



**Interim MD&A – Quarterly Highlights (the “Quarterly Highlights”)  
For the three month period ended March 31, 2017**

**Dated: May 24, 2017**

**INTRODUCTION**

The following Management Discussion & Analysis – Quarterly Highlights (“**Quarterly Highlights**”) of CGX Energy Inc. (the “**Company**” or “**CGX**”) has been prepared to provide material updates to the business operations, liquidity and capital resources of the Corporation since its last management discussion & analysis, being the Management Discussion & Analysis (“**Annual MD&A**”) for the fiscal year ended December 31, 2016. This Quarterly Highlights does not provide a general update to the Annual MD&A, or reflect any non-material events since date of the Annual MD&A.

This Quarterly Highlights has been prepared in compliance with the requirements of section 2.2.1 of Form 51-102F1, in accordance with National Instrument 51- 102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with Annual MD&A, the audited consolidated financial statements of the Company for the years ended December 31, 2016 and 2015 and the unaudited interim consolidated financial statements for the three month periods ended March 31, 2017 and 2016, together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. In the opinion of management, all adjustments (which consist only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results for the three months ended March 31, 2017 are not necessarily indicative of the results that may be expected for any future period. Information contained herein is presented as at May 24, 2017 unless otherwise indicated.

The unaudited interim consolidated financial statements for the three month periods ended March 31, 2017 and 2016, have been prepared using accounting policies consistent with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board and interpretations of the IFRS Interpretations Committee. The unaudited interim consolidated financial statements have been prepared in accordance with International Standard 34, Interim Financial Reporting.

External auditors, appointed by the shareholders, have not audited or reviewed the consolidated financial statements for the three month periods ended March 31, 2017 and 2016 and did not perform the tests deemed necessary to enable them to express an opinion on these unaudited interim consolidated financial statements.

For the purposes of preparing this Quarterly Highlights, management, in conjunction with the Board of Directors, considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of CGX’s common shares; or (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

**ADDITIONAL INFORMATION**

Additional information is accessible at the Company’s website [www.cgxenergy.com](http://www.cgxenergy.com) or through the Company’s public filings available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS**

This Quarterly Highlights includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and other similar words suggesting future outcomes or statements regarding an outlook. Such risks and uncertainties include, but are not limited to, risks associated with the offshore and onshore oil and gas industry (including operational risks in exploration development and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections in relation to production, costs and expenses; the uncertainty surrounding the ability of CGX to obtain all permits, consents or authorizations required for its operations and activities; and health safety and environmental risks), the risk of commodity price and foreign exchange rate fluctuations, the risk of CGX not being able to fund the capital and operating expenses necessary to achieve its business plan, the uncertainty associated with commercial negotiations and negotiating with foreign governments and risks associated with international business activities, as well as those risks described in public disclosure documents filed by CGX. The ability of the Company to carry out its business plan is primarily dependent upon the continued support of its shareholders, the discovery of economically recoverable reserves and the ability of the Company to obtain financing to develop such reserves. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in securities of CGX should not place undue reliance on these forward-looking statements. Statements in relation to "reserves" and "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

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

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

### *Boe Conversion*

The term "boe" is used in this MD&A. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of cubic feet to barrels is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In this MD&A we have expressed boe using the conversion standard of 6.0 Mcf: 1 bbl.

### *Prospective Resources*

Readers should give attention to the estimates of individual classes of resources and appreciate the differing probabilities of recovery associated with each class. Estimates of remaining recoverable resources (unrisked) include Prospective Resources that have not been adjusted for risk based on the chance of discovery or the chance of development and Contingent Resources that have not been adjusted for risk based on the chance of development. It is not an estimate of volumes that may be recovered. Actual recovery is likely to be less and may be substantially less or zero.

Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective



Resources have both an associated chance of discovery and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates, assuming their discovery and development, and may be sub-classified based on project maturity. There is no certainty that any portion of the resources will be discovered and they would be technically and economically viable to recover. If discovered, there is no certainty that any discovery will be technically or economically viable to produce any portion of the resources.

## Recent Highlights

Highlights of the Company's recent activities to date include the following:

- On April 26, 2017, the Company entered into a bridge loan agreement (the “**Bridge Loan III**”) with Pacific Exploration & Production Corp. (“**Pacific**”) in the aggregate principal amount of up to \$3,100,000. The Bridge Loan III is a non-revolving term facility. The Bridge Loan III accrues interest at an annual rate of 5% per annum and is repayable in full including all accrued interest in April 2018. The Company may draw all or part of the Bridge Loan III in one or more advances to be made on a date or dates agreed to by both parties. Pacific has the right to take a pledge of shares of CGX’s subsidiaries in an event of default under the Bridge Loan III. As of May 24, 2017, the Company had drawn down approximately \$1,410,000 on the Bridge Loan III.
- On October 13, 2016, the Company entered into a bridge loan agreement (the “**Bridge Loan II**”) with Pacific in the aggregate principal amount of up to \$2 million. This facility was used to help CGX fund monthly general and administrative expenses and was a drawdown facility that was approved by Pacific on a monthly basis. The Bridge Loan II accrues interest at an annual rate of 5% per annum and is repayable in full including all accrued interest in October 2017. Pacific has the right to take a pledge of shares of CGX’s subsidiaries in an event of default under the Bridge Loan II. The Company has fully drawn on the Bridge Loan II.
- On March 4, 2016, CGX entered into a bridge loan facility (the “**Bridge Loan I**”) with Pacific in an amount up to \$2 million. This facility was used to help CGX fund monthly general and administrative expenses and was a drawdown facility that was approved by Pacific on a monthly basis. The Bridge Loan I accrues interest at an annual rate of 5% per annum and is repayable in full including all accrued interest in March 2017. Pacific has the right to take a pledge of shares of CGX’s subsidiaries in an event of default under the Bridge Loan I. The Company has fully drawn on the Bridge Loan I.
- On November 16, 2015, Company agreed to issue a convertible debenture (the “**Convertible Debenture**”) by private placement in the amount of \$1.5 million to Pacific. The Convertible Debenture has a term of twelve months and an annual interest payable of 5% and was convertible at the option of the holder at a conversion price of C\$0.335. The Convertible Debenture has been funded in full. Pacific has the right to take a pledge of shares in the Company’s subsidiaries in an event of default under the Convertible Debenture.
- Pursuant to the terms of the Petroleum Prospecting Licences (“**PPL**”) governing the Corentyne Block, the Company is currently negotiating the terms of an extension of the spud date for its next exploration well on the block. The previous spud date was July 1, 2016. The Company is also currently negotiating extensions on its commitments of its Demerara and Berbice PPLs.

## CORPORATE OVERVIEW AND OUTLOOK

CGX is an oil and gas exploration company headquartered in Toronto, Canada. The Company is listed on the TSX Venture Exchange under the symbol OYL. CGX was incorporated in 1998 for the primary purpose of exploring for hydrocarbons in Guyana, South America. As at May 24, 2017, CGX holds an interest in three Petroleum Agreements (known as the Corentyne, Berbice and Demerara Blocks) covering approximately 3.3 million gross acres (approximately 3 million net acres) offshore and onshore Guyana.



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

### **Carrying on Business in Guyana**

The exploration activities of CGX are currently conducted in Guyana through its subsidiaries. The following description of carrying on business in Guyana is taken from publicly available information provided by the Guyana Office for Investment and is available at [www.guyanaconsulate.com](http://www.guyanaconsulate.com) under the heading “Investment Guide”.

Guyana is situated on the northern coast of the South American continent. It is bound on the north by the Atlantic Ocean, on the east by Suriname, on the south-west by Brazil and on the north-west by Venezuela. Guyana's total area is approximately 215,000 km<sup>2</sup>, slightly smaller than Great Britain. Its coastline is approximately 4.5 feet below sea level at high tide, while its hinterland contains mountains, forests, and savannahs. This topography has endowed Guyana with its extensive network of rivers and creeks as well as a large number of waterfalls. Guyana is endowed with natural resources including fertile agricultural land and rich mineral deposits (including gold, diamonds and semi-precious stones, bauxite and manganese).

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

The Co-operative Republic of Guyana is an independent republic headed by the president and National Assembly. Guyana is a member of the British Commonwealth of Nations, with a legal system based for the most part on British Common Law.

### **The Petroleum Regime in Guyana**

Under the Guyana *Petroleum Act of 1986*, petroleum exploration in Guyana is executed by and subject to the approval of, the Minister Responsible for Petroleum. Within Guyana, subsurface rights for minerals and petroleum are vested in the state.

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

PAs may address the following matters: (i) granting of requisite licences; (ii) conditions to be included in the granting or renewal of such licences; (iii) procedure and manner with respect to the exercise of Ministerial discretion; and (iv) any matter incidental to or connected with the foregoing.

In order to obtain a PPL, the licensee must:

- submit a prospecting licence application to the Minister Responsible for Petroleum, including a detailed annual work program and budget; and

- agree to comply with licence conditions stipulated by the Minister Responsible for Petroleum, including conditions stipulated in the applicable governing PA.

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

### **CGX's PAs and PPLs**

On November 27, 2012, the Company was issued a new Corentyne PA and PPL covering 6,212 km<sup>2</sup>, the same area as the offshore portion of the former Corentyne PPL that had been issued on June 24, 1998. Under the terms of the new Corentyne PA, during the initial period of four years CGX has an obligation to drill two wells. The Corentyne PA and PPL are renewable after four years for up to six additional years. The Corentyne PPL is 100% owned by CGX Resources.

On February 12, 2013, the Company entered into the Demerara PA and PPL covering 3,975 km<sup>2</sup>, the same area of the former Annex PPL, which was a subset of the Company's original Corentyne PA. Under the terms of the Demerara PA, during the initial period of four years, CGX had an obligation to conduct a 3D seismic survey of a minimum of 1,000 km<sup>2</sup> (completed in 2014) and to drill one exploration well. The Demerara PA and Demerara PPL are renewable after four years for up to six additional years. The Demerara PPL is 100% owned by CGX Resources.

On February 12, 2013, ON Energy entered into the Berbice PA and PPL covering 3,295 km<sup>2</sup>, the same area as the former Berbice PA issued on October 1, 2003, combined with the onshore portion of the Company's former Corentyne PA. Under the terms of the new Berbice PA, during the initial period of four years, ON Energy had an obligation to conduct an airborne survey of a minimum of 1,000 km<sup>2</sup> (completed in 2015) and either conduct a 2D seismic survey of a minimum of 100 km<sup>2</sup> or drill one exploration well. The Berbice PA and Berbice PPL are renewable after four years for up to six additional years. The Berbice PPL is 62% owned by ON Energy.

On June 18, 2015, CGX received approval to extend its spud date deadlines on the Corentyne Block. The Government of Guyana granted approval of the extensions for the spud date on the first commitment well from October 31, 2015 to July 1, 2016 and an extension to the spud date deadline on the second commitment well from November 27, 2016 to November 27, 2017.

Pursuant to the terms of the PPL governing the Corentyne Block and the Demerara Block, the Company is currently negotiating the terms of an extension of the spud dates for its next exploration wells on the Corentyne Block and the Demerara Block, respectively. The previous spud dates were July 1, 2016 and February 12, 2017. In addition, pursuant to the terms of the PPL governing the Berbice Block, the Company is currently negotiating the terms of an extension of the 100km 2D seismic or spud date for its next exploration well on the Berbice Block. The previous spud date or work completed date was February 12, 2017.

### **GUYANA OPERATIONS**

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

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

The original Corentyne PA was awarded to CGX in 1998, following which the Company began an active exploration program consisting of a 1,800 kilometre seismic acquisition and preparations to drill the Eagle



well. The Eagle drilling location in 2000 was 15 kilometres within the Guyana-Suriname border. However, a border dispute between Guyana and Suriname led to the Company being forced off the Eagle location before drilling could begin. As a result of that incident, all active offshore exploration in Guyana was suspended by CGX and the other operators in the area, including Exxon and Maxus (Repsol, YPF). On September 17, 2007, the International Tribunal on the Law of the Sea (“**ITLOS**”) awarded a maritime boundary between Guyana and Suriname. In the decision, ITLOS determined that it had the jurisdiction to decide on the merits of the dispute and that the line adopted by ITLOS to delimit the parties’ continental shelf and exclusive economic zone follows an unadjusted equidistance line. The arbitration was compulsory and binding. CGX financed a significant portion of Guyana’s legal expense at a cost of \$9.8 million. The decision was beneficial for CGX, as it concluded that 93% of CGX’s Corentyne PPL and 100% of the Georgetown PPL would be in Guyana territory.

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

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

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

The Eagle-1 well spudded on February 13, 2012 and was initially budgeted for 60 days of drilling, but experienced weather delays and mechanical issues which extended operations to 107 days. The initial cost estimate for the Eagle-1 well was \$55 million; however, due to additional time for drilling and additional logging of potential reservoir sands, the final costs associated with the Eagle-1 well were approximately \$89.4 million. In May 2012, the Company completed the analyses of the results of its Eagle-1 well on the Company’s 100% owned and operated Corentyne PPL, offshore Guyana. The well was declared a dry-hole after encountering hydrocarbon shows in three formations, but the potential reservoir sands proved to be water-bearing. The Company recognized the total cost of Eagle-1 well as a dry hole expense in the financial statements for the years ended December 31, 2013 and 2012.

On November 27, 2012, the Company received a new Corentyne PA, offshore Guyana, renewable after four years for up to six additional years. The New Corentyne PA applies to the former offshore portion of the Corentyne PPL, covering 6,212 km<sup>2</sup>.

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

## **Berbice PA, Guyana**

In 2003, CGX, through its 62% owned subsidiary ON Energy, applied for and was granted the Berbice PPL consisting of approximately 387,000 acres adjacent to the Corentyne onshore PPL. On the two onshore PPL's, ON Energy completed aeromag re-interpretation, a geochemical sampling program and a 2D seismic program, to fulfill the minimum work obligations, plus drilled three dry-holes.

On February 12, 2013, the Government of Guyana issued a new Berbice PA and PPL to ON Energy, comprising the former Berbice PA and the onshore portion of the former Corentyne PPL, covering 3,295 km<sup>2</sup>. Under the terms of the new Berbice PA, during the initial period of four years, ON Energy had an obligation to conduct an airborne survey comprising a minimum of 1,000 km<sup>2</sup> and either conduct a 2D seismic survey comprising a minimum of 100 km<sup>2</sup> or drill one exploration well.

Pursuant to the terms of the PPL governing the Berbice Block, the Company is currently negotiating the terms of an extension of the 100km 2D seismic or spud date for its next exploration well on the Berbice Block. The previous spud due date or work completed by date was February 12, 2017.

## **Demerara PA, Guyana**

On February 12, 2013, the Government of Guyana issued the new Demerara PA and PPL to the Company. The Demerara PA and PPL applies to the former offshore portion of the Annex PPL, covering 3,975 km<sup>2</sup>, which was a subset of the Company's original Corentyne PA. Under the terms of the new Demerara PA, during the initial period of four years, CGX has an obligation to conduct a 3D seismic survey of a minimum of 1,000 km<sup>2</sup> (completed in 2014) and to drill one exploration well.

In September 2014, the Company entered into a seismic contract with Prospector PTE. Ltd. ("Prospector") to conduct a 3,116.74 km<sup>2</sup> 3D seismic survey on the Company's 100% owned Demerara Block as part of its commitments under the Demerara PA and PPL. The aggregate cost of this seismic survey was approximately \$19 million with \$7 million paid to Prospector by way of issuance of 15,534,310 common shares ("Common Shares") valued at \$0.49 per share, \$2.5 million paid in cash thirty days after receipt of their invoice and the remainder of approximately \$9.5 million is payable in cash twelve months after the conclusion of the seismic survey, being December 2015. As of the date hereof, this amount remains unpaid. Prospector currently owns approximately 14.1% of the issued and outstanding Common Shares.

Pursuant to the terms of the PPL governing the Corentyne Block and the Demerara Block, the Company is currently negotiating the terms of an extension of the spud dates for its next exploration well on the Corentyne Block and the Demerara Block. The Company's spud date deadlines were July 1, 2016 and February 12, 2017.

## ***Contractual Commitments***

Under the terms of the new Corentyne PA and during the initial period of four years, CGX has an obligation to drill two wells. In June, 2015, the Company received an extension to its spud date deadline at the Corentyne PPL. The Government of Guyana granted approval of an extension on the spud date on the first commitment well from October 31, 2015 to July 1, 2016.

Under the terms of the new Demerara PA, and during the initial period of four years, CGX has an obligation to conduct a 3D seismic survey comprising a minimum of 1,000 km<sup>2</sup> and to drill one exploration well. In June 2014, the Company received approval from the Government of Guyana to proceed with a 3,000 km<sup>2</sup> sparse 3D seismic survey, which would fulfil the Company's minimum work commitments. This 3,000 km<sup>2</sup> sparse 3D seismic survey was completed in December 2014.

Under the terms of the new Berbice PA and during the initial period of four years, the Company has an obligation to conduct an airborne survey comprising a minimum of 1,000 km (completed in 2015) and either conduct a 2D seismic survey comprising a minimum of 100 line km or commence to drill one exploration well.

The Company is currently negotiating the terms of an extension of the spud dates for its next exploration well on the Corentyne Block and the Demerara Block. The previous spud dates were July 1, 2016 and February 12, 2017. In addition, pursuant to the terms of the PPL governing the Berbice Block, the Company is currently negotiating the terms of an extension of the 100km 2D seismic or spud date for its next exploration well on the Berbice Block. The previous spud date or work completed deadline was February 12, 2017.

Further details of the Company's contractual commitments are included in the unaudited interim consolidated financial statements for the three month periods ended March 31, 2017 and 2016.

### **Staging Facility and Wharf, Guyana**

The Company signed a 50 year lease commencing January 1, 2010, with an option to renew for an additional 50 years for approximately 55 acres on the Berbice River as this is an ideal location for a staging facility to support off-shore drilling activities. Utilizing a local facility is expected to result in significant savings as compared to running the logistics from Trinidad for future wells.

To date, the Company has fenced in the yard, constructed an office and sanitary services, installed two fuel tanks that can accommodate 20,000 litres, installed 200 metre by 50 metre of vertical drainage and completed an internal access road with crusher run and sand filling. A crusher run has also been placed in the entire yard. A two kilometre long by 5 metre wide access road has been constructed from the main road to the port yard site using Geotextile, reef sand, white sand, crusher run and bauxite capping. The Company's investment in the staging facility and wharf is owned by its wholly-owned subsidiary Grand Canal Industrial Estates Inc.

For the three month period ended March 31, 2017, the Company incurred net disposals of \$4,734 (year ended December 31, 2016 – \$67,968) with respect to the logistics yard and expenditures on a staging facility. The logistics yard was purchased in 2010 for \$385,000 and the remainder of the balance spent on the wharf to date was expended on planning for the staging area for the shore-based facility.

### **OVERALL PERFORMANCE**

The Company has no revenues, so its ability to ensure continuing operations is its ability to obtain necessary financing to complete the acquisition and development of potential oil and gas properties.

The net loss and comprehensive loss for the three months ended March 31, 2017 was \$1,288,849 (\$0.01 per share) as compared to \$1,125,284 (\$0.01 per share) for the three months ended March 31, 2016. Net loss for the period is consistent with prior periods as expected except for the following:

Interest expense increased by \$499,323 to \$669,152 in the three month period ended March 31, 2017 from \$169,829 for the same period in 2016. These costs are higher than the prior year due to interest costs incurred on higher related party loans and trade and other payables related to the rig cancellation costs incurred in late 2015. The Company is currently expecting to accrue approximately \$650,000 in interest per quarter in the upcoming quarters.

Foreign exchange loss for the period was \$54,954 (2016 –\$375,266). The loss for the period was mainly due to the strengthening of the Canadian dollar on the Company's C\$ Bridge loan. In the current year period the Canadian dollar had strengthened less than in the prior year and therefore resulted in a smaller foreign exchange loss for the period.

### **LIQUIDITY AND FINANCIAL CONDITION**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2017, the Company had a working capital deficiency of \$42,703,293 (December 31, 2016 - \$40,703,079), consisting of current assets of \$688,846 (December 31, 2016 - \$602,372) to settle current liabilities of \$43,392,139 (December 31, 2016 - \$41,305,451). In order to meet

its short-term and longer-term working capital and property exploration expenditures, the Company must secure further financing through joint venture, property sale and/or issuance of equity to ensure that its obligations are properly discharged. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. Please refer to "Going Concern Uncertainty and Management's Plans" for further details.

These financial statements have been prepared in accordance with accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and the Company's financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

For the three month period ended March 31, 2017, the Company had an opening cash balance of \$523,445 (Year ended December 31, 2016 - \$1,617,553). The cash balance increased by \$109,079 (Year ended December 31, 2016 – decreased by \$1,094,108) mainly from the proceeds from loans from related party of \$971,033 (Year ended December 31, 2016 – \$3,070,189) offset by operating loss for the three month period ended March 31, 2017 of \$1,288,849 (Year ended December 31, 2016 – \$5,017,941).

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

The three month periods ended March 31, 2017 and 2016 have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

The Company has a history of operating losses and as at March 31, 2017 had an excess of current liabilities over current assets of \$42,703,293 (December 31, 2016 - \$40,703,079) and an accumulated deficit of \$291,116,571 (December 31, 2016 - \$289,828,122). The ability of the Company to continue as a going concern is dependent on securing additional required financing through issuing additional equity, debt instruments, or sale of Company assets and/or obtain payments associated with a joint venture farm-out. Given the Company's capital commitment requirements under the Company's PPLs outlined in note 9 to the unaudited interim consolidated financial statements for the three month periods ended March 31, 2017 and 2016, the Company does not have sufficient cash flow to meet its operating requirements for the 12 month period from the balance sheet date. While the Company has been successful in raising financing in the past and believes in the viability of its strategy and that the actions presently being taken provide the best opportunity for the Company to continue as a going concern, there can be no assurances to that effect. As a result there exist material uncertainties which cast significant doubt as to the Company's ability to continue as a going concern.

#### **PROPOSED TRANSACTIONS**

None

#### **RELATED-PARTY TRANSACTIONS**

Under IFRS, parties are considered to be related if one party has the ability to "control" (financially or by share capital) the other party or have significant influence (management) on the other party in making financial, commercial and operational decisions.

The Board approves all related party transactions prior to implementation, engages independent legal counsel, as needed, and meets in camera to deliberate. The Board also reviews the business rationale for any proposed related party transaction and ensures that the transaction is in compliance with applicable securities laws.

The related party transactions listed below were in the normal course of operations and were measured at the exchange amount, which are the amounts of consideration established and agreed to by the related parties.

In October 2014, the Company entered into a bridge loan agreement (the “**C\$ Bridge Loan**”) with Pacific Exploration and Production Corp. (“**Pacific**”) in the aggregate principal amount of C\$7,500,000 (\$6,700,000). The C\$ Bridge Loan was a non-revolving term facility. As at March 31, 2017, the Company has drawn upon all of the facility. The C\$ Bridge Loan accrues interest at an annual rate of 5% per annum and was repayable in full, including all accrued interest, in October 2015.

The balances outstanding on the C\$ Bridge Loan from related party as at March 31, 2017 and December 31, 2016 are as follows:

<b>As at,</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Loan from related party	\$ 6,212,312	\$ 6,158,565
Accrued interest on loan from related party	136,161	59,054
<b>Total loan from related party</b>	<b>\$ 6,348,473</b>	<b>\$ 6,217,619</b>

The activity on the C\$ Bridge Loan from related party for the three month period ended March 31, 2017 and the year ended December 31, 2016 is as follows:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Opening balance at beginning of period/year	\$ 6,217,619	\$ 5,744,097
Loss on foreign exchange	53,835	173,303
Accrued interest on loan from related party	77,019	300,219
<b>Total loan from related party</b>	<b>\$ 6,348,473</b>	<b>\$ 6,217,619</b>

During the year ended December 31, 2015, the Company and Pacific agreed to extend the maturity for one year to October 2016. All other terms and conditions applicable to the C\$ Bridge Loan remain the same. The maturity date of this C\$ Bridge Loan passed unpaid.

In March 2016, the Company entered into a bridge loan agreement (the “**Bridge Loan I**”) with Pacific in the aggregate principal amount of up to \$2,000,000. The Bridge Loan I was a non-revolving term facility. The Bridge Loan I accrues interest at an annual rate of 7% per annum and is repayable in full including all accrued interest in March 2017. As at March 31, 2017, the Company has drawn upon all of the facility. The maturity date of this Bridge Loan I passed unpaid.

The balances outstanding on the Bridge Loan I from related party as at March 31, 2017 and December 31, 2016 are as follows:

<b>As at,</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Loan from related party	\$ 2,068,547	\$ 2,068,547
Accrued interest on loan from related party	82,109	56,607
<b>Total loan from related party</b>	<b>\$ 2,150,656</b>	<b>\$ 2,125,154</b>

The activity on the Bridge Loan I from related party for the three month period ended March 31, 2017 and the year ended December 31, 2016 is as follows:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Opening balance at beginning of period/year	\$ 2,125,154	\$ -
Loan from related party	-	2,068,547
Accrued interest on loan from related party	25,502	56,607
<b>Total loan from related party</b>	<b>\$ 2,150,656</b>	<b>\$ 2,125,154</b>

In October 2016, the Company entered into a bridge loan agreement (the “**Bridge Loan II**”) with Pacific in the aggregate principal amount of up to \$2,000,000. The Bridge Loan II is a non-revolving term facility. The Bridge Loan II accrues interest at an annual rate of 5% per annum and is repayable in full including all accrued interest in October 2017. As at March 31, 2017, the Company has drawn upon all of the facility.

The balances outstanding on the Bridge Loan II from related party as at March 31, 2017 and December 31, 2016 are as follows:

<b>As at,</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Loan from related party	\$ 1,972,675	\$ 1,001,642
Accrued interest on loan from related party	22,944	5,731
<b>Total loan from related party</b>	<b>\$ 1,995,619</b>	<b>\$ 1,007,373</b>

The activity on the Bridge Loan II from related party for the three month period ended March 31, 2017 and the year ended December 31, 2016 is as follows:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Opening balance at beginning of period/year	\$ 1,007,373	\$ -
Loan from related party	971,033	1,001,642
Accrued interest on loan from related party	17,213	5,731
<b>Total loan from related party</b>	<b>\$ 1,995,619</b>	<b>\$ 1,007,373</b>

The combined balances outstanding on the Bridge Loan I, Bridge Loan II and C\$ Bridge Loan from related party as at March 31, 2017 and December 31, 2016 are as follows:

<b>As at,</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>
C\$ Bridge Loan	\$ 6,348,473	\$ 6,217,619
Bridge Loan I	2,150,656	2,125,154
Bridge Loan II	1,995,619	1,007,373
<b>Total loans from related party</b>	<b>\$ 10,494,748</b>	<b>\$ 9,350,146</b>

The Bridge Loan I and Bridge Loan II are secured by a pledge of the shares in the Company's subsidiaries.

In November 2015, the Company entered into a convertible debenture (the “**Convertible Debenture**”) with Pacific in the aggregate principal amount of \$1,500,000. The Convertible Debenture accrues interest at an annual rate of 5% per annum and is repayable in full including all accrued interest in November 2016. This Convertible Debenture was convertible into shares of the Company at the option of Pacific at any time prior to maturity at a price of C\$0.335. In the event that the Company fails to satisfy any of its obligations under the Convertible Debenture, Pacific shall have the right to take a pledge of shares in the Company's subsidiaries. The maturity date of this Convertible Debenture passed unpaid and the conversion feature has expired.

The debentures are classified as a liability, with the exception of the portion relating to the conversion feature, resulting in the carrying value of the debenture being less than face value. The discount was accreted over the term of the debenture utilizing the effective interest rate method at a 10% discount rate.

The balances outstanding on the Convertible Debenture from related party as at March 31, 2017 and December 31, 2016 are as follows:

<b>As at,</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Convertible debenture from related party	\$ 1,575,000	\$ 1,575,000
Accrued interest on convertible debenture from related party	29,558	10,140
<b>Total loan from related party</b>	<b>\$ 1,604,558</b>	<b>\$ 1,585,140</b>

The activity on the Convertible Debenture from related party for the three month period ended March 31, 2017 and the year ended December 31, 2016 is as follows:

	<b>March 31, 2017</b>	December 31, 2016
Opening balance at beginning of year	\$ 1,585,140	\$ 1,442,470
Amortization of transaction costs and conversion feature	-	66,956
Accrued interest on loan from related party	19,418	75,714
<b>Total loan from related party</b>	<b>\$ 1,604,558</b>	<b>\$ 1,585,140</b>

The following sets out the details of the Company's related party transactions:

- The Company has a cost sharing agreement among Pacific, Gran Colombia Gold Corp., and Pacific Coal Resources Ltd. effective May 1, 2013 (the "**Cost Sharing Agreement**"). The Cost Sharing Agreement sets out the terms and allocation of certain share general and administrative costs, such as rent, utilities and other office administrative expenses. In accordance with the terms of the agreement, the Company recognized an expense of C\$Nil (2016 - C\$18,000) for the three month period ended March 31, 2017, of which \$84,000 (December 31, 2016 - \$84,000) was included in trade and other payables as at March 31, 2017. As at March 31, 2017, Pacific owns approximately 45.6% of the common shares of the Company and up to November 30, 2016 had several common directors.

At March 31, 2017, included in trade and other payables is \$151,000 (December 31, 2016 - \$150,000) due to these key management personnel as a result of deferred payment of directors fees. These amounts are unsecured, non-interest bearing and due on demand.

## RISKS AND UNCERTAINTIES

An investment in the securities of the Company is highly speculative and involves numerous and significant risks. Such investment should be undertaken only by investors whose financial resources are sufficient to enable them to assume these risks and who have no need for immediate liquidity in their investment. Prospective investors should carefully consider the risk factors that have affected, and which in the future are reasonably expected to affect, the Company and its financial position. Please refer to the section entitled "Risk and Uncertainties" in the Company's Annual MD&A for the fiscal year ended December 31, 2016, available on SEDAR at [www.sedar.com](http://www.sedar.com).

May 24, 2017

*"signed" Dewi Jones*

Dewi Jones, Chief Executive Officer

*"signed" Tralisa Maraj*

Tralisa Maraj, Chief Financial Officer





**Unaudited Interim Consolidated Financial Statements**

**For the three month periods ended**

**March 31, 2017 and 2016**

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

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

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

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

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

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

Toronto, Canada  
May 24, 2017

*"Dewi Jones"*

Dewi Jones  
Chief Executive Officer

*"Tralisa Maraj"*

Tralisa Maraj  
Chief Financial Officer

---

### **NOTICE TO READER**

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of management. The unaudited interim consolidated statements for the three months ended March 31, 2017 and 2016 have not been reviewed by the Company's auditors.

---

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

As at,	March 31, 2017	December 31, 2016
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents ( <i>note 6</i> )	<b>632,524</b>	523,445
Trade receivables and other assets ( <i>note 7</i> )	<b>56,322</b>	78,927
<b>Total current assets</b>	<b>688,846</b>	602,372
 <b>Property, plant and equipment (<i>note 8</i>)</b>		
<b>Exploration and evaluation expenditures (<i>note 9</i>)</b>	<b>24,014,500</b>	23,281,533
<b>Total assets</b>	<b>31,799,390</b>	30,993,151
 <b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables ( <i>notes 9, 10 and 11</i> )	31,292,833	30,370,165
Loans from related party ( <i>note 10</i> )	10,494,748	9,350,146
Previously convertible debentures from related party	1,604,558	1,585,140
<b>Total current liabilities</b>	<b>43,392,139</b>	41,305,451
 <b>Shareholders' deficiency</b>		
Share capital ( <i>note 13</i> )	257,864,691	257,864,691
Reserve for share based payments ( <i>note 14</i> )	21,659,131	21,651,131
Deficit	(291,116,571)	(284,810,181)
<b>Total shareholders' deficiency</b>	<b>(11,592,749)</b>	(10,312,300)
<b>Total liabilities and shareholders' deficiency</b>	<b>31,799,390</b>	30,993,151

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

**Commitments and contingencies (*notes 8, 9 and 10*)**

**Subsequent events (*note 16*)**

Approved on behalf of the Board of Directors on May 24, 2017:

(“Signed” Suresh Narine)  
\_\_\_\_\_  
Suresh Narine

(“Signed” Dennis Mills)  
\_\_\_\_\_  
Dennis Mills

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

Three month periods ended March 31,	2017	2016
	\$	\$
<b>Operating expenses</b>		
General and administrative ( <i>note 10</i> )	<b>214,883</b>	277,261
Management and consulting	<b>309,773</b>	315,897
Interest expense ( <i>notes 9 and 10</i> )	<b>669,152</b>	169,829
Professional fees	<b>22,519</b>	26,363
Shareholder information	<b>9,168</b>	10,668
Share based payments ( <i>notes 13 and 14</i> )	<b>8,000</b>	-
Foreign exchange loss	<b>54,954</b>	375,266
	<b>1,288,449</b>	1,175,284
Gain on revaluation of warrant liability ( <i>note 12</i> )	-	(50,000)
<b>Net loss and comprehensive loss</b>	<b>1,288,449</b>	1,125,284
 <b>Basic and fully diluted net loss per share</b>	 <b>0.01</b>	 0.01
 <b>Weighted average number of shares (000's) – basic and diluted</b>	 110,388	 108,572

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

**CGX Energy Inc.**  
**Unaudited Interim Consolidated Statements of Changes in Equity (Deficit)**  
(US\$'s)

	Share Capital		Reserves		
	Number of Shares	Amount	Share based	Deficit	Total
Balance at December 31, 2015	93,865,533	\$252,364,691	\$27,151,131	\$(284,810,181)	\$ (5,294,359)
Shares issued for contract cancellation fees	16,522,500	5,500,000	(5,500,000)	-	-
Net loss and comprehensive loss for the year	-	-	-	(5,017,941)	(5,017,941)
<b>Balance at December 31, 2016</b>	<b>110,388,033</b>	<b>\$257,864,691</b>	<b>\$21,651,131</b>	<b>\$(289,828,122)</b>	<b>\$ (10,312,300)</b>
<b>Share based payments</b>	-	-	8,000	-	8,000
<b>Net loss and comprehensive loss for the period</b>	-	-	-	(1,288,449)	(1,288,449)
<b>Balance at March 31, 2017</b>	<b>110,388,033</b>	<b>\$257,864,691</b>	<b>\$21,651,131</b>	<b>\$(291,116,571)</b>	<b>\$ (11,592,749)</b>
Balance at December 31, 2015	93,865,533	\$252,364,691	\$27,151,131	\$(284,810,181)	\$ (5,294,359)
Shares issued for exploration and evaluation expenditures	16,522,500	5,500,000	(5,500,000)	-	-
Net loss and comprehensive loss for the period	-	-	-	(1,125,284)	(1,125,284)
Balance at March 31, 2016	110,388,033	\$257,864,691	\$21,651,131	\$(285,935,465)	\$ (6,419,643)

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

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

Three month period ended March 31,	2017	2016
<b>Operations</b>	\$	\$
Net loss for the period	<b>(1,288,449)</b>	(1,125,284)
Adjustments to reconcile net loss for the period to cash flow from operating activities:		
Unrealized foreign exchange loss	54,954	375,266
Amortization	8,828	12,166
Interest accretion on trade and other payables, loans and convertible debentures payable to related party	669,152	109,829
Share based payments	8,000	-
Gain on revaluation of warrant liability	-	(50,000)
Net change in non-cash working capital items:		
Trade receivables and other assets	22,605	(38,583)
Trade and other payables	272,172	(94,039)
<b>Cash flow used in operating activities</b>	<b>(252,738)</b>	(810,645)
<b>Financing</b>		
Proceeds from loans from related party	971,033	300,000
<b>Cash flow from financing activities</b>	<b>971,033</b>	300,000
<b>Investing</b>		
Purchases of exploration and evaluation expenditures	(612,471)	(300,734)
Proceeds of (Purchases of) property, plant and equipment	4,374	(5,125)
<b>Cash flow used in investing activities</b>	<b>(608,097)</b>	(305,859)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>110,198</b>	(816,504)
Effect of exchange rate changes on cash held in foreign currencies	(1,119)	6,028
Cash and cash equivalents at beginning of period	523,445	1,617,553
<b>Cash and cash equivalents at end of period</b>	<b>632,524</b>	807,077
<b>Supplementary Information</b>		
Interest paid	-	-
Income tax paid	-	-

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

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2017 and 2016**

---

**General**

CGX Energy Inc. (“**CGX**” or the “**Company**”) is incorporated under the laws of Ontario. The Company’s head office is located at 333 Bay Street, Suite 1100, Toronto, Ontario, M5H 2R2. Its principal business activity is petroleum and natural gas exploration offshore Guyana, South America.

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

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

The Company has a history of operating losses and as at March 31, 2017 had an excess of current liabilities over current assets of \$42,703,293 (December 31, 2016 - \$40,703,079) and an accumulated deficit of \$291,116,571 (December 31, 2016 - \$289,828,122). The ability of the Company to continue as a going concern is dependent on securing additional required financing through issuing additional equity or debt instruments, the sale of Company assets, or obtaining payments associated with a joint venture farm-out. As a result and given the Company’s capital commitment requirements under the Company’s Petroleum Production Licences (“**PPLs**”) outlined in note 9, the Company does not have sufficient cash flow to meet its operating requirements for the 12 month period from the balance sheet date. While the Company has been successful in raising financing in the past and believes in the viability of its strategy and that the actions presently being taken provide the best opportunity for the Company to continue as a going concern, there can be no assurances to that effect. As a result there exist material uncertainties which cast significant doubt as to the Company’s ability to continue as a going concern. Refer also to the discussion in note 9 regarding discussions to extend the terms of the Company’s PPLs.

Although the Company has taken steps to verify title to the licences on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such licences, these procedures do not guarantee the Company’s title. Licence title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory, environmental and social requirements.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material. It is not possible to predict whether the Company will be able to raise adequate financing or to ultimately attain profitable levels of operations.

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2017 and 2016**

---

## **2. Basis of Preparation**

### **2.1 Statement of compliance**

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

### **2.2 Basis of presentation**

These unaudited interim consolidated financial statements were authorized by the Board of Directors of the Company on May 24, 2017.

The notes herein include only significant transactions and events occurring since the Company's last fiscal year end and are not fully inclusive of all matters required to be disclosed in the annual audited consolidated financial statements. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with our most recent annual audited financial statements for the year ended December 31, 2016.

#### ***New standards, interpretations and amendments adopted by the Company***

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2016, except for the adoption of new standards and interpretations effective as of January 1, 2017 outlined in note 2.4.

#### **Comparative Figures**

Certain of the prior year balances on the Company's statement of comprehensive loss have been reclassified to conform to the current year's presentation. The result of this reclassification did not result in any changes to comprehensive loss for the three month period ended March 31, 2016 as the reclassification was between line items under operating expenses.

### **2.3 Use of management estimates, judgments and measurement uncertainty**

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

#### ***Calculation of share based payments and warrant liability***

The Black-Scholes option pricing model is used to determine the fair value for the share based payments and warrant liability and utilizes subjective assumptions such as expected price volatility and expected life of the option or warrant. Discrepancies in these input assumptions can significantly affect the fair value estimate.

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2017 and 2016**

---

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

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

***Cash generating units and impairment testing***

***Exploration and evaluation (“E&E”) expenditures (Note 9)***

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

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

The Company prepares and reviews separate detailed budgets and forecast calculations for each of the CGUs. Impairment assessment is generally carried out separately for each CGU based on cash flow forecasts calculated based on proven reserves for each CGU (value in use).

***Functional currency***

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

***Income taxes***

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2017 and 2016**

---

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

**2.4 Future accounting policies and standards adopted**

**Future accounting policies**

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

- In July 2014 the IASB issued the final amendments to IFRS 9, *Financial Instruments* (“**IFRS 9**”) which provides guidance on the classification and measurement of financial assets and liabilities, impairment of financial assets, and general hedge accounting. The classification and measurement portion of the standard determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. The amended IFRS 9 introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. In addition, the amended IFRS 9 includes a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.
- IFRS 16 *Leases* (“**IFRS 16**”), sets out the principles for the recognition, measurement and disclosure of leases. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right-of-use assets and lease liabilities for leases with terms of more than 12 months, unless the underlying asset is of low value. Under IFRS 16, lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15.

**Standards adopted**

Effective January 1, 2016, the Company applied, for the first time, certain standards and amendments that require additional disclosures in the unaudited interim consolidated financial statements. The application of the following standards/amendments had no impact on the Company's consolidated financial statements:

**New standards and interpretations adopted**

Effective January 1, 2016, the Company applied, for the first time, certain standards and amendments that require additional disclosures in the consolidated financial statements. The application of the following standards/amendments had no impact on the Company's consolidated financial statements:

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2017 and 2016**

---

**2. BASIS OF PREPARATION (continued)**

**2.4 Future accounting policies and standards adopted (continued)**

**Standards adopted (continued)**

- IFRS 15 *Revenue from Contracts with Customers* - IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"), was issued in May 2014 and will replace IAS 11, "Construction Contracts," IAS 18, "Revenue Recognition," IFRIC 13, "Customer Loyalty Programmes," IFRIC 15, "Agreements for the Construction of Real Estate," IFRIC 18, "Transfers of Assets from Customers," and SIC-31, "Revenue – Barter Transactions Involving Advertising Services." IFRS 15 provides a single, principle-based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17 and financial instruments and other contractual rights or obligations within the scope of IFRS 9 "Financial Instruments," IFRS 10, "Consolidated Financial Statements" and IFRS 11, "Joint Arrangements." In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities. IFRS 15 is required for annual periods beginning on or after January 1, 2017; earlier adoption is permitted.

**3. Capital management**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of petroleum and natural gas properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of management to sustain future development of the business. The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and will be required to raise additional funding. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the three month period ended March 31, 2017 and the year ended December 31, 2016.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months. As of March 31, 2017 and the date of these financial statements, the Company may not be compliant with the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV.

The Company considers its capital to be equity, which is comprised of share capital, reserve accounts, deficit, previously convertible debentures from related party and loans from related party, which as at March 31, 2017 totaled \$506,557 (December 31, 2016 – \$622,986).

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

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

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2017 and 2016**

---

#### **4. Financial instruments**

##### **Fair value**

The Company has designated its cash equivalents and marketable securities as fair value through profit and loss which are measured at fair value. Fair value of cash equivalents and marketable securities is determined based on transaction value and is categorized as level one measurement. Trade and other receivables are classified for accounting purposes as loans and receivables, which are measured at amortized cost which approximates fair value.

Trade and other payables and loans payable from related party are classified for accounting purposes as other financial liabilities, which are measured at amortized cost which also approximates fair value. Warrant liability is classified for accounting purposes as fair value through profit and loss which is measured at fair value and is categorized as a level two measurement.

Fair value of trade and other receivables, trade and other payables and warrant liability are determined based on level three measurements:

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

As at March 31 2017, the carrying and fair value amounts of the Company's trade and other receivables, trade and other payables and loans payable from related party are approximately equivalent due to the relatively short periods to maturity and the nature of these accounts. Fair value estimates are made at a specific point in time, based on relevant market information and information about financial instruments.

These estimates are subject to and involve uncertainties and matters of significant judgment, therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

##### **i) Credit risk**

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

- a) **Cash and cash equivalents** – Cash and cash equivalents are held with major Canadian and American financial institutions in Canada and the United States and therefore the risk of loss is minimal.
- b) **Trade and other receivables** – The Company is exposed to credit risk attributable to customers or credits from vendors. The Company does not believe that this risk is significant. (See Note 7)

The Company's maximum exposure to credit risk as at March 31 2017 is the carrying value of cash and cash equivalents, trade and other receivables.

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2017 and 2016**

---

**4. Financial instruments (*continued*)**

**ii) Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities as they become due. As at March 31 2017, the Company had a working capital deficiency of \$42,703,293 (December 31, 2016 - \$40,703,079). In order to meet its working capital and property exploration expenditures, the Company must secure further financing to ensure that those obligations are properly discharged (See Note 1). There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. If additional financing is raised by the issuance of shares from the treasury of the Company, control of the Company may change and shareholders may suffer additional dilution. If adequate financing is not available, the Company may be required to delay, reduce the scope of, or eliminate one or more exploration activities or relinquish rights to certain of its interests.

**iii) Market risk**

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

**a) Interest rate risk**

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

**b) Currency risk**

The Company's exploration and evaluation activities are substantially denominated in US dollars. The Company's funds are predominantly kept in Canadian and US dollars, with major Canadian and US financial Institutions. As at March 31 2017, the Company had approximately \$200,000 in Canadian dollar denominated cash deposits.

**5. Sensitivity analysis**

The Company's funds are kept in Canadian and US dollars with major Canadian and US financial institutions. As at March 31 2017, the Company's exposure to foreign currency balances approximate as follows:

<b>Account</b>	<b>Foreign Currency</b>	<b>Exposure</b>	
		<b>2017</b>	<b>2016</b>
<b>March 31,</b>			
Cash and cash equivalents	C \$	\$ 200,000	\$ 300,000
Trade and other payables	C \$	(200,000)	(200,000)
Loans from related party	C \$	(8,400,000)	(8,000,000)
		<b>\$ (8,400,000)</b>	<b>\$ (7,900,000)</b>

Based on management's knowledge and experience of the financial markets, the Company believes it is reasonably possible over a one year period that a change of 10% in foreign exchange rates would increase/decrease net loss for the three month period ended March 31 2017 by \$(840,000) (2016 - \$(790,000)).

**6. Cash and cash equivalents**

The balance of cash and cash equivalents at March 31, 2017, consisted of \$562,524 (December 31, 2016 - \$451,955) on deposit with major financial institutions in Canada and the United States and \$70,000 (December 31, 2016 - \$71,490) in short-term guaranteed investment certificates and fixed instruments with remaining maturities on the date of purchase of less than 90 days.

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2017 and 2016**

---

**7. Trade receivables and other assets**

The Company's trade receivables and other assets arise from two main sources: Harmonized sales tax ("HST") receivable and prepaid expenses. These are broken down as follows:

	As at,	
	March 31, 2017	December 31, 2016
Trade receivables	\$ 3,955	\$ 33,426
HST receivable	10,851	10,203
Prepaid expenses	41,516	35,298
<b>Total trade receivables and other assets</b>	<b>\$ 56,322</b>	<b>\$ 78,927</b>

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

	As at,	
	March 31, 2017	December 31, 2016
1 – 30 days	\$ -	\$ 29,471
Over 90 days	3,955	3,955
<b>Total trade receivables</b>	<b>\$ 3,955</b>	<b>\$ 33,426</b>

At March 31, 2017, the Company anticipates full recovery of these amounts receivable and therefore no additional allowance has been recorded against these receivables. The credit risk on the receivables has been further discussed in Note 4(i). The Company holds no collateral for any receivable amounts outstanding as at March 31, 2017.

**8. Property, plant and equipment**

	Staging Facility <sup>(1)</sup>	Logistics Yard <sup>(1)</sup>	Office, furniture and fixtures	Computer, software and equipment	Total
<b>Cost</b>					
As at December 31, 2015	\$ 6,356,882	\$ 686,111	\$ 127,878	\$ 539,637	\$ 7,710,508
Net dispositions	(67,968)	-	-	-	(67,968)
<b>As at December 31, 2016</b>	<b>\$ 6,288,914</b>	<b>\$ 686,111</b>	<b>\$ 127,878</b>	<b>\$ 539,637</b>	<b>\$ 7,642,540</b>
<b>Net dispositions</b>	<b>(4,374)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,374)</b>
<b>As at March 31, 2017</b>	<b>\$ 6,284,540</b>	<b>\$ 686,111</b>	<b>\$ 127,878</b>	<b>\$ 539,637</b>	<b>\$ 7,638,166</b>
<b>Accumulated amortization</b>					
As at December 31, 2015	\$ -	\$ -	\$ 78,687	\$ 405,940	\$ 484,627
Amortization <sup>(2)</sup>	-	-	9,839	38,828	48,667
<b>As at December 31, 2016</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 88,526</b>	<b>\$ 444,768</b>	<b>\$ 533,294</b>
<b>Amortization<sup>(2)</sup></b>	<b>-</b>	<b>-</b>	<b>1,968</b>	<b>6,860</b>	<b>8,828</b>
<b>As at March 31, 2017</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 90,494</b>	<b>\$ 451,628</b>	<b>\$ 542,122</b>
<b>Net book value</b>					
As at December 31, 2016	\$ 6,288,914	\$ 686,111	\$ 39,352	\$ 94,869	\$ 7,109,246
<b>As at March 31, 2017</b>	<b>\$ 6,284,540</b>	<b>\$ 686,111</b>	<b>\$ 37,384</b>	<b>\$ 88,009</b>	<b>\$ 7,096,044</b>

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

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

On April 18, 2016, CGX entered into a term sheet with a potential partner in respect of CGX's wharf and logistics yard located in Berbice, Guyana (the "Term Sheet"). Pursuant to the Term Sheet, the Company received a non-refundable deposit in the amount of \$50,000. The exclusivity period under the Term Sheet expired in August 2016 and the Company continues to pursue other alternatives.

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2017 and 2016**

---

**8. Property, plant and equipment (continued)**

The lands upon which the staging facility and the logistics yard are located are subject to an industrial lease of State land with the Commissioner of Lands and Surveys in Guyana. The term of the lease is for a period of 50 years commencing in 2010 with an option to renew for an additional 50 years. This land is subject to annual rental commitments relating to this lease.

**9. Exploration and evaluation expenditures**

	Corentyne	Berbice	Demerara	Total
Balance, December 31, 2015	\$ 13,973,801	\$ 520,000	\$ 6,896,547	\$ 21,390,348
Net additions	1,100,715	312,900	477,570	1,891,185
<b>Balance, December 31, 2016</b>	<b>\$ 15,074,516</b>	<b>\$ 832,900</b>	<b>\$ 7,374,117</b>	<b>\$ 23,281,533</b>
<b>Net additions</b>	<b>312,821</b>	<b>136,000</b>	<b>284,146</b>	<b>732,967</b>
<b>Balance, March 31, 2017</b>	<b>\$ 15,387,337</b>	<b>\$ 968,900</b>	<b>\$ 7,658,263</b>	<b>\$ 24,014,500</b>

As at March 31, 2017, the expenditures capitalized above include costs for licence acquisitions and maintenance of licences, general exploration, geological and geophysical consulting, surveys, 3D-seismic acquisition, processing and interpretation, and drill planning.

**Corentyne PA, Guyana**

The Company's 100% owned subsidiary, CGX Resources, was granted the Corentyne PA on June 24, 1998. On November 27, 2012, the Company was issued a new Corentyne Petroleum Agreement ("PA") and Petroleum Prospecting Licence ("PPL") offshore Guyana. The new PA is renewable after five years for up to ten years. Under the terms of the new Corentyne PA, and during the initial period of five years, CGX has an obligation to drill two wells. The table below outlines the commitments under the new PA:

Period	Phase	Exploration Obligation	Dates
Initial Period - 5 Years	Phase One - 43 Months	Commence to drill 1 exploration well	Nov 27, 2012 - Jul 1, 2016
	Phase Two - 17 Months	Drill 1 exploration well	Jul 1, 2016 - Nov 27, 2017
		- At the end of the initial period of five (5) years, the Contractor will elect either to relinquish the entire Contract Area or fifteen (15%) percent of the Contract Area and renew the Petroleum Prospecting Licence for a further period of up to two (2) years.	
First Renewal Period - 2 Years	Phase One - 18 Months	Commence to drill 1 exploration well	Nov 27, 2017 - May 27, 2018
		- At the end of phase one of the first renewal period, the Contractor shall elect either to relinquish the entire Contract Area except for any Discovery Area and the area contained in any Petroleum Production Licence or commit to the work programme in phase 2.	
	Phase Two - 18 Months	Drill 1 exploration well	May 27, 2018 - Nov 27, 2019
Second Renewal Period - 3 Years		- At the end of the first renewal period of two (2) years, the Contractor shall elect either to relinquish the entire Contract Area except for any Discovery Area and the area contained in any Petroleum Production Licence or relinquish twenty-five (25%) percent of the Contract Area and renew the Petroleum Prospecting Licence for a second period of three (3) years.	
	Phase One - 18 Months	Commence to drill 1 exploration well	Nov 27, 2019 - May 27, 2021
		- At the end of phase one of the second renewal period, the Contractor shall elect either to relinquish the entire Contract Area except for any Discovery Area and the area contained in any Petroleum Production Licence or commit to the work programme in phase 2.	
	Phase Two - 18 Months	Drill 1 exploration well	May 27, 2021 - Nov 27, 2022
		- At the end of the second renewal period of three (3) years, the Contractor shall relinquish the entire Contract Area except for any Discovery Area, the area contained in any Petroleum Production Licence and any other portion of the Contract Area on which the Minister Responsible for Petroleum agrees to permit the Contractor to conduct further exploration activities.	

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2017 and 2016**

---

**9. Exploration and evaluation expenditures (*continued*)**

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

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

After commercial production begins, the Company is allowed to recover contract costs as defined in the PA from “cost oil” produced and sold from the contract area and limited in any month to an amount which equals seventy-five percent (75%) of the total production from the contract area for such month excluding any crude oil and/or natural gas used in petroleum operations or which is lost. The Company’s share of the remaining production or “profit oil” is 47%.

To the extent, that in any month, recoverable contract costs exceed the value of cost oil and/or cost gas, the unrecoverable amount shall be carried forward and shall be recoverable in the immediately succeeding month, and to the extent not then recovered, in the subsequent month or months.

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

Annual rental fees of \$100,000 and annual training fees of \$100,000 are required to be paid under the PPL.

The Company had entered into a definitive rig agreement with Japan Drilling Co., Ltd. (“**JDC**”) (“**Drilling Agreement**”), and a rig sharing agreement (the “**Rig Sharing Agreement**”) with JDC, Teikoku Oil (Suriname) Co., Ltd. (“**INPEX**”) for the shared use of JDC’s HAKURYU-12 drilling rig (the “**Rig**”) in 2015. This Rig was intended to be used for the first commitment well that is required under the Corentyne PPL.

During the year ended December 31, 2015, the Company terminated these agreements. Total costs relating to termination of these contracts was \$23,228,102 and has been recorded as exploration contract cancellation fees in the statement of comprehensive loss for the year ended December 31, 2015. The breakdown of the commitments is as follows:

Upon termination of the Drilling Agreement, the total amount payable to JDC is approximately \$20.35 million (the “**JDC Payable**”). Pursuant to the terms of definitive agreement entered into with JDC with an effective date of November 30, 2015, the JDC Payable will be paid as follows: (i) \$5.5 million payable in common shares; (ii) \$500,000 on or before December 1, 2015; (iii) approximately \$7.18 million on or before March 25, 2016; and (iv) approximately \$7.18 million on or before June 15, 2016. The amounts payable are included in trade and other payables as at March 31, 2017 and December 31, 2016. During the year ended December 31, 2016, JDC was issued 16,522,500 common shares at a price of C\$0.44 per share as per the terms of definitive agreement resulting in JDC owning approximately 15% of the Company on a non-diluted basis. During the year ended December 31, 2016, the Company made a payment of \$100,000 as part of the \$500,000 payment due on December 1, 2015 with both parties agreeing to defer the remaining payment of \$400,000 to March 25, 2016. Per the definitive agreement, the payments not paid in full, totaling \$14.76 million, incur interest at a rate of 8% per annum.

Under the Rig Sharing Agreement, the Company owes approximately \$2.9 million to INPEX for shared costs incurred in the utilization of the Rig. INPEX agreed to allow the Company to defer payment until December 1, 2015. This amount is included in trade and other payables as at March 31, 2017 and December 31, 2016. Per the Rig Sharing Agreement, since the amount was not paid in full by December 1, 2015, amounts outstanding shall accrue interest at a rate of Libor plus 7% per annum.

The Company is in continuous negotiations with INPEX and JDC with a view to determining how to address these significant payables in light of depressed oil prices.

## CGX Energy Inc.

### **Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s) For the Three Month Periods Ended March 31, 2017 and 2016**

---

#### **9. Exploration and evaluation expenditures (*continued*)**

##### **Berbice PA, Guyana**

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

On February 12, 2013, ON Energy entered into a new Berbice PA and PPL, which applies to the former Berbice licence and the former onshore portion of the Company's original Corentyne Petroleum Agreement. The table below outlines the commitments under the new Berbice PA:

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

If a discovery is made, CGX has the right to apply to the Minister for a PPL with respect to that of the contract area having a significant discovery.

After commercial production begins, the Company is allowed to recover contract costs as defined in the PA from "cost oil" produced and sold from the contract area and limited in any month to an amount which equals seventy-five percent (75%) of the total production from the contract area for such month excluding any crude oil and/or natural gas used in petroleum operations or which is lost. The Company's share of the remaining production or "profit oil" is 47%.

To the extent that in any month, recoverable contract costs exceed the value of cost oil and/or cost gas, the unrecoverable amount shall be carried forward and shall be recoverable in the immediately succeeding month, and to the extent not then recovered, in the subsequent month or months.

## CGX Energy Inc.

### **Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s) For the Three Month Periods Ended March 31, 2017 and 2016**

---

#### **9. Exploration and evaluation expenditures (*continued*)**

##### **Berbice PA, Guyana (*continued*)**

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

Annual rental fees of \$25,000 and annual training fees of \$25,000 are required to be paid under the PPL.

On February 12, 2013, the Company entered into the Demerara PA and PPL. The new PPL applies to the former offshore portion of the Annex PPL, which was a subset of the Company's original Corentyne Petroleum Agreement. The table below outlines the commitments under the new PA:

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

If a discovery is made, CGX has the right to apply to the Minister for a PPL with respect to that of the contract area having a significant discovery.

After commercial production begins, the Company is allowed to recover contract costs as defined in the PA from "cost oil" produced and sold from the contract area and limited in any month to an amount which equals seventy-five percent (75%) of the total production from the contract area for such month excluding any crude oil and/or natural gas used in petroleum operations or which is lost. The Company's share of the remaining production or "profit oil" is 47%.

To the extent that in any month, recoverable contract costs exceed the value of cost oil and/or cost gas, the unrecoverable amount shall be carried forward and shall be recoverable in the immediately succeeding month, and to the extent not then recovered, in the subsequent month or months.

The Company has \$1,000,000 of recoverable contract costs brought forward from the original Annex licence. This cost can be recovered against any future commercial production.

Annual rental fees of \$100,000 and annual training fees of \$100,000 are required to be paid under the PPL.

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2017 and 2016**

---

**9. Exploration and evaluation expenditures (continued)**

**Demerara PA, Guyana (continued)**

In September 2014, the Company entered into a contract with Prospector PTE. Ltd. (“Prospector”) to conduct a 3D seismic survey on the Company’s 100% owned Demerara Block as part of its commitments under the Demerara PA. The aggregate cost of this seismic survey was approximately \$19 million with \$7 million paid to Prospector by way of issuance of 15,534,310 common shares, \$2.5 million paid in cash in 2014 and the remainder of approximately \$9.5 million payable in cash twelve months after the conclusion of the seismic survey (December 2015), which is included in trade and other payables as at March 31, 2017 and December 31, 2016. Per the contract with Prospector, the amounts outstanding twelve months after the conclusion of the seismic survey shall accrue interest at a rate of 12% per annum. On October 3, 2016, the Company renegotiated the interest rate down from 12% per annum to 6% per annum and agreed to have Prospector complete the seismic processing of the seismic survey. In exchange, CGX has agreed to be responsible under certain circumstances to Prospector for up to a maximum of \$500,000. The processing began in late 2016 and is expected to be completed in the summer of 2017. No provision has been recorded at this time due to the minimal processing completed as at March 31, 2017.

As of the date of the approval of these financial statements, the Company has not met all of its obligations under the initial period of the Corentyne, Berbice and Demerara PPLs that were required by November 2016 and February 2017. The Company is currently discussing extensions to the obligations under these PPLs, however, no extensions have yet been granted and there is no guarantee that extensions will be granted to all, or any, of the PPLs. Failure to obtain these extensions could result in a write-off of the amounts shown in exploration and evaluation expenditures on the statement of financial position as well as a significant negative impact on the ability of the Company to continue as a going concern.

The Company's exploration activities are subject to government laws and regulations, including tax laws and laws and regulations governing the protection of the environment. The Company believes that its operations comply in all material respects with all applicable past and present laws and regulations. The Company records provisions for any identified obligations, based on management's estimate at the time. Such estimates are, however, subject to changes in laws and regulations.

**10. Compensation of key management personnel and related party transactions**

Under IFRS, parties are considered to be related if one party has the ability to “control” (financially or by share capital) the other party or have significant influence (management) on the other party in making financial, commercial and operational decisions.

In October 2014, the Company entered into a bridge loan agreement (the “C\$ Bridge Loan”) with Pacific Exploration and Production Corp. (“Pacific”) in the aggregate principal amount of C\$7,500,000 (\$6,700,000). The C\$ Bridge Loan was a non-revolving term facility. As at March 31, 2017, the Company has drawn upon all of the facility. The C\$ Bridge Loan accrues interest at an annual rate of 5% per annum and was repayable in full, including all accrued interest, in October 2015.

The balances outstanding on the C\$ Bridge Loan from related party as at March 31, 2017 and December 31, 2016 are as follows:

<b>As at,</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Loan from related party	\$ 6,212,312	\$ 6,158,565
Accrued interest on loan from related party	136,161	59,054
<b>Total loan from related party</b>	<b>\$ 6,348,473</b>	<b>\$ 6,217,619</b>

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2017 and 2016**

---

**10. Compensation of key management personnel and related party transactions (continued)**

The activity on the C\$ Bridge Loan from related party for the three month period ended March 31, 2017 and the year ended December 31, 2016 is as follows:

	<b>March 31, 2017</b>	December 31, 2016
Opening balance at beginning of period/year	\$ 6,217,619	\$ 5,744,097
Loss on foreign exchange	53,835	173,303
Accrued interest on loan from related party	77,019	300,219
<b>Total loan from related party</b>	<b>\$ 6,348,473</b>	<b>\$ 6,217,619</b>

During the year ended December 31, 2015, the Company and Pacific agreed to extend the maturity for one year to October 2016. All other terms and conditions applicable to the C\$ Bridge Loan remain the same. The maturity date of this C\$ Bridge Loan passed unpaid.

In March 2016, the Company entered into a bridge loan agreement (the “**Bridge Loan I**”) with Pacific in the aggregate principal amount of up to \$2,000,000. The Bridge Loan I was a non-revolving term facility. The Bridge Loan I accrues interest at an annual rate of 7% per annum and is repayable in full including all accrued interest in March 2017. As at March 31, 2017, the Company has drawn upon all of the facility. The maturity date of this Bridge Loan I passed unpaid.

The balances outstanding on the Bridge Loan I from related party as at March 31, 2017 and December 31, 2016 are as follows:

<b>As at,</b>	<b>March 31, 2017</b>	December 31, 2016
Loan from related party	\$ 2,068,547	\$ 2,068,547
Accrued interest on loan from related party	82,109	56,607
<b>Total loan from related party</b>	<b>\$ 2,150,656</b>	<b>\$ 2,125,154</b>

The activity on the Bridge Loan I from related party for the three month period ended March 31, 2017 and the year ended December 31, 2016 is as follows:

	<b>March 31, 2017</b>	December 31, 2016
Opening balance at beginning of period/year	\$ 2,125,154	\$ -
Loan from related party	-	2,068,547
Accrued interest on loan from related party	25,502	56,607
<b>Total loan from related party</b>	<b>\$ 2,150,656</b>	<b>\$ 2,125,154</b>

In October 2016, the Company entered into a bridge loan agreement (the “**Bridge Loan II**”) with Pacific in the aggregate principal amount of up to \$2,000,000. The Bridge Loan II is a non-revolving term facility. The Bridge Loan II accrues interest at an annual rate of 5% per annum and is repayable in full including all accrued interest in October 2017. As at March 31, 2017, the Company has drawn upon all of the facility.

The balances outstanding on the Bridge Loan II from related party as at March 31, 2017 and December 31, 2016 are as follows:

<b>As at,</b>	<b>March 31, 2017</b>	December 31, 2016
Loan from related party	\$ 1,972,675	\$ 1,001,642
Accrued interest on loan from related party	22,944	5,731
<b>Total loan from related party</b>	<b>\$ 1,995,619</b>	<b>\$ 1,007,373</b>

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2017 and 2016**

---

**10. Compensation of key management personnel and related party transactions (continued)**

The activity on the Bridge Loan II from related party for the three month period ended March 31, 2017 and the year ended December 31, 2016 is as follows:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Opening balance at beginning of period/year	\$ 1,007,373	\$ -
Loan from related party	971,033	1,001,642
Accrued interest on loan from related party	17,213	5,731
<b>Total loan from related party</b>	<b>\$ 1,995,619</b>	<b>\$ 1,007,373</b>

The combined balances outstanding on the Bridge Loan I, Bridge Loan II and C\$ Bridge Loan from related party as at March 31, 2017 and December 31, 2016 are as follows:

<b>As at,</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>
C\$ Bridge Loan	\$ 6,348,473	\$ 6,217,619
Bridge Loan I	2,150,656	2,125,154
Bridge Loan II	1,995,619	1,007,373
<b>Total loans from related party</b>	<b>\$ 10,494,748</b>	<b>\$ 9,350,146</b>

The Bridge Loan I and Bridge Loan II are secured by a pledge of the shares in the Company's subsidiaries.

In November 2015, the Company entered into a convertible debenture (the "Convertible Debenture") with Pacific in the aggregate principal amount of \$1,500,000. The Convertible Debenture accrues interest at an annual rate of 5% per annum and is repayable in full including all accrued interest in November 2016. This Convertible Debenture was convertible into shares of the Company at the option of Pacific at any time prior to maturity at a price of C\$0.335. In the event that the Company fails to satisfy any of its obligations under the Convertible Debenture, Pacific shall have the right to take a pledge of shares in the Company's subsidiaries. The maturity date of this Convertible Debenture passed unpaid and the conversion feature has expired.

The debentures are classified as a liability, with the exception of the portion relating to the conversion feature, resulting in the carrying value of the debenture being less than face value. The discount was accreted over the term of the debenture utilizing the effective interest rate method at a 10% discount rate.

The balances outstanding on the Convertible Debenture from related party as at March 31, 2017 and December 31, 2016 are as follows:

<b>As at,</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Convertible debenture from related party	\$ 1,575,000	\$ 1,575,000
Accrued interest on convertible debenture from related party	29,558	10,140
<b>Total loan from related party</b>	<b>\$ 1,604,558</b>	<b>\$ 1,585,140</b>

The activity on the Convertible Debenture from related party for the three month period ended March 31, 2017 and the year ended December 31, 2016 is as follows:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Opening balance at beginning of year	\$ 1,585,140	\$ 1,442,470
Amortization of transaction costs and conversion feature	-	66,956
Accrued interest on loan from related party	19,418	75,714
<b>Total loan from related party</b>	<b>\$ 1,604,558</b>	<b>\$ 1,585,140</b>

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2017 and 2016**

---

**10. Compensation of key management personnel and related party transactions (continued)**

The following sets out the details of the Company's related party transactions:

- The Company has a cost sharing agreement among Pacific, Gran Colombia Gold Corp., and Pacific Coal Resources Ltd. effective May 1, 2013 (the “**Cost Sharing Agreement**”). The Cost Sharing Agreement sets out the terms and allocation of certain share general and administrative costs, such as rent, utilities and other office administrative expenses. In accordance with the terms of the agreement, the Company recognized an expense of C\$Nil (2016 - C\$18,000) for the three month period ended March 31, 2017, of which \$84,000 (December 31, 2016 - \$84,000) was included in trade and other payables as at March 31, 2017. As at March 31, 2017, Pacific owns approximately 45.6% of the common shares of the Company and up to November 30, 2016 had several common directors.

At March 31, 2017, included in trade and other payables is \$151,000 (December 31, 2016 - \$150,000) due to these key management personnel as a result of deferred payment of directors fees. These amounts are unsecured, non-interest bearing and due on demand.

**11. Trade and other payables**

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

As at,	March 31, 2017	December 31, 2016
Less than one month and accruals	\$ 2,876,213	\$ 2,375,679
One month to three months	383,751	220,822
Over three months	28,032,869	27,773,665
<b>Total trade and other payables</b>	<b>\$ 31,292,833</b>	<b>\$ 30,370,165</b>

**12. Warrant Liability**

As at March 31, 2017 and December 31, 2016, the warrant liability was comprised of the following:

	March 31, 2017	December 31, 2016
<b>Warrant liability</b>	<b>\$ -</b>	<b>\$ -</b>

Each warrant entitles the holder to purchase a Common Share at C\$1.70 until April 26, 2018. The Company recorded the warrants issued as a derivative liability due to their exercise price being denominated in a currency other than the Company's US dollar functional currency.

The warrant liability was re-valued at the end of the reporting period with the change in fair value of the warrant liability recorded as a gain or loss in the Company's Consolidated Statements of Loss. The warrant liability was accounted for at its fair value as follows:

	Three month period ended March 31, 2017	Year ended December 31, 2016
Warrant liability, beginning of period/year	\$ -	\$ 100,000
Change in fair value	- (100,000)	(100,000)
<b>Warrant liability, end of period/year</b>	<b>\$ -</b>	<b>\$ -</b>

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2017 and 2016**

---

**12. Warrant Liability (continued)**

The Company utilized the Black-Scholes valuation model to estimate the fair value of the warrants at March 31, 2017 and December 31, 2016 using the following assumptions:

	<b>March 31, 2017</b>	December 31, 2016
Number of warrants outstanding	<b>37,008,900</b>	37,008,900
Exercise price	<b>C\$1.70</b>	C\$1.70
Risk-free interest rate	<b>0.63%</b>	0.63%
Expected life (years)	<b>1.1</b>	1.3
Expected volatility	<b>84%</b>	84%
Expected dividends	<b>-</b>	-
Dilution factor	<b>25%</b>	25%
Fair value of warrants	<b>\$ -</b>	\$ -

Volatility for these warrants has been calculated using the historical volatility of the Company.

**13. Capital stock**

**Share Capital**

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

	<b>Number of Shares</b>	\$
Balance at December 31, 2015	93,865,533	252,364,691
Issued for contract cancellation fees	16,522,500	5,500,000
<b>Balance at December 31, 2016 and March 31, 2017</b>	<b>110,388,033</b>	<b>257,864,691</b>

**2016**

On January 11, 2016, as part of the definitive agreement with JDC, 16,522,500 common shares were issued to settle \$5,500,000 of the amounts owing under the agreement (See note 9).

**Common Share Purchase Warrants**

The exercise price and expiry date of the warrants outstanding at March 31, 2017 are as follows:

Warrants	Exercise Price	Expiry Date
37,008,900	C\$1.70	April 26, 2018
<b>37,008,900</b>		

There was no activity on the warrants during the three month period ended March 31, 2017 and the year ended December 31, 2016.

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2017 and 2016**

---

**13. Capital stock (continued)**

**Stock Options**

The Company established a share option plan to provide additional incentive to its directors, officers, employees and consultants for their efforts on behalf of the Company in the conduct of its affairs. The maximum number of common shares reserved for issuance under the share option plan comprising part of the share incentive plan may not exceed 10% 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 tenth anniversary of the grant date. As at March 31, 2017, the Company had 7,463,803 (December 31, 2016 – 7,003,803) options available for issuance under the plan.

Changes in the number of stock options outstanding are as follows:

<b>As at,</b>	<b>March 31, 2017</b>		<b>December 31, 2016</b>	
	<b>Weighted Average Exercise Price (\$)</b>	<b>No. of Options</b>	<b>Weighted Average Exercise Price (\$)</b>	<b>No. of Options</b>
Outstanding at beginning of period/year	<b>0.57</b>	<b>4,035,000</b>	0.57	8,545,000
Transactions during the period/year:				
Granted	<b>0.10</b>	<b>95,000</b>	-	-
Expired/Forfeited	<b>1.25</b>	<b>(555,000)</b>	0.61	(4,510,000)
Outstanding/Exercisable at end of period/year	<b>0.46</b>	<b>3,575,000</b>	0.57	4,035,000

The following table provides additional outstanding stock options information as at March 31, 2017:

	<b>No. of Options Outstanding and Exercisable</b>	<b>Weighted Average Remaining Life (Years)</b>	<b>Weighted Average Exercise Price</b>
\$ 0.10	95,000	4.81	\$0.10
\$ 0.24	560,000	2.72	\$0.24
\$ 0.52	2,920,000	1.39	\$0.52
<b>\$ 0.10 - \$0.52</b>	<b>3,575,000</b>	<b>1.69</b>	<b>\$0.46</b>

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the share based compensation for the stock options granted and/or vested during the three month period ended March 31, 2017:

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2017 and 2016**

---

**13. Capital stock (continued)**

**Stock Options (continued)**

	January 18, 2017	Totals
Number of options granted	95,000	95,000
Exercise price	C\$0.135	
Risk-free interest rate	1.10%	
Expected life (years)	5.0	
Expected volatility	112.38%	
Expected dividends	-	
Forfeiture rate	-	
Vesting	immediately	
Fair value of grant	\$ 8,000	\$ 8,000
Share based compensation	\$ 8,000	\$ 8,000

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

The weighted average grant-date fair value of options granted during the three month period ended March 31, 2017 was \$Nil (year ended December 31, 2016 – \$Nil) per option issued.

**14. Reserve for share based payments**

A summary of the changes in the Company's reserve for share based payments for the three month period ended March 31, 2017 and the year ended December 31, 2016 is set out below:

	March 31, 2017	December 31, 2016
Balance at beginning of period/year	\$ 21,651,131	\$ 27,151,131
Shares based payments (note 13)	8,000	-
Shares issued for exploration contract cancellation fees (note 9)	-	(5,500,000)
Balance at end of period/year	\$ 21,659,131	\$ 21,651,131

**15. Segmented information**

**Operating Segments**

At March 31, 2017, the Company's operations comprised a single reporting operating segment engaged in petroleum and natural gas exploration in Guyana. The Company's corporate division only earns revenues that are considered incidental to the activities of the Company and therefore does not meet the definition of an operating segment as defined in IFRS 8 'Operating Segments'.

As the operations comprise a single reporting segment, amounts disclosed in the consolidated financial statements also represent operating segment amounts.

**CGX Energy Inc.**  
**Notes to the Unaudited Interim Consolidated Financial Statements – (US\$'s)**  
**For the Three Month Periods Ended March 31, 2017 and 2016**

---

**15. Segmented information (continued)**

**Geographic Segments**

The Company currently has one reportable segment as at March 31, 2017, being the exploration, development and production of petroleum and natural gas in Guyana.

The following is a detailed breakdown of the Company's assets by geographical location:

<b>As at,</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Identifiable assets		
Canada	<b>734,282</b>	592,451
Guyana	<b>31,065,180</b>	30,400,610
	<b>31,799,390</b>	30,993,151

**16. Subsequent events**

Subsequent to March 31, 2017, the Company entered into a bridge loan agreement III (the “**Bridge Loan III**”) with Pacific in the aggregate principal amount of up to \$3,100,000. The Bridge Loan III is a non-revolving term facility. The Bridge Loan III accrues interest at an annual rate of 5% per annum and is repayable in full including all accrued interest in April 2018. The Company may draw all or part of the Bridge Loan in one or more advances to be made on a date or dates agreed to by both parties. As of May 24, 2017, the Company has drawn down approximately \$1,410,000 on the facility. The Bridge Loan III is secured by a pledge of the shares in the Company's subsidiaries.

Subsequent to March 31, 2017, 1,000,000 stock options were issued exercisable at C\$0.095 for a period of five years vesting immediately.