



SUMMARY

CGX Energy Inc. is a small Canadian company that has established itself as the premier exposure to oil and gas exploration in Guyana on the north coast of South America. The Guyana Basin is part of a complex geological situation that ties together the huge deep water discoveries that have been made in the last few years offshore of West Africa and offshore of Brazil. CGX has increased its exposure to offshore Guyana significantly over the last few years in spite of a couple of disappointing developments.

CGX offers investors the opportunity to invest in a company that has a stake in an oil exploration play that has produced a number of giant fields in recent years. Most of the other participants in this play are major oil companies. Success in one discovery would likely increase the CGX stock price several fold. Investors should realize that the high potential of CGX also involves high levels of risk and that they should not invest funds in stocks such as CGX that they cannot afford to lose.

The primary play is the search for turbidite (or sea floor fan) oil accumulations. The turbidite type of oil accumulation has amounted to more than 1 billion barrels of recoverable oil per prospect in a few cases. Over the last few years, several deep water, turbidite oil fields have been discovered around the world but particularly off the West Coast of Africa, offshore Brazil and in the Trinidad Basin offshore of the north coast of South America.

These sites are believed to have been in close proximity at one time in geologic history. The common basin in that early time has pulled apart over geologic time with the continental drift that separated Africa from South America. Examination of a map will show how the parts of the world mentioned could fit back together nicely. Conditions favorable for the creation of turbidite deposits of sand occurred in this area before it was separated by continental drift and remain in place today.

CGX has identified at least five large features that appear to be turbidite type deposits offshore of Guyana. (See the Properties section of this report for a more detailed discussion of these prospects).

Two of the prospects (Eagle and Wishbone on the Corentyne block) have been examined with detailed two dimensional seismic and are con-

INVESTMENT DATA

(Note: All dollar amounts are U. S. dollars unless stated otherwise)

Traded:	Toronto Venture Exchange
Symbol:	OYL.U
Recent Price	\$0.79
52 Week High	\$0.79
52 Week Low	\$0.14
Shares Outstanding	58,615,595
Fully Diluted	68,249,913
Market Cap	\$46,306,320

Current Net Asset Value per share \$0.05
Risk Adjusted potential NAV: \$18.91

CONDENSED BALANCE SHEET

(As of 12-31-03—Unaudited)

Current Assets	\$2,808,308
Current Liabilities	\$80,680
Long Term Debt	\$0
Shareholders' Equity	\$6,218,169
Total Assets	\$6,888,849

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sidered ready to drill. A rig was placed on the Eagle prospect to drill in June of 2000. However, CGX's fortunes suffered at least a temporary set back when gunboats from Suriname forced the rig off of the location because the location was in the disputed border area between Guyana and Suriname.

Guyana and Suriname have yet to resolve their differences to the point that CGX can return to drill this exploration well. However, in the meantime, CGX has taken the opportunity to significantly enhance its acreage position in offshore Guyana (including acreage prospective for turbidite deposits that is not in the disputed border overlap) and to initiate a very interesting exploration play onshore in Guyana.

CGX has developed an onshore exploration prospect utilizing the Tambaredjo Field in onshore Suriname as a model. The onshore play is being made through a new subsidiary of CGX, ON Energy, in which local investors have been able to participate and currently own approximately 15% of the company. ON recently acquired a new onshore block, the Berbice block, from the Guyana government for this onshore play. The new block combined with 400,000 acres of the onshore portions of the Corentyne Block has been transferred to ON Energy. This provides more than 800,000 acres in which to explore for the onshore deposits.

We estimate that the current exploration prospects of CGX provide an estimated risk adjusted net asset value of approximately \$18.91 per fully diluted share. This estimate is not based on proven reserves as defined by various regulatory and engineering organizations but rather, the estimate is the author's own estimate of the potential oil that could be recovered from a structures of the approximate size as those that have been defined by seismic and the author's estimate of the present value of such oil.

The shares currently trade significantly above our estimate of the current net asset value of the company of \$0.05 per share. Investors are obviously discounting some of the exploration potential in today's price of the stock.

A more detailed description of the various prospects and plays that make up the story of CGX is presented in the properties section later in this report.

INVESTMENT HIGHLIGHTS

- CGX currently controls 6.9 million net acres (approximately 9 million gross acres) offshore of Guyana. These offshore blocks cover structures that are anticipated to be turbidite deposits. Turbidite deposits in these conditions could contain giant oil fields (more than 500 million barrels of recoverable oil). Two of the structures on the Corentyne block have been defined by detailed two dimensional seismic. The same 2D seismic survey that covers the Corentyne block also covers the Georgetown block. The impact of discovery of one of these giant fields would be considerable on a per share basis to CGX.
- CGX has agreed to acquire the Pomeroon block from Century Guyana. This block is adjacent to the active exploration on the Deltana Platform offshore of Venezuela. More than 6,000 kilometers of seismic has been shot on the Pomeroon block. Pedvesa of Venezuela has drilled two offshore wells recently and several exploration blocks have been leased to companies pursuing the prolific Columbia/Orinoco Basin into the offshore toward the Pomeroon block.



- CGX management has responded to two disappointments in their Guyana exploration efforts by increasing the size of their exposure and by developing an onshore play. This persistence and determination is encouraging in that the company had every opportunity to pull back and wait to see the territorial dispute settled.
- CGX has been able to keep the number of fully diluted shares to a number low enough that a significant discovery will have a large per share impact.
- CGX has added a very attractive onshore exploration play to its high potential offshore play in Guyana. This onshore play adds 800,000 net acres onshore to the 6.9 million acres of offshore acreage controlled by CGX in Guyana.
- CGX has established and maintains excellent relationships with the government of Guyana and is a leading force in petroleum exploration in Guyana.
- By raising most of its money in the equity markets, CGX has been able to maintain a strong balance sheet while it has built the attractive exploration potential.
- The CEO and the exploration manager of CGX have long, successful careers in the petroleum industry.

COMPANY BACKGROUND AND STRATEGY

The current manifestation of CGX was formed on October 23, 1998 through the reverse takeover of Northwest Explorations Inc. by CGX Resources Inc. CGX Resources was a private company registered in the Bahamas which obtained the Corentyne Block concession in Guyana. Northwest Explorations was a mineral exploration company active in Guyana and listed on the Canadian Dealing Network. CGX is currently traded on the Toronto Venture Exchange with the symbol OYL.U. The .U in the symbol signifies that the shares trade in U.S. dollars. The shares are also traded in the pink sheets in the U.S. under the symbol CGXEF.

CGX has a veteran management for a small company. Kerry Sully who has an extensive background managing oil and gas operations was brought into CGX as president in 1999. Warren Workman with extensive industry experience heads the technical team at CGX.

CGX's principal strategy is to explore for a major discovery in the rich potential environs of Guyana. CGX is focused almost entirely on oil and gas exploration in Guyana. The exception is some small petroleum operations in Western Canada. Guyana has not attracted much interest from the petroleum exploration community in the past. By being small and nimble, CGX has been able to establish a very large land position in this country ahead of the major oil companies.

CGX has applied current technology to its exploration including sophisticated, two dimensional seismic.



PROPERTIES

Investors should visit the CGX website at cgxenergy.com for a more complete set of maps and other graphics.

GUYANA BASIN GEOLOGY

The geologic features of the Guyana offshore basin are similar to other world-class basins around the Atlantic Ocean. During the Cretaceous period the Atlantic Ocean was formed by the early stages of the continental drift that separated South America from Africa. Therefore many of these basins on either side of today's Atlantic Ocean share similar features: excellent Cretaceous source rocks, multiple stacked reservoir beds and seals, migration of hydrocarbons to shallow onshore fields.

During the past 20 years, over 70 billion barrels of oil (BBO) were discovered from these circum-Atlantic basins. Sixteen BBO in reserves were discovered offshore Angola during a recent three year period. Petrobras of Brazil has enjoyed a drilling success ratio of 50% while proving up 9 BBO in reserves. International drilling success rates for turbidite deposits are better than one would expect for such large targets. Statistics for offshore drilling outside of the U.S. and Canada show a 32.7% success rate over the past two decades.

Specifically, the Guyana Basin shares qualities with other circum-Atlantic basins necessary for successful hydrocarbon accumulation. For example, the Canje formation is a world-class Cretaceous source rock present in the Guyana Basin. The Canje is similar in age and lithology to the famous La Luna source rock in Venezuela. During the Cretaceous and Tertiary periods, thick sequences of sediment were deposited in the Basin that measure from 1,500 meters thick near shore to over 6,000 meters thick on the eastern edge of the Corentyne Block. This burial of the Canje under thick sediments has allowed for the generation of hydrocarbons. In fact, oil derived from the Canje formation is produced from the Tambaredjo Field located onshore in Suriname. This oil migration path is over 200 kilometers long. Oil and gas shows were documented offshore Guyana and near the CGX turbidite prospects in the Abary #1 well. The oil was analyzed at 37 API by a respected oil analysis consulting firm. Reservoir quality sands and seals have been documented in past wells drilled offshore Guyana.

In short, the Guyana Basin possesses the characteristics necessary to produce oil and gas reservoirs. Fortunately, CGX was able to identify several leads in the basin and obtain concessions that encompass prospects worth pursuing.

EXPLORING WITH SEISMIC DATA

In addition to other tools, CGX is using seismic data to delineate its prospects in Guyana. As computer technology improves, so does the ability and techniques for explorationists to more fully utilize the data available from seismic surveys. Improvements have not only improved structural



mapping abilities but, also, techniques for direct detection of lithology. Under the correct conditions, seismic data attributes can be correlated to specific reservoir characteristics. Amplitude bright spots and amplitude versus offset (AVO) are examples of advancements in the seismic industry.

A detailed discussion of these techniques is beyond the scope of this report. The point to understand is that an increase in porosity can cause bright spots in the seismic data and amplitudes increasing with offset are a good indication of the presence of hydrocarbons.

CGX has seismic data from surveys shot by Shell in 1973, Seagull in 1982, Lasmo in 1989, and its own in 1999. The company performed studies with the earlier data over the four prospective areas and was enthusiastic about the results. The 1999 survey utilized the latest in acquisition technology. The 1,800 kilometer survey was recorded by Western Geophysical using a 20,000 foot solid state streamer cable. This new type of cable significantly reduced interference noise in the recordings caused by the ship, currents, and storms. The interpretation and AVO work done using the new data is encouraging and confirms previous modeling of the prospects. An increase in amplitude with increasing offset has been noted in the Eagle prospect. This type of response is indicative of the presence of hydrocarbons in the reservoir.

EXPLORATION PROSPECTS

The primary exploration focus for CGX is high-potential sea floor fan features offshore of Guyana. The type of deposit CGX is seeking are usually called turbidites by geologists.

CGX has had two turbidite deposits defined and drill ready on the Corentyne block for some time. The Surinamese navy forced the rig off of the Eagle prospect before it could start drilling the well in June 2000.

Despite the setback with the rig, CGX has continued to expand its exploration potential for the offshore structures. The company recently reported that it had three significant projects offshore of Guyana.

- | | | |
|---|------------|---|
| 1 | Corentyne | 2 turbidites—drill ready
Eagle and Wishbone |
| 2 | Georgetown | 3 turbidites identified
Needs more seismic |
| 3 | Pomeroon | numerous turbidite leads
Needs re-interpretation |

Figure 1 is a map of CGX's offshore Guyana acreage position.

Turbidite Prospects

Eagle and Wishbone are turbidite deposits for which a significant amount of information has been released by CGX. We consider that these are typical turbidite deposits and description of them should apply generally to the other turbidite deposits identified so far.



Eagle and Wishbone are thought to have formed in a deep-water environment. Essentially, these deposits are the result of massive underwater landslides flowing from the shallower continental shelf and settling on the deeper sea floor. This action can deposit massive sands with excellent reservoir qualities. At Eagle and Wishbone thick sequences of marine shales were then deposited over the turbidite flows. Marine shales can provide excellent seals for a turbidite reservoir in these geologic settings. Fortunately, the Eagle and Wishbone turbidites were deposited where the Canje source rock had the opportunity to mature and produce hydrocarbons. The hydrocarbons produced apparently have migration paths to the turbidite sand reservoirs.

As evidenced by the oil and gas shows in the nearby Abary #1 well, the burial of these sediments was enough to create the heat and pressure necessary to generate oil and gas in the Canje. Overall, the geologic model interpreted by CGX is compelling for large potential reservoirs.

Figure 2 is a cross section depiction of the Eagle turbidite prospect. As mentioned before, Eagle and Wishbone encompass areas that are estimated to be 30,000 acres and 12,000 acres, respectively. These are very large features that appear to have average thickness in the 750 and 600-foot range. Estimated undiscovered resource potential is in the 850 million barrels of oil (MMBO) range for Eagle and 400 MMBO range for Wishbone. We estimate that discoveries of this magnitude could add value in the order of approximately \$65 per share for Eagle and approximately \$30 per share for Wishbone, on an unrisksed basis.

The size of the offshore blocks is impressive.

- *Corentyne* 3.4 million net acres
- *Georgetown* 0.7 million net acres (Net reflects CGX's 25% interest in the block)
- *Pomeroon* 2.8 million net acres

ONSHORE PLAY

The onshore play that has been mounted by CGX and its ON Energy subsidiary over the last few months is very different from the offshore search for turbidite deposits. The onshore play is inspired by and modeled after the Tambaredjo Field onshore in Suriname. According to information supplied by Staatsolie, the government oil company in Suriname, the Tambaredjo Field contains 900 million barrels of medium heavy (15 to 17 API degree) oil in place with 167 million of the barrels estimated to be recoverable. The field is in the Nickerie formation at about 1,000 feet.

The trap at Tambaredjo is associated with a structure. However, the terrain onshore Guyana (much of it is rice paddy and cane fields interlaced with irrigation and drainage canals) makes extensive seismic as an exploration tool prohibitively expensive.

CGX has resorted to more basic forms of exploration that are possible at a reasonable expense in this terrain.

Geochemical sampling has provided the primary reconnaissance exploration. Geochemical anomalies have long been utilized to find the surface manifestations of buried deposits of oil and gas fields at depth.

The sampling on the Berbice block onshore Guyana was designed and supervised by GeoMicro-



bial Technologies (GMT) headquartered in Oklahoma. GMT has developed specialized technologies for evaluating the presence of microbes that feed on various hydrocarbons. The presence of these microbes often indicates the presence of hydrocarbons escaping along micro seeps from subsurface oil and gas deposits.

In this case, the search was made for microbes that thrive on butane gas in the soil. Searching for butane related microbes avoids problems that are sometimes encountered in geochemical sampling from the presence of methane gas that is created by current biological sources (swamp gas). Butane formation normally requires a thermogenic origin. Thermogenic indicates a process of conversion of carbon matter to oil and gas through the normal geologic process of deep burial and high temperatures. Figure 3 shows the geochemical anomalies that have mapped.

The CGX plan calls for geochemical anomalies to be correlated with aeromagnetic highs. Magnetic highs often indicate structure. If coincidences of anomalies are found, two-dimensional seismic will be performed to identify the likely location of subsurface oil and gas deposits.

GMT acquired approximately 8,000 geochemical samples from the Berbice block and analyzed approximately 4,000 of them for the butane specific microbes. More than 20 significant anomalies were found on the block.

CGX is now in the process of comparing the geochemical anomalies to extensive aeromagnetic data over the block. The aero magnetic data can indicate areas of structural highs.

If anomalies continue to indicate potential subsurface accumulations of oil and gas, they will be drilled with a rig. The initial hypothesis is that a number of 10 million to 20 million recoverable barrel fields may be found on the Berbice block.

IMPORTANT DEVELOPMENTS IN HISTORY OF THE COMPANY

- February 26, 2004 Guyana invoked Article 287 of the United Nations Convention of the Law of the Sea. Guyana seeks to have the dispute with Suriname on the offshore boundary between the two countries settled by the International Tribunal of the Law of the Sea. This action by Guyana comes nearly four years after the gunboats from Suriname forced the CGX rig off of the Eagle prospect in the disputed area offshore. This action by Guyana is expected to significantly accelerate the time that CGX will be able to put a rig back on the Eagle prospect.
- January 29, 2004 CGX and ON Energy announced positive results from the Geo-Microbial Survey on the Berbice block onshore Guyana. The survey provided more than 20 anomalous leads covering 250 sq km. This information is currently being integrated with the results of the reprocessed aeromagnetic data over the same area. CGX and ON are also preparing to shoot a 190 kilometer 2D seismic survey to identify the depth and thickness of the source of the micrseepages identified on the Microbial survey.
- December 23, 2003 ON Energy closed a \$542,000 financing in Guyana. As a re-



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sult of this financing local Caribbean and Guyanese investors now own 14.5% of ON Energy with balance of 85.5% being owned by CGX Energy directly. The funds from this financing were designated primarily to finance the geochemical and aeromag exploration program on the Berbice block in Guyana.

- November 13, 2003 CGX announced that it had entered into a letter of intent with Century Guyana, Ltd. to acquire Century's 100% interest in the Pomeroon Prospecting License located offshore Guyana. Century has identified two possible turbidite targets for drilling. Exploration on the licence has been suspended pending clarification of maritime boundary issues between Guyana and Venezuela.
- December 2, 2003 CGX completed a non-brokered private placement raising a total of US\$2,292,034. The private placement was for units of one common share and one-half warrant. The proceeds of the financing will be primarily utilized for exploration in Guyana both onshore and offshore.
- October 23, 2003 CGX's wholly owned subsidiary, ON Energy, announced that it had been granted a new onshore petroleum prospecting Licence by the Government of Guyana. The new licence is adjacent to the existing Berbice block (the onshore portion of the CGX's existing Corentyne block). The combined area of the onshore licences is 802,000 acres. The two areas will be explored simultaneously.
- April 1, 2003 CGX sold its Alberta production to Apex Energy for \$820,000. CGX retained interests at Sullivan Lake and West Kingsford.
- April 25, 2002 CGX common shares begin trading on the Frankfurt Stock Exchange under the symbol "CGX".
- April 22, 2002 CGX acquires a 25% participating interest in the Georgetown block from AGIP Guyana. Warren Workman indicates three additional turbidite prospects have been identified by seismic under this license.
- July 10, 2000 CGX reported a dry hole in the Horseshoe prospect. The dry hole greatly reduces the prospectivity of the postulated stratigraphic traps but has no impact on the turbidite prospects further offshore.
- June 3, 2000 Gunboats from Suriname force rig to leave the Eagle Prospect location.
- May 27, 1999 CGX completes shooting its 1,800-kilometer seismic program offshore of Guyana.
- March 24, 1999 Kerry Sully is appointed president and CEO of CGX. Sully has 30 years of experience in the petroleum industry and was recently the CEO of Ranchmen's Resources Ltd. which was acquired by another company.



EXHIBIT #1

CGX ENERGY INC.

ESTIMATED BREAK-UP VALUE

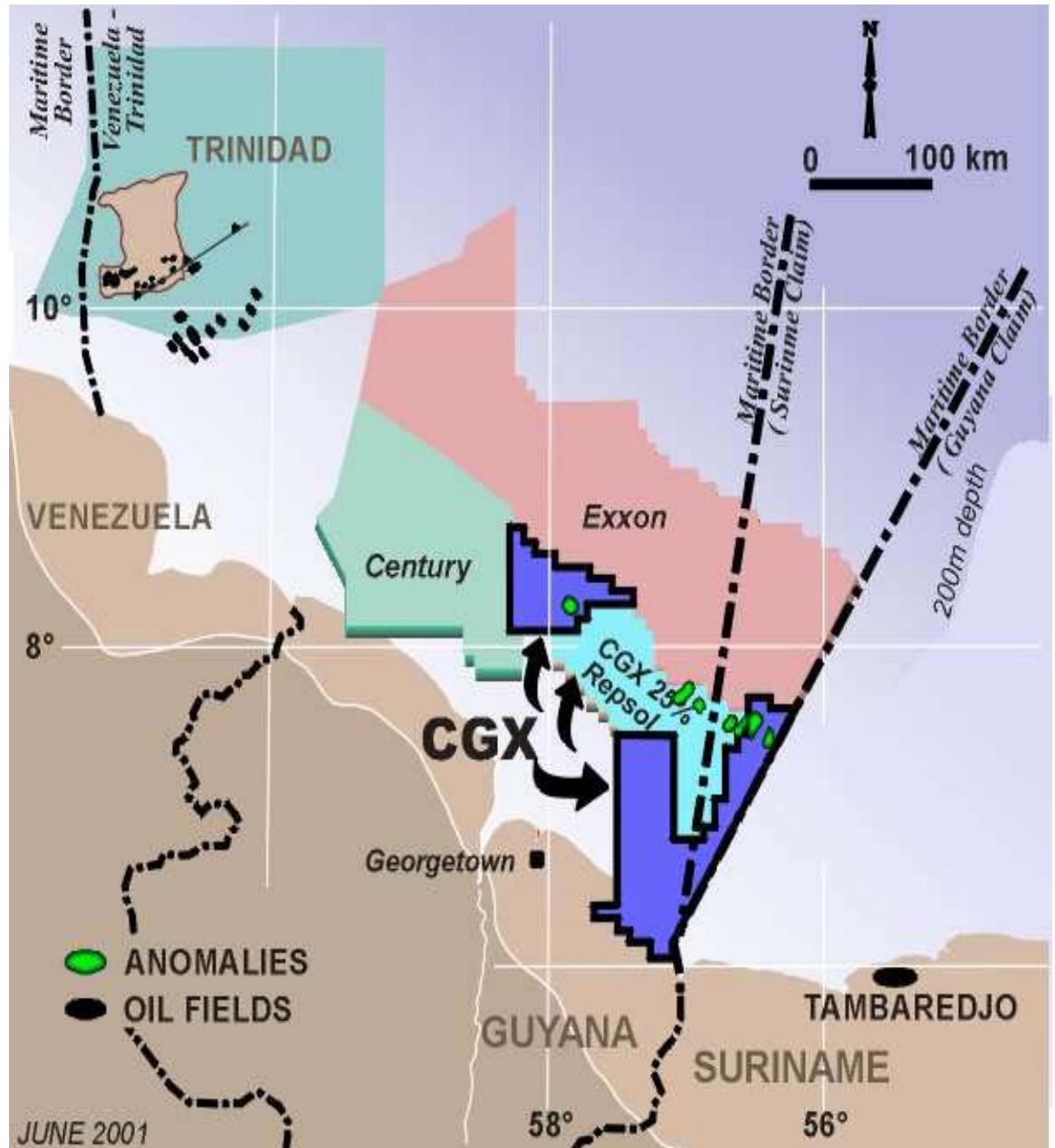
AS OF December 31, 2002

			\$MM	\$/SHR
PROVED RESERVES				
OIL @	\$0.00 /BBL	0.000 MMBO	0.00	\$0.00
GAS @	\$0.00 /MCF	0.000 BCF	0.00	\$0.00
	SEC PV10 B.I.T	0.00 \$MM		
FINANCIAL ITEMS: 12/31/2003				
Working Capital			2.73	\$0.05
Long-term Debt			0.00	\$0.00
Other Assets			0.00	\$0.00
ESTIMATED BREAK-UP VALUE			2.73	\$0.05
58.60 Million Common Shares				

POSSIBLE ADJUSTMENTS:				Unrisked	Risked	Risked
				\$/SHR	\$MM	\$/SHR
CALCULATION OF FULL DILUTION:						
		<u>Exercise</u>				
		<u>Price</u>	<u>Number</u>			
	Options	\$0.53	4.90 Million		2.60	\$0.04
	Warrants	\$0.35	4.70 Million		1.65	\$0.02
	Fully Diluted Number of Common Shares		68.20 Million			
EXPLORATION PROJECTS:						
Offshore Guyana (Potential undiscovered resource)						
	65.00% Net Revenue Interest		Probability of success			
Eagle Turbidite Prospect						
850 MMBO	\$8.00 /BO		20%	\$64.81	884.00	\$12.96
Wishbone Turbidite Prospect						
400 MMBO	\$8.00 /BO		15%	\$30.50	312.00	\$4.57
turbidite on AGIP block						
200 MMBO	\$8.00 /BO		10%	\$0.38	39.65	\$0.58
			25.00%			
Berbice Block						
100 MMBO	\$8.00 /BO		10%	\$6.48	44.20	\$0.65
			85.00%			
POTENTIAL BREAK-UP VALUE				\$102.22	1289.54	\$18.91



FIGURE 1



NOTE: The block labeled "Century" is now Pomeroon and is 100% CGX



FIGURE 2

Seismic line showing a depiction of the Eagle prospect

LINE MC 99 02

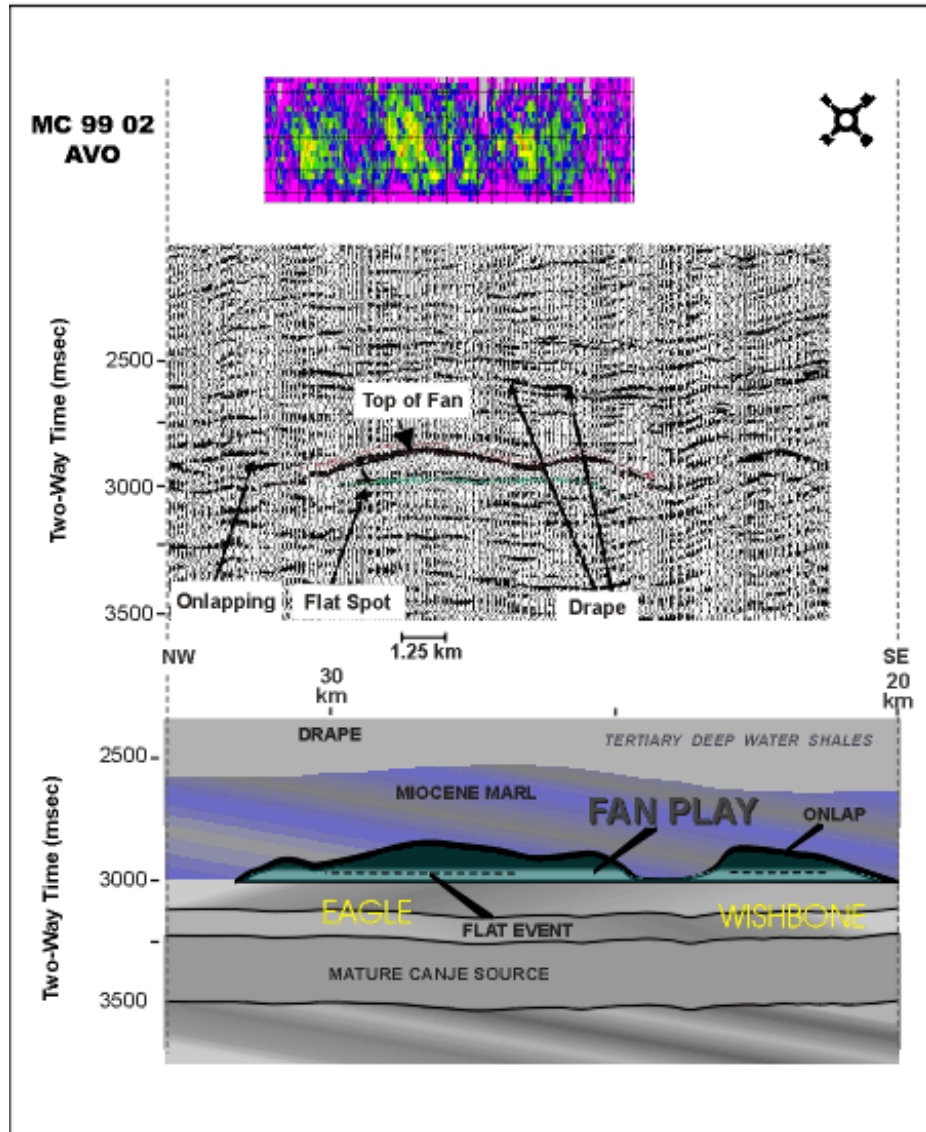
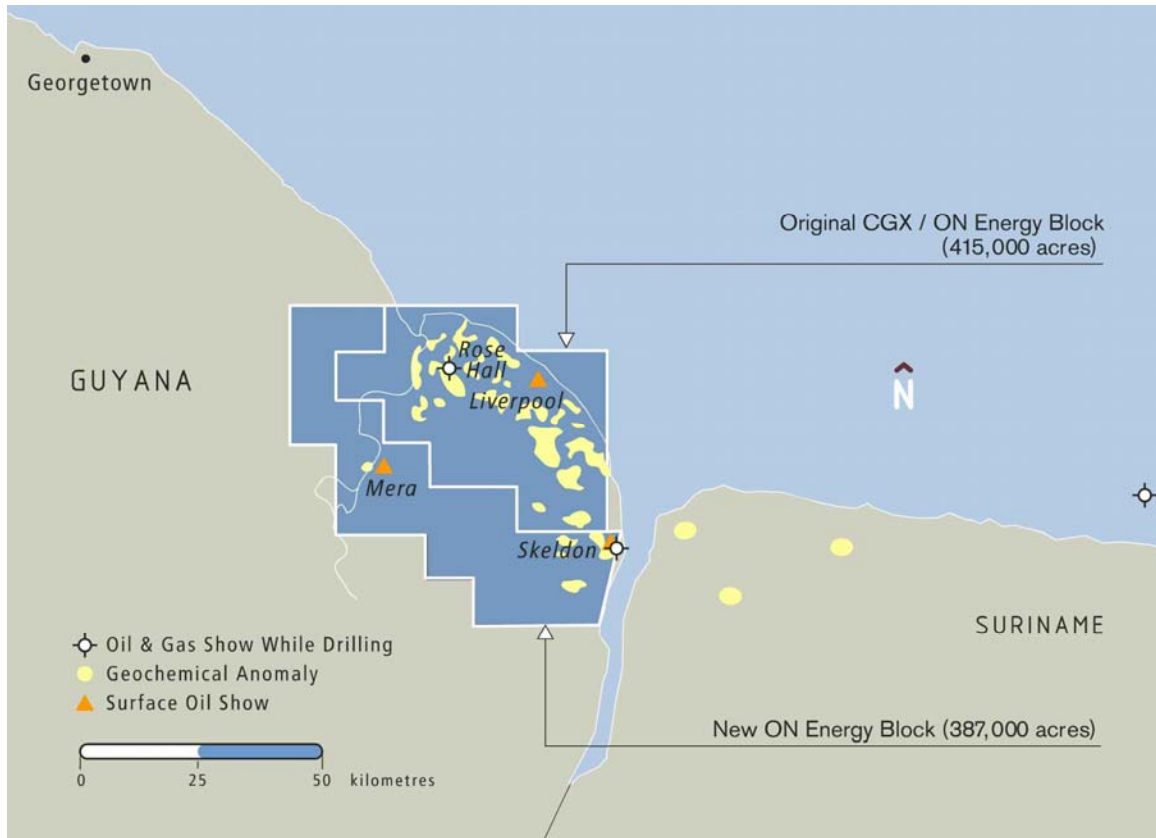




Figure 3
Geochemical anomalies



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