

CGX Energy Inc.

OYL : TSX-V : C\$0.49

SPECULATIVE BUY
Target: C\$2.00 ↓

J. Frederick Kozak, PEng 1.403.508.3836
 fkozak@canaccordgenuity.com
Nick Coutoulakis 1.403.508.3824
 ncoutoulakis@canaccordgenuity.com

COMPANY STATISTICS:

Forecast Return:	308%
52-week Range:	C\$0.45-1.99
Avg. Daily Vol. (000s):	149.2
Shares Out (M) basic:	167.8
Shares Out (M) fd:	177.6
Market Cap (M):	\$82.2
2009E Net Debt (surplus) (M):	\$3.8
Enterprise Value (M):	\$86.1

EARNINGS SUMMARY:

FYE	2008E	2009E	2010E	2011E
Oil & NGL (b/d):	NA	NA	NA	NA
Natural Gas (mmcf/d):	NA	NA	NA	NA
Total (boe/d):	NA	NA	NA	NA
EPS (fd)	(\$0.05)	(\$0.03)	(\$0.02)	(\$0.01)
CFPS (fd):	(\$0.01)	(\$0.01)	(\$0.02)	(\$0.01)

Commodity Prices	2008E	2009E	2010E	2011E
WTI (US\$/b):	\$99.92	\$61.76	\$80.00	\$85.00
NYMEX Gas (US\$/mmbtu):	\$8.89	\$3.95	\$5.00	\$5.75

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

FINANCING SETS STAGE FOR DRILLING – MAINTAINING RATING, REVISING TARGET PRICE DOWN

Investment recommendation

We are revising our estimates after being research restricted due to the recent financing. We reiterate our SPECULATIVE BUY rating but reduce our target price due to dilution from the issue. CGX will see drilling on one of its offshore Guyana prospects but is currently unable to fund its 100%-interest Corentyne well due to a marginally successful equity round.

Investment highlights

- Offshore Guyana is about to become active with the first well to be drilled in neighbouring Suriname waters before the end of 2010 and a total of four or five wells to be drilled by mid-year 2011
- 25% interest in offshore Georgetown Block (Jaguar prospect) to be drilled in Q1/2011
- 100% interest in Corentyne concession preserved, but drilling remains unfunded

Valuation

We are revising our target price to C\$2.00 from C\$2.25. Our target is based on a discounted cash flow analysis of the mid-range prospect size of 400 million barrels and a successful farm-out of the company's interest to 60%.

Risks

Other than the usual geologic and drilling risks associated with drilling offshore, the company faces risk of material equity dilution to drill a well on its 100%-interest Corentyne block.

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RISKS AND VALUE PROPOSITION

In this uncertain market environment, we thought it important to highlight company specific risks and the potential value proposition for CGX Energy. This is an early-stage exploration company with significant resource upside potential.

Risks

CGX Energy faces a limited number of risks due to the exploration stage status of its two principal blocks offshore 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 still a notable concern.

Financing risk: CGX successfully financed the acquisition and processing of its 100%-owned 964-square kilometres of 3D seismic data on the Corentyne Petroleum Prospecting Licence (PPL) offshore Guyana, as well as its 25% share of processing of the 2,344 square kilometres of 3D seismic on the Georgetown PPL. However, the company does not yet have sufficient funds to pay for drilling on its Corentyne PPL.

In the current market environment, we are reasonably certain that the company will have difficulty raising any capital via debt financing. Therefore, we assume all capital raised will be equity-based, making it necessary for CGX to find a new partner for its 100%-owned Corentyne PPL. We believe the only likely partner(s) will come from the group of existing operators in the region (who are comfortable with regional geology, resource potential, etc.) limiting the potential of getting overly attractive terms on a farm-out.

Market conditions remain challenging, but the potential as mapped on 3D seismic appears to be massive. Given the drilling of the adjacent Jaguar prospect ahead of the Corentyne PPL, we believe that CGX will find a willing partner to drill an exploration well on the block.

Resource risk. Resource risk is a concern, but we gain comfort from our knowledge that offshore Guyana is a known hydrocarbon province, as supported by offshore hydrocarbon shows in previous wells. The standard exploration risk that an exploration well will not find any hydrocarbons remains, but we assume CGX will mitigate this risk by drilling its best prospects first. Resource risk has been partially mitigated with the acquisition of new 3D seismic data, but remains substantial.

Value proposition

We believe there is a significant value proposition in CGX Energy. Unrisked resource potential has been estimated by independent third party evaluators as ranging from 0.4 billion barrels to 8.0 billion barrels of oil in place on the company's 100%-owned offshore Corentyne PPL.

Seismic data appears to show definitive structures and should CGX generate interest and farm-out to partners, shareholders may see significant catalysts earlier than expected. Also, given the resource upside potential and relative interest of multinational oil and gas exploration and development companies in the region, 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 year end 2010.

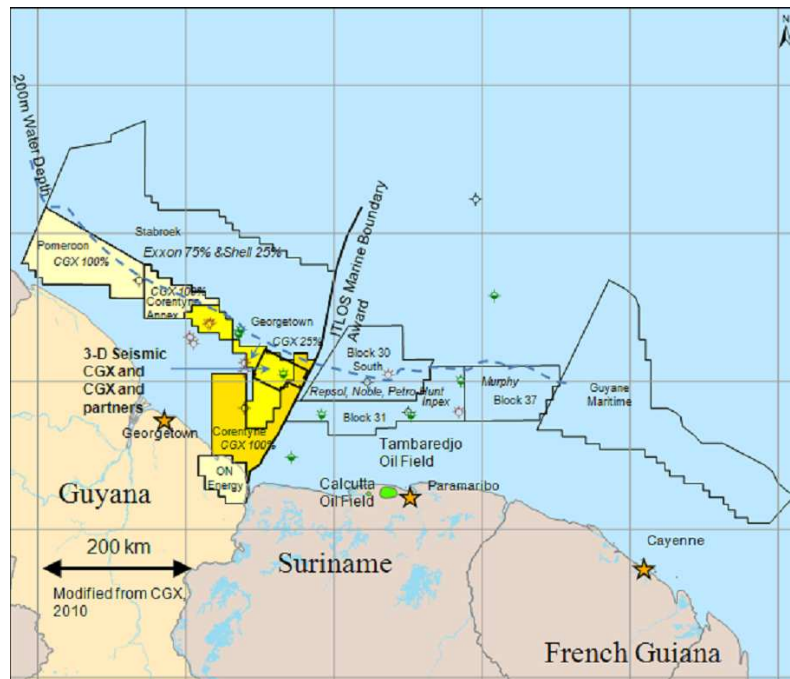
FINANCING SETS STAGE FOR DRILLING

On August 17, CGX Energy closed a previously announced financing incorporating the issuance of 40 million common shares at C\$0.50 per share, for gross proceeds of C\$20 million. Proceeds will be used to fund CGX's share of costs associated with drilling of the Jaguar well on the 25% interest Georgetown PPL offshore Guyana. The Jaguar well is expected to spud in Q1/11.

We note however, that this issuance was raised at a 52-week low and is dilutive to our valuation. The size of the equity raise is not sufficient to cover costs associated with drilling of the company's Eagle prospect on the Corentyne PPL, for which management estimates a minimum of \$37 million to test the shallow Eagle Tertiary Eocene prospect and as much as \$70 million to test the entire stratigraphic section.

Completion of the recent financing, in conjunction with the June announcement of a rig contract with Atwood Oceanics provides a clear timeframe for a major value catalyst for CGX Energy. If successful, the Georgetown PPL Jaguar well could potentially result in a higher share price for CGX. This could potentially result in a less dilutive future financing for the drilling of the 100%-interest Corentyne PPL.

Figure 1: Map of CGX interests



Source: Company reports

The Jaguar well on the Georgetown PPL is targeting the Upper Turonian Formation, which is a similar prospect to the Upper Turonian prospect being targeted by the company's Eagle well on the Corentyne PPL. As estimated in an independent resource assessment completed by Gustavson Associates LLC in March 2010, the Upper Turonian prospect being targeted by the Eagle well has a prospective recoverable resource best estimate of 1.2 billion barrels. This analogous formation represents a

positive indication of potential success at Jaguar, as does the presence of regional hydrocarbons and results from the processing of new 3D seismic data.

On June 24, CGX announced that the Atwood Beacon jack-up drill rig had been contracted to drill the Jaguar well on the Georgetown PPL. The rig was awarded three separate contracts by a group of operators for work offshore Suriname and Guyana. The three-member Operator Group includes Repsol Exploracion S.A, which is the operator of the Georgetown PPL (CGX holds a 25% interest). The contracts provide for a program consisting of four wells at an operating day rate of approximately US\$115,000 with a minimum duration of 210 days. The rig is expected to complete its current commitments offshore the Ivory Coast in September, at which point it will be mobilized to Suriname via Trinidad (with an expected mobilization period of 30 days).

CGX Energy is currently in discussions with Atwood Oceanics and the three-member operator group to add a fifth well to the program – a well on CGX's 100%-owned and operated Corentyne PPL.

VALUATION

Our 12-month target price of C\$2.00 (down from C\$2.25) is based on a discounted cash flow analysis of a hypothetical 400 million barrel exploration discovery on the Corentyne Offshore PPL. This prospect size represents what we believe is a mid-range prospect size that could be found on the first exploration well to be drilled into the block. We assume that the company reduces its working interest to 60% through farm-outs and issues equity for operating capital through the exploration and initial evaluation phase of a potential discovery. We also assume that the most likely scenario would not see first production until 2014, with two years of development required.

Figure 2: 400 million barrel scenario (per share)

Operating Costs (US\$/bbl)	NPV After-Tax @ 20% per FD Share Outstanding (\$C)								
	Crude Oil Price (US\$/bbl)								
	\$50	\$60	\$70	\$80	\$90	\$100	\$110	\$120	\$130
\$5.00	\$1.07	\$1.39	\$1.75	\$2.03	\$2.38	\$2.74	\$3.09	\$3.33	\$3.67
\$7.50	\$0.97	\$1.29	\$1.66	\$1.94	\$2.29	\$2.65	\$3.00	\$3.24	\$3.58
\$10.00	\$0.92	\$1.25	\$1.57	\$1.85	\$2.20	\$2.56	\$2.91	\$3.26	\$3.50
\$12.50	\$0.82	\$1.16	\$1.47	\$1.84	\$2.11	\$2.47	\$2.82	\$3.17	\$3.41
\$15.00	\$0.75	\$1.06	\$1.38	\$1.74	\$2.02	\$2.38	\$2.73	\$3.08	\$3.32

Source: Canaccord Genuity estimates

Figure 3: Summary of estimates



Analyst: J. Frederick Kozak, P.Eng. (403) 508-3836
Associate: Nick Coutoulakis (403) 508-3824

CGX Energy Inc.						OYL						
Recommendation	SPEC BUY					Current price	C\$0.49					
12-month target price	C\$2.00					Total projected return*	308%					
September 1, 2010						* includes dividends payable						
ALL \$ AMOUNTS ARE IN US\$ UNLESS OTHERWISE NOTED												
Share Information						Market Multiples						
Market cap (\$M)	Current					2007A	2008A	2009A	2010E	2011E		
Shares O/S – basic (M)	167.8					Discretionary cash flow multiple	NA	NA	NA	NA	NA	NA
Shares O/S – float (M)	152.3					Debt-adjusted multiple	NA	NA	NA	NA	NA	25.3
Shares O/S – f.d. (M)	177.6					Earnings multiple	NA	NA	NA	NA	NA	NA
52-week range	C\$0.45 – C\$1.99					Target multiple	NA	NA	NA	NA	NA	NA
Avg Daily Trading Volume (year)	149,195					Debt-adjusted target multiple	NA	NA	NA	NA	NA	NA
Valuation						Net Income						
Net asset value (CCI est.)	Current					2007A	2008A	2009A	2010E	2011E		
Price/NAV	\$2.03					Net income (\$M)	(\$4.5)	(\$6.7)	(\$3.7)	(\$3.2)	(\$1.7)	
Enterprise value (\$M)	24%					EPS (basic)	(\$0.04)	(\$0.05)	(\$0.03)	(\$0.02)	(\$0.01)	
EV/proven reserves (\$/boe)	\$86.1					EPS (f.d.)	(\$0.04)	(\$0.05)	(\$0.03)	(\$0.02)	(\$0.01)	
	NA					Cash Flow						
	2007A	2008A	2009A	2010E	2011E	2007A	2008A	2009A	2010E	2011E		
EV / production (\$/boe/d)	NA	NA	NA	NA	NA	Cash flow (\$M)	(\$2.8)	(\$1.4)	(\$1.0)	(\$3.4)	(\$4.0)	
Return on equity (%)	-6%	-6%	-3%	-2%	0%	CFPS (basic)	(\$0.03)	(\$0.01)	(\$0.01)	(\$0.02)	(\$0.01)	
Return on capital employed (%)	-18%	-15%	-9%	-6%	-1%	CFPS (f.d.)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.02)	(\$0.01)	
						CFPS (f.d.d.)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.02)	(\$0.01)	
Oil & Liquids Production (bbl/d)						Capital Expenditures & Debt						
2007A	2008A	2009A	2010E	2011E		2007A	2008A	2009A	2010E	2011E		
First quarter	0	0	0	0	0	Capital expenditures (\$M)	\$0.0	\$13.7	\$7.7	\$30.0	\$30.0	
Second quarter	0	0	0	0	0	Year-end net debt (\$M)	(\$37.0)	(\$22.4)	(\$16.0)	\$3.8	(\$262.2)	
Third quarter	0	0	0	0	0	Average net debt/cash flow	NA	NA	(2.5)	(0.2)	(4.3)	
Fourth quarter	0	0	0	0	0	Year-end net debt/cash flow	13.4	16.3	15.6	(1.1)	65.3	
Annual	0	0	0	0	0.000	Commodity Prices						
						2007A	2008A	2009A	2010E	2011E		
Natural Gas Production (mmcf/d)						WTI oil (US\$/bbl)	\$72.29	\$99.92	\$61.76	\$80.00	\$85.00	
2007A	2008A	2009A	2010E	2011E		NYMEX gas (US\$/mmbtu)	\$6.97	\$8.89	\$3.95	\$5.00	\$5.75	
First quarter	0.0	0.0	0.0	0.0	0.0	Realized oil & NGL (US\$/bbl)	NA	NA	NA	NA	NA	
Second quarter	0.0	0.0	0.0	0.0	0.0	Realized natural gas (US\$/mcf)	NA	NA	NA	NA	NA	
Third quarter	0.0	0.0	0.0	0.0	0.0	Netbacks (\$/boe)						
Fourth quarter	0.0	0.0	0.0	0.0	0.0	2007A	2008A	2009A	2010E	2011E		
Annual	0.0	0.0	0.0	0.0	0.0	Revenue	NA	NA	NA	NA	NA	
						Net royalties	NA	NA	NA	NA	NA	
Total Production (boe/d) - 6:1						Operating costs	NA	NA	NA	NA	NA	
2007A	2008A	2009A	2010E	2011E		Operating netback	NA	NA	\$0.00	NA	NA	
First quarter	0	0	0	0	0	Cash flow netback	NA	NA	NA	NA	NA	
Second quarter	0	0	0	0	0	CFPS (f.d.d.) Price Sensitivity						
Third quarter	0	0	0	0	0	2007A	2008A	2009E	2010E	2011E		
Fourth quarter	0	0	0	0	0	+/- US\$1.00/bbl WTI	\$0.00	NA	\$0.00	NA	NA	
Annual	0	0	0	0	0	+/- C\$0.10/mcf Gas	\$0.00	NA	\$0.00	NA	NA	
% crude oil & liquids	NA	NA	NA	3%	1%		0.0%	NA	0.0%	NA	NA	
Production growth	NA	NA	NA	NA	NA		0.0%	NA	0.0%	NA	NA	
Reserves - 6:1 - D & M (at December 31, 2009)						Management Team						
Equivalent reserves (mmboe)	Oil Gas Total					Kerry Sully, President and CEO Birch Mountain, Ranchmen's Resources						
Proven	NA NA NA NA NA					Warren Workman, VP Exploratio Amoco, Unocal, Ranchmen's						
Proven + probable	NA NA NA NA NA					James Fairborne, CFO Vena Resources, Black Pearl Minerals						
% Proven producing	NA NA NA NA NA					Reservoir Engineer						
% Proven	NA NA NA NA NA					Gustavson Associates						
% Crude oil & liquids	NA NA NA NA NA					Auditor						
Reserve life – proven (yrs)	NA NA NA NA NA					Parker-Simone LLP						
	1 Year 3 Year					Banker						
Proven F&D costs (\$/boe)	NA NA NA NA NA					N/A						
P+P F&D costs (\$/boe)	NA NA NA NA NA					Bank Lines - Q4/09						
Proven reserve replacement ratio	NA NA NA NA NA					2009A 2010E 2011E						
						N/A NA NA NA						

Source: Company reports, Canaccord Genuity estimates

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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APPENDIX: IMPORTANT DISCLOSURES

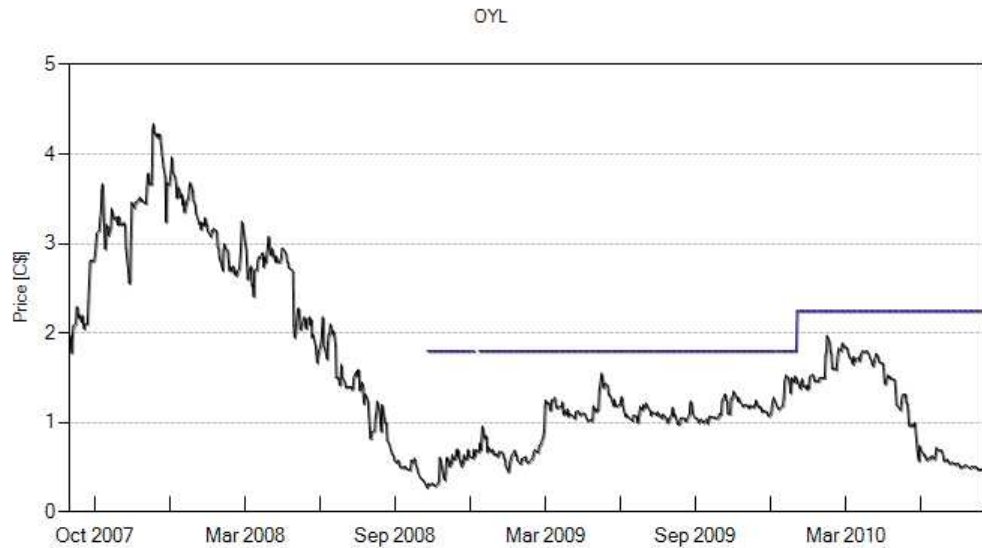
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Site Visit:

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:*



Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 11/03/2008	Kozak	Spec Buy	1.80	3) 01/21/2010	Kozak	Speculative Buy	2.25
2) 05/05/2009	Kozak	Speculative Buy	1.80				

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:
Global Stock Ratings
(as of 1 September 2010)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	417	60.7%	37	37.4%
Speculative Buy	78	11.4%	61	61.5%
Hold	182	26.5%	21	20.9%
Sell	10	1.5%	0	0.0%
	687	100.0%		

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CGX Energy Inc.	1A, 2, 7
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