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

**June 30, 2009**

*Management's discussion and analysis (MD&A) is current to August 21, 2009 and is management's assessment of the operations and the financial results together with future prospects of CGX Energy Inc. ("CGX" or the "Company"). All figures are in United States Dollars, unless otherwise stated. This MD&A should be read in conjunction with our audited consolidated financial statements and related notes for the years ended December 31, 2008 and 2007. This discussion contains forward-looking statements that are not historical in nature and involves risks and uncertainties. Forward-looking statements are not guarantees as to CGX's future results as there are inherent difficulties in predicting future results. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements. The Company has adopted National Instrument 51-102F1 as the guideline in presenting the MD&A. Additional information relevant to the Company's activities, including the Company's Annual Report, can be found on SEDAR at www.sedar.com.*

**Cautionary Note Regarding Forward Looking Statements**
This Management's Discussion and Analysis includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of Management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Such risks and uncertainties include, but are not limited to, risks associated with the mining 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 the Company 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 the Company to fund the capital and operating expenses necessary to achieve the business objectives of the Company, 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 the Company. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in securities of the Company should not place undue reliance on these forward-looking statements. Statements in relation to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

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

## OVERVIEW

CGX Energy Inc. was created for the primary purpose of exploring offshore Guyana, South America. Our focus has been the 3.6 million acre Corentyne Petroleum Agreement (PA). The Corentyne PA includes three Petroleum Prospecting Licences (PPL) – the Corentyne Offshore PPL; the Annex PPL; and the Corentyne Onshore PPL. Exploration was actively underway with an 1800 km seismic program in 1999, leading to the start-up of drilling at our Eagle target in June 2000. However, a border dispute between Guyana and Suriname led to us being forced off

the Eagle location by gunboats from Suriname. As a result of that incident, all active exploration offshore by CGX and the other operators in the area, including Exxon, and Maxus (Repsol YPF), were suspended.

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 Tribunal to delimit the Parties' continental shelf and exclusive economic zone follows an unadjusted equidistance line. The arbitration is compulsory and binding. CGX had committed to finance a significant portion of Guyana's legal expense, which cost CGX $9.8million.

The decision was extremely positive for CGX, as it concluded that 93% of CGX's Corentyne Licence and 100% of the Georgetown Licence are in Guyana territory. Our Eagle drilling location in 2000 was 15 kilometres within this border award. The entire Eagle turbidite is within the awarded area and the majority of our Wishbone West target as well. In addition, 100% of our newly interpreted Eagle Deep target is in Guyana territory and under license to CGX.

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

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

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

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

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

In September 2003, CGX created a wholly-owned subsidiary company, ON Energy Inc. ("ON") registered in Guyana to hold the onshore interest. Following two private placements within ON raising a total of $9.1 million in which CGX invested $4.6 million, CGX's interest has been reduced to 62% in ON. A labour intensive seismic survey was conducted, employing up to 250 local personnel. Drilling commenced in May 2005, resulting in three dry and abandoned wells. All activities took longer than anticipated and costs were significantly higher than budgeted.

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

Since the resolution of the Guyana/Suriname Maritime Border, activity has increased significantly. In the 8 months commencing September 2008, over US$125 million of new seismic will have been acquired in the basin. Petroleum Geo-Services (PGS) completed a large 2D spec-shoot for Esso Guyana and the Government of Guyana. CGX acquired 505 sq km of 3D seismic program on the Corentyne PPL, and 1839 sq km of 3D on the Georgetown PPL with YPF Guyana. Offshore Suriname, Murphy commenced a 1500 sq km 3D seismic program in November 2008

at a reported cost of US$50 million. In April 2009, Inpex commenced a large 3D program in their block offshore Suriname. And finally, the Government of Suriname is planning to shoot a nearshore 2D program later this year.

In November 2008, Tullow announced they had acquired a 30% interest in the Georgetown PPL from YPF Guyana. In January 2009, Shell acquired a 25% interest from Esso in the Stabroek PA.

During the next two years, 2 exploration wells have been committed to be drilled offshore Suriname, and up to 4 additional wells may be committed offshore Guyana and Suriname, creating potential economies if multi-client contracts can be coordinated by the drill contractors and service companies.

On June 17, 2008, it was reported that Repsol YPF and its partner Noble Energy had abandoned the West Tapir-1 exploration well offshore Suriname. However confidence remained that Suriname has multiple opportunities despite the lack of commercial hydrocarbons from the West Tapir exploration.

The Company had retained Jefferies Randall & Dewey, a division of Jefferies & Company, Inc., as its advisor to market a joint venture opportunity on the Company's Corentyne PA located offshore Guyana. A number of parties reviewed the data but none were prepared to commit to the drilling of a well prior to the interpretation of the new 3D data. The joint venture marketing has been suspended until the fall of 2009.

In July 2008, 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.

**Guyana Operations**

***Corentyne PA, Guyana***
The Company holds three Petroleum Prospecting Licences for the approximately 3.6 million acre Corentyne PA, mainly offshore Guyana. Sovereign issues between Guyana and Suriname prevented unhindered access to a portion of the contract area, in June 2006, the term of the contract was extended to June 2013.

During 2008, CGX shot a 505 square kilometer 3D seismic program to enhance the interpretation of the newly defined Eagle Deep prospect, a large structural trap in the Cretaceous, in preparation for drilling as soon as 2010. The cost of the seismic program was approximately US$ 8 million.

The conventional processing of our 3D program, the first shot offshore Guyana, is nearly complete. CGX is encouraged by the time and depth images and the initial interpretation. Compared with the 2D, the 3D data is providing superior depth modeling, better detail at the prospect level, and identifying new leads. By September, CCG Veritas will have completed Pre-Stack Depth Migration ( PSDM) of the 3D seismic to give a better image of the depth and geometry of targets.

To further advance our interpretation we have retained international experts to extract technical attributes from the dataset. Data Modeling Inc. from Calgary is using proprietary artificial intelligence to solve for acoustic velocity of the rock layers. In addition, CGX has engaged Rock Solid Images from Houston to estimate the reservoir properties of lithology, porosity and pore fluid from the seismic data within our identified targets. In the middle and upper Cretaceous formations of West Africa, Rock Solid Images rock physics and seismic inversion experience has been effective in achieving these goals.

The cost estimate to drill the Eagle Deep Well has been reduced significantly to below $70 million from US$90 million as a result of the industry-wide downturn, service sector price reductions and CGX's rig sharing initiatives with other operators in the area. As the seismic processing nears completion, CGX plans to reopen its data room for potential joint venture partners who would fund the drilling of a well to test both the Eagle Deep Play in the Cretaceous and the original Eagle Tubidite in the Tertiary.

On January 3, 2008, an independent Resource Assessment was completed by Gustavson Associates LLC of Boulder, Colorado, U.S.A. (Gustavson) for four prospects on the Corentyne PPL. Using probabilistic analysis, Gustavson calculated a total best estimate (P50) Prospective Resource in the four prospects to be 2.7 billion barrels of oil. **No commercial discoveries have been made in the offshore Guyana basin and hence there have been no reserves found.** Historic well data, regional geology and 2D seismic were reviewed by Gustavson to prepare a probabilistic Resource Estimate of that portion of the prospects lying entirely within the Corentyne PPL. The Resource Assessment has been filed on SEDAR (www.sedar.com) and on the Company's website (www.cgxenergy.com). The Gustavson resource estimates were prepared in accordance with the requirements of Canadian National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101").

***Berbice PA, Guyana***
CGX applied to the government of Guyana for the Berbiice PA of approximately 387,000 acre adjacent to the Corentyne Onshore PPL which was granted in October 2003 and has been registered directly to ON ("Berbice PA"). By completing aeromag re-interpretation, a geochemical sampling program and a 2D seismic program, the minimum work obligations were fulfilled through the Initial Period. Effective October 2007, the Licence was extended three additional years into the First Renewal Period, with an obligation to drill 3 exploration wells. ON will attempt to farm out the drilling obligation to a third party.

***Georgetown PA, Guyana***
The Company purchased a 25% participating interest in the Georgetown PA (offshore Guyana, South America) from ENI Guyana, B.V. for $0.2 million and $1.1 million at the spud of the first well on the PA in which CGX participates. The Operator of the Georgetown PA is Repsol (15%), with partners YPF Guyana (30%) and Tullow Oil (30%).

Exploration was suspended since 2000 as a significant portion of the PA was also in the area of overlapping boarder claims between Guyana and Suriname. The ITLOS decision preserved 100% of the Georgetown PA and the term of the contract has been extended to November 2012.

During 2008/2009, 1,839 square kilometers of 3D seismic were shot in conjunction with CGX's program on the Corentyne PPL. CGX's share of acquisition and processing is estimated to be approximately US$8 million. The conventional processing of the Georgetown 3D data has not proceeded as quickly as the processing of the Corentyne data.

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

The Pomeroon PA issued by the Government of Guyana in November 1997 is approximately 2.8 million acres and is located between CGX's 100%-owned Annex portion of the Corentyne PA, and the Plataforma Deltana, which is offshore Venezuela. 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.

Application has been made to extend the term of the PA to November 2013. All minimum work commitments up to the end of the Initial Period were deemed to be completed, and substantially all the seismic reprocessing required under the 1st Renewal Phase 1 was completed. Under the First Renewal Phase 2, the minimum work program is to complete either 100 square kilometers of 3D seismic or 500 kilometers of 2D seismic or drill an exploration well.

***Trends***

The economic crisis that started in the financial sector may be stabilizing. The oil and gas industry has undergone massive down-scaling. Capital investment in oil and gas dramatically declined and, generally, resulted in major new

projects in the industry being cancelled or delayed. Credit markets became more inaccessible and many oil and gas companies that, only one year ago, had large cash resources to invest in operations are now struggling to finance day-to-day operations. There are significant uncertainties regarding the price of oil and gas the availability of equity financing for the purposes of exploration and development.

Current financial markets are likely to be volatile in Canada for the remainder of fiscal 2009 and potentially into 2010, reflecting ongoing concerns about the stability of the global economy and weakening global growth prospects. As well, concern about global growth has led to sustained drops in the commodity markets. Unprecedented uncertainty in the credit markets has also led to increased difficulties in borrowing/raising funds. Companies worldwide have been negatively 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 purposes 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 MONTHS ENDED JUNE 30, 2009**

The Company incurred a net loss of $2,194,713 or $0.02 a share for the three month period ended June 30, 2009, compared with a net loss of $5,714,372 or $0.05 a share for the same period in 2008.

CGX incurred a foreign exchange gain of $492,057 for the three month period ended June 30, 2009 compared to a loss of $10,983 in 2008. The difference is due to the large changes in the foreign exchange rates during the last fiscal period on balances held in Canadian Dollar bank accounts.

The Company had interest income of $14,474 for the three month period ended June 30, 2009 compared to $153,920 in the same period in 2008. The decrease is a result of much lower interest rates being paid on US$ currency due to the current economic climate.

Shareholder information costs decreased in the three month period ended June 30, 2009 by $24,614 to $51,429 compared to $76,043 in the same period in 2008. This amount relates to the costs of issuing press releases, transfer agents, investor presentations, and electronic dissemination of information. The decrease is attributable to fewer issuances of press releases during the current period; and much lower TSX-V fees as a result of a lower market capitalization.

General and administration costs decreased by $8,878 to $278,962 in the three month period ended June 30, 2009 from $287,840 in 2008. These costs were incurred in operating two offices in two countries although the majority of these costs were incurred in Canada.

Professional fees for the three month period ended June 30, 2009 were $12,051 compared to $34.341 in the same period of 2008. These fees are lower due to lower legal fees relating to general corporate matters.

Consulting fees decreased by $40,790 to $116,970 during the three month period ended June 30, 2009 compared to $157,760 in 2008. Consulting fees include fees paid to management.

Production and exploration expenses for the three month period ended June 30, 2009 and 2008 were $Nil. The majority of these costs include payments to various consultants in regards to the expenses incurred relating to the evaluation of the Company's Calgary properties.

The Company incurred stock-based compensation during the three month period ended June 30, 2009 of $2,241,831 compared to $5,301,325 for the same period in 2008. The stock-based compensation expenses are booked based on the valuation of options and warrants using the Black-Scholes model.

## SIX MONTHS ENDED JUNE 30, 2009

The Company incurred a net loss of $2,762,123 or $0.02 a share for the six month period ended June 30, 2009, compared with a net loss of $6,034,442 or $0.05 a share for the same period in 2008.

CGX incurred a foreign exchange gain of $242,278 for the six month period ended June 30, 2009 compared to a loss of $19,571 in 2008. The difference is due to the large changes in the foreign exchange rates during the last fiscal period on balances held in Canadian Dollar bank accounts.
The Company had interest income of $21,995 for the six month period ended June 30, 2009 compared to $295,590 in the same period in 2008. The decrease is a result of much lower interest rates being paid on US$ currency.

Shareholder information costs decreased in the six month period ended June 30, 2009 by $80,922 to $73,810 compared to $154,732 in the same period in 2008. This amount relates to the costs of issuing press releases, transfer agents, investor presentations, and electronic dissemination of information. The decrease is attributable to fewer issuances of press releases during the current period; and much lower TSX-V fees as a result of a lower market capitalization.

General and administration costs decreased by $30,434 to $460,075 in the six month period ended June 30, 2009 from $490,509 in 2008. These costs were incurred in operating two offices in two countries although the majority of these costs were incurred in Canada.

Professional fees for the six month period ended June 30, 2009 were $21,990 compared to $57,037 in the same period of 2008. These fees are lower due to lower legal fees relating to general corporate matters.

Consulting fees decreased by $71,081 to $228,690 during the six month period ended June 30, 2009 compared to $299,771 in 2008. Consulting fees include fees paid to management.

Production and exploration expenses for the six month period ended June 30, 2009 were $Nil compared to $7,087 in the same period in 2008. The majority of these costs include payments to various consultants in regards to the expenses incurred relating to the evaluation of the Company's Calgary properties.

The Company incurred stock-based compensation during the six month period ended June 30, 2009 of $2,241,831, compared to $5,301,325 for the same period in 2008. The stock-based compensation expenses are booked based on the valuation of options and warrants using the Black-Scholes model.

### Selected Consolidated Financial Information

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

| | Six Months Ended June 30, 2009 | Year Ended December 31, 2008 | Year Ended December 31, 2007 | Year Ended December 31, 2006 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Interest Income | 21,995 | 467,017 | 281,079 | - |
| Net Revenue | 21,995 | 467,017 | 285,601 | 28,832 |
| Loss before income taxes | 2,762,123 | 6,678,561 | 4,489,650 | 6,258,216 |
| Net Loss | 2,762,123 | 6,678,561 | 4,489,650 | 6,258,216 |
| Loss Per Share | $0.02 | $0.05 | $0.04 | $0.07 |
| Total Assets | 43,759,515 | 48,953,342 | 45,678,789 | 7,424,835 |
| Liabilities | 1,224,787 | 5,898,322 | 1,708,733 | 1,715,179 |

**Results for the three months ended:**

| | June 30, 2009 | March 31, 2009 | December 31, 2008 | September 30, 2008 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Interest Income | 14,474 | 7,521 | 91,131 | 102,023 |
| Total Revenue | 14,474 | 7,521 | 91,131 | 102,023 |
| Loss before income taxes | 2,194,712 | 567,411 | 229,148 | 414,971 |
| Net Loss | 2,194,712 | 567,411 | 229,148 | 414,971 |
| Loss Per Share | $0.02 | $0.00 | $0.00 | $0.00 |

| | June 30, 2008 | March 31, 2008 | December 31, 2007 | September 30, 2007 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Interest Income | 132,193 | 141,670 | 191,394 | 44,339 |
| Total Revenue | 132.193 | 141,670 | 193,916 | 44,380 |
| Loss before income taxes | 5,714,372 | 320,070 | 364,868 | 2,799,189 |
| Net Loss | 5,714,372 | 320,070 | 364,868 | 2,799,189 |
| Loss Per Share | $0.05 | $0.00 | $0.00 | $0.03 |

## CAPITAL RESOURCES, CAPITAL EXPENDITURES AND LIQUIDITY

As at June 30, 2009, the Company's working capital decreased to $18,321,659 from $22,398,397 as at December 31, 2008.

As at June 30, 2009, CGX had receivables and other of $268,087. This amount is comprised of: receivables from companies for rent, equipment purchased and expense reimbursements ($110,518), GST recoverable ($63,975), prepaid expenses ($56,829), Marketable securities ($36,765).

For the period ended June 30, 2009, the Company spent $3,556,446 on petroleum and natural gas properties compared to $523,264 for the same period in 2008. Of the $3,556,446 expenditures, the majority was spent on 3D seismic on the Georgetown Block.

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

## OFF-BALANCE SHEET ARRANGEMENTS

See "Commitments" on page 16.

## RELATED-PARTY TRANSACTIONS

Denis Clement and Associates ("DCA") was paid by the Company a total of $60,000 for the six month period ended June 30, 2009 in respect of the services of Denis Clement. Denis Clement, a director of the Company, beneficially owns DCA.

1282803 Ontario Inc. ("1282803") was paid by the company a total of CAD$70,000 for six month period ended June 30, 2009 in respect of the services of James Fairbairn. James Fairbairn, CFO and Treasurer, beneficially owns 1282803.

Workman Energy ("WE") was paid by the Company a total of $103,122 for the six month period ended June 30, 2009 in respect of the services of Warren Workman. Warren Workman, an officer of the Company, beneficially owns WE.

Kerry Sully, President, CEO and a director of the Company, was paid by the Company a total of CAD$140,000 for the six month period ended June 30, 2009 for his services.

Kamal Dookie, an officer of the Company, was paid by the Company a total of $107,012 for six month period ended June 30, 2009 for his services and in-country expenses (Guyana).

## CHANGES IN ACCOUNTING POLICIES INCLUDING INTITAL ADOPTION

There were several changes in the accounting policies for the period ended June 30, 2009, see note 3 to the June 30, 2009 unaudited consolidated financial statements.

a) **Recently released Canadian accounting standards**

The Company has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may affect the financial disclosures and results of operations of the Company:

i) Financial Instruments – Disclosures (CICA Handbook Section 3862) and Financial Instruments – Presentation (CICA Handbook Section 3863): These new standards will replace Financial Instruments – Disclosure and Presentation (Section 3861). This new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The Company has adopted the new standards for interim and annual periods beginning on or after January 1, 2008.

ii)Capital Disclosures (CICA Handbook Section 1535): This new standard will require companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements. The Company will adopt the new standard for interim and annual periods beginning on or after January 1, 2008.

iii)International Financial Reporting Standards: In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada and the expected convergence with International Financial Reporting Standards ("IFRS") by the end of 2011. On February 13, 2008 the Canadian Accounting Standards Board confirmed 2011 as the official changeover date for publicly listed Canadian companies to start using International Financial Reporting Standards (IFRS). The transition will affect interim and annual financial statements relating to years beginning on or after January 1, 2011. The impact of the transition to IFRS on the Company's consolidated financial statements has not yet been determined.

### Recent Accounting Changes and Effective Dates

Effective January 1, 2008, the Company adopted the new Section 1535 "Capital Disclosures" standards issued by the Canadian Institute of Chartered Accountants. This Section established standards for disclosing information about the Company's capital and how it is managed. The impact of this change is described in note 1 to these financial statements.

In addition, effective January 1, 2008, the Company also adopted the new Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which replaced Section 3861 Financial Instruments - Disclosure and Presentation". Section 3862 outlines the disclosure requirements for financial instruments and non-financial derivatives. This guidance prescribes an increased importance on risk disclosures associated with recognized and unrecognized financial instruments and how such risks are managed. The presentation requirements under Section 3863 are relatively unchanged from Section 3861. See note 4 for expanded disclosure.

In June 2007, the CICA amended the Handbook section 1400, Going Concern, to include additional requirements to assess and disclose an entity's ability to continue as a going concern. Section 1400 is effective for annual reporting periods beginning on or after January 1, 2008.

## Future Accounting Pronouncements

The Canadian Accounting Standards Board will require all public companies to adopt International Financial Reporting Standards (IFRS) for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. Earlier adoption for fiscal years beginning on or after January 1, 2009, is allowed. Earlier adoption for fiscal years beginning on or after January 1, 2009, is allowed. Companies will be required to provide IFRS comparative information for the fiscal year immediately preceding the year in which they first adopt IFRS. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed. The Company is currently assessing the impact of this pending change on this financial statements as well as the possibility of early adoption of IFRS.

## Goodwill and Intangible Assets

In February 2008, the CICA amended the Handbook section 3064, Goodwill and Intangible Assets which replaces the existing Sections 3062, Goodwill and Other Intangible Assets and 3450 Research and Development Costs. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The standard provides guidance on the recognition, measurement and disclosure requirements for goodwill and intangible assets. The Company is assessing the impact of this change on its financial statements.

## ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

| | Six Months Ended June 30, 2009 | Year ended December 31, 2008 |
|---|---|---|
| Petroleum and natural gas properties: | | |
| Capitalized exploration costs | $ 24,213,069 | $ 20,656,623 |
| Expensed production and property evaluation | - | - |
| Corporate expenses | 2,762,123 | 6,678,561 |
| Total Assets | 43,759,515 | 48,953,342 |

| | Six Months Ended June 30, 2009 | | Year ended December 31, 2008 | |
|---|---|---|---|---|
| | Capitalized | Expensed | Capitalized | Expensed |
| | $ | $ | $ | $ |
| Land & lease costs | 100,000 | - | 100,000 | - |
| Exploration: Intangible drilling and other | 406,765 | - | 518,208 | - |
| Geophysical and administrative | 3,049,681 | - | 13,115,609 | - |
| | 3,556,446 | - | 13,733,817 | - |

| Corporate Expenses | Six Months Ended June 30, 2009 | Year ended December 31, 2008 |
|---|---|---|
| General and administrative: | | |
| Rent and office expenses | 230,531 | 864,041 |
| Insurance | 39,435 | 55,799 |
| Travel and promotion | 190,109 | 177,806 |
| Interest income | (21,995) | (467,017) |
| Consulting | 228,690 | 474,897 |
| Production and exploration | - | 5,399 |
| Stock-based compensation | 2,241,831 | 5,301,325 |
| Professional fees | 21,990 | 92,846 |
| Shareholders' information | 73,810 | 165,490 |
| Foreign exchange loss (gain) | (242,278) | 7,975 |
| | 2,762,123 | 6,678,561 |

| Outstanding Share Data | 17-Aug-09 | 30-Jun-09 | 31-Dec-08 |
|---|---|---|---|
| Issued and outstanding common shares | 126,144,913 | 126,144,913 | 126,144,913 |
| Outstanding options to purchase common shares | 11,255,000 | 11,255,000 | 8,855,000 |

## 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.

## RISKS AND UNCERTAINTIES

### Political Risk

The Company operates in Guyana, which is an immature and emerging economy with associated risk factors. Land and maritime boundaries have not been resolved with Venezuela. Our operations and related assets are subject to the risks of actions by governmental authorities, insurgent groups or terrorists. The Company conducts its business and financial affairs to protect against political, legal, regulatory and economic risks applicable to its operations, however, there can be no assurance that the Company will be successful in protecting itself from the impact of these risks.

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

### Business Risk

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

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

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

A portion of the Company's onshore exploration in Guyana was funded by local investors, through the Company's subsidiary, ON Energy Inc., which is one of the first new companies to have been financed under the Guyana Securities Act 1998. Operating a foreign registered subsidiary presents risks associated with differences in business regulations and practices compared with operating a Canadian corporation. We are a responsible member of the Guyanese community and are building relationships with its members and involving them in key decisions that will have an impact on their lives.

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

### Exploration, Development and Production Risks

A major portion of the current working capital of the Company will be expended on petroleum and natural gas exploration, exploitation and development activities, which are high-risk ventures with uncertain prospects for success. Oil and gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration activities by the Company will result in new discoveries of oil, condensate or natural gas that are commercially viable or economically producible. Holders of securities of the Company must rely on the ability,

expertise, judgment, discretion, integrity and good faith of management of the Company. It is difficult to project the costs of implementing any exploratory or developmental drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over-pressured zones and tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof. Few properties that are explored are ultimately developed into new reserves. In certain instances, the Company may be precluded from pursuing an exploration program or decide not to continue with an exploration program and such an occurrence may have a negative effect on the value of the securities of the Company.

Future oil exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include: delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

**Petroleum and Natural Gas Reserves**

All evaluations of future net revenues are before consideration of indirect costs such as administrative overhead, other miscellaneous expenses and income taxes. The future net revenues may not be representative of the fair market value of the reserves. There are numerous uncertainties inherent in estimating quantities of proved and probable reserves, including many factors beyond the control of the Company.

In general, estimates of economically recoverable petroleum and natural gas reserves and the future net revenues there from are based upon a number of variable factors and assumptions, such as historical production from the properties, commodity prices, the assumed effects of regulation by governmental agencies and future operating costs, each of which may vary considerably from actual results. Estimates of the economically recoverable petroleum and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected there from, prepared by different engineers or by the same engineers at different times, may vary substantially.

**Fluctuation of Commodity Prices**

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors all of which are beyond the control of the Company. Crude oil is influenced by the world economy and OPEC's ability to adjust supply to world demand. World prices for oil and natural gas have fluctuated widely in recent years. Future price fluctuations in world prices may continue and may have a significant impact upon the projected revenue of the Company, the projected return from its existing and future reserves and the general financial viability of the Company.

The oil and natural gas prices realized by the Company are affected by factors such as supply and demand, oil quality and transportation adjustments. The Company expects to market its oil and natural gas production in a manner consistent with best practices.

**Critical Accounting Estimates**

A discussion of the Company's significant accounting policies is contained in Note 2 to the June 30, 2009 unaudited consolidated financial statements. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and contingent assets and liabilities. These estimates relate primarily to the future development costs associated with proved undeveloped reserves, reserve volumes, future production and revenues, and future costs associated with asset retirement obligations.

For the impact of new accounting standards related to financial instruments and comprehensive income please refer to "New Accounting Standards" on page 7 of this MD&A and Note 3 of the consolidated financial statements as at June 30, 2009.

**Impairment of Long-lived Assets**
The Company records its interest in mineral properties at cost. Exploration expenditures relating to properties that will require additional exploration are deferred and will be amortized against future production following commencement of commercial production, or written off it the licences are sold, allowed to lapse or become impaired.

**International Financial Reporting Standards**

Management of the Company reviews and evaluates the carrying value of each license for impairment when events or changes in circumstances indicate that the carrying amounts of the related asset may not be recoverable. If the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is measured and assets are written down to fair value which is normally the discounted value of future cash flows. Where estimates of future net cash flows are not available and where other condition suggest impairment, management assesses whether carrying value can be recovered by considering alternative methods of determining fair value. When it is determined that a license is impaired, it is written down to its estimated fair value in accordance with the CICA Handbook Section 3063 "Impairment of Long-Lived Assets"

Management's estimates of commodity prices, mineral resources, and operating, capital and reclamation costs are subject to certain risks and uncertainties that may affect the recoverable of deferred costs. Although management has made its best estimate of these factors, it is possible that material changes could occur which may adversely affect management's estimate of the net cash flows expected to be generated from its licenses.

The Canadian Accounting Standards Board has confirmed that International Financial Reporting Standards (IFRS) will replace current GAAP for publicly accountable enterprises, effective for fiscal years beginning on or after January 1, 2011. Accordingly, the Company will report interim and annual financial statements (with comparatives) in accordance with IFRS beginning with the quarter ended March 31, 2011.

The Company has commenced the development of an IFRS implementation plan to prepare for this transition, and is currently in the process of analyzing the key areas where changes to current accounting policies may be required. While an analysis will be required for all current accounting policies, the initial key areas of assessment will include:

- Exploration and development expenditures;
- Property, plant and equipment (measurement and valuation);
- Provisions, including asset retirement obligations;
- Stock-based compensation;
- Accounting for joint ventures;
- Accounting for income taxes; and
- First-time adoption of International Financial Reporting Standards (IFRS 1).

As the analysis of each of the key areas progresses, other elements of the Company's IFRS implementation plan will also be addressed, including: the implication of changes to accounting policies and processes; financial statement note disclosures on information technology; internal controls; contractual arrangements; and employee training. The table below summarizes the expected timing of activities related to the Company's transition to IFRS.

| | |
|---|---|
| Initial analysis of key areas for which changes to accounting policies may be required. | In progress, expected to be complete during Q2 2009 |
| Detailed analysis of all relevant IFRS requirements and identification of areas requiring accounting policy changes or those with accounting policy alternatives. | Throughout 2009 |
| Assessment of first-time adoption (IFRS 1) requirements and alternatives. | Throughout 2009 |
| Final determination of changes to accounting policies and choices to be made with respect to first-time adoption alternatives | Q4 2009 – Q1 2010 |
| Resolution of the accounting policy change implications on information technology, internal controls and contractual arrangements | Q4 2009 – Q2 2010 |
| Management and employee education and training | Throughout the transition process |
| Quantification of the Financial Statement impact of changes in accounting policies | Throughout 2010 |

**Foreign Currency Exchange Rates**
The Company will sell its oil production pursuant to marketing agreements that are denominated in US dollars. Many of the operational and other expenses incurred by the Company are paid in US dollars or in local currency of the country where operations are performed. The assets and liabilities of the Company (including reserve information) are recorded in US dollars. As a result, fluctuations in the US dollar against local currencies in jurisdictions where properties of the Company are located could result in unanticipated and material fluctuations in the financial results of the Company.

**Competition**
A number of other oil and gas companies operate and are allowed to bid for exploration and production licenses and other services in Guyana which are the focus of the business and operations of the Company, thereby providing competition to the Company. Larger companies may have access to greater resources than the Company, may be more successful in the recruitment and retention of qualified employees and may conduct their own refining and petroleum marketing operations, which may give such companies a competitive advantage over the Company. In addition, actual or potential competitors may be strengthened through the acquisition of additional assets and interests.

**Environmental Regulation**
The current and future operations of the Company that are conducted in Guyana are subject to environmental regulations promulgated by the Government of Guyana. Current environmental legislation in Guyana provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil, condensate and natural gas operations. In addition, certain types of operations may require the submission and approval of environmental impact assessments. The existing operations of the Company are subject to such environmental policies and legislation. Environmental legislation and policy is periodically amended. Such amendments may result in stricter standards and enforcement and in more stringent fines and penalties for non-compliance. Environmental assessments of existing and proposed projects carry a heightened degree of responsibility for companies and their directors, officers and employees. The costs of compliance associated with changes in environmental regulations could require significant expenditures, and breaches of such regulations may result in the imposition of material fines and penalties. In an extreme case, such regulations may result in temporary or permanent suspension of production operations. There can be no assurance that these environmental costs or effects will not have a material adverse effect on the future financial condition or results of the operations of the Company.

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

**Accounting Estimate / Change in Accounting Policy**
Other than the adoption as disclosed in note 3 of the unaudited consolidated financial statements.

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

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

***Internal Control over Financial Reporting***
Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles. The Company's President and Chief Executive Officer and Chief Financial Officer have ensured the design of internal control over financial reporting.

During the most recent quarter end, there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Management's Responsibility**
The success of the Company depends to a large extent upon its abilities to retain the services of its senior management and key personnel. The loss of the services of any of these persons could have a materially adverse effect on the Company's business and prospects. There is no assurance the Company can maintain the services of its directors, officers or other qualified personnel required to operate is business.

**Independent Contractors**
The Company's success also depends to a significant extent on the performance and continued service of independent contractors. The Company contracts the services of professional drillers, construction and engineering services. Poor performance by such contractors or the loss of such services could have a material and adverse effect on the Company and its business and results of operations and could result in failure to meet business objectives.

## OTHER INFORMATION

This MD&A of the financial position and results of operation as at June 30, 2009, should be read in conjunction with the June 30, 2009 unaudited financial statements and the audited financial statements for the year ended December 31, 2008. Additional information will be accessible at the Company's website www.cgxenergy.com or through the Company's public filings at www.sedar.com.

## CONTINGENCIES AND COMMITMENTS

See notes 7 and 10 of the unaudited consolidated statements.

## MANAGEMENT'S RESPONSIBILITY

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

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

External auditors, appointed by the shareholders, have not audited the consolidated financial statements for the six months ended June 30, 2009 and did not performed the tests deemed necessary to enable them to express an opinion on those consolidated financial statements.

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

August 21, 2009

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

# CGX Energy Inc.

# Unaudited Consolidated Financial Statements

# June 30, 2009

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**Notice to Reader**

Management has compiled the unaudited interim financial information of CGX Energy Inc. consisting of the interim Consolidated Balance Sheets as at June 30, 2009 and the Consolidated Statement of Loss and Deficit and Cash Flow for the six months ended June 30, 2009. All amounts are stated in United States Dollars. An accounting firm has not reviewed or audited this interim financial information.

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## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited consolidated financial statements of CGX Energy Inc. were prepared by management in accordance with Canadian generally accepted accounting principles. The most significant of these accounting principles have been set out in the December 31, 2008 audited consolidated financial statements. Management acknowledges responsibility for the preparation and presentation of the period end unaudited interim consolidated financial statements, including responsibility for significant accounting judgements and estimates and the choice of accounting principles and methods that are appropriate to the Corporation's 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 ensuring that management fulfills its financial reporting responsibilities and for reviewing and approving the period end unaudited interim consolidated financial statements together with other financial information. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the internal controls over the financial reporting process and the period end unaudited interim consolidated financial statements together with other financial information of the Corporation. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the period end unaudited interim consolidated financial statements together with other financial information of the Corporation for issuance to the shareholders.

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

### Notice to Reader

Under National Instrument 51-102, Part 4, Subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financials statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's Management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

## CGX Energy Inc.
## Unaudited Consolidated Balance Sheets
(Expressed in United States Dollars)

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash and cash equivalents | **$ 19,278,359** | $ 28,089,827 |
| Receivables and other | **268,087** | 206,892 |
| | **19,546,446** | 28,296,719 |
| **Petroleum and natural gas** *(Note 7)* | **24,213,069** | 20,656,623 |
| | **$ 43,759,515** | $ 48,953,342 |
| **Liabilities and shareholders' equity** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities *(Note 6)* | **$ 1,224,787** | $ 5,898,322 |
| **Shareholders' Equity** | | |
| Capital stock *(Note 8)* | **79,487,550** | 79,487,550 |
| Contributed surplus *(Note 9)* | **12,497,235** | 10,255,404 |
| Deficit | **(49,450,057)** | (46,687,934) |
| | **42,534,728** | 43,055,020 |
| | **$ 43,759,515** | $ 48,953,342 |

*Nature of Operations (Note 1)*
*Commitments (Note 7, 10)*
*Segmented Information (Note 11)*

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

**CGX Energy Inc.**
**Consolidated Balance Sheets**
(Expressed in United States Dollars)

| | Three Months Ended June 30, 2009 | Three Months Ended June 30, 2008 | Six Months Ended June 30, 2009 | Six Months Ended June 30, 2008 |
|---|---|---|---|---|
| **Administrative expenses** | | | | |
| General and administrative | $ 278,962 | $ 287,840 | $ 460,075 | $ 490,509 |
| Stock-based compensation | 2,241,831 | 5,301,325 | 2,241,831 | 5,301,325 |
| Consulting | 116,970 | 157,760 | 228,690 | 299,771 |
| Production and exploration | - | - | - | 7,087 |
| Professional fees | 12,051 | 34,341 | 21,990 | 57,037 |
| Shareholder's information | 51,429 | 76,043 | 73,810 | 154,732 |
| Foreign exchange loss (gain) | (492,057) | 10,983 | (242,278) | 19,571 |
| | 2,209,186 | 5,868,292 | 2,784,118 | 6,330,032 |
| **Interest income** | (14,474) | (153,920) | (21,995) | (295,590) |
| **Loss and comprehensive loss** | 2,194,712 | 5,714,372 | 2,762,123 | 6,034,442 |
| **Deficit, beginning of year** | 47,255,345 | 40,329,443 | 46,687,934 | 40,009,373 |
| **Deficit, end of period** | $ 49,450,057 | $ 46,043,815 | $ 49,450,057 | $ 46,043,815 |
| **Loss per share** | $0.02 | $0.05 | $0.02 | $0.05 |
| **Weighted average number of shares outstanding - basic** | 126,144,913 | 125,484,600 | 126,144,913 | 125,091,218 |
| **- diluted** | 130,339,913 | 134,802,155 | 130,339,913 | 133,224,489 |

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

## CGX Energy Inc.
## Consolidated Statements of Cash Flow
(Expressed in United States Dollars)

| | Three Months Ended June 30, 2009 | Three Months Ended June 30, 2008 | Six Months Ended June 30, 2009 | Six Months Ended June 30, 2008 |
|---|---|---|---|---|
| **Cash provided by (used in) Operating activities:** | | | | |
| Net loss | $ (2,194,712) | $ (5,714,372) | $ (2,762,123) | $ (6,034,442) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | | | |
| Stock-based compensation | 2,241,831 | 5,301,325 | 2,241,831 | 5,301,325 |
| Net change in non-cash operating working capital items : | | | | |
| Receivables and other | (6,736) | (77,535) | (61,195) | (37,477) |
| Accounts payable and accruals | 13,165 | (389,061) | (4,673,534) | (500,248) |
| Net cash provided (used in) operating activities | 53,546 | (879,643) | (5,255,022) | (1,270,842) |
| **Financing activities** | | | | |
| Issuances of common shares, net of issue costs | - | 221,240 | - | 345,800 |
| Net cash provided (used in) by financing activities | - | 221,240 | - | 345,800 |
| **Investing activities** | | | | |
| Petroleum and natural gas properties | (2,569,348) | (315,285) | (3,556,446) | (523,264) |
| Net cash provided (used in) investing activities | (2,569,348) | (315,285) | (3,556,446) | (523,264) |
| **Net decrease in cash and cash equivalents** | (2,515,802) | (973,688) | (8,811,468) | (1,448,306) |
| Cash and cash equivalents, beginning of year | 21,794,161 | 38,010,791 | 28,089,827 | 38,485,409 |
| **Cash and cash equivalents, end of period** | $ 19,278,359 | $ 37,037,103 | $ 19,278,359 | $ 37,037,103 |
| **Cash consists of:** | | | | |
| Cash | 19,192,374 | 34,788,573 | 19,192,374 | 34,788,573 |
| Short-term investments | 85,985 | 2,248,530 | 85,985 | 2,248,530 |
| | 19,278,359 | 37,037,103 | 19,278,359 | 37,037,103 |

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

**General**
CGX Energy Inc. (CGX, or the Company) is incorporated under the laws of Ontario. Its principal business activity is petroleum and natural gas exploration onshore and offshore Guyana, South America.

## 1. Nature of Operations

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

If the going concern assumption is not appropriate then material adjustments may be necessary in the carrying amounts and/or classification of assets and liabilities in the consolidated financial statements.

## 2. Summary of Significant Accounting Policies

Consolidation
The consolidated financial statements include the accounts of the Company together with its wholly owned subsidiary, CGX Resources Inc., a Bahamian-based company as well as its 62% interest in ON Energy Inc., a Guyana-based company. The Company's Canadian exploration, development and production activities are undivided interests in properties that are developed jointly with others. Accordingly, the consolidated financial statements also reflect the Company's pro rata share of the assets, liabilities, revenues and expenses of these undivided interests.

Cash and cash equivalents
Cash and short-term investments include cash equivalents, which are investments having an original maturity of less than or equal to 90 days.

Foreign currency translation
CGX is a Canadian company whose principal assets are its wholly owned subsidiary, CGX Resources Inc. and its controlling interest in ON Energy Inc. The Company's main source of cash is through capital market financing. This financing is used to fund both its Canadian operations as well as its subsidiaries petroleum and natural gas activities, which are denominated in United States (U.S.) dollars. The Company's shares are traded and quoted on a Canadian exchange in Canadian dollars.
The Company uses the temporal method of foreign currency translation in accounting for its integrated foreign operations. Under this method, monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the exchange rate prevailing at the balance sheet date, while non-monetary assets and liabilities are translated into U.S. dollars at the exchange rate prevailing on the transaction date. Revenues and expenditures denominated in foreign currencies are translated into U.S. dollars at the exchange rate prevailing on the date of the transaction. Foreign exchange gains and losses arising from the translation of transactions denominated in foreign currencies are reflected in operations for the period.

Petroleum and natural gas properties
The Company follows the full cost method of accounting for petroleum and natural gas properties and, accordingly, capitalizes all non-Canadian exploration and development costs, drilling (including related overhead) on producing and non-producing properties and other carrying charges on unproven properties. Proceeds of dispositions are applied against the cost pools with no gain or loss recognized except where the disposition results in a significant change in the rate of depletion and amortization.
The costs of significant unevaluated properties are excluded from the depletion and amortization base. The carrying value is limited to the recoverable amount. This is determined on proven properties by estimating the present value of future net revenues based on current prices and cost. On unproven properties, the carrying value is determined by using the lower of cost or net realizable value less estimated future site restoration costs, general and administrative expenses, financing costs and income taxes.

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

Amortization of these costs is done on a country-by-country basis and is calculated on the unit-of-production method based on estimated proven reserves, before royalties, as determined by independent engineers. For purposes of depletion and amortization calculations, petroleum and natural gas reserves are converted to a common unit of measure on the basis of their relative energy content.

The Company estimates its future site restoration and abandonment costs for its petroleum and natural gas properties on a country-by-country basis. The costs represent management's best estimate of the future site restoration and abandonment costs based upon current legislation and industry practices. Total estimated costs are on a unit-of-production basis. The annual provision included in amortization expense and future site restoration and abandonment costs is charged to the account as incurred.

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

The Canadian exploration, development and production activities of the Company are undivided interests in properties that are developed jointly with others. Accordingly, the consolidated financial statements reflect only the Company's proportionate interest in such activities.

Asset Retirement Obligation

At June 30, 2009, the Company has made no provision for site restoration costs or potential environmental liabilities as all properties are in the exploration stage of their development. Factors such as further exploration, inflation and changes in technology may materially change the costs estimate.

Asset retirement assets for natural gas and crude oil are amortized using the unit-of-production method.

Stock-based compensation

The Company has an incentive stock option plan which is described in Note 8. The Company accounts for its stock-based compensation plan using the fair value method. Under this method, stock-based payments are measured at fair value of the equity instruments issued, and as amortized over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the proceeds, together with the amount recorded in contributed surplus, are recorded in capital stock. The calculation of this expense is discussed in Note 8.

Future income taxes

Future income taxes are accounted for using the liability method of tax allocation. Under this method, future income taxes are based on the differences between assets and liabilities reported for financial accounting purposes and those reported for tax purposes. The effect on future tax liabilities and assets of a change in tax rates is recognized in the period that the change occurs. Because of the nature of the Company's operations, it may be subject to income taxes in Canada, the Bahamas and Guyana.

Impairment of long-lived assets

CGX reviews petroleum and natural gas properties costs for impairment on a periodic basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment losses on long-lived assets are recognized when events or changes in circumstances indicate that the undiscounted cash flows estimated to be generated by such assets are less than their carrying value and, accordingly, all or a portion of such carrying value may not be recoverable. Impairment losses are then measured by comparing the fair value of the assets to their carrying amounts.

## 2. Summary of Significant Accounting Policies (continued)

Loss per common share

Basic loss per common share is calculated using the weighted average number of common shares outstanding during the period. Diluted loss per common share is calculated using the treasury stock method, which assumes that all outstanding stock options and warrants are exercised.

Administrative expenditures

Administrative and general expenditures not directly attributable to the petroleum and natural gas properties are expensed when incurred.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results may differ from those estimates. Areas where management uses subjective judgement include, but are not limited to, recoverability of petroleum and natural gas properties and related deferred costs, future income taxes and the valuation of warrants/options using the Black-Scholes pricing model. Management believes that these estimates are reasonable.

Comprehensive Loss

Section 1530 – "Comprehensive Loss" introduces the concept of comprehensive loss to Canadian GAAP. Comprehensive loss is the change in equity (net assets) of the Company during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes to equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive loss is comprised of net loss for the period and other comprehensive loss. The company had no other comprehensive loss during the period ended June 30, 2009.

Hedging

Section 3865 of the CICA Handbook specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. As at and for the period ended June 30, 2009, the Company had no hedges in place. The application of these new standards has no impact on the Company's financial statements as at and for the period ended June 30, 2009.

Financial instruments – recognition and measurement

The Company classifies all financial instruments as either held-to-maturity, available-for-sale, held for trading loans and receivables or other financial liability. Financial assets classified as held to maturity or loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in the statement of loss.

The Company has made the following classifications:

| | |
|---|---|
| Cash and cash equivalents | Held for trading |
| Receivables and other | Loans and receivables |
| Accounts payable and accrued liabilities | Other liabilities |

Transaction costs are expensed as incurred for financial instruments classified as held-for-trading. For other financial instruments, transaction costs are expensed on initial recognition.

Fair value of financial instruments

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates. The carrying amounts of cash and cash equivalents, amounts receivables and other, and accounts payable and accrued liabilities approximate their fair values since these instruments have short term maturity dates.

## 2. Summary of Significant Accounting Policies (continued)

Revenue recognition

CGX recognizes interest revenue as earned over the passage of time on a monthly basis.

New Accounting Standards

Effective January 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants relating to the accounting for and disclosure of capital and financial instruments:

- Section 1535 – "Capital disclosures" establishes standards for disclosing information about an entity's capital and how it is managed. Under this standard, the Company will be required to disclose quantitative and qualitative information about its objectives, policies and processes for managing capital.
- Section 3862 – "Financial instruments – disclosures" requires entities to disclose quantitative and qualitative information that enable users to evaluate (a) the significance of financial instruments for the Company's financial performance, and (b) the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks. The Company will be required to disclose the measurement bases used, and the criteria used to determine classification of financial instruments.
- Section 3863 – "Financial instruments – presentation" establishes standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, and the classification of related interest, dividends, losses and gains.

## 3. Changes and Future Changes in Accounting Policies

Effective January 1, 2009, the CICA has issued a new standard which may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning January 1, 2009. The Company has adopted the requirements commencing in the period ended June 30, 2009 and is considering the impact this will have on the Company's financial statements. Section 3064, Goodwill and intangible assets, establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew EIC 27, Revenues and Expenses during the pre-operating period. As a result of the withdrawal of EIC 27, the Company will no longer be able to defer costs and revenues incurred prior to commercial production at new operations.

Effective January 1, 2011, the Canadian Accounting Standards Board (AcSB) has confirmed that the use of the International Financial Reporting Standards ("IFRS") will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises. These include listed companies and other profit-oriented enterprises that are responsible to large or diverse groups of shareholders. The office changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company is currently evaluating the impact of adopting IFRS.

Goodwill and intangible assets

In February 2008, the CICA amended the Handbook section 3064, Goodwill and Intangible Assets which replaces the existing sections 3062, Goodwill and Other Intangible Assets and 3450 Research and Development Costs. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The standard provides guidance on the recognition, measurement and disclosure requirements for goodwill and intangible assets. The Company is assessing the impact of this change on its financial statements.

## 3. Changes and Future Changes in Accounting Policies (continued)

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities
In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 20, 2009. The application of this new standard had no impact on the Company's operating results or financial position.

## 4. 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 resource assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Corporation's 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.

There were no changes in the Company's approach to capital management during the six months ended June 30, 2009. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

## 5. Sensitivity Analysis

The Company designated it cash and cash equivalents as held-for-trading, which are measured at fair value. Receivables are classified as loans and receivables, which are measured at amortized costs. Accounts payable and accrued liabilities, and convertible debenture are classified as other financial liabilities, which are measured at amortized cost.

The carrying values of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of these financial instruments.
Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period.

Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability from mineral exploration depends upon the world market price of valuable minerals. Commodity prices have fluctuated significantly in recent years. There is no assurance that, even as commercial quantities of minerals may be produced in the future, a profitable market will exist for them.

As of June 30, 2009, the Company is not a producer of commodities, or valuable minerals. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

## 6. 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 fair market values:

| *Six Months Ended June 30,* | **2009** | 2008 |
|---|---|---|
| Petroleum and natural gas properties | **210,134** | 195,800 |
| Administrative expenses | **226,486** | 260,000 |

At June 30, 2009, included in accounts payable and accrued liabilities is $37,500 (2008 - $40,700) due to these related parties.

## 7. Petroleum and natural gas properties

| | June 30, 2009 | | | | |
|---|---|---|---|---|---|
| | **Georgetown** | **Berbice** | **Corentyne** | **Pomeroon** | **Total** |
| **Balance, beginning of year** | **7,190,793** | **356,675** | **11,276,229** | **1,832,926** | **20,656,623** |
| **Acquisition, exploration and administrative costs** | **2,505,561** | **-** | **1,050,885** | **-** | **3,556,446** |
| **Balance, end of period** | **9,696,354** | **356,675** | **12,327,114** | **1,832,926** | **24,213,069** |

| | December 31, 2008 | | | | |
|---|---|---|---|---|---|
| | **Georgetown** | **Berbice** | **Corentyne** | **Pomeroon** | **Total** |
| Balance, beginning of year | 1,546,098 | 356,675 | 3,187,053 | 1,832,926 | 6,922,752 |
| Acquisition, exploration and administrative costs | 5,644,695 | - | 8,089,176 | - | 13,733,871 |
| Balance, end of year | 7,190,793 | 356,675 | 11,276,229 | 1,832,926 | 20,656,623 |

**Corentyne Petroleum Agreement (PA), Guyana**
The Company was granted the Corentyne PA on June 24, 1998. Because sovereign issues between Guyana and Suriname prevented unhindered access to a portion of the contract area the original 10-year term of the contract has been extended to June 2013. On September 17, 2007, the International Tribunal of 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 Tribunal to delimit the Parties' continental shelf and exclusive economic zone followed an unadjusted equidistance line. The arbitration is compulsory and binding.

The Corentyne PA covers approximately 3.6 million acres with the remaining portion of the original Corentyne Offshore Licence (2.3 million acres) held 100%, the Annex Offshore Licence (1.0 million acres) held 100%, and the onshore portion of the Corentyne Onshore Licence (0.4 million acres) held net 62% by CGX through ON Energy. 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.

## 7. Petroleum and natural gas properties (continued)

The Petroleum Agreement has been amended four times. On November 30, 2002, the first renewal period of the Petroleum Agreement was granted which included renegotiated work commitments.

| | | | | | |
|---|---|---|---|---|---|
| Initial Period Phase 1 | June 1998 | June 2000 | Conduct regional review, shoot 1800 kilometres of 2D seismic | | Complete |
| Initial Period Phase 2 Year 1 | June 2000 | June 2001 | Drill 1 exploration well | | Complete |
| Initial Period Phase 2 Year 2 | June 2001 | June 2002 | Interpret well results | 20% | Complete |
| 1st Renewal Phase 1 | June 2002 | December 2007 | Main area: Conduct a pilot geochemical study onshore. Annex Area: Interpret 3,000km of seismic data and reprocess 825km | 1% | Complete |
| 1st Renewal Phase 2 | December 2007 | June 2010 | Shoot 500 line kilometres of 3D seismic; or shoot 1500km of 2D seismic; or drill 1 exploration well | 20% | 3D Acquisition Complete |
| 2nd Renewal Phase 1 | June 2010 | December 2011 | Drill 1 exploration well | | |
| 2nd Renewal Phase 2 | December 2011 | June 2013 | Drill 1 exploration well | | |

1. In January 2001, 1 million acres (27% of the concession) were relinquished. An additional 1 million acres (the Annex) were subsequently added to the concession.

Summary of fiscal regime:
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.

**Georgetown PA, Guyana**
The Company purchased a 25% participating interest in the Georgetown PA (offshore Guyana, South America) from ENI Guyana, B.V. for $175,000 and $1,075,000 at the commencement of the first well on the Block in which CGX participates. The Government of Guyana approved the transfer on September 3, 2002. The Georgetown PA covers approximately 2.7 million acres.
Exploration on the Block was suspended in 2000 as a significant portion of the Licence was in the area of the overlapping border claims between Guyana and Suriname, but has now been resolved as a result of the ITLOS maritime border decision. This contract was extended to November 2012.

**Pomeroon PA, Guyana**
The Company, through its wholly-owned subsidiary, CGX Resources Inc., entered into an asset purchase agreement with Century Guyana, Ltd. (Century) to acquire Century's 100% interest in the Pomeroon PA located offshore in the Guyana Basin. 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 unrestricted common shares of the Company. CGX shall assign to Century an overriding royalty interest consisting of 2.5% of all revenues to the extent that the revenues are directly attributable to the contractor's share of Profit Oil.

## 7. Petroleum and natural gas properties (continued)

The Pomeroon PA issued by the Government of Guyana in November 1997 is approximately 2.8 million acres. An application has been made to the Government to extend the term of the contract to November 2013. All work commitments up to the end of the initial period are deemed to be completed. The principal terms of the Petroleum Agreement are similar to those for the Corentyne PA. The Pomeroon PA is located between CGX's 100%-owned Annex portion of the Corentyne PA, and Plataforma Deltana, which is offshore Venezuela. Subsequent seismic and exploration drilling commitments have been deferred pending resolution of the maritime border between Guyana and Venezuela.

**Berbice PA, Guyana**
The Company, through its 62% owned subsidiary, ON Energy Inc., acquired the 0.4 million acres of Berbice PA onshore Guyana in October 2003. The PA is renewable for up to two three-year periods. The Government of Guyana has granted the First Renewal of the Licence until October 2010 in return for a commitment to drill three wells. The principal terms of the Petroleum Agreement are similar to those for the Corentyne PA.

## 8. Capital Stock

| | **June 30, 2009** | | December 31, 2008 | |
|---|---|---|---|---|
| Balance, beginning of year | **126,144,913** | **$ 79,487,550** | 124,523,913 | $ 78,918,183 |
| Warrants exercised | - | - | 120,000 | 96,000 |
| Options exercised | - | - | 1,501,000 | 366,800 |
| Fair value of options exercised | - | - | - | 57,567 |
| Fair value of warrants exercised | - | - | - | 49,000 |
| Balance, end of period | **126,144,913** | **$ 79,487,550** | 126,144,913 | $ 79,487,550 |

**Stock options**
The Board of Directors established a share incentive plan to provide additional incentive to its directors, officers, employees and consultants for their efforts on behalf of the Company in the conduct of its affairs. The maximum number of common shares reserved for issuance under the share option plan comprising part of the share incentive plan may not exceed 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.

| | **June 30, 2009** | | December 31, 2008 | |
|---|---|---|---|---|
| | **Weighted average exercise price** | **Number of options** | Weighted average exercise price | Number of options |
| | **$** | | $ | |
| Outstanding, beginning of year | **1.37** | **8,855,000** | 0.70 | 7,931,000 |
| Granted | **1.36** | **2,500,000** | 2.70 | 2,650,000 |
| Exercised | - | - | 0.24 | (1,501,000) |
| Expired | **0.68** | **(100,000)** | 0.97 | (225,000) |
| Outstanding, end of period | **1.37** | **11,255,000** | 1.37 | 8,855,000 |
| Exercisable, end of period | **1.37** | **11,255,000** | 1.37 | 8,855,000 |

## 8. Capital Stock (continued)

The following table provides additional information about outstanding stock options at June 30, 2009:

**June 30, 2009**

| | Number of options outstanding | Weighted Average Remaining Life (years) | Weighted Average Exercise Price $ |
|---|---|---|---|
| $0.20 - $0.40 | 1,350,000 | 2.00 | 0.37 |
| $0.65 - $0.85 | 2,845,000 | 0.51 | 0.74 |
| $0.85 - $2.70 | 7,060,000 | 3.99 | 1.82 |
| Total | 11,255,000 | 2.30 | 1.10 |

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the stock-based compensation for the stock options granted during the period ended June 30, 2009:

| | June 1, 2009 |
|---|---|
| Number of options granted | 2,500,000 |
| Weighted average information: | |
| Risk-free interest rate | 2.45% |
| Expected life (years) | 5.0 |
| Expected volatility | 103.51% |
| Expected dividends | - |
| Stock based compensation | $ 2,241,831 |

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the stock-based compensation for the stock options granted during year ended December 31, 2008:

| | April 11, 2008 |
|---|---|
| Number of options granted | 2,650,000 |
| Weighted average information: | |
| Risk-free interest rate | 3.09% |
| Expected life (years) | 5.0 |
| Expected volatility | 96.30% |
| Expected dividends | - |
| Stock based compensation | $ 5,301,325 |

## 9. Contributed Surplus

| | | June 30, 2009 | | December 31, 2008 |
|---|---|---|---|---|
| Balance, beginning of year | $ | 10,255,404 | $ | 5,060,646 |
| Fair market value transferred on exercised warrants and options | | - | | (106,567) |
| Stock options | | 2,241,831 | | 5,301,325 |
| Balance, end of period | $ | 12,497,235 | $ | 10,255,404 |

## 10. Lease Commitments

The company has entered a lease agreement for premises. The future minimum lease commitments are as follows:

| | |
|---|---|
| 2009 - 2010 | **440,000** |
| 2011 | **135,000** |

Thirty percent of the above amounts will be recovered from other companies who are currently using the leased premises.

## 11. Segmented Information

The company has operations in Canada and Guyana, and its entire operating activities are related to the exploration, development and production of petroleum and natural gas.

| | **June 30, 2009** | June 30, 2008 |
|---|---|---|
| | **$** | $ |
| **Net loss** | | |
| Canada | **2,650,529** | 5,864,581 |
| Guyana | **111,594** | 169,861 |
| | **2,762,123** | 6,034,442 |
| **Net cash provided by (used in) operations** | | |
| Canada | **(560,449)** | (600,733) |
| Guyana | **(4,694,573)** | (670,109) |
| | **(5,255,022)** | (1,270,842) |
| **Capital expenditures** | | |
| Canada | - | - |
| Guyana | 3,556,446 | 523,264 |
| | **3,556,446** | 523,264 |
| **Total assets** | | |
| Canada | 19,546,446 | 37,345,208 |
| Guyana | 24,213,069 | 7,446,016 |
| | **43,759,515** | 44,791,224 |

## 12. Financial Instruments

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

A) Credit Risk
The Company is not exposed to major credit risk attributable to customers. Additionally, the majority of the Company's cash and cash equivalents are held with a high rated Canadian financial institution in Canada.

**12. Financial Instruments (continued)**

B) Market Risk
i) Interest Rate Risk
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has cash balances and no interest -bearing debt. The Company's current policy is to invest excess cash in short-term, liquid and highly rated financial instruments, such as cash and other short-term guaranteed deposits, all held with major Canadian financial institutions. The Company periodically monitors the investments it makes and is satisfied with the creditworthiness of its financial institutions.

ii) Foreign 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.

iii) Sensitivity analysis
The Company has designated its cash and cash equivalents as held for trading, which is measured at fair value; the carrying amount of the financial instruments equals fair market value. Financial instruments denominated in CDN and Guyanese dollars are subject to foreign currency risk. As at June 30, 2009, had the CDN and Guyanese dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Company's loss for the period ended June 30, 2009, would have been approximately $760,000 higher/lower as a result of foreign exchange losses/gains on translation of non-US dollar denominated financial instruments. Shareholder's equity would have been approximately $760,000 lower/higher had the CDN and Guyanese dollar weakened/strengthened by 10% as a result of foreign exchange losses/gains on translation of non-Canadian dollar denominated financial instruments.

C) Other Risks
iv) Political Risk
The properties are located in Guyana, and accordingly, the Company is subject to risks normally associated with exploration for and development of oil and gas properties in that region. The Company is not in control of the political climate and certainty.

The Company's ability to conduct future exploration and development activities is subject to changes in government regulations and shifts in political attitudes over which CGX Energy Inc. has no control.

v) Business Risk
The business of producing and exploring for oil and gas involves a high degree of risk and there can be no assurance that planned exploration and development programs will result in profitable operations. The recoverability of amounts shown for exploration properties is dependant upon completion of the acquisition of the property interests, the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying claims, the ability of the Company to obtain necessary financing to complete the development and future profitable production. Changes in future conditions could require material write-downs of the carrying values of the properties.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it is acquiring an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, noncompliance with regulatory requirements, the risk of foreign investment, increased in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and political uncertainty.

**12. Financial Instruments (continued)**

The success of the operations and activities of CGX is dependent to a significant extent on the efforts and abilities of its management, outside contractors, experts and other advisors. Investors must be willing to rely to a significant degree on management's discretion and judgment, as well as the expertise and competence of the outside contractors, experts and other advisors. CGX Energy does not have a formal program in place for succession of management and training of management. The loss of one or more of the key employees or contractors, if not replaced on a timely basis, could adversely affect CGX's operations and financial performance.

vi) Exploration/Property Risk
Exploration property risk is significant. In particular, if an economic deposit is not found, the Company cannot enter into commercial production and generate sufficient revenues to fund its continuing operations. There can no assurance that the Company will generate any revenues or achieve profitability or provide a return on investment in the future from any of the properties it may have an interest in.

vii) Commodity Price Risk
The price of the common shares in the capital the Company ("Common Shares"), its financial results, exploration and development activities have been, or may in the future be, adversely affected by declines in the price of oil and gas. Oil prices fluctuate widely and are affected by numerous factors beyond the Company's control such as the sale or purchase of commodities, expectations of inflation or deflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, international supply and demand, speculative activities and increased production due to new drill developments, improved drilling and production methods and international economic and political trends. The Company's revenues, if any, are expected to be in large part derived from drilling and sale of oil and natural gas or interests related thereto. The effect of these factors on the price of oil and natural gas, and therefore the economic viability of any of the Company's exploration projects, cannot accurately be predicted.

D) Liquidity risk
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2009, the Company had current assets of $19,546,446 (2008 - $28,296,719) and current liabilities of $1,209,788 (2008 - $5,898,322). All of the Company's financial liabilities and receivables have contractual maturities of less than 90 days and are subject to normal trade terms. Current working capital of the Company is $18,336,658 (2008 - $22,398,397).