2 EXTREMES

CGX ENERGY INC.
ANNUAL REPORT 2001

CORPORATE PROFILE

CGX ENERGY INC. IS AN OIL AND GAS EXPLORATION COMPANY WITH A 100% INTEREST IN THE 3.8 MILLION ACRE CORENTYNE BLOCK IN GUYANA, SOUTH AMERICA. USING ADVANCED SEISMIC TECHNOLOGY, CGX HAS IDENTIFIED TWO DRILLABLE TARGETS ON THE OFFSHORE PORTION OF THE CONCESSION. IN ADDITION, IN APRIL 2002, SUBJECT TO THIRD-PARTY CONSENT, WE ACQUIRED A 25% INTEREST IN THE 2.8 MILLION ACRE GEORGETOWN BLOCK OFFSETTING OUR CONCESSION IN GUYANA. IN 2000, THE UNITED STATES GEOLOGICAL SURVEY IDENTIFIED THE GUYANA/SURINAME BASIN AS HAVING THE 2ND HIGHEST RESOURCE POTENTIAL FOR AN UNEXPLORED BASIN. CGX IS ALSO CONDUCTING AN EXPLORATION AND DEVELOPMENT PROGRAM IN WESTERN CANADA TO EFFICIENTLY UTILIZE EXISTING TAX POOLS, EFFECTIVELY ACCESS TAX FLOW-THROUGH FUNDING AND, STRATEGICALLY, TO PROVIDE A CASH FLOW BASE FOR THE COMPANY.

CONTENTS

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this annual report that are subject to significant risks and uncertainties. These statements concern CGX's plans, expectations and objectives for future operations and, most importantly, discussions of the undiscovered resource potential of CGX's principle asset, the Corentyne and Georgetown Blocks, which are mainly offshore Guyana. No successful wells have been drilled on the CGX concessions, so CGX has no proven, probable or possible reserves in Guyana. A portion of the Company's concession is in an area where Guyana and Suriname have overlapping border claims, which until resolved, has stalled exploration.

100 KM OFFSHORE GUYANA

GUYANA

TARGETS

ALBERTA

IN FARMERS' FIELDS IN CENTRAL ALBERTA

2 EXTREMES

To maximize and preserve shareholder value and use management's diverse experience in Canada and internationally, CGX has two asset bases with extremely different characteristics.

	1 GUYANA	2 ALBERTA
Resource potential	World-Class, Unexplored	Mature
Oilfield service travel time	1 day by boat	4 hours by truck
Challenges	Border Claims	Surface Rights Claims
Ownership	100%/25%	7.5%-30%
Operatorship	CGX/Repsol	Non-operated
Land		
Gross acres	6,600,000	4,800
Net acres	4,500,000	891
Net undeveloped acres	4,500,000	165
Seismic (km)	>9,400	<1
Reserves at January 01, 2002		
Oil & NGLs (mbbls)	n/a	71.5
Natural gas (mmcf)	n/a	902.5
Oil equivalent (mboe)	n/a	221.9
Finding & on-stream costs (C$/boe)	n/a	3.72

PRESIDENT'S MESSAGE

Two extremes – high-risk world-class exploration in the Guyana/Suriname Basin counterbalanced by low-risk step-out exploration and development in Alberta. While continuing to wait for the governments of Guyana and Suriname to find a solution to allow exploration to proceed within their area of overlapping border claims, CGX participated in a very successful, albeit modest, drilling program in Alberta. The Alberta program resulted in excellent finding and on-stream costs of only C$3.72/boe, extremely low relative to the oil and gas industry in 2001.

Through this challenging period, I'd like to thank each of our shareholders for your extreme patience and understanding, plus each of our 10 staff, officers and directors, who are assembling an exploration portfolio that is the envy of organizations many times our size.

1st EXTREME

WORLD-CLASS POTENTIAL

Our primary focus is still the Guyana/Suriname Basin, where we eagerly await the opportunity to drill the Company's Eagle target on our 3.8 million acre Corentyne Block granted by the Government of Guyana. The 2000 United States Geological Survey (USGS) estimated the mean undiscovered resource potential in the Guyana/Suriname Basin to be 15.2 billion barrels of oil, ranking it the second highest for unexplored basins in the world. The USGS estimated that 6 of 117 fields in the basin could have a size greater than 500 million barrels of recoverable oil. We believe our Eagle target could be one of those world-class fields.

Exploration in the basin has been suspended since Suriname forced CGX from the Eagle location in June 2000. Since then, the governments of Guyana and Suriname have been searching for a solution that would allow exploration to proceed, particularly within the area of overlapping border claims. In July 2000, it appeared the two governments were close to signing a Memorandum of Understanding, but those negotiations failed. To assist in the process, in 2001, CGX retained Pace Consulting to act as our advisor in working with governments and institutions in Guyana and Suriname. The two principals of Pace that we have retained are Dr. Tyrone Ferguson, former Head of the Presidential Secretariat in Guyana, and Mr. Rashleigh Jackson, former Minister of Foreign Affairs in Guyana. Discussions between the governments were delayed in 2001 by the election process in Guyana, and then by the September 11 crisis. Constructive meetings between the Ministers of Foreign Affairs led to a meeting between the two Presidents in January in Paramaribo, Suriname. At that meeting, the Presidents agreed to instruct their border sub-committees to meet and propose a solution by May 2002 that would allow exploration to proceed.

There's a significant incentive to resolve the border issue, for the benefit of the region and the operators who are prepared to explore in this 'virgin' basin. In July, CGX spoke at a Mining Conference in Georgetown, Guyana, and in November at a conference in Port of Spain, Trinidad, on the economic benefit to the region of an oil discovery in the Guyana/Suriname Basin. Fundamentally, the discovery of just one world-class reservoir could double the gross domestic product of either country. If the United States Geological Survey is correct in its assessment, the basin could become a major supplier to the western hemisphere.

In April 2002, subject to third-party consent, we enlarged the extreme size and potential of our assets in Guyana by acquiring AGIP's 25% interest in the Georgetown Block offsetting our existing concession. We are very pleased with this acquisition, which is in the area where Shell's Abary #1 well encountered significant oil shows in 1974. In addition to an Abary Offset target, two other prospects have been identified outside the area of overlapping border claims.

2nd EXTREME

SMALL BUT STRATEGIC

Unable to drill in Guyana until there is a resolution of the overlapping border claims, we initiated a small exploration and development program in Alberta in 2001. Strategically, our goal was to participate in low-risk exploration and step-out drilling to provide tangible assets and a cash flow base for the Company. Although modest, the program was successful. Six wells were drilled in three areas, resulting in light oil from a horizontal well, three gas wells, and two wells with the potential for multi-zone gas and heavy oil.

The proven reserve additions from our first year of drilling in Western Canada are estimated to be 221,900 barrels of oil equivalent (boe, where 6 mcf = 1 boe). Finding and on-stream costs are estimated to be only C$3.72/boe. At current production rates of approximately 110 boe/d, we estimate this drilling program will generate cash flow of $300,000, before general and administration expenses, in 2002. The program has also created the opportunity to drill a number of step-out wells, for which no reserves have been assigned.

THE OPPORTUNITIES AHEAD

We believe the people of Guyana and Suriname would like to see an acceleration of exploration to broaden their economies. When the border issue is resolved, our preference would be to drill the Abary Offset prospect in the Georgetown Block, in which we have a 25% interest, subject to third-party consent. It is within 10 kilometres of CGX's Eagle prospect in the Corentyne Block, where successful financing initiatives have enabled us to continue to control our 100% interest. At the other extreme, we intend to actively pursue additional opportunities in Western Canada that will increase reserves, add production and generate cash flow.

On behalf of the Board of Directors,
Kerry E. Sully, *President and Chief Executive Officer*
April 19, 2001

GUYANA / SURINAME BASIN

The acreage we acquired in 2001 is on trend with a string of turbidite targets. The 800 kilometres of vintage seismic shot in 1973 and 1976 shows anomalous features that will require new state-of-the-art seismic to advance them to the drillable stage.

In April 2002, subject to third-party consent, we acquired a 25% interest in the Georgetown Block, a portion of which lies in the area of overlapping border claims.

Exploration activities in the area of overlap have been conducted since 1958 under eight different concessions granted by Guyana. In 1974, under a Guyanese license, Shell drilled the Abary #1 well in the area currently claimed by Suriname, within 10 kilometres of Eagle and in the area where we acquired a 25% interest in April 2002.

The CGX Corentyne Block granted by Guyana in 1998 has an eastern boundary close to N33E. Suriname claims a maritime boundary at N10E. Guyana and Suriname are members of the United Nations and signatories to the Law of the Sea Convention, both of which require the peaceful resolution of border disputes.

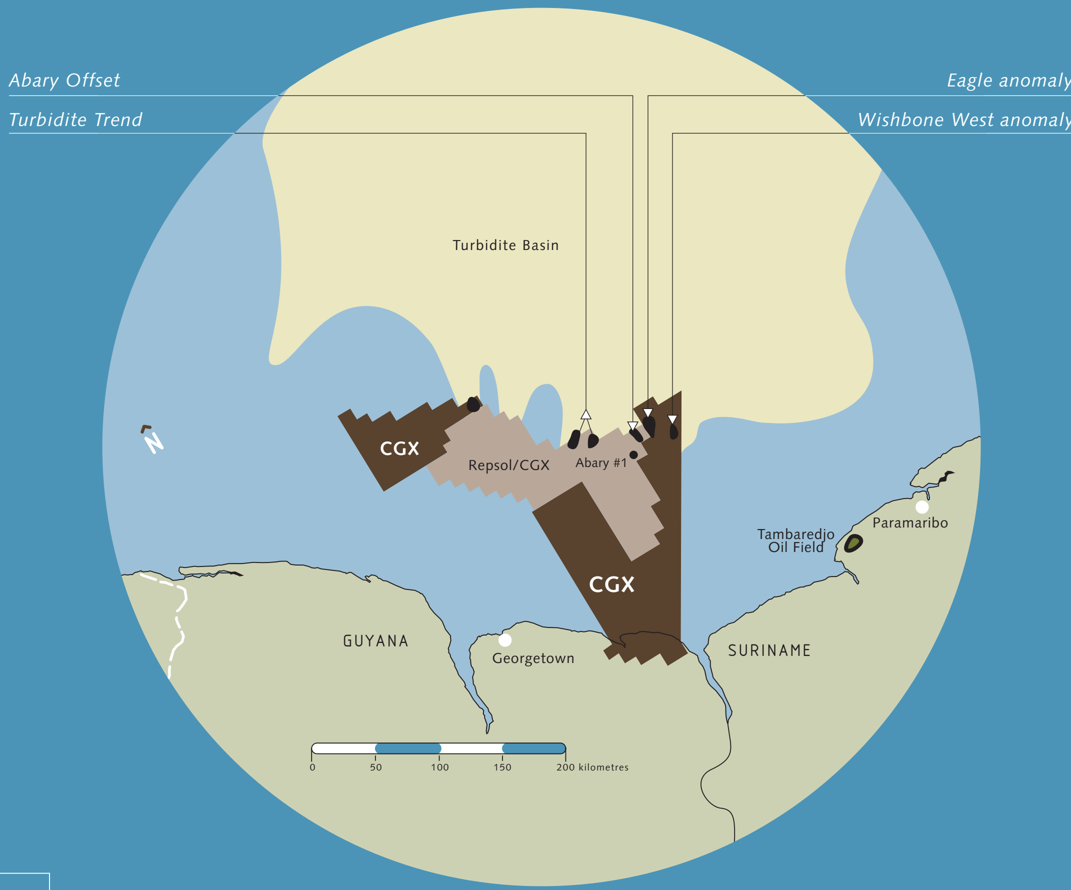
THE BORDER

In 1998, Guyana granted CGX a petroleum prospecting license, a portion of which is in an area with overlapping border claims by Guyana and Suriname. Despite the overlapping claims, exploration activities in the area of overlap have been conducted since 1958 under eight different concessions granted by Guyana and/or British Guiana as Guyana was known prior to its independence on May 26, 1966. Contrary to precedent, on June 3, 2000, the American drill rig we had contracted was forced off location by two Surinamese naval vessels, even though both Guyana and Suriname are full signatories to the Law of the Sea Convention.

Prior to Guyana's independence, British Guiana granted Shell a concession with an eastern boundary of N33E, considerably to the east of the N10E offshore boundary claimed by Suriname. After independence in 1974, Guyana granted Shell permission to drill its Abary #1 well in a portion of the offshore area currently claimed by Suriname, and within 10 kilometres of CGX's Eagle target. The eastern boundary of the Corentyne Block is similarly positioned to the boundary of the former Shell concession.

Suriname and Guyana are members of the United Nations and signatories to the Law of the Sea Convention, both of which require the peaceful resolution of border disputes. Under the 1982 United Nations Law of the Sea Convention, parties can select any peaceful means of their own choice to settle a dispute and set a specific time limit for the process. If the selected methods fail or are not finished within the agreed time limit, either party may submit the dispute for determination under a compulsory procedure, whereby the decision is final. Either country could unilaterally initiate a compulsory and binding decision-making procedure on the maritime border dispute under the Law of the Sea Treaty. Expedited procedures, if Guyana and Suriname were to agree on them, are permitted by the Law of the Sea Convention.

To date, the preference of these two countries has been to proceed with bilateral discussions. In January 2002, a joint declaration by President Jagdeo of Guyana and President Venetiaan of Suriname established border sub-committees for each country to negotiate and recommend, by May 2002, a solution which would allow exploration to proceed within the area of overlapping border claims. Historically, memorandums of understanding between Guyana and Suriname have allowed exploration to proceed within the area of overlapping border claims, and in other international jurisdictions, precedent agreements exist that would allow CGX and other operators to resume exploration in the basin.



OUR CONCESSION

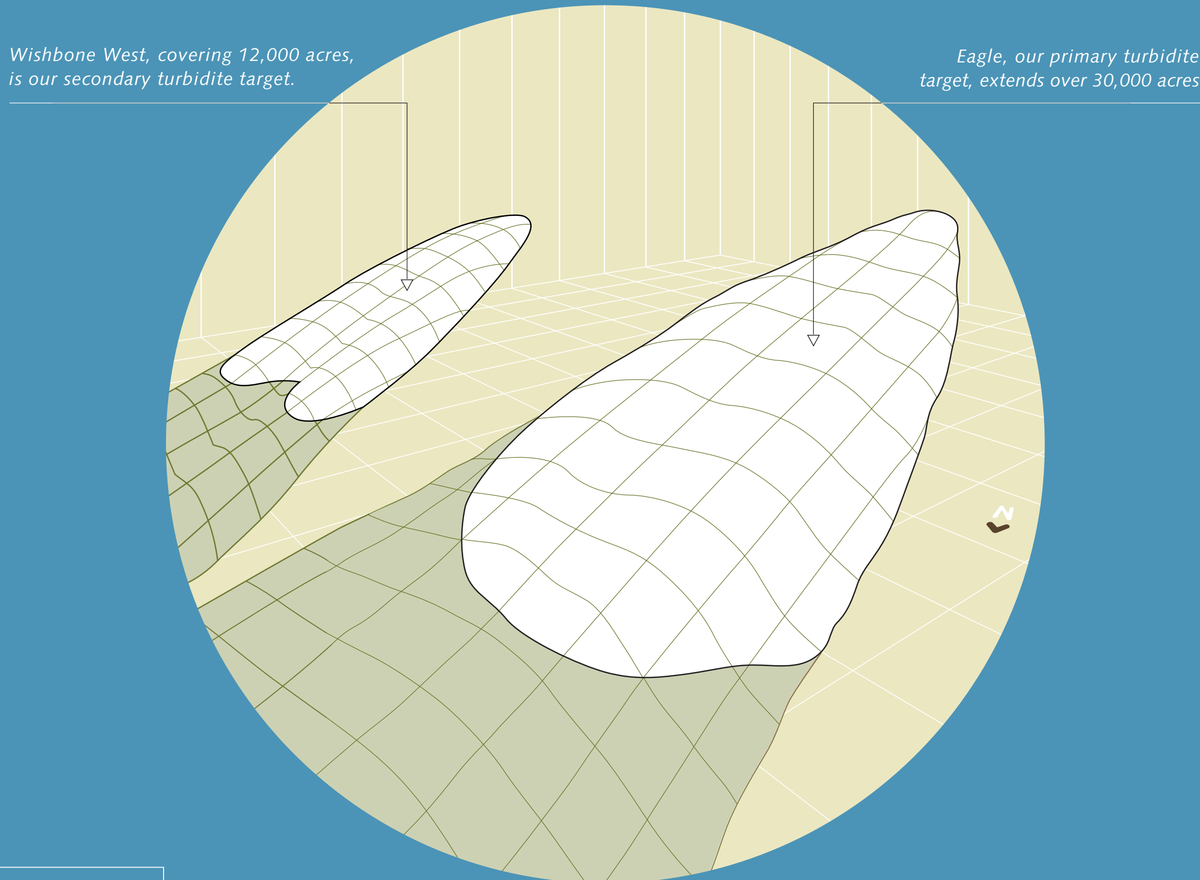
CGX acquired the 3.8-million acre Corentyne Block offshore Guyana in 1998. The following May, we conducted an 1800 kilometre seismic program over the concession, identifying two turbidite deep-sea fan targets, Eagle and Wishbone. In June 2000, while setting up to drill on Eagle, the rig we had contracted was forced off location by Suriname. Because we had already made minimum commitments to our service contractors, we drilled our third-ranked target, Horseshoe West, a stratigraphic-trap play that was a dry hole.

Early in 2001, we relinquished 4160 square kilometres (1,027,520 acres) of near-shore and onshore acreage, satisfying our first relinquishment obligation. Subsequently, we annexed 4070 square kilometres (1,005,290 acres) of new offshore land (the Annex). There is no record of conflict within this portion of Guyana's offshore territory; however, there is no treaty between Guyana and Venezuela to establish a maritime boundary.

In 2001, we acquired 3300 line kilometres of seismic data that was shot by Deminex in 1973 and 1976, covering the Annex and adjacent areas. This data is being reprocessed and integrated into our existing database of 6100 line kilometres of 2-D seismic to identify targets on the Annex portion of our concession.

Extremely important to our turbidite targets is the proximity of Shell's Abary #1 well, drilled in 1974. At a depth of 13,091 feet (3990 metres), light 35° API oil was sampled in the drilling mud following a hydrocarbon kick from a 23-foot sand. We believe that portion of the Abary #1 well was charged with oil from underlying mature source beds of the Canje formation. Several thick shale sequences should provide effective seals for the tertiary turbidite targets in this region. Seismic lines acquired by CGX in 1999 that intersect the Abary #1 well have been key to interpreting our Eagle and Wishbone targets.

In our interpretation of the regional seismic, we identified three additional turbidite targets west of our Eagle target – two that are in undisputed Guyanese waters and one, the Abary Offset, in the area of overlapping border claims. Because the Abary Offset is only 3 kilometres north of the Abary #1 well, we believe it has the highest probability for success of the targets we have identified in the basin. Accordingly, in April 2002, we acquired a 25% working interest in the Georgetown Block which contains these three additional turbidite targets. The operator of the Block, Repsol-YPF, is currently negotiating extension terms for the concession while bilateral discussions continue between the governments of Guyana and Suriname.



PROSPECT ANALYSIS

Within the Guyana-Suriname Basin, we have identified two prospects on our 100% owned Corentyne Block and three prospects on the 25% owned Georgetown Block. Although 31 exploration wells have been drilled offshore, no discoveries have been made to date. Of the 31 exploration wells, only 18 were drilled in water depths greater than 50 metres, and the rest of the offshore wells were drilled near shore in Suriname.

The only discovery in the basin is the Tamberadjo oil field onshore Suriname. Staatsolie, Suriname's state oil company, estimates Tamberadjo has 900 million barrels of oil-in-place, with reserves of 170 million barrels. The Tabaradjo oil has been typed to the Canje formation, a source bed in the offshore region.

The United States Geological Survey (USGS) in their 2000 World Assessment estimated the mean prospective resource in the entire Guyana/Suriname Basin to be 15.2 billion barrels of oil, with a 95% probability (P95) of the resource being at least 2.8 billion barrels, a 50% probability (P50) of the resource being at least 13.9 billion barrels, and a 5% probability (P05) of the resource being at least 32.6 billion barrels. They estimate these resources will be found in more than 100 reservoirs, ranging in size from 1 million barrels to greater than 1 billion barrels.

For a company to have most of its portfolio focused on world-class resource prospects is an extreme and unusual strategy. To assist investors in understanding the risk-reward aspects of this strategy, Mr. David Birnie, an independent Professional Geophysicist and evaluations analyst, has reviewed the technical data for our Eagle prospect. This target is a Lower Tertiary deep-sea turbidite fan at approximately 13,000 feet. The Birnie Report, dated April 2002, evaluates the Eagle prospect as having a median or 50% probability (P50) prospective resource of 610 million barrels. At this early stage of prospect exploration, the range of uncertainty is very broad – the comparative P95 and P05 prospective resources vary from 210 million barrels to 1,720 million barrels, respectively.

By combining the probabilities for a number of unknowns, for the Eagle prospect, Birnie estimated the chance of success of a hydrocarbon discovery to be 25%. He assessed the probability of adequate structure and seal forming a viable hydrocarbon trap to be 66%, the probability of adequate source rock and timing of petroleum migration to be 74%, and the probability of adequate reservoir to be 50%. The estimate for reservoir quality is lowest because there is little available data in the basin, and few wells have penetrated the targeted geological interval.

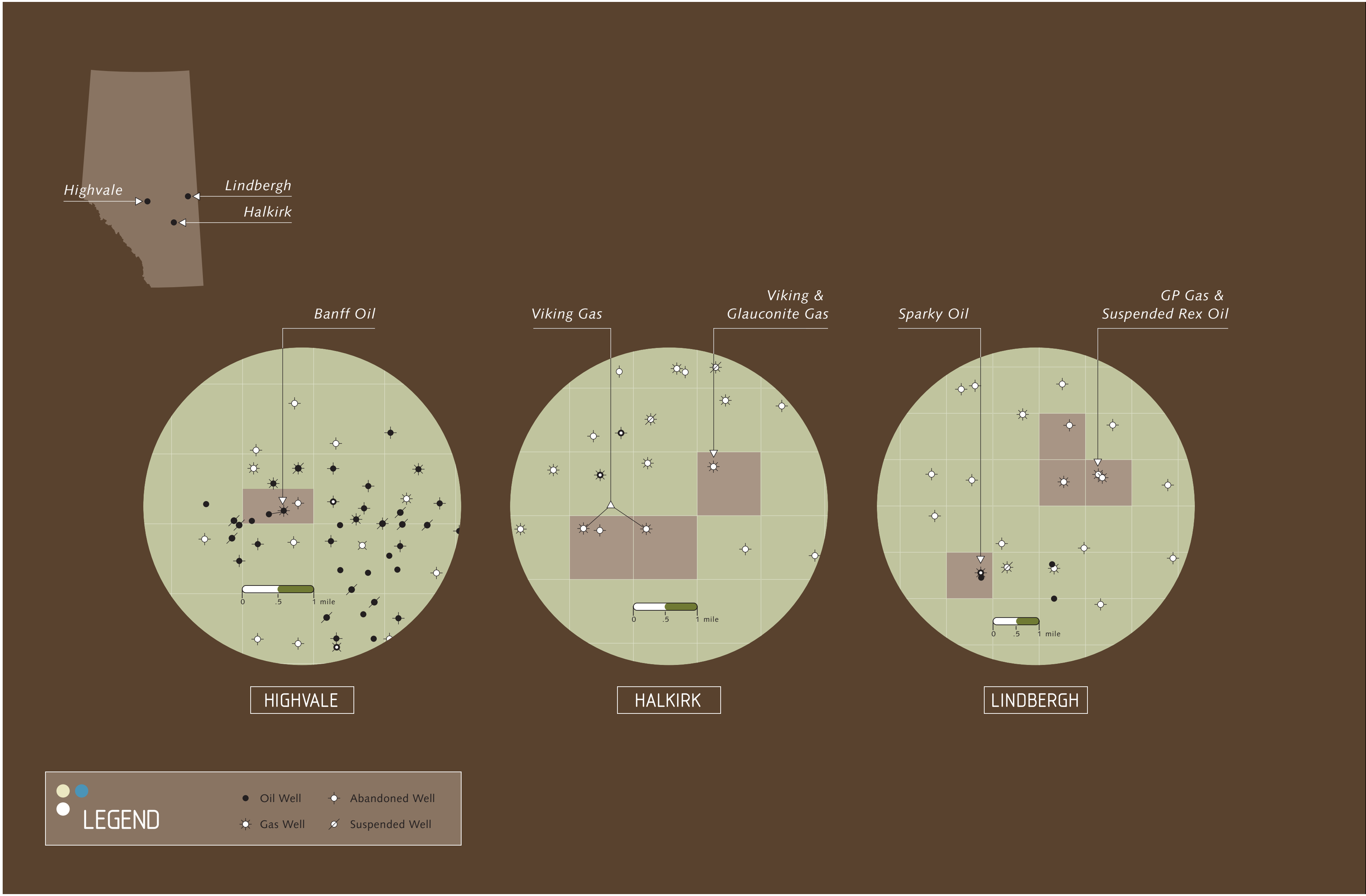
Based on the temperature gradient in the nearby Abary #1 well, the basin is hot enough in the vicinity of the Eagle prospect such that we estimate the Canje Formation source rock has been in the hydrocarbon generation window for more than 20 million years. Birnie assessed the probability of a hydrocarbon discovery to be 25%, with a 50% probability of it being oil, for an overall chance of success of oil at 12.5%, while the USGS Report assesses the prospective resources of the basin to be approximately 70% oil and liquids, and 30% gas. Our internal assessment is 75% for oil and 25% for gas.

Overshadowing these resource estimates is the political risk. However, if the border dispute is resolved and exploration proceeds, the target is drill-ready. The location is in 300 feet of water, 160 kilometres from shore. The estimated cost to drill, using a large jack-up rig, will depend on rig rates at the time and the costs of equipment mobilization, but based on CGX's experience in drilling the nearby Horseshoe West well in 2000, drilling costs for the first Eagle well should not exceed $10 million, with subsequent wells at about one-half of that cost.

Our seismic defines the target as covering 30,000 acres, which will require four production platforms and up to 100 directional wells. Production would be produced and stored in a converted tanker, a Floating Production Storage and Offloading facility, for offloading to tankers taking the oil to refineries in the Caribbean and the Gulf of Mexico. We expect it to be light oil, so under the favourable fiscal regime, it would be economic at reference prices as low as US$12/bbl.

On the newly acquired Georgetown Block, the three prospects are similar in size to Eagle. However, the probability of success on the two western targets is lower because the seismic grid is a very coarse four kilometres compared with the two-kilometre grid at Eagle. The Abary Offset prospect has only been shot on a four-kilometre grid, but its probability of success is as high or higher than Eagle because it is only three kilometres from the Shell Abary #1 well that had significant oil shows in 1974.

CANADIAN OPERATIONS


Highvale
Lindbergh
Halkirk
Banff Oil
Viking Gas
Viking & Glauconite Gas
Sparky Oil
GP Gas & Suspended Rex Oil
0 .5 1 mile
HIGHVALE
HALKIRK
LINDBERGH
LEGEND
Oil Well
Abandoned Well
Gas Well
Suspended Well

In 2001, while waiting for a resolution of the overlapping border claims between Guyana and Suriname, we began a small exploration and development farm-in program in Alberta. The program is operated by Apex Energy (Canada) Inc, a company controlled by Warren Workman, our VP Exploration, and by Mike Kamis, the engineer to whom we outsourced the drilling management of our Horseshoe West well in Guyana. One of the main incentives that led to our participation was the Company's desire to effectively use the more than $2 million of Canadian tax pools that CGX holds. The goal was to participate in low-risk exploration and step-out drilling to strategically provide a base of cash flow for the Company.

Although modest, the program was extremely successful. Six wells were drilled in three areas, resulting in light oil from a horizontal well, natural gas from three wells, and two wells with the potential for multi-zone gas and heavy oil. Our finding and on-stream costs are estimated to be only C$3.72/boe.

HIGHVALE

In May 2001, CGX entered into a farm-in agreement to earn a 30% interest, convertible to a 15% interest at payout, in 320 acres of land in the Highvale area of north-central Alberta. The land is held under a Petroleum and Natural Gas Lease, and is restricted to rights in the Banff formation.

CGX participated in drilling a horizontal well at 3-20-051-04W5M (3-20) to a vertical depth of 1620 metres and total depth of 1950 metres. In the horizontal section, the well encountered a series of porous dolomite reservoirs separated by tight limestone. The reservoir had been identified on seismic and tied to strata in an abandoned vertical well on the lease that had produced 10,000 barrels of 36° API oil from three metres of dolomite pay. Our 3-20 well, with a 225 metre horizontal section, encountered more than four metres of vertical pay, and has been tested at rates exceeding 100 bbls/d. However, production has not stabilized, possibly because of compartmentalization or formation damage from drilling, or both. The well is producing approximately 45 bbls/day and 150 mcf/d to third-party production facilities that are only one-half mile away. A second horizontal well may be drilled on the lease.

HALKIRK

At Halkirk in central Alberta, CGX participated in drilling three gas wells that were drilled to depths of approximately 1100 metres and encountered multiple zones of gas potential. Two of the wells were completed in the Viking formation, while the third was completed in both the Viking and Glauconite formations. Combined Absolute Flow Potential of the four zones exceeded five mmcf/d, and stabilized production is approximately two mmcf/d. By drilling the wells, CGX has earned a 30% interest in 1,920 gross acres, convertible to a 15% interest at payout. The land is held under a combination of Petroleum and Natural Gas Leases, plus Freehold Leases. The land held by CGX at Halkirk is now fully developed.

LINDBERGH

At Lindbergh in eastern Alberta, CGX participated in drilling two wells to depths of approximately 600 metres, encountering multiple zones of heavy oil potential plus one gas zone. By drilling the wells, CGX earned a 15% interest in 1,280 gross acres, convertible to a 7.5% interest at payout. Following drilling, CGX acquired a 7.5% interest in an adjoining 1,280 acres at a Crown land sale. The lands are held under a combination of Freehold and Heavy Oil Leases.

The 8-12 well was successfully completed in the Sparky formation, initially testing 60 bbls/d of heavy 12° API crude. Production has subsequently stabilized at 25 bbls/d. Proven reserves have also been assigned to the Rex formation in this well. Beyond the 40-acre spacing unit of the 8-12 well, there is an opportunity to drill up to 15 additional wells on this section of land.

The 11-21B well encountered hydrocarbons in four separate formations. To accelerate payout, the GP formation was placed on production in October, with stabilized volumes of 250 mcf/d. A production test of the Rex formation confirmed that the zone can be developed, testing 20 bbls/d of 11.7° API heavy oil. The spacing units for production of heavy oil could be reduced to 40 acres or less, creating the potential to drill up to 16 or more wells on each of the three sections. Additional heavy oil potential exists in the GP and Sparky sandstone formations based on log samples and geological mapping.

FINANCIALS

CONTENTS

This discussion should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements.

SIGNIFICANT EVENT

In 2001, CGX participated in drilling and casing six wells in Alberta, our first program in Canada. The Alberta program yielded proven reserves estimated at 221,900 barrels of oil equivalent (boe, where 6 mcf = 1 boe) as of January 1, 2002. Our finding and on-stream costs are estimated to be C$3.72/boe. The program has also created the opportunity to drill a number of step-out wells, for which no reserves have been assigned.

An independent reserve report was completed by Mr. Doug MacLellan, P.Eng.,who has more than 25 years of petroleum engineering studies and experience in oil and gas fields in Western Canada and internationally.

Proven developed producing reserves as of January 1, 2002, net to CGX's working interest, have been estimated as follows:

	Oil & NGLs (mbbls)	Natural Gas (mmcf)		Net Present Value (C$m) Before Tax Discounted @	
			0%	10%	15%
Escalated pricing	71.5	902.5	2,709	1,512	1,229
Constant pricing	73.1	941.8	2,434	1,494	1,249

The net present value of future production was estimated prior to consideration of income tax, Alberta Royalty Tax Credit and general and administrative expenses. Wellhead prices were adjusted relative to reference prices for transportation costs and quality adjustments. For the Constant Price Case, an Edmonton reference price for light crude of C$29.05/bbl was used, with a heavy differential for Bow River Crude of C$6.78/bbl. A reference natural gas price of C$3.34/mcf was applied. Operating and capital costs were not escalated.

For the Escalated Price Case, operating and capital costs were escalated at 2% per year. The following reference price forecast was used, with oil prices increasing by C$0.50/bbl and gas prices increasing 2% annually after 2006.

	Edmonton 39°API Crude (C$/bbl)	Light/Heavy Differential (C$/bbl)	Natural Gas (C$/mcf)
2002	25.00	7.00	3.00
2003	27.50	7.00	3.00
2004	28.00	7.00	3.06
2005	28.50	7.00	3.12
2006	29.00	7.00	3.18

RESERVE RECONCILIATION

	Oil & NGLs (mbbls)	Natural Gas (mmcf)	Reserves (mboe)
As at January 1, 2001	—	—	—
Proven reserve additions	71.5	902.5	221.9
Production	0.6	4.9	1.4
As at January 01, 2002	72.1	907.4	223.3

Finding & On-Stream Costs (C$)	
2001 capital	735,000
Future capital to achieve proven forecast	94,700
Total capital	829,700
Finding & on-stream costs/proven boe	3.72

RESULTS OF OPERATIONS

The start-up of production in the fourth quarter of 2001 from the Company's Alberta program resulted in our first oil and gas production revenue of US$16,484.

The Company incurred a net loss of US$531,428 or US$0.01 a share for the year ended December 31, 2001, compared with a net loss of US$10,262,175 or US$0.23 a share for the year ended December 31, 2000. All major expense categories were down for 2001 compared with 2000, because most of the financings and the drilling of our first offshore well occurred in 2000.

Professional fees were lower by almost US$165,000 in 2001 because of the costs to complete financings in 2000.

Interest earned on term deposits was down during 2001 compared with 2000 because of lower cash balances.

In 2000, we wrote off the cost of drilling Horseshoe West, our third-ranked target that we drilled after we were forced to leave Eagle, our initial drill site. The write-off was US$9,526,726, which represented the direct and some of the indirect costs of drilling the Horseshoe West well, which was dry and abandoned.

Administrative expenses decreased 11% in 2001 as more costs were incurred in 2000 because of the required travel to Guyana. Shareholders' information costs decreased to US$92,067 in 2001 from US$244,063 the prior year. The additional costs in 2000 resulted from more frequent corporate presentations, participation in more investor conferences and the expenses associated with completing a number of financings.

CAPITAL RESOURCES, CAPITAL EXPENDITURES AND LIQUIDITY

The Company's working capital decreased to US$1,852,223 in 2001 from US$3,172,704 for the same period in 2000.

During 2000, the Company issued 10,328,300 Common Shares for net proceeds of US$9,687,693 compared with raising US$21,000 on the exercise of options in 2001 and $141,000 in a private placement.

In 2001, CGX spent US$468,480 on the Alberta projects and US$518,775 on the Corentyne Block in Guyana, which included annual fees and the acquisition of vintage seismic. In the previous year, we spent US$9,327,457 on exploration activity on the Corentyne Block in Guyana, primarily to drill the Horseshoe West well.

The Company is dependent on obtaining future financings for the exploration and development of our properties and for the acquisition of any new projects. There is no assurance that such financings will be available when we require them, or under terms that are favourable to us.

RISK AND UNCERTAINTIES

Petroleum Exploration and Development

Petroleum and natural gas exploration, production, acquisition, and marketing operations involve a number of business risks. These risks include fluctuations in commodity prices, exchange rates and interest rates, exploration uncertainties, product demand, transportation restrictions and governmental regulatory changes.

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

With the exception of small investments in Western Canada, the Company has focused its financial and management resources on exploration opportunities in a single area, the Guyana/Suriname Basin.

The Canadian exploration, development and production activities of the Company are conducted jointly with others and, accordingly, the consolidated financial statements reflect only the Company's proportionate interest in such activities.

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

Commodity Risk

There are risks of volatility in world oil prices and other risks that the Company cannot control. CGX has no current plans to hedge our production to eliminate pricing risk.

Currency Risk

The Company's expenses are recorded in U.S. dollars except for costs and revenue in Canada and the expenses associated with conducting business in Guyana. As a result, CGX is exposed to market risks resulting from fluctuations in currency exchange rates.

Political Risk

The offshore boundary between Guyana and Suriname has not been formalized by a treaty, which is a similar situation for the majority of marine boundaries throughout the world. The Guyanese interpretation of the boundary is based on the Geneva Convention principle of the median line drawn equidistant from the baselines along the two shorelines, while the Surinamese draw the boundary to the northwest of our Eagle and Wishbone West targets. Both countries are signatories to the United Nations Law of the Sea, which provides that any border disputes be resolved peacefully. Further, since 1962, Venezuela has asserted a claim to all of onshore Guyana west of the Essequibo River, contrary to a Treaty signed in 1899, which could affect the Company's western acreage by extension of the boundary into the offshore area.

OUTLOOK

The external dispute between Guyana and Suriname has suspended active exploration in the basin. Furthermore, the election process in both countries, combined with political and social unrest, curtailed the ability of Guyana and Suriname to negotiate the external boundary issues during 2000 and 2001. The ability of the two countries to agree on a maritime treaty or an intermediate arrangement will control the timing of future exploration by CGX and the other concession holders in the region.

In the interim, we have been reprocessing vintage seismic data to advance our regional interpretation of the basin and identify targets for advanced 2-D seismic surveys. Although each of Eagle, Wishbone West and the Abary Offset – our three turbidite fan targets – are drill-ready, if government approval does occur, drilling may be delayed if there is a shortage of drill rigs or service suppliers.

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

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

External auditors, appointed by the shareholders, have independently examined the consolidated financial statements and performed the tests deemed necessary to enable them to express an opinion on these consolidated financial statements.

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

April 19, 2002

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

Kerry E. Sully
President & Chief Executive Officer

To the Shareholders of CGX Energy Inc.

We have audited the consolidated balance sheets of CGX Energy Inc. as at December 31, 2001, and 2000 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001, and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Accounting principles generally accepted in Canada vary in certain significant respects from accounting principles generally accepted in the United States. Application of accounting principles generally accepted in the United States would have affected results of operations for each of the years in the two-year period ended December 31, 2001, and shareholders' equity as of December 31, 2001 and 2000 to the extent summarized in Note 7 to the consolidated financial statements.

Parker Simone LLP.

Chartered Accountants, Mississauga, Ontario
April 19, 2002

(Denominated in United States Dollars)

As at December 31	2001	2000
ASSETS		
Current Assets		
Cash and short-term investments	$ 1,669,315	$ 2,982,705
Receivables and other	49,814	111,853
Drilling supplies	299,192	359,610
	2,018,321	3,454,168
Petroleum and Natural Gas Properties (Note 3)	2,882,665	1,897,619
	$ 4,900,986	$ 5,351,787
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accruals	$ 198,451	$ 280,058
Shareholders' Equity		
Capital stock (Note 4)	16,441,702	16,279,468
Deficit	(11,739,167)	(11,207,739)
	4,702,535	5,071,729
	$ 4,900,986	$ 5,351,787

See notes and supplementary information to the consolidated financial statements.

Approved by the Board:

Director

Director

(Denominated in United States Dollars)

Years Ended December 31	2001	2000
REVENUES		
Petroleum and natural gas	$ 16,484	$ —
Royalties, net of ARTC	4,513	—
	11,971	—
Interest Income	84,208	252,184
	96,179	252,184
EXPENSES		
General and administration	456,702	511,503
Shareholders' information	92,067	244,063
Professional fees	58,202	222,924
Foreign exchange loss	9,841	7,041
Production	7,296	—
Depletion, amortization and site restoration	3,499	2,102
Write-off of dry hole costs	—	9,526,726
	627,607	10,514,359
NET LOSS	(531,428)	(10,262,175)
Deficit at beginning of year	(11,207,739)	(945,564)
DEFICIT AT END OF YEAR	$ (11,739,167)	$ (11,207,739)
NET LOSS PER SHARE – BASIC	$ (0.01)	$ (0.23)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	46,128,655	44,054,538

See notes and supplementary information to the consolidated financial statements.

(Denominated in United States Dollars)

Years Ended December 31	2001	2000
OPERATIONS		
Net loss	$ (531,428)	$ (10,262,175)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depletion, amortization and site restoration	3,499	2,102
Write-off of other asset	—	900
Write-off of dry hole costs	—	9,526,726
Net change in non-cash operating working capital items:		
Receivables and other	60,875	(57,575)
Drilling supplies	60,418	(359,610)
Accounts payable and accruals	(81,733)	163,051
Net Cash Used by Operating Activities	(488,369)	(986,581)
FINANCING		
Issuance of common shares	216,722	10,439,550
Costs of share issuances	(54,488)	(751,857)
Net Cash Provided by Financing Activities	162,234	9,687,693
INVESTING		
Petroleum and natural gas properties	(987,255)	(9,327,457)
Net Cash used by Investing Activities	(987,255)	(9,327,457)
DECREASE IN CASH AND SHORT-TERM INVESTMENTS	(1,313,390)	(626,345)
Cash and short-term investments at beginning of year	2,982,705	3,609,050
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR	$ 1,669,315	$ 2,982,705

See notes and supplementary information to the consolidated financial statements.

Years Ended December 31, 2001 and 2000
(Denominated in United States Dollars)

GENERAL

CGX Energy Inc. (CGX, or the Company) is incorporated under the laws of Ontario. Its principal business activity is petroleum and natural gas exploration offshore Guyana, South America, combined with a minor petroleum and natural gas exploration and development program in Western Canada.

1. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of the Company together with its wholly owned subsidiary, CGX Resources Inc., a Bahamian-based company. The 1998 acquisition of this subsidiary has been accounted for as a reverse takeover. As such, these consolidated financial statements reflect the continuation of the legal subsidiary, CGX Resources Inc., and not that of the legal parent. The Company's Canadian exploration, development and production activities are undivided interests in properties that are developed jointly with others. Accordingly, the consolidated financial statements also reflect the Company's pro rata share of the assets, liabilities, revenues and expenses of these undivided interests.

Nature of Operations

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

Foreign Currency Translation

CGX is a Canadian holding company whose principal asset is its wholly owned subsidiary, CGX Resources Inc. The Company earns minimal revenues, so its main source of cash is through capital financing. Its shares are traded and quoted on a Canadian exchange in United States (U.S.) dollars; accordingly, all of the Company's capital market financing is denominated in U.S. dollars. Although head office expenses are principally denominated in Canadian dollars, the majority of the Company's cash resources are used to finance the subsidiary's petroleum and natural gas activities. Virtually all of the subsidiary's transactions are denominated in U.S. dollars, including those with the Guyana Government. Accordingly, the U.S. dollar is the functional currency for both the Company and its subsidiary.

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

Petroleum and Natural Gas Properties

The Company follows the full cost method of accounting for petroleum and natural gas properties and, accordingly, capitalizes all exploration and development costs, drilling (including related overhead) on producing and non-producing properties and other carrying charges on unproven properties. Proceeds of disposition are applied against the cost pools with no gain or loss recognized except where the disposition results in a significant change in the rate of depletion and amortization.

The costs of significant unevaluated properties are excluded from the depletion and amortization base. The carrying value is limited to the recoverable amount. This is determined on proven properties by estimating the present value of future net revenues based on current prices and cost. On unproven properties, the carrying value is determined by using the lower of cost or net realizable value less estimated future site restoration costs, general and administrative expenses, financing costs and income taxes.

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

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

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

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

Cash and Short-Term Investments

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

Stock-Based Compensation Plan

Consideration paid by employees or directors on the exercise of stock options under the employee stock option plan is recorded as share capital.

Flow-Through Shares

A portion of the Company's Canadian capital expenditure program is funded from the periodic issue of flow-through shares, whereby additions to tax pools arising from the related expenditures are renounced to the subscribers of the flow-through shares. Share capital will be reduced, and future income taxes will be increased by the tax related to the renounced tax deduction.

Future Income Taxes

The Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. Under the new recommendations, the liability method of tax allocation is used, which determines future income taxes based on the differences between assets and liabilities reported for financial accounting purposes and those reported for tax purposes. Previously, CGX followed the deferral method, which determined deferred income taxes based on the differences in the timing of income and expenses reported for financial accounting purposes from those reported for income tax purposes. Because of the nature of the Company's operations, it may be subject to income taxes in Canada, the Bahamas and Guyana.

Net Loss per Share

Net loss per share has been calculated using the weighted average number of Common Shares outstanding during the years. Net loss per share, fully diluted, has been calculated reflecting the issuance of warrants and assuming the full exercise of stock options. Net loss per share, filly diluted, has not been presented, as the factors referred to above are anti-dilutive.

Administrative Expenditures

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

Comparative Financial Statements

The presentation of certain accounts for the previous year has been changed to conform to the presentation adopted for the current year.

2. Related-Party Transactions

Certain corporate entities that are related to the Company's officers and directors provide consulting services to CGX. These expenditures are summarized as follows:

	2001	2000
Petroleum and natural gas properties	$ 186,000	$ 233,400
Administrative expenses	207,000	206,084

3. Petroleum and Natural Gas Properties

	2001 Corentyne Block, Guyana	2001 Alberta, Canada	2001 Total	2000 Corentyne Block, Guyana
Balance, beginning of year	$ 1,897,619	$ —	$ 1,897,619	$ 2,096,888
Acquisition costs	100,000	—	100,000	111,580
Exploration costs	418,775	—	418,775	9,215,877
Development costs	—	468,480	468,480	—
Write-off of dry hole costs	—	—	—	(9,526,726)
Accumulated depletion	—	(2,209)	(2,209)	—
Balance, end of year	$ 2,416,394	$ 466,271	$ 2,882,665	$ 1,897,619

Corentyne Block, Guyana

The Company holds a petroleum prospecting licence for a concession of approximately 3.8 million acres offshore Guyana. The licence is for a period of four years beginning June 1998 and is renewable for up to two three-year periods. The licence was amended on June 2, 2000, and again on January 12, 2001. The required work program for the Initial Period, ending June 2002, has been substantially completed. CGX intends to renew its licence in June 2002.

The principal terms of the licence include annual fees of $100,000, plus a guarantee for 10% of the estimated cost of the work commitment in the pending exploration period as follows:

Period	Start Date	End Date	Work Commitment	Relinquish @ end of period	Status
Initial Period Phase 1	June 1998	June 2000	Conduct regional review, shoot 1800 kilometres of 2-D seismic		Complete
Initial Period Phase 2 Year 1	June 2000	June 2001	Drill 1 exploration well		Complete
Initial Period Phase 2 Year 2	June 2001	June 2002	Interpret well results	20% [1]	Complete
1st Renewal Phase 1	December 2002	December 2003	Eastern block: drill 1 exploration well or shoot 500-line kilometres of 3-D seismic; or Annex block: shoot 1500 kilometres of 2-D seismic	1%	
1st Renewal Phase 2	December 2003	June 2005	Drill 1 exploration well	20%	
2nd Renewal Phase 1	June 2005	December 2006	Drill 1 exploration well		
2nd Renewal Phase 2	December 2006	June 2008	Drill 1 exploration well		

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

If a discovery is made, CGX has the right to convert the Discovery Area plus reasonable surrounding acreage to a Production Licence, subtracting this area from the Contract Area.

Summary of Fiscal Regime: After commercial production begins and until capital payback, the government's net share of production in full satisfaction of all income taxes and royalties for the first three years is 12.5% of the first 40,000 barrels of oil per day, and 13.25% for additional production; for the next 2 years, 17.5% of the first 40,000 barrels of oil per day and 18.55% for additional production; and thereafter 24.75% until capital payback; following which the government's share is 55% of Profit Oil, in full satisfaction of all income taxes and royalties.

Subsequent to year-end, the Company signed a Letter Agreement dated April 19, 2002, to obtain a 25% participating interest in the Georgetown Block (offshore Guyana, South America) from AGIP Guyana, B.V. for $100,000 on signing, $150,000 upon receiving an extension of the term of the Prospecting Licence and $1 million at the spud of the first well on the Block in which CGX participates. This Letter Agreement is conditional upon receiving consent from Respol and the Government of Guyana.

Alberta, Canada

During 2001, the Company entered into farm-in agreements with a group of companies to drill for petroleum and natural gas on three properties in Alberta, Canada. In 2001, CGX earned $16,484 in revenues, paid $4,513 in royalties and $7,296 in production expenses, and recorded depletion and site restoration costs of $2,335. No overhead costs related to exploration and development activities were capitalized. As at December 31, 2001, the estimated future site restoration costs to be accrued over the life of the remaining proven reserves are $45,000.

4. Capital Stock

Authorized and Issued Capital Stock

The Company is authorized to issue an unlimited number of Common Shares without nominal or par value. The Company's issued and outstanding Common Shares were as follows:

	Number of Shares	Amount
Balance as at December 31, 1999	35,748,007	$ 6,591,775
Issuance of shares for cash:		
Private placements	9,530,000	9,842,000
Stock options exercised	25,000	5,250
Warrants exercised	773,300	592,300
Costs of share issuances	—	(751,857)
Balance as at December 31, 2000	46,076,307	$ 16,279,468
Issuance of shares for cash:		
Private placements	559,206	195,722
Stock options exercised	100,000	21,000
Costs of share issuances	—	(54,488)
Balance as at December 31, 2001	46,735,513	$ 16,441,702

Flow-Through Shares

Pursuant to flow-through share agreements dated December 31, 2001, the Company had renounced resource expenditures of approximately $203,600 prior to February 25, 2002. The Company is committed to incur the qualifying expenditures prior to December 31, 2002.

Options

The Company has a stock option plan for certain officers, directors and employees under which up to 5,625,000 options may be issued.

	2001	2000
Balance, beginning of year	4,240,000	2,590,000
Granted	875,000	1,675,000
Exercised	(100,000)	(25,000)
Expired	(75,000)	
Cancelled	(40,000)	—
Balance, end of year	4,900,000	4,240,000

Under the plan, the unexercised Common Share options at December 31, 2001, were as follows:

Year of Expiry	Weighted Average Exercise Price	Number of Shares Under Option
2002	$ 0.86	485,000
2003	0.16	1,658,000
2004	0.36	622,000
2005	1.20	1,560,000
2006	0.43	575,000
		4,900,000

As of December 31, 2001, the Company had 44,736 warrants that were issued and outstanding with an exercise price of $0.35 and an expiry date of December 31, 2002.

5. Income Taxes

As at December 31, 2001, the Company had non-capital losses of $1.8 million available to reduce future Canadian source income for income tax purposes. These losses expire during the years 2003 to 2008. The Company also has $9.8 million in operating losses available to reduce future source income from Guyana for income tax purposes, which may be carried forward indefinitely. A summary of the future income tax asset resulting from these operating losses carry forward, using an approximate tax rate of 35%, is as follows:

	2001	2000
Future tax assets:		
Benefit of non-capital loss carry forwards	$ 4,060,000	$ 3,962,000
Valuation allowance	(4,060,000)	(3,962,000)
	$ —	$ —

The Company has recorded a 100% valuation allowance against the future income tax assets because of the uncertainty surrounding their realization.

6. Segmented Information

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

	2001	2000
Petroleum and Natural Gas Revenues		
Canada	$ 16,484	$ —
Guyana	—	—
	16,484	—
Net Loss		
Canada	518,602	701,459
Guyana	12,826	9,560,716
	531,428	10,262,175
Net Cash Used by Operations		
Canada	435,217	729,862
Guyana	53,152	256,719
	488,369	986,581
Capital Expenditures		
Canada	468,480	—
Guyana	518,775	9,327,457
	987,255	9,327,457
Total Assets		
Canada	2,163,858	2,894,343
Guyana	2,737,128	2,457,444
	$ 4,900,986	$ 5,351,787

7. Summary of Differences Between Canadian and United States Generally Accepted Accounting Principles

Petroleum and Natural Gas Properties

Under U.S. GAAP, the Company is permitted to use the full cost method of accounting for exploration and development activities as defined by the United States Securities and Exchange Commission (SEC). Under this method of accounting, the costs of unsuccessful, as well as successful, exploration and development activities are capitalized as property and equipment. This includes any internal costs that can be directly identified with acquisition, exploration and development activities, but does not include any costs related to production, general corporate overhead or similar activities. Pursuant to full cost accounting rules, capitalized costs less related accumulated depletion and future income taxes for each cost center may not exceed the sum of (1) the present value of future net revenue from estimated production of proved oil and gas reserves; plus (2) the cost of properties not being amortized, if any; plus (3) the lower of cost or estimated fair value of unproved properties included in the costs being amortized, if any; less (4) income tax effects related to differences in the book and tax basis of petroleum and natural gas properties.

Management has evaluated its method of accounting for petroleum and natural gas properties under Canadian GAAP and believes that there are no material differences between the accounting in the accompanying Canadian GAAP financial statements and U.S. GAAP as described above.

Income Taxes

Under U.S. GAAP, companies must follow the requirements of Statement of Financial Accounting Standards No. 109 (FASB 109) which requires the use of the asset/liability method. A deferred tax asset would be provided for net operating loss carry forwards under FASB 109 with a valuation allowance to reflect net realizable amounts. At December 31, 2001, any deferred tax assets computed under FASB 109 would have been fully reserved.

Accordingly, there are no differences in the accounting for income taxes between U.S. GAAP and Canadian GAAP for the periods presented.

Stock-Based Compensation

Under U.S. GAAP, there are two different sets of rules related to stock-based compensation: APB 25, Accounting for Stock Issued to Employees, and FASB 123, Accounting for Stock-based Compensation. FASB 123 encourages, but does not require, all companies to recognize compensation expense based on fair value accounting rules for grants of common stock, stock options and other equity instruments to employees. Companies that choose not to adopt the new fair value accounting rules in FASB 123 will continue to apply the existing accounting rules contained in APB 25. However, these companies are required to disclose pro forma net income and pro forma earnings per share as if the new fair value accounting rules had been adopted. In addition, all companies with stock-based plans are required to make detailed disclosures about the terms of the plans and the assumptions used in measuring fair value of stock-based grants under FASB 123.

The grant price of all options issued by CGX to date has been equal to or above the market price of the Company's stock at the date of issuance. Accordingly, no compensation expense would be required to be recognized in the financial statements under U.S. GAAP.

Earnings (Loss) Per Share

Under U.S. GAAP, companies must follow FASB 128, Earnings (Loss) Per Share. However, the Company has had operating losses each year. Accordingly, the loss per share under U.S. GAAP would not differ from the presentation under Canadian GAAP.

Statement of Changes in Shareholders' Equity

The following is a statement of changes in shareholders' equity for the years ended December 31, 2001 and 2000. This statement has been presented in U.S. GAAP format to account for the acquisition of CGX Resources Inc.

	Common Shares Number	Common Shares Amount	Accumulated Deficit	Total
Balance as at December 31, 1999	35,748,007	$ 6,591,775	$ (945,564)	$ 5,646,211
Issuance of shares for cash:				
Private placements	9,530,000	9,842,000	—	
Stock options exercised	25,000	5,250	—	
Warrants exercised	773,300	592,300	—	
Cost of share issuances	—	(751,857)		
Net loss for the year ended December 31, 2000			(10,262,175)	
Balance as at December 31, 2000	46,076,307	16,279,468	(11,207,739)	5,071,729
Issuance of shares for cash:				
Private placements	559,206	195,722		
Stock options exercised	100,000	21,000		
Cost of share issuances	—	(54,488)		
Net loss for the year ended December 31, 2001			(531,428)	
Balance as at December 31, 2001	46,735,513	$ 16,441,702	$ (11,739,167)	$ 4,702,535

The Company has presented its financial statements in accordance with Canadian GAAP which does not require a separate statement of changes in shareholders' equity. The Company has, however, presented a statement of changes in shareholders' equity in this reconciliation to U.S. GAAP note.

Reserve Quantity Information for the Year Ended December 31, 2001
After Royalty, Constant Pricing

	Alberta, Canada	
	Oil/NGLs (mbbls)	Gas (mmcf)
Proved developed reserves:		
Beginning of year	—	—
Revisions of previous estimates	—	—
Improved recovery	—	—
Purchases of minerals in place	—	—
Extensions and discoveries	56.5	655.3
Production	(0.4)	(4.3)
Sales of minerals in place	—	—
End of year	56.1	651.0

Standardized Measure of Discounted Future Net Cash Flows and Changes Relating to Proved Oil and Gas Reserves at December 31, 2001

	Alberta, Canada
Future cash inflows	US$ 1,569,900
Future production and development costs	(60,700)
Future income tax expenses	(587,400)
Future net cash flows	US$ 921,800
10% annual discount for estimated timing of cash flows	
Standardized measure of discounted future net cash flows	US$ 428,200

Denis A. Clement, LL.M.

Position	Director
Age	49
Experience	Denis, the former President of CGX, has 22 years of experience in law, corporate management and finance. He has held key executive and directorship positions in several companies, including MFP Technology Services Inc., a TSE-listed company that he co-founded and that now has assets of more than $800 million. Denis is the Chairman and a Director of Dumont Nickel Inc.

John R. Cullen

Position	Director and Founder
Age	46
Experience	Over the last 22 years, John has had a successful career in public company financing, corporate/capital structuring and development. For 10 years, John was an investment advisor with Nesbitt Burns where he specialized in the resource sector.

Edris K. (Kamal) Dookie, PhD

Position	Executive Vice President of CGX Resources Inc., Director of Guyana Operations, and Founder
Age	49
Experience	Kamal was involved for more than 16 years in the development of start-up projects in the agricultural and mining sectors. During the last four years, he has focused on the acquisition and exploration of CGX's Corentyne Block.

James (Jim) N. Fairbairn, C.A.

Position	Chief Financial Officer
Age	43
Experience	Jim has more than 17 years of financial experience with publicly traded companies. He is the treasurer of a number of public companies including Ausnoram Holding Limited, GLR Resources Ltd., Black Pearl Minerals Consolidated and Band-Ore Resources Ltd.

Daniel (Dan) T. Farrell, B.Sc.

Position	Manager of Investor Relations
Age	64
Experience	Dan has more than 22 years of experience in the natural resource sector in the areas of marketing and finance. He was formerly a member of the Yorkton Securities Natural Resource Group. During his career, Dan has held the positions of President and Director for various resource companies.

Adrian C. Jackson, M.A. M.B.A.

Position	Independent Director
Age	42
Experience	Adrian is the Group Chief Financial Officer for Atlantic Energy Resources (AER), a company that focuses on developing discovered oil fields in Russia. Prior to this, he spent more than six years as a Vice President of The Chase Manhattan Bank, mostly within the Global Oil & Gas Group where his focus included advising on international and domestic mergers and acquisitions, and corporate and project financing. After his graduation from Oxford University in 1982, he worked for 10 years with Royal Dutch Shell as a petroleum and reservoir engineer, an asset evaluator and negotiator.

Oliver Lennox-King, B. Comm.

Position	Independent Director
Age	53
Experience	Oliver has 29 years of experience in the mineral resource industry in the areas of financing, research and marketing. He was instrumental in forming Southern Cross Resources Inc. in 1997, and is its Chairman. Oliver was formerly Chairman of Pangea Goldfields Inc., President of Tiomin Resources Inc., and Vice President and Director of Midland Walwyn Inc. He is on the Board of Directors of several other public companies.

Stephen McIntyre, B.Sc., B.A.

Position	Strategic Advisor
Age	54
Experience	Steve has more than 26 years of experience in the mineral business. He is the President and a Director of Dumont Nickel Inc., and was President of Northwest Exploration Company Limited, the predecessor company to CGX Energy Inc. During his career, Steve has been the President and Chairman of a number of other resource companies.

Dawn Rothschild

Position	Executive Assistant
Age	33
Experience	Dawn worked as an executive assistant on the Institutional Equity Sales desk at Deutsche Bank Securities Canada. She also assisted the Vice President and Head of Operations, Technology, Facilities, and she was actively involved in the Y2K transition and the global merger between Deutsche Bank and Bankers Trust. Dawn also has extensive experience in advertising, promotions and public relations.

Kerry E. Sully, P.Eng. (Alberta), B.Sc.

Position	Director, President & Chief Executive Officer
Age	53
Experience	Kerry has 32 years of petroleum and consulting experience. He initiated computerized financial modeling at Texaco Exploration Canada Ltd. and was a key participant in its mergers and acquisition team. As a consultant for Lewis Engineering Co. Ltd. and its sister company in the United States, D.R. McCord and Associates, he completed reserve evaluations and reservoir engineering models for securities commissions and oil and gas production companies worldwide. In 1976, Kerry helped found Ranchmen's Resources Ltd. and was its President and Chief Executive Officer from 1989 to 1995 when Ranchmen's was the target of a $260-million takeover. In addition to his responsibilities at CGX, Kerry is on the Board of Directors of several public and private companies.

Warren G. Workman, P. Geol., B.Sc.

Position	Vice President Exploration
Age	50
Experience	Warren is a highly experienced geophysicist and geologist who has spent more than 28 years in international and domestic exploration. His career experience includes working for Amoco Canada Petroleum, Unocal Corporation and Ranchmen's Resources, where he was Vice President Exploration. Warren has valuable expertise in the identification and exploration of offshore oil and gas targets, including projects in the Gulf of Mexico.

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Share Trading Information
Trading Symbol OYL.U
Canadian Venture Exchange (CDNX)
2001 High US$0.52
2001 Low US$0.19
2001 Close US$0.30
As of April 28, 2002: US$0.51
Common Shares Outstanding 46,887,513
Fully Diluted 51,632,249

Registrar and Transfer Agent
Equity Transfer Services Inc., Toronto

Auditors
Parker Simone, Chartered Accountants LLP, Mississauga

Independent Engineering Consultant
Mr. Doug MacLellan, P.Eng, Calgary

Bankers
Royal Bank of Canada, Toronto

Legal Counsel
Macleod Dixon, Calgary and Toronto

Annual General Meeting
The Annual General Meeting of shareholders will take place in Rooms B,C,D or on the 4th Floor of the Board of Trade, First Canadian Place, Toronto, Ontario, on Wednesday, June 26, 2002 at 4:30 pm.

The Management Proxy Circular and Form of Proxy are being mailed to each shareholder with this report. Shareholders unable to attend the Annual General Meeting are encouraged to complete and return the Form of Proxy.

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Abbreviations & Definitions

bbls	barrels
bbls/d	barrels per day
boe	barrel of oil equivalent
boe/d	barrel of oil equivalent per day
C	Canadian
m	thousand
mm	million
mbbls	thousand barrels
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmcf	million cubic feet
mmcf/d	million cubic feet per day
NGLs	natural gas liquids

proven reserves
: those reserves that can be estimated with a high degree of certainty to be recoverable

prospective resource
: that quantity of oil and gas estimated on a given date to be potentially recoverable from an undiscovered accumulation, that would be technically viable and economic to recover

All dollar amounts are in US$ unless otherwise indicated.

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