

**CYGAM ENERGY INC.**  
**(formerly Sheer Energy Inc.)**

**Interim Consolidated Financial Statements**  
*(Unaudited)*

**For the period ended June 30, 2006**

**CYGAM ENERGY INC.****CONSOLIDATED BALANCE SHEETS**

As at	June 30 2006 (unaudited) (\$)	December 31 2005 (audited) (\$)
<b>Assets</b>		
Current assets		
Cash	7,071,669	8,425,818
Marketable securities (note 2)	4,726,386	5,067,692
Accounts receivable	212,990	480,513
Prepays and deposits	29,504	14,366
	12,040,549	13,988,389
Property, plant and equipment (note 3)	6,822,584	6,012,475
	18,863,133	20,000,864
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	617,131	1,159,942
Income tax payable	14,300	-
Bank loans	72,583	86,083
	704,014	1,246,025
Asset retirement obligation (note 4)	83,245	80,475
Future income tax liability	145,651	164,950
	932,910	1,491,450
Shareholders' equity		
Share capital (note 5)	14,303,681	14,291,305
Contributed surplus (note 6)	1,160,778	977,829
Cumulative translation adjustments	(454,955)	(391,538)
Retained earnings	2,920,719	3,631,818
	17,930,223	18,509,414
Commitments (note 9)	18,863,133	20,000,864

See accompanying notes to the financial statements

**CYGAM ENERGY INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS *(unaudited)***

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
	(\$)	(restated – note 11) (\$)	(\$)	(restated – note 11) (\$)
<b>Revenue</b>				
Petroleum and natural gas sales	124,671	-	295,736	-
Royalties expense, net of Alberta Royalty Tax Credit	(31,007)	-	(66,548)	-
Other revenue	158,887	53,920	303,470	107,523
	252,551	53,920	532,658	107,523
<b>Expenses</b>				
Production	50,404	-	93,078	-
General and administrative	295,811	-	540,597	27
Interest	1,119	-	2,867	-
Stock-based compensation	92,062	-	184,124	-
Exchange (gain)/loss	2,484	(6,989)	2,484	(6,989)
Depletion, amortization and accretion	44,292	-	84,302	-
	486,172	(6,989)	907,452	(6,962)
<b>Earnings (loss) for the period before the following items</b>	(233,621)	60,909	(374,794)	114,485
Gain on sale of marketable securities	-	4,827,555	-	4,827,555
Unrealized loss on marketable securities	(496,988)	-	(341,305)	-
<b>Earnings (loss) before income taxes</b>	(730,609)	4,888,464	(716,099)	4,942,040
Current tax	(14,300)	-	(14,300)	-
Future income tax recovery	19,300	-	19,300	-
<b>Net earnings (loss) for the period</b>	(725,609)	4,888,464	(711,099)	4,942,040
<b>Retained earnings, beginning of period</b>	3,646,328	190,566	3,631,818	136,990
<b>Retained earnings, end of period</b>	2,920,719	5,079,030	2,920,719	5,079,030
<b>Net Earnings per share</b>				
Basic <i>(Note 7)</i>	(0.01)	0.12	(0.01)	0.12
Diluted <i>(Note 7)</i>	(0.01)	0.11	(0.01)	0.11

See accompanying notes to the financial statements.

**CYGAM ENERGY INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
		(restated – note 11)		(restated – note 11)
	(\$)	(\$)	(\$)	(\$)
<b>Cash provided by (used in):</b>				
<b>Operations</b>				
Net earnings for the period	(725,609)	4,888,464	(711,099)	4,942,040
Add items not affecting cash:				
Stock based compensation expense	92,062	-	184,124	-
Depletion, amortization and accretion	44,292	-	84,302	-
Gain on sale of marketable securities	-	(4,827,555)	-	(4,827,555)
Unrealized loss on marketable securities	496,988	-	341,305	-
Future income tax	(19,300)	-	(19,300)	-
Abandonment expenditures	(152)	-	(474)	-
	(111,719)	60,909	(121,142)	114,485
Change in non-cash operating working capital				
Accounts receivable	(32,968)	-	267,523	(2,719)
Prepays and deposits	(452)	15,011	(15,138)	(328)
Investment	-	(107,467)	-	(107,467)
Accounts payable	(171,182)	-	(542,811)	-
Other assets and liabilities	14,300	-	14,300	-
	(302,021)	(31,547)	(397,268)	3,971
<b>Investing</b>				
Expenditures on property, plant and equipment	(532,318)	(28,201)	(954,581)	(36,079)
Proceeds from sale of marketable securities	-	4,935,022	-	4,935,022
	(532,318)	4,906,821	(954,581)	4,898,943
<b>Financing</b>				
Issuance of common shares	11,200	-	11,200	-
Increase (decrease) in shareholder loan	-	502	-	(4,946)
Repayment of bank loan	(6,750)	-	(13,500)	-
	4,450	502	(2,300)	(4,946)
<b>Increase (decrease) in cash</b>	<b>(829,889)</b>	<b>4,875,776</b>	<b>(1,354,149)</b>	<b>4,897,968</b>
<b>Cash, beginning of period</b>	<b>7,901,558</b>	<b>24,789</b>	<b>8,425,818</b>	<b>2,597</b>
<b>Cash, end of period</b>	<b>7,071,669</b>	<b>4,900,565</b>	<b>7,071,669</b>	<b>4,900,565</b>

The Company paid interest of \$ 1,292 (2005 - \$ nil) and income taxes of \$ nil (2005 - \$ nil).

See accompanying notes to the financial statements.

# CYGAM ENERGY INC.

## Notes to the Interim Consolidated Financial Statements

Second quarter report for the period ended June 30, 2006 (*unaudited*)

---

### 1. BASIS OF PRESENTATION

The interim Consolidated Financial Statements have been prepared by management and include the accounts of Cygam Energy Inc. (“Cygam” or the Company) and its subsidiaries, and are presented in accordance with Canadian generally accepted accounting principles. 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”). At the same time, Cygam also acquired 199,594 units of Peyto Energy Trust. ROCL and Vega were private companies (related by common control) engaged in the business of oil and gas exploration in Tunisia and Italy respectively. The acquisition of ROCL has been accounted for as a reverse takeover of Sheer Energy Inc. by ROCL effective October 11, 2005, and as a result the financial statements of the Company treat ROCL as the acquiring company and therefore all pre-acquisition date results reflect the operations of ROCL only.

The interim Consolidated Financial Statements have been prepared following the same accounting policies and methods of computation as the annual audited Consolidated Financial Statements for the year ended December 31, 2005. The interim Consolidated Financial Statements do not conform in all respects to the requirements of generally accepted principles for annual financial statements. The disclosures provided below are incremental to those included in the annual audited Consolidated Financial Statements. The interim Consolidated Financial Statements should be read in conjunction with the annual audited Consolidated Financial Statements and the notes thereto for the year ended December 31, 2005.

### 2. 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 the lesser of cost or fair value, without any deduction for transaction costs that may be incurred on sale or disposal. Any unrealized gain or loss is recognized in net income for the period in which it arises.

### 3. PROPERTY, PLANT AND EQUIPMENT

As at June 30, 2006	Cost	Accumulated depletion & amortization	Net book value
Petroleum and natural gas properties	\$ 7,547,244	\$ 987,371	\$ 6,559,873
Asset retirement costs	108,772	47,211	61,561
Building	196,538	36,152	160,386
Furniture, fittings and office equipment	70,210	29,446	40,764
Total	\$ 7,922,764	\$ 1,100,180	\$ 6,822,584

## CYGAM ENERGY INC.

### Notes to the Interim Consolidated Financial Statements

Second quarter report for the period ended June 30, 2006 (*unaudited*)

The Company capitalized \$37,160 (2005 - \$28,201) of general and administrative expenses directly related to exploration activity in Tunisia in the three months ended June 30, 2006. The Company did not capitalize any general and administrative expenditures in Canada and Italy. Permit, seismic, drilling and completion costs associated with unproved properties that were excluded from depletion and amortization were \$4,804,749.

#### 4. ASSET RETIREMENT OBLIGATION

At June 30, 2006, the estimated total undiscounted amount of cash flows required to settle the ARO was approximately \$127,700 which will be incurred between 2006 and 2012. 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:

Balance, as at December 31, 2005	\$ 80,475
Liabilities disposed during the period	(474)
Accretion expense	3,244
<u>Balance, as at June 30, 2006</u>	<u>\$ 83,245</u>

#### 5. SHARE CAPITAL

##### a) Issued and Outstanding

<u>Common Shares</u>	<u>Shares</u>	<u>Amount</u>
	<u>(#)</u>	<u>(\$)</u>
Balance at December 31, 2004 and June 30, 2005	20	24
Issued pursuant to conversion of shareholder loans to equity on October 11, 2005	5	2,238,655
<u>Balance as at October 11, 2005</u>	<u>25</u>	<u>2,238,679</u>
Outstanding common shares of Cygam, at October 11, 2005	6,557,863	1,193,670
Common shares issued pursuant to:		
Cygam shares exchanged for ROCL shares	41,666,667	2,238,679
Acquisition of Vega	333,333	49,954
Acquisition of Peyto Energy Trust units	13,333,333	6,000,000
Non-brokered private placement	4,444,444	2,000,000
Brokered private placement	6,000,000	3,600,000
Transfer to Contributed Surplus account re. fair value of broker warrants, Series "A" warrants issued pursuant to the non-brokered private placement and Series "B" warrants	-	(424,020)
Share issue costs and direct expenses of the reverse takeover (net of tax effect of \$185,866)	-	(366,978)
<u>Balance, December 31, 2005</u>	<u>72,335,640</u>	<u>\$14,291,305</u>
Issued upon exercise of Series "B" warrants	14,000	12,376
<u>Balance, June 30, 2006</u>	<u>72,349,640</u>	<u>\$14,303,681</u>

## CYGAM ENERGY INC.

### Notes to the Interim Consolidated Financial Statements

Second quarter report for the period ended June 30, 2006 (*unaudited*)

---

#### b) Warrants and Agent Options

	Six Months ended June 30, 2006	Year ended December 31, 2005
Balance, beginning of period	15,255,554	-
Issued	-	15,255,554
Exercised	(14,000)	-
Balance, end of period	15,241,554	15,255,554

Each warrant entitles the warrant holder to acquire one Common Share of the Company at the exercise price. As at June 30, 2006, 2,386,000 warrants are exercisable at \$0.80 per share before October 11, 2006 and 12,855,554 warrants are exercisable at \$0.60 per share before October 11, 2007.

#### c) Stock Options

As at June 30, 2006, there were 5,025,000 stock options outstanding with a weighted average exercise price of \$0.65, of which 2,875,000 were exercisable at a weighted average exercise price of \$0.65.

The following table summarizes the information regarding the Stock Options Plan activity to June 30, 2006:

	Options Outstanding (#)	Weighted Average Exercise Price (\$)
Balance, December 31, 2005	5,400,000	0.63
Granted	350,000	0.88
Expired	(725,000)	0.60
Exercised	-	-
Balance, June 30, 2006	5,025,000	0.65

Exercise Price	Options Outstanding	Weighted Average Contractual Life (years)
\$0.60	4,425,000	4.28
\$0.83	100,000	4.59
\$0.90	250,000	4.59
\$1.31	250,000	4.41
	5,025,000	4.31

#### 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. No stock options were granted in the three months ended June 30, 2006.

## CYGAM ENERGY INC.

### Notes to the Interim Consolidated Financial Statements

Second quarter report for the period ended June 30, 2006 (*unaudited*)

The weighted average fair market value per option granted during the prior periods and the assumptions used in their determination are as follows:

Weighted average fair value per option	\$ 0.27
Risk free interest rate (%)	4.5
Volatility (%)	30
Expected life (years)	5

#### 6. CONTRIBUTED SURPLUS

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

	Six Months ended June 30, 2006	Year Ended December 31, 2005
Balance, beginning of period	\$ 977,829	\$ -
Stock based compensation	184,124	553,809
Series A warrants	-	110,578
Series B warrants	(1,175)	201,474
Broker/agent options	-	111,968
Balance, end of period	\$ 1,160,778	\$ 977,829

#### 7. 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. The following table summarizes the Common Shares used in calculating the Net Earnings per Common Share:

<i>(millions of shares)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Weighted Average Common Shares Outstanding				
– Basic	72.340	41.667	72.337	41.667
Effect of Dilutive Securities	5.132	2.760	5.935	2.760
Weighted Average Common Shares Outstanding				
– Diluted	77.472	44.427	78.272	44.427

## CYGAM ENERGY INC.

### Notes to the Interim Consolidated Financial Statements

Second quarter report for the period ended June 30, 2006 (*unaudited*)

---

#### 8. SEGMENT INFORMATION

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

##### Geographic Segments:

Three Months ended June 30, 2006

	Canada	Italy	Tunisia	Total
Gross Revenue	252,550	-	-	252,550
Property and equipment	1,978,975	38,860	4,804,749	6,822,584
Capital Expenditures	52,598	4,860	474,860	532,318

Six months ended June 30, 2006

	Canada	Italy	Tunisia	Total
Gross Revenue	532,655	-	3	532,658
Property and equipment	1,978,975	38,860	4,804,749	6,822,584
Capital Expenditures	419,449	4,860	530,272	954,581

Segment information has not been presented for the period ended June 30, 2005, since Tunisia was the only reportable segment.

#### 9. COMMITMENTS

- (a) The Company rents premises in Rome, Italy, under operating leases that require payments of \$39,380 in each of 2006 and 2007, and the lease is subsequently renewable for a further four years. The Company also rents office premises and manager's residence in Tunis, Tunisia, under operating leases that require a total payment of \$59,000 per annum 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, land use 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.

## **CYGAM ENERGY INC.**

### **Notes to the Interim Consolidated Financial Statements**

Second quarter report for the period ended June 30, 2006 (*unaudited*)

---

#### **10. RELATED PARTY TRANSACTIONS**

- (a) During the three months ended June 30, 2006, the general and administrative expenses includes consulting fees of \$55,935 (2005 -\$nil) paid to companies whose shareholders are directors and officers of Cygam and consulting fees of \$23,574 payable to an officer of the Company.
- (b) During the three months ended June 30, 2006, \$9,200 (2005 - \$nil) in legal fees was incurred to a legal firm in which a director of the Company is a partner.

The above transactions 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.

#### **11. COMPARATIVE FIGURES**

Figures for Rigo Oil Company Limited for the period ended June 30, 2005 were reported on in Tunisian Dinars ("TND") in accordance with International Financial Reporting Standards. In accordance with Canadian GAAP all comparative amounts have been restated to Canadian dollars using the current rate method whereby all revenues, expenses and cash flows are translated at the average exchange rate in effect during these periods and all assets and liabilities are translated at the closing rate in effect at the end of these periods. Utilizing this method, the comparative consolidated statements of income and cash flows for the period ended June 30, 2005, are translated into Canadian dollars using an average rate of \$0.973 per TND.

Certain comparative figures have been re-classified to conform with the current period's presentation.