CGX Energy Inc.

Audited Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of CGX Energy Inc. the responsibility of management and have been approved by the Board of Directors.

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

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

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

______________________, President and CEO
Kerry Sully

______________________, CFO
James Fairbairn

parker simone LLP

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Auditors' Report

To the Shareholders of
CGX Energy Inc.

We have audited the consolidated balance sheets of CGX Energy Inc. as at December 31, 2009 and 2008 and the consolidated statements of loss, comprehensive loss 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

parker simone LLP

March 11, 2010 Licensed Public Accountants

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

As at December 31,		**2009**		2008
Assets				
Current				
Cash and cash equivalents	**$**	**16,450,478**	$	28,089,827
Receivables and other		**328,533**		206,892
		16,779,011		28,296,719
Petroleum and natural gas properties *(Note 7)*		**26,948,059**		20,656,623
	$	**43,727,070**	$	48,953,342
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable and accrued liabilities *(Note 6)*	**$**	**813,313**	$	5,898,322
Shareholders' Equity				
Capital stock *(Note 8)*		**80,545,286**		79,487,550
Contributed surplus *(Note 9)*		**12,749,117**		10,255,404
Deficit		**(50,380,646)**		(46,687,934)
		42,913,757		43,055,020
	$	**43,727,070**	$	48,953,342

Nature of Operations and Going Concern (Note 1)
Commitments (Note 7, 10)
Subsequent Event (Note 8)
Segmented Information (Note 11)

Approved by the Board:

_________________________, Director
Kerry Sully

_________________________, Director
John Cullen

CGX Energy Inc.

Audited Consolidated Statements of Loss, Comprehensive Loss and Deficit

(Expressed in United States Dollars)

Years Ended December 31,	**2009**	2008
Administrative expenses		
Stock-based compensation (*Note 8)*	**$ 2,627,449**	$ 5,301,325
General and administrative	**935,051**	821,685
Consulting	**525,142**	474,897
Production and exploration	**-**	5,399
Professional fees	**79,264**	92,846
Shareholder's information	**109,688**	165,490
Foreign exchange loss (gain)	**(471,868)**	7,975
	3,804,726	7,145,578
Interest income	**(36,472)**	(467,017)
Other income	**(75,542)**	-
Loss and comprehensive loss	**3,692,712**	6,678,561
Deficit, beginning of year	**46,687,934**	40,009,373
Deficit, end of year	**$ 50,380,646**	$ 46,687,934
Loss per share – basic and diluted	**$0.03**	$0.05
Weighted average number of shares outstanding - basic	**126,521,836**	125,613,533
- diluted	**128,875,902**	125,613,533

The accompanying notes are an integral part of these financial statements

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

Years Ended December 31,	**2009**	2008
Cash provided by (used in) Operating activities:		
Net loss	**$ (3,692,712)**	$ (6,678,561)
Adjustments to reconcile net loss to net cash used by operating activities:		
Stock-based compensation	**2,627,449**	5,301,325
Unrealized foreign exchange loss	**39,183**	36,661
Net change in non-cash operating working capital items :		
Receivables and other	**(121,641)**	63,736
Accounts payable and accruals	**(3,617,702)**	2,070,146
Net cash provided (used in) operating activities	**(4,765,422)**	793,307
Financing activities		
Issue of common shares on exercise of options	**924,000**	462,200
Net cash provided (used in) by financing activities	**924,000**	462,200
Investing activities		
Petroleum and natural gas properties	**(7,727,951)**	(11,614,428)
Net cash provided (used in) investing activities	**(7,727,951)**	(11,614,428)
Net decrease in cash and cash equivalents	**(11,569,373)**	(10,358,921)
Effect of exchange rate changes on cash held in foreign currencies	**(69,965)**	(36,661)
Cash and cash equivalents, beginning of year	**28,089,827**	38,485,409
Cash and cash equivalents, end of year	**$ 16,450,478**	$ 28,089,827
Cash and Cash Equivalents consist of:		
Cash	**16,254,883**	24,861,290
Short-term investments	**195,595**	3,228,537
	16,450,478	28,089,827

General

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

1. Nature of Operations and Going Concern

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

As at December 31, 2009, the Company had working capital of $15,965,698 (2008 - $22,398,397) had not yet achieved profitable operations, had accumulated losses of $50,380,646 (2008 - $46,687,934) and expects to incur further losses in the development of its business, all of which casts doubt upon the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon, but not limited to, its ability to raise financing necessary to fund its exploration and development programs, maintain its petroleum and natural gas properties concession rights, discharge its liabilities as they become due and generate positive cash flows from future operations.

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

2. Summary of Significant Accounting Policies

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Outlined below are those accounting policies considered particularly significant:

Consolidation

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

Management's estimates

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

2. Summary of Significant Accounting Policies (continued)

Petroleum and natural gas properties

The Company follows the full cost method of accounting for petroleum and natural gas properties. As all of the Company's properties are unproved, the Company capitalizes all acquisition costs, geological and geophysical exploration and development type costs, drilling, directly related overhead and other carrying charges in a single cost centre by country. Proceeds of dispositions, if any, are applied against the cost pools with no gain or loss recognized except where the disposition results in a significant change in the rate of depletion and amortization. The costs of unproven properties are excluded from the depletion and amortization base until it is determined whether or not proved reserves are attributable to the properties or impairment occurs. The carrying value is limited to the recoverable amount. On unproved properties, the carrying value is determined by using the lower of cost or fair value (which is equal to net realizable value less estimated future site restoration costs, general and administrative expenses, financing costs and income taxes).

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

Administrative expenditures

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

Impairment of long-lived assets

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

Asset retirement obligations

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

At December 31, 2009, the Company has made no provision for site restoration costs or potential environmental liabilities as all properties are in the exploration stage of their development. Factors such as further exploration, inflation and changes in technology may materially change the cost estimate.

2. Summary of Significant Accounting Policies (continued)

Foreign currency translation

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

Stock-based compensation

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

Future income taxes

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

Loss per common share

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

Comprehensive Loss

Section 1530 – “Comprehensive Loss” introduces the concept of comprehensive loss to Canadian GAAP. Comprehensive loss is the change in equity (net assets) of the Company during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes to equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive loss is comprised of net loss for the period and other comprehensive loss. The Company had no other comprehensive loss during the year ended December 31, 2009.

2. Summary of Significant Accounting Policies (continued)

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

The Company has made the following classifications:

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

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

Effective January 1, 2009, the Company adopted the amendment to CICA Handbook 3862, which requires disclosure about inputs to fair value measurement within the fair value measurement hierarchy as follows:

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

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

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, and the classification of related interest, dividends, losses and gains.

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

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

2. Summary of Significant Accounting Policies (continued)

Adoption of New Accounting Standards

Goodwill and intangible assets
Effective January 1, 2009, the Company adopted CICA Section 3064 “Goodwill and intangible assets” which establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew EIC 27, revenues and expenses during the pre-operating period. As a result of this withdrawal, the Company will no longer be able to defer costs and revenues incurred prior to commercial production at new operations. The adoption of this new policy had no impact on the reported results of the Company.

3. Future Accounting Pronouncements

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

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

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

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

4. Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of resource assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Corporation's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

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

5. Sensitivity Analysis

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

The carrying values of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of these financial instruments.

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

As of December 31, 2009, the Company is not a producer of oil and gas. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company’s liquidity and its ability to meet its ongoing obligations.

6. Related party transactions

Certain corporate entities that are related to the Company's officers and directors provide consulting services to CGX. Some of these expenditures include travel costs. These expenditures have been recorded at their fair market values, being the amounts negotiated and agreed to by the parties to the transaction:

Year ended December 31,		**2009**		2008
Petroleum and natural gas properties	**$**	**430,780**	$	392,002
Administrative expenses		**435,243**		471,669

At December 31, 2009, included in accounts payable and accrued liabilities is $26,000 (2008 - $40,700) due to these related parties.

7. Petroleum and natural gas properties

	As at December 31, 2009				
	Georgetown	**Berbice**	**Corentyne**	**Pomeroon**	**Total**
Balance, beginning of year	**$ 7,190,793**	**$ 356,675**	**$ 11,276,229**	**$ 1,832,926**	**$ 20,656,623**
Acquisition, exploration and administrative costs	**3,305,981**	**-**	**2,885,455**	**100,000**	**6,291,436**
Balance, end of year	**$ 10,496,774**	**$ 356,675**	**$ 14,161,684**	**$ 1,932,926**	**$ 26,948,059**

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

Corentyne Petroleum Agreement (PA), Guyana

The Company was granted the Corentyne PA on June 24, 1998. Because sovereign issues between Guyana and Suriname prevented unhindered access to a portion of the contract area the original 10-year term of the contract has been extended to June 2013. On September 17, 2007, the International Tribunal of the Law of the Sea (ITLOS) awarded a maritime boundary between Guyana and Suriname. In the decision the ITLOS Tribunal determined that it had the jurisdiction to decide on the merits of the dispute, and that the line adopted by the Tribunal to delimit the Parties' continental shelf and exclusive economic zone followed an unadjusted equidistance line. The arbitration is compulsory and binding.

The Corentyne PA covers approximately 3.7 million acres with the Corentyne PPL (2.3 million acres) held 100%, the Annex PPL (1.0 million acres) held 100%, and the Corentyne Onshore Licence (0.4 million acres) held net 62% by CGX through ON Energy. Annual Rental and Training Fees are $100,000. If a discovery is made, CGX has the right to convert the Discovery Area plus reasonable surrounding acreage to a Production Licence, subtracting this area from the Contract Area. The term of the Production Licence is 20 years, renewable for a further 10 years.

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

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

7. Petroleum and natural gas properties (continued)

Corentyne Petroleum Agreement (PA), Guyana (continued)

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

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

Georgetown PA, Guyana

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

Exploration on the Block was suspended in 2000 as a significant portion of the Licence was in the area of the overlapping border claims between Guyana and Suriname, but has now been resolved as a result of the ITLOS maritime border decision. This contract was extended to November 2012. To satisfy the Minimum Work Program during the 2nd Renewal Phase 1 of the contract, the Georgetown participants have committed to drill an exploration well during the period ending May 2011. The Georgetown PA currently covers approximately 1.7 million acres.

Pomeroon PA, Guyana

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

7. Petroleum and natural gas properties (continued)

Pomeroon PA, Guyana (continued)

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

Berbice PA, Guyana

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

Impairment Analysis – Guyana Cost Centre

The Company performed an impairment analysis as at December 31, 2009 and 2008 in the preparation of these financial statements. Management undertook this process to assess whether or not the carrying amount of the petroleum and natural gas properties exceeds its estimated fair value. In management's opinion, no provision for impairment was required for the Guyana petroleum and natural gas cost centre in the years ended December 31, 2009 and 2008.

8. Capital Stock

	December 31, 2009		December 31, 2008	
Balance, beginning of year	**126,144,913**	**$ 79,487,550**	124,523,913	$ 78,918,183
Warrants exercised	**-**	**-**	120,000	96,000
Options exercised	**1,155,000**	**924,000**	1,501,000	366,800
Fair value of options exercised	**-**	**133,736**	-	57,567
Fair value of warrants exercised	**-**	**-**	-	49,000
Balance, end of year	**127,299,913**	**$ 80,545,286**	126,144,913	$ 79,487,550

Stock options

The Board of Directors established a share incentive plan to provide additional incentive to its directors, officers, employees and consultants for their efforts on behalf of the Company in the conduct of its affairs. The maximum number of common shares reserved for issuance under the share option plan comprising part of the share incentive plan may not exceed 9% of the number of common shares outstanding. Under the terms of the plan, all options vest immediately, unless otherwise specified. All options granted under the plan expire no later than the fifth anniversary of the grant date.

8. Capital Stock (continued)

Stock options (continued)

	December 31, 2009		December 31, 2008	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
	$		$	
Outstanding, beginning of year	**1.37**	**8,855,000**	0.70	7,931,000
Granted	**1.32**	**3,000,000**	2.70	2,650,000
Exercised	**0.80**	**(1,155,000)**	0.24	(1,501,000)
Expired	**0.77**	**(420,000)**	0.97	(225,000)
Outstanding, end of year	**1.44**	**10,280,000**	1.37	8,855,000
Exercisable, end of year	**1.44**	**10,280,000**	1.37	8,855,000

The following table provides additional information about outstanding stock options at December 31, 2009:

	Number of options outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price $
$0.20 - $0.40	**1,350,000**	**1.49**	0.37
$0.65 - $0.85	**1,370,000**	**0.35**	0.68
$0.85 - $2.70	**7,560,000**	**3.57**	1.70
Total	**10,280,000**	**2.87**	1.39

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the stock-based compensation for the stock options granted during the year ended December 31, 2009:

	June 1, 2009	**November 1, 2009**	**Totals**
Number of options granted	2,500,000	500,000	3,000,000
Weighted average information:			
Risk-free interest rate	2.45%	2.68%	
Expected life (years)	5.0	5.0	
Expected volatility	103.51%	101.18%	
Expected dividends	-	-	
Stock based compensation	C$ 2,607,250	C$ 417,200	C$ 3,024,450

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

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

8. Capital Stock (continued)

Stock options (continued)

Subsequent Event

Subsequent to year end, 535,000 options were exercised. The additional options exercised increased the number of outstanding shares to 127,834,913. On February 26, 2010, the Company granted 200,000 stock options at an exercise price of CAD$1.80.

9. Contributed Surplus

		December 31, 2009		December 31, 2008
Balance, beginning of year	$	10,255,404	$	5,060,646
Fair market value transferred on exercised warrants and options		(133,736)		(106,567)
Stock options		2,627,449		5,301,325
Balance, end of year	$	12,749,117	$	10,255,404

10. Commitments

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

Years ended December 31,		Premises		Consultants
2010	$	175,000	$	493,000
2011		116,000		528,000
2012		-		475,000

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

11. Segmented Information

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

Year ended December 31,	**2009**	2008
	$	$
Net loss		
Canada	**3,390,065**	6,071,181
Guyana	**302,647**	607,380
	3,692,712	6,678,561
Capital expenditures		
Canada	**-**	-
Guyana	**6,291,436**	13,733,871
	6,291,436	13,733,871
Total assets		
Canada	**16,750,512**	28,266,775
Guyana	**26,976,558**	20,686,568
	43,727,070	48,953,343
Significant non-cash items		
Stock-based compensation		
Canada	**2,627,449**	5,198,019
Guyana	**-**	103,306
	2,627,449	5,301,325

12. Financial Instruments

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

A) Credit Risk

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

B) Market Risk

i) Interest Rate Risk

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

ii) Foreign Currency Risk

The Company's exploration and evaluation activities are substantially denominated in US dollars. The Company's funds are predominantly kept in Canadian and US dollars, with a major Canadian financial Institution.

12. Financial Instruments (continued)

iii) Sensitivity Analysis

The Company has designated its cash and cash equivalents as held for trading, which is measured at fair value; the carrying amount of the financial instruments equals fair market value. Financial instruments denominated in Canadian and Guyanese dollars are subject to foreign currency risk. As at December 31, 2009, if the Canadian and Guyanese dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Company's loss for the year ended December 31, 2009, would have been approximately $217,000 higher/lower as a result of foreign exchange losses/gains on translation of non-US dollar denominated financial instruments. Shareholder's equity would have been approximately $217,000 lower/higher had the Canadian and Guyanese dollar weakened/strengthened by 10% as a result of foreign exchange losses/gains on translation of non-Canadian dollar denominated financial instruments.

C) Other Risks

i) Political Risk

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

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

ii) Business Risk

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

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

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

iii) Exploration/Property Risk

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

12. Financial Instruments (continued)

iv) Commodity Price Risk

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

D) Liquidity Risk

The Company’s approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2009, the Company had current assets of $16,779,011 (2008 - $28,296,719) and current liabilities of $813,313 (2008 - $5,898,322). All of the Company’s financial liabilities and receivables have contractual maturities of less than 90 days and are subject to normal trade terms. As at December 31, 2009, working capital of the Company is $15,965,698 (2008 - $22,398,397).

13. Income Taxes

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

Years ended December 31,		**2009**		**2008**
Components of the income tax provision:				
Income taxes at statutory tax rate	$	(1,218,600)	$	(2,270,700)
Changes in foreign exchange rates on foreign tax assets		(397,500)		
Stock based compensation		867,100		1,802,500
Non deductible expenses and other				21,000
Valuation allowance on future tax assets		749,000		447,200
Income tax expense	$	-	$	-

Future Income Taxes Recoverable

The Canadian statutory income tax rate of 33% (2008 - 34%) is comprised of the federal income tax rate of approximately 19% (2008 - 20%) and the provincial income tax rate of approximately 14% (2008 - 14%). The Guyanese income tax rate is approximately 35% (2008 - 35%). The primary differences which give rise to the future income tax recoveries as at December 31, 2009 and 2008 are as follows:

As at December 31,		**2009**		**2008**
Future Tax Assets				
Temporary differences	$	1,578,000	$	679,000
Loss carry forwards		531,000		681,000
		2,109,000		1,360,000
Less: valuation allowance		(2,109,000)		(1,360,000)
Net Future tax Assets		-		-
Future Tax Liabilities		-		-
Net Future Income Taxes Recoverable	$	-	$	-

13. Income Taxes (continued)

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

At December 31, 2009, the Company had Canadian non-capital loss carry-forwards of C$ 5,239,700 (2008 - C$ 1,829,882) expiring at various dates from 2026 to 2028. In addition, the Company had Canadian capital losses of C$ 2,036,941 (2008 - C$ 2,050,459) and Canadian mining exploration & development expenses of C$ 927,000 (2008 - C$ 927,000). These tax benefits, which have not been recognized in the accounts, are available to carry forward indefinitely.

14. Comparative Figures

Certain of the 2008 comparative figures have been reclassified to conform to the presentation adopted in the current year.