

CYGAM ENERGY INC.

Interim Consolidated Financial Statements (Unaudited)

For the Period ended March 31, 2007

CYGAM ENERGY INC.
CONSOLIDATED BALANCE SHEETS (unaudited)

As at	March 31 2007	December 31 2006
	(\$)	(\$)
Assets		
Current assets		
Cash	4,337,997	5,321,555
Marketable securities <i>(note 2)</i>	3,452,976	3,532,814
Accounts receivable	355,113	344,551
Prepays and deposits	40,773	43,142
	8,186,859	9,242,062
Property, plant and equipment <i>(note 3)</i>	10,255,385	8,680,270
	18,442,244	17,922,332
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	1,285,442	735,357
Current Portion of long-term debt	27,000	27,000
	1,312,442	762,357
Long-term debt	25,333	32,083
Asset retirement obligation <i>(note 4)</i>	97,088	95,208
Future income tax liability	185,333	173,833
	1,620,196	1,063,481
Shareholders' equity		
Share capital <i>(note 5)</i>	14,598,179	14,303,681
Contributed surplus <i>(note 6)</i>	1,493,505	1,436,586
Retained earnings	915,259	1,242,809
Accumulated other comprehensive income <i>(note 1)</i>	(184,895)	(124,225)
	16,822,048	16,858,851
Commitments <i>(note 9)</i>	18,442,244	17,922,332
	18,442,244	17,922,332

See accompanying notes to the financial statements

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

Three Months Ended	March 31 2007	March 31 2006
	(\$)	(\$)
Revenue		
Petroleum and natural gas sales	159,882	171,065
Royalties expense, net of Alberta Royalty Tax Credit	(25,154)	(35,541)
Other revenue	131,770	144,583
	266,498	280,107
Expenses		
Production	41,388	42,674
General and administrative	364,844	244,786
Interest	1,124	1,748
Stock-based compensation	36,417	92,062
Depletion, amortization and accretion	58,938	40,010
	502,711	421,280
Earnings (loss) for the period before the following items	(236,213)	(141,173)
Unrealized gain (loss) on marketable securities	(79,838)	155,683
Earnings (loss) before income taxes	(316,051)	14,510
Future Income tax	(11,500)	-
Net earnings (loss) for the period	(327,551)	14,510
Retained earnings, beginning of period	1,242,810	3,631,818
Retained earnings, end of period	915,259	3,646,328
Earnings (loss) per share		
Basic <i>(Note 7)</i>	(0.004)	0.00
Diluted <i>(Note 7)</i>	(0.004)	0.00

See accompanying notes to the financial statements

CYGAM ENERGY INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (unaudited)

Three Months Ended	March 31 2007	March 31 2006
	(\$)	(\$)
Net Earnings (loss) for the period	(327,551)	14,510
Other Comprehensive Income, Net of Tax	-	-
Foreign Currency Translation Adjustment	(60,670)	25,071
COMPREHENSIVE INCOME (LOSS)	(388,221)	39,581

See accompanying notes to the financial statements

CYGAM ENERGY INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Three Months Ended	March 31 2007	March 31 2006
	(\$)	(\$)
Cash provided by (used in):		
Operations		
Net earnings (loss) for the period	(327,551)	14,510
Add items not affecting cash:		
Future income tax expense	11,500	-
Stock based compensation expense	36,417	92,062
Depletion, amortization and accretion	58,938	40,010
Unrealized loss (gain) on marketable securities	79,838	(155,683)
Abandonment expenditures	-	(322)
	(140,858)	(9,423)
Change in non-cash operating working capital		
Accounts receivable	(10,550)	300,491
Prepays and deposits	2,281	(14,686)
Accounts payable	(33,001)	(371,629)
	(182,128)	(95,247)
Investing		
Expenditures on property, plant and equipment	(1,691,718)	(422,263)
Changes in non-cash working capital	897,021	-
	(794,697)	(422,263)
Financing		
Repayment of bank loan	(6,750)	(6,750)
	(6,750)	(6,750)
Foreign exchange gain (loss) on cash and cash equivalents	17	-
Increase (decrease) in cash	(983,558)	(524,260)
Cash, beginning of period	5,321,555	8,425,818
Cash, end of period	4,337,997	7,901,558

The Company paid interest of \$ 1,124 (2006 - \$ 1,748) and income taxes of \$ nil (2006 - \$ nil).

See accompanying notes to the financial statements.

CYGAM ENERGY INC.

Notes to the Consolidated Financial Statements

Three Months ended March 31, 2007 (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.

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, 2006 except for the change in accounting policies noted below. 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, 2006.

Change in Accounting Policies

On January 1, 2007, the Company adopted the following new accounting standards issued by the Canadian Accounting Standards Board (AcSB): *Financial Instruments-Recognition and Measurement* (Section 3855), *Hedges* (Section 3865) and *Comprehensive Income* (Section 1530).

Financial Instruments-Recognition and Measurement

Section 3855 requires all financial assets and liabilities to be carried 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 are to 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 Income in the periods such gains and losses arise. Transaction costs related to these financial asset and liabilities are included in the Consolidated Statement of Income when incurred. Unrealized gains and losses on financial assets and liabilities carried at cost or amortized cost are recognized in the Consolidated Statement of Income 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.

CYGAM ENERGY INC.
Notes to the Consolidated Financial Statements
Three Months ended March 31, 2007 (unaudited)

Hedges

Section 3865 prescribes new standards for hedge accounting.

For cash flow hedges, changes in the fair value of a financial instrument designated as a cash flow hedge are recognized in the Consolidated Statement of Income in the same period as the hedged item. Any fair value change in the financial instrument before that period is recognized on the Consolidated Balance Sheet. The effective portion of this fair value change is recognized in other comprehensive income.

For fair value hedges, both the financial instrument designated as a fair value hedge and the underlying commitment are recognized on the Consolidated Balance Sheet at fair value. Changes in the fair value of both are reflected in the Consolidated Statement of Income.

The Company does not carry any cash flow or fair value hedges.

Comprehensive Income

Section 1530 provides for a new Statement of Comprehensive Income and establishes Accumulated Other Comprehensive Income 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 amount 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 Income 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 prospectively. Comparative amounts for prior periods have not been restated with the exception of amounts related to cumulative foreign currency translation adjustments. Adoption of these standards as at January 1, 2007, had the following impact on the Consolidated Balance Sheet to Include Cumulative Foreign Currency Translation in the Accumulated Other Comprehensive Income/Loss:

	Three months ended March 31, 2007	Year ended December 31, 2006
	(\$)	(\$)
Accumulated Other Comprehensive Loss, beginning of period	124,225	391,538
Foreign Currency Translation Adjustment	60,670	(267,313)
Accumulated Other Comprehensive Loss, end of period	184,895	124,225

As at March 31, 2007, the Accumulated Other Comprehensive Income consists of cumulative foreign currency translation adjustments.

CYGAM ENERGY INC.
Notes to the Consolidated Financial Statements
Three Months ended March 31, 2007 (unaudited)

2. MARKETABLE SECURITIES

Marketable securities represent 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 gain or loss is recognized in net income for the period in which it arises.

The following table sets out the changes in marketable securities:

	Three Months ended March 31, 2007	Year ended December 31, 2006
Balance, beginning of period	3,532,814	5,067,692
Unrealized gain (loss) during the period	(79,838)	(1,534,878)
Balance, end of period	3,452,976	3,532,814

3. PROPERTY, PLANT AND EQUIPMENT

As at March 31, 2007	Cost	Accumulated depletion & amortization	Net book value
Petroleum and natural gas properties	11,097,438	1,157,074	9,940,364
Asset retirement costs	123,215	51,405	71,810
Building	196,538	40,916	155,622
Furniture, fittings and office equipment	128,335	40,746	87,589
Total	11,545,526	1,290,141	10,255,385

The Company capitalized \$ 53,399 (2006 - \$62,647) 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, drilling and completion costs associated with unproved properties that were excluded from depletion and amortization were \$ 8,878,987. Future development costs of \$476,000 are included in the calculation of depletion and amortization expense.

CYGAM ENERGY INC.
Notes to the Consolidated Financial Statements
Three Months ended March 31, 2007 (unaudited)

4. ASSET RETIREMENT OBLIGATION

At March 31, 2007, the estimated total undiscounted amount of cash flows required to settle the ARO was approximately \$134,156 which will be incurred between 2007 and 2013. 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:

	Three months ended March 31, 2007	Year ended December 31, 2006
Balance, beginning of period	\$ 95,208	\$ 80,475
Liabilities disposed during the period	-	(4,513)
Revisions in estimate of timing of cash flows	-	12,808
Accretion expense	1,880	6,438
End of period	\$ 97,088	\$ 95,208

5. SHARE CAPITAL

a) Issued and Outstanding

	Shares (#)	Amount (\$)
Common Shares		
Balance as at December 31, 2005	72,335,640	\$ 14,291,305
Issued pursuant to exercise of Series "B" warrants	14,000	12,376
Balance, December 31, 2006	72,349,640	\$ 14,303,681
Issued upon acquisition of certain net carried interests in Italy	484,614	294,498
Balance, March 31, 2007	72,834,254	\$ 14,598,179

b) Warrants and Agent Options

	Three Months ended March 31, 2007	Year ended December 31, 2006
Balance, beginning of period	15,241,554	-
Issued	-	15,255,554
Exercised	-	14,000
Balance, end of period	15,241,554	15,241,554

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

CYGAM ENERGY INC.
Notes to the Consolidated Financial Statements
Three Months ended March 31, 2007 (unaudited)

c) Stock Options

As at March 31, 2007, there were 4,300,000 stock options outstanding with a weighted average exercise price of \$0.66, of which 3,341,667 were exercisable at a weighted average exercise price of \$0.66.

The following table summarizes the information regarding the Stock Options Plan activity to March 31, 2007:

	Options Outstanding (#)	Weighted Average Exercise Price (\$)
Balance, December 31, 2006	5,025,000	0.65
Granted	-	
Expired	(725,000)	0.60
Exercised	-	-
Balance, March 31, 2007	4,300,000	0.66

Exercise Price	Options Outstanding	Weighted Average Contractual Life (years)
\$0.60	3,675,000	3.53
\$0.83	100,000	3.84
\$0.90	250,000	3.84
\$1.31	250,000	3.65
	4,300,000	3.56

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:

	Three Months ended March 31, 2007	Year Ended December 31, 2006
Balance, beginning of period	\$ 1,436,586	\$ 977,829
Stock based compensation	36,417	459,932
Series B warrants	-	(1,175)
Series C warrants	20,502	-
Balance, end of period	\$ 1,493,505	\$ 1,436,586

CYGAM ENERGY INC.
Notes to the Consolidated Financial Statements
Three Months ended March 31, 2007 (unaudited)

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.

Earnings per share is calculated as follows:

	<u>Three months ended March 31, 2007</u>		
	<u>Net loss</u>	<u>Shares</u>	<u>Loss per share</u>
Basic	\$ 327,551	72,791,177	\$ 0.004
Effect of assumed exercise of options and warrants		1,108,848	
Diluted	<u>\$ 327,551</u>	<u>73,900,025</u>	<u>\$ 0.004</u>

	<u>Three months ended March 31, 2006</u>		
	<u>Net earnings</u>	<u>Shares</u>	<u>Earnings per share</u>
Basic	\$ 14,510	72,335,640	\$ 0.00
Effect of assumed exercise of options and warrants		4,965,577	
Diluted	<u>\$ 14,510</u>	<u>77,301,217</u>	<u>\$ 0.00</u>

8. SEGMENT INFORMATION

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

Geographic Segments:

<u>March 31, 2007</u>	<u>Canada</u>	<u>Italy</u>	<u>Tunisia</u>	<u>Total</u>
Gross Revenue	259,346	4,712	2,440	266,498
Net loss	121,770	178,928	26,853	327,551
Total assets	10,006,289	1,339,381	7,096,574	18,442,244
Property and equipment	1,983,595	1,323,016	6,948,774	10,255,385
Capital Expenditures	36,575	457,781	1,197,362	1,691,718

Total assets are shown net of inter-company balances.

CYGAM ENERGY INC.

Notes to the Consolidated Financial Statements

Three Months ended March 31, 2007 (unaudited)

9. COMMITMENTS

- (a) The Company rents premises in Rome, Italy, under operating leases that require payments of \$88,000 per annum, 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.

10. RELATED PARTY TRANSACTIONS

- (a) Included in the general and administrative expenses are consulting fees of \$92,756 (2005 -\$49,359) paid to companies whose shareholders are directors and officers of Cygam and consulting fees of \$nil (2005 -\$35,000) paid to an officer of the Company.
- (b) During the period ended March 31, 2006, \$814 (2005 - \$2,020) 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. SUBSEQUENT EVENTS

- (a) On May 3, 2007, the Company entered into an agreement with a drilling company in Tunisia to drill a well on the Jorf Permit in July 2007. The Company has joint venture partners who will pay 45% of the total costs of this well to earn a 30% interest in the first structure drilled.
- (b) On May 23, 2007, the Company completed a brokered private placement financing resulting in the issuance of 10,000,000 Common Shares at a price of \$1.00 per Common Share to raise gross proceeds of \$10,000,000. The Company paid a cash commission of 6% of the gross proceeds to the agent.

12. COMPARATIVE FIGURES

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