

CYGAM ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2007

This Management's Discussion and Analysis (MD&A) is a review of operations, current financial position and outlook for Cygam Energy Inc. (Cygam or the Company) and should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2007. This MD&A is dated as of April 17, 2008.

The audited consolidated financial statements have been prepared by management and approved by Cygam's Board of Directors on the recommendation of the Audit Committee. These statements are based on certain estimates and assumptions and involve risks and uncertainties. Actual results may differ materially. Refer to the Business Risks section of this MD&A for additional information related to identified risks, estimates and uncertainties.

All financial information is reported in Canadian dollars and is in accordance with Canadian generally accepted accounting principles (GAAP) unless otherwise noted. Natural gas has been converted into barrels of oil equivalent (boe) at 6:1. The abbreviation boe, boe per day and mboe disclosed in this MD&A may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf: 1 boe is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Cautionary Statement regarding Forward-Looking Information

Certain statements contained in this MD&A including statements which contain words such as "anticipate", "could", "should", "expect", "seek", "may", "intend", "likely", "will", "believe" and similar expressions, statements relating to matters that are not historical facts, and statements of our beliefs, intentions and expectations about development, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in this MD&A includes, but is not limited to: statements relating to "reserves" and "resources" as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future; expected cash provided by continuing operations; future capital expenditures, including the amount and nature thereof; oil and natural gas prices and demand; expansion and other development trends of the oil and natural gas industry; business strategy and outlook; expansion and growth of our business and operations; the maintenance of existing government, supplier and partner relationships; supply channels; accounting policies; balance sheet financial instruments; credit risks; and other such matters.

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, including, without limitation: the risks associated with foreign operations; foreign exchange fluctuations; commodity prices; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and natural gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or

pursued by us and other factors, many of which are beyond our control. The foregoing factors are not exhaustive and are further discussed herein under the heading “Business Risks and Uncertainties”.

Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits will be derived therefrom. Except as required by law, Cygam Energy Inc. disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

The forward-looking information contained herein is expressly qualified by this cautionary statement.

EXPLORATION ACTIVITIES

The Company conducted the following exploration activities during the year ended December 31, 2007 in Canada, Italy and Tunisia as described in the “Letter to Shareholders” and the “International Operations Review”.

Expenditures on PP&E - 2007	Canada	Italy	Tunisia	Total
Acquisition and development	176,375	-	-	176,375
Seismic and evaluation	-	242,351	1,044,887	1,287,238
Exploration drilling	-	3,758,400	5,173,503	8,931,903
Other	2,880	55,707	7,979	66,566
Total	179,255	4,056,458	6,226,369	10,462,082

Expenditures on PP&E - 2006	Canada	Italy	Tunisia	Total
Acquisition and development	561,510	615,000	-	1,176,510
Seismic and evaluation	-	201,125	1,210,734	1,411,859
Other	2,005	3,057	49,615	54,677
Total	563,515	819,182	1,260,349	2,643,046

FINANCIAL PERFORMANCE

Selected Financial Information

Twelve months ended December 31

	2007	2006
	\$	\$
Oil and gas revenue	573,155	596,312
Royalties, net of ARTC	(25,117)	(118,032)
Other revenue	627,100	698,131
Total net revenue	1,175,138	1,176,411
Operating costs	203,108	218,342
Depletion, amortization and accretion	243,982	216,168
General & administration	1,728,056	1,178,726
Interest	3,378	4,922
Stock-based compensation expense	207,077	459,932
Loss (gain) on foreign exchange	19,766	3,923
	<u>2,405,367</u>	<u>2,082,013</u>
	(1,230,229)	(905,602)
Unrealized loss on marketable securities	(159,675)	(1,534,878)
Net earnings (loss)	(1,389,904)	(2,440,480)
Future income tax recovery	135,366	51,471
Net earnings (loss) after tax	(1,254,538)	(2,389,009)

Oil and Gas Revenue

Oil and gas revenues for the year ended December 31, 2007 of \$ 573,155 (2006 -\$596,312) represents revenue from the Canadian operations. Production for the year was 36.34 boed (2006 – 36.35), comprising approximately 75% natural gas and 25% oil and NGLs, at an average price of \$43.21 per boe (2006 - \$44.94). The decrease in revenue per boe was largely due to a decrease in the average price of natural gas received by the Company from \$6.51 per mcf in 2006 to \$6.37 in 2007. Reduced production from the interests in Signalta and Harmattan was offset by increased production from the interest in the South Edson property.

Crown and production royalties (net of ARTC) were \$ 25,117 (2006 - \$118,032) largely due to a refund of \$50,633 resulting from prior year volume adjustments filed by the operator of the Harmattan property. Operating expenses were slightly lower at \$203,108 (2006 - \$218,342) or \$15.31 (2006 – 16.46) per boe.

Other Revenue

Other revenue for the year ended December 31, 2007 includes distributions of \$335,331 (2006 - \$331,426) received from investments in marketable securities, and interest income of \$289,751 (2006 - \$270,216) on cash balances invested in short-term fixed income securities.

Unrealized Loss on Marketable Securities

Cygam's reverse takeover in October 2005 included the acquisition of units of a public entity. At the time of the acquisition, management had designated these units as held for trading with the intent to dispose of these units when funds were required for exploration activities. At December 31, 2007 the units are stated in the financial statements at fair value of \$3,373,139 (2006 - \$3,532,814) resulting in an unrealized loss of \$159,675 (2006 - \$1,534,878) during the year.

Net Income

The net loss before tax for the period was \$1,389,904 (2006 – \$2,440,480). After adjusting for non-cash items, including depletion, amortization and accretion, stock based compensation expense and the unrealized loss on marketable securities, the Company had an “adjusted net loss after tax” (a non-GAAP measure which management believes is useful in evaluating performance) of \$ 779,170 (2006 - \$229,502) largely due to an increase in General and Administrative expenses.

General and Administrative Expenses

During the year, the Company generated sufficient revenue from the Canadian oil and gas assets, from the investment in marketable securities and from short term fixed income securities to pay for a significant amount of the Company's general and administration expenses of \$1,728,056 (2006-\$1,178,726). The increase in G&A expenses resulted from a general increase in compensation costs, the payment of a bonus of a total of \$100,000 to senior executives, and an increase of approximately \$385,000 in the Rome office costs to pay for an increase in technical staff and office space to handle the processing and reinterpretation of acquired seismic on our Italian permits.

G&A includes \$369,795 (2006 - \$284,064) in consulting fees paid to directors and officers of Cygam, or to companies whose shareholders are directors and officers of Cygam and \$77,993 (2006 - \$21,671) in legal fees paid to a law firm in which a director of the Company is a partner.

For the year ended December 31, 2007, the Company capitalized \$388,946 (2006 - \$207,382) of general and administrative expenses that were directly related to the acquisition and exploration of oil & gas properties in Tunisia and Italy.

Stock-based Compensation

Stock-based compensation represents a non-cash charge resulting from applying fair value method on stock options issued by the Company during the period. Under this method, compensation expense

related to this program is recorded in the statement of operations over their respective vesting periods. The amount of compensation cost recognized in the period is based on the fair value the stock options vesting in 2007.

Stock-based compensation for the year was \$207,077 (2006 - \$459,932). In June 2007, the Board of Directors granted 350,000 stock options to employees.

Depletion, Amortization and Accretion

Depletion, Amortization and Accretion (“DA&A”) amounted to \$243,982 (2006 - \$216,168) including depletion and accretion amount of \$198,023 (2006 - \$191,536) or \$14.93 per boe (2006- \$14.43) for the period related to oil and gas production from Canadian properties. The cost of unproved properties of \$15,467,174 (2006 - \$6,598,564) is excluded from the DA&A calculation and is assessed periodically to ascertain whether impairment has occurred.

Current and Future Income Tax Recovery

The Company had a Future Income Tax recovery of \$135,366 (2006 - \$51,471) resulting from the current year non-capital losses and the share issue costs incurred during the year which are deductible for tax purposes.

SUMMARY OF QUARTERLY INFORMATION

The following is a summary of selected financial information for the Company for the past eight quarters.

	2007			
	Q4	Q3	Q2	Q1
P&G sales (net of royalties)	\$ 122,556	157,485	133,268	134,729
Other revenue	154,601	195,823	144,906	131,770
	277,157	353,308	278,174	266,499
Expenses	803,715	528,082	551,093	502,711
Earnings (loss) before items below	(526,558)	(174,774)	(272,919)	(236,212)
Unrealized gain (loss) on marketable securities	(169,653)	(89,818)	179,634	(79,838)
Foreign exchange gain (loss)	(17,155)	(2,543)	(68)	-
Net earnings (loss) before income taxes	(713,366)	(267,135)	(93,353)	(316,050)
Current and future income tax recovery	98,265	48,601	-	(11,500)
Net earnings (loss) after tax	(615,101)	(218,534)	(93,353)	(327,550)
Net income (loss) per share	(0.00)	(0.00)	(0.00)	(0.00)
Production (boe/d)	33.93	37.62	36.17	37.66
	2006			
	Q4	Q3	Q2	Q1
P&G sales (net of royalties)	\$ 126,633	122,459	93,664	135,524
Other revenue	240,789	153,872	158,887	144,583
	367,422	276,331	252,551	280,107
Expenses	728,105	445,017	483,688	421,280
Earnings (loss) before items below	(360,683)	(168,686)	(231,137)	(141,173)
Unrealized gain (loss) on marketable securities	(445,095)	(748,478)	(496,988)	155,683
Foreign exchange gain (loss)	2,045	(3,484)	(2,484)	-
Net earnings (loss) before income taxes	(803,733)	(920,648)	(730,609)	14,510
Current and future income tax recovery	62,461	(15,990)	5,000	-
Net earnings (loss) after tax	(741,272)	(936,638)	(725,609)	14,510
Net income (loss) per share	(0.01)	(0.01)	(0.01)	0.00
Production (boe/d)	37.64	38.28	32.32	37.12

Revenue from oil and gas sales (net of royalties) fluctuates from quarter to quarter largely due to fluctuations in the price of oil and natural gas received by the Company (see earlier comments on Revenue). The production each quarter has not changed by a significant amount except in the fourth quarter of 2007 and second quarter of 2006 when some facilities were shut-in for maintenance.

As noted earlier, the Company's expenses have increased each quarter as the Company has grown the number of employees and related office expenses in the Rome and Tunis offices to conduct the increased amount of seismic acquisition, processing and interpretation activity, and prepare plans to drill on a number of permits in Italy and Tunisia in 2008.

LIQUIDITY AND CAPITAL RESOURCES

The Company had a net working capital balance of \$8,224,045, including a cash balance of \$5,399,307 as at December 31, 2007. Cash balances in excess of planned requirements were invested in short-term fixed income securities generating \$289,751 (2006 - \$270,216) in interest income for the year, and the Company continues to receive a monthly distribution of \$27,943 from its investment in marketable securities.

The Company's cash balance and additional funds from the liquidation of the marketable securities are expected to be sufficient to finance the planned exploration program over the next year assuming the Company is able to negotiate and fund a significant portion of the exploration plan through joint ventures. The Company, through its subsidiaries in Italy and Tunisia, has either entered into agreements or has received expressions of interest from third parties to participate in the exploration program on several of the permits on the basis of "pay 60% to earn 40% interest". The Company will examine each interest on a permit by permit basis to determine the level and amount of participation offered to third parties. The planned capital expenditures program for the next twelve months, net to Cygam, of approximately \$8,190,000 will be primarily funded from the Company's cash, working capital and proceeds from potential equity financings and the possible exercise of outstanding warrants and options.

SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares as well as first preferred non-voting shares. To date, no preferred shares have been issued. The Company's share capital as at December 31, 2007 is outlined below:

	Shares	Amount (\$)
Outstanding shares at December 31, 2006	72,349,640	\$14,303,681
Issued on purchase 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
Brokered private placement (net of share issue costs)	10,000,000	9,301,395
Issued upon exercise of Agent's option	<u>666,750</u>	<u>483,000</u>
Outstanding shares at December 31, 2007	<u>85,614,204</u>	<u>\$ 26,231,495</u>
Outstanding shares at April 17, 2008	<u>85,614,204</u>	<u>\$ 26,231,495</u>

As noted earlier, 350,000 stock options were granted and 725,000 stock options expired unexercised during the year. No stock options were granted or exercised during the quarter ended December 31, 2007. The total number of stock options granted as at December 31, 2007 was 4,650,000 and as at the date of this MD&A was 7,300,000 following the Board's approval on January 2, 2008 to grant

2,650,000 options to directors, officers, employees and consultants. The total number of warrants issued and outstanding on December 31, 2007 was 200,000 Series "C" warrants.

BUSINESS RISKS AND UNCERTAINTIES

Cygam is in the business of exploring for, developing and producing oil and natural gas. The Company has production operations in Canada and exploration activities in Italy and Tunisia. Along with the competitive nature of the oil and gas industry, risk exposures, some of which are beyond the control of the Company, can be categorized as operational, political, regulatory, environmental and financial. The long-term commercial success of Cygam depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration by the Company will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The process of evaluating prospects and estimating oil and natural gas reserves is complex and subject to uncertainty. Actual operating results, including production performance, may vary from those estimated, possibly materially. Cygam manages these risks by having operational control, where possible, and working interests commensurate with the assessed risk in each project and by hiring qualified professionals, including independent reserves engineers, with appropriate industry experience.

The Company focuses the majority of its activities on exploration in Tunisia and Italy. Some of the Company's operations and related assets are located in countries which carry a higher degree of political and economic risk. Cygam's management has considerable expertise operating internationally and has developed solid, long-term relationships within each of the jurisdictions in which it operates. The Company adheres to all governmental and environmental regulations as they apply in each operating jurisdiction. Regulation changes could increase costs of the Company's operations.

Cygam's current production base in Canada is heavily weighted to natural gas which is subject to price fluctuations based on North American natural gas supply and demand conditions. Oil and natural gas are commodities whose prices have fluctuated widely in recent years and are determined based on world demand, supply and other factors, all of which are beyond the control of the Company.

Cygam maintains an insurance program which is consistent with industry practice to provide adequate coverage of drilling, operations, safety and the environment.

RELATED PARTY TRANSACTIONS

Transactions between the Company and related parties occurred during the year, as disclosed in the notes to the consolidated financial statements. During the year, the Company paid \$369,795 (2006-\$284,064) as consulting fees to related parties, which is included in the G&A expenses and a further \$123,362 (2006 - \$59,976) was capitalized by Vega S.p.A. The Company also paid \$77,993 (2006 - \$21,671) in legal fees to a legal firm in which a director of the Company is a partner.

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 the year end 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 such transactions were in respect of technical and specialized services rendered in the normal course of business operations and represent consideration established and agreed to by the related parties which is similar to those negotiated with third parties.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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.

The Company rents premises in Rome, Italy, and in Tunis, Tunisia, under operating leases that require payments of \$136,000 per annum in 2008 and \$83,000 in each of 2009 to 2011 in Rome and \$67,800 per annum in 2008 in Tunis.

CRITICAL ACCOUNTING ESTIMATES

Cygam's significant accounting policies are disclosed in Note 2 to the audited consolidated financial statements for the year ended December 31, 2007. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The following discusses such accounting policies and is included in the MD&A to assist the reader in assessing our critical accounting policies and practices and the likelihood of materially different results being reported. As management, we review estimates regularly.

The emergence of new information and changed circumstances, including accounting standards, may result in actual results or changes to estimated amounts that differ materially from current estimates.

Reserves Determination

The petroleum and natural gas reserves used in determining our depletion rates and the ceiling test are based upon management's best estimates, and are subject to uncertainty. Through the use of geological, geophysical and engineering data, the reservoirs and deposits of petroleum and natural gas are examined to determine quantities available for future production, given existing operating and economic conditions and technology. The evaluation of recoverable reserves is an ongoing process impacted by current production, continuing development activities and changing economic conditions as reflected in crude oil and natural gas prices and costs. Consequently, the reserves are estimates which are subject to variability. We employ the services of independent oil and gas reservoir engineers (Fekete Associates Inc. and Matsalla Consulting (1981) Ltd.) to assist with the reserve evaluation process for the Canadian properties.

Full Cost Accounting for Oil and Gas Activities

Cygam uses the full cost method of accounting for exploration and development activities. In accordance with this method of accounting, all costs associated with exploration and development, are capitalized whether successful or not. The aggregate of net capitalized costs and estimated future

development costs is amortized using the unit-of-production method based on estimated proved oil and gas reserves before royalties, as determined by qualified independent petroleum evaluation engineers. Accordingly, changes in estimated proved oil and gas reserves and estimated future development costs would result in changes to the depletion rate. Certain costs related to unproved properties and major development projects may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are assessed periodically and any impairment is transferred to the costs subject to depletion.

Asset Impairment

Under full cost accounting, a ceiling test is performed to ensure that unamortized capitalized costs in each cost centre (country) do not exceed their fair value. Impairment is recognized when the carrying value is greater than the undiscounted future cash flows. In the event of impairment, the amount by which the carrying value exceeds the estimated fair value of the long-lived asset is charged to earnings. Fair value is determined using expected future product prices and costs, and amounts are discounted using a risk-free interest rate.

Asset Retirement Obligations

The fair value of the future retirement obligation is discounted to present value and is recorded as an increase to the related property and equipment with the corresponding balance recorded as a future asset retirement obligation. The increased asset value is amortized according to our policies for property and equipment and the future liability is accreted to expense until the future retirement obligation is expected to be settled.

Stock-Based Compensation

The Company uses the fair value method for valuing stock option grants. Under this method, compensation cost attributable to all stock options granted is measured at fair value at the grant date, using the Black-Scholes valuation model, and expensed over the vesting period with a corresponding increase to contributed surplus. Upon exercise of options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

Accounting for Derivative Instruments and Hedging Activities

Cygam has not entered into any hedging arrangements.

Income Tax Accounting

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Legal, Environmental Remediation and Other Contingent Matters

Cygam is required to both determine whether a loss is probable, based on judgment and interpretation of laws and regulations, and determine that the loss reasonably be estimated and included in the Company's financial statements. Management continually monitors known and potential contingent matters and makes appropriate provisions by charges to earnings when warranted by circumstances.

Disclosure Controls and Procedures

Internal controls over financial reporting and disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosures. The Company's management is responsible for designing internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. Management has identified certain weaknesses in internal controls over financial reporting which are typical of a

company of our size. There is a limited number of staff and it is not feasible to achieve complete segregation of duties of its employees, and the Company has limited financial personnel with all the technical knowledge and experience to address all complex and non-routine accounting transactions that may arise. Management and the board of directors work to mitigate the risk of a material misstatement in financial reporting, however, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement.

It should be noted that while the Company's management believes that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, it does not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

During the year the Board of Directors established a Compensation Committee and a Reserves Committee with each committee comprising three Board members.

NEW ACCOUNTING STANDARDS

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

As of January 1, 2008, Cygam will be required to adopt new CICA standards, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation," which will replace Section 3861 "Financial Instruments – Disclosure and Presentation", Section 1535 "Capital Disclosures", and Section 3031 "Inventories". The Company is reviewing and assessing the impact of these new standards on its 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, 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.

OUTLOOK

The outlook for the next year is described in the "International Operations Review".

Activities in Italy

In January 2007, Cygam announced the official award of the C.R148.VG (Aretusa) permit offshore southern Sicily. The Corporation has a 100% interest in this 83,267 acre permit where a large Triassic structure is expected to have significant hydrocarbon potential.

In April, an application was made for an additional exploration permit called Masseria Montarozzo, located immediately east of the Posta Nuova permit and where available seismic data indicates the presence of an Oligocene-Miocene structure.

In May, Cygam commenced drilling the Posta Piana well on the Posta Nuova permit. Production casing was set to 1147 meters and four potential reservoir intervals were tested with mixed results. The well is currently undergoing an acid stimulation in one of the potential reservoir intervals.

In July, the Corporation received final ministerial approval for the Civitaquana permit and commenced preliminary geological studies on Miocene to Triassic targets similar to the potential targets in the B.R268.RG permit.

Throughout the year, existing seismic data was acquired on both the offshore B.R268.RG permit and on the Montalbano permit in southern Italy; reprocessing and interpretation of all the data was initiated and is continuing.

Activities in Tunisia

In January 2007, the Corporation completed a 61 km 2D seismic acquisition program on the Sud Tozeur block to further define a prospect in close proximity to the Sud Nefta well, drilled in 1998, which encountered very high pressures and had indications of hydrocarbons in the Triassic, Ordovician and Cambrian levels. The Sud Nefta well is the only well drilled on this large 1,082,283 acre block. In February, Cygam converted the Sud Tozeur prospecting permit into an exploration permit and in July received official approval to conduct exploration and drilling activities on the block for an initial period of four years.

In February and March, Cygam conducted a 166 km seismic program at Jorf. Processing and interpretation of the new data led to the drilling of a Permian prospect in late July. Drilling confirmed the presence of good seal rocks and of an excellent dolomitized and porous reef as interpreted through seismic. Unfortunately a production test failed to recover hydrocarbons and the well was abandoned. The Corporation paid for 55% of seismic and drilling costs, while three joint venture partners paid for 45% of costs to earn a 30% working interest in the southern half of the permit. Cygam extended the Jorf permit until February 6, 2009, by committing to acquire approximately 200 kilometres of new 2D seismic data in the northern portion of the permit where additional deeper Permian prospects have been identified.

In July-August, the corporation participated for a 14% working interest in the acquisition of approximately 200 kilometres of new 2D seismic data at Sud Remada. Seismic interpretation confirmed the presence of two very large Ordovician structures and plans were made to drill one of them in 2008.

Late in the year, our Tunis office commenced a comprehensive geophysical interpretation of extensive seismic data on the Bazma and Sud Tozeur permits.

Canadian activities and production

In January 2007, ConocoPhillips, the operator of the South Edson unitized gas field, placed a new well on production at 9-19-50-16 W5M and in December another well was drilled in the same unit. This most recent well at 6-30-50-16 W5M is currently being tied into the pipeline system. Cygam has approximately a 9% working interest in the South Edson gas unit. Production from Canadian wells remained virtually constant in 2007, at 36.3 boe per day.

Programs for 2008 and beyond

Activities in the first quarter of 2008 included continuing geophysical interpretation on the Bazma and Sud Tozeur permits in Tunisia plus the completion, testing and ongoing tie-in operations at the 6-30-50-16 W5M well in the South Edson gas unit.

On March 28, drilling operations commenced at the TT2 well on the Sud Remada block to test a large structure, approximately 65 square kilometres in size. The Ordovician Bir Ben Tartar sandstone is the main target. It is expected that drilling, coring and testing operations will continue until the end of April.

In April, Cygam commenced an acid stimulation of one prospective sandstone unit in the Posta Piana well on the Posta Nuova permit in southern Italy. Depending on completion results, further steps will be taken to either place the well on production or abandon it.

The Corporation is currently finalizing joint venture agreements with several industry partners which have agreed to participate in seismic and drilling operations at Bazma, Jorf and Sud Tozeur on a promoted basis. Final acquisition parameters are being prepared for two seismic programs which will be conducted in July-August at Bazma (56 km) and Jorf (approximately 200 km). Both programs will be operated by CGG, the French geophysical company with the most experience in Tunisia. Cygam also expects to execute agreement and/or letters of intent to potentially move two modern drilling rigs into Tunisia together with other industry partners. This should alleviate the serious drilling rig shortage in the country and guarantee that the Corporation will have better control on the timing of execution of its drilling plans.

Later in the year, Cygam will drill an exploratory well in the Bazma permit on a structure very close to the producing Tarfa gas/condensate field. The 56 kilometre seismic program at Bazma will confirm the actual drilling location. Long delivery items such as wellhead and casing have already been purchased ahead of drilling.

Drilling plans are also being made at Sud Tozeur where preliminary seismic interpretation has identified several structures on this 1,082,283 acre permit. Management is working diligently on securing a suitable drilling rig to drill a deep Ordovician test by early 2009.

In Italy, Cygam is currently conducting a quality inspection on selected seismic lines on the Civitaquana and C.R148.VG (Aretusa) permits which will then be purchased and reprocessed. Both permits will require acquisition of new seismic data (2D and/or 3D) to satisfy the work commitment. The new seismic acquisition programs are scheduled for 2009.

In the B.R268.RG permit, re-processing of 380 kilometres of marine seismic data has been completed and final interpretation is scheduled for completion by late June. Cygam is currently looking for a suitable jack-up rig capable of drilling a 4,500 metre well on the Elsa structure.

In the Montalbano permit, where the Corporation has a 30% working interest, recent seismic interpretation has outlined a drillable structure with Pliocene hydrocarbon potential. Drilling plans are

currently being made with a target date of late 2008-early 2009, depending on drilling rig availability. Management may elect to farm-out a portion or all its interest in this project and concentrate its efforts on the permits where the Corporation has a higher working interest and significantly greater potential.

Lastly, Cygam will continue to look for other participation opportunities in the Mediterranean region as the true strength of Cygam is its ability to envision exploration opportunities and generate prospects in high potential areas. Such exposure to multiple international projects will reduce the inherent risk of oil and gas exploration and increase the probability of making one or more significant discoveries.

Cygam has sufficient working capital and expressions of interest from potential joint venture partners to conduct the 2008 exploration program and will continue to identify and pursue opportunities in the capital markets for equity financing.

International Operations Review

Cygam currently has an interest in five exploratory permits in Italy and four exploratory permits in Tunisia totalling 3,931,446 gross acres (2,828,186 net acres before pending farm-outs). In 2007, the Corporation submitted an application for an additional permit in Italy and expects to add additional exploration permits in proven, producing, circum-Mediterranean sedimentary basins in 2008.

Cygam Energy Inc., is conducting international exploration activities in Italy through its wholly owned subsidiary, Vega Oil S.p.A., and in Tunisia through its other wholly owned subsidiary, Rigo Oil Company Limited. In the following description of international opportunities only the names of “Cygam” or the “Corporation” will be used.

Italian Operations

Italy is the third largest producer of crude oil and natural gas in Europe, after the United Kingdom and Norway. In 2007, Italy produced approximately 256,000 barrels of oil equivalent per day (boepd), comprised of 101,000 barrels of oil per day (bopd) and 930 million cubic feet per day (MMcfd) of natural gas. The giant Monte Alpi and Tempa Rossa fields, onshore southern Italy, are the largest oil fields in continental Europe, with combined reserves in place of approximately 6 billion barrels. The Monte Alpi field contributed approximately 91,000 boe to Italy’s total daily production in 2007. The Tempa Rossa field is not yet on production.

Italy’s royalty structure is one of the best in the world. For offshore permits, the state royalty on oil production is only 4%, with a provision that no royalties are paid on fields which have yearly production less than 300,000 barrels of oil. Offshore gas production is subject to a 7% royalty, but the first 1,750 MMcf per year, per field, are also royalty free. For onshore permits, the state royalty on production of both oil and gas is a maximum of 7%, with a provision that no royalties are paid on yearly production less than 125,000 barrels of oil and 700 MMcf of gas per field. The corporate tax is a maximum of 28% and there are no restrictions on repatriation of profits.

Management believes that three of the five exploratory permits in Italy have the potential of finding substantial reserves. In the following pages a geological assessment and an update on activities is provided only for the three major permits. It is recommended that shareholders go to Cygam’s website at www.cygamenergyinc.com for additional information, maps and selected seismic data on all permits.

The following map (Figure 1) shows the location of the five Italian permits which have been officially awarded to Cygam and of the additional permit still under application. The Corporation currently holds 354,580 gross acres onshore and offshore Italy (251,285 net acres).

B.R268.RG (Miglianico East) Permit

This permit, located offshore in the Adriatic Sea, is 126.68 square kilometres in size (31,302 acres) and was officially awarded on March 24, 2005, for an initial six-year term. Cygam currently has a 60% working interest and will have a 20% free carried interest in the first well drilled on the block. Cygam has purchased 380 kilometres of existing 2-D seismic data which has now been re-processed. Final interpretation, expected by late June, will focus on the selection of the optimal location on the “Elsa” structure, where the Elsa # 1 well was drilled in 1992 to a depth of 4,841 meters. Primary objectives in the permit are turbidites of the Cretaceous Maiolica Formation which typically have a porosity of 18 to 19% and permeability of 10 to 100 millidarcies. Other potential reservoir rocks include fractured Jurassic carbonates of the Massiccio Formation, located beneath the Maiolica, and the shallower Scaglia formation.

Two onshore wells (Miglianico 1 and Miglianico 2) drilled by ENI, the Italian State Company, in January 2001 and April 2003, and located approximately 12 km south west of the Elsa # 1 well, recovered significant amount of light oil from the Maiolica formation. The Miglianico 1 well tested 2500 bopd of 34° API oil with 3.5 mmcf/d of gas and the Miglianico 2 well tested 1750 bopd of 34° API oil with 1 mmcf/d of gas.

Turbidites of the Maiolica formation were not known as potential producing horizons at the time the Elsa # 1 well was drilled and the operator was targeting the deeper Massiccio formation which usually produces medium to heavy gravity oil. Upon the well reaching total depth and losing large amount of drilling fluids in the fractured Massiccio formation, a long interval encompassing both the Massiccio and the Maiolica was tested. During the last phase of the test, the well produced a spontaneous flow of oil ranging from 13° to 15° API and possibly contaminated by drilling fluids and lost circulation material. The Elsa # 1 well was eventually abandoned as the price of crude oil in the early nineties was very low and the operator did not want to develop a field assessed as having heavy oil potential. Current interpretation of all data, inclusive of cores and well cuttings with good yellow fluorescence, more compatible with light oil than with heavy oil, reinforces the possibility that the Elsa well was not properly evaluated. The oil recovered at Elsa # 1 may not be indicative of the type of oil present in the reservoir and it is expected that a proper test in the Maiolica formation should recover oil with similar gravities as Miglianico 1 and 2.

The Elsa structure is approximately 7 km² in size and is expected to have 75 metres of net pay at the Maiolica level. An independent evaluation of the Elsa structure and the potential offshore extension of the Miglianico field indicates that the B.R268. RG permit could hold significant volumes of oil and gas.

Cygam continues to look for a jack-up rig capable to drill to a total vertical depth of about 4600 metres.

A London AIM listed company has signed a joint venture agreement and will pay 60% of well costs to earn a 40% working interest in the permit. Cygam may farm-out a further portion of its interest on a promoted basis.

C.R148.VG (Aretusa) Permit

The C.R148.VG permit is located in the Mediterranean Sea, offshore south-eastern Sicily, and encompasses an area of 336.98 square kilometres (83,267 acres). Water depth ranges from 20 to 130 metres. Official ministerial approval for exploration on the Aretusa permit was received on November 27, 2006, for an initial period of six years. Cygam currently holds a 100% working interest in this permit and has received expressions of interest from several companies.

The Corporation is currently inspecting seismic data previously shot on and around the permit and will purchase, re-process and interpret selected lines. Following the interpretation of this data, Cygam will commence a new 3-D marine seismic survey covering an area of approximately 100 square kilometres as required by the work commitment.

One large structure with an indicated areal extent of 110 km² has been mapped on the block. One well (Aretusa # 1) was drilled on this structure in 1985 but did not reach porous dolomites of the upper Triassic Taormina formation which we expect to be the main reservoir and hydrocarbon target on the permit. Aretusa # 1 flowed 1,400 bopd of 36° API oil and 11.5 MMcf/d on a six hour test from fractured tight limestones of the Jurassic Villagonia formation, several hundred metres above the Taormina formation. The test of oil and gas is an indication that hydrocarbons were generated in the Jurassic and Triassic systems within or in close proximity to the Aretusa block.

Management believes that the large Aretusa structure could hold significant hydrocarbon reserves. Several large oil fields have been discovered in Triassic and Jurassic carbonates onshore and offshore Sicily since 1954. The closest Taormina production is from the offshore Mila oil field, located approximately 47 km north-west of the Aretusa # 1 well, where the discovery well tested 3000 bopd of 35° API oil.

Civitaquana Permit

The Civitaquana permit, located onshore central Italy, west of the B.R268.RG Permit block, covers an area of 615.45 square kilometres (152,076 acres) and received final ministerial approval in July, 2007, for an initial period of six years. As part of the initial commitment, Cygam will purchase approximately 100 kilometres of seismic data within the first 12 months from official approval. Reprocessing of purchased data and acquisition of additional 60 kilometres of 2D seismic data will follow. If seismic interpretation validates the preliminary assessment of the permit potential, Cygam will commit to drill a well to a minimum total vertical depth of 4,500 metres within 48 months.

Three primary targets are believed to exist on the Civitaquana block: a Miocene calcarenite at a depth of approximately 1,500 metres, the Cretaceous Maiolica Formation and the Jurassic carbonates of the Massiccio Formation at a depth of 4,000-4,500 metres. An additional objective is represented by the Cretaceous Scaglia Formation, which can be encountered at drilling depths of approximately 2,500 to 3,000 metres. Existing seismic lines suggest the possibility of large structures and stratigraphically controlled prospects. One structure, already identified and named Colle Tavo, could be drilled as a Miocene and Jurassic prospect.

Cygam has a 60% working interest plus a 5% free carried interest in all exploration costs in the Civitaquana permit. A Joint Venture Agreement has been signed with a London AIM listed company which will pay 40% of seismic acquisition and well costs to earn a 35% working interest. The Corporation may farm-out another portion of its interest on a promoted basis.

Tunisian Operations

Exploration in Tunisia can be considered to be at a very early stage as just over 550 wells were drilled from 1932 to 2007. Large permits of over 1 million acres may have just a few wells drilled to test potential reservoirs. For this reason, Cygam is confident that the potential to discover significant fields exists in the country and that its existing exploratory permits in Tunisia have excellent potential for the future growth of the Corporation.

The country produces 111,000 boepd, comprised of 71,000 barrels of oil per day and 240 million cubic feet of natural gas per day. Tunisia offers a politically stable environment and an attractive investment climate for petroleum exploration. Exploration permits are obtained through an

application process which usually involves a multi year program of seismic and drilling commitments, but does not require payment of signature bonuses or competitive bidding processes. It is worth noting that in the last three years several new exploration permits have been issued and that the remaining open acreage is minimal. This will provide a good advantage for Cygam in attracting joint venture partners given the large inventory of land currently controlled by the Corporation.

Royalties and taxes in Tunisia are also more attractive than in neighbouring countries. Royalties range from 2% to 15% based on profitability and the corporate tax on profits is 50%. In case of commercial discoveries, the Tunisian National Oil Company (ETAP) has the right to participate in the development of oil and gas fields by paying its share of exploratory and development costs and then receiving a negotiated share of production. ETAP typically negotiates a 50% to 55% production share in most agreements.

The following map shows the location of the four Tunisian permits in which Cygam holds an interest. The Corporation currently holds 3,585,866 gross acres and 2,576,901 net acres in Tunisia.

Jorf Permit

The Jorf permit, located onshore south-central Tunisia, covers an area of 3,768 square kilometres (931,060 acres). The northern boundary of the exploration permit is within 35 kilometres of the Gulf of Gabes. Major oil and gas pipelines from the giant El Borma and other southern Tunisian oil and gas fields traverse the block and connect to the La Skhira oil terminal in the Gulf of Gabes.

This permit had been originally granted to another operator on February 6, 1998, for an initial term of 6 years and, through a series of geological/geophysical programs, was extended by Cygam to August 6, 2007. However these extensions carried a commitment to commence a well prior to the new expiry date, failing which a very large penalty would have to be paid to ETAP.

Cygam and several industry partners had analyzed older seismic data on the permit and believed that several reef structures with strong similarities to the giant Kashagan oil field in Kazakhstan existed in the Jorf area. Interpretation of data from a new 166 km 2D seismic program, acquired at the beginning of 2007, confirmed the presence of a large reefal structure in the southern portion of the block and of several other anomalies, also interpreted as reef build-ups. Such structures had the potential of containing significant reserves. Drilling operations commenced at the selected location (Bahyra # 1) on July 30, 2007. The Bahyra well confirmed the presence of upper Permian shales, approximately 300 metres thick, indicative of good cap rock in this portion of the permit. A thick dolomitized reef section was also encountered immediately below the shale, as postulated by the seismic interpretation. Unfortunately, as soon as the top of the reef was penetrated, a severe loss of drilling fluids ensued (approximately 30,000 barrels), due to very high porosity and permeability in the reservoir rock. Three cores were cut and all confirmed the presence of very porous dolomitized carbonates. Despite having encountered a very thick, dolomitized and porous reef unit as inferred by seismic and having a good seal rock over the reservoir, no hydrocarbons in liquid or gaseous form were recovered. A series of production tests returned only a mixture of drilling fluids and some inferred formation water. The well was therefore abandoned in early October.

Management still believes that the Jorf block offers good exploration potential. Pinnacle reefs of probable lower Permian age have been mapped in the northern portion of the permit, at a depth of approximately 3,500 metres. The deeper burial of such structures is believed to improve hydrocarbon entrapment. Cygam extended the permit until February 6, 2009 by committing to acquire approximately 200 km of new 2D seismic data and has contracted a seismic crew to conduct such survey in July-August, 2008. After interpretation of the data, the Corporation and its partners will decide whether to commit to drill another well and extend the permit for a further two years or relinquish the permit.

Cygam is in the process of signing joint venture agreements with industry partners who will share in the cost of the survey and potential future well on a promoted basis.

Bazma Permit

The Bazma permit, located onshore south-central Tunisia, is the western extension of the Jorf permit and encompasses an area of 1,616 square kilometres (399,308 acres). The permit was officially granted on July 28, 2006, for an initial four year period.

Cygam has a 100% working interest and is currently signing joint venture agreements with other companies willing to participate in the exploration program at Bazma on a promoted basis.

In early 2007, the Corporation re-processed approximately 200 km of selected seismic lines out of the extensive seismic data on the permit. A comprehensive geophysical evaluation, recently finalized, confirmed the presence of several structures on the block with potential in the Triassic Tagi sandstone reservoirs which produce gas and condensate from the nearby Baguel and Tarfa fields. One structure, located in close proximity to the Tarfa field, is of particular interest because of its similarity to producing fields and will be drilled first. During July-August, 2008, Cygam will acquire an additional 56 kilometres of seismic data on this and other structures to finalize an exact drilling location.

Availability of drilling rigs is unfortunately limited in Tunisia and therefore the Corporation is currently negotiating a contract to move a suitable drilling rig from Dubai together with other Canadian and Tunisian companies. It is expected that the rig will be transported to Tunisia during the summer months. A condition of this contract is that Cygam will be the second company allowed to utilize the rig. Such a timing schedule will allow our technical group to interpret the new seismic and be ready to drill the first well at Bazma by late 2008. The drilling location currently proposed will be within a few kilometres from existing production and a northbound pipeline carrying gas and condensate from the Baguel and Tarfa fields. This pipeline joins an eastbound pipeline carrying Ordovician gas and condensate from the El Franig and Sabria fields located 50 kilometres west of Bazma and then connects to the major line carrying hydrocarbons from the giant El Borma field in southern Tunisia to the Gulf of Gabes.

Long delivery items such as wellhead and casing have already been purchased ahead of drilling.

Sud Tozeur Permit

At Sud Tozeur, an original Prospecting Permit, granted on May 13, 2005, for a period of two years carried an obligation to re-interpret all existing seismic data and acquire a minimum 50 kilometers of new seismic lines. Cygam obtained all existing seismic data from ETAP and previous operators and in January, 2007, completed a 61 km 2-D seismic delineation program on the permit. The Sud Tozeur Prospecting Permit was then converted into a four year Exploration Permit which was officially granted on July 5, 2007.

The new seismic data has been integrated with older, extensive seismic data in order to finalize the best drilling location offsetting a well drilled in late 1997. That well, SN #1, encountered very high pressure and numerous oil and gas shows in the Triassic, Ordovician and Cambrian.

A core, cut at the Triassic-Ordovician interface, was oil stained and several prospective intervals were highlighted by log analysis. Open hole testing was deemed too dangerous because of high pressures and therefore production casing was set to a total depth of 4,677 metres. Testing through casing perforations failed however to produce hydrocarbons, likely because the heavy drilling fluids and cement invasion caused severe damage to the reservoir rocks.

New detailed log evaluation by an independent log expert confirms that several intervals in the Triassic, Ordovician and Cambrian are hydrocarbon bearing.

Preliminary mapping has also identified additional un-drilled structures on trend with Algerian fields and near the Sabria production concession, but further evaluation will be required to bring these prospects to the drilling stage.

The Sud Tozeur exploration permit, located near the Algerian border and in close proximity to the Sabria and El Franig fields, covers an area of 4,380 square kilometres (1,082,283 acres) and carries a drilling commitment over a period of four years. Cygam holds a 100% working interest in the permit and is currently signing joint venture agreements with other companies to participate in the exploration on a promoted basis.

Cygam plans to finalize a drilling contract in the near future and has already acquired long delivery items such as casing and related equipment. A well is expected to commence at Sud Tozeur in early 2009, depending on finalization of the drilling target and rig availability.

Sud Remada Permit

The Sud Remada block, operated by Storm Ventures International Inc. (“Storm”), is located in southern Tunisia, near the Libyan border and encompasses an area of 4,748 square kilometres (1,173,215 acres). Cygam has earned a 14% working interest in the entire permit (or 164,250 net acres) and will participate in all future exploration activities at Sud Remada on an un-promoted basis.

In mid 2007, Storm Ventures International, the permit operator, continued the geophysical evaluation of two large Ordovician structures in the northern half of the permit and acquired a new 2-D seismic program in order to finalize the location of a planned exploratory well. One of the two structures, named TT, was tested in 1959 by the TT-1 well which recovered oil and gas on limited short tests in the Ordovician Bir Ben Tartar formation. The other structure, named El Bell, has never been drilled. The TT and El Bell structures have areal extents of approximately 64 and 75 km² respectively.

Storm commenced drilling the TT-2 well on March 28, 2008, approximately 1500 metres south west of the TT-1 location. The drilling program includes coring the entire Ordovician Bir Ben Tartar formation and open hole testing of prospective intervals. Pending drilling success, the well will be production tested later on in the year after artificial stimulation of the reservoir.

The southern half of the Sud Remada permit also has potential in the Silurian Acacus formation. Preliminary seismic interpretation indicates the presence of structures of similar shape and size as producing Silurian fields in southern Tunisia (Oued Zar, Hammamouda, Hammamouda Nord, Larich and Adam) and neighbouring Libya.

Canadian Operations

Cygam’s net average daily production from Canadian operations, expressed in barrels of oil equivalent per day (boe/d), remained virtually constant in 2007 at 36.3 boe/d (versus 36.35 boe/d in 2006) and consisted of approximately 70% natural gas and 30% oil and natural gas liquids. The daily production, expressed in boe/d, is based on the industry standard conversion factor of 6 Mcf equalling one barrel of oil.

An evaluation of the remaining recoverable reserves and the net present value attributable to five unitized properties was completed by Fekete Associates Inc. at December 31, 2007. A preliminary independent appraisal of the properties operated by Signalta Resources Limited was conducted by

Matsalla Consulting (1981) Ltd. at November 30, 2007. The final report on the Signalta properties is expected in May, 2008.

Fekete Associates Inc. assigned a 10% net discounted present value of \$1,682,500 to the proved producing, proved non-producing and probable reserves at December 31, 2007 versus a value of \$ 1,729,000 at December 31, 2006. Remaining recoverable reserves, net to Cygam after royalties, as evaluated by Fekete amount to 482,000 Mcf of natural gas and 24,200 barrels of oil and natural gas liquids. Additions to reserves during the year, due to the drilling of one development well at South Edson, helped to offset the normal decline due to yearly production.

Appraisal by Matsalla Consulting of approximately 200 gas and oil wells operated by Signalta Resources is not yet available and will be reported in the first quarter report.

The Signalta properties account for approximately 28% of Cygam's Canadian properties' value.