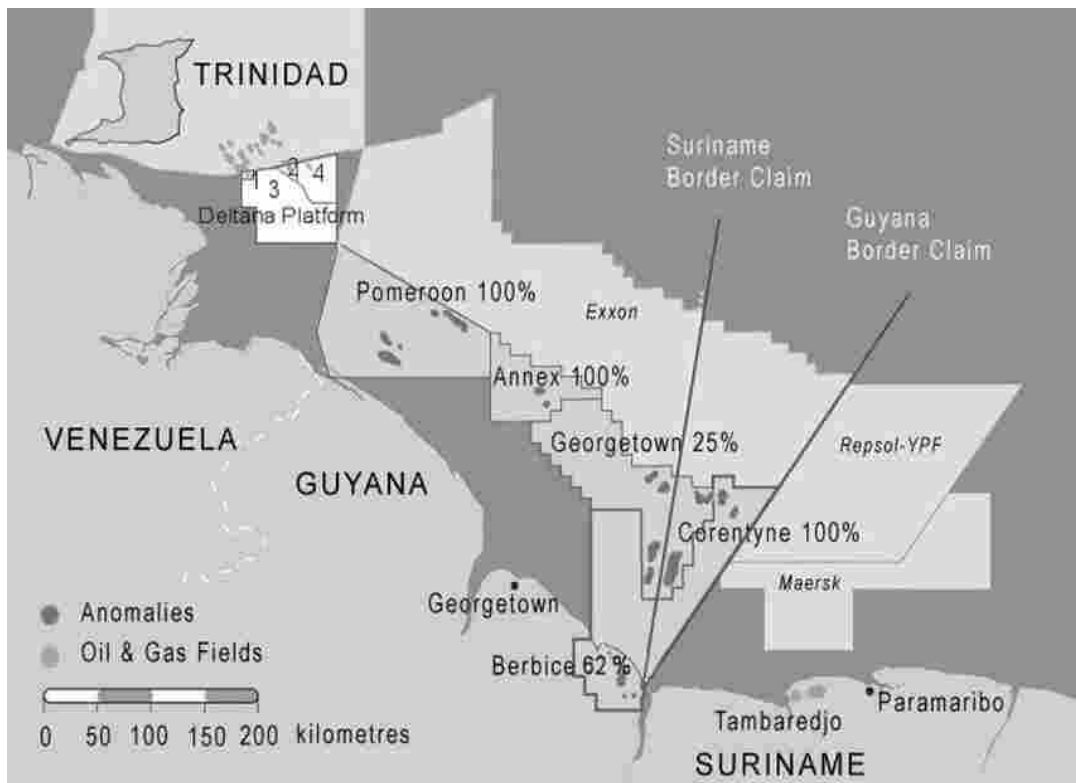




## Update 2004

**Dear Shareholders,**

We continue to make significant progress and are pleased with our preliminary exploration on our concessions in Guyana South America—an area ranked 2<sup>nd</sup> among the world's under-explored basins where we're exploring for giant-size targets. Over the last 7 years, we've acquired an interest in 4 licences covering 9.8 million acres (7.7 million acres net). Our 4 fronts of exploration are 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. You can find historic detail for each of these concessions in last year's Annual Report and on our website [www.cgxenergy.com](http://www.cgxenergy.com). Here, I'm focusing on the progress we've made since that report.



## **2005 Drilling on Berbice Onshore Block**

Onshore Guyana, we'll start drilling 4 of 22 prospects in May on our 800,000-acre Berbice Block. Drilling depth ranges from 4,000 to 6,200 feet, with an estimated dryhole cost of US\$5.3 million, more if we make a discovery, which we hope to do. We purchased drilling supplies in Louisiana in August 2004 to be mobilized for a fall drilling program. However, severe hurricanes delayed their transit and eliminated our window of opportunity on drill rigs that are in very short supply in Latin America and the Caribbean. A rig from Trinidad was finally released to us in late April.

Onshore we've documented oil seeps and used aeromag to identify basement highs and fault structures, along with geomicrobial analysis to identify areas with high concentration of hydrocarbons, potentially sourced from underlying traps. We also used 2D seismic to identify depth and thickness of potential prospects and are now drilling to confirm the validity of prior exploration. We completed our aeromag and geomicrobial analysis in January 2004, identifying 22 anomalies with a cumulative surface area of 250 square kilometres. Our 2D seismic program was completed in July, high-grading 8 of the 22 prospects. If we were to confirm just one reservoir with resources of 15 million barrels, it would be very material to both CGX and the people of Guyana. And if we were to discover one reservoir, we believe we would find several more.

The analogies for our exploration are the only 2 fields discovered in the basin, Tambaredjo and Calcutta, both onshore Suriname. The elephant-sized Tambaredjo field has ultimate recoverable reserves estimated to be 170 million barrels and has already produced 53 million barrels. The Calcutta field was discovered using geochem and seismic in 2003, with proven reserves at year-end 2004 estimated to be 16 million barrels and continuing to grow with step-out drilling.

To broaden the in-country benefits of our onshore exploration, we incorporated ON Energy Inc., transferring the onshore portion of the Corentyne Licence to ON, which was subsequently awarded an adjoining 400,000-acre onshore licence by the Government of Guyana. In total, ON holds approximately 800,000 acres. Guyanese investors own 38% of ON, and we hold the remaining interest in this subsidiary of CGX.

Our initial exploration has provided a high economic boost and a low environmental impact as it has been labour-intensive rather than equipment-intensive. Our geomicrobial sampling employed more than 50 local people, and we hired approximately 250 local people for our 2D seismic program. For accommodation, we repaired and renovated the Officers Quarters for the Police at Whim and then returned the barracks back to the community. During Guyana's flood of the century in January, we provided the police force access to the boats and pumps we had used to support our seismic program.

## **Maritime Border Delimitation Progressing**

Guyana, like many nations, has not yet resolved its maritime borders with neighbouring countries. However, 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. 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. The continuing process of claim and counter-claim is expected to lead to a binding resolution within 2 years. To assist in this peaceful process, CGX has funded a significant portion of Guyana's legal costs. With respect to the border with Venezuela, President Jagdeo of Guyana was reported in the Kaieteur News as follows: "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." We welcome the progress that is being made, because since CGX was forced off our Eagle location by Surinamese gunboats in June 2000, activity offshore Guyana has been deferred by each of the operators: CGX, Repsol and Exxon.

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\$30 per barrel, and as with the onshore program, 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.

## **Reprocessing Data on 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 begun extensive re-interpretation of the solid-state 2D seismic data we 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. Adjacent to our Corentyne Licence, three 2D seismic programs totalling 13,000 kilometres have just been completed offshore Suriname by Repsol-YPF, Maersk and Staatsolie, respectively.

### **Continuing Analysis of 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 on to 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. There are also 2 turbidite leads in Guyana's undisputed waters that require additional seismic to advance to the drill-ready stage. The prospect and 2 leads are each comparable in size to Eagle.

### **Activity Heating Up Adjacent to the Pomeroon Offshore Block**

Pomeroon is our newest Licence. In December 2003, we entered into an agreement to acquire Century'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 to the significant interest to this area.

We have acquired approximately 6,000 kilometres of vintage seismic from the area. Over the next 2 years, we intend to reprocess and reinterpret a portion of this seismic, conduct satellite seepage analysis, and integrate regional aeromag, gravity and geological data. Subsequent work will include shooting new seismic and exploration drilling.

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 year, exploration has been intensifying. Six wells have been drilled or are drilling, with significant discoveries reported. ChevronTexaco in partnership with ConocoPhillips has drilled 3 wells on Deltana Platform Block 2 with a giant 5–7 trillion cubic-foot discovery reported in the press, and a second discovery is being tested on Block 3. On Block 4, Statoil and TOTAL are conducting a multi-well exploration program, with signs of oil

being reported while drilling the first well. PetroBras and the Indian National Oil Company are conducting data reviews on Block 5 in anticipation of contract negotiation. 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.

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 Sully*

(signed)

Kerry E. Sully

President and Chief Executive Officer

May 12, 2005

#### **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.*

## **CORPORATE INFORMATION**

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### *Investor Relations Contact*

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### *Share Information*

Trading Symbol	OYL.U	
Listed	TSX Venture Exchange	
2004 High	US\$0.99	
2004 Low	US\$0.39	
2004 Close	US\$0.68	
As of May 6, 2005	US\$0.72	
Shares Outstanding	Basic	93,547,163
	Fully Diluted	109,368,981

### *Registrar and Transfer Agent*

Equity Transfer Services Inc., Toronto

### *Auditors*

Parker Simone, Chartered Accountants LLP, Mississauga

### *Independent Engineering Consultant*

Paddock Lindstrom (?), Calgary

### *Bankers*

Royal Bank of Canada, Toronto

### *Legal Counsel*

Fraser Milner Casgrain LLP, Toronto

### *Annual General Meeting*

The Annual General Meeting of shareholders will take place at The Toronto Board of Trade, First Canadian Place, Toronto, Ontario, on Tuesday, June 14, 2005 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 Form of Proxy.