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

Year ended December 31, 2010

Management's discussion and analysis (MD&A) is current to March 29, 2011 and is management's assessment of the operations and the financial results together with future prospects of CGX Energy Inc. ("CGX" or the "Company"). All figures are in United States Dollars, unless otherwise stated. This MD&A should be read in conjunction with our audited consolidated financial statements and related notes for the years ended December 31, 2010 and 2009. This discussion contains forward-looking statements that are not historical in nature and involves risks and uncertainties. Forward-looking statements are not guarantees as to CGX's future results as there are inherent difficulties in predicting future results. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements. The Company has adopted National Instrument 51-102F1 as the guideline in presenting the MD&A. Additional information relevant to the Company's activities, including the Company's Annual Report, can be found on SEDAR at www.sedar.com.

Cautionary Note Regarding Forward Looking Statements

This Management's Discussion and Analysis includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of Management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Such risks and uncertainties include, but are not limited to, risks associated with the 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 December 31, 2010, CGX holds an interest in four Petroleum Agreements (PA) covering approximately 7.8 million gross acres (approximately 6.2 million acres 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 two PPL's, the Annex PPL which is owned 100% by CGX Resources Inc. and the Corentyne PPL which is split into two components - the exploration rights offshore owned 100% by CGX Resources Inc. and the exploration rights onshore owned 100% by ON Energy Inc. having been transferred to ON Energy Inc. by CGX in September 2003.

In 1999, exploration was actively underway with an 1800 km seismic program, 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 1.7-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 Pomeroon PPL. The Government of Guyana approved the transfer in July 2004. We have completed a regional reinterpretation of existing data to identify priority areas for future seismic. Additional field seismic and exploration drilling on the Pomeroon 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 427,000 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.

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. Esso Guyana and the Government of Guyana have completed two large 2D programs. CGX acquired 505 sq km of 3D seismic program on the Corentyne PPL, and 1839 sq km of 3D on the Georgetown PPL with Repsol, Tullow and 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.

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 and a well commitment to Shell and TOTAL offshore French Guiana.

In June 2010, Atwood Oceanics Pacific Limited contracted their Atwood Beacon jack-up drill rig to each of Murphy Oil Corporation, INPEX Corporation and Repsol YPF S.A. for the drilling of four wells in the Guyana-Suriname Basin. CGX will participate in one of these wells on the Georgetown PPL. The Georgetown Well will test the Cretaceous Turonian prospect at 6,500 m, where success would effectively de-risk the Turonian prospect at the Corentyne Well. The Corentyne Well is now being targeted to just 3,300 m to test the Tertiary Eocene trend. If the Georgetown Well is successful, the Corentyne Well drilling program is being designed such that the well could be deepened to test the Turonian. In the fourth quarter of 2010, Murphy had a dryhole on its first prospect that was drilled to the Turonian. Because of weather causing high surf, Murphy were delayed by over two months in trying move the rig. In March 2011, they commenced drilling on their second well targeting a Paleocene prospect. The Atwood Beacon will then move to drill an Albian prospect for Inpex, and then the Jaguar Turonian test operated by Repsol in which CGX has a 25% interest. Murphy's inability to move the rig will delay the drilling of Jaguar until the third quarter of 2011. Also in March 2011, using a semi-submersible drill rig, Tullow commenced the drilling of a Turonian prospect offshore French Guiana.

On August 17, 2010, CGX closed its financing of 40,000,000 common shares of the Corporation of CGX Energy Inc. at a price of C$0.50 per share for total gross proceeds to the Corporation of C$20,000,000 or US$19,186,500.

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

These proceeds will be used to fund its share of the drilling in 2011 of the Jaguar exploration well on the Georgetown PPL, and the drilling of the Eagle exploration well on the Corentyne PPL in 2011, each in order to fulfill the exploration obligations of the Corporation's in respect of such PPLs.

CGX is fully funded for its 25% share of gross costs estimated to more than $100 million for the drilling of Jaguar. However in parallel, CGX has been pursuing a potential joint venture partner on its interests in the Georgetown and Corentyne PPLs offshore Guyana. A number of companies were contacted, with 15 companies entering into confidentiality agreements with CGX to gain access to the data rooms assembled by CGX in connection with the joint venture process. As a result of the joint venture process and discussions with interested parties, CGX believes it has received external technical affirmation of the merits of its prospects within the Georgetown and Corentyne PPLs. The joint venture process remains open and discussions are ongoing with potential partners.

Guyana Operations

Corentyne PA, Guyana

The Corentyne PA covers approximately 2.9 million acres with the Annex PPL (1.0 million acres) held 100%, and the offshore portion of the Corentyne PPL (1.5 million acres) held 100% and the onshore portion of the Corentyne 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. 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 addiction, 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, a primary 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). However, because the offset Georgetown Well will test the Cretaceous Turonian prospect, the Corentyne Well is now being targeted to just 3,300 m to test the Tertiary Eocene trend. If either the Georgetown Well in the Turoniam, or Inex's nearby well in the Albian is successful, as second well would be planned for the Corentyne PA. 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. 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.

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 an exploration well.

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) and on the Company's website (www.cgxenergy.com). The Gustavson resource estimates were prepared in accordance with the requirements of Canadian National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101").

On October 14, 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 $3,400,000 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 June 25, 2010.

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. The majority of services and supplies have been contracted to commence drilling the Jaguar well in the third quarter of 2011 at an estimated gross cost of more than $100 million.

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.

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 has assigned to Century an overriding royalty interest consisting of 2.5% of all revenues to the extent that the revenues are directly attributable to the contractor's share of Profit Oil.

The Pomeroon PA issued 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.

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 during which additional interpretation was completed. Negotiations are underway for the Second Renewal period to conduct an airborne geotechnical survey at a cost of less than $1 million. ON is also attempting to farm out the minimum work commitments to a third party. Although the Company continues to negotiate the renewal terms with the government and look for other alternatives to continue to advance this property, management has recorded an impairment on this property to bring the carrying value to $Nil. This resulted in an impairment of petroleum and natural gas properties of $349,175 (2009 - $Nil) in the year ended December 31, 2010.

Trends
The economic crisis that started in the financial sector in 2008 and precipitated a global recession, stabilized and demonstrated good recovery across most sectors throughout the second half of 2009 and has continued for 2010. 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 all of 2010, the rebound in oil prices from YE 2008 lows of $30 to $100 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 first half of 2011, reflecting ongoing concerns about the stability of the global economy, sovereign debt levels and possible default, weakening global growth prospects and instability in Africa and the Middle East. Unprecedented uncertainty in the credit markets has also led to increased difficulties in borrowing/raising funds. Companies worldwide continue to be affected by these trends.
The future performance of the Company is largely tied to the exploration and development of the properties in Guyana. The Company may have difficulties raising equity or debt financing for the purpose of carrying out exploration and development activities with respect to its Guyana properties particularly without excessively diluting present shareholders of the Company. See "Risk Factors".

Results of Operations

THREE MONTH PERIOD ENDED DECEMBER 31, 2010

The Company incurred a net loss of $2,022,773 or $0.01 a share for the three month period ended December 31, 2010, compared with a net loss of $728,654 or $0.01 a share for the same period in 2009.

CGX incurred a foreign exchange gain of $346,543 for the three month period ended December 31, 2010 compared to a gain of $39,183 in 2009. The difference is due to the large changes in the foreign exchange rates during the last fiscal period on balances held in Canadian Dollar bank accounts as the Canadian dollar continued to strengthen against the US dollar.

The Company had interest income of $8,660 for the three month period ended December 31, 2010 compared to $7,396 in the same period in 2009. The increase is a result of higher balances subject to interest rates offset by lower interest rates received on the amounts being paid due to the current economic climate. In addition, the Company had other losses on the fair value of marketable securities of $6,370 during the three month period ended December 31, 2010 compared to other income of $75,542 in the same period of 2009.

Shareholder information costs decreased in the three month period ended December 31, 2010 by $9,291 to $23,598 compared to $32,889 in the same period in 2009. This amount relates to the costs of issuing press releases, transfer agents, investor presentations, and electronic dissemination of information.

General and administration costs increased by $132,041 to $406,974 in the three month period ended December 31, 2010 from $274,933 in 2009. These costs were incurred as a result of operating two offices in two countries although the majority of these costs were incurred in Canada. The increase is attributable to travel costs to and in Guyana as the Company looks to advance its properties and prepares to drill and 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 December 31, 2010 were $32,075 compared to $17,630 in the same period of 2009. These fees are higher due to higher legal fees relating to general corporate matters.

Consulting fees increased by $102,254 to $241,959 during the three month period ended December 31, 2010 compared to $139,705 in 2009. Consulting fees include fees paid to management and increased as the Company added new members to the management team in during 2010.

The Company incurred stock-based compensation during the three month period ended December 31, 2010 of $1,667,000, compared to $385,618, for the same period in 2009. Stock-based compensation expenses are booked based on the valuation of options using the Black-Scholes model. The expense varies based on the number of options issued and the underlying assumptions used in the model.

Impairment of petroleum and natural gas properties for the three month period ended December 31, 2010 was $349,175 compared to $Nil in the same period of 2009. This impairmentwas an assessment made by management on the Berbice PA.

The assets increased by $22,236,729 (2009 – decrease of $809,219) during the three month period ended December 31, 2010, largely due to a financing in the period raising gross proceeds of $22,880,000 (2009 – $Nil). The Company's cash position increased by $19,407,779 (2009 - decrease of $2,080,033) in the three month period. The Company incurred $2,906,711 (2009 - $1,224,396) in additions to petroleum and natural gas properties, as it continues to advance its properties.

YEAR ENDED DECEMBER 31, 2010

The Company incurred a net loss of $4,740,489 or $0.03 a share for the year ended December 31, 2010, compared with a net loss of $3,692,712 or $0.03 a share for the same period in 2009.

CGX incurred a foreign exchange gain of $488,097 for the year ended December 31, 2010 compared to a gain of $471,868 in 2009. These gains are a result of continued large changes in the foreign exchange rates during the last couple of fiscal periods on balances held in Canadian Dollar bank accounts as the Canadian dollar continued to strengthen against the US dollar.

The Company had interest income of $13,692 for the year ended December 31, 2010 compared to $36,472 in the same period in 2009. The decrease is a result of much lower interest rates being paid on US$ currency. In addition, the Company had other losses on the fair value of marketable securities of $92,742 during the year ended December 31, 2010 compared to other income of $75,542 in the same period of 2009.

Shareholder information costs increased in the year ended December 31, 2010 by $51,104 to $160,792 compared to $109,688 in the same period in 2009. This amount relates to the costs of issuing press releases, transfer agents, investor presentations, electronic dissemination of information. 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 $835,750 to $1,770,801 in the year ended December 31, 2010 from $935,051 in 2009. These costs were incurred as a result of operating two offices in two countries although the majority of these costs were incurred in Canada. The increase is a result of higher travel costs to and in Guyana as the Company looks to advance its properties and prepares to drill and higher administration, occupancy, software costs due to increased management further compounded by a higher average Canadian dollar.

Professional fees for the year ended December 31, 2010 were $129,986 compared to $79,264 in the same period of 2009. These fees are higher due to higher legal fees relating to general corporate matters.

Consulting fees increased by $286,640 to $811,782 during the year ended December 31, 2010 compared to $525,142 in 2009. Consulting fees include fees paid to management and increased as the Company continues to add members to the management team.

Impairment of petroleum and natural gas properties for the year ended December 31, 2010 were $349,175 compared to $Nil in the same period of 2009. This impairmentwas an assessment made by management on the Berbice PA.

The Company incurred stock-based compensation during the year ended December 31, 2010 of $1,927,000, compared to $2,647,449, for the same period in 2009. Stock-based compensation expenses are booked based on the valuation of options using the Black-Scholes model. The expense varies based on the number of options issued and the underlying assumptions used in the model.

The assets increased by $37,548,144 (2009 – decreased $5,226,272) during the year ended December 31, 2010, largely due to the Company’s financing and options exercised in the year raising net proceeds of $39,221,385 (2009 – options exercised $924,000). The Company’s cash position increased by $11,858,928 (2009 – decrease of $10,395,582) in the year. The Company incurred $8,282,839 (2009 - $6,291,436) in additions to petroleum and natural gas properties, as it continues to advance its properties. The Company invested $17,707,547 (2009 - $Nil) in investments held to maturity, as the Company continues to invests its excess cash in US government T-Bills. Receivable and others increased by $55,505 (2009 – $121,641) due to higher receivable balances relating to HST.

During the year ended December 31, 2010, the increase of $11,858,928 (2009 – decrease of $10,395,582) in the Company’s cash position was a result of cash flow used in operations of $3,586,984 (2009 – $4,765,422), cash used for investing activities of $24,401,597 (2009 - $7,727,951) and cash provided from financing activities of 39,221,385 (2009 - $924,000). Effect of exchange rate changes on cash held in foreign currencies during the year ended December 31, 2010 was an increase of $626,124 (2009 – decrease of $69,976).

Selected Consolidated Financial Information

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

	December 31, 2010	December 31, 2009	December 31, 2008
	$	$	$
Interest Income	13,692	36,472	467,017
Other Income (Expense)	(92,742)	75,542	-
Total Revenue	(79,050)	112,014	467,017
Net Loss	4,740,489	3,692,712	6,678,561
Loss Per Share	$0.03	$0.03	$0.05
Total Assets	81,275,214	43,727,070	48,953,342
Liabilities	1,953,561	813,313	5,898,322

Results for the three month periods ended:

	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
	$	$	$	$
Interest Income	8,660	1,346	1,665	2,021
Other Income (Expense)	(6,370)	(113,345)	(63,592)	90,565
Total Revenue	2,290	(111,999)	(61,927)	92,586
Net Loss	2,022,773	1,086,943	776,386	854,387
Loss Per Share	$0.01	$0.01	$0.00	$0.01

	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
	$	$	$	$
Interest Income	7,396	7,081	14,474	7,521
Other Income	75,542	-	-	-
Total Revenue	82,938	7,081	14,474	7,521
Net Loss	728,654	201,935	2,194,712	567,411
Loss Per Share	$0.01	$0.00	$0.02	$0.00

CAPITAL RESOURCES, CAPITAL EXPENDITURES AND LIQUIDITY

As at December 31, 2010, the Company's working capital increased to $44,447,430 from $15,965,698 as at December 31, 2009.

As at December 31, 2010, CGX had receivables and other of $384,038. This amount is comprised of: receivables from companies for rent, equipment purchased and expense reimbursements ($94,606), GST recoverable ($202,429), prepaid expenses ($57,101), and marketable securities ($29,902).

For the year ended December 31, 2010, the Company incurred additions of $8,282,839 on petroleum and natural gas properties compared to $6,291,436 for the same period in 2009. Included in this amount is $1,209,466 (2009 - $23,676) with respect to a logistics yard and expenditures on a proposed shore based facility. The logistics yard was purchased for $385,000 and the balance was expended on planning for the staging area for the shore base facility. The Company signed a 50 year lease for approximately 55 acres on the Berbice river. This is an ideal location for the staging facility to support off-shore drilling activities. Utilizing a local facility would result in significant savings rather that running the logistics out of Trinidad.

On August 17, 2010, the Company completed a marketed public offering ("Offering") of common shares, for a 40,000,000 common shares of the Company being issued under the Offering at C$0.50 per share for gross proceeds of C$20,000,000 or US$19,186,500. Share issue costs associated with this Offering were $1,551,773.

On December 14, 2010, the Company completed a marketed public offering ("Offering") of common shares, for a 25,587,500 common shares of the Company being issued under the Offering at C$0.90 per share for gross proceeds of C$23,028,750 or US$22,880,000. Share issue costs associated with this Offering were $1,647,967.

This Company's current working capital is approximately $44.4 million. The Company plans to use this working capital to further exploration on its properties. The portion of the costs associated with the drilling of the Georgetown Well to be paid by the Corporation is estimated to be $20,800,000 for well engineering design, procurement of long-lead items and establishing in-country management. The cost of drilling the Corentyne Well is estimated to be $36,400,000. As the Corporation holds a 100% participating interest in the Corentyne Well, it will be responsible for 100% of the cost of drilling the Corentyne Well. The cost estimates for both the Georgetown Well and the Corentyne Well are based on preliminary expectation of the costs (including contingency costs) associated with the planning, execution, services, and time to drill the wells and are not fixed costs. The Company will be required to farm out the cost obligation through a joint venture or raise additional funds over the next fifteen months in financing to complete all exploration work under this plan. Some potential sources of financing include option exercises, public and private financing of both debt and equity instruments.

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 8 and 11 of the year ended December 31, 2010 audited 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.

On October 14, 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 $3,400,000 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 June 25, 2010.

RELATED-PARTY TRANSACTIONS

Denis Clement and Associates ("DCA") was paid by the Company a total of $120,000 (2009 - $120,000 for the year ended December 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$151,000 (2009 - CAD$120,000) for year ended December 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 $315,533 (2009 - $233,280) for the year ended December 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$240,000 (2009 - CAD$240,000) for the year ended December 31, 2010 for his services.

Kamal Dookie, an officer of the Company, was paid by the Company a total of $200,500 (2009 - $197,500) for year ended December 31, 2010 for his services and in-country expenses (Guyana).

Clarke Energy Consulting Inc. ("Clarke Energy") was paid by the company a total of CAD$150,000 (2009 - CAD$25,000) for year ended December 31, 2010 in respect of the services of John Clarke. John Clarke, VP of Business Development, beneficially owns Clarke Energy.

Jaguar Holdings Inc. ("Jaguar Holdings") was paid by the company a total of CAD$16,000 (2009 - CAD$Nil) for year ended December 31, 2010 in respect of the services of John Cullen. John Cullen, Director, beneficially owns Jaguar Holdings.

CHANGES IN ACCOUNTING POLICIES INCLUDING INTITAL ADOPTION

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.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

As at	**December 31, 2010**	December 31, 2009
	($)	($)
Petroleum and natural gas properties:		
Capitalized exploration costs (cumulative)	**34,874,223**	26,948,059
Total Assets	**81,275,214**	43,727,070

	($)	($)
Land & lease costs	**150,000**	200,000
Staging facility & logistics yard	**1,209,466**	23,676
Exploration: Intangible drilling and other	**2,385,209**	906,765
Geophysical and administrative	**4,538,164**	5,160,995
Proceeds on asset disposal	**(7,500)**	-
Impairment of petroleum and natural gas properties	**(349,175)**	-
Petroleum and natural gas net additions for the year	**7,926,164**	**6,291,436**

Corporate Expenses	**Year ended December 31, 2010**	Year ended December 31, 2009
	($)	($)
General and administrative	**1,770,801**	935,051
Interest income	**(13,692)**	(36,472)
Consulting	**811,782**	525,142
Stock-based compensation	**1,927,000**	2,627,449
Professional fees	**129,986**	79,264
Shareholders' information	**160,792**	109,688
Other expense (income)	**92,742**	(75,542)
Impairment of petroleum and natural gas properties	**349,175**	-
Foreign exchange gain	**(488,097)**	(471,868)
	4,740,489	3,692,712

DISCLOSURE OF OUTSTANDING SHARE DATA

SHARE CAPITAL

The following table sets forth information concerning the outstanding securities of the Company as at March 29, 2011:

Common Shares of no par value	Number
Shares	193,428,663
Options	11,295,000

See note 9 to the audited consolidated financial statements for the years ended December 31, 2010 and 2009 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.

Negative Operating Cash Flow

The Corporation had negative operating cash flow for its financial years ended December 31, 2010 and 2009. To the extent that the Corporation has negative cash flow in future periods, the Corporation may need to deploy a portion of its cash reserves to fund such negative cash flow.

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.

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.

Finance Risks and Recent Distress in Financial Markets

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

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

Global Economic Downturn

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

Current global financial conditions have been subject to increased volatility and numerous commercial and financial enterprises have either gone into bankruptcy or creditor protection or have had to be rescued by governmental authorities. Access to public financing has been negatively impacted by sub-prime mortgage defaults in the United States, the liquidity crisis affecting the asset-backed commercial paper and collateralized debt obligation markets, massive investment losses by banks with resultant recapitalization efforts and a deterioration in the global economy.

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

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

Industry Conditions

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

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

Infrastructure development in Guyana where the Corporation operates is limited. These factors may affect the Corporation's ability to explore and develop its properties in a timely manner and to store and transport its petroleum production if reserves are located.

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.

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.

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.

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.

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.

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.

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.

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.

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.

CRITICAL ACCOUNTING POLICIES

Petroleum and natural gas properties

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

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

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

Asset retirement obligations

The Company recognizes the fair value of an asset retirement obligation in the period in which it is incurred and when a reasonable estimate of the fair value can be made. Asset retirement obligations are provided for estimated costs to abandon and reclaim the Company's net ownership interest in all wells and facilities and is capitalized as part of the cost of petroleum and natural gas properties and depleted on the same basis. The accumulated asset retirement obligation is adjusted for the passage of time, which is recognized in the consolidated statement of loss under general and administrative costs, and for revisions in either the timing or the amount of the original estimated cash flows associated with the liability. Actual costs incurred upon settlement of the asset retirement obligation reduce the asset retirement obligation to the extent of the liability recorded. Any difference between the recorded asset retirement obligation and the actual retirement costs incurred is recorded as a gain or loss in the settlement period.

At December 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.

Stock-based compensation

The Company has an incentive stock option plan which is described in Note 9. 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. Significant estimates / assumptions for stock option valuation are estimates of interest rate, life of options, stock price volatility and the application of the Black-Scholes option pricing model. See note 9 of the December 31, 2010, audited consolidated financial statements for a full disclosure.

Loss per common share

Basic loss per common share is calculated using the weighted average number of common shares outstanding during the year. 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.

Foreign currency translation

The Company's functional currency is the U.S. dollar. The Company's subsidiaries are considered to be integrated operations. Accordingly, subsidiaries who maintain their accounting records in a currency other than the U.S. dollar translate their financial statements to U.S. dollars using the temporal method. Under this method, monetary assets and liabilities are translated into U.S. dollars at the balance sheet date exchange rate, while non-monetary assets and liabilities are translated into U.S. dollars at their historical rate. All non-US dollar transactions, including revenues, expenses, and gains or losses, are measured and recorded in U.S. dollars using the exchange rate in effect on the date of the transaction, except for depletion, depreciation and amortization expense which is translated at the same historical rates as the related asset. Exchange gains and losses arising from translation of non U.S. dollar amounts at the balance sheet date are recognized in income for the year.

Future income taxes

The Company accounts for income taxes using the liability method. Under this method, the Company records a future income tax asset or liability to reflect any difference between the accounting and tax basis of assets and liabilities using the substantively enacted income tax rates in the respective jurisdictions that will be in effect when the difference are expected to reverse. The effect on the future tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the related legalisation is substantively enacted. Future income tax assets are only recognized to the extent that income tax asset will be realized. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

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.	Completed
Assessment of first-time adoption (IFRS 1) requirements and alternatives.	Completed
Final determination of changes to accounting policies and choices to be made with respect to first-time adoption alternatives	Completed
Resolution of the accounting policy change implications on information technology, internal controls and contractual arrangements	Completed
Management and employee education and training	Completed
Quantification of the Financial Statement impact of changes in accounting policies	In process

The Company continues to monitor the deliberations and progress on plans to converge to IFRS by accounting standard setting bodies and securities regulators in Canada.

The following provides a summary of the Company's evaluation to date of potential changes to accounting policies in key areas based on the current standards and guidance within IFRS. This is not intended to be a complete list of areas where the adoption of IFRS will require a change in accounting policies, but is intended to highlight the areas the Company has identified as having the most potential for a significant change. The International Accounting Standards Board has a number of ongoing projects, the outcome of which may have an effect on the changes required to the Company's accounting policies on adoption of IFRS. At the present time, however, the Company is not aware of any significant expected changes prior to its adoption of IFRS that would affect the summary provided below:

1) Exploration and Evaluation Expenditures

Under Canadian GAAP, CGX follows the CICA's guideline on full cost accounting in which all costs directly associated with the acquisition of, the exploration for, and the development of Petroleum and natural gas reserves are capitalized on a country-by-country cost centre basis. Costs accumulated within each country cost centre are depleted using the unit-of-production method based on proved reserves determined using estimated future prices and costs. Upon transition to IFRS, CGX will be required to adopt new accounting policies for pre-exploration costs, exploration and evaluation costs and development costs.

Pre-exploration costs are those expenditures incurred prior to obtaining the legal right to explore and must be expensed under IFRS. Currently, CGX capitalizes and depletes pre-exploration costs within the country cost centre. In 2010, these costs were $Nil to CGX.

Exploration and evaluation costs are those expenditures for an area or project for which technical feasibility and commercial viability have not yet been determined. Under IFRS, CGX will expense these costs as Exploration and Evaluation costs on the income statement. The initial adoption of this standard will result in a decrease in Petroleum and natural gas properties of $33,641,081 as at December 31, 2010. The charge of $26,924,383 will be made to retained earnings and $7,926,164 will be charged to Exploration and Evaluation costs on the income statement under the restated year ended December 31, 2010 income statement under IFRS. When the area or project is determined to be technically feasible and commercially viable, the costs will be transferred to PP&E. Development costs will include those expenditures for areas or projects where technical feasibility and commercial viability have been determined. Under IFRS, CGX will capitalize these costs within PP&E on the balance sheet. However, the costs will be depleted on a unit-of-production basis over an area level (unit of account) instead of the country cost centre level currently utilized under Canadian GAAP.

2) Impairment of (Non-financial) Assets

IFRS requires a write-down of assets if the higher of the fair market value and the value in use of a group of assets is less than its carrying value. Value in use is determined using discounted estimated future cash flows. Current Canadian GAAP requires a write-down to estimated fair value only if the undiscounted estimated future cash flows of a group of assets are less than its carrying value.

The Company's accounting policies related to impairment of non-financial assets will be changed to reflect these differences. However, the Company does not expect that this change will have an immediate impact on the carrying value of its assets. The Company will perform impairment assessments in accordance with IFRS at the transition date.

3) Share-based Payments

In certain circumstances, IFRS requires a different measurement of stock-based compensation related to stock options than current Canadian GAAP.

The Company does not expect any changes to its accounting policies related to share-based payments that would result in a significant change in line items within its financial statements.

4) Asset Retirement Obligations (Decommissioning Liabilities)

IFRS requires the recognition of a decommissioning liability for legal or constructive obligations, while current Canadian GAAP only requires the recognition of such liabilities for legal obligations. A constructive obligation exists when an entity has created reasonable expectations that it will take certain actions.

The Company's accounting policies related to decommissioning liabilities will be changed to reflect these differences. However, the Company does not expect this change will have an immediate impact on the carrying value of its assets.

5) Property and Equipment

IFRS contains different guidance related to recognition and measurement of property and equipment than current Canadian GAAP.

The Company does not expect any changes to its accounting policies related to property and equipment that would result in a significant change to line items within its financial statements.

6) Income Taxes

In certain circumstances, IFRS contains different requirements related to recognition and measurement of future income taxes.

The Company does not expect any changes to its accounting policies related to income taxes that would result in a significant change to line items within its financial statements.

7) Foreign Currency

IFRS requires that the functional currency of the Company be determined separately, and the factors considered to determine functional currency are somewhat different than current Canadian GAAP.

The Company does not expect any changes to its accounting policies related to foreign currency that would result in a significant change to line items within its financial statements at the transition date.

Subsequent Disclosures

Further disclosers of the IFRS transition process are expected as follows:

• The Company's first financial statements prepared in accordance with IFRS will be the interim financial statements for the three months ending March 31, 2011, which will include notes disclosing transitional information and disclosure of new accounting policies under IFRS. The interim financial statements for the three months ending March 31, 2011, will also include the comparative period adjusted to comply with IFRS, and the Company's transition date IFRS statement of financial position (at December 31, 2009).

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

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

OTHER INFORMATION

This MD&A of the financial position and results of operation as at December 31, 2010, should be read in conjunction audited consolidated financial statements and related notes for the years ended December 31, 2010 and 2009. Additional information will be accessible at the Company's website www.cgxenergy.com or through the Company's public filings at www.sedar.com.

MANAGEMENT'S RESPONSIBILITY

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

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

March 29, 2011

"signed" Kerry E. Sully
Kerry E. Sully, President and Chief Executive Officer

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

Audited Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of CGX Energy Inc. are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects.

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

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee of the Board. The Audit Committee consists of directors not involved in the daily operations of the Company. The Audit Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the consolidated financial statements prior to their presentation to the Board of Directors for approval. The Audit Committee is responsible for engaging the reappointing the external auditors. The external auditors conduct an independent audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards in order to express their opinion on these consolidated financial statements. Those standards require that the external auditors plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

("Signed" Kerry Sully)
________________________, President and CEO
Kerry Sully

("Signed" James Fairbairn)
________________________, CFO
James Fairbairn

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
CGX Energy Inc.

We have audited the accompanying consolidated financial statements of CGX Energy Inc., which comprise the consolidated balance sheet as at December 31, 2010 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CGX Energy Inc. as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other matter

The consolidated financial statements of CGX Energy Inc. for the year ended December 31, 2009, were audited by another auditor who expressed an unmodified opinion on those statements on March 11, 2010.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
March 29, 2011

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

As at December 31,		**2010**		2009
Assets				
Current				
Cash and cash equivalents	**$**	**28,309,406**	$	16,450,478
Investments *(Note 6)*		**17,707,547**		-
Receivables and other *(Note 3)*		**384,038**		328,533
		46,400,991		16,779,011
Petroleum and natural gas properties *(Note 8)*		**34,874,223**		26,948,059
	$	**81,275,214**	$	43,727,070
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable and accrued liabilities *(Note 7)*	**$**	**1,953,561**	$	813,313
Shareholders' Equity				
Capital stock *(Note 9)*		**119,975,965**		80,545,286
Contributed surplus *(Note 10)*		**14,466,823**		12,749,117
Deficit		**(55,121,135)**		(50,380,646)
	$	**81,275,214**	$	43,727,070

Commitments and contingencies (Notes 8 and 11)

Approved by the Board:

("Signed" Oliver Lennox-King)
____________________, Director
Oliver Lennox-King

("Signed" Dennis A. Clement)
____________________, Director
Dennis A. Clement

CGX Energy Inc.

Consolidated Statements of Loss, Comprehensive Loss and Deficit

(Expressed in United States Dollars)

Year ended December 31,	**2010**	2009
Administrative expenses		
Stock-based compensation (*Note 9)*	**$ 1,927,000**	$ 2,627,449
General and administrative	**1,770,801**	935,051
Consulting	**811,782**	525,142
Professional fees	**129,986**	79,264
Shareholder's information	**160,792**	109,688
Foreign exchange gain	**(488,097)**	(471,868)
	4,312,264	3,804,726
Investment income	**(13,692)**	(36,472)
Impairment of petroleum and natural gas properties *(Note 8)*	**349,175**	-
Loss (gain) on marketable securities	**92,742**	(75,542)
Loss and comprehensive loss	**4,740,489**	3,692,712
Deficit, beginning of year	**50,380,646**	46,687,934
Deficit, end of year	**$ 55,121,135**	$ 50,380,646
Loss per share – basic and diluted	**$0.03**	$0.03
Weighted average number of shares outstanding - basic and diluted	**144,070,876**	126,521,836

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

Year ended December 31,	**2010**	2009
Operating activities		
Loss	**$ (4,740,489)**	$ (3,692,712)
Adjustments to reconcile net loss to net cash provided from (used in) operating activities:		
Stock-based compensation	**1,927,000**	2,627,449
Unrealized foreign exchange (gain) loss	**(1,225,422)**	39,184
Loss on marketable securities	**92,742**	-
Impairment of petroleum and natural gas properties	**349,175**	-
Net change in non-cash operating working capital items		
Receivables and other	**(128,561)**	(121,641)
Accounts payable and accruals	**138,571**	(3,617,702)
Net cash used in operating activities	**(3,586,984)**	(4,765,422)
Financing activities		
Issuances of common shares, net of issue costs	**39,221,385**	924,000
Net cash provided from financing activities	**39,221,385**	924,000
Investing activities		
Petroleum and natural gas properties	**(7,293,524)**	(7,727,951)
Proceeds on disposals	**7,500**	-
Purchase of investments held to maturity	**(17,115,573)**	-
Net cash used in investing activities	**(24,401,597)**	(7,727,951)
Net increase (decrease) in cash and cash equivalents	**11,232,804**	(11,569,373)
Effect of exchange rate changes on cash held in foreign currencies	**626,124**	(69,976)
Cash and cash equivalents, beginning of year	**16,450,478**	28,089,827
Cash and cash equivalents, end of year	**$ 28,309,406**	$ 16,450,478
Cash and cash equivalents consists of:		
Cash	**$ 23,598,860**	$ 16,254,883
Cash equivalents	**210,546**	195,595
	$ 28,309,406	$ 16,450,478

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

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

1. Nature of Operations

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 recoverability of the Company's petroleum and natural gas properties 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.

2. 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.

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

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

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

2. Summary of Significant Accounting Policies (continued)

Asset retirement obligations

The Company recognizes the fair value of an asset retirement obligation in the period in which it is incurred and when a reasonable estimate of the fair value can be made. Asset retirement obligations are provided for estimated costs to abandon and reclaim the Company's net ownership interest in all wells and facilities and is capitalized as part of the cost of petroleum and natural gas properties and depleted on the same basis. The accumulated asset retirement obligation is adjusted for the passage of time, which is recognized in the consolidated statement of loss under general and administrative costs, and for revisions in either the timing or the amount of the original estimated cash flows associated with the liability. Actual costs incurred upon settlement of the asset retirement obligation reduce the asset retirement obligation to the extent of the liability recorded. Any difference between the recorded asset retirement obligation and the actual retirement costs incurred is recorded as a gain or loss in the settlement period.

At December 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.

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 petroleum and natural gas properties and related deferred costs, future income taxes and the valuation of warrants/options using the Black-Scholes pricing model. Management believes that these estimates are reasonable.

Administrative expenditures

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

Stock-based compensation

The Company has an incentive stock option plan which is described in Note 9. 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.

Foreign currency translation

The Company's functional currency is the U.S. dollar. The Company's subsidiaries are considered to be integrated operations. Accordingly, subsidiaries who maintain their accounting records in a currency other than the U.S. dollar translate their financial statements to U.S. dollars using the temporal method. Under this method, monetary assets and liabilities are translated into U.S. dollars at the balance sheet date exchange rate, while non-monetary assets and liabilities are translated into U.S. dollars at their historical rate. All non-US dollar transactions, including revenues, expenses, and gains or losses, are measured and recorded in U.S. dollars using the exchange rate in effect on the date of the transaction, except for depletion, depreciation and amortization expense which is translated at the same historical rates as the related asset. Exchange gains and losses arising from translation of non U.S. dollar amounts at the balance sheet date are recognized in income for the year.

2. Summary of Significant Accounting Policies (continued)

Future income taxes

The Company accounts for income taxes using the liability method. Under this method, the Company records a future income tax asset or liability to reflect any difference between the accounting and tax basis of assets and liabilities using the substantively enacted income tax rates in the respective jurisdictions that will be in effect when the difference are expected to reverse. The effect on the future tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the related legalisation is substantively enacted. Future income tax assets are only recognized to the extent that income tax asset will be realized. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Loss per common share

Basic loss per common share is calculated using the weighted average number of common shares outstanding during the year. 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.

Cash and cash equivalents

Cash and cash equivalents include cash deposits with banks and short-term investments having an original maturity of less than or equal to 90 days.

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 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. Transaction costs are expensed.

Financial instruments

The Company uses a three level hierarchy to categorize the significance of the inputs used in measuring the fair value of financial instruments. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 consists of cash and cash equivalents.

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value, volatility factors and broker quotations, which can be substantially observed or corroborated in the marketplace. Instruments in this category include non-exchange traded crude oil and foreign currency derivatives.

Level 3 – Valuations in this level are those with inputs which are less observable, unavailable or where the observable data does not support the majority of the instrument's fair value. Level 3 instruments may include items based on pricing services or broker quotes where we are unable to verify the observability of inputs into their prices. Level 3 instruments include longer-term transactions, transactions in less active markets or transactions at locations for which pricing information is not available. In these instances, internally developed methodologies are used to determine fair value which primarily includes extrapolation of observable future prices to similar location, similar instruments or later time periods. If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement.

(Expressed in United States Dollars)

2. Summary of Significant Accounting Policies (continued)

Revenue recognition

CGX recognizes interest revenue as earned on 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.

Comparative financial statements

The comparative consolidated financial statements have been reclassified from statements previously presented to confirm to the presentation of the current consolidated financial statements.

3. Receivables and Others

Receivables and others are comprised of the following:

		December 31, 2010		December 31, 2009
Receivables	**$**	**297,035**	$	170,619
Marketable securities		**29,902**		133,453
Prepaid expenses		**57,101**		24,461
Total	**$**	**384,038**	$	328,533

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 petroleum and natural gas properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended December 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 December 31, 2010 totaled $79,321,653 (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, short-term guarantee deposits, all held with major Canadian financial institutions and Canadian or United States government treasury bills ("T-Bills").

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 it cash and cash equivalents and marketable securities as held-for-trading, which are measured at fair value. Investments are classified as held to maturity and are measured at amortized cost. 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, marketable securities, receivables, investments, and 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 December 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.

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 and their investments held to maturity are in US government T-Bills.

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, fixed rate US Government T-Bills 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, short-term guarantee deposits, all held with major Canadian financial institutions and Canadian or United States government T-Bills. 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. As at December 31, 2010, the Company had approximately cash of $23,400,000 in Canadian dollar denominated cash deposits.

iii) Sensitivity Analysis

Financial instruments denominated in Canadian dollars are subject to foreign currency risk. As at December 31, 2010, if the US dollar weakened/strengthened by 10% against the Canadian dollar with all other variables held constant, the Company's loss for the year ended December 31, 2010, would have been approximately $2,351,000 higher/lower as a result of foreign exchange losses/gains on translation of Canadian dollar denominated financial instruments.

(Expressed in United States Dollars)

5. Financial Instruments (continued)

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 December 31, 2010, the Company had current assets of $46,400,991 (December 31, 2009 - $16,779,011) and current liabilities of $1,953,561 (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 December 31, 2010, the Company had working capital of $44,447,430 (December 31, 2009 - $15,965,698).

6. Investments

On December 31, 2010, the Company's held some of its excess cash in US government T-Bills and classified these as held-to-maturity for accounting purposes. These T-Bills mature on June 30, 2011 and bear interest at a rate of 1.125%. The break down of this investment is as follows:

		December 31, 2010		December 31, 2009
Face value of T-Bills	**$**	**17,624,000**	$	-
Unamortized premium paid on T-Bills		**83,547**		-
Balance, end of year	**$**	**17,707,547**	$	-

7. Related Party Transactions

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

Year ended December 31,		**2010**		2009
Petroleum and natural gas properties	**$**	**526,000**	$	431,000
Administrative expenses		**661,000**		435,000

At December 31, 2010, included in accounts payable and accrued liabilities is $2,000 (December 31, 2009 - $26,000) due to these related parties.

(Expressed in United States Dollars)

8. Petroleum and Natural Gas Properties

	As at December 31, 2010		
	Georgetown	**Staging Facility & Logistics Yard**	**Total**
Balance, beginning of year	**$ 26,924,383**	**$ 23,676**	**$26,948,059**
Acquisition and exploration costs	**7,073,373**	**1,209,466**	**8,282,839**
Proceeds on asset disposal	**(7,500)**	**-**	**(7,500)**
Write-down of petroleum and natural gas properties	**(349,175)**	**-**	**(349,175)**
Balance, end of year	**$ 33,641,081**	**$ 1,233,142**	**$34,874,223**

	As at December 31, 2009		
	Guyana	Staging Facility & Logistics Yard	Total
Balance, beginning of year	$ 20,656,623	$ -	$20,656,623
Acquisition and exploration costs	6,267,760	23,676	6,291,436
Balance, end of year	$ 26,924,383	$ 23,676	$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 2.9 million acres comprised of two Petroleum Prospecting Licences (PPL) - the Annex PPL which is owned 100% by CGX Resources Inc. and the Corentyne PPL which is split into two components - the exploration rights offshore owned 100% by CGX Resources Inc. and the exploration rights onshore owned 100% by ON Energy Inc. having been transferred to ON Energy Inc. by CGX in September 2003. Annual Rental and Training Fees are $100,000. If a discovery is made, CGX has the right to convert the Discovery Area plus reasonable surrounding acreage to a Production Licence, subtracting this area from the Contract Area. The term of the Production Licence is 20 years, renewable for a further 10 years.

(Expressed in United States Dollars)

8. Petroleum and Natural Gas Properties (continued)

Corentyne Petroleum Agreement (PA), Guyana (continued)

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. On June 24, 2010, the second renewal of the Petroleum Agreement was granted by the government.

On October 14, 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 $3,400,000 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 June 25, 2010.

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	December 2007	Main area: Conduct a pilot geochemical study onshore. Annex Area: Interpret 3,000km of seismic data and reprocess 825km	1%	Complete
1st Renewal Phase 2	December 2007	June 2010	Shoot 500 line kilometres of 3D seismic; or shoot 1500km of 2D seismic; or drill 1 exploration well	20%	3D Complete
2nd Renewal Phase 1	June 2010	December 2011	Drill 1 exploration well		
2nd Renewal Phase 2	December 2011	June 2013	Drill 1 exploration well		

8. Petroleum and Natural Gas Properties (continued)

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 2nd Renewal Phase 1 of the contract, the Georgetown participants have committed to drill an exploration well during the period ending May 2011. Most of the drilling supplies are either in transit or in-country, but the drill rig will be delayed until the third quarter due to weather conditions preventing the rig from moving offshore Suriname. The government has been advised of these circumstances beyond the control of the Georgetown Participants. 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.

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 has assigned to Century an overriding royalty interest consisting of 2.5% of all revenues to the extent that the revenues are directly attributable to the contractor's share of Profit Oil. The Pomeroon PA issued in November 1997 is approximately 2.8 million acres. An application has been made to the Government of Guyana to extend the term of the contract to November 2013. All work commitments up to the end of the initial period 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 effective October 2007, and an application has been made for Second Renewal effective October 2010. The principal terms of the Petroleum Agreement are similar to those for the Corentyne PA. Although the Company continues to negotiate the renewal terms with the government and look for other alternatives to continue to advance this property, management has recorded an impairment on this property to bring the carrying value to $Nil, using impairment guidance under Canadian GAAP. This resulted in an impairment of petroleum and natural gas properties of $349,175 (2009 - $Nil) in the year ended December 31, 2010.

Impairment Analysis – Guyana Cost Centre

The Company performed an impairment analysis in 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 further provisions for impairment were required for the Guyana petroleum and natural gas cost centre in the year ended December 31, 2010 and 2009.

(Expressed in United States Dollars)

9. Capital Stock

Share Capital

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

	December 31, 2010		December 31, 2009	
Balance, beginning of year	**127,299,913**	**$ 80,545,286**	126,144,913	$ 79,487,550
Options exercised	**541,250**	**354,625**	1,155,000	924,000
Marketed public offerings	**65,587,500**	**42,066,500**	-	-
Share issue costs		**(3,199,740)**	-	-
Fair value of options exercised	**-**	**209,294**	-	133,736
Balance, end of year	**193,428,663**	**$ 119,975,965**	127,299,913	$ 80,545,286

On August 17, 2010, the Company completed a marketed public offering ("Offering") of common shares, with 40,000,000 common shares of the Company being issued under the Offering at C$0.50 per share for gross proceeds of C$20,000,000 or US$19,186,500. Share issue costs associated with the Offering were $1,551,773.

On December 14, 2010, the Company completed a marketed public offering ("2nd Offering") of common shares, with 25,587,500 common shares of the Company being issued under the 2nd Offering at C$0.90 per share for gross proceeds of C$23,028,750 or US$22,880,000. Share issue costs associated with the 2nd Offering were $1,647,967.

Stock Options

The Company established a share incentive plan to provide additional incentive to its directors, officers, employees and consultants for their efforts on behalf of the Company in the conduct of its affairs. The maximum number of common shares reserved for issuance under the share option plan comprising part of the share incentive plan may not exceed 9% of the number of common shares outstanding. Under the terms of the plan, all options vest immediately, unless otherwise specified. All options granted under the plan expire no later than the fifth anniversary of the grant date. As at December 31, 2010, the Company had 6,113,580 (December 31, 2009 – 1,176,992) options available for issuance under the plan. The options outstanding to purchase common shares is as follows:

As at December 31,	**2010**		**2009**	
	Weighted Average Exercise Price ($)	**No. of Options**	Weighted Average Exercise Price ($)	No. of Options
Outstanding at beginning of year	**1.39**	**10,280,000**	1.37	8,855,000
Transactions during the year:				
Granted	**1.13**	**2,400,000**	1.32	3,000,000
Exercised	**0.66**	**(541,250)**	0.80	(1,155,000)
Expired	**0.73**	**(843,750)**	0.77	(420,000)
Outstanding at end of year	**1.48**	**11,295,000**	1.39	10,280,000

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

	No. of Options Outstanding	**Weighted Average Remaining Life (Years)**	**Weighted Average Exercise Price**
$0.37	**1,350,000**	**0.49**	**$ 0.37**
$1.11 - $1.37	**7,135,000**	**3.36**	**$ 1.23**
$1.81 - $2.71	**2,810,000**	**2.41**	**$ 2.65**
$ 0.37 - $2.71	**11,295,000**	**2.78**	**$ 1.48**

(Expressed in United States Dollars)

9. 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 year ended December 31, 2010:

	February 26, 2010	October 19, 2010	Totals
Number of options granted	200,000	2,200,000	2,200,000
Exercise price	C$1.80	C$1.11	
Risk-free interest rate	2.49%	1.85%	
Expected life (years)	5.0	5.0	
Expected volatility	91.69%	98.72%	
Expected dividends	-	-	
Stock based compensation	$ 244,000	$ 1,683,000	$ 1,927,000

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:

	June 1, 2009	November 1, 2009	Totals
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 year ended December 31, 2010 was $0.80 (2009 – $0.88) per option issued.

10. Contributed Surplus

	December 31, 2010	December 31, 2009
Balance, beginning of year	**$ 12,749,117**	$ 10,255,404
Value transferred on exercised options	**(209,294)**	(133,736)
Fair value of stock options granted	**1,927,000**	2,627,449
Balance, end of year	**$ 14,466,823**	$ 12,749,117

11. Commitments

The Company has entered into agreements for premises rental, consulting contracts for management services and staging facility development contracts. The future minimum lease payments, consultancy commitments and contract commitments over the next three years are as follows:

Fiscal Year Ended December 31, 2010	**Premises**	**Consultants**	**Contracts**
2011	**151,000**	**787,000**	**1,083,000**
2012	**139,000**	**-**	**-**
2013	**150,000**	**-**	**-**
2014	**155,000**	**-**	**-**
2015	**155,000**	**-**	**-**

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

(Expressed in United States Dollars)

12. Segmented Information

The Company currently has one reportable segment as at December 31, 2010, being the exploration, development and production of petroleum and natural gas in Guyana. As at December 31, 2010 all of the Company's assets are located in Guyana except for $46.3 million (2009 - $16.8 million) in current assets which are held in Canada. The following is a detailed breakdown of the Company's assets by Geographical location.

As at December 31,	**2010**	2009
Total assets		
Canada	**46,338,847**	16,750,512
Guyana	**34,936,367**	26,976,558
	81,275,214	43,727,070

13. Income Taxes

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

	2010	2009
	$	$
Loss before income taxes	**(4,740,489)**	(3,692,712)
Combined Statutory rate	**31.00%**	33.00%
Estimated recovery of income taxes	**(1,470,000)**	(1,219,000)
Difference between Canadian and foreign tax rates	**332,000**	-
Difference between current and future tax and foreign exchange rates	**119,000**	(397,000)
Stock-based compensation	**596,000**	867,000
Deductible share issue costs	**(824,000)**	-
Other permanent differences	**(451,000)**	-
Change in valuation allowance	**1,698,000**	749,000
Future income tax recovery	**-**	-

Future Income Taxes Recoverable

The Canadian statutory income tax rate of 31% (2009 - 33%) is comprised of the federal income tax rate of approximately 18% (2009 - 19%) and the provincial income tax rate of approximately 13% (2009 - 14%). The Guyanese income tax rate is approximately 35% (2009 - 35%). The primary differences which give rise to the future income tax recoveries at December 31, 2010 & 2009 are as follows:

	2010	2009
Future income tax assets	**$**	**$**
Temporary differences	**1,046,000**	1,578,000
Losses carried forward	**2,761,000**	531,000
	3,807,000	2,109,000
Less : valuation allowance	**(3,807,000)**	(2,109,000)
Net future tax assets	**-**	-
Future tax liabilities		
Future tax liabilities	**-**	-
Net future tax assets	**-**	-

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

13. Income Taxes (continued)

At December 31, 2010, the Company had Canadian non-capital loss carry-forwards of C$ 9,957,000 (2009 - C$ 5,388,000) expiring at various dates from 2026 to 2030. In addition, the Company had Canadian capital losses of C$ 2,050,000 (2009 - C$ 2,050,000) and Canadian mining exploration & development expenses of C$ 927,000 (2009 - C$ 927,000). These tax benefits which have not been recognized in the accounts are available to carry forward indefinitely.