

CGX Energy Inc.

OYL : TSX-V : C\$0.69

SPECULATIVE BUY

Target: C\$1.80

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COMPANY STATISTICS:

| | |
|-------------------------|--------------|
| Forecast Return %: | 161% |
| 52-week Range: | C\$0.26-4.04 |
| Avg. Daily Vol. (000s): | 184.7 |
| Shares Out (M) basic: | 126.1 |
| Shares Out (M) fd: | 135.2 |
| Market Cap (M): | US\$87.0 |
| Net Debt (2009E) (M): | US\$70.4 |
| Enterprise Value (M): | US\$157.5 |

EARNINGS SUMMARY:

| FYE | 2007A | 2008E | 2009E |
|-----------------------|-------|-------|-------|
| Oil & NGL (b/d): | NA | NA | NA |
| Natural Gas (mmcf/d): | NA | NA | NA |
| Total (boe/d): | NA | NA | NA |

| | | | |
|------------|----------|----------|----------|
| EPS (fd) | (\$0.04) | \$(0.05) | (\$0.02) |
| CFPS (fd): | (\$0.02) | (\$0.01) | (\$0.02) |

| Commodity Prices | 2007A | 2008A | 2009E |
|-------------------------|---------|---------|---------|
| WTI (US\$/b): | \$72.29 | \$99.92 | \$62.50 |
| NYMEX Gas (US\$/mmbtu): | \$6.97 | \$8.89 | \$7.00 |

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

CGX ENERGY COMPLETES 3D SEISMIC SURVEY; TARGET PRICE AND RATING MAINTAINED

Event

On January 22, CGX Energy announced it has completed the shooting of 3D seismic over the Georgetown and Corentyne licences.

Impact

Neutral. This is the next step in the company's program to ultimately drill one of the exploration targets on the Corentyne licence. Once the 3D seismic data has been processed and interpreted, CGX will pick potential drilling targets and then find money and/or partners to drill them.

Valuation

We rate CGX Energy a SPECULATIVE BUY with a 12-month target price of C\$1.80, which is based on the assumption that the company is able to develop successfully a 50 million barrel offshore discovery from offshore Guyana with internal expertise and capital resources.

Next catalyst

Following the processing and interpretation of 3D seismic survey in the first quarter, CGX may to reopen its data room in an attempt to bring in a joint venture partner to help with financing the drilling of its future exploration well on the Corentyne concession. Early success in farming out a portion of the Corentyne licence would be a positive event for the company.

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RISKS AND VALUE PROPOSITION

In this uncertain market environment, we thought it important to highlight the company-specific risks and the potential value proposition for CGX Energy. This is an early-stage exploration company with significant resource exposure, but we note that with so many opportunities to invest, investors are also looking towards where they can either make money or avoid losing money.

Risks

CGX faces limited risks as it is so early in the exploration phase of its two focus offshore blocks in Guyana. These include financing risk and resource risk. Of the two, financing risk is the most pressing issue for the company, but resource risk is not far behind.

Financing risk: CGX is exposed to two financing risks. First, the company has enough money to pay for the processing of its 100% 505 square kilometres of 3D seismic on the Corentyne Petroleum Prospecting Licence (PPL) offshore Guyana as well as its 25% share of processing of the 1,839 square kilometres of 3D seismic from the Georgetown PPL. However, the company does not have sufficient funds to pay for drilling of wells on either block, with the Corentyne well recently estimated to cost almost \$100 million.

In these capital markets, we are reasonably certain that the company could not raise new equity to fund a drilling program. That leaves the risk of finding a new partner for the 100% interest Corentyne PPL. We believe that the only likely partner(s) would come from existing operators in the area who are comfortable with the regional geology, resource potential etc. This would limit the possible partners for CGX and also limit the potential of getting overly attractive terms on a farm out.

Market conditions are working against the company right now, but the potential as mapped on 2D seismic appears to be massive – notwithstanding these risky times, we believe that CGX will find a willing partner to drill an exploration well on the company's lands.

Resource risk. The resource risk remains very real, but there is some comfort in the knowledge that offshore Guyana is a known hydrocarbon province, supported by offshore hydrocarbon shows in previous wells. There remains the standard exploration risk that the first well will not find any hydrocarbons, but we assume that CGX will mitigate this risk by drilling the best prospect first. With brand new 3D seismic data, the exploration risk will be mitigated, but remains substantial.

Value proposition

We believe that there is a significant value proposition in CGX today. Unrisked resource potential has been estimated by independent third-party evaluators as ranging from 1.1 billion barrels to 6.2 billion barrels of oil in place on the company's 100%-owned Corentyne PPL.

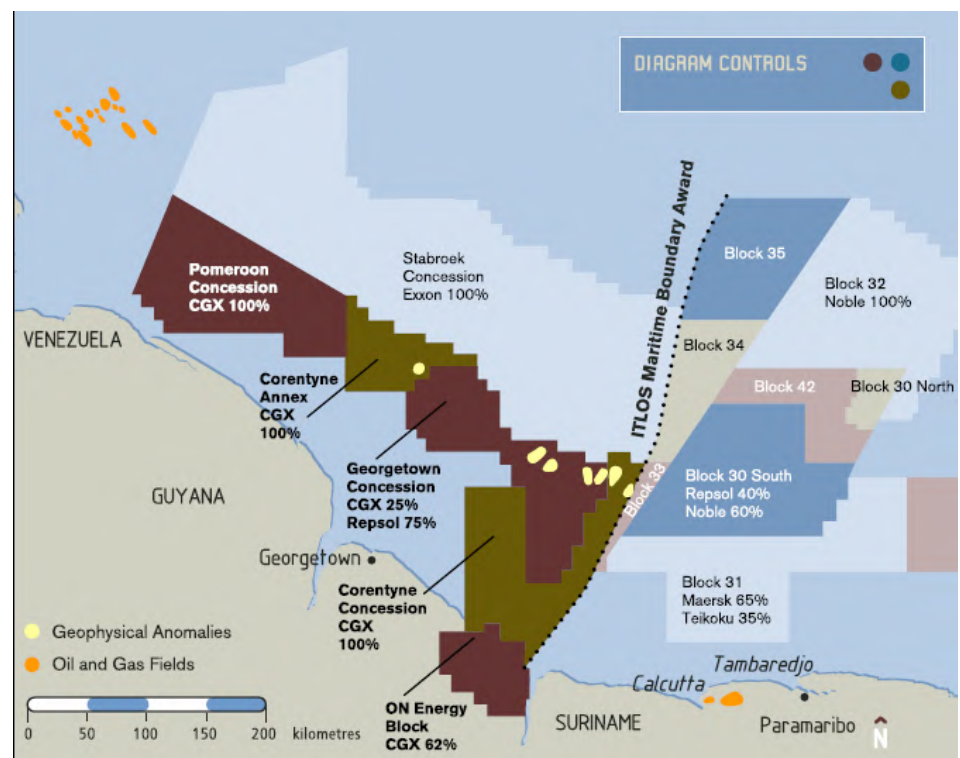
However, if the seismic data shows definitive structures and CGX can generate interest and find a partner to drill the well, CGX shareholders may also see an early value event. Given the resource potential and the relative interest of multinational oil and gas exploration and development companies, CGX may become an acquisition target. This would give CGX shareholders an early payout on the landholdings that the company has assembled and could come before the end of this year.

3D SEISMIC PROGRAM COMPLETE

On January 22, CGX Energy announced it has completed the shooting of 3D seismic over the Georgetown and Corentyne licences. CGX's total cost for the seismic on both licences was approximately US\$15.5 million. Interpretation of the 3D seismic is expected to take place shortly with drilling location(s) selected prior to mid-year for the Corentyne licence. Concurrent with the seismic interpretation, the company is focused on well design and conducting an environmental assessment study. As a result, the company could be ready to drill one of the exploration targets on the Corentyne Licence before the end of 2009.

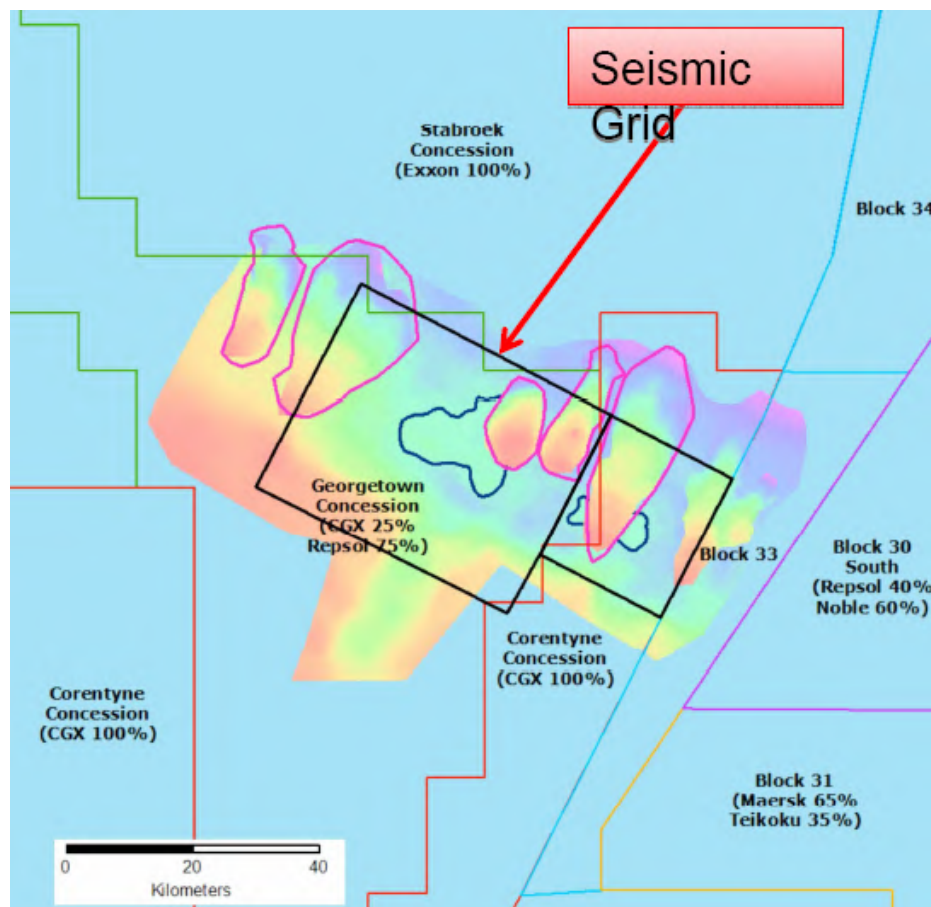
An exploration well in this area could cost between US\$85 million and US\$90 million. CGX likely has approximately US\$15 million in cash before paying for seismic processing, making a joint venture partner or a capital raise necessary. The company plans to reopen its data room in the first quarter of 2009 in search of a joint venture partner to help share the costs of the project. With the completion and interpretation of the 3D seismic data, the company may be in a better position to attract a partner to help move the project ahead.

Figure 1: CGX Energy's offshore exploration blocks



Source: Company reports

Figure 2: Seismic survey



Source: Company Reports

VALUATION

Our 12-month target price of C\$1.80 is based on the assumption that the company is able to develop successfully a 50 million barrel discovery from offshore Guyana with internal expertise and capital resources. 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 5% chance of success. We rate CGX Energy SPECULATIVE BUY.

Figure 3: 50 million barrel scenario (per share)

| NPV After-Tax @ 20% per FD Share Outstanding (\$C) | | | | | | | | | |
|--|--------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Operating Costs (US\$/bbl) | Long-term Crude Oil Price (US\$/bbl) | | | | | | | | |
| | \$50 | \$60 | \$70 | \$80 | \$90 | \$100 | \$110 | \$120 | \$130 |
| \$5.00 | \$1.44 | \$1.87 | \$2.24 | \$2.58 | \$3.08 | \$3.58 | \$4.07 | \$4.57 | \$5.07 |
| \$7.50 | \$1.28 | \$1.73 | \$2.11 | \$2.45 | \$2.95 | \$3.45 | \$3.95 | \$4.44 | \$4.94 |
| \$10.00 | \$1.23 | \$1.58 | \$1.97 | \$2.34 | \$2.82 | \$3.32 | \$3.82 | \$4.32 | \$4.82 |
| \$12.50 | \$1.07 | \$1.56 | \$1.85 | \$2.23 | \$2.70 | \$3.20 | \$3.69 | \$4.19 | \$4.69 |
| \$15.00 | \$0.98 | \$1.40 | \$1.80 | \$2.12 | \$2.57 | \$3.07 | \$3.57 | \$4.06 | \$4.56 |

Source: Canaccord Adams

Figure 4: Summary of estimates

CANACCORD Adams

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CGX ENERGY INC.

Recommendation SPEC BUY
12-month target price CSI.80
January 22, 2009

OYL
Current price CS0.69
Total projected return* 161%
**includes dividends payable*

ALL \$ AMOUNTS ARE IN US\$ UNLESS OTHERWISE NOTED

| Share Information | Current | Market Multiples | | | | | | | | | |
|---|------------------------|------------------|----------|----------|---|---------------------------------|-----------------|----------|----------|---------|---------|
| Market cap (\$M) | \$87.0 | 2006A | 2007A | 2008E | 2009E | 2010E | | | | | |
| Shares O/S – basic (M) | 126.1 | NA | NA | NA | NA | NA | | | | | |
| Shares O/S – float (M) | 79.5 | NA | NA | NA | NA | NA | | | | | |
| Shares O/S – f.d. (M) | 135.2 | NA | NA | NA | NA | NA | | | | | |
| 52-week range | CS0.26 – CS4.04 | NA | NA | NA | NA | NA | | | | | |
| Avg Daily Trading Volume (year) | 184,730 | NA | NA | NA | NA | NA | | | | | |
| Valuation | Current | Net Income | | | | | | | | | |
| Contingent Net asset value (CCI estimate) | \$1.80 | 2006A | 2007A | 2008E | 2009E | 2010E | | | | | |
| Price/NAV | 38% | NA | (\$4.5) | (\$6.6) | (\$2.6) | (\$1.5) | | | | | |
| Enterprise value (\$M) | \$157.5 | (\$0.07) | (\$0.04) | (\$0.05) | (\$0.02) | (\$0.01) | | | | | |
| EV/proven reserves (\$/boe) | NA | (\$0.08) | (\$0.04) | (\$0.05) | (\$0.02) | (\$0.01) | | | | | |
| EV/production (\$/boe/d) | NA | Cash Flow | | | | | | | | | |
| Return on equity (%) | 49% | 2006A | 2007A | 2008E | 2009E | 2010E | | | | | |
| Return on capital employed (%) | -73% | NA | (\$2.8) | (\$1.2) | (\$2.7) | (\$3.7) | | | | | |
| | | (\$0.03) | (\$0.02) | (\$0.01) | (\$0.02) | (\$0.03) | | | | | |
| | | (\$0.03) | (\$0.02) | (\$0.01) | (\$0.02) | (\$0.03) | | | | | |
| | | (\$0.05) | (\$0.02) | (\$0.01) | (\$0.02) | (\$0.03) | | | | | |
| Oil & Liquids Production (bbl/d) | 2006A | 2007A | 2008E | 2009E | 2010E | Capital Expenditures & Debt | | | | | |
| First quarter | 0 | 0 | 0 | 0 | 0 | 2006A | 2007A | 2008E | 2009E | 2010E | |
| Second quarter | 0 | 0 | 0 | 0 | 0 | \$0.0 | \$0.0 | \$0.0 | \$89.0 | \$145.0 | |
| Third quarter | 0 | 0 | 0 | 0 | 0 | Year-end net debt (\$M) | (\$0.7) | (\$37.0) | (\$21.2) | \$70.4 | \$219.2 |
| Fourth quarter | 0 | 0 | 0 | 0 | 0 | Average net debt/cash flow | NA | NA | NA | 0.3 | 1.0 |
| Annual | 0 | 0 | 0 | 0 | 0 | Year-end net debt/cash flow | 0.1 | 13.4 | 17.4 | (26.3) | (58.5) |
| Natural Gas Production (mmcf/d) | 2006A | 2007A | 2008E | 2009E | 2010E | Commodity Prices | | | | | |
| First quarter | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2006A | 2007A | 2008E | 2009E | 2010E | |
| Second quarter | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | WTI oil (US\$/bbl) | \$66.13 | \$72.29 | \$99.92 | \$62.50 | \$75.00 |
| Third quarter | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | NYMEX gas (US\$/mmbtu) | 6.73 | 6.97 | 8.89 | 7.00 | 8.00 |
| Fourth quarter | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | Realized oil & NGL (US\$/bbl) | NA | NA | NA | NA | NA |
| Annual | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | Realized natural gas (US\$/mcf) | NA | NA | NA | NA | NA |
| Total Production (boe/d) - 6:1 | 2006A | 2007A | 2008E | 2009E | 2010E | Netbacks (\$/boe) | | | | | |
| First quarter | 0 | 0 | 0 | 0 | 0 | 2006A | 2007A | 2008E | 2009E | 2010E | |
| Second quarter | 0 | 0 | 0 | 0 | 0 | Revenue | NA | NA | NA | NA | NA |
| Third quarter | 0 | 0 | 0 | 0 | 0 | Net royalties | NA | NA | NA | NA | NA |
| Fourth quarter | 0 | 0 | 0 | 0 | 0 | Operating costs | NA | NA | NA | NA | NA |
| Annual | 0 | 0 | 0 | 0 | 0 | Operating netback | NA | NA | NA | NA | NA |
| % crude oil & liquids | NA | NA | NA | NA | 1% | Cash flow netback | NA | NA | NA | NA | NA |
| Production growth | NA | NA | NA | NA | NA | CFPS (f.d.d.) Price Sensitivity | | | | | |
| | | | | | | 2006A | 2007A | 2008E | 2009E | 2010E | |
| | | | | | | +/- US\$1.00/b WTI | \$0.00 | \$0.00 | \$0.00 | NA | \$0.00 |
| | | | | | | +/- CS\$0.10/mcf Gas | 0.0% | 0.0% | 0.0% | NA | 0.0% |
| | | | | | | | 0.0% | 0.0% | 0.0% | NA | 0.0% |
| Reserves - 6:1 | (at December 31, 2007) | | | | | | Management Team | | | | |
| Equivalent reserves (mmboe) | | Oil | Gas | Total | Kerry Sully, President and CEO Birch Mountain, Ranchmen's Resources | | | | | | |
| Proven | | NA | NA | NA | Warren Workman, VP Exploratio Amoco, Unocal, Ranchmen's | | | | | | |
| Proven + probable | | NA | NA | NA | James Fairborne, CFO Vena Resources, Black Pearl Minerals | | | | | | |
| % Proven producing | | NA | NA | NA | | | | | | | |
| % Proven | | NA | NA | NA | | | | | | | |
| % Crude oil & liquids | | NA | NA | NA | | | | | | | |
| Reserve life – proven (yrs) | | NA | NA | NA | | | | | | | |
| | | | 1 Year | 3 Year | | | | | | | |
| Proven F&D costs (\$/boe) | | | NA | NA | Reservoir Engineer | | | | | | |
| P+P F&D costs (\$/boe) | | | NA | NA | Gustavson Associates | | | | | | |
| Proven reserve replacement ratio | | | NA | NA | Auditor | | | | | | |
| | | | | | Parker-Simone LLP | | | | | | |
| | | | | | Banker | | | | | | |
| | | | | | N/A | | | | | | |
| | | | | | Bank Lines - Q3/08 | | | | | | |
| | | | | | N/A | | | | | | |
| | | | | | 2008E | | | | | | |
| | | | | | 2009E | | | | | | |
| | | | | | 2010E | | | | | | |
| | | | | | N/A | | | | | | |

Source: Canaccord Adams

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.

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Global Stock Ratings
(as of 5 January 2009)

| Rating | Coverage Universe | | IB Clients | |
|-----------------|-------------------|------|------------|-----|
| | # | % | # | % |
| Buy | 338 | 60% | 31 | 31% |
| Speculative Buy | 71 | 13% | 51 | 51% |
| Hold | 133 | 24% | 28 | 28% |
| Sell | 19 | 3% | 16 | 16% |
| | 561 | 100% | | |

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|-----------------|------------|
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| | |
|----|---|
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