

CYGAM ENERGY INC.

Consolidated Financial Statements

For the Years ended December 31, 2008 and 2007

MANAGEMENT'S REPORT

To the Shareholders of Cygam Energy Inc.

The accompanying financial statements of Cygam Energy Inc. are the responsibility of management. Management is responsible for and has prepared and presented the financial statements in accordance with Canadian generally accepted accounting principles (GAAP) and has made significant accounting judgments and estimates as required. Management has ensured that financial information contained elsewhere in this report is consistent with the financial statements.

Management is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that the accounting system provides timely, accurate and reliable financial information.

The Audit Committee is appointed by the Board and has full and free access to the external auditors. The Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues; to satisfy itself that each party is properly discharging its responsibilities; and, to review the annual report, the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

PricewaterhouseCoopers LLP, an independent firm of Chartered Accountants, was appointed by the shareholders at the Company's last annual meeting to express an opinion as to whether the financial statements present fairly the Company's financial position, results of operations and cash flows in accordance with GAAP for the year ended December 31, 2008. The Board of Directors has approved the financial statements of the Company on the recommendation of the Audit Committee.

(signed) "*Dario E. Sodero*"

Dario E. Sodero
President and Chief Executive Officer

(signed) "*S. S. (Ali) Rawji*"

S. S. (Ali) Rawji
Chief Financial Officer

April 22, 2009

AUDITORS' REPORT

To the Shareholders of Cygam Energy Inc.

We have audited the consolidated balance sheets of Cygam Energy Inc. (the "Company") as at December 31, 2008 and 2007 and the consolidated statements of operations, retained earnings (deficit), comprehensive loss, accumulated other comprehensive income (loss) and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta, Canada
April 22, 2009

CYGAM ENERGY INC.**CONSOLIDATED BALANCE SHEETS**

As at	December 31 2008	December 31 2007
	(\$)	(\$)
Assets		
Current assets		
Cash	1,335,638	5,399,307
Marketable securities <i>(note 5)</i>	2,218,480	3,373,139
Accounts receivable	293,566	685,406
Tax receivable <i>(note 6)</i>	279,095	-
Prepays and deposits	135,820	127,518
	4,262,599	9,585,370
Tax receivable <i>(note 6)</i>	-	787,312
Property, plant and equipment <i>(note 7)</i>	19,545,380	17,680,119
	23,807,979	28,052,801
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	1,393,492	1,297,638
Current portion of long-term debt <i>(note 8)</i>	5,083	27,000
	1,398,575	1,324,638
Long-term debt and accruals <i>(note 8)</i>	72,315	41,770
Asset retirement obligation <i>(note 9)</i>	268,270	254,006
	1,739,160	1,620,414
Shareholders' equity		
Share capital <i>(note 10)</i>	26,231,495	26,231,495
Contributed surplus <i>(note 11)</i>	1,993,851	1,408,624
Accumulated other comprehensive income (loss)	2,122,866	(1,196,003)
Deficit	(8,279,393)	(11,729)
	22,068,819	26,432,387
Going Concern <i>(note 2)</i> , Commitments <i>(note 17)</i>	23,807,979	28,052,801

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors,

(signed) "Dario E. Sodero"

Director

(signed) "S. S. (Ali) Rawji"

Director

CYGAM ENERGY INC.**CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)**

Years Ended	December 31 2008	December 31 2007
	(\$)	(\$)
Revenue		
Petroleum and natural gas sales	773,498	573,155
Royalties expense, net of Alberta Royalty Tax Credit	(65,741)	(25,117)
Other revenue	415,820	627,100
	<u>1,123,577</u>	<u>1,175,138</u>
Expenses		
Production	235,550	203,108
General and administrative	1,618,315	1,728,056
Interest	6,729	3,378
Stock-based compensation	585,227	207,077
Depletion, amortization and accretion	245,331	243,982
Impairment on assets <i>(note 7)</i>	5,458,346	-
Loss on foreign exchange	(362)	19,766
	<u>8,149,136</u>	<u>2,405,367</u>
Other income and expenses		
Realized loss on marketable securities	348,972	-
Unrealized loss on marketable securities	893,133	159,675
Loss before income taxes	(8,267,664)	(1,389,904)
Income tax recovery <i>(note 13)</i>	-	135,366
Net loss for the year	(8,267,664)	(1,254,538)
Retained earnings (deficit), beginning of year	(11,729)	1,242,809
Deficit, end of year	<u>(8,279,393)</u>	<u>(11,729)</u>
Loss per share		
Basic <i>(Note 12)</i>	(0.097)	(0.015)
Diluted <i>(Note 12)</i>	(0.097)	(0.015)

See accompanying notes to the consolidated financial statements.

CYGAM ENERGY INC.**CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS**

Years Ended	December 31 2008	December 31 2007
	(\$)	(\$)
Net loss for the year	(8,267,664)	(1,254,538)
Other Comprehensive Income, Net of Tax	-	-
Unrealized exchange gain (loss) on translation of self-sustaining foreign operations	3,318,869	(1,071,778)
Comprehensive loss for the year	(4,948,795)	(2,326,316)

See accompanying notes to the financial statements

CONSOLIDATED STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Years Ended	December 31, 2008	December 31, 2007
	(\$)	(\$)
Accumulated Other Comprehensive Income (Loss), beginning of year	(1,196,003)	(124,225)
Unrealized exchange gain (loss) on translation of self-sustaining foreign operations	3,318,869	(1,071,778)
Accumulated Other Comprehensive Income (Loss), end of year	2,122,866	(1,196,003)

See accompanying notes to the financial statements

CYGAM ENERGY INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended	December 31 2008	December 31 2007
	(\$)	(\$)
Cash provided by (used in):		
Operations		
Net loss for the year	(8,267,664)	(1,254,538)
Add items not affecting cash:		
Income tax recovery	-	(135,366)
Stock based compensation expense	585,227	207,077
Depletion, amortization and accretion	245,331	243,982
Impairment on assets	5,458,346	-
Unrealized loss on marketable securities	893,133	159,676
Abandonment expenditures	(12,498)	(8,984)
	(1,098,125)	(788,153)
Change in non-cash operating working capital		
Accounts receivable	1,023,508	(818,634)
Marketable securities	348,972	-
Prepays and deposits	10,373	(88,028)
Accounts payable	353,944	344,874
	638,672	(1,349,941)
Investing		
Expenditures on property, plant and equipment	(4,138,375)	(10,462,082)
Change in non-cash working capital	(454,239)	595,322
Purchase of marketable securities	(490,000)	-
Proceeds from sale of marketable securities	402,554	-
	(4,680,060)	(9,866,760)
Financing		
Issue of capital stock for cash (<i>note 10 (b)</i>)	-	12,076,370
Share issue costs (<i>note 10 (b)</i>)	-	(737,072)
Repayment of bank loan	(27,000)	(27,000)
	(27,000)	11,312,298
Foreign exchange gain (loss) on cash and cash equivalents	4,719	(17,845)
Increase (decrease) in cash	(4,063,669)	77,752
Cash, beginning of year	5,399,307	5,321,555
Cash, end of year	1,335,638	5,399,307

The Company paid interest of \$6,729 (2007 - \$3,378) and paid income taxes of \$ nil (2007 - \$nil).

See accompanying notes to the consolidated financial statements.

CYGAM ENERGY INC.
Notes to the Consolidated Financial Statements
Years ended December 31, 2008 and 2007

1. NATURE OF OPERATIONS

Cygam Energy Inc. (“Cygam” or the “Company”) is a public company engaged in the exploration, development and production of crude oil and natural gas in Canada, Tunisia, and Italy. Cygam was formed through the reverse takeover of Sheer Energy Inc. by Rigo Oil Company Limited (“ROCL”) on October 11, 2005, and the acquisition of all the outstanding shares of Vega Oil S.p.A. (“Vega”). ROCL and Vega were private companies (related by common control) engaged in the business of oil and gas exploration in Tunisia and Italy respectively. Cygam’s common shares trade on the TSX Venture Exchange under the symbol CYG.

2. GOING CONCERN

While these consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) and on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business, there are conditions and events that create uncertainty regarding the validity of this assumption.

The Company is an exploration stage company that engages principally in the acquisition, exploration and development of oil and gas properties. As an exploration stage company, it is currently unable to self-finance its operations. The recovery of the Company’s investment in its resource properties and attainment of profitable operations, and its ability to continue as a going concern is dependent upon the discovery, development and sale of oil and gas reserves, the ability to attract joint venture partners and the ability to raise sufficient capital to finance its operations.

During the year ended December 31, 2008, the Company had a net loss of \$8,267,664 and a deficit of \$8,279,393 at year-end. As at December 31, 2008, the Company’s cash on hand and marketable securities totaled \$3.55 million and working capital was \$2.86 million, and the Company has joint venture partners on several properties. While these funds are sufficient to continue operations into 2009, the Company will need to consider some form of additional financing to continue to explore and develop its properties and to continue operations into 2010.

The Company’s management will continue to consider various alternatives, within the context of existing market conditions. Management plans to seek additional financing, through equity financings, through joint venture agreements or through other means to further the exploration and development of the Company’s properties and to provide sufficient working capital. However, as there can be no certainty that the plans will be successful, there is significant doubt regarding the Company’s ability to continue as a going concern. If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenue and expenses and the balance sheet classifications used. The adjustments could be material.

CYGAM ENERGY INC.
Notes to the Consolidated Financial Statements
Years ended December 31, 2008 and 2007

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada within the framework of the accounting policies summarized below:

a) Use of Accounting Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events at the balance sheet date. Actual results could differ from those estimated. Specifically, the amounts recorded for future tax valuation allowances, for depletion, depreciation, accretion and asset retirement obligations and amounts used for ceiling test and impairment calculations are based on estimates of proven reserves, future oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

The amount of stock-based compensation expense accrued is based on management's estimate of assumptions underlying the calculation of the fair value of stock options granted.

b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Rigo Oil Company Limited, Rigo Oil Company Tunisia Ltd., and Vega Oil S.p.A.

c) Foreign Currency Translation

The Company's Italian and Tunisian operations are considered self-sustaining and are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at period-end exchange rates and items included in the statements of operations and retained earnings and cash flows are translated at the average rates in effect during the period. The gain or loss on translation is charged to cumulative translation adjustment in shareholders' equity.

Any amounts payable and receivable in foreign currencies are revalued at the balance sheet date and any gains or losses arising on the revaluation are reflected in earnings for the period.

d) Revenue Recognition

Revenues associated with sales of petroleum and natural gas and all other items are recorded when title passes to the buyer.

e) Interest in Joint Ventures

Significantly all of the Company's petroleum and natural gas exploration and development activities are conducted jointly with others, and accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

CYGAM ENERGY INC.

Notes to the Consolidated Financial Statements

Years ended December 31, 2008 and 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Marketable Securities

Marketable securities represent investments in trust units of a public company and in common shares and warrants in a joint venture partner. On acquisition these investments were designated as held for trading and are stated at fair value, without any deduction for transaction costs that may be incurred on sale or disposal. Any unrealized loss is recognized in net income in the period in which it arises. Distributions received in connection with the trust units are accounted for as revenue.

g) Cash and Cash Equivalents

The Company considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less as cash and cash equivalents.

h) Per Share Amounts

Basic per share amounts are calculated using the weighted average number of common shares outstanding during the year. Diluted per share amounts are calculated based on the treasury-stock method, which assumes that any proceeds obtained on exercise of options and warrants would be used to purchase common shares at the average market price during the period. No adjustment to diluted earnings per share is made if the result of this calculation is anti-dilutive.

i) Asset Retirement Obligations

The Company recognizes the estimated liability associated with an asset retirement obligation (ARO) in the financial statements at the time when a liability is incurred and a reasonable estimate of the fair value can be made. The estimated fair value of the ARO liability is recorded as a long term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted based on a unit-of-production method and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO recorded.

j) Property, Plant & Equipment

Capitalized Costs

The Company follows the full cost method of accounting for exploration and development expenditures whereby all costs relating to the acquisition of, exploration for and development of petroleum and natural gas reserves, whether productive or unproductive are capitalized. Such costs include land and lease acquisition costs, geological and geophysical costs, lease rentals on undeveloped properties, drilling both productive and non-productive wells, production equipment and general and administrative expenses directly related to acquisition, exploration and development activities. Capitalized costs are accumulated on a country-by-country basis.

Proceeds received from disposals of petroleum and natural gas properties and production equipment are credited against capitalized costs unless the disposal would alter the rate of depletion and depreciation by more than 20%, in which case a gain or loss on disposal is recorded.

CYGAM ENERGY INC.

Notes to the Consolidated Financial Statements

Years ended December 31, 2008 and 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Depletion, amortization and accretion

All costs of acquisition, exploration and development of oil and gas revenues, associated tangible plant and equipment costs (net of salvage value) and estimated costs of future development of proven reserves are depleted and depreciated by the unit-of-production method based on estimated gross proved reserves as determined by independent engineers on a country-by-country basis. Oil and gas reserves are converted to equivalent units using their estimated relative energy content of six thousand cubic feet of gas to one barrel of oil. The cost of unproved properties is excluded from the depletion calculation and is assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered impaired, the cost of the property or the amount of the impairment is added to all other capitalized costs subject to depreciation and depletion.

Depreciation of furniture, fixtures and office equipment is provided using the diminishing balance method at rates between 20% and 50%.

Ceiling test

The Company applies a ceiling test to capitalized costs to ensure that the net carrying value of petroleum and natural gas producing properties does not exceed the estimated value of undiscounted future net cash flows (based on estimates of future prices and costs projected by the company from independent engineers' reports) from the production of proven reserves, less estimated future development costs. Any impairment in value is charged to operations.

Upon recognition of impairment, the Company would then measure the amount of impairment by comparing the carrying amounts of the Property, Plant and Equipment ("PP&E") to the fair value of PP&E which is the estimated net present value of future cash flows from proved plus probable reserves. A risk-free interest rate is used to arrive at the net present value of future cash flows. Any excess carrying value above the net present value of the future cash flows would be recorded as a permanent impairment.

Impairment test

Unproved properties excluded from the costs subject to depletion and amortization are periodically assessed for impairment after considering all available information including the remaining term of the property permit, drilling results, evaluation of the available geological and geophysical data, future exploration and drilling plans and any other information for the property. Any impairment amount is transferred to the costs subject to depletion. If the impaired asset is in a cost centre with no proved or probable reserves, an impairment charge is recognized in the consolidated statement of operations.

k) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any differences between the accounting and the income tax basis of an asset or liability using income tax rates substantively enacted on the balance sheet date. The effect of a change in income tax rates on the future income tax assets and liabilities is recognized in income in the period of the change. Future income tax assets are limited to the amount that is more likely than not to be realized.

CYGAM ENERGY INC.

Notes to the Consolidated Financial Statements

Years ended December 31, 2008 and 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Stock-Based Compensation

Compensation costs attributed to all stock options granted to employees, officers, directors and consultants are measured at fair value at the date of grant using the Black Scholes option pricing model and expensed over the vesting period with a corresponding increase to contributed surplus. Upon exercise of the option, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

m) Comprehensive Income

The Consolidated Statement of Comprehensive Income reflects changes in accumulated other comprehensive income and comprises changes in the fair value of financial instruments designated as cash flow hedges, to the extent they are effective, as well as changes in foreign currency translation amounts arising in respect of self-sustaining foreign operations together with the impact of any related hedges. Amounts included in Accumulated Other Comprehensive Income are reclassified to the Consolidated Statement of Operations when realized.

n) Financial Instruments

Financial assets and liabilities are measured at fair value in the Consolidated Balance Sheet with the exception of loans and receivables, investments that are intended to be held to maturity and non-trading financial liabilities which may be carried at cost or amortized cost.

Realized and unrealized gains and losses on financial assets and liabilities carried at fair value are recognized in the Consolidated Statement of Operations in the periods such gains and losses arise. Transaction costs related to these financial asset and liabilities are included in the Consolidated Statement of Operations when incurred. Gains and losses on financial assets and liabilities carried at cost or amortized cost are recognized in the Consolidated Statement of Operations when these assets or liabilities settle.

The Company holds financial instruments, including marketable securities, that were carried at fair value prior to the adoption of Section 3855. The valuation methods the Company uses to determine the fair value of these financial instruments remain unchanged. Financial instruments the Company carries at cost or amortized cost include accounts receivable, accounts payable, short-term and long-term debt.

o) Comparative Amounts

Certain comparative amounts have been reclassified to conform with the presentation format adopted in the current year.

CYGAM ENERGY INC.

Notes to the Consolidated Financial Statements

Years ended December 31, 2008 and 2007

4. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) Section 1535, “*Capital Disclosures*”. This section establishes disclosure requirements for disclosure of the Company’s objectives, policies and processes in managing its capital structure. The section has been applied prospectively in Note 14 to these consolidated financial statements.

Effective January 1, 2008, the Company adopted CICA Sections 3862 and 3863, which replaced Section 3861 “*Financial Instruments – Disclosure and Presentation*”, and enhance existing disclosures for financial instruments. The new standard increases disclosure regarding the nature and extent of the risks associated with financial instruments and how those risks are managed. The section has been applied prospectively and additional disclosure necessary to comply with these standards is provided in Note 15 to these consolidated financial statements.

New Accounting Standards

As at January 1, 2009, the Company will be required to adopt the CICA Handbook Section 3064, “*Goodwill and Intangible Assets*”, which will replace the existing Goodwill and Intangible Assets standard. The new standard revises the requirements for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard should not have a material impact on the Company’s consolidated financial statements.

In December 2008, the CICA issued Section 1582, “*Business Combinations*”, which will replace CICA Section 1581 of the same name. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011, with earlier application permitted.

In December 2008, the CICA issued Sections 1601, *Consolidated Financial Statements*, and 1602, *Non-Controlling Interests*, which replaces existing Section 1600. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011, with earlier application permitted. These standards currently do not impact the Company as it has full controlling interest of all of its subsidiaries.

In January 2006, the CICA Accounting Standards Board (“AcSB”) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, the International Financial Reporting Standards (“IFRS”) will replace Canadian GAAP in 2011 for Canadian publicly accountable enterprises, and the Company will be required to report its results in accordance with IFRS starting in 2011.

CYGAM ENERGY INC.
Notes to the Consolidated Financial Statements
Years ended December 31, 2008 and 2007

4. CHANGES IN ACCOUNTING POLICIES (continued)

The Company has determined that the most significant impact of IFRS conversion is to property, plant and equipment. IFRS does not prescribe specific oil and gas accounting guidance other than for costs associated with the exploration and evaluation phase. The Company currently follows full cost accounting as prescribed in Accounting Guideline 16, *Oil and Gas Accounting – Full Cost*. Conversion to IFRS will have a significant impact on how the Company accounts for costs pertaining to oil and gas activities, in particular those related to the pre-exploration and development phases. In addition, the level at which depletion and impairment tests are performed and the impairment testing methodology will differ under IFRS. IFRS conversion will also result in other impacts, some of which may be significant in nature. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS, and the potential impact on the Company's Consolidated Financial Statements is not reasonably determinable at this time.

5. MARKETABLE SECURITIES

The following table sets out the changes in the marketable securities:

	2008	2007
Balance, beginning of year	\$ 3,373,139	\$ 3,532,814
Acquired during the year	490,000	-
Disposed during the year	(751,526)	-
Unrealized loss during the year	(893,133)	(159,675)
Balance, end of year	\$ 2,218,480	\$ 3,373,139

6. TAX RECEIVABLE

Tax receivable represents the Value Added Tax (VAT) paid in Italy on purchases made by the Company's subsidiary in that country. The amount is recoverable by offsetting VAT collected on revenues, or against certain other taxes payable, or upon application for a refund from the government. During the year, the Company filed an application for a refund and received a substantial amount of the balance due as at the end 2007. Tax receivable at December 31, 2008 is expected to be recovered in 2009 and classified as a current asset.

CYGAM ENERGY INC.
Notes to the Consolidated Financial Statements
Years ended December 31, 2008 and 2007

7. PROPERTY, PLANT AND EQUIPMENT

As at December 31, 2008	Cost	Accumulated depletion & amortization	Net book value
Petroleum and natural gas properties	\$ 26,343,962	\$ 1,572,137	\$24,771,825
Impairment of assets	-	5,458,346	(5,458,346)
Building	196,538	51,668	144,870
Furniture, fittings and office equipment	178,569	91,538	87,031
Total	\$ 26,719,069	\$ 7,173,689	\$19,545,380

As at December 31, 2007	Cost	Accumulated depletion & amortization	Net book value
Petroleum and natural gas properties	\$ 18,794,566	\$ 1,361,339	\$17,433,227
Building	196,538	45,632	150,906
Furniture, fittings and office equipment	155,937	59,951	95,986
Total	\$ 19,147,041	\$ 1,466,922	\$17,680,119

The Company capitalized \$465,182 (2007 - \$388,946) of general and administrative expenses directly related to exploration activity in Italy and Tunisia. The Company did not capitalize any general and administrative expenditures in Canada.

Permit, seismic and drilling costs associated with unproved properties that were excluded from depletion and amortization were \$17,477,805 (2007 - \$15,467,174). Future development costs of \$287,000 are included in the calculation of the depletion and amortization expense.

The Company performed impairment tests on the unproved properties excluded from the costs subject to depletion and amortization to ascertain whether impairment has occurred. The test is performed on a property by property basis in each country in which the Company operates by taking into consideration all available information including the remaining term of the property permit, the available geological and geophysical data, and the future exploration and drilling plans for the property. An impairment amount of \$5,458,346 (2007 - \$nil) was recognized as the excess of the carrying value over the estimated fair value of the asset. This amount is recorded as a cost in the consolidated statement of operations as the applicable cost centres have no proved or probable reserves. The impairment relates to the cost of evaluation and subsequent unsuccessful application and negotiations for interests in several permits in Egypt (\$441,074), included in the Tunisian reportable segment, and to the Posta Piana well (\$5,017,272), included in the Italian cost centre, which was drilled and cased in late 2007, and acidized and subsequently abandoned in 2008. Whilst the Posta Nuova permit expires in 2011 and the Company expects to continue to investigate other resource targets on this permit, the Company determined, in accordance with accounting guidelines, that the non-cash write-down was required to reflect the impairment of this asset.

CYGAM ENERGY INC.
Notes to the Consolidated Financial Statements
Years ended December 31, 2008 and 2007

7. PROPERTY, PLANT AND EQUIPMENT (continued)

The Company calculated a ceiling test for the Canadian properties at December 31, 2008 to assess the recoverable value of the petroleum and natural gas properties and production equipment. The future prices used by the Company in estimating cash flows were based on forecasts by the independent reserves evaluators, adjusted for the Company's quality and transportation differentials.

The following table summarizes the benchmark price and exchange assumptions used in the calculation for the Canadian properties:

	WTI Oil (\$US/bbl)	Edmonton Light Crude Oil (\$Cdn/bbl)	Bow River Medium (\$Cdn/bbl)	Cromer Medium Crude Oil (\$Cdn/bbl)	AECO-C Gas (\$Cdn/Mm btu)	Foreign Exchange (\$US/Cdn)
2009	58.00	68.50	53.50	60.50	7.05	0.83
2010	70.00	81.00	62.00	71.00	7.90	0.85
2011	80.00	87.60	67.60	76.60	8.20	0.90
2012	90.00	93.50	73.50	82.50	8.65	0.95
2013	100.00	104.50	84.05	93.05	9.70	0.95
2014-	2.0%	2.0%	2.0%	2.0%	2.0%	0.95
2017	escalated	escalated	escalated	escalated	escalated	

8. LONG-TERM DEBT AND ACCRUALS

	2008	2007
Office condominium mortgage, due on demand, with payments of \$2,250 monthly plus interest calculated at the bank's prime rate plus 1% per annum	\$ 5,083	\$ 32,083
Severance Pay accrual	\$ 72,315	\$ 36,687
	\$ 77,398	\$ 68,770

Estimated principal repayments are as follows:

Current portion of long-term debt	\$ 5,083	\$ 27,000
Non-current portion	\$ 72,315	\$ 41,770

The Severance Pay accrual is payable to employees in Italy when the employee leaves employment and is based on the length of service with the Company. The amount is accrued annually in accordance with payroll legislation.

Under a credit facility dated March 19, 2004, the Company has the following credit facilities available:

- (a) Office condominium mortgage, as above.
- (b) Operating loan up to \$150,000 available by way of account overdraft. The loan is due on demand by the bank with interest paid at the bank's prime rate plus 1% per annum.

The loans are secured by a debenture and general security agreement with a fixed and floating charge over all assets and an assignment of all risk insurance proceeds, and an environmental indemnity.

CYGAM ENERGY INC.
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9. ASSET RETIREMENT OBLIGATION

At December 31, 2008, the estimated total undiscounted amount of cash flows required to settle the ARO was approximately \$354,120 (2007 - \$296,554), which will be incurred between 2009 and 2024. The company's asset retirement obligation results from its responsibility to abandon and reclaim its net share of all working interest properties. The amount has been discounted using a credit adjusted risk free interest rate of 8% and an inflation rate of 2.0%. A reconciliation of the ARO is provided below:

	2008		2007	
Balance, beginning of year	\$	254,006	\$	95,208
Expenditures during the year		(12,498)		(8,984)
Increase in obligation during the year		18,442		160,165
Accretion expense		8,320		7,617
Balance, end of year	\$	268,270	\$	254,006

10. SHARE CAPITAL

a) Authorized

Unlimited number of common shares without par value.
Unlimited number of first preferred shares, of which none have been issued.
Unlimited number of second preferred shares, of which none have been issued.

b) Issued and Outstanding

	Shares	Amount
	(#)	(\$)
Common Shares		
Balance, December 31, 2006	72,349,640	14,303,681
Common shares issued pursuant to:		
Acquisition of interests in Italian properties	484,614	294,498
Issued upon exercise of Series A Warrants	71,200	42,720
Issued upon exercise of Series B Warrants	2,042,000	1,806,201
Issued upon exercise of Agents' Options	666,750	483,000
Brokered private placement	10,000,000	10,000,000
Share issue costs (net of tax effect of \$ 38,467)	-	(698,605)
Balance, December 31, 2007	85,614,204	\$26,231,495
Balance, December 31, 2008	85,614,204	\$26,231,495

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10. SHARE CAPITAL (continued)

c) Warrants

The following table summarizes the warrants outstanding as at December 31, 2008:

Series "C" warrants	Number	Exercise Price	Expiry Date
Balance, December 31, 2007 and 2008	200,000	\$1.50	January 8, 2009
Total	200,000		

All the Series "C" warrants expired unexercised on January 8, 2009.

d) Stock Options

The Company has a stock option plan (the "Plan") for directors, senior officers, employees and key consultants of the Company. Options granted pursuant to the Plan do not exceed a term of five years, and are granted at an option price and on other terms that the directors determine are necessary to achieve the goal of the Plan and in accordance with regulatory policies. Options vest one-half immediately and one-half one year later for directors and senior officers, and one-third immediately, one-third one year later, and one-third one year after that for consultants and employees. As at December 31, 2008, there were 7,300,000 stock options outstanding with a weighted average exercise price of \$0.66, of which 5,683,334 were exercisable at a weighted average exercise price of \$0.66.

The following table summarizes the information regarding the Plan activity to December 31, 2008:

	Options Outstanding	Weighted Average Exercise Price
	(#)	(\$)
Balance, December 31, 2006	5,025,000	0.65
Issued	350,000	1.00
Expired	(725,000)	0.60
Balance, December 31, 2007	4,650,000	0.69
Issued	2,650,000	0.60
Balance, December 31, 2008	7,300,000	0.66

Exercise Price	Options Outstanding	Weighted Average Contractual Life (years)
\$0.60	6,350,000	2.63
\$0.83	100,000	2.09
\$0.90	250,000	2.09
\$1.00	350,000	3.50
\$1.31	250,000	1.90
	7,300,000	2.62

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10. SHARE CAPITAL (continued)

e) Stock-Based Compensation

The Company has calculated its stock-based compensation expense using the Black-Scholes option pricing model to estimate the fair value of stock options issued at the date of the grant. The weighted average fair market value per option granted in January 2008 and in 2007 and the assumptions used in their determination are as follows:

	2008	2007
Weighted average fair value per option	\$ 0.21	\$ 0.61
Risk free interest rate (%)	4.5	4.5
Volatility (%)	70	70
Expected life (years)	5	5

f) Escrow Shares

56,905,555 common shares acquired by certain directors and related parties in connection with the reverse takeover and the non-brokered private placement completed on October 11, 2005, are subject to the TSX Venture Exchange's Tier 2 Surplus Escrow.

The Surplus Escrow agreement provides for the release of these securities as to 5% on each of the 6, 12, 18, and 24 month anniversaries of the issuance of the Final Exchange Bulletin (October 21, 2005), and as to 10% on each of the 30, 36, 42, 48, 54, 60, 66 and 72 month anniversaries of the Final Exchange Bulletin. The Escrow agreement allows the shareholders to apply for accelerated release under certain circumstances. As at December 31, 2008, there were 34,143,331 shares held in escrow under the Surplus Escrow agreement.

11. CONTRIBUTED SURPLUS

The following table sets out the changes in Contributed Surplus related to the stock based compensation expense, warrants and broker/agent options:

	2008	2007
Balance, beginning of year	\$ 1,408,624	\$ 1,436,586
Stock based compensation	585,227	207,077
Series "C" warrants	-	20,502
Exercise of Series "B" warrants	-	(172,601)
Exercise of agents' options	-	(82,940)
Balance, end of year	\$ 1,993,851	\$ 1,408,624

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12. PER SHARE AMOUNTS

Basic earnings per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated to reflect the dilutive effect of stock options and warrants outstanding.

Earnings per share is calculated as follows:

	2008		
	Net loss	Shares	Loss per share
Basic	\$ (8,267,664)	85,614,204	\$ (0.097)
Effect of assumed exercise of options and Warrants		-	
Diluted	\$ (8,267,664)	85,614,204	\$ (0.097)

	2007		
	Net earnings	Shares	Loss per share
Basic	\$ (1,254,538)	80,108,476	\$ (0.015)
Effect of assumed exercise of options and warrants		1,333,789	
Diluted	\$ (1,254,538)	81,442,265	\$ (0.015)

13. INCOME TAXES

a) Future income tax recovery

The provision for income taxes differs from the result that would be obtained by applying the combined Canadian federal and provincial statutory tax rates to income before taxes. The difference results from the following:

	2008	2007
Earnings before tax	\$ (8,267,664)	\$ (1,389,904)
Income tax rate	29.5%	32.12%
Computed income taxes at the Canadian income tax rate	(2,438,961)	(446,437)
Increase (decrease) in taxes resulting from:		
Non deductible capital loss	51,473	-
Stock-based compensation	172,641	66,513
Statutory rate differences, effect of rate changes and other	349,905	23,915
Change in valuation allowance	1,864,942	220,643
Recovery of income taxes	\$ -	\$ 135,366

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13. INCOME TAXES (continued)

The Company had no current tax expense for the year ended December 31, 2008. In Canada, the Company has loss carry forwards of \$615,273 which expire beginning 2026. In Italy, the Company has loss carry forwards of \$7,105,161 which expire beginning 2011. The Tunisian operations incur tax on a concession-by-concession basis and capitalize expenses. As at December 31, 2008 the Tunisian operations had undepreciated capital costs of \$15,847,710. The tax benefits of these loss carry forwards and undepreciated capital costs have not been recognized in these consolidated financial statements.

b) **The components of the net future income tax asset are as follows:**

	2008	2007
Non-capital losses	\$ 159,971	\$ 112,086
Asset retirement obligation	69,588	29,122
Share issue costs	143,580	226,860
Subsidiary non-capital losses	2,060,497	363,478
Property, plant and equipment	(37,303)	(200,155)
Valuation allowance	(2,396,333)	(531,391)
Net Future Tax Asset	\$ -	\$ -

14. CAPITAL DISCLOSURES

The Company's capital structure consists of shareholders' equity excluding accumulated other comprehensive income. The Company's primary objective for managing its capital structure is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by ensuring financial capacity, liquidity and flexibility to fund exploration projects while maintaining a strong capital base to sustain ongoing development. The Company relies on operating cashflows, equity financings and joint venture partner participation to fund exploration activities. The Company has the ability to adjust its capital structure by issuing new equity and adjusting its capital expenditure program to the extent the capital expenditures are not committed and to conduct capital projects through joint ventures. As at December 31, 2008, the Company had \$2.86 million in working capital and \$0.07 million in long-term debt. The working capital is anticipated to be used for the Company's exploration projects in Italy and Tunisia and for general corporate purposes.

15. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

The Company's financial instruments recognized in the balance sheet consist of cash, marketable securities, accounts receivable, accounts payable, accrued liabilities and bank loan. The carrying value of these balance sheet items approximates their fair market value. The Company is exposed to a number of different financial risks arising from normal course business exposure, as well as the Company's use of financial instruments. These risk factors include market risk related to the fair value of marketable securities and to commodity prices, foreign currency risk and interest rate risk as well as liquidity risk and credit risk.

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15. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (continued)

(a) Market Risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the company's financial assets, liabilities and expected future cash flows include change in the market price of marketable securities, foreign currency exchange risk and interest rate risk.

(b) Foreign Currency Exchange Risk

A significant portion of the Company's activities are conducted in Euro in Italy and in US dollars and Tunisian Dinars in Tunisia where the Company is exposed to changes in foreign exchange rates as operating expenses, capital expenditures, and financial instruments fluctuate due to changes in exchange rates. A \$0.01 change in the Euro/Cdn\$ and the TND/Cdn\$ exchange rates would change the net loss by approximately \$5,064 and \$1,658 respectively for the year ended December 31, 2008. The Company does not use derivative instruments to hedge its exposure to foreign exchange risks.

(c) Liquidity Risk

Liquidity risk is the risk that the entity will encounter difficulty in meeting its financial liability obligations. The Company has access to capital through internally generated cashflows and external sources including capital markets and joint venture partner funding of projects. The Company manages liquidity risk by commencing exploration projects once sufficient funds are available to completely fund the project, and by generally endeavoring to raise funds ahead of planned capital expenditures subject to the capital markets environment. See Note 2.

Surplus cash is invested into short-term banker's acceptance notes and the Company seeks to ensure security and liquidity of those investments.

(d) Credit Risk

Credit risk is the risk that a customer, joint venture partner or counterparty will fail to perform an obligation or default resulting in the Company incurring a financial loss. The Company monitors the exposure to any single customer or joint venture partner. A substantial portion of the Company's accounts receivables are with customers in the oil and gas industry and are subject to normal industry credit risks.

16. SEGMENT INFORMATION

The Company operates in the oil and gas industry. Its reportable segments are identified on a geographic basis.

Geographic Segments:

December 31, 2008	Canada	Italy	Tunisia	Total
Gross Revenue	1,109,595	5,588	8,394	1,123,577
Loss before taxes	2,316,681	5,807,027	143,956	8,267,664
Total assets (net of Inter-company balances)	6,050,381	2,350,308	15,407,290	23,807,979
Property and equipment	1,990,618	1,707,052	15,847,710	19,545,380
Capital Expenditures	217,717	932,491	2,988,167	4,138,375

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16. SEGMENT INFORMATION (continued)

December 31, 2007	Canada	Italy	Tunisia	Total
Gross Revenue	1,157,032	2,018	16,088	1,175,138
Loss before taxes	442,628	805,599	141,677	1,389,904
Total assets (net of Inter-company balances)	12,499,778	5,584,244	9,968,779	28,052,801
Property and equipment	1,979,551	4,966,060	10,734,508	17,680,119
Capital Expenditures	179,255	4,056,458	6,226,369	10,462,082

17. COMMITMENTS

- (a) The Company rents premises in Rome, Italy, under operating leases that require payments of \$63,326 in 2009 and \$56,717 in each of 2010 to 2011, and the leases are subsequently renewable annually. The Company rents premises in Tunis, Tunisia, under operating leases that require payment of \$73,417 in 2009, and the lease is renewable annually.
- (b) In the ordinary course of business, the Company and its subsidiaries may enter into contracts which contain indemnification provisions, such as service agreements, leasing agreements, asset purchase and sale agreements, joint venture agreements, operating agreements, etc. In such contracts, the Company may indemnify counterparties to the contracts if certain events occur. These indemnification provisions vary on an agreement-by-agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated.

18. RELATED PARTY TRANSACTIONS

- (a) Included in the general and administrative expenses are consulting fees of \$313,695 (2007 - \$369,795) paid to officers of Cygam or companies whose shareholders are directors and officers of Cygam. The Company also capitalized \$176,949 (2007 -\$123,362) paid during the year to a director and officer of the Company.
- (b) During the period ended December 31, 2008, \$46,334 (2007 - \$77,993) in legal fees was incurred, of which \$1,937 are owed at year end to a legal firm in which a director of the Company is a partner.

All the transactions above are in the normal course of operations, and have been measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.