

CYGAM ENERGY INC.

Interim Consolidated Financial Statements (Unaudited)

For the Period ended June 30, 2008

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 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	June 30 2008	December 31 2007
	(\$)	(\$)
Assets		
Current assets		
Cash	2,721,635	5,399,307
Marketable securities <i>(note 5)</i>	4,021,818	3,373,139
Accounts receivable	911,202	685,406
Prepays and deposits	118,454	127,518
	7,773,109	9,585,370
Tax receivable	817,397	787,312
Property, plant and equipment <i>(note 6)</i>	22,513,138	17,680,119
	31,103,644	28,052,801
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	2,499,374	1,334,325
Current Portion of long-term debt	18,583	27,000
	2,517,957	1,361,325
Long-term debt	-	5,083
Asset retirement obligation <i>(note 7)</i>	249,148	254,006
	2,767,105	1,620,414
Shareholders' equity		
Share capital <i>(note 8)</i>	26,231,495	26,231,495
Contributed surplus <i>(note 9)</i>	1,580,302	1,408,624
Accumulated other comprehensive income (loss)	537,693	(1,196,003)
Retained earnings (deficit)	(12,951)	(11,729)
	28,336,539	26,432,387
Commitments <i>(note 12)</i>	31,103,644	28,052,801
	31,103,644	28,052,801

See accompanying notes to the financial statements

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

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
		(\$)		(\$)
Revenue				
Petroleum and natural gas sales	230,961	150,943	405,206	310,825
Royalties expense, net of Alberta Royalty Tax Credit	(18,093)	(17,675)	(25,285)	(42,829)
Other revenue	122,849	144,906	259,902	276,676
	335,717	278,174	639,823	544,672
Expenses				
Production	63,436	50,237	105,556	91,625
General and administrative	463,216	601,438	889,846	965,494
Interest and bank charges	641	2,523	1,192	3,647
Stock-based compensation	85,839	53,993	171,678	90,410
Exchange loss /(gain)	-	68	-	856
Depletion, amortization and accretion	60,871	58,236	121,452	117,174
	674,003	766,495	1,289,724	1,269,206
Earnings (loss) for the period before the following items	(338,286)	(488,321)	(649,901)	(724,534)
Unrealized gain (loss) on marketable securities	133,728	179,634	648,679	99,796
Earnings (loss) before income taxes	(204,558)	(308,687)	(1,222)	(624,738)
Future Income tax	0	8,500	-	(3,000)
Net earnings (loss) for the period	(204,558)	(300,187)	(1,222)	(627,738)
Retained earnings, beginning of period	191,607	915,259	(11,729)	1,242,810
Retained earnings, end of period	(12,951)	615,072	(12,951)	615,072
Earnings (loss) per share				
Basic (Note 10)	(0.00)	(0.00)	(0.00)	(0.01)
Diluted (Note 10)	(0.00)	(0.00)	(0.00)	(0.01)

See accompanying notes to the financial statements

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

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Net earnings (loss) for the period	(204,558)	(300,187)	(1,222)	(627,738)
Other Comprehensive Income, Net of Tax	-	-	-	-
Foreign Currency Translation Adjustment	(462,437)	(707,890)	1,733,696	(768,560)
COMPREHENSIVE INCOME (LOSS)	(666,995)	(1,008,077)	1,732,474	(1,396,298)

See accompanying notes to the financial statements

CONSOLIDATED STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Period Ended	June 30 2008	December 31 2007
	(\$)	(\$)
Accumulated Other Comprehensive Loss, beginning of period	(1,196,003)	(124,225)
Unrealized exchange gain (loss) on translation of self-sustaining foreign operations	1,733,696	(1,071,778)
Accumulated Other Comprehensive Income (Loss), end of period	537,693	(1,196,003)

See accompanying notes to the financial statements

CY GAM ENERGY INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
	(\$)		(\$)	
Cash provided by (used in):				
Operations				
Net earnings (loss) for the period	(204,558)	(300,187)	(1,222)	(627,738)
Add items not affecting cash:				
Future income tax expense	-	(8,500)	-	3,000
Stock based compensation expense	85,839	53,993	171,678	90,410
Depletion, amortization and accretion	60,871	58,236	121,452	117,174
Unrealized loss (gain) on marketable securities	(133,728)	(179,634)	(648,479)	(99,796)
Abandonment expenditures	(6,074)	(1,869)	(9,018)	(1,869)
	(197,650)	(377,961)	(365,589)	(518,819)
Change in non-cash operating working capital				
Accounts receivable	(615,449)	(906,318)	(144,303)	(916,868)
Prepays and deposits	6,825	1,325	19,828	3,606
Accounts payable	203,223	89,319	(757,110)	56,318
	(603,051)	(1,193,635)	(1,247,174)	(1,375,763)
Investing				
Expenditures on property, plant and equipment	(2,611,656)	(4,155,356)	(3,223,429)	(5,847,074)
Changes in non-cash working capital	1,706,286	2,265,127	1,775,300	3,162,148
	(905,370)	(1,890,229)	(1,448,129)	(2,684,926)
Financing				
Repayment of bank loan	(6,750)	(6,750)	(13,500)	(13,500)
Issue of capital stock for cash	-	9,494,517	-	9,494,517
	(6,750)	9,487,767	(13,500)	9,481,017
Foreign exchange gain (loss) on cash and cash equivalents	3,585	(66,121)	31,131	(66,121)
Increase (decrease) in cash	(1,511,586)	6,337,782	(2,677,672)	5,354,207
Cash, beginning of period	4,233,221	4,337,980	5,399,307	5,321,555
Cash, end of period	2,721,635	10,675,762	2,721,635	10,675,762

The Company paid interest of \$ 641 (2007 - \$ 864) and income taxes of \$ nil (2007 - \$ nil).

See accompanying notes to the financial statements.

CYGAM ENERGY INC.

Notes to the Consolidated Financial Statements

Period ended June 30, 2008 (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, 2007 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, 2007.

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. The Company’s Italian and Tunisian operations are considered self-sustaining and are translated into Canadian dollars using the current rate method. Any gain or loss on translation is included in the Accumulated Other Comprehensive Income (Loss) in the shareholders’ equity.

2. ACCOUNTING CHANGES

On January 1, 2008, the company adopted the following Canadian Institute of Chartered Accountants (“CICA”) Handbook Sections:

Financial Instruments – Disclosures and Presentation

Sections 3862 and 3863, which replaced Section 3861 “Financial Instruments – Disclosure and Presentation,” enhance existing disclosures for financial instruments. The new standard increases disclosure regarding the nature and extent of the risks associated with financial instruments and how those risks are managed. The additional disclosure necessary to comply with these standards is provided in Note 3 to these interim consolidated financial statements. There was no financial impact to previously reported financial statements as a result of the implementation of this new standard.

Capital Disclosures

Section 1535 establishes disclosure requirements for disclosure of the Company’s objectives, policies and processes in managing its capital structure, which have been provided in Note 4 to these consolidated financial statements. There was no financial impact to previously reported financial statements as a result of the implementation of this new standard.

Inventories

Section 3031 provides more extensive guidance on measurement, and expands disclosure requirements to increase transparency. The Company does not carry any inventory and the adoption of section 3031 had no impact on the consolidated financial statements of the company.

CYGAM ENERGY INC.

Notes to the Consolidated Financial Statements

Period ended June 30, 2008 (unaudited)

Future Changes in accounting policies

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

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

3. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

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

(a) Market Risk

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

(b) Foreign Currency Exchange Risk

A significant portion of the Company's activities are conducted in Italy and Tunisia where the Company is exposed to changes in foreign exchange rates as operating expenses, capital expenditures, and financial instruments fluctuate due to changes in exchange rates. The Company does not use derivative instruments to hedge its exposure to foreign exchange risks.

(c) Liquidity Risk

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

CYGAM ENERGY INC.
Notes to the Consolidated Financial Statements
Period ended June 30, 2008 (unaudited)

raise funds one year ahead of planned capital expenditures subject to the capital markets environment.

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

(d) Credit Risk

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

4. CAPITAL DISCLOSURES

The Company's objective for managing its capital structure is to ensure financial capacity, liquidity and flexibility to fund exploration projects while maintaining a strong capital base to sustain ongoing development. The Company relies on operating cashflows, equity financings and joint venture partner participation to fund exploration activities. The Company has the ability to adjust its capital structure by issuing new equity and adjusting its capital expenditure program to the extent the capital expenditures are not committed and to conduct capital projects through joint ventures.

As at June 30, 2008, the Company had \$5.3 million in working capital and no long-term debt. The working capital is anticipated to be used for the Company's exploration projects in Italy and Tunisia and for general corporate purposes.

5. 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:

	Six months ended June 30, 2008	Year ended December 31, 2007
Balance, beginning of period	3,373,139	3,532,814
Unrealized gain (loss) during the period	648,679	(159,675)
Balance, end of period	4,021,818	3,373,139

CYGAM ENERGY INC.
Notes to the Consolidated Financial Statements
Period ended June 30, 2008 (unaudited)

6. PROPERTY, PLANT AND EQUIPMENT

As at June 30, 2008	Cost	Accumulated depletion & amortization	Net book value
Petroleum and natural gas properties	23,453,379	1,407,667	22,045,712
Asset retirement costs	283,381	58,153	225,228
Building – office condominium	196,538	48,776	147,762
Furniture, fittings and office equipment	169,888	75,452	94,436
Total	24,103,186	1,590,048	22,513,138

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 – office condominium	196,538	45,632	150,906
Furniture, fittings and office equipment	155,937	59,951	95,986
Total	\$ 19,147,041	\$ 1,466,922	\$17,680,119

The Company capitalized \$91,990 (2007 - \$106,006) 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 \$20,232,975. Future development costs of \$287,000 are included in the calculation of depletion and amortization expense.

7. ASSET RETIREMENT OBLIGATION

At June 30, 2008, the estimated total undiscounted amount of cash flows required to settle the ARO was approximately \$300,714 which will be incurred between 2008 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:

	Six months ended June 30, 2008	Year ended December 31, 2007
Balance, beginning of period	\$ 254,006	\$ 95,208
Liabilities settled during the period	(9,018)	(8,984)
Revisions in estimate of timing of cash flows	-	160,165
Accretion expense	4,160	7,617
End of period	\$ 249,148	\$ 254,006

CYGAM ENERGY INC.
Notes to the Consolidated Financial Statements
Period ended June 30, 2008 (unaudited)

8. SHARE CAPITAL

a) Issued and Outstanding

	Shares	Amount
	(#)	(\$)
Common Shares		
Balance as at 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 as at December 31, 2007	85,614,204	\$ 26,231,495
Balance as at June 30, 2008	85,614,204	\$ 26,231,495

b) Warrants and Agent Options

The following table summarizes the warrants and broker/agent options outstanding as at June 30, 2008:

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

c) Stock Options

As at June 30, 2008, there were 7,300,000 stock options outstanding with a weighted average exercise price of \$0.66, of which 5,683,334 were exercisable at a weighted average exercise price of \$0.66.

The following table summarizes the information regarding the Stock Options Plan activity to June 30, 2008:

	Options Outstanding	Weighted Average Exercise Price
	(#)	(\$)
Balance, December 31, 2007	4,650,000	0.69
Granted January 2008	2,650,000	0.60
Exercised	-	-
Balance, June 30, 2008	7,300,000	0.66

CYGAM ENERGY INC.
Notes to the Consolidated Financial Statements
Period ended June 30, 2008 (unaudited)

Exercise Price	Options Outstanding	Weighted Average Contractual Life (years)
\$0.60	6,350,000	3.21
\$0.83	100,000	2.59
\$0.90	250,000	2.59
\$1.00	350,000	4.00
\$1.31	250,000	2.40
	7,300,000	3.19

9. 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, 2008	Year Ended December 31, 2007
Balance, beginning of period	\$ 1,408,624	\$ 1,436,586
Stock based compensation	171,678	207,077
Series "C" warrants	-	20,502
Exercise of Series B warrants	-	(172,601)
Exercise of Agents' options	-	(82,940)
Balance, end of period	\$ 1,580,302	\$ 1,408,624

10. 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 June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Net loss	\$204,558	300,187	1,222	627,738
Weighted Average Common Shares Outstanding – Basic (thousands of shares)	85,614	77,162	85,614	74,977
Effect of Dilutive Securities (thousands of shares)	265	2,133	316	1,621
Weighted Average Common Shares Outstanding – Diluted (thousands of shares)	85,879	79,295	85,930	76,598
Loss per share (basic)	\$ 0.00	0.00	0.00	0.01
Loss per share (diluted)	\$ 0.00	0.00	0.00	0.01

CYGAM ENERGY INC.
Notes to the Consolidated Financial Statements
Period ended June 30, 2008 (unaudited)

11. SEGMENT INFORMATION

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

Geographic Segments:

June 30, 2008	Canada	Italy	Tunisia	Total
Gross Revenue	319,774	15,657	286	335,717
Net earnings (loss)	48,625	(217,002)	(36,191)	(204,558)
Total assets	9,461,045	7,224,562	14,418,037	31,103,644
Property and equipment	2,065,387	6,031,048	13,151,703	21,248,138
Capital Expenditures	105,579	448,276	2,057,801	2,611,656

June 30, 2007	Canada	Italy	Tunisia	Total
Gross Revenue	278,121	53	-	278,174
Net earnings (loss)	(32,706)	(231,332)	(36,149)	(300,187)
Total assets	16,076,804	5,712,917	7,386,172	29,175,893
Property and equipment	1,945,361	4,277,142	7,383,336	13,605,839
Capital Expenditures	52,471	2,998,958	1,103,927	4,155,356

Total assets are shown net of inter-company balances.

12. COMMITMENTS

- (a) The Company rents premises in Rome, Italy, under operating leases that require payments of \$136,000 per annum in 2008 and \$83,000 in each of 2009 to 2013, 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 \$67,800 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.

13. RELATED PARTY TRANSACTIONS

- (a) Included in the general and administrative expenses are consulting fees of \$87,209 (2007 -\$172,200) paid to companies whose shareholders are directors and officers of Cygam, and the Company also capitalized \$45,464 (2007 -\$ 31,082) paid to a company controlled by a director and officer of the Company.

CYGAM ENERGY INC.

Notes to the Consolidated Financial Statements

Period ended June 30, 2008 (unaudited)

- (b) During the period ended June 30, 2008, \$8,024 (2007 - \$9,867) 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.

14. COMPARATIVE FIGURES

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