

CYGAM ENERGY INC.

Consolidated Financial Statements

For the Years ended December 31, 2007 and 2006

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, 2007. 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 17, 2008

April 17, 2008

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, 2007 and 2006 and the consolidated statements of operations and retained earnings (deficit), comprehensive loss and accumulated other comprehensive loss and of cash flows for 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Canada

CYGAM ENERGY INC.**CONSOLIDATED BALANCE SHEETS**

As at	December 31 2007	December 31 2006
	(\$)	(\$)
Assets		
Current assets		
Cash	5,399,307	5,321,555
Marketable securities <i>(note 4)</i>	3,373,139	3,532,814
Accounts receivable	685,406	297,038
Prepays and deposits	127,518	43,142
	9,585,370	9,194,549
Tax receivable <i>(note 5)</i>	787,312	47,513
Property, plant and equipment <i>(note 6)</i>	17,680,119	8,680,270
	28,052,801	17,922,332
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	1,334,325	735,357
Current portion of long-term debt <i>(note 7)</i>	27,000	27,000
	1,361,325	762,357
Long-term debt <i>(note 7)</i>	5,083	32,083
Asset retirement obligation <i>(note 8)</i>	254,006	95,208
Future income tax liability <i>(note 12)</i>	-	173,833
	1,620,414	1,063,481
Shareholders' equity		
Share capital <i>(note 9)</i>	26,231,495	14,303,681
Contributed surplus <i>(note 10)</i>	1,408,624	1,436,586
Accumulated other comprehensive loss	(1,196,003)	(124,225)
Retained earnings (deficit)	(11,729)	1,242,809
	26,432,387	16,858,851
Commitments <i>(note 15)</i>		
	28,052,801	17,922,332

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 2007	December 31 2006
	(\$)	(\$)
Revenue		
Petroleum and natural gas sales	573,155	596,312
Royalties expense, net of Alberta Royalty Tax Credit	(25,117)	(118,032)
Other revenue	627,100	698,131
	1,175,138	1,176,411
Expenses		
Production	203,108	218,342
General and administrative	1,728,056	1,178,726
Interest	3,378	4,922
Stock-based compensation	207,077	459,932
Depletion, amortization and accretion	243,982	216,168
Loss on foreign exchange	19,766	3,923
	2,405,367	2,082,013
Other income and expenses		
Unrealized loss on marketable securities	159,675	1,534,878
Earnings (loss) before income taxes	(1,389,904)	(2,440,480)
Income tax recovery <i>(note 12)</i>	135,366	51,471
Net loss for the year	(1,254,538)	(2,389,009)
Retained earnings, beginning of year	1,242,809	3,631,818
Retained earnings (deficit), end of year	(11,729)	1,242,809
Loss per share		
Basic <i>(Note 11)</i>	(0.015)	(0.033)
Diluted <i>(Note 11)</i>	(0.015)	(0.033)

See accompanying notes to the consolidated financial statements.

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

Years Ended	December 31 2007	December 31 2006
	(\$)	(\$)
Net loss for the year	1,254,538	2,389,009
Other Comprehensive Income, Net of Tax	-	-
Unrealized exchange loss (gain) on translation of self-sustaining foreign operations	1,071,778	(267,313)
Comprehensive loss for the year	2,326,316	2,121,696

See accompanying notes to the financial statements

CONSOLIDATED STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE LOSS

Years Ended	December 31, 2007	December 31, 2006
	(\$)	(\$)
Accumulated Other Comprehensive Loss, beginning of year	124,225	391,538
Unrealized exchange loss (gain) on translation of self-sustaining foreign operations	1,071,778	(267,313)
Accumulated Other Comprehensive Loss, end of year	1,196,003	124,225

See accompanying notes to the financial statements

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

Years Ended	December 31 2007	December 31 2006
	(\$)	(\$)
Cash provided by (used in):		
Operations		
Net loss for the year	(1,254,538)	(2,389,009)
Add items not affecting cash:		
Income tax recovery	(135,366)	(51,471)
Stock based compensation expense	207,077	459,932
Depletion, amortization and accretion	243,982	216,168
Unrealized loss on foreign exchange	-	3,923
Unrealized loss on marketable securities	159,676	1,534,878
Abandonment expenditures	(8,984)	(4,513)
	(788,153)	(230,092)
Change in non-cash operating working capital		
Accounts receivable	(818,634)	156,347
Prepays and deposits	(88,028)	(27,050)
Accounts payable	344,874	240,012
Income taxes payable	-	60,354
	(1,349,941)	199,571
Investing		
Expenditures on property, plant and equipment	(10,462,082)	(2,643,046)
Change in non-cash working capital	595,322	(672,074)
	(9,866,760)	(3,315,120)
Financing		
Issue of capital stock for cash <i>(note 9 (b))</i>	12,076,370	11,200
Share issue costs <i>(note 9 (b))</i>	(737,072)	-
Repayment of bank loan	(27,000)	(27,000)
	11,312,298	(15,800)
Foreign exchange gain (loss) on cash and cash equivalents	(17,845)	27,086
Increase (decrease) in cash	77,752	(3,104,263)
Cash, beginning of year	5,321,555	8,425,818
Cash, end of year	5,399,307	5,321,555

The Company paid interest of \$3,378 (2006 - \$4,922) and received income taxes of \$ nil (2006 - \$60,354).

See accompanying notes to the consolidated financial statements.

CY GAM ENERGY INC.
Notes to the Consolidated Financial Statements
Years ended December 31, 2007 and 2006

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 Alberta, 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. 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 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.

CYGAM ENERGY INC.
Notes to the Consolidated Financial Statements
Years ended December 31, 2007 and 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

f) Marketable Securities

Marketable securities represents an investment in trust units of a public company which on acquisition was designated as held for trading and is 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 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 fieldwork related to the acquisition of seismic or drilling activity has occurred on the asset and a liability is incurred. 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.

CYGAM ENERGY INC.
Notes to the Consolidated Financial Statements
Years ended December 31, 2007 and 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 properties does not exceed the estimated value of 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 major development and site restoration 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.

CYGAM ENERGY INC.
Notes to the Consolidated Financial Statements
Years ended December 31, 2007 and 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

l) Stock-Based Compensation

Compensation costs attributed to all stock options granted to employees, officers and directors 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

On January 1, 2007, the Company adopted the CICA Handbook Section 1530, "Comprehensive Income". A new Statement of Comprehensive Income and Accumulated Other Comprehensive Income is included as a separate component of shareholders' equity. 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. On adoption of Section 1530, cumulative foreign currency translation adjustments relating to the Company's self-sustaining foreign operations were reclassified to Accumulated Other Comprehensive Income and comparative amounts have been restated.

The Company adopted these standards retroactively without restatement. Comparative amounts for prior periods have not been restated with the exception of amounts related to cumulative foreign currency translation adjustments.

n) Financial Instruments

On January 1, 2007, the Company adopted the CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement".

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.

CYGAM ENERGY INC.
Notes to the Consolidated Financial Statements
Years ended December 31, 2007 and 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3. CHANGES IN ACCOUNTING POLICIES

As of January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1506 "Accounting Changes;" Section 1530; "Comprehensive Income;" Section 3251 "Equity;" Section 3855 "Financial Instruments - Recognition and Measurement;" Section 3861, "Financial Instruments - Disclosure and Presentation" and Section 3865 "Hedges." As required by the new standards, prior periods have not been restated, except to reclassify the foreign currency translation adjustment balance as described under Comprehensive Income.

Recent Accounting Pronouncements

In addition, the Company has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have a significant impact on the Company:

Section 3862 Financial Instruments – Disclosure, Section 3863 Financial Instruments – Presentation. As of January 1, 2008, Cygam will be required to adopt two new CICA standards, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation," which will replace Section 3861 "Financial Instruments – Disclosure and Presentation." The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The Company is assessing the impact on its consolidated financial statements.

CYGAM ENERGY INC.
Notes to the Consolidated Financial Statements
Years ended December 31, 2007 and 2006

3. CHANGES IN ACCOUNTING POLICIES (continued)

Section 1535 Capital Disclosures. As of January 1, 2008, Cygam will be required to adopt CICA standard, Section 1535 “Capital Disclosures,” which will require companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements. The Company is assessing the impact on its consolidated financial statements.

Section 3031 Inventories. The CICA issued section 3031, “Inventories”, which will replace section 3030, “Inventories”. This new standard is effective for fiscal years beginning on or after July 1, 2007, and the Company will adopt this section on January 1, 2008. Section 3031 provides more extensive guidance on measurement, and expands disclosure requirements to increase transparency. The Company does not hold any inventory and therefore it is not anticipated that the results of the Company will be impacted.

International Financial Reporting Standards. 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, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards (“IFRS”) by the beginning of 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

4. MARKETABLE SECURITIES

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

	2007	2006
Balance, beginning of year	\$ 3,532,814	\$ 5,067,692
Unrealized loss during the year	(159,675)	(1,534,878)
Balance, end of year	\$ 3,373,139	\$ 3,532,814

5. 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. The Company plans to file an application for a refund and expects the amount to be received in approximately two years upon completion of an audit and acceptance of the application by the Italian authorities.

CYGAM ENERGY INC.
Notes to the Consolidated Financial Statements
Years ended December 31, 2007 and 2006

6. PROPERTY, PLANT AND EQUIPMENT

As at December 31, 2007	Cost	Accumulated depletion & amortization	Net book value
Petroleum and natural gas properties	\$ 18,511,185	\$ 1,304,841	\$17,206,344
Asset retirement costs	283,381	56,498	226,883
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

As at December 31, 2006	Cost	Accumulated depletion & amortization	Net book value
Petroleum and natural gas properties	\$ 9,513,887	\$ 1,107,899	\$ 8,405,988
Asset retirement costs	123,215	49,880	73,335
Building	196,538	39,344	157,194
Furniture, fittings and office equipment	79,519	35,766	43,753
Total	\$ 9,913,159	\$ 1,232,889	\$ 8,680,270

The Company capitalized \$388,946 (2006 - \$207,382) 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 \$15,467,174 (2006 - \$6,598,564). Future development costs of \$476,000 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.

The Company calculated a ceiling test for the Canadian properties at December 31, 2007 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.

At December 31, 2007, there was no impairment to the carrying costs of petroleum and natural gas properties.

CYGAM ENERGY INC.
Notes to the Consolidated Financial Statements
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6. PROPERTY, PLANT AND EQUIPMENT (continued)

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/Mmbtu)	Foreign Exchange (\$US/Cdn)
2008	85.00	88.35	64.35	75.35	6.70	0.95
2009	82.50	85.75	62.75	73.75	7.50	0.95
2010	80.00	83.10	61.10	72.10	7.75	0.95
2011	77.50	80.50	58.50	70.50	7.90	0.95
2012	75.00	77.85	55.85	67.85	8.05	0.95
2013	76.50	79.40	57.40	69.40	8.25	0.95
2014-	2.0%	2.0%	2.0%	2.0%	2.0%	0.95
2016	escalated	escalated	escalated	escalated	escalated	

7. LONG-TERM DEBT

	2007	2006
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	\$ 32,083	\$ 59,083
Estimated principal repayments are as follows:		
Current portion of long-term debt	\$ 27,000	\$ 27,000
Non-current portion	5,083	32,083

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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8. ASSET RETIREMENT OBLIGATION

At December 31, 2007, the estimated total undiscounted amount of cash flows required to settle the ARO was approximately \$296,554 (2006 - \$134,156), which will be incurred between 2008 and 2014. 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:

	2007	2006
Balance, beginning of period	\$ 95,208	\$ 80,475
Expenditures during the period	(8,984)	(4,513)
Revisions in estimates of timing of cash flows	160,165	12,808
Accretion expense	7,617	6,438
Balance, end of year	\$ 254,006	\$ 95,208

Revisions are the result of extended reserve life as evaluated by the independent reserves evaluators.

9. 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, 2005	72,335,640	14,291,305
Issued upon exercise of Series B Warrants	14,000	12,376
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

CYGAM ENERGY INC.
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9. SHARE CAPITAL (continued)

c) Warrants

The following table summarizes the warrants and broker/agent options outstanding as at December 31, 2007:

	Number	Exercise Price	Expiry Date
Series "C" warrants	200,000	\$1.50	January 8, 2009
Total	200,000		

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, 2007, there were 4,650,000 stock options outstanding with a weighted average exercise price of \$0.69, of which 4,400,000 were exercisable at a weighted average exercise price of \$0.67.

The following table summarizes the information regarding the Plan activity to December 31, 2007:

	Options Outstanding	Weighted Average Exercise Price
	(#)	(\$)
Balance, December 31, 2005	5,400,000	0.63
Issued	350,000	0.88
Cancelled	(725,000)	0.60
Balance, December 31, 2006	5,025,000	0.65
Issued	350,000	1.00
Cancelled	(725,000)	0.60
Balance, December 31, 2007	4,650,000	0.69

Exercise Price	Options Outstanding	Weighted Average Contractual Life (years)
\$0.60	3,700,000	2.78
\$0.83	100,000	3.09
\$0.90	250,000	3.09
\$1.00	350,000	4.50
\$1.31	250,000	2.90
	4,650,000	2.94

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9. 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 2007 and 2006 and the assumptions used in their determination are as follows:

	2007	2006
Weighted average fair value per option	\$ 0.61	\$ 0.27
Risk free interest rate (%)	4.5	4.5
Volatility (%)	70	40
Expected life (years)	5	5

f) Escrow Shares

57,710,056 common shares acquired by certain directors and related parties in connection with the reverse takeover and the non-brokered private placement completed on the October 11, 2005, are subject to two escrow agreements. Pursuant to the first agreement, 56,905,555 common shares are subject to the TSX Venture Exchange's Tier 2 Surplus Escrow, and under the second agreement 804,501 common shares are subject to the Exchange's Tier 2 Value 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, 2007, there were 45,524,444 shares held in escrow under the Surplus Escrow agreement.

The Value Escrow agreement provides for the release of these securities as to 25% on the issuance of the Final Exchange Bulletin ("Initial Release") and 25% on each of the 6, 12, and 18 month anniversaries of the Initial Release. As at December 31, 2007, no shares were held in escrow under the Value Escrow agreement.

10. CONTRIBUTED SURPLUS

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

	2007		2006	
Balance, beginning of year	\$	1,436,586	\$	977,829
Stock based compensation		207,077		459,932
Series "C" warrants		20,502		-
Exercise of Series "B" warrants		(172,601)		(1,175)
Exercise of agents' options		(82,940)		-
Balance, end of year	\$	1,408,624	\$	1,436,586

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11. 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:

	2007		
	Net loss	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)
	2006		
	Net earnings	Shares	Loss per share
Basic	\$ (2,389,009)	72,343,925	\$ (0.033)
Effect of assumed exercise of options and warrants		4,245,612	
Diluted	\$ (2,389,009)	76,589,537	\$ (0.033)

12. 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:

	2007	2006
Earnings before tax	\$ (1,389,904)	\$ (2,440,480)
Income tax rate	32.12%	32.5%
Computed income taxes at the Canadian income tax rate	(446,437)	(793,156)
Increase (decrease) in taxes resulting from:		
Non-deductible crown payments, net of ARTC and resource allowance	-	14,380
Stock-based compensation	66,513	149,478
Statutory rate differences, effect of rate changes and other	23,915	535,500
Recovery of prior year taxes paid	-	(60,354)
Change in valuation allowance	220,643	102,681
Recovery of income taxes	\$ 135,366	\$ 51,471

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12. INCOME TAXES (continued)

The Company had no current tax expense for the year ended December 31, 2007. In Canada, the Company has loss carry forwards of \$400,309 which expire beginning 2026. In Italy, the Company has loss carry forwards of \$1,185,349 which expire beginning 2011. The Tunisian operations incur tax on a concession-by-concession basis and capitalize expenses. As at December 31, 2007 the Tunisian operations had undepreciated capital costs of \$10,734,508. 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 liability are as follows:**

	2007	2006
Non-capital losses	\$ 112,086	\$ -
Asset retirement obligation	29,122	29,543
Share issue costs	226,860	102,829
Subsidiary non-capital losses	363,478	142,835
Property, plant and equipment	(200,155)	(306,205)
Valuation allowance	(531,391)	(142,835)
Net Future Tax Liability	\$ -	\$ (173,833)

13. SEGMENT INFORMATION

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

Geographic Segments:

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
December 31, 2006	Canada	Italy	Tunisia	Total
Gross Revenue	1,079,924	96,487	0	1,176,411
Loss (income) before taxes	1,939,675	373,100	127,705	2,440,480
Total assets (net of Inter-company balances)	11,815,792	1,110,571	4,995,969	17,922,332
Property and equipment	1,997,268	866,669	5,816,333	8,680,270
Capital Expenditures	563,515	819,182	1,260,349	2,643,046

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14. FINANCIAL INSTRUMENTS

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 approximate their fair market value. In management's opinion, the Company is not exposed to significant currency, credit or interest rate risk in relation to these financial instruments.

15. COMMITMENTS

- (a) The Company rents premises in Rome, Italy, under operating leases that require payments of \$136,000 in 2008 and \$83,000 in each of 2009 to 2011, and the leases are subsequently renewable annually. The Company rents premises in Tunis, Tunisia, under operating leases that require payment of \$67,800 in 2008, 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.

16. RELATED PARTY TRANSACTIONS

- (a) Included in the general and administrative expenses are consulting fees of \$369,795 (2006 - \$284,064) paid to officers of Cygam or companies whose shareholders are directors and officers of Cygam. The Company also capitalized \$123,362 (2006 -\$59,976) paid during the year to a director and officer of the Company. Fees of \$15,295 are owed at year end.
- (b) During the period ended December 31, 2007, \$77,993 (2006 - \$21,671) in legal fees was incurred, of which \$3,856 are owed at year end to a legal firm in which a director of the Company is a partner.
- (c) Effective May 31, 2006, Cygam acquired free carried interests in three exploration permits in Italy from Vittorito Petroleum S.r.L., a private corporation whose 50% owner subsequently became a director of the Company. The total purchase price of \$615,000 comprised \$300,000 in cash which was paid prior to December 31, 2006 and 484,614 common shares and 200,000 Series "C" Warrants of the Company issued on January 8, 2007. The purchase agreement further provides for the issuance of up to a maximum of 1,000,000 common shares in the event of a discovery and establishment of proven and producing reserves of a minimum of 10 million barrels of oil equivalent.

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 and which are similar to those negotiated with third parties.

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17. SUBSEQUENT EVENTS

- (a) On January 2, 2008, the Company's Board of Directors approved the issuance of 2,650,000 stock options to directors, officers, employees and consultants of the Company. The stock options vest over a period of two years for directors and officers and three years for consultants and employees, and are exercisable over a period of five years at an exercise price of \$0.60 per share.

- (b) On March 28, 2008, the Company announced the commencement of drilling of the TT-2 exploratory well on the Sud Remada permit in Tunisia which is operated by another company. Cygam has a 14% working interest in this permit and has a commitment to pay US \$980,000 towards its share of the cost of drilling the TT-2 well.