



Update 2005

Corporate Profile

CGX Energy Inc. is an oil and gas exploration company with an interest in 9.8 million acres (7.7 million net) offshore Guyana, South America—an area ranked 2nd among the world's under-explored basins where we're exploring for giants. Based on IHS Energy data, in April 2004 CGX was the 7th largest concession holder offshore South America. We have identified two significant drillable targets offshore: Eagle has giant potential (>500 million barrels), and Wishbone West is in the elephant category (>100 million barrels) that have been independently reviewed. Many other targets are in various stages of interpretation.



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 licences in Guyana. No discoveries have been drilled in Guyana, so CGX has no proven, probable or possible reserves. A portion of the Company's Corentyne concession is in an area where Guyana and Suriname have overlapping border claims for which resolution is being sought under the United Nations Convention on Law of the Sea. Similarly, the Company's Pomeroon concession is an area of unresolved claims by Venezuela.

President's Message

I'd like to thank each of you for your extreme patience – hopefully your patience will finally start to be rewarded as we move into the end of this year. During the last eight years, we've acquired an interest in four licences covering 9.8 million acres (7.7 million acres net) in Guyana, South America. Our four exploration concessions include our original Corentyne Licence (100%); the adjacent Georgetown Licence (25%, with Repsol as operator); our onshore Berbice Block (800,000 acres held by our 62% subsidiary, ON Energy Inc.); and the Pomeroon Licence (100%), approved by the Government of Guyana in July 2004.

During 2005, there was no activity offshore Guyana, either by ourselves or the other concession operators, Exxon and Repsol YPF, pending resolution of maritime boundaries by Guyana with Suriname and Venezuela. However significant progress was made in the following areas:

- the Guyana Suriname maritime border may be resolved within a year,
- within our Corentyne Licence, significant new prospects have been identified,
- a pending Bid Round and seismic activity nearby in Suriname are attracting attention to the Guyana Suriname Basin,
- re-interpretation of vintage seismic on the Pomeroon Licence has identified a number of potential prospects, and drilling in the Deltana Platform to the west of the Pomeroon Block discovered 10.5 trillion cubic feet (1.8 billion barrels oil equivalent) of potential reserves.

After several years of limited activity, in anticipation of border resolutions, we are looking forward to once again shooting new seismic to confirm recent interpretations in preparation for drilling. Our portfolio has expanded significantly from the target for which we have historically been known, that being the Eagle turbidite having giant potential.

Suriname Maritime Border Delimitation

Since CGX was forced off its Eagle location by Surinamese gunboats in June 2000, physical activity offshore Guyana has been deferred by each of the offshore operators; CGX, Repsol and Exxon. To break the stalemate after failure of bilateral negotiations, in February 2004 the Government of Guyana announced the startup of procedures under the

United Nations Convention on the Law of the Sea to demarcate its maritime boundary with Suriname. To assist in this peaceful process, CGX has funded a significant portion of Guyana's legal costs and assisted in retrieving archival records of past oil and gas exploration. To the end of 2005, CGX's share of the costs has been approximately \$4.9 million. Under our licence, legal services for the protection of our interest in the contract are ultimately recoverable from the Cost Oil share of potential future production.

Both sides have agreed to keep the proceedings confidential, however a press conference by the Guyanese Legal team in January 2006 provided detail on the process. In the summer of 2004, the judges were chosen under the Annex VII procedures of the International Tribunal on the Law of the Sea (ITLOS). In February 2005, Guyana delivered its case or Memorial to the Tribunal, and in November 2005, Suriname delivered its Counter-Memorial. Guyana filed its Reply in April, 2006, and Suriname is expected to file its Reply by September, 2006.

Until recently, Suriname has denied Guyana access to the Dutch archives, whereas Suriname has had full access to the British archives. That issue was addressed by the Tribunal, which issued orders for Guyana and the Tribunal to access relevant materials.

Oral hearings are expected in December 2006, following which the Tribunal will make its awards. In many cases, the oral hearings are made public, to which Guyana has no objection.

The two-part award will first determine whether the Tribunal does have jurisdiction to decide on the merits of the dispute. Suriname has objected to the tribunal arguing that it does not have jurisdiction to decide on the merits of the dispute. However, objection to the jurisdiction of the Tribunal is quite normal in these cases.

Assuming the Tribunal concludes it does have jurisdiction, it will then issue part two of the award. That award will consist of a maritime boundary line through the territorial sea and the continental shelf for a distance of 200 miles. Although Suriname has requested a boundary line projected N10E and Guyana a boundary line of N34E, the award may or may not be a straight line. The legal team expects the award to be issued and made public by the tribunal within eight months after the close of the hearings in December.

The award will be binding on both states and will constitute the internationally recognized maritime boundary between Guyana and Suriname and will have the consequences of allowing Guyana and Suriname to exploit the resources on each side that may lie within or under the sea.

Corentyne Offshore Block

Offshore, the 3-million-acre Corentyne Licence is still our primary focus, and where we eagerly await the opportunity to drill our Eagle target. We've interpreted Eagle to be a large turbidite target covering 29,000 acres and approximately 750 feet thick. An independent study prepared by David Birney, P.Geoph., estimates the mean resource potential of Eagle to be 610 million barrels. Further to the east, our Wishbone West turbidite target is similarly well defined, but appears to be about half the size of Eagle.

Within our Corentyne Licence we have undertaken extensive re-interpretation of the solid-state 2D seismic data we had shot in 1999. Depth-to-time reprocessing has significantly enhanced our understanding of the basin. This has led to state-of-the-art tomography reprocessing, which although expensive, reinforces and adds to all prior interpretations. Our Eagle target is in the Paleocene at a depth of approximately 13,000 feet. Our new interpretation has identified a second target in the Cretaceous at approximately 18,000 feet. It appears to be a growth fault structure with 4-way closure, a target that may be somewhat less risky than our original turbidite. If this can be confirmed with new seismic, there appears to be a number of secondary zones between the two targets. There also appears to be a number of targets in the shelf margin.

Exploration Offshore Suriname

Adjacent to our Corentyne Licence, in 2004-2005, three 2D seismic programs totalling 13,000 kilometres were completed offshore Suriname by Repsol-YPF, Maersk and Staatsolie respectively. Encouraged, Repsol launched a 3,250 sq km 3D survey in late 2005, one of the largest 3D surveys in South America in the last year. With continued encouragement, Staatsolie, the state oil company of Suriname, are forecasting drilling to commence in the first half of 2007. Also in October 2005, Occidental Petroleum acquired Block 32, a 4.3 million acre concession on which they have already shot a 3,800 km 2D program.

Staatsolie are also conducting a Bid Round on three offshore blocks in eastern Suriname, with the successful bidders to be chosen by August. Many companies are expected to purchase the data package, which will broaden the exposure of the potential of the Guyana Suriname Basin.

Georgetown Offshore Block

On the 2.8-million-acre Georgetown Licence, we acquired AGIP's 25% interest offsetting our existing concession in April 2002. Our regional interpretation concluded the turbidite trend continues west onto this concession. We believe the primary target in this area is a turbidite prospect offsetting Shell's Abary #1 well drilled in 1974. Exploration on the Abary offset was planned for 2000, but has also been deferred because it too is in the area of overlapping border claims. Fortunately, this issue will also be resolved in the current UNCLOS proceedings.

Pomeroon Offshore Block

Pomeroon is our newest Licence. In December 2003, we entered into an agreement to acquire Century Guyana's 100% interest in the 2.8 million-acre block that was approved by the Government of Guyana in July 2004. Our regional analysis led to our basic understanding of the potential of this area. Drilling on adjacent licences granted by Venezuela in the Deltana Platform is adding significant interest to this area.

We acquired approximately 6,000 km of vintage seismic from the area. We have reprocessed and reinterpreted a portion of this seismic, conducted satellite seepage analysis, and integrated regional aeromag, gravity and geological data. Subsequent work will include shooting new seismic and exploration drilling. Our analysis shows a significant trend developing to the west on the Deltana Platform clipping the northwest corner of our licence. In addition, there are a number of features along the edge of the continental shelf. And finally, there are several shallow targets near shore, for which our current interpretation is that they may be heavy-oil prone.

The Pomeroon is in the East Venezuela Basin on the southern flank of the Orinoco delta. This portion of the basin was virtually unexplored until recently, but within the last two years, an estimated 10.5 trillion cubic feet of gas has been found, with estimated ultimate

potential resource of 38 trillion cubic feet. Eight wells have been drilled, with significant discoveries reported. ChevronTexaco with partner ConocoPhillips drilled four wells on Deltana Platform Block 2 with a giant 7 tcf discovery reported in the press; on Block 3, a second discovery found a reported 0.5 tcf. On Block 4, Statoil and TOTAL are conducting a multi well exploration program, with drilling suspended on the first hole after encountering a highly over-pressured section. As we advance our re-interpretation of the Pomeroun Licence, the success by adjacent operators will make this a prime candidate to secure a major joint venture partner.

Venezuela has challenged the land border with Guyana that was set by Treaty in 1899, and as a result, the maritime border between Guyana and Venezuela also is unresolved. President Jagdeo of Guyana in an address to the Guyana Defense Force in March 2005, stated that "As regards to Venezuela, the President said he is pleased with the recent pronouncements of President Hugo Chavez. According to the Guyanese leader, President Chavez had indicated that the border claim may have originated from what was taking place in Guyana in the 1960's. There was some discussion between the US and Venezuela at the time about concerns that Guyana could become like Cuba. This, the President said, could have led to certain moves to destabilise the country at that time, hence the claim. However, Jagdeo said that the Good Officer process of the United Nations Secretary General will continue to be explored."

Berbice Onshore Block

Initial exploration on the Berbice Block was encouraging, thus in September 2003, CGX created a wholly-owned subsidiary company, ON Energy Inc. ("ON") registered in Guyana to conduct a pilot geochemical exploration on the 415,000-acre portion of the Corentyne Licence. Following two private placements within ON raising a total of \$9,131,825 in which CGX invested \$4,572,185, CGX's interest was reduced to 62% in ON. A labour intensive seismic survey was conducted, employing up to 250 local personnel. Data from the seismic survey was high quality, supporting a recommendation to proceed with several wildcat exploration wells in a country that has not had a commercial discovery.

Drilling commenced in May 2005, resulting in three dry and abandoned wells. All activities took longer than anticipated and costs were significantly higher than budgeted. Because of very limited wharfage in the Berbice area, unloading of many barges of supplies and

equipment was delayed, and transportation in-country was slow, with many power and telephone lines having to be raised each time a truck passed. Access roads and leases were well-constructed, but being at sea-level, were expensive to maintain during the frequent rains.

At September 30, 2005, the onshore exploration costs were written-off. Although no significant hydrocarbons were encountered, one dry gas show was seen in the Hermitage well.

Going forward, the new onshore data will be re-interpreted and activity by adjacent operators monitored to determine the merits of further drilling by ON, or joint venture operations with others. Exploration by Sahdna Petroleum on the west bank of the Berbice and by Ground Star to the south in the Takatu Basin will maintain interest in the potential of the Berbice Block. To the east, Staatsolie has announced that their exploration has resulted in a 10 million barrel reserve addition onshore at Calcutta, and a 20 million barrel addition at Tambaredjo NW. In addition, Hardman Resources have entered into a Heads of Agreement for exploration onshore Suriname, as a follow-up to encouraging results in their exploration offshore French Guiana.

Outlook

On the offshore, activity will increase over the next two years. Progress is being made on the resolution of maritime boundaries. Guyana has recently signed Memorandums of Understanding with Brazil and China for assistance on oil exploration. And finally, seismic and drilling is intensifying on the adjacent Deltana Platform offshore Venezuela, and to the south, in the Guyana-Suriname basin offshore Suriname.

There's a significant incentive to resolve the border issues. The discovery of just one giant reservoir could double the Gross Domestic Product of Guyana assuming a crude price of US\$60 per barrel, and the first discovery should lead to the discovery of many more reservoirs. In June 2000, the United States Geological Survey (USGS) estimated the mean undiscovered resource potential of the Guyana/Suriname Basin to be 15.2 billion barrels of oil and 42 trillion cubic feet of gas. By comparison, at year-end 2004, the remaining proven reserves in the United States were estimated to be 21.9 billion barrels. If the USGS

is correct in its assessment, the Basin could become a major supplier of energy to the western hemisphere.

In closing, I'd like to reiterate my thanks to shareholders and extend it to the directors, officers, employees and consultants of CGX and ON Energy who have contributed so much to advancing CGX to where it is today—on the forefront of exploration in one of the world's most exciting basins.

On behalf of the Board of Directors,

Kerry E. Sully
President and Chief Executive Officer
May 12, 2006

CORPORATE INFORMATION

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Share Trading Information:

Trading Symbol	OYL.U
TSX Venture Exchange (TSX-V)	www.tsx.com
2005 High	US\$1.10
2005 Low	US\$0.21
2005 Close	US\$0.45
As of May 12, 2006	US\$0.52
Common Shares Outstanding	95,255,913
Fully Diluted	109,047,413

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Annual & Special Meeting: The Annual & Special Meeting of shareholders will take place in the Resident's Lounge of The Dominion Club, 1 King Street West, Toronto, Ontario, on Thursday, June 29, 2006 at 4 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 From of Proxy.