

CYGAM ENERGY INC.

Interim Consolidated Financial Statements (Unaudited)

For the Period ended September 30, 2007

NOTICE TO READER

Under National Instrument 51-102, if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

CYGAM ENERGY INC.
CONSOLIDATED BALANCE SHEETS (unaudited)

As at	September 30, 2007	December 31 2006
	(\$)	(\$)
Assets		
Current assets		
Cash	8,339,471	5,321,555
Marketable securities <i>(note 2)</i>	3,542,793	3,532,814
Accounts receivable	611,696	297,038
Prepays and deposits	58,044	43,142
	12,552,004	9,194,549
Tax recoverable	709,419	47,513
Property, plant and equipment <i>(note 3)</i>	16,788,006	8,680,270
	30,049,429	17,922,332
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	3,550,662	735,357
Current Portion of long-term debt	27,000	27,000
	3,577,662	762,357
Long-term debt	11,833	32,083
Asset retirement obligation <i>(note 4)</i>	98,797	95,208
Future income tax liability	195,833	173,833
	3,884,125	1,063,481
Shareholders' equity		
Share capital <i>(note 5)</i>	25,731,411	14,303,681
Contributed surplus <i>(note 6)</i>	1,418,470	1,436,586
Retained earnings	396,538	1,242,809
Accumulated other comprehensive income <i>(note 1)</i>	(1,381,115)	(124,225)
	26,165,304	16,858,851
Commitments <i>(note 9)</i>	-	-
	30,049,429	17,922,332

See accompanying notes to the financial statements

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

	Three months ended		Nine months ended	
	2007	September 30 2006	2007	September 30 2006
		(\$)		(\$)
Revenue				
Petroleum and natural gas sales	126,022	146,550	436,847	442,286
Royalties net of Alberta Royalty Tax Credit	31,463	(24,091)	(11,366)	(90,639)
Other revenue	195,823	153,872	472,499	457,342
	353,308	276,331	897,980	808,989
Expenses				
Production	62,383	67,053	154,008	160,131
General and administrative	351,637	240,728	1,317,131	781,325
Interest and bank charges	2,397	1,433	6,044	4,300
Stock-based compensation	53,993	92,062	144,403	276,186
Exchange loss /(gain)	2,543	3,484	3,399	5,950
Depletion, amortization and accretion	57,672	43,741	174,846	128,043
	530,625	448,501	1,799,831	1,355,935
Earnings (loss) for the period before the following items	(177,317)	(172,170)	(901,851)	(546,964)
Unrealized gain (loss) on marketable securities	(89,818)	(748,478)	9,978	(1,089,783)
Earnings (loss) before income taxes	(267,135)	(920,648)	(891,873)	(1,636,747)
Current tax recovery (expense)	67,601	(23,300)	67,601	(37,600)
Future Income tax recovery (expense)	(19,000)	7,310	(22,000)	26,610
Net earnings (loss) for the period	(218,534)	(936,638)	(846,272)	(1,647,737)
Retained earnings, beginning of period	615,072	2,920,719	1,242,810	3,631,818
Retained earnings, end of period	396,538	1,984,081	396,538	1,984,081
Earnings (loss) per share				
Basic (Note 7)	(0.00)	(0.01)	(0.01)	(0.02)
Diluted (Note 7)	(0.00)	(0.01)	(0.01)	(0.02)

See accompanying notes to the financial statements

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

	Three months ended		Nine months ended	
	2007	September 30 2006	2007	September 30 2006
		(\$)		(\$)
Net loss for the period	218,534	936,638	846,272	1,647,737
Foreign Currency Translation Adjustment	488,330	44,839	1,256,890	108,256
COMPREHENSIVE LOSS	706,864	981,477	2,103,162	1,755,993

See accompanying notes to the financial statements

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

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
	(\$)		(\$)	
Cash provided by (used in):				
Operations				
Net earnings (loss) for the period	(218,534)	(936,638)	(846,272)	(1,647,737)
Add items not affecting cash:				
Future income tax expense (recovery)	19,000	(7,310)	22,000	(26,610)
Stock based compensation expense	53,993	92,062	144,403	276,186
Depletion, amortization and accretion	57,672	43,741	174,846	128,043
Unrealized loss (gain) on marketable securities	89,818	748,478	(9,978)	1,089,783
Abandonment expenditures	(160)	(790)	(2,029)	(2,138)
	1,789	(60,457)	(517,030)	(182,473)
Change in non-cash operating working capital				
Accounts receivable	(112,844)	(31,894)	(1,029,712)	235,629
Prepays and deposits	(21,106)	110	(17,500)	(15,028)
Accounts payable	59,968	(218,099)	116,286	(759,562)
	(72,193)	(310,340)	(1,447,956)	(721,434)
Investing				
Expenditures on property, plant and equipment	(3,746,974)	(238,131)	(9,594,048)	(1,192,712)
Changes in non-cash working capital	73,209	-	3,235,357	-
	(3,673,765)	(238,131)	(6,358,691)	(1,192,712)
Financing				
Repayment of bank loan	(6,750)	(6,750)	(20,250)	(20,250)
Issue of capital stock for cash	1,529,744	-	11,695,849	11,200
Share issue costs	(65,484)	-	(737,072)	-
	1,457,510	(6,750)	10,938,527	(9,050)
Foreign exchange gain (loss) on cash and cash equivalents	(47,843)	17,888	(113,964)	31,714
Increase (decrease) in cash	(2,336,291)	(537,333)	3,017,916	(1,891,482)
Cash, beginning of period	10,675,762	7,071,669	5,321,555	8,425,818
Cash, end of period	8,339,471	6,534,336	8,339,471	6,534,336

The Company paid interest of \$2,397 (2006 - \$1,433) and received income tax refund of \$67,601 (2006 - \$ nil).

See accompanying notes to the financial statements.

CYGAM ENERGY INC.

Notes to the Consolidated Financial Statements

Third quarter report for the period ended September 30, 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 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.

CYGAM ENERGY INC.**Notes to the Consolidated Financial Statements**

Third quarter report for the period ended September 30, 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 Operations 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 Operations.

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 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 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:

	Nine months ended September 30, 2007	Year ended December 31, 2006
	(\$)	(\$)
Accumulated Other Comprehensive Loss, beginning of period	124,225	391,538
Foreign Currency Translation Adjustment	1,256,890	(267,313)
Accumulated Other Comprehensive Loss, end of period	1,381,115	124,225

As at September 30, 2007, the Accumulated Other Comprehensive Income consists of cumulative foreign currency translation adjustments.

CYGAM ENERGY INC.**Notes to the Consolidated Financial Statements**

Third quarter report for the period ended September 30, 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:

	Nine Months ended September 30, 2007	Year ended December 31, 2006
Balance, beginning of period	3,532,814	5,067,692
Unrealized gain (loss) during the period	9,978	(1,534,878)
Balance, end of period	3,542,792	3,532,814

3. PROPERTY, PLANT AND EQUIPMENT

As at September 30, 2007	Cost	Accumulated depletion & amortization	Net book value
Petroleum and natural gas properties	17,739,311	1,254,047	16,485,264
Asset retirement costs	123,215	54,455	68,760
Building	196,538	44,060	152,478
Furniture, fittings and office equipment	131,985	50,481	81,504
Total	18,191,049	1,403,043	16,788,006

The Company capitalized \$115,239 (2006 - \$92,319) 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 \$14,827,903. 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**

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4. ASSET RETIREMENT OBLIGATION

At September 30, 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:

	Nine months ended September 30, 2007	Year ended December 31, 2006
Balance, beginning of period	\$ 95,208	\$ 80,475
Liabilities disposed during the period	(2,029)	(4,513)
Revisions in estimate of timing of cash flows	-	12,808
Accretion expense	5,618	6,438
End of period	\$ 98,797	\$ 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
Issued pursuant to a private placement, net of share issue costs	10,000,000	9,262,928
Issued pursuant to exercise of agent option	83,750	60,670
Issued pursuant to exercise of Series A and Series B warrants	2,062,000	1,809,634
Balance, September 30, 2007	84,980,004	\$ 25,731,411

CYGAM ENERGY INC.**Notes to the Consolidated Financial Statements**

Third quarter report for the period ended September 30, 2007 (unaudited)

b) Warrants and Agent Options

	Nine Months ended September 30, 2007	Year ended December 31, 2006
Balance, beginning of period	15,241,554	-
Issued	200,000	15,255,554
Expired	(344,000)	-
Exercised	(2,145,750)	(14,000)
Balance, end of period	12,951,804	15,241,554

At September 30, 2007, a total of 12,751,804 warrants and agents' options are exercisable at \$0.60 per share before October 11, 2007, of which subsequently 634,200 warrants and options were exercised and 12,117,604 warrants and options expired unexercised, and 200,000 Series "C" warrants are exercisable at \$1.50 per share before January 8, 2009.

c) Stock Options

As at September 30, 2007, there were 4,650,000 stock options outstanding with a weighted average exercise price of \$0.69, of which 3,441,667 were exercisable at a weighted average exercise price of \$0.67.

The following table summarizes the information regarding the Stock Options Plan activity to September 30, 2007:

	Options Outstanding (#)	Weighted Average Exercise Price (\$)
Balance, December 31, 2006	5,025,000	0.65
Granted	350,000	1.00
Expired	(725,000)	0.60
Exercised	-	-
Balance, September 30, 2007	4,650,000	0.69

Exercise Price	Options Outstanding	Weighted Average Contractual Life (years)
\$0.60	3,700,000	3.03
\$0.83	100,000	3.34
\$0.90	250,000	3.34
\$1.00	350,000	4.75
\$1.31	250,000	3.15
	4,650,000	3.19

CYGAM ENERGY INC.**Notes to the Consolidated Financial Statements**

Third quarter report for the period ended September 30, 2007 (unaudited)

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:

	Nine Months ended September 30, 2007		Year Ended December 31, 2006	
Balance, beginning of period	\$	1,436,586	\$	977,829
Stock based compensation		144,403		459,932
Series B warrants and agent options exercised		(183,021)		(1,175)
Series C warrants		20,502		-
Balance, end of period	\$	1,418,470	\$	1,436,586

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:

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Net loss	\$218,534	936,638	846,272	1,647,737
Weighted Average Common Shares Outstanding – Basic (thousands of shares)	84,708	72,350	78,256	72,350
Effect of Dilutive Securities (thousands of shares)	1,925	1,721	1,723	5,231
Weighted Average Common Shares Outstanding – Diluted (thousands of shares)	86,633	74,071	79,979	77,581
Loss per share (basic)	\$ (0.00)	(0.01)	(0.01)	(0.02)
Loss per share (diluted)	\$ (0.00)	(0.01)	(0.01)	(0.02)

CYGAM ENERGY INC.**Notes to the Consolidated Financial Statements**

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8. SEGMENT INFORMATION

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

Three months ended September 30, 2007

Geographic Segments:	Canada	Italy	Tunisia	Total
Gross Revenue	347,137	20	6,151	353,308
Net earnings (loss)	14,727	(185,811)	(47,450)	(218,534)
Capital Expenditures	10,780	548,436	3,187,758	3,746,974

2006	Canada	Italy	Tunisia	Total
Gross Revenue	276,329	2	-	276,331
Net earnings (loss)	(807,086)	(101,297)	(28,255)	(936,638)
Capital Expenditures	41,626	78,316	118,189	238,131

As at September 30, 2007	Canada	Italy	Tunisia	Total
Total assets	12,118,319	6,128,227	11,802,883	30,049,429
Property and equipment	1,905,888	4,758,835	10,123,283	16,788,006

As at December 31, 2006	Canada	Italy	Tunisia	Total
Total assets	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

Total assets are shown net of inter-company balances.

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.

CYGAM ENERGY INC.

Notes to the Consolidated Financial Statements

Third quarter report for the period ended September 30, 2007 (unaudited)

10. RELATED PARTY TRANSACTIONS

- (a) Included in the general and administrative expenses are consulting fees of \$56,500 (2006 -\$50,531) paid to companies whose shareholders are directors and officers of Cygam, and the Company capitalized \$30,177 (2006 -\$29,988) paid to a company whose shareholder is a director and officer of Cygam.
- (b) During the period ended September 30, 2007, \$15,640 (2006 - \$1,729) 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 total of 634,200 Series "A" warrants and agents' options were exercised between October 1, 2007 and October 11, 2007 for gross proceeds of \$380,520, and a total of 12,117,604 Series "A" warrants and agents' options expired unexercised.

12. COMPARATIVE FIGURES

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