% by CGX Resources. The Corentyne PPL is also split into two components - the exploration rights offshore owned 100% by CGX Resources and the exploration rights onshore owned 100% by ON Energy. The Company has a 62% ownership interest in ON Energy.

### **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 C\$0.50 per share for total gross proceeds to the Company of C\$20,000,000 or US\$19,186,500.

On December 14, 2010, CGX closed its financing of 25,587,500 common shares of the Company at a price of C\$0.90 per share for total gross proceeds to the Company of C\$23,028,750 or US\$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 with 60 days to assess a take-over bid, 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 C\$0.70 per share for gross proceeds of C\$92,011,500 or US\$90,190,000. These proceeds are being 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 Corentyne PPL. The funds were also used to acquire 3D seismic in preparation for drilling the final commitment well on the Corentyne PPL. The cost estimates for both the Georgetown well and the Corentyne 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.

## **GUYANA OPERATIONS**

### **Corentyne Petroleum Agreement, Guyana**

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

The Corentyne PA was awarded to CGX in 1998, following which the Company began an active exploration program consisting of an 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 Corentyne licence area during the seven year resolution, the term of the contract was extended to June 2013.

During the seven year border resolution period, CGX expanded its regional understanding of the Guyana Suriname Basin by acquiring and reinterpreting historic information, mainly seismic data, and acquiring interests in the surrounding concessions.

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 license is testing another Cretaceous Turonian prospect, the Corentyne commitment well was targeted to 4,250 metres to test the Tertiary Eocene and Cretaceous Maastrichtian trend. In May 2012, the Company completed the analyses of the results of its Eagle-1 well. The well was declared a dry-hole after encountered hydrocarbon shows in three formations but potential reservoir sands proved to be water-bearing. A second commitment well is being planned for the Corentyne PPL to test the deeper objectives.

On May 17, 2012, an Independent Resource Assessment was completed by Gustavson Associates LLC of Boulder, Colorado, U.S.A. ("Gustavson") for two Turonian prospects on the Corentyne PPL that could be tested by the second commitment well (the "Gustavson Report"). The resource estimate for the Turonian prospects did not change from Gustavson's original report dated March 3, 2010, as no new material data had been acquired since the original report. However the resource estimates originally provided by Gustavson for the Eocene were extracted because of the dry-hole at Eagle-1. The Gustavson Report has been filed on SEDAR ([www.sedar.com](http://www.sedar.com)) and on the Company's website ([www.cgxenergy.com](http://www.cgxenergy.com)). The Gustavson Report was prepared in accordance with the requirements of *National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities* ("NI 51-101").

As of June 15, 2011, an Independent Resources Evaluation was completed by DeGolyer and MacNaughton of Dallas, Texas, USA ("D&M") for two Cretaceous Albian prospects (Crabwood and Kabukalli) also located on CGX's Corentyne offshore PPL (the "D&M Report"). Using probabilistic analysis, D&M estimated a total best estimate (P50) prospective resources for the two prospects of 325 million barrels of oil. On May 25, 2012, D&M provided a letter confirming that the results of the Eagle Tertiary 1 (EGT-1) well drilled by CGX in the Corentyne Block, offshore Guyana, neither invalidate nor alter the findings in their June 15, 2011 D&M Report. The D&M Report has been filed on SEDAR ([www.sedar.com](http://www.sedar.com)) and on CGX's website ([www.cgxenergy.com](http://www.cgxenergy.com)). The D&M Report is in addition to the Gustavson Report of April 15, 2011 which addressed three other prospects. The D&M Report was prepared in accordance with the requirements of NI 51-101 Section 5.9.

### **Contractual Commitments**

The Corentyne PPL entered the second renewal period on June 24, 2010 for a term of three years. The second renewal phase was divided into two phases of 18 months, each requiring the drilling of one exploration well.

On November 22, 2011, the Company entered into a contract with a subsidiary of Diamond Offshore Drilling, Inc. to use the Ocean Saratoga semi-submersible drilling rig for the drilling of Eagle-1 exploration well. Due to delays in the arrival of the drilling rig, the Company sought and received a deferral of the well commitment into the second phase of the second renewal period.

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 million, however due to additional time for drilling plus additional logging of potential reservoir sands, the drilling rig was released May 16, 2012. The Eagle-1 well revised estimated cost and costs incurred to date is approximately \$77,000,000.

The Company has plans to drill the final commitment well within the next 12 months. Beginning in December 2011, the Company acquired an additional 1,160 square kilometres of 3D seismic on the

Corentyne PPL to provide better imaging of prospects in the Turonian, Campanian and Albian. Processed results have been received and the interpretation of this volume is underway. The well location of the final commitment well will be determined in conjunction with this data and results obtained from the Eagle-1 well and the Jaguar-1 well.

On November 3, 2011, the Company signed an extension on its proper and punctual performance guarantee of the obligations of the Company to the Minister Responsible for Petroleum of the Co-operative Republic of Guyana to pay the Company's proportionate percentage interest share of the minimum expenditure obligation for the first phase of the second renewal period. The Guarantee is intended to be and shall be constructed as continuing, absolute, unconditional and irrevocable guarantee for up to an aggregate maximum of \$3,400,000 and shall remain in force and effect until the end of the second renewal period under the agreement that ends on June 24, 2013.

### **Georgetown Petroleum Agreement, Guyana**

The Georgetown PA was granted to Maxus Guyana Ltd. (now YPF Guyana Ltd. ("YPF")) on November 25, 1997. In 2000, Maxus sold a 25% participating interest to AGIP Guyana B.V., which interest was acquired in June 2002 by CGX. As consideration for the 25% participating interest CGX paid \$100,000 up front and agreed to pay an additional \$1,100,000 on the spud of the first well on the Georgetown PPL that targets one of the Tertiary turbidite prospects previously identified by AGIP in which CGX participates. In addition, the original vendor is entitled to a spud bonus in the amount of \$140,000 for each of the first two wells drilled on the license and retains a 2.7% right to ownership of Profit Oil in the licence.

As a result of additional divestitures by Maxus Guyana Ltd., the current ownership of the Georgetown PPL is now: Repsol Exploracion SA (15%), YPF (30%), Tullow Guyana B.V. (30%), and CGX Resources (25%) (collectively the "Partners"). Under the PPL and joint operating agreement between the Partners, Repsol is the operator of the block, which currently comprises 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 well will be drilled to 6,500 metres to test a Turonian target; Drilling is slated for 180 days.

### **Contractual Commitments**

The Georgetown PPL entered the second renewal period on November 25, 2009 for a term of three years. The second renewal phase requires the drilling of an exploration well by the end of the term.

The remaining work program on the Georgetown PPL will be fulfilled by the drilling of the Jaguar-1 exploration well to test a Turonian prospect. The Company originally estimated that its share of the costs of drilling the Jaguar-1 well, in which it holds a 25% working interest, would be approximately \$20,000,000. However, as a result of the major oil spill that occurred in the Gulf of Mexico in April 2010, tightening of industry standards, and drilling results of other operators in the Guyana Suriname Basin, the estimate of CGX's share of the cost to drill the Jaguar-1 well increased significantly. As a result, CGX's share of the estimated cost based on the operators approved authorization for expenditures ("AFE") as at March 31, 2012 was US\$40,000,000. As at May 30, 2012, \$21,000,000 has been incurred.

On March 22, 2010, the Company signed a proper and punctual performance guarantee of the obligations of the Company to the Minister Responsible for Petroleum of the Co-operative Republic of Guyana to pay the Company's proportionate percentage interest share of the minimum expenditure obligation for the first phase of the second renewal period. The Guarantee is intended to be and shall be construed as a continuing, absolute, unconditional and irrevocable guarantee for up to an aggregate maximum of \$2,000,000 and shall remain in force and effect until the end of the first phase of the second

renewal period that had been extended to December 31, 2011. The Partners committed to commence an exploration well during the first phase. However, the drill rig was delayed due to weather delays and problems which prevented the rig from moving offshore Suriname on schedule. As a result, the Partners advised the Government of Guyana of the circumstances beyond their control and applied for a deferral of the commitment. The drilling of the Jaguar-1 well began in February 2012. Drilling of this well is still in progress as at May 30, 2012.

#### **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 currently covers approximately 2.8 million acres. It is located between CGX's 100%-owned Annex portion of the Corentyne PA 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 has completed a regional reinterpretation of existing data to identify priority areas for future seismic, however, additional field seismic and exploration drilling has been 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 have been deemed complete. Under the First Renewal Phase 2, the minimum work program requires the Company to complete either 100 square kilometres of 3D seismic or 500 kilometres of 2D seismic or drill an exploration well. However, at the request of the Government of Guyana, during the period of resolution no work has been performed. An application has been made to the Government of Guyana to extend the term of the contract.

#### **Berbice Petroleum Agreement, Guyana**

In 2003, CGX, through ON Energy which was a wholly-owned subsidiary at the time, applied for and was granted the Berbice PPL consisting of approximately 387,000 acres adjacent to the Corentyne onshore PPL. ON Energy has completed aeromag re-interpretation, a geochemical sampling program and a 2D seismic program, to fulfill the minimum work obligations for the initial period from 2003 until 2007. During the First Renewal Period, additional interpretation was completed. Negotiations are underway for the Second Renewal period ending October 2013 to conduct an airborne geotechnical survey at a cost of less than \$1,000,000. ON Energy is also attempting to farm out the minimum work commitments to a third party.

#### **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. The Company is currently considering seeking a partner for its investment in the staging facility and wharf.

## TRENDS

The economic crisis that started in the financial sector in 2008 and precipitated a global recession stabilized and demonstrated good recovery across most sectors throughout the second half of 2009 and has continued through 2011. Despite a slowdown in world oil consumption during 2012 average crude oil prices remain above \$90 per barrel. Recent oil prices have led to significant M&A activity, industry consolidation and selective equity financings in the oil and gas sector.

Current financial markets are likely to be volatile in Canada for most of 2012, 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 the properties in Guyana. The Company may have difficulties raising equity or 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 March 31, 2012

The Company incurred a net loss of \$2,517,875 or \$0.01 a share for the three month period ended March 31, 2011, compared with a net loss of \$372,821 or \$0.09 a share for the same period in 2011.

CGX incurred a foreign exchange gain of \$469,508 for the three month period ended March 31, 2012 compared to a gain of \$352,735 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 strengthen against the US dollar. The increase in the current period was due to a higher balance held in Canadian Dollars.

The Company had gains on marketable securities of \$Nil during the three month period ended March 31, 2012 compared to gains on marketable securities of \$36,083 in the same period of 2011.

Shareholder information costs decreased in the three month period ended March 31, 2012 by \$72,859 to \$74,129 compared to \$146,988 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.

General and administration costs increased by \$1,059,226 to \$1,422,707 in the three month period ended March 31, 2012 from \$363,481 in 2011. These costs were incurred as a result of increased overall operations. The majority of these costs related to general office operations in Canada and travel costs.

Professional fees for the three month period ended March 31, 2012 were \$111,269 compared to \$24,400 in the same period of 2011. These fees are higher due to higher legal and audit fees relating to general corporate matters and quarterly review fees for financial reporting purposes.

Management and consulting fees increased by \$391,211 to \$627,763 during the three month period ended March 31, 2012 compared to \$236,552 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.

The Company incurred stock-based compensation during the three month period ended March 31, 2012 of \$857,000, compared to \$Nil, 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 the underlying assumptions used in the model.

### Selected Consolidated Financial Information

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

	Three Month Period Ended March 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010
Interest Income	\$ 105,485	\$ 97,739	\$ 13,692
Other Income (Expense)	-	33,934	(92,742)
Total Revenue	105,485	131,673	(79,050)
Net Loss	2,517,875	6,785,330	4,740,489
Loss Per Share*	\$0.01	\$0.03	\$0.03
Total Assets	189,053,691	170,535,669	81,275,214
Liabilities	31,092,871	10,919,420	1,953,561

\*calculated using weighted average shares outstanding for the period

### Results for the three month periods ended:

	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011
Interest Income	\$ 105,485	\$ 76,034	\$ 2,387	\$ 9,536
Other Expense	-	(381)	(47)	(1,721)
Total Revenue	105,485	75,653	2,340	7,815
Net Loss	2,517,875	1,764,324	3,560,250	1,087,935
Loss Per Share *	\$0.01	\$0.01	\$0.02	\$0.014

	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Interest Income	\$ 9,782	\$ 8,660	\$ 1,346	\$ 1,665
Other Income (Expense)	36,083	(6,370)	(113,345)	(63,592)
Total Revenue	45,865	2,290	(111,999)	(61,927)
Net Loss	372,821	2,022,773	201,935	2,194,712
Loss Per Share *	\$0.00	\$0.01	\$0.01	\$0.00

\*calculated using weighted average shares outstanding for the period

### CAPITAL RESOURCES, CAPITAL EXPENDITURES AND LIQUIDITY

For the three month period ended March 31, 2012, the Company incurred additions of \$210,349 (Year ended December 31, 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 base facility. The Company signed a 50 year lease for approximately 55 acres on the Berbice River. This is an ideal location for the staging facility to support off-shore drilling activities. Utilizing a local facility will result in significant savings as compared to running the logistics from Trinidad.

As at March 31, 2012, the Company's working capital decreased to \$26,853,113 from \$86,364,429 as at December 31, 2011. The Company plans to use this working capital to further exploration on its properties and for general expenses. The drilling of the Jaguar-1 exploration well is estimated to cost \$40,000,000 net to CGX, of which \$21,000,000 has already been spent. The cost of drilling the Eagle-1 exploration well on the Corentyne PPL was originally estimated to be \$55 million, however due to additional time for drilling plus additional logging of the potential reservoir sands, the Eagle-1 well revised

estimated cost was is \$71 million as at May 7, 2012. As a result, the Company needed to raise approximately \$20 million in the near term. The revised estimated cost and costs incurred to date as at May 30<sup>th</sup>, 2012 is approximately \$77 million.

### **Proposed and Current Financing**

On May 27, 2012, the Company entered into a definitive subscription agreement (the "Subscription Agreement") with Pacific Rubiales Energy Corp. ("Pacific Rubiales") pursuant to which Pacific Rubiales has subscribed for 85,714,285 units of CGX (the "Units") by way of private placement at a price per Unit of \$0.35 for an aggregate purchase price of \$30 million. Each Unit will consist of one common share and one-half of one common share purchase warrant of the Company (each whole warrant, a "Warrant"). Each Warrant will be exercisable for one CGX common share at an exercise price of \$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 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 Company's shareholders (as described below) and acceptance by the TSX Venture Exchange (the "Exchange"). The Units are expected to be issued within a week following the required Exchange and shareholder approval. Subject to obtaining any required approvals of the Exchange, the Company has agreed to pay an advisory fee of 4% of the gross proceeds of the private placement to GMP Securities L.P.

In connection with the entering into of the Subscription Agreement and in order to meet the Company's immediate financing needs, Pacific Rubiales has agreed to advance to the Company \$30 million on May 29, 2012 (the "Loan"). The Loan will be evidenced by a promissory note and secured as described below. If the required Exchange and shareholder approvals for the private placement are obtained, on closing of the private placement, the promissory note will be cancelled by Pacific Rubiales in full satisfaction of the aggregate purchase price of the Units. If the approvals have not been obtained on or before July 31, 2012, the promissory note will become payable upon 30 business days notice by Pacific Rubiales to the Company. Prior to July 31, 2012, no interest is payable on the promissory note. However, if the Units are not issued by July 31, 2012, interest will become payable on the principal amount of the promissory note at a rate of 13.5%, compounded quarterly, until the promissory note is repaid in full. In such a scenario, the Company expects to repay the amounts owing under the promissory note through the issuance of additional equity or the sale of a farm-in interest in one or more of its petroleum agreements.

As security for the obligations of the Company under the promissory note, the Company has agreed to enter into a pledge agreement with Pacific Rubiales pursuant to which it will pledge 49% of the common shares of CGX Resources Inc. ("CGX Resources"), a wholly-owned subsidiary of the Company, to Pacific Rubiales. If shareholder approval for the private placement is not obtained at the Meeting, the Company will pledge the remaining 51% of the common shares of CGX Resources to Pacific Rubiales to secure its obligations under the Loan. The security interest(s) will terminate on the first to occur of the closing of the private placement and the date that the promissory note has been repaid.

In connection with the private placement and the Loan, the Company has 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 Company and Pacific Rubiales have also entered into an earn-in and technical cooperation agreement dated May 27, 2012 pursuant to which, among other things: (i) Pacific Rubiales will provide technical assistance to the Company in respect of its operations, and (ii) Pacific Rubiales will have the right to participate in the Company's next commitment well on each of the Corentyne Petroleum

Prospecting License ("PPL") and the Annex PPL 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 license.

Pacific Rubiales currently owns approximately 18% of the Company's issued and outstanding common shares and is an insider of the Company. As a result, the private placement is considered a Related Party Transaction (as that term is defined in the policies of the Exchange and applicable securities laws). The private placement will result in Pacific Rubiales becoming a new Control Person (as that term is defined in the policies of the Exchange) holding approximately 35% of the Company's issued and outstanding common shares on closing of the private placement (approximately 41% if all of the Warrants are exercised). Accordingly, the private placement is subject to approval by the Company's shareholders as well as acceptance by the Exchange. Shareholder approval will be sought at the Annual and Special Meeting of Shareholders of the Company to be held on June 28, 2012 (or at any adjournment or postponement thereof) (the "Meeting") by ordinary resolution of shareholders, provided that the votes attached to the Company's common shares held by Pacific Rubiales and its associates and affiliates will be excluded from the calculation of such approval. Certain of the directors of the Company have entered into voting agreements with Pacific Rubiales pursuant to which they will vote their CGX shares in favour of the private placement at the Meeting. The closing of the private placement is expected to occur five business days following the date that the Company obtains all necessary shareholder and Exchange approvals.

In addition, under the terms of the Subscription Agreement, Dr. Marino Ostos Rosales will be appointed to the board of directors of the Company. In addition, the Company has agreed to include Dr. Ostos and Mr. José Francisco Arata on management's slate of nominees for director included in the management information circular to be prepared in connection with the Meeting and to appoint a third individual nominated by Pacific Rubiales and eligible under the *Business Corporations Act* (Ontario) to serve on the Company's board of directors on or prior to December 31, 2012. Dr. Ostos is Senior Vice President, New Areas for Pacific Rubiales. He has over 30 years of experience in E&P operations and management and was one of the founders of Pacific Stratus Ventures, later known as Pacific Stratus Energy where he served as President and Chief Operating Officer. Dr. Ostos holds a Masters and Ph.D. in Geological Sciences from Rice University, Houston, Texas as well as a Bachelor in Geosciences and a Geological Engineering Degree.

### ***Going Concern and Management's Plans***

The accompanying unaudited interim consolidated financial statements for the three month periods ended March 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. During May 2012, the Company increased its estimated cost associated with its Eagle-1 well. The Company has successfully secured additional financing to cover the increase in the Eagle- 1 well estimated cost. Given the uncertainty associated with the nature of offshore drilling activities, should there be additional increased cost overruns on estimated cost for the Company's current projects or if the Pacific Rubiales private placement is not approved by shareholders of the Company at the annual and special meeting to be held on June 28, 2012 and the \$30 million interim loan becomes payable, the Company would not have sufficient cash flow to meet its operating requirements for a minimum of one year. As a result, this 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 additional financing, either through issuing additional equity and/or payments associated with a joint venture farmout, within the near future in the event that the Pacific Rubiales private placement transaction is not approved and the \$30 million interim loan becomes payable, additional overruns are incurred on current projects and to cover future cost associated with its final well commitment under the Corentyne PPL. Under the terms of the Corentyne PPL, the final commitment well is required to be drilled within the next 12 months. While the Company believes in the viability of its strategy to and in its ability to raise additional funds, and believes that the actions presently being taken by the Company provide the opportunity for it to continue as a going concern, there can be no assurances to that effect. These

unaudited interim 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 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. Some of these expenditures include travel costs. These expenditures have been recorded at their exchange amounts, being the amounts negotiated and agreed to by the parties to the transaction. At March 31, 2012, included in trade and other payables is \$27,000 (December 31, 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 ("PAs"). See notes 7, 10 and 15 of the unaudited interim consolidated financial statements for the three month periods ended March 31, 2012 and 2011 for complete listings of commitments.

On March 22, 2010, the Company signed a proper and punctual performance guarantee of the obligations of the Company to the Minister Responsible for Petroleum of the Co-operative Republic of Guyana to pay the Company's proportionate percentage interest share of the minimum expenditure obligation for the first phase of the second renewal period on the Georgetown PA (the "Georgetown Guarantee"). The Georgetown Guarantee is intended to be and shall be construed as a continuing, absolute, unconditional and irrevocable guarantee for up to an aggregate maximum of \$2,000,000 and shall remain in force and effect until November 25, 2012.

On November 3, 2011, the Company signed an extension on its proper and punctual performance guarantee of the obligations of the Company to the Minister Responsible for Petroleum of the Co-operative Republic of Guyana to pay the Company's proportionate percentage interest share of the minimum expenditure obligation for the first phase of the second renewal period on the Corentyne PA (the "Corentyne Guarantee"). The Corentyne Guarantee is intended to be and shall be construed as continuing, absolute, unconditional and irrevocable guarantee for up to an aggregate maximum of \$3,400,000 and shall remain in force and effect until the end of the second renewal period under the agreement which ends on June 24, 2013.

## **CHANGES IN KEY MANAGEMENT**

Effective May 4, 2012, Stephen Hermeston was no longer President and Chief Executive Officer of CGX. Kerry Sully was appointed as acting President and Chief Executive Officer.

## **OFF-STATEMENT OF FINANCIAL POSITION ARRANGEMENTS**

See "Commitments" above.

## **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 unaudited interim consolidated financial statements as at March 31, 2012, the IASB and IFRIC had issued the following new and revised Standards and Interpretations for future reporting periods. The Company has not yet assessed 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 12, *Income Taxes*, was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendment, there is a rebuttable presumption that the carrying amount of the

investment property will be recovered through sale when considering the expected manner or recovery or settlement. SIC 21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets*, will no longer apply to investment properties carried at fair value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

- 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, 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	March 31, 2012	December 31, 2011
	(\$)	(\$)
Exploration and evaluation expenditures:		
Capitalized exploration costs (cumulative)	123,805,887	66,209,306
Total Assets	189,053,691	170,535,669
	(\$)	(\$)
Land & lease costs	-	200,000
Exploration: Intangible drilling and other	37,138,493	16,578,663
Geophysical and administrative	20,458,088	49,430,643
Exploration and evaluation expenditures net additions for the period/year	57,596,581	66,209,306
	Three month period	Year ended
<b>Corporate Expenses</b>	<b>ended March 31, 2012</b>	<b>December 31, 2011</b>
	(\$)	(\$)
General and administrative	1,422,707	2,835,899
Interest income	(105,485)	(97,739)
Consulting	627,763	1,697,392
Stock-based compensation	857,000	2,357,000
Professional fees	111,269	113,348
Shareholders' information	74,129	279,957
Other income	-	(33,934)
Foreign exchange gain	(469,508)	(366,593)
	2,517,875	6,785,330

## Eagle-1 Well

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 Petroleum Prospecting License ("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 Eagle-1 well revised estimated cost and costs incurred to date as at May 30<sup>th</sup>, 2012 is approximately \$77 million. The Company will recognize as a dry hole expense the total cost of Eagle 1 in the financial statements for the quarter ended June 30, 2012.

## DISCLOSURE OF OUTSTANDING SHARE DATA

### Share Capital

The following table sets forth information concerning the outstanding securities of the Company as at May 30, 2012:

Common Shares of no par value	Number
Shares	326,233,933
Options	17,724,730

See note 13 to the unaudited interim consolidated financial statements for the three month periods ended March 31, 2012 and 2011 for more detailed disclosure of outstanding shares 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 such 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 subject to 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.

### 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 Tax Act relating to the taxation of foreign affiliates recently announced on August 19, 2011.

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 licensees 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, Annex, Pomeroon, Berbice and Georgetown PPLs held by the Company, annual lease rental payments were submitted as required to the applicable regulatory authority and on May 4, 2012, the Guyana Geology & Mines Commission issued a comfort letter confirming that each of the PPLs are in good standing.

With respect to the Georgetown PPL, the licence is the Second Renewal Period, which expires on November 25, 2012. The Second Renewal Period was initially split into Phase 1 and Phase 2, respectively. Phase 1 required the drilling of one exploration well by May 25, 2011. An Addendum to the Georgetown Petroleum Agreement dated September 28, 2011, extended the Phase 1 obligation to commence drilling to December 31, 2011 and the Atwood Beacon Rig arrived on December 5, 2011 to commence drilling operations. The well is currently drilling and is expected to reach total depth 180 days from the February 9, 2012 spud date. At the end of Phase 2, the Parties shall elect to relinquish the "Prospecting Area", except any "Discovery Area" (each as defined in the Georgetown PPL) or any area subject to a petroleum production licence.

With respect to the Corentyne PPL, the licence is in its second renewal period, which expires on June 24, 2013. The Corentyne Second Renewal Period is split into Corentyne Phase 1 and Corentyne Phase 2, respectively. Corentyne Phase 1 required the Company to drill one exploration well by December 24, 2011. The Company advised the Minister that it was in the process of bringing a separate drill rig to Guyana and would not be in a position to drill the well by December 24, 2011. Upon execution of the rig contract to drill the Eagle-1 well, the Government of Guyana granted a deferral of the phase 1 drilling commitment into Phase 2 of the second renewal period. The Eagle-1 well is complete. Currently, one additional commitment well remains to be drilled before June 24, 2013. The Company's ability to meet this well commitment is impacted by the Company's ability to raise the required capital - refer to discussions below on "Significant Capital investments and Expenses" and "Financing".

Corentyne Phase 2 expires on June 24, 2013. At the end of Corentyne Phase 2, the Company shall elect to relinquish the "Contract Area", except any "Discovery Area" (each as defined in the Corentyne PPL) or any area subject to a petroleum production licence.

### **Financing**

The Company's future capital requirements on its existing assets will likely exceed existing cash resources, which will require 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, 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.

### **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 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 the 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 we continue to fulfill our commitments and explore for petroleum reserves. CGX has financed the exploration activities with funds obtained from the private placements conducted in 2011 and 2010. CGX continues to explore financing mechanisms to allow the Company to meet future work commitments and to allow us to fully explore the existing petroleum prospecting licenses.

Our future cash flow for operations and financing is subject to a number of variables, including among others: (i) the outcome of our current well program; (ii) our ability to locate or acquire reserves; (iii) our 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 "Financing" 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, political or environmental factors. For example the unavailability or high cost of drilling rigs, or other essential equipment, material 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 cost of budgeting for such projects may be difficult.

### **Negative Operating Cash Flow**

The Company had negative operating cash flow for its financial years ended December 31, 2011 and 2010. 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.

### **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 towards the latter portion of 2009 through 2011, as anticipated, 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 acquiring 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. 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 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, 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 Environmental 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 Act.

The Environmental Act establishes a wide range of sanctions and penalties, both criminal and civil, for violations of the provisions of the Environmental 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 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 authorisation;

- 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.

### **Operational Dependence**

Other companies 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.

### **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; and 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.

### **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 to 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.

### **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.

### **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 POLICIES**

### **Basis of Consolidation**

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

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 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 their 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 March 31, 2012 and December 31, 2011, the non-controlling interests had a nominal value.

### **Exploration and Evaluation Expenditures**

All license 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.

### **Decommissioning, Restoration and Similar Liabilities**

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of petroleum and natural gas and property, plant and equipment ("PP&E"), when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an decommissioning liability 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 risk-free rate, amount or timing of the underlying cash flows needed to settle the obligation.

### **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 three month periods ended March 31, 2012 and 2011 all the outstanding stock options were antidilutive.

## Share Based Payments

Employees (including directors 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.

## 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 or construction, 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 begins when the asset is available for its intended use. Amortization is provided at rates calculated to write off the cost of PP&E, less their estimated residual value, using the declining balance 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.

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.

## **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.

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.

### **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.

### **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.

### **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 March 31, 2012, the Company has not classified any financial liabilities as FVTPL.

### **Impairment of Financial 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.

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.

#### **Available-for-Sale**

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss.

#### **Impairment of Long-term 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 cash generating unit ("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.

## **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.

## **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.

## **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 United States dollar. The consolidated financial statements are presented in United States dollars, 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.

## **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 (included with receivables and other and classified as "held for trading" financial assets) which are recorded at fair market value based on level 1 quoted market prices as at the statement of financial position date.

## **Significant Accounting Judgments and Estimates**

The preparation of these financial statements requires management to make judgments 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. On an ongoing basis, management evaluates its judgments 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 judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates relate to asset retirement obligations; 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. The most significant judgments relate to recognition of deferred tax assets and liabilities, determination of the commencement of commercial production and the determination of the economic viability of a project.

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

### ***Disclosure Controls and Procedures***

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

### ***Internal Control over Financial Reporting***

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. The Company's President and Chief Executive Officer and Chief Financial Officer have ensured the design of internal control over financial reporting.

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 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 March 31, 2012.

There were no additional material changes in the Company's internal controls over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **OTHER INFORMATION**

This MD&A of the financial position and results of operation as at March 31, 2012, should be read in conjunction with the unaudited interim consolidated financial statements and the related notes for the three month periods ended March 31, 2012 and audited consolidated financial statements and related notes for the years ended December 31, 2011 and 2010. Additional information is accessible at the Company's website [www.cgxenergy.com](http://www.cgxenergy.com) or through the Company's public filings at [www.sedar.com](http://www.sedar.com).

## **MANAGEMENT'S RESPONSIBILITY**

Management is responsible for all information contained in this MD&A. The unaudited interim 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 unaudited interim 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.

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

May 30, 2012

*“signed” Kerry Sully*

Kerry Sully, President and Chief Executive Officer

*“signed” Tralisa Maraj*

Tralisa Maraj, Chief Financial Officer



**Unaudited Interim Consolidated Financial Statements**

**For the three month periods ended**

**March 31, 2012 and 2011**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

The unaudited interim consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited interim consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the interim consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34 Interim Financial Reporting of International Financial Reporting Standards using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the unaudited interim 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 unaudited interim 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 unaudited interim 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"*

Kerry Sully  
President and Chief Executive Officer

*"Tralisa Maraj"*

Tralisa Maraj  
Chief Financial Officer

**CGX Energy Inc.**  
**Unaudited Interim Consolidated Statements of Financial Position**  
*(US\$ Dollars)*

As at,	March 31, 2012	December 31, 2011
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents <i>(note 6)</i>	35,907,038	83,371,228
Restricted investments <i>(note 7)</i>	20,833,542	13,050,000
Trade receivables and other assets <i>(note 8)</i>	1,205,404	862,621
	<b>57,945,984</b>	97,283,849
<b>Property, plant and equipment</b> <i>(notes 9)</i>	<b>7,301,820</b>	7,042,514
<b>Exploration and evaluation expenditures</b> <i>(note 10)</i>	<b>123,805,887</b>	66,209,306
	<b>189,053,691</b>	170,535,669
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables <i>(notes 11 and 12)</i>	31,092,871	10,919,420
	<b>31,092,871</b>	10,919,420
<b>Equity</b>		
Share capital <i>(note 13)</i>	205,155,598	205,145,980
Reserve for share based payments <i>(note 14)</i>	17,229,562	16,376,734
Deficit	<b>(64,424,340)</b>	(61,906,465)
	<b>157,960,820</b>	159,616,249
	<b>189,053,691</b>	170,535,669

***Nature of operations and going concern (note 1)***

***Commitments and contingencies (notes 7, 10 and 15)***

***Subsequent events (note 17)***

Approved on behalf of the Board of Directors on May 30, 2012:

*"Suresh Narine"*

Suresh Narine  
Director

*"Adrian Jackson"*

Adrian Jackson  
Director

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

**CGX Energy Inc.**  
**Unaudited Interim Consolidated Statements of Comprehensive Loss**  
*(US\$ Dollars)*

<b>Three month periods ended March 31,</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>Operating expenses</b>		
Share-based payments <i>(note 13)</i>	<b>857,000</b>	-
General and administrative	<b>1,422,707</b>	363,481
Management and consulting	<b>627,763</b>	236,552
Professional fees	<b>111,269</b>	24,400
Shareholder information	<b>74,129</b>	146,988
Foreign exchange gain	<b>(469,508)</b>	(352,735)
	<b>2,623,360</b>	418,686
Interest income	<b>(105,485)</b>	(9,782)
Gain on marketable securities	-	(36,083)
<b>Net loss and comprehensive loss</b>	<b>2,517,875</b>	372,821
<b>Basic and fully diluted net loss per share</b>	<b>0.01</b>	0.00
<b>Weighted average number of shares (000's) – basic and diluted</b>	<b>326,233</b>	193,429

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

**CGX Energy Inc.**  
**Unaudited Interim Consolidated Statements of Changes in Equity**

(US\$ Dollars)

	Share Capital		Reserves		Total
	Number of Shares	Amount	Share based	Deficit	
Balance at January 1, 2011	193,428,663	\$119,975,965	\$14,466,823	\$(55,121,135)	\$79,321,653
Marketed public offerings	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)
<b>Balance at December 31, 2011</b>	<b>326,223,663</b>	<b>205,145,980</b>	<b>16,376,734</b>	<b>(61,906,465)</b>	<b>159,616,249</b>
<b>Exercise of options</b>	<b>10,270</b>	<b>5,446</b>	<b>-</b>	<b>-</b>	<b>5,446</b>
<b>Reserve transferred on exercise of options</b>	<b>-</b>	<b>4,172</b>	<b>(4,172)</b>	<b>-</b>	<b>-</b>
<b>Share based compensation</b>	<b>-</b>	<b>-</b>	<b>857,000</b>	<b>-</b>	<b>857,000</b>
<b>Net loss and comprehensive loss for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,517,875)</b>	<b>(2,517,875)</b>
<b>Balance at March 31, 2012</b>	<b>326,233,933</b>	<b>\$205,155,598</b>	<b>\$17,229,562</b>	<b>\$(64,424,340)</b>	<b>\$157,960,820</b>
Balance at January 1, 2011	193,428,663	119,975,965	14,466,823	(86,965,468)	47,477,320
Net loss and comprehensive loss for the period	-	-	-	(372,821)	(372,821)
Balance at March 31, 2011	193,428,663	\$119,975,965	\$14,466,823	\$(87,338,289)	\$47,104,499

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

**CGX Energy Inc.**  
**Unaudited Interim Consolidated Statements of Cash Flow**  
*(US\$ Dollars)*

Three month period ended March 31,	2012	2011
<b>Operations</b>	<b>\$</b>	<b>\$</b>
Net loss	(2,517,875)	(372,821)
Adjustments to reconcile net loss to cash flow from operating activities:		
Share-based payments	857,000	-
Foreign exchange gain	(469,508)	(352,735)
Gain on marketable securities	-	(36,083)
Amortization	30,430	-
Interest accretion on investments	-	(7,345)
Net change in non-cash working capital items:		
Trade and other receivables	(342,783)	81,151
Trade and other payables	(427,790)	(1,278,912)
<b>Cash flow used in operating activities</b>	<b>(2,870,526)</b>	<b>(1,966,745)</b>
<b>Financing</b>		
Issuance of common shares (net of issuance costs)	5,446	-
<b>Cash flow from financing activities</b>	<b>5,446</b>	<b>-</b>
<b>Investing</b>		
Purchases of exploration and evaluation expenditures	(36,356,192)	(1,357,918)
Purchases of property, plant and equipment	(928,884)	(784,252)
Purchase of restricted investments	(7,783,542)	-
<b>Cash flow used in investing activities</b>	<b>(45,068,618)</b>	<b>(2,142,170)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(47,933,698)</b>	<b>(4,108,905)</b>
Effect of exchange rate changes on cash held in foreign currencies	469,508	352,735
Cash and cash equivalents at beginning of period	83,371,228	28,309,406
<b>Cash and cash equivalents at end of period</b>	<b>35,907,038</b>	<b>24,553,246</b>

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

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2012 and 2011**

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**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**

The Company is in the process of exploring and evaluating its 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 unaudited interim consolidated financial statements for the three month periods ended March 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. During May 2012, the Company increased its estimated cost associated with its Eagle-1 well. The Company has successfully secured additional financing to cover the increase in the Eagle- 1 well estimated cost. Given the uncertainty associated with the nature of offshore drilling activities, should there be additional increased cost overruns on estimated costs for the Company’s current projects or if the Pacific Rubiales private placement is not approved by shareholders of the Company at the annual and special meeting to be held on June 28, 2012 and the \$30 million interim loan becomes payable, the Company would not have sufficient cash flow to meet its operating requirements for a minimum of one year. As a result, this 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 additional financing, either through issuing additional equity and/or payments associated with a joint venture farmout, within the near future in the event that the Pacific Rubiales private placement transaction is not approved and the \$30 million interim loan becomes payable, additional overruns are incurred on current projects and to cover future cost associated with its final well commitment under the Corentyne Petroleum Prospecting License (“PPL”). Under the terms of the Corentyne PPL, the final commitment well is required to be drilled within the next 12 months. While the Company believes in the viability of its strategy and in its ability to raise additional funds, and believes that the actions presently being taken by the Company provide the opportunity for it to continue as a going concern, there can be no assurances to that effect. These unaudited interim 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 continue as a going concern.

**2. Basis of Preparation**

**2.1 Statement of compliance**

These unaudited interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standards (“IAS”) 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2012 and 2011**

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

**2.2 Basis of presentation**

These unaudited interim consolidated financial statements were authorized by the Board of Directors of the Company on May 30, 2012.

The notes herein include only significant transactions and events occurring since the Company's last fiscal year end and are not fully inclusive of all matters required to be disclosed in the annual audited consolidated financial statements. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with our most recent annual audited financial statements for the year ended December 31, 2011.

**2.3 Adoption of new and revised standards and interpretations**

The IASB issued a number of new and revised International Accounting Standards, IFRS, amendments and related interpretations which are effective for the Company's financial year beginning on or after January 1, 2012. For the purpose of preparing and presenting the financial information for the relevant periods, the Company has consistently adopted all these new standards for the relevant reporting periods.

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.
- 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 12 '*Income Taxes*' – In December 2010, effective for annual periods beginning on or after January 1, 2012, IAS 12 Income Taxes was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value.

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2012 and 2011**

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

**2.3 Adoption of new and revised standards and interpretations** *(continued)*

- As a result of the amendments, SIC 21, *Income Taxes – recovery of revalued non-depreciable assets*, will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.
- 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 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, 2013, 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.

**3. 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 and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company considers its capital to be equity, which is comprised of share capital, reserve accounts, and deficit, which as at March 31, 2012 totaled \$157,960,820 (December 31, 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 and debt instruments. There is no assurance, however that these initiatives will be successful. There were no changes in the Company's approach to capital management during the three month period ended March 31, 2012. The Company is not subject to externally imposed capital restrictions.

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2012 and 2011**

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**4. Financial instruments**

**Fair value**

The Company has designated its cash and cash equivalents and marketable securities as fair value through profit and loss which are measured at fair value. Fair value of cash and cash equivalents and marketable securities is determined based on transaction value and is categorized as Level one measurement. Restricted 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. Fair value of restricted investments, trade and other receivables and trade and other payables are determined based on Level 2 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 March 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 March 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 March 31, 2012, the Company had working capital of \$26,853,113 (December 31, 2011 – \$86,364,429). In order to meet its longer-term working capital and property exploration expenditures, the Company intends on securing 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.

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2012 and 2011**

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**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 March 31, 2012, the Company had approximately \$4,900,000 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 March 31, 2012, the Company's exposure to foreign currency balances is as follows:

Account March 31,	Foreign Currency	Exposure	
		2012	2011
Cash and cash equivalents	CDN \$	\$ 4,900,000	\$ 14,300,000
Trade and other receivables	CDN \$	1,200,000	300,000
Trade and other payables	CDN \$	(200,000)	(200,000)
		\$ 5,900,000	\$ 14,400,000

A change of 10% in foreign exchange rates would increase/decrease net loss for the period by \$590,000 (2011 - \$1,440,000).

**6. Cash and cash equivalents**

The balance of cash and cash equivalents at March 31, 2012, consists of \$26,378,422 (December 31, 2011 - \$60,825,981) on deposit with major Canadian financial institutions in Canada and \$9,528,616 (December 31, 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 March 31, 2012, consists of \$13,050,000 (December 31, 2011 - \$13,050,000) in short-term guaranteed investment certificates maturing on June 7, 2012 and \$7,783,542 (December 31, 2011 - \$Nil) in short-term guaranteed investment certificates maturing on April 13, 2012. These short-term guaranteed investment certificates are restricted as collateral against the Company's irrevocable letter of credit with its suppliers. See Note 15 for further commitment details.

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2012 and 2011**

**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:

	<b>As at,</b>	
	<b>March 31, 2012</b>	<b>December 31, 2011</b>
Trade receivables	\$ 318,052	\$ 235,471
HST receivable	393,582	280,012
Marketable securities	112,703	110,544
Prepaid expenses	381,067	236,594
<b>Total trade receivables and other assets</b>	<b>\$ 1,205,404</b>	<b>\$ 862,621</b>

**8. Trade receivables and other assets (continued)**

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

	<b>As at,</b>	
	<b>March 31, 2012</b>	<b>December 31, 2011</b>
1 – 30 days	\$ 192,793	\$ 149,171
31 – 60 days	527	2,153
90+ days	124,732	84,147
<b>Total trade receivables</b>	<b>\$ 318,052</b>	<b>\$ 235,471</b>

At March 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.

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

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2012 and 2011**

**9. Property, plant and equipment**

	Staging Facility <sup>(1)</sup>	Logistics Yard <sup>(1)</sup>	Office, furniture and fixtures	Computer, software and equipment	Total
<b>Cost</b>					
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	<b>6,068,651</b>	<b>612,450</b>	<b>101,104</b>	<b>280,676</b>	<b>7,062,881</b>
Additions	<b>158,106</b>	<b>52,243</b>	<b>20,652</b>	<b>58,735</b>	<b>289,736</b>
<b>As at March 31, 2012</b>	<b>\$ 6,226,757</b>	<b>\$ 664,693</b>	<b>\$ 121,756</b>	<b>\$ 339,411</b>	<b>\$ 7,352,617</b>
<b>Accumulated amortization</b>					
As at January 1, 2011	\$ -	\$ -	\$ -	\$ -	\$ -
Amortization <sup>(2)</sup>	-	-	7,730	12,637	20,367
<b>As at December 31, 2011</b>	<b>-</b>	<b>-</b>	<b>7,730</b>	<b>12,637</b>	<b>20,367</b>
Amortization <sup>(2)</sup>	-	-	5,694	24,736	30,430
<b>As at March 31, 2012</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 13,424</b>	<b>\$ 37,373</b>	<b>\$ 50,797</b>
<b>Net book value</b>					
As at December 31, 2011	\$ 6,068,651	\$ 612,450	\$ 93,374	\$ 268,039	\$ 7,042,514
<b>As at March 31, 2012</b>	<b>\$ 6,226,757</b>	<b>\$ 664,693</b>	<b>\$ 108,332</b>	<b>\$ 302,038</b>	<b>\$ 7,301,820</b>

Notes: <sup>(1)</sup> No amortization has been recorded on these assets as they are still under construction.

<sup>(2)</sup> Amortization has been recorded under general and administrative in the statement of comprehensive loss.

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$’s)**  
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**10. Exploration and evaluation expenditures**

As at,

	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
<b>Balance, December 31, 2011</b>	<b>\$ 44,321,255</b>	<b>\$ 19,797,496</b>	<b>\$ 2,040,555</b>	<b>\$ 50,000</b>	<b>\$ 66,209,306</b>
Additions	51,346,581	6,250,000	-	-	57,596,581
<b>Balance, March 31, 2012</b>	<b>\$ 95,667,836</b>	<b>\$ 26,047,496</b>	<b>\$ 2,040,555</b>	<b>\$ 50,000</b>	<b>\$123,805,887</b>

As at March 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, preliminary drill purchasing and drill rig mobilization for exploration wells still in progress.

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

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. On November 30, 2002, the first Renewal Period of the Petroleum Agreement was granted which included renegotiated work commitments. On June 24, 2010, the second renewal of the Petroleum Agreement was granted by the Government of Guyana for a term of three years, requiring the drilling of two exploration wells.

On November 3, 2011, the Company signed an extension on its proper and punctual performance guarantee of the obligations of the Company to the Minister Responsible for Petroleum of the Co-operative Republic of Guyana to pay the Company’s minimum expenditure obligation for the second renewal period (the “Corentyne Guarantee”). The Corentyne Guarantee is intended to be and shall be constructed as continuing, absolute, unconditional and irrevocable guarantee for up to an aggregate maximum of \$3,400,000 and shall remain in force and effect until the end of the second renewal period which ends on June 24, 2013.

The Corentyne PA covers approximately 2.9 million acres comprised of two petroleum prospecting licenses (“PPL”) - the Annex PPL which is owned 100% by CGX Resources and the Corentyne PPL which is split into two components - the exploration rights offshore owned 100% by CGX Resources and the exploration rights onshore owned 100% by ON Energy having been transferred to ON Energy by CGX Resources in September 2003. Annual Rental and Training Fees are \$100,000. If a discovery is made, CGX has the right to convert the Discovery Area plus reasonable surrounding acreage to a Production Licence, subtracting this area from the contract area. At the conclusion of the second renewal period, all acreage outside of a Production Licence will be relinquished. It is the Company’s intention to seek a reissuance of the majority of the acreage. The term of a Production Licence is 20 years, renewable for a further 10 years.

After commercial production begins, the Licensee is allowed to recover all capital and operating costs from “cost oil” which for the first three years is up to 75% of production and thereafter up to 65% of production. The Licensee’s share of the remaining production or “profit oil”, for the first five years is 50% of the first 40,000 barrels of oil per day and 47% for additional productions; and thereafter 45% in full satisfaction of all income taxes and royalties.

**CGX Energy Inc.**  
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**10. Exploration and evaluation expenditures** *(continued)*

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

Period	Start Date	End Date	Commitments	Relinquish at end of period	Status
Initial Period Phase 1	June 1998	June 2000	Conduct regional review, shoot 1,800 kilometres of 2D seismic		Complete
Initial Period Phase 2 Year 1	June 2000	June 2001	Drill one exploration well		Complete
Initial Period Phase 2 Year 2	June 2001	June 2002	Interpret well results	20%	Complete
First Renewal Phase 1	June 2002	December 2007	Main area: Conduct a pilot geochemical study onshore. Annex Area: Interpret 3,000 kilometres of seismic data and reprocess 825 kilometres	1%	Complete
First Renewal Phase 2	December 2007	June 2010	Shoot 500 line kilometres of 3D seismic; or shoot 1,500 kilometres of 2D seismic; or drill one exploration well	20%	3D Complete
Second Renewal Phase 1	June 2010	December 2011	First exploration well deferred to Phase 2		
Second Renewal Phase 2	December 2011	June 2013	Drill first and second exploration wells		

Subsequent to period end, the Company received the results of its exploration well on the Corentyne PA, that indicated a dry well (See note 17).

**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 at the commencement of the first well in the PA that targets one of the Tertiary turbidite prospects previously identified by ENI in which CGX participates. The Government of Guyana approved the transfer on September 3, 2002. The original vendor retains a 2.7% right to ownership of Profit Oil in the Licence. The Georgetown PA currently covers 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.

**CGX Energy Inc.**  
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**10. Exploration and evaluation expenditures** *(continued)*

**Georgetown PA, Guyana** *(continued)*

On March 22, 2010, the Company signed a proper and punctual performance guarantee of the obligations of the Company to the Minister Responsible for Petroleum of the Co-operative Republic of Guyana to pay the Company's proportionate percentage interest share of the minimum expenditure obligation for the second renewal period (the "Georgetown Guarantee"). The Georgetown Guarantee is intended to be and shall be constructed as continuing, absolute, unconditional and irrevocable guarantee for up to an aggregate maximum of \$2,000,000 and shall remain in force and effect November 25, 2012.

To satisfy the Minimum Work Program during the second renewal period 1 of the contract, the Georgetown participants being Repsol Exploración S.A (15% and operator), 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 in February 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. At the conclusion of the second renewal period, all acreage outside of a Production Licence will be relinquished.

**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 Pomeroon PA is located offshore between CGX's 100% owned Annex portion of the Corentyne PA, and the Plataforma Deltana, which is offshore Venezuela. 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 PA issued in November 1997 is approximately 2.8 million acres. The area is subject to a boundary dispute with Venezuela and no work has been performed at the request of the Government of Guyana during these discussions: therefore the acreage is in standstill. An application has been made to the Government of Guyana to extend the term of the contract to November 2013. All work commitments up to the end of the initial period were deemed to be completed.

**Berbice PA, Guyana**

The Company, through its 62% owned subsidiary ON Energy, acquired the Berbice PA comprising 0.4 million acres onshore in October 2003. The Berbice PA is renewable for up to two three-year periods. The Government of Guyana has granted the First Renewal of the Licence effective October 2007, and an application has been made for Second Renewal effective October 2010. The principal terms of the Berbice PA are similar to those for the Corentyne PA.

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
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**11. Related Party Transactions**

Certain corporate entities that are related to the Company's officers and directors provide consulting services to CGX. Some of these expenditures include travel costs. These expenditures have been recorded at their exchange amounts, being the amounts negotiated and agreed to by the parties to the transaction. At March 31, 2012, included in trade and other payables is \$27,000 (December 31, 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:

	<b>As at,</b>	
	<b>March 31, 2012</b>	December 31, 2011
Less than one month	\$ 30,851,849	\$ 10,678,398
Over three months	241,022	241,022
<b>Total trade and other payables</b>	<b>\$ 31,092,871</b>	<b>\$ 10,919,420</b>

**13. Capital stock**

**Share Capital**

The Company is authorized to issue an unlimited number of common shares without par value. The issued and outstanding common shares consist of the following:

	<b>Number of Shares</b>	<b>\$</b>
Balance at January 1, 2011	193,428,663	\$ 119,975,965
Marketed public offerings	131,445,000	90,190,000
Exercise of options <sup>1</sup>	1,350,000	492,750
Share issue costs	-	(5,959,824)
Reserve transferred on exercise of options	-	447,089
<b>Balance at December 31, 2011</b>	<b>326,223,663</b>	<b>\$ 205,145,980</b>
<b>Exercise of options<sup>1</sup></b>	<b>10,270</b>	<b>5,446</b>
<b>Reserve transferred on exercise of options</b>	<b>-</b>	<b>4,172</b>
<b>Balance at March 31, 2012</b>	<b>326,233,933</b>	<b>\$ 205,155,598</b>

<sup>1</sup>The average fair value of the shares issued through the exercise of options on the date the options were exercised in the three month period ended March 31, 2012 was \$1.23 (Year ended December 31, 2011 - \$0.73).

**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) (the "\$0.70 Offering"). Share issue costs associated with the \$0.70 Offering were \$5,959,824.

**CGX Energy Inc.**  
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**13. Capital stock (continued)**

**Stock Options**

The Company established a share incentive plan to provide additional incentive to its directors, officers, employees and consultants for their efforts on behalf of the Company in the conduct of its affairs. The maximum number of common shares reserved for issuance under the share option plan comprising part of the share incentive plan may not exceed 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 March 31, 2012, the Company had 11,996,324 (December 31, 2011 – 12,735,130) options available for issuance under the plan. The options outstanding to purchase common shares are as follows:

<b>As at,</b>	<b>March 31, 2012</b>		<b>December 31, 2011</b>	
	<b>Weighted Average Exercise Price (\$)</b>	<b>No. of Options</b>	<b>Weighted Average Exercise Price (\$)</b>	<b>No. of Options</b>
Outstanding at beginning of period/year	1.21	16,625,000	1.48	11,295,000
Transactions during the period/year:				
Granted	1.05	1,050,000	0.65	6,700,000
Exercised	0.54	(10,270)	0.37	(1,350,000)
Expired	-	-	1.12	(20,000)
Outstanding at end of period/year	1.22	17,664,730	1.21	16,625,000
Exercisable at end of period/year	1.29	15,047,730	1.28	14,447,500

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

	<b>No. of Options Outstanding</b>	<b>Weighted Average Remaining Life (Years)</b>	<b>Weighted Average Exercise Price</b>	<b>No. of Options Exercisable</b>	<b>Weighted Average Exercisable Exercise Price</b>
\$ 0.54 - \$0.80	6,014,730	4.36	\$ 0.61	4,334,730	\$ 0.57
\$ 1.00 - \$1.36	8,840,000	2.62	\$ 1.19	7,902,500	\$ 1.21
\$ 1.80 - \$2.70	2,810,000	1.16	\$ 2.64	2,810,000	\$ 2.64
<b>\$ 0.54 - \$2.70</b>	<b>17,664,730</b>	<b>2.98</b>	<b>\$ 1.22</b>	<b>15,047,730</b>	<b>\$ 1.29</b>

**CGX Energy Inc.**  
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**13. 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 three month period ended March 31, 2012:

	<b>Vesting of previously issued options</b>	<b>January 3, 2012</b>	<b>January 3, 2012</b>	<b>January 3, 2012</b>	<b>Totals</b>
Number of options granted		550,000	200,000	300,000	1,050,000
Exercise price		C\$1.05	C\$1.05	C\$1.05	
Risk-free interest rate		1.31%	1.31%	1.31%	
Expected life (years)		5.0	5.0	5.0	
Expected volatility		98.14%	98.14%	98.14%	
Expected dividends		-	-	-	
Forfeiture rate		-	-	-	
Vesting		immediately	100% on September 12, 2012	20% immediately, 80% on first anniversary	
Fair value of grant		\$ 420,000	\$ 153,000	\$ 229,000	\$802,000
Share based compensation	\$ 294,000	\$ 420,000	\$ 53,000	\$ 90,000	\$857,000

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 three month period ended March 31, 2012 was \$0.76 (Year ended December 31, 2011 – \$0.48) per option issued.

**CGX Energy Inc.**  
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**13. 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:

	<b>May 17, 2011</b>	<b>June 7, 2011</b>	<b>June 27, 2011</b>	<b>August 15, 2011</b>	<b>September 12, 2011</b>	<b>October 20, 2011</b>
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

  

	<b>November 7, 2011</b>	<b>November 7, 2011</b>	<b>November 7, 2011</b>	<b>December 10, 2011</b>	<b>December 13, 2011</b>	<b>Totals</b>
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

**CGX Energy Inc.**  
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**14. Reserve for share based payments**

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

<b>As at,</b>	<b>March 31, 2012</b>	<b>December 31, 2011</b>
	<b>Amount</b>	<b>Amount</b>
	<b>\$</b>	<b>\$</b>
Balance at beginning of period/year	<b>16,376,734</b>	14,466,823
Share based compensation	<b>857,000</b>	2,357,000
Reserve transferred on exercise of options	<b>(4,172)</b>	(447,089)
Balance at end of period/year	<b>\$ 17,229,562</b>	\$ 16,376,734

**15. 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:

<b>Fiscal Year Ended December 31,</b>	<b>Premises</b>	<b>Contracts</b>
2012	<b>212,000</b>	<b>19,900,000</b>
2013	<b>149,000</b>	-
2014	<b>155,000</b>	-
2015	<b>155,000</b>	-
2016	<b>142,000</b>	-

**Operating Leases**

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

**Contractual Obligations**

The Company has entered into various commitments and operating agreements associated with, among other things, oil and gas exploration, drilling rig services (see Service Contracts below), and oilfield and other services. Aggregate future obligations under these agreements total \$19.9 million as at March 31, 2012, of which the full amount is expected to be incurred by the end of May 2012.

**Service Contracts**

The Company has entered into a contract for a drilling rig. The drilling rig commitment was entered into to fulfill the Company's commitment to drill the Eagle-1 well under the Corentyne PA. An estimated amount of \$7.0 million included in the \$19.9 million reference above relates to this service is expected to be incurred by the end of May 2012.

**CGX Energy Inc.**  
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**16. Segmented information**

**Operating Segments**

At March 31, 2012 the Company's operations comprise 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 March 31, 2012 and December 31, 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:

<b>As at</b>	<b>March 31, 2012</b>	December 31, 2011
Identifiable assets		
Canada	<b>57,693,925</b>	97,190,437
Guyana	<b>131,359,766</b>	73,345,232
	<b>189,053,691</b>	170,535,669

**17. Subsequent Events**

**Eagle-1 Well**

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 total cost of the Eagle-1 well will be recognized as a dry hole expense in the financial statements for the quarter ended June 30, 2012.

**Personnel**

Effective May 4, 2012, Stephen Hermeston was no longer President and Chief Executive Officer of CGX. Kerry Sully was appointed as acting President and Chief Executive Officer.

**Stock Options**

On May 22, 2012, the Company granted 300,000 stock options to a director of the Company at an exercise price of C\$0.30 until May 22, 2017, vesting immediately.

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
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**17. Subsequent Events** *(continued)*

**Proposed and Current Financing**

On May 27, 2012, the Company entered into a definitive subscription agreement (the "Subscription Agreement") with Pacific Rubiales Energy Corp. ("Pacific Rubiales") pursuant to which Pacific Rubiales has subscribed for 85,714,285 units of CGX (the "Units") by way of private placement at a price per Unit of \$0.35 for an aggregate purchase price of \$30 million. Each Unit will consist of one common share and one-half of one common share purchase warrant of the Company (each whole warrant, a "Warrant"). Each Warrant will be exercisable for one CGX common share at an exercise price of \$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 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 Company's shareholders (as described below) and acceptance by the TSX Venture Exchange (the "Exchange"). The Units are expected to be issued within a week following the required Exchange and shareholder approval. Subject to obtaining any required approvals of the Exchange, the Company has agreed to pay an advisory fee of 4% of the gross proceeds of the private placement to GMP Securities L.P.

In connection with the entering into of the Subscription Agreement and in order to meet the Company's immediate financing needs, Pacific Rubiales has agreed to advance to the Company \$30 million on May 29, 2012 (the "Loan"). The Loan will be evidenced by a promissory note and secured as described below. If the required Exchange and shareholder approvals for the private placement are obtained, on closing of the private placement, the promissory note will be cancelled by Pacific Rubiales in full satisfaction of the aggregate purchase price of the Units. If the approvals have not been obtained on or before July 31, 2012, the promissory note will become payable upon 30 business days notice by Pacific Rubiales to the Company. Prior to July 31, 2012, no interest is payable on the promissory note. However, if the Units are not issued by July 31, 2012, interest will become payable on the principal amount of the promissory note at a rate of 13.5%, compounded quarterly, until the promissory note is repaid in full. In such a scenario, the Company expects to repay the amounts owing under the promissory note through the issuance of additional equity or the sale of a farm-in interest in one or more of its petroleum agreements.

As security for the obligations of the Company under the promissory note, the Company has agreed to enter into a pledge agreement with Pacific Rubiales pursuant to which it will pledge 49% of the common shares of CGX Resources Inc. ("CGX Resources"), a wholly-owned subsidiary of the Company, to Pacific Rubiales. If shareholder approval for the private placement is not obtained at the Meeting, the Company will pledge the remaining 51% of the common shares of CGX Resources to Pacific Rubiales to secure its obligations under the Loan. The security interest(s) will terminate on the first to occur of the closing of the private placement and the date that the promissory note has been repaid.

In connection with the private placement and the Loan, the Company has 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.

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
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**17. Subsequent Events** *(continued)*

**Proposed and Current Financing** *(continued)*

The Company and Pacific Rubiales have also entered into an earn-in and technical cooperation agreement dated May 27, 2012 pursuant to which, among other things: (i) Pacific Rubiales will provide technical assistance to the Company in respect of its operations, and (ii) Pacific Rubiales will have the right to participate in the Company's next commitment well on each of the Corentyne PPL and the Annex PPL 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 license.