

CGX Energy Inc.

OYL : TSX-V : C\$1.49

SPECULATIVE BUY

Target: C\$2.25↑

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COMPANY STATISTICS:

Forecast Return %:	51
52-week Range:	US\$0.42 - 1.66
Avg. Daily Vol. (000s):	151.4
Shares Out (M) basic:	127.3
Shares Out (M) fd:	137.1
Market Cap (M):	US\$161.2
Net Debt (M):	US\$(15.9)
Enterprise Value(M):	US\$145.4

EARNINGS SUMMARY:

FYE	2008A	2009E	2010E
Oil & NGL (b/d):	NA	NA	NA
Natural Gas (mmcf/d):	NA	NA	NA
Total (boe/d):	NA	NA	NA

EPS (fd)	(\$0.05)	(\$0.03)	(\$0.02)
CFPS (fd):	(\$0.01)	(\$0.01)	(\$0.02)

Commodity Prices	2008A	2009E	2010E
WTI (US\$/b):	\$99.92	\$61.76	\$80.00
NYMEX Gas (US\$/mmbtu):	\$8.89	\$3.95	\$6.00

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:

CGX Energy is a Canadian-based oil and gas company focused on offshore and onshore oil exploration in the Guyana-Suriname basin.

All amounts in US\$ unless otherwise noted.

Energy -- Oil and Gas, Exploration and Production

FORGING AHEAD - INCREASE TARGET AND MAINTAIN RATING

Event

With the recent corporate updates from CGX, we have revisited our valuation of the company. We expect that sometime in Q1/2010, the company will conclude the process that is underway to farm out a portion of the 100%-owned Corentyne Petroleum Prospecting License (PPL) offshore Guyana.

Impact

Positive in the longer term. CGX Energy is likely to be able to attract a significant international oil and gas exploration company as partner to the first exploration well on Corentyne, given the major players involved in offshore Guyana and Suriname. The farm out agreement will be a significant catalyst.

Valuation

We are revising our target price up on the basis of a new valuation assumption. We now assume the mid-range prospect size discovery (0.4 billion barrels) and assume a successful farm-out to reduce the company's interest to 60%. Using a matrix for possible oil prices and operating costs, we are increasing our target price to C\$2.25 from C\$1.80 and maintaining our SPECULATIVE BUY rating.

Next Catalyst

The most important catalyst will be the conclusion of a successful farm out of the Corentyne PPL, expected around the end of Q1/2010. However, around the end of January, CGX is likely to select the "short list" of potential farm in partners with which the company will negotiate for the best possible transaction for CGX shareholders.

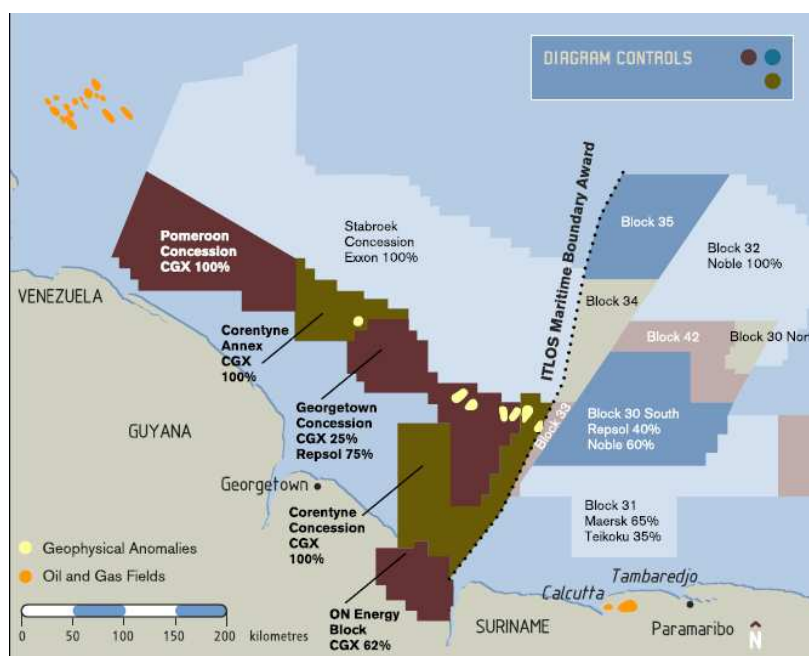
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DRILLING AT CORENTYNE AND GEORGETOWN

On December 8, CGX announced it had reopened its data room in search of a joint venture partner to participate in drilling of the company's offshore Guyana prospect. Furthermore, on January 7, the company announced that the parties to the Georgetown Petroleum Prospecting Licence (PPL) had renewed the licence and had entered into the Second Renewal Period. During the first 18 months of the Second Renewal Period, a Minimum Work Commitment of one exploration well is required.

Figure 1: CGX's Offshore Exploration Blocks



Source: Company reports

VALUATION

Our 12-month target price of C\$2.25 is based on a discounted cash flow analysis of a theoretical 400 million barrel exploration discovery on the Corentyne Petroleum Prospecting License (PPL). This is the mean size of one of the many exploration prospects on Corentyne, which could be readily developed by CGX and a yet-to-be chosen farm in partner.

Figure 2: 400 million barrel scenario (per share)

Operating Costs (US\$/bbl)	NPV After-Tax @ 20% per FD Share Outstanding (\$C)								
	Long-term Crude Oil Price (US\$/bbl)								
	\$50	\$60	\$70	\$80	\$90	\$100	\$110	\$120	\$130
\$5.00	\$1.20	\$1.56	\$1.97	\$2.28	\$2.68	\$3.07	\$3.47	\$3.73	\$4.12
\$7.50	\$1.09	\$1.45	\$1.86	\$2.18	\$2.57	\$2.97	\$3.37	\$3.64	\$4.02
\$10.00	\$1.03	\$1.41	\$1.76	\$2.08	\$2.47	\$2.87	\$3.27	\$3.66	\$3.93
\$12.50	\$0.92	\$1.30	\$1.65	\$2.06	\$2.37	\$2.77	\$3.17	\$3.56	\$3.83

Source: Canaccord Adams

We have assumed that CGX would retain a 60% interest in the discovery and would fund its share of the development capital costs with equity. We also assume that the most likely scenario would not see first production until 2014.

We note that independent third party evaluation of the best prospects on the company's landholdings put the resource potential at 1.1 billion barrels on a low estimate basis, implying that this prospect has an approximate 33 percent chance of success. We continue to rate the shares of CGX Energy SPECULATIVE BUY.

Investment risks

Risks to our investment thesis include:

An investment in the company's securities would be speculative due to the nature of the company's involvement in the exploration, development and production of oil and natural gas and its present stage of development.

Capital requirements and liquidity risks associated with the exploration, development and production of oil and natural gas from the company's Guyana assets.

Commodity price swings in crude oil and natural gas could impact CGX Energy's profitability.

Adverse changes to government regulations and fiscal terms. Any adverse changes could impact CGX Energy's execution and profitability.

A left-leaning government which is less business friendly could affect the profitability of the company's operations.

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Site Visit: An analyst has visited CGX Energy Inc.'s material operations head office in Calgary, Alberta. No payment or reimbursement was received from the issuer for the related travel costs.

Price Chart:*



Distribution of Ratings:

Global Stock Ratings
(as of 4 January 2010)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	375	56.7%	29	29.9%
Speculative Buy	85	12.9%	51	50.6%
Hold	186	28.1%	16	16.1%
Sell	15	2.3%	0	0.0%
	661	100.0%		

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SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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Company	Disclosure
CGX Energy Inc.	7

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