



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

**Three month period ended March 31, 2010**

*Management's discussion and analysis (MD&A) is current to May 31, 2010 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 unaudited financial statements for the three month period ended March 31, 2010 and our audited consolidated financial statements and related notes for the years ended December 31, 2009 and 2008. 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](http://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 oil and gas industry (including operational risks in exploration development and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections in relation to production, costs and expenses; the uncertainty surrounding the ability of CGX to obtain all permits, consents or authorizations required for its operations and activities; and health safety and environmental risks), the risk of commodity price and foreign exchange rate fluctuations, the ability of CGX to fund the capital and operating expenses necessary to achieve the business objectives, the uncertainty associated with commercial negotiations and negotiating with foreign governments and risks associated with international business activities, as well as those risks described in public disclosure documents filed by CGX. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in securities of CGX should not place undue reliance on these forward-looking statements. Statements in relation to "reserves" and resources are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained in this press release are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements contained in this document or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements contained in this document are expressly qualified by this cautionary statement.

## OVERVIEW

CGX Energy Inc. was created in 1998 for the primary purpose of exploring offshore Guyana, South America. As at March 31, 2010, CGX holds an interest in four Petroleum Agreements (PA) covering approximately 34,721 gross square kilometers (approximately 28,195 net) offshore and onshore Guyana. Each PA corresponds to a separate Petroleum Prospecting Licence (PPL), with the exception of the Corentyne PA, that is split into three PPL's, the Corentyne PPL, the Annex PPL, and the Corentyne Onshore PPL.

In 1999, 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 \$9.8 million. 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.

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 kilometres 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 kilometres 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 Pomeroun 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. Additional field seismic and exploration drilling on the Pomeroun PPL has been deferred pending concurrence by Guyana and Venezuela of the maritime boundary between the two countries.

In September 2003, CGX created a wholly-owned subsidiary company, ON Energy Inc. ("ON") registered in Guyana to hold the 415,000 acre Corentyne Onshore 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. 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 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. Since September 2008, over US\$125 million of new seismic were 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 completed a 1500 sq km 3D seismic program in March 2009 at a reported cost of US\$50 million. In June 2009, Inpex completed a large 3D program in their block offshore Suriname.

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

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.

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. In late 2009, Tullow farmed out the cost of its 3D seismic, including a well commitment to Shell and TOTAL offshore French Guiana.

During the next eighteen months, up to 6 wells may be committed offshore Guyana, Suriname and French Guiana, creating potential economies if multi-client contracts can be coordinated by the drill contractors and service companies. 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.

## **Guyana Operations**

### ***Corentyne PA, Guyana***

The Corentyne PA covers approximately 3.7million acres with the Corentyne PPL (2.3 million acres) held 100%, the Annex PPL (1.0 million acres) held 100%, and the Corentyne Onshore PPL (0.4 million acres) held net 62% by CGX through ON Energy. Because sovereign issues between Guyana and Suriname prevented unhindered access to a portion of the contract area, the term of the contract was extended to June 2013.

During 2008, we shot a 505 square kilometer 3D seismic program to enhance our interpretation of our 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.

Processing and interpretation of the 3D program, the first shot offshore Guyana, was completed in 2009. To further advance the interpretation, international experts were consulted. Data Modeling Inc. used proprietary artificial intelligence to solve for acoustic velocity of the rock layers. In addition, CGX engaged Rock Solid Images to estimate the reservoir properties of lithology, porosity and pore fluid from the seismic data within the identified targets.

As a result of the collaboration, the new priority prospect is a Turonian sand at approximately 5,600 metres. It is overlain by leads in the Campanian (Eagle Deep) and Maastrichtian, plus a prospect in the Eocene (Eagle). The optimum well location is 5.6 kilometres south of the target chosen using 2D in June 2000, and is 12.6 kilometres inside Guyana's Maritime Boundary with Suriname.

Although the contractual minimum work program doesn't require the drilling of an exploration well to be completed until November 2011, CGX has announced its intentions to schedule drilling as soon as the last half of 2010. Design of the drilling program is being finalized prior to tendering for a jackup drillrig. A Strategic Environmental Assessment for drilling has been approved by the Government. An application has also been made to construct a wharf and staging facility onshore.

Jefferies Randall & Dewey have been retained to market the opportunity to a joint venture partner to earn an interest in the Corentyne PA and/or the Company's interest in the Georgetown PA by committing to drill a well to approximately 6,200 metres to test the Turonian prospect.

On March 3, 2010, an Independent Resource Assessment was completed by Gustavson Associates LLC of Boulder, Colorado, U.S.A. (Gustavson) for three prospects on the Corentyne PPL to be tested by the Eagle well. Using probabilistic analysis, Gustavson calculated a total best estimate (P50) Prospective Resource in the three prospects to be 2.8 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 plus 3D 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](http://www.sedar.com)) and on the Company's website ([www.cgxenergy.com](http://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 Berbice 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 by October 2010. ON will attempt to farm out the obligation to a third party.

#### ***Georgetown PA, Guyana***

Maxus Guyana was granted the Georgetown PA on November 25, 1997. Because sovereign issues between Guyana and Suriname prevented unhindered access to a portion of the contract area, after the ITLOS decision in September 2007 that preserved 100% of the Georgetown PA, the original 10-year term of the contract was extended to November 2012. The Georgetown PA currently covers 1.7 million acres.

In 1999, 1,700 kilometres of solid-state 2D seismic were shot in conjunction with the program being shot on the Corentyne PPL. In March 2000, AGIP Guyana B.V. acquired a 25% interest in the PA. Exploration was subsequently suspended in 2000 as a significant portion of the PA was also in the area of overlapping border claims between Guyana and Suriname.

In June 2002, CGX purchased the 25% participating interest from AGIP Guyana, B.V. for \$0.1 million and \$1.1 million at the spud of the first well on the PA that targets one of the Tertiary turbidite prospects previously identified by ENI in which CGX participates. The original vendor retains a 2.7% right to ownership of Profit Oil on the Company's 25% participating interest. The Operator of the Georgetown PA is Repsol Exploracion SA (15%), with partners YPF Guyana (30%) and Tullow Guyana (30%). Confidentiality agreements amongst the partners limit the detail that can be released with respect to contract terms, however they are similar to those for the Corentyne PA.

During 2008/2009, 1,839 square kilometres of 3D seismic were shot in conjunction with CGX's program on the Corentyne PPL. CGX's share of the acquisition and processing was approximately US\$10 million. A drill location has been chosen for an exploration well to be drilled to fulfill the minimum work commitment prior to May 2011.

#### ***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 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. Pending a border resolution, exploration activity that would have required physical presence on the licence to fulfill the terms of the minimum work program has been deemed complete. 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 in 2008 and precipitated a global recession, stabilized and demonstrated good recovery across most sectors throughout the second half of 2009. The oil and gas industry underwent massive down-scaling, with capital investment dramatically reduced and major projects cancelled or deferred. Credit markets became inaccessible and many oil and gas companies, faced with drastically reduced cash flow following the oil price collapse, struggled to finance day-to-day operations or simply folded in the absence of equity or debt financing. During the latter half of 2009 and into the first quarter of 2010, the rebound in oil prices from YE 2008 lows of \$30 to \$70 per barrel has re-awakened the equity markets and has recently seen significant M&A activity, industry consolidation and selective equity financings in the oil and gas sector.

Current financial markets are likely to be volatile in Canada for the remainder of fiscal 2010 and potentially into 2011, reflecting ongoing concerns about the stability of the global economy, sovereign debt levels and possible default, and weakening global growth prospects. Unprecedented uncertainty in the credit markets has also led to increased difficulties in borrowing/raising funds. Companies worldwide continue to be affected by these trends.

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

### **Results of Operations**

#### **THREE MONTH PERIOD ENDED MARCH 31, 2010**

The Company incurred a net loss of \$854,387 or \$0.01 a share for the three month period ended March 31, 2010, compared with a net loss of \$567,411 or \$0.01 a share for the same period in 2009.

CGX incurred a foreign exchange gain of \$59,875 for the three month period ended March 31, 2010 compared to a loss of \$249,779 in 2009.

The Company had investment income of \$2,021 for the three month period ended March 31, 2010 compared to \$7,522 in the same period in 2009. The decrease is a result of much lower interest rates being paid on US\$ currency investments due to the current economic climate. In addition, the Company had an unrealized gain of \$90,565 during the three month period ended March 31, 2010 compared to \$Nil in the same period of 2009.

Shareholder information costs increased in the three month period ended March 31, 2010 by \$87,474 to \$109,855 compared to \$22,381 in the same period in 2009. This amount relates to the costs of issuing press releases, transfer agents, investor presentations, electronic dissemination of information and the timing difference between quarters. The increase is attributable to more activities during the current period and higher sustaining fees based on the market value of the Company.

General and administration costs increased by \$272,408 to \$453,522 in the three month period ended March 31, 2010 from \$181,114 in 2009. These costs were incurred in operating two offices in two countries although the majority of these costs were incurred in Canada. The increase is a result of approximately \$120,000 attributable to travel costs to and in Guyana as the Company looks to advance its properties and prepares to drill and approximately \$150,000 attributable to higher administration, occupancy, software costs due to increased management further compounded by a higher average Canadian dollar.

Professional fees for the three month period ended March 31, 2010 were \$11,808 compared to \$9,939 in the same period of 2009. These fees are consistent with the prior quarter and are expected to rise in the upcoming quarters as the Company continues to advance its properties.

Consulting fees increased by \$59,943 to \$171,663 during the three month period ended March 31, 2010 compared to \$111,720 in 2009. Consulting fees include fees paid to management and increase as the Company continues to add valuable members to the management team.

The Company incurred stock-based compensation of \$260,000 during the three month period ended March 31, 2010 compared to \$Nil for the same period in 2009. The stock-based compensation expenses are booked based on the valuation of options using the Black-Scholes model.

The assets decreased by \$320,137 (2009 – \$5,254,109) during the three month period ended March 31, 2010, largely due to changes in the Company's cash position decreasing by \$1,648,807 (2009 - \$6,295,666). The Company incurred \$1,188,817 (2009 - \$987,098) in additions to petroleum and natural gas properties, as it continues to advance its properties. Accounts receivable and other increased by \$139,853 (2009 - \$54,459), largely due to \$90,565 (2009 – Nil) in unrealized gains on its marketable securities.

During the three month period ended March 31, 2010, the decrease of \$1,597,557 (2009 – \$6,394,072) in the Company's cash position was a result of cash flow used in operations of \$673,204 (2009 –\$4,430,617), cash used for investing activities of \$1,278,978 (2009 - \$1,963,455) offset by cash provided from financing activities of \$354,625 (2009 - \$Nil) as a result of 541,250 (2009 – Nil) options exercised in the period.

### 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.

	Three Months Ended March 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
	\$	\$	\$	\$
Interest Income	2,021	36,472	467,017	281,079
Other Income	90,565	75,542	-	4,522
Total Revenue	92,586	112,014	467,017	285,601
Net Loss	854,387	3,692,712	6,678,561	4,489,650
Loss Per Share	\$0.01	\$0.03	\$0.05	\$0.04
Total Assets	43,406,933	43,727,070	48,953,342	45,678,789
Liabilities	732,938	813,313	5,898,322	1,708,733

### Results for the three month period ended:

	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009
	\$	\$	\$	\$
Interest Income	2,021	7,396	7,081	14,474
Other Income	90,565	75,542	-	-
Total Revenue	92,586	82,938	7,081	14,474
Net Loss	854,387	728,654	201,935	2,194,712
Loss Per Share	\$0.01	\$0.01	\$0.00	\$0.02
	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008
	\$	\$	\$	\$
Interest Income	7,521	91,131	102,023	132,193
Other Income	-	-	-	-
Total Revenue	7,521	91,131	102,023	132,193
Net Loss	567,411	229,148	414,971	5,714,372
Loss Per Share	\$0.00	\$0.00	\$0.00	\$0.05

## **CAPITAL RESOURCES, CAPITAL EXPENDITURES AND LIQUIDITY**

As at March 31, 2010, the Company's working capital decreased to \$14,537,119 from \$15,965,698 as at December 31, 2009.

As at March 31, 2010, CGX had receivables and other of \$468,386. This amount is comprised of: receivables from companies for rent, equipment purchased and expense reimbursements (\$135,036), GST recoverable (\$26,027), prepaid expenses (\$76,389), and marketable securities (\$230,934).

For the three month period ended March 31, 2010, the Company incurred additions of \$1,188,817 on petroleum and natural gas properties compared to \$987,098 for the same period in 2009.

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" below.

## **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.

## **CONTINGENCIES AND COMMITMENTS**

See notes 7 and 10 of the three month period ended March 31, 2010 unaudited consolidated financial statements for complete listings of commitments.

On March 22, 2010, the Company signed a proper and punctual performance guarantee of the obligations of the Company to the Minister Responsible for Petroleum of the Republic of Guyana to pay the Company's proportionate percentage interest share of the minimum expenditure obligation for the first phase of the second renewal period on the Georgetown PA property. The Guarantee is intended to be and shall be constructed as continuing, absolute, unconditional and irrevocable guarantee for up to an aggregate maximum of \$2,000,000 and shall remain in force and effect until the end of the first phase of eighteen months of the second renewal period under the agreement which started on November 25, 2009.

## **RELATED-PARTY TRANSACTIONS**

Denis Clement and Associates ("DCA") was paid by the Company a total of \$30,000 (2009 - \$30,000) for the three month period ended March 31, 2010 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\$44,948 (2009 - CAD\$30,000) for the three month period ended March 31, 2010 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 \$78,000 (2009 - \$38,065) for the three month period ended March 31, 2010 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\$60,000 (2009 - CAD\$60,000) for the three month period ended March 31, 2010 for his services.

Kamal Dookie, an officer of the Company, was paid by the Company a total of \$69,000 (2009 - \$30,000) for three month period ended March 31, 2010 for his services.

## CHANGES IN ACCOUNTING POLICIES INCLUDING INTITAL ADOPTION

There are several future changes in the accounting policies, for which the Company expects to make on January 1, 2011. See note 3 to the unaudited consolidated financial statements for the three month period ended March 31, 2010.

### 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) **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.
- ii) **Business Combinations:** In January 2009, the CICA issued Handbook Section 1582 - Business combinations which replace the existing standards. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This standard is equivalent to the International Financial Reporting Standards on business combinations. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted. Management does not believe the adoption of this standard will have an impact on the Company’s financial statements.
- iii) **Non-Controlling Interest:** In January 2009, the CICA issued Handbook Section 1602 - Non-controlling interests which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the International Financial Reporting Standards on consolidated and separate financial statements. This standard is effective for applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted. Management does not believe the adoption of this standard will have an impact on the Company’s financial statements.
- iv) **Consolidated Financial Statements:** In January 2009, the CICA issued Handbook Section 1601 - Consolidated financial statements which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for year ends beginning on or after January 1, 2011. Earlier adoption is permitted. Management does not believe the adoption of this standard will have an impact on the Company’s financial statements.



## ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

As at	March 31, 2010	December 31, 2009
	(\$)	(\$)
Petroleum and natural gas properties:		
Capitalized exploration costs (cumulative)	28,136,876	26,948,059
<b>Total Assets</b>	<b>43,406,933</b>	<b>43,727,070</b>
	(\$)	(\$)
Land & lease costs	200,000	200,000
Exploration: Intangible drilling and other	906,765	906,765
Geophysical and administrative	27,030,111	25,841,294
	<b>28,136,876</b>	<b>26,948,059</b>
	<b>Three month period</b>	<b>Three month period</b>
	<b>ended March 31,</b>	<b>ended March 31,</b>
<b>Corporate Expenses</b>	<b>2010</b>	<b>2009</b>
	(\$)	(\$)
General and administrative	453,522	181,114
Interest income	(2,021)	(7,522)
Consulting	171,663	111,720
Stock-based compensation	260,000	-
Professional fees	11,808	9,939
Shareholders' information	109,855	22,381
Other income	(90,565)	0
Foreign exchange loss (gain)	(59,875)	249,779
	<b>854,387</b>	<b>567,411</b>

## DISCLOSURE OF OUTSTANDING SHARE DATA

### SHARE CAPITAL

The following table sets forth information concerning the outstanding securities of the Company as at May 31, 2010:

Common Shares of no par value	Number
Shares	127,841,163
Options	9,938,750

See note 8 to the unaudited consolidated financial statements for the three month period ended March 31, 2010 for more detailed disclosure of outstanding shares data.

## **RISKS AND UNCERTAINTIES**

### ***Overview***

The business of the Corporation consists of oil and gas exploration in Guyana, South America. There are a number of inherent risks associated with oil and gas exploration and development, particularly where such operations are located in foreign countries. Many of these risks are beyond the control of the Corporation.

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

### **Going Concern**

The March 31, 2010 unaudited consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. Accordingly, the audited financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not used then the adjustments required to report the Company's assets and liabilities at liquidation values could be material to these financial statements.

### ***Exploration, Development and Production Risks***

A significant portion of the current working capital of CGX will be expended on petroleum and natural gas exploration 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 Corporation will result in new discoveries of oil, condensate or natural gas that are commercially viable or economically producible. Holders of securities of the Corporation must rely on the ability, expertise, judgment, discretion, integrity and good faith of management of the Corporation. 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, 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 exploration prospects ultimately result in the development of new reserves. In certain instances the Corporation 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 Corporation.

Future 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 maximize 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.

CGX manages a variety of projects to support operations and future growth. Significant project cost overruns could make certain projects uneconomic. The ability of CGX to execute projects depends upon numerous factors, which may include, but are not limited to, changes in project scope, labour availability and productivity, staff resourcing, availability and cost of material and services, design and/or construction errors, delays in regulatory approvals, the ability of partners to deliver on project commitments and access to capital funding. As a result, CGX may not be able to execute projects on time, on budget or at all.

### ***Operating Hazards***

The operations conducted by the Corporation are subject to all of the operating risks normally associated with drilling for and producing oil and natural gas. The majority of the properties of the Corporation are located offshore. Exploration, production and development of offshore oil and natural gas properties involves an increased degree of risk and expense relative to onshore exploration, production and development due primarily to greater technical obstacles. The Corporation will therefore face higher costs in exploring, developing and producing its offshore properties.

There are risks associated with the drilling of oil and natural gas wells, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, well bore craters, sour gas releases, fires and spills. Reduced revenues or losses resulting from the occurrence of any of these risks could have a material adverse effect on the Corporation and its future results of operations. The Corporation may become subject to liability for pollution, blow-outs or other hazards. The Corporation will have insurance with respect to these hazards; however, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. The payment of such liabilities could reduce the funds available to the Corporation or could in an extreme case, result in a total loss of its properties and assets. Moreover, there can be no assurance that the Corporation will be able to maintain adequate insurance in the future at rates that are considered reasonable.

The Corporation may become responsible for costs associated with abandoning and reclaiming wells, facilities and pipelines, which it uses for production of its oil and gas reserves. Abandonment and reclamation of its current facilities and the costs associated therewith is often referred to as "decommissioning". As there is no current production or production facilities, there are no current plans to establish a reserve account for these potential costs.

### ***Additional Requirements for Capital***

The fulfillment of exploration commitments and development of any reserves found on the properties of the Corporation may depend upon the ability of the Corporation to obtain financing through any or all of the following: joint venturing of projects, debt financing, equity financing or other means. There is no assurance that the Corporation will be successful in obtaining the required financing. The location of the oil and gas properties of the Corporation may make it more difficult to obtain such financing. Failure to obtain additional financing on a timely basis could cause the Corporation to forfeit its interest in such properties and reduce or terminate its operations.

### ***No Assurance of Commerciality of Future Discoveries***

There is no assurance that oil or natural gas if discovered will be capable of production in sufficient quantities to make future discoveries commercially viable or economic for the Corporation. The long-term viability of the Corporation depends on its ability to find or acquire, develop and commercially produce oil, condensate and gas resources.

### ***Petroleum and Natural Gas Reserves***

The Corporation currently has no oil and gas reserves. Should exploration be successful, 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 Corporation.

In general, estimates of economically recoverable petroleum and natural gas resources and the future net revenues there from are based upon a number of variable factors and assumptions, such as global commodity prices, the assumed effects of regulation by governmental agencies and future operating costs, each of which may vary considerably from actual results and in the Corporation's case there is no historical production from which to draw estimates. Estimates of the economically recoverable petroleum and natural gas resources attributable to any particular group of properties, classification of such resources 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. The resource estimates included herein may be materially different from the quantities and values ultimately realized.

### ***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 Corporation. Crude oil is influenced by the world economy and OPEC's ability to adjust supply to world demand. Political events can trigger large fluctuations in oil price levels. Natural gas prices are influenced by regional factors and local market supply/demand and pricing conditions.

World prices for oil and natural gas have fluctuated widely in recent years. Future price fluctuations in world prices are expected and may have a significant impact upon the projected return from its prospective resources and the general financial viability of the Corporation.

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

### ***Finance Risks***

Global financial conditions in the past few years have been characterized by increased volatility and many financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to public financing has been negatively impacted by the financial crisis and the global recession. These financial conditions may affect other companies' abilities to meet their obligations to the Corporation. Additionally, these factors may impact the ability of the Corporation to obtain equity or debt financing in the future on favourable terms. And finally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. If such increased levels of volatility and market turmoil continue, the Corporation's operations could be adversely impacted and the trading price of the Common Shares may be adversely affected.

### ***Market for Securities of the Corporation***

In recent years, global securities markets have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered to be development stage companies, have experienced wide fluctuations in share price, which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in share price will not occur. It is likely that the quoted market price, if any, for the securities of the Corporation will be subject to market trends generally, notwithstanding the financial and operational performance of the Corporation.

### ***Legal Systems***

The jurisdiction in which the Corporation operates may have less developed legal systems than more established economies, which may result in risks such as: (i) effective legal redress in the courts of such jurisdictions, whether in respect of a breach of law or regulation, or, in an ownership dispute, being difficult to obtain; (ii) a higher degree of discretion on the part of governmental authorities; (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iv) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; or (v) relative inexperience of the judiciary and courts in such matters; in certain jurisdictions the commitment of local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to licenses and agreements for business. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurance that joint ventures, licenses, license applications or other legal arrangements will not be adversely affected by the actions of government authorities and the effectiveness of and enforcement of such arrangements in these jurisdictions cannot be assured. As a result of the limited infrastructure present in Guyana, land titles systems are not developed to the extent found in many more

developed nations. Although the Corporation believes that it has good title to its oil and gas properties, there is little it can do to control this risk.

### ***Environmental Regulation***

The current and future operations of the Corporation that are conducted in Guyana are subject to environmental regulations promulgated by the Cooperative Republic of Guyana. Should the Corporation initiate operations in other countries, such operations will be subject to environmental legislation in such jurisdictions. 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 Corporation 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 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 Corporation.

### ***Political Risks***

The Corporation's foreign investments involve risks typically associated with investments in developing countries such as uncertain political, economic, legal and tax environments. These risks may include, among other things, currency restrictions and exchange rate fluctuations, loss of revenue, property and equipment as a result of hazards such as expropriation, nationalization, war, insurrection and other political risks, risks of increases in taxes and governmental royalties, renegotiation of contracts with governmental entities and quasi-governmental agencies, changes in laws and policies governing operations of foreign-based companies and other uncertainties arising out of foreign government sovereignty over the Corporation's international operations.

The Corporation operates in Guyana, which is a still maturing emerging economy with associated risk factors. The Corporation's operations and related assets are not free of risk of actions by governmental authorities, though attenuated by Guyana's membership of CARICOM (the Caribbean Community). The Corporation 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 all these risks.

The boundaries of some land and maritime areas (though in Guyana's occupation) have not been fully resolved with the neighbouring countries Suriname and Venezuela. However Guyana's maritime boundary with Suriname in its Territorial Sea and Exclusive Economic Zone was resolved through binding arbitration under the UNCLOS. Guyana's border resolution with Venezuela is being conducted through a United Nations Good Offices 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 discussions.

As an extension of the political risks, the Corporation is also subject to the laws of Guyana. Such legislation may be changed from time to time in response to economic or political conditions, and the implementation of new legislation or modification of existing legislation affecting the oil and gas industry could have a material adverse impact on the business, results of operations, financial condition and liquidity.

### ***Insurance***

The involvement of the Corporation in the exploration for and development of oil and natural gas properties may result in the Corporation becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. Although prior to drilling the Corporation will obtain insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability that may not be sufficient to

cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, the Corporation may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Corporation's financial position, results of operations or prospects.

### ***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 Corporation, thereby providing competition to the Corporation. Larger companies, may have access to greater resources than the Corporation, may be more successful in the recruitment and retention of qualified employees, which may give such companies a competitive advantage over the Corporation. In addition, actual or potential competitors may be strengthened through the acquisition of additional assets and interests.

### ***Attraction and Retention of Key Personnel Including Directors***

The Corporation has a small management team and the loss of a key individual or inability to attract suitably qualified staff or directors could have a material adverse impact on the business of the Corporation. The Corporation may also encounter difficulties in obtaining and maintaining suitably qualified staff in certain of the jurisdictions in which the Corporation conducts business. The success of the Corporation depends on the ability of management to interpret market and geological data correctly and to interpret and respond to economic, market and other conditions in order to locate and adopt appropriate investment opportunities, monitor such investments and ultimately, if required, successfully divest such investments. Further no assurance can be given that the investment strategies of the Corporation will be successfully implemented in the future, that individuals with the required skills will continue their association or employment with the Corporation or that replacement personnel with comparable skills can be found. The Corporation has sought to and will continue to ensure that directors and any key employees are provided with appropriate incentives, however, their services cannot be guaranteed.

### ***Availability of Drilling Equipment and Access***

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities.

### ***Enforcement of Civil Liabilities***

All of the Corporation's assets are located outside of Canada and it may be difficult or impossible to enforce judgments granted by a Canadian court against its assets, subsidiaries or directors and officers which are resident outside of Canada.

### ***Foreign Currency Exchange Rates***

If a discovery is made and reserves are produced, the producers will likely sell oil production pursuant to marketing agreements that are denominated in US dollars. Many of the operational and other expenses incurred by the Corporation are paid in Canadian dollars or in local currency of Guyana where operations are performed. The assets and liabilities of the Corporation are recorded in US dollars. As a result, fluctuations in currency exchange rates could result in unanticipated and material fluctuations in the financial results of the Corporation.

### ***Management of Growth***

The Corporation may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Corporation to manage growth effectively will require it to continue to

implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Corporation to deal with this growth could have a material adverse impact on its business, operations and prospects.

### ***Reserve Replacement***

As the Corporation has no booked reserves, any future oil and natural gas reserves, production, and cash flows to be derived there from are dependent on the Corporation successfully acquiring or discovering reserves. Any future reserves will depend not only on the ability of the Corporation to develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that the future exploration and development efforts of the Corporation will result in the discovery and development of commercial accumulations of oil and natural gas. Should the Corporation not discover reserves, current operations may not be sustainable.

### ***Reliance on Strategic Relationships***

The Corporation's existing business relies on strategic relationships in the form of joint ventures and agreements with other oil and gas companies, local government bodies, and other industry companies. There can be no assurances that these strategic relationships will continue to be maintained.

### ***Absence of Dividends***

The Corporation has not paid any dividends on its outstanding Common Shares to date, nor does management intend to pay dividends in the foreseeable future.

### ***Conflicts of Interest***

There are potential conflicts of interest to which the directors, officers and principal shareholders of the Corporation will be subject in connection with the operations of the Corporation. Some of the directors, officers and principal shareholders may be or become engaged in other oil and gas interests on their own behalf and on behalf of other corporations, and situations may arise where the directors and officers will be in direct competition with the Corporation. Conflicts, if any, will be subject to the procedures and remedies under the *Business Corporations Act* (Ontario). The directors and officers of the Corporation may not devote their time on a full-time basis to the affairs of the Corporation.

### ***Hedging***

If and when the Corporation has reserves and production, it may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Corporation will not benefit from such increases. Similarly, from time to time the Corporation may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses through adverse fluctuations in exchange rate.

### ***Requirement for Permits and Licenses***

The operations of the Corporation require licenses, permits and in some cases renewals of existing licenses and permits from the Cooperative Republic of Guyana. The Corporation believes that it currently holds or has applied for all necessary licenses and permits to carry on the activities which it is currently conducting under applicable laws and regulations in respect of its properties, and also believes that it is complying in all material respects with the terms of such licenses and permits. However, the ability of the Corporation to obtain, sustain or renew such licenses and permits on acceptable terms is subject to change in regulations and policies and to the discretion of the applicable governments.

### ***Third Party Credit Risk***

The Corporation is or may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners or petroleum and natural gas marketers and other parties. In the event such entities fail to meet their contractual obligations to the Corporation, such failures could have a materially adverse effect on the Corporation. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Corporation's ongoing capital program, potentially delaying the program and the results of such program until the Corporation finds a suitable alternative partner.

### ***Title Issues***

The Corporation has investigated the rights to explore the various oil and gas properties it holds or proposes to participate in and, to the best of its knowledge, those rights are in good standing. However, no assurance can be given that applicable governments will not revoke, or significantly alter the conditions of, the applicable exploration and development authorizations and that such exploration and development authorizations will not be challenged or impugned by third parties. There is no certainty that such rights or additional rights applied for will be granted or renewed on terms satisfactory to the Corporation. There can be no assurance that claims by third parties against the properties of the Corporation will not be asserted at a future date.

### **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.

## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Consolidation**

The consolidated financial statements include the accounts of the Company together with its wholly owned subsidiaries CGX Resources Inc., a Bahamian-based company, 1524555 Alberta Limited, GCIE Holdings Limited, a Barbados-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.

### **Management's 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 judgment include, but are not limited to, recoverability of costs capitalized to petroleum and natural gas properties, valuation of future income tax assets and the valuation of warrants/options using the Black-Scholes pricing model. Management believes that these estimates are reasonable. CGX Energy Inc.

### **Petroleum and natural gas properties**

The Company follows the full cost method of accounting for petroleum and natural gas properties. As all of the Company's properties are unproved, the Company capitalizes all acquisition costs, geological and geophysical exploration and development type costs, drilling, directly related overhead and other carrying charges in a single cost centre by country. Proceeds of dispositions, if any, 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 unproven properties are excluded from the depletion and amortization base until it is determined whether or not proved reserves are attributable to the properties or impairment occurs. The carrying value is limited to the recoverable amount. On unproved properties, the carrying value is determined by using the lower of cost or fair value (which is equal to net realizable value less estimated future site restoration costs, general and administrative expenses, financing costs and income taxes).



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.

#### **Administrative expenditures**

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

#### **Impairment of long-lived assets**

In applying the full cost method, the Company applies Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 16 with respect to the calculation of the ceiling test to assess impairment of its properties. The carrying value of petroleum and natural gas properties is compared annually to the lower of cost and fair market value for unproved properties. The ceiling test is calculated on a country by country cost centre basis. The Company's cost centre is Guyana. Canadian petroleum and natural gas properties have been provided for in full in prior years.

#### **Asset retirement obligations**

The Company follows the *CICA - 3110 Asset Retirement Obligations*, which established standards for asset retirement obligations and the associated retirement costs related to site reclamation and abandonment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred and a corresponding increase to the asset is amortized over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement of fair value. Changes in estimates are accounted for prospectively in the period the estimate is revised.

At March 31, 2010, 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 cost estimate. CGX Energy Inc.

#### **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.

#### **Stock-based compensation**

The Company has an incentive stock option plan which is described in Note 8 of the unaudited consolidated financial statements for the three month period ended March 31, 2010. 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 are 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.

#### **Future income taxes**

Future income taxes are accounted for using the asset and 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 using the substantially enacted tax rates in existence at the reporting period and expected to apply when these temporary differences are expected to reverse. 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.

### **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 "in the money" stock options are exercised. In the years when the Company reports a net loss, the effect of potential issuances of shares under options and warrants would be anti-dilutive and, therefore, basic and diluted loss per share is the same.

### **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 three month ended March 31, 2010.

### **Financial instruments – Recognition and Measurement**

The Company classifies all financial instruments as one of the following five categories: 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 classified 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
Marketable securities	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.

The Company follows the amendment to CICA Handbook 3862, which requires disclosure about inputs to fair value measurement within the fair value measurement hierarchy as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data.

### **Financial instruments – Disclosure and Presentation**

Handbook Section 3862 and 3863 replaces Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how the entity manages those risks.

Section 3863 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.

### 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.

### Revenue recognition

Interest income is recorded on the accrual basis. Other income includes realized and unrealized gains and losses on marketable securities (included with receivables and other and classified as “held for trading” financial assets) which are recorded at fair market value based on level 1 quoted market prices as at the balance sheet date.

### International Financial Reporting Standards Transition Plan

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;
- Impairment of intangible assets
- 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.	Completed
Detailed analysis of all relevant IFRS requirements and identification of areas requiring accounting policy changes or those with accounting policy alternatives.	In progress, expected to be complete in Q2 2010
Assessment of first-time adoption (IFRS 1) requirements and alternatives.	Q2 2010
Final determination of changes to accounting policies and choices to be made with respect to first-time adoption alternatives	Q2 2010
Resolution of the accounting policy change implications on information technology, internal controls and contractual arrangements	Q3 2010
Management and employee education and training	Throughout the transition process
Quantification of the Financial Statement impact of changes in accounting policies	Throughout 2010

The Company will follow the key events timeline proposed by the AcSB to obtain training and thorough knowledge of IFRS, and continue its assessment of accounting policies with reference to IFRS and plan for convergence to be ready for the 2011 changeover.

## **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 its business.

## **OTHER INFORMATION**

This MD&A of the financial position and results of operation as at March 31, 2010, should be read in conjunction with the unaudited consolidated financial statements for the three month period ending March 31, 2010 and audited consolidated financial statements and related notes for the years ended December 31, 2009 and 2008. Additional information will be accessible at the Company's website [www.cgxenergy.com](http://www.cgxenergy.com) or through the Company's public filings at [www.sedar.com](http://www.sedar.com).

## **MANAGEMENT'S RESPONSIBILITY**

Management is responsible for all information contained in this MD&A. The 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 unaudited 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 or reviewed the consolidated financial statements for the three month period ended March 31, 2010 and did not performed the tests deemed necessary to enable them to express an opinion on these unaudited consolidated financial statements.

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

May 31, 2010

“signed” Kerry E. Sully

Kerry E. Sully, President and Chief Executive Officer

“signed” James N. Fairbairn

James N. Fairbairn, C.A., Chief Financial Officer



**CGX Energy Inc.**

**Unaudited Consolidated Financial Statements**

**For the period ended March 31, 2010**

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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 Sheet as at March 31, 2010 and the interim Consolidated Statements of Operations, Comprehensive Loss and Deficit and Cash Flows for the three month period ended March 31, 2010. All amounts are stated in United States Dollars. An accounting firm has not reviewed or audited this interim financial information.

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

<b>As at</b>	<b>March 31, 2010</b>	December 31, 2009
<b>Assets</b>	<b>Unaudited</b>	Audited
<b>Current</b>		
Cash and cash equivalents	\$ 14,801,671	\$ 16,450,478
Receivables and other	468,386	328,533
	<b>15,270,057</b>	16,779,011
<b>Petroleum and natural gas properties (Note 7)</b>	<b>28,136,876</b>	26,948,059
	<b>\$ 43,406,933</b>	\$ 43,727,070
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 6)	\$ 732,938	\$ 813,313
<b>Shareholders' Equity</b>		
Capital stock (Note 8)	81,109,205	80,545,286
Contributed surplus (Note 9)	12,799,823	12,749,117
Deficit	<b>(51,235,033)</b>	<b>(50,380,646)</b>
	<b>42,673,995</b>	42,913,757
	<b>\$ 43,406,933</b>	\$ 43,727,070

*Nature of Operations and Going Concern (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 Statement of Loss, Comprehensive Loss and Deficit**  
(Expressed in United States Dollars)

<i>Three month period ended March 31,</i>	<b>2010</b>	2009
	<b>(Unaudited)</b>	(Unaudited)
<b>Administrative expenses</b>		
Stock-based compensation ( <i>Note 8</i> )	\$ 260,000	\$ -
General and administrative	453,522	181,114
Consulting	171,663	111,720
Professional fees	11,808	9,939
Shareholder's information	109,855	22,381
Foreign exchange loss (gain)	(59,875)	249,779
	946,973	574,933
<b>Interest income</b>	<b>(2,021)</b>	<b>(7,522)</b>
<b>Other income</b>	<b>(90,565)</b>	<b>-</b>
<b>Loss and comprehensive loss</b>	<b>854,387</b>	<b>567,411</b>
<b>Deficit, beginning of period</b>	<b>50,380,646</b>	<b>46,687,934</b>
<b>Deficit, end of period</b>	<b>\$ 51,235,033</b>	<b>\$ 47,255,345</b>
<b>Loss per share – basic and diluted</b>	<b>\$0.01</b>	<b>\$0.01</b>
<b>Weighted average number of shares outstanding - basic</b>	<b>127,655,274</b>	<b>126,144,913</b>
- diluted	<b>127,655,274</b>	<b>126,144,913</b>

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



**CGX Energy Inc.**  
**Consolidated Statement of Cash Flows**  
(Expressed in United States Dollars)

<i>Three month period ended March 31,</i>	<b>2010</b>	2009
	<b>(Unaudited)</b>	(Unaudited)
<b>Cash used in Operating activities:</b>		
Net loss	\$ (854,387)	\$ (567,411)
Adjustments to reconcile net loss to net cash used by operating activities:		
Stock-based compensation	260,000	-
Unrealized foreign exchange loss	33,476	-
Unrealized other income	(90,565)	-
Net change in non-cash operating working capital items :		
Receivables and other	(28,877)	(7,439)
Accounts payable and accruals	7,149	(3,840,402)
<b>Net cash used in operating activities</b>	<b>(673,204)</b>	<b>(4,430,617)</b>
<b>Financing activities</b>		
Issue of common shares on exercise of options	354,625	-
<b>Net cash provided from financing activities</b>	<b>354,625</b>	<b>-</b>
<b>Investing activities</b>		
Petroleum and natural gas properties	(1,278,978)	(1,963,455)
<b>Net cash used in investing activities</b>	<b>(1,278,978)</b>	<b>(1,963,455)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,597,557)</b>	<b>(6,394,072)</b>
Effect of exchange rate changes on cash held in foreign currencies	(51,250)	98,406
Cash and cash equivalents, beginning of period	16,450,478	28,089,827
<b>Cash and cash equivalents, end of period</b>	<b>\$ 14,801,671</b>	<b>\$ 21,794,161</b>
<b>Cash and Cash Equivalents consist of:</b>		
Cash	14,593,225	6,578,908
Short-term investments	208,446	15,215,253
	<b>14,801,671</b>	<b>21,794,161</b>

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

**CGX Energy Inc.**  
**Notes to the Unaudited Consolidated Financial Statements**  
**For the Three Month Period Ended March 31, 2010**

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**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 offshore Guyana, South America.

**1. Nature of Operations and Going Concern**

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

As at March 31, 2010, the Company had working capital of \$14,537,119 (December 31, 2009 - \$15,965,698) had not yet achieved profitable operations, has accumulated losses of \$51,235,033 (December 31, 2009 - \$50,380,646) and expects to incur further losses in the development of its business, all of which casts doubt upon the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon, but not limited to, its ability to raise financing necessary to fund its exploration and development programs, maintain its petroleum and natural gas properties concession rights, discharge its liabilities as they become due and generate positive cash flows from future operations.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. Accordingly, these financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not used then the adjustments required to report the Company's assets and liabilities at liquidation values could be material to these financial statements.

**2. Summary of Significant Accounting Policies**

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and methods of computation as, and should be read in conjunction with, the most recent annual financial statements. Certain information and disclosures normally required to be included in notes to the annual consolidated financial statements have been condensed or omitted.

In the opinion of management, these interim consolidated financial statements contain all adjustments of a normal and recurring nature necessary to present fairly CGX's financial position at March 31, 2010 and the results of its operations and cash flows for the three month period ended March 31, 2010 and 2009.

Certain prior period comparative figures have been reclassified to conform to the current period presentation.

**Consolidation**

The consolidated financial statements include the accounts of the Company together with its wholly owned subsidiaries CGX Resources Inc., a Bahamian-based company, 1524555 Alberta Limited, GCIE Holdings Limited, a Barbados-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.

**CGX Energy Inc.**  
**Notes to the Unaudited Consolidated Financial Statements**  
**For the Three Month Period Ended March 31, 2010**

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### **3. Future Accounting Pronouncements**

#### **Convergence with International Financial Reporting Standards**

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.

#### **Business Combinations**

In January 2009, the CICA issued *Handbook Section 1582 - Business combinations* which replace the existing standards. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This standard is equivalent to the International Financial Reporting Standards on business combinations. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted. Management does not believe the adoption of this standard will have an impact on the Company's financial statements.

#### **Non-Controlling Interests**

In January 2009, the CICA issued *Handbook Section 1602 - Non-controlling interests* which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the International Financial Reporting Standards on consolidated and separate financial statements. This standard is effective for applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted. Management does not believe the adoption of this standard will have an impact on the Company's financial statements.

#### **Consolidated Financial Statements**

In January 2009, the CICA issued *Handbook Section 1601 - Consolidated financial statements* which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for year ends beginning on or after January 1, 2011. Earlier adoption is permitted. Management does not believe the adoption of this standard will have an impact on the Company's financial statements.

**CGX Energy Inc.**  
**Notes to the Unaudited Consolidated Financial Statements**  
**For the Three Month Period Ended March 31, 2010**

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#### **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 three month period ended March 31, 2010. The Company is not subject to externally imposed capital requirements.

The Company considers its capital to be shareholders' equity, which is comprised of Capital Stock, contributed surplus, and deficit, which as at March 31, 2010 totaled \$42,673,995 (December 31, 2009 - \$42,913,757).

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

Management plans to secure the necessary financing through a combination of the exercise of existing stock options for the purchase of common shares and the issue of new equity and debt instruments. There is no assurance, however that these initiatives will be successful.

#### **5. Financial Instruments**

The Company designated its cash and cash equivalents and marketable securities as held-for-trading, which are measured at fair value. Receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities 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.

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

As of March 31, 2010, the Company was not a producer of oil and gas. 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.

**CGX Energy Inc.**  
**Notes to the Unaudited Consolidated Financial Statements**  
**For the Three Month Period Ended March 31, 2010**

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**5. Financial Instruments** (continued)

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.

**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 Canadian and Guyanese dollars are subject to foreign currency risk. As at March 31, 2010, if the Canadian 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 March 31, 2010, would have been approximately \$156,000 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 \$156,000 lower/higher had the Canadian 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) 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 March 31, 2010, the Company had current assets of \$15,270,057 (December 31, 2009 - \$16,779,011) and current liabilities of \$732,938 (December 31, 2009 - \$813,313). All of the Company's financial liabilities and receivables have contractual maturities of less than 90 days and are subject to normal trade terms. As at March 31, 2010, the Company had working capital of \$14,537,119 (December 31, 2009 - \$15,965,698).

**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, being the amounts negotiated and agreed to by the parties to the transaction:

<b>Three month period ended March 31,</b>	<b>2010</b>	<b>2009</b>
Petroleum and natural gas properties	\$ 157,382	\$ 68,065
Administrative expenses	<b>122,175</b>	101,805

At March 31, 2010, included in accounts payable and accrued liabilities is \$78,460 (December 31, 2009 - \$26,000) due to these related parties.

**CGX Energy Inc.**  
**Notes to the Unaudited Consolidated Financial Statements**  
**For the Three Month Period Ended March 31, 2010**

**7. Petroleum and Natural Gas Properties**

	As at March 31, 2010				
	Georgetown	Berbice	Corentyne	Pomeroon	Total
Balance, beginning of period	\$ 10,496,774	\$ 356,675	\$ 14,161,684	\$ 1,932,926	\$ 26,948,059
Acquisition, exploration and administrative costs	-	-	1,188,817	-	1,188,817
Balance, end of period	\$ 10,496,774	\$ 356,675	\$ 15,350,501	\$ 1,932,926	\$ 28,136,876

	As at December 31, 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	3,305,981	-	2,885,455	100,000	6,291,436
Balance, end of year	\$ 10,496,774	\$ 356,675	\$ 14,161,684	\$ 1,932,926	\$ 26,948,059

**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 3.7 million acres with the Corentyne PPL (2.3 million acres) held 100%, the Annex PPL (1.0 million acres) held 100%, and 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. The term of the Production Licence is 20 years, renewable for a further 10 years.

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

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.

**CGX Energy Inc.**  
**Notes to the Unaudited Consolidated Financial Statements**  
**For the Three Month Period Ended March 31, 2010**

7. **Petroleum and Natural Gas Properties** (continued)

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

Period	Start Date	End Date	Commitments	Relinquish at end of period	Status
Initial Period Phase 1	June 1998	June 2000	Conduct regional review, shoot 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	Dec 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	Dec 2007	June 2010	Shoot 500 line kilometres of 3D seismic; or shoot 1500km of 2D seismic; or drill 1 exploration well	20%	3D Complete
2nd Renewal Phase 1	June 2010	Dec 2011	Drill 1 exploration well		
2nd Renewal Phase 2	Dec 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.

**Georgetown PA, Guyana**

The Company purchased a 25% participating interest in the Georgetown PA (offshore Guyana, South America) from ENI Guyana, B.V. for \$75,000 and \$1,075,000 at the commencement of the first well in the PA that targets one of the Tertiary turbidite prospects previously identified by ENI in which CGX participates. The Government of Guyana approved the transfer on September 3, 2002. The original vendor retains a 2.7% right to ownership of Profit Oil on the Company's 25% participating interest.

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. To satisfy the Minimum Work Program during the 2<sup>nd</sup> Renewal Phase 1 of the contract, the Georgetown participants have committed to drill an exploration well during the period ending May 2011. The Georgetown PA currently covers approximately 1.7 million acres.

On March 22, 2010, the Company signed a proper and punctual performance guarantee of the obligations of the Company to the Minister Responsible for Petroleum of the Republic of Guyana to pay the Company's proportionate percentage interest share of the minimum expenditure obligation for the first phase of the second renewal period. The Guarantee is intended to be and shall be constructed as continuing, absolute, unconditional and irrevocable guarantee for up to an aggregate maximum of \$2,000,000 and shall remain in force and effect until the end of the first phase of eighteen months of the second renewal period under the agreement which started on November 25, 2009.

**CGX Energy Inc.**  
**Notes to the Unaudited Consolidated Financial Statements**  
**For the Three Month Period Ended March 31, 2010**

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**7. Petroleum and Natural Gas Properties** (continued)

**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 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. 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 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.

**Impairment Analysis – Guyana Cost Centre**

The Company performed an impairment analysis as at March 31, 2010 and December 31, 2009 in the preparation of these financial statements. Management undertook this process to assess whether or not the carrying amount of the petroleum and natural gas properties exceeds its estimated fair value. In management's opinion, no provision for impairment was required for the Guyana petroleum and natural gas cost centre in the three month period ended March 31, 2010 and year ended December 31, 2009.



**CGX Energy Inc.**  
**Notes to the Unaudited Consolidated Financial Statements**  
**For the Three Month Period Ended March 31, 2010**

**8. Capital Stock**

	March 31, 2010		December 31, 2009	
Balance, beginning of period/year	127,299,913	\$ 80,545,286	126,144,913	\$ 79,487,550
Options exercised	541,250	354,625	1,155,000	924,000
Fair value of options exercised	-	209,294	-	133,736
Balance, end of period/year	127,841,163	\$ 81,109,205	127,299,913	\$ 80,545,286

**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. As at March 31, 2010, the Company had 1,566,955 (December 31, 2009 – 1,176,992) options available for issuance under the plan. Continuity of the options outstanding to purchase common shares is as follows:

As at	March 31, 2010		December 31, 2009	
	Weighted Average Exercise Price (\$)	No. of Options	Weighted Average Exercise Price (\$)	No. of Options
Outstanding at beginning of period/year	1.39	10,280,000	1.37	8,885,000
Transactions during the period/year:				
Granted	1.77	200,000	1.32	3,000,000
Exercised	0.66	541,250	0.80	(1,155,000)
Expired	-	-	0.77	(225,000)
<b>Outstanding at end of period/year</b>	<b>1.47</b>	<b>9,938,750</b>	<b>1.39</b>	<b>10,280,000</b>

The following table provides additional information about outstanding stock options at March 31, 2010:

	Number of options outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price \$
\$0.37	1,350,000	1.24	0.37
\$0.70	828,750	0.25	0.70
\$1.08 - 2.66	7,760,000	3.36	1.75
\$0.37 - 2.66	9,938,750	2.82	1.47

**CGX Energy Inc.**  
**Notes to the Unaudited Consolidated Financial Statements**  
**For the Three Month Period Ended March 31, 2010**

**8. Capital Stock** (Continued)

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 three month period ended March 31, 2010:

	<b>February 26, 2010</b>	<b>Totals</b>
Number of options granted	200,000	200,000
Exercise price	C\$1.80	
Risk-free interest rate	2.49%	
Expected life (years)	5.0	
Expected volatility	101.89%	
Expected dividends	-	
Stock based compensation	\$ 260,000	\$ 260,000

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 year ended December 31, 2009:

	<b>June 1, 2009</b>	<b>November 1, 2009</b>	<b>Totals</b>
Number of options granted	2,500,000	500,000	3,000,000
Exercise price	C\$1.36	C\$1.10	
Risk-free interest rate	2.45%	2.68%	
Expected life (years)	5.0	5.0	
Expected volatility	103.51%	101.18%	
Expected dividends	-	-	
Stock based compensation	\$ 2,262,119	\$ 365,330	\$ 2,627,449

The weighted average grant-date fair value of options granted during the period was \$1.30 (Year ended December 31, 2009 – \$0.88) per option issued.

**9. Contributed Surplus**

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Balance, beginning of period/year	\$ 12,749,117	\$ 10,255,404
Fair value transferred on exercised warrants and options	(209,294)	(133,736)
Fair value of stock options issued	260,000	2,627,449
Balance, end of period/year	\$ 12,799,823	\$ 12,749,117

**10. Commitments**

The Company has entered into agreements for premises rental and consulting contracts for management services. The future minimum lease and consultancy commitments are as follows:

<b>Fiscal Year Ended December 31, 2010</b>	<b>Premises</b>	<b>Consultants</b>
2010	\$ 131,000	\$ 373,000
2011	116,000	539,000
2012	-	486,000

Seventy-five percent of the above premises rental amounts will be recovered from third parties who sublet the leased premises.

**CGX Energy Inc.**  
**Notes to the Unaudited Consolidated Financial Statements**  
**For the Three Month Period Ended March 31, 2010**

**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.

<b>For the three month period ended March 31,</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Net loss</b>		
Canada	717,363	526,173
Guyana	137,024	41,238
	<b>854,387</b>	<b>567,411</b>
<b>Significant non-cash items</b>		
Stock-based compensation		
Canada	260,000	-
Guyana	-	-
	<b>260,000</b>	<b>-</b>
<b>Capital expenditures</b>		
Canada	-	-
Guyana	1,188,817	987,098
	<b>1,188,817</b>	<b>987,098</b>
<b>As at,</b>	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>Total assets</b>		
Canada	15,242,133	16,750,512
Guyana	28,164,800	26,976,558
	<b>43,406,933</b>	<b>43,727,070</b>