

CYGAM ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS THREE MONTHS ENDED MARCH 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 interim consolidated financial statements (unaudited) for the three months ended March 31, 2007, the annual consolidated financial statements as at December 31, 2006 and the annual MD&A. This MD&A is dated as of May 25, 2007.

The interim consolidated financial statements have been prepared by management and approved by Cygam's Audit Committee on behalf of the Board of Directors. These financial statements have not been independently reviewed or audited. 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 incurred the following capital expenditures and conducted the following exploration activities during the three months ended March 31, 2007:

<u>Expenditures on PP&E</u>	<u>Canada</u>	<u>Italy</u>	<u>Tunisia</u>	<u>Total</u>
Development	36,575	-	-	36,575
Seismic	-	68,972	1,074,632	1,143,604
Drilling and equipment purchase	-	340,740	119,129	459,869
Other	-	48,069	3,601	51,670
Total	36,575	457,781	1,197,362	1,691,718

CANADA

The 9-19-50-16 W5M well, in which the Company has an 8.9688 % working interest, was tied-in into the South Edson Unit through a 1.5 km pipeline and was finally placed on production in mid January, 2007. Routine maintenance operations were also conducted in the Snipe Lake South Unit where the Company has a 0.0763814% working interest.

INTERNATIONAL

Cygam 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.

ITALY

Posta Nuova

Cygam signed a contract with Hydro Drilling International S.p.A. (Hydro Drilling) to drill a 1,000 meter well after regulatory approval for all drilling operations was received on March 19, 2007. Drilling of the well, named Posta Piana-1, commenced on May 6 and total depth of 1147 meters was reached on May 18, 2007. The well is currently standing cased awaiting completion operations.

B.R268.RG

Negotiations to acquire approximately 300 kilometres of 2-D marine seismic data from the previous operator of the block were finally completed and the seismic data was delivered to our office in Rome. This seismic data is currently being interpreted and may be re-processed if necessary.

Civitaquana

Work on the Civitaquana permit, located onshore central Italy, west of the B.R268.RG Permit, in the Marche-Abruzzi basin, was limited to preliminary seismic assessment since the purchase of all existing data and acquisition of additional seismic will not be allowed until the permit receives final ministerial approval. Cygam has completed the environmental assessment requirements and expects to receive the final approval on this block by mid 2007.

Aretusa

Final ministerial approval for the Aretusa exploration permit, now officially named C.R148.VG, was published in the monthly Italian Hydrocarbon Bulletin on December 31, 2006. Cygam has a 100% working interest in this permit which encompasses an area of 83,267 acres. Available seismic data indicates the presence of one potential large structure on the block. Acquisition of approximately 2,500 km of existing seismic from a previous operator was discussed during the quarter.

Montalbano

Cygam and its partners have fulfilled the initial work obligation on the permit through the purchase of existing seismic data which is currently being interpreted. Drilling and log data from an older well which tested gas close to the northern boundary of the permit have also been acquired. During the quarter, Cygam held joint venture meetings with its two partners, J.K.X. Italia, a British company, and Gas Natural, a Spanish company.

TUNISIA

Jorf

Cygam received a considerable amount of seismic data on the Jorf and the adjoining Bazma permit from the Tunisian State Oil Company (ETAP) and previous operators. Approximately 270 kilometers of selected seismic lines were re-processed in an attempt to improve data quality. Preliminary seismic and geological interpretation outlined two major separate anomalies within an extensive reef development area. On the strength of this interpretation, the company decided to conduct an additional 2-D seismic program in order to finalize the precise location for a planned exploratory well. This new 166 kilometers state-of-the-art seismic program was completed in March, 2007, and a drilling location has been recently selected. In order to avoid expected lengthy delays in obtaining casing, tubing, wellheads and related equipment, the company also acquired sufficient drilling completion equipment for the well.

In early 2007, Cygam signed joint venture agreements with three Canadian exploration companies that will each pay for 15% of the new 2-D seismic costs and 15% of drilling and completion costs of a 2,500 meter exploratory well to each earn a 10% interest in the first identified drillable structure. Each company has a further option to farm-in on other structures within the concession on the same terms.

Sud Tozeur

At Sud Tozeur, the original Prospecting Permit, granted on May 13, 2005, carried an obligation to re-interpret all existing seismic data and acquire 50 kilometers of new seismic lines on or before the expiry of the two year term. During 2006, Cygam acquired all existing seismic data from ETAP and previous operators. In January, 2007, Cygam completed a 61 km 2-D seismic

delineation program on the permit and on March 19, 2007, the Company received approval by the Department of Energy to convert the Sud Tozeur Prospecting Permit into a four year Exploration Permit. The new seismic data will be integrated with older data coverage on the Sud Tozeur permit in order to finalize the best drilling location on a large structure with Triassic and Ordovician reservoir potential which had been drilled in late 1997, by the previous operator. Several, additional, un-drilled structures have also been identified on the permit, on trend with Algerian fields, which require further evaluation.

Bazma

In the first quarter of 2007 the Company re-processed approximately 200 km of seismic data with good results. Final interpretation of the data is underway. Cygam has already signed letters of intent with two Canadian companies interested in participating in joint ventures in this area on a promoted basis, subject to review of seismic and other technical data. Pending final interpretation of all existing seismic data and confirmation of prospective structural trends on the permit, Cygam may drill a well on this permit in early 2008.

Sud Remada

During the quarter, Storm Ventures International, the permit operator, continued the geophysical evaluation of two large Ordovician structures in the northern half of the permit and proposed the acquisition of a new 2-D seismic program in order to finalize the location of a planned exploratory well. Cygam has now converted its 20% working interest in the southern portion of the permit into a 10% working interest in the entire permit. This 10% working interest will apply to all future operations at Sud Remada.

FINANCIAL PERFORMANCE

Selected Financial Information

	Three months ended March 31	
	2007	2006
	\$	\$
Oil and gas revenue	159,882	171,065
Royalties, net of ARTC	(25,154)	(35,541)
Other revenue	<u>131,770</u>	<u>144,583</u>
Total net revenue	266,498	280,107
Operating costs	41,388	42,674
Depletion, amortization and accretion	58,938	40,010
General & administration	364,844	244,786
Interest	1,124	1,748
Stock-based compensation expense	<u>36,417</u>	<u>92,062</u>
	<u>502,711</u>	<u>421,280</u>
	(236,213)	(141,173)
Unrealized gain (loss) on marketable securities	<u>(79,838)</u>	<u>155,683</u>
Net earnings (loss)	(316,051)	14,510
Current and future income tax expense	<u>11,500</u>	-
Net earnings (loss) after tax	<u>(327,551)</u>	<u>14,510</u>

Oil and Gas Revenue

Oil and gas revenues (net of royalties) of \$ 134,728 (2006 - \$135,524) represents revenue from the Canadian operations. Production for the quarter was 38.94 boed (2005 - 37.12), comprising approximately 75% natural gas and 25% oil and NGLs, at an average price of \$45.62 per boe (2005 -

\$50.64). The decrease in revenue resulted from a decrease in the average price of oil and natural gas offset by a small increase in production.

Crown and production royalties (net of ARTC) was \$25,154 (2006 - \$35,541) or \$7.17 (2006 -\$10.52) per boe, whilst operating expenses were \$41,388 or \$11.81 (2006 – 12.63) per boe.

Other Revenue

Other revenue for the quarter includes distributions of \$83,829 (2006 - \$79,938) received from investments in marketable securities, and interest income of \$40,789 (2006 - \$64,645) on cash balances invested in short-term fixed income securities.

Unrealized Loss on Marketable Securities

At the time of the acquisition, management had designated the units acquired as held for trading with the intent to dispose of these units when funds were required for exploration activities. At March 31, 2007 the units are stated in the financial statements at fair value of \$3,452,976 following an unrealized loss of \$79,838 during the quarter.

Net Income (loss)

The net loss before tax for the period was \$316,051 (2006 – net earnings \$14,510). 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 a net loss after tax of \$140,858.

General and Administrative Expenses

The increase in G&A expenses resulted from an increase in staff in the Rome office and the opening of our Tunis office and the hiring of a permanent Resident Manager in July 2006 in the Tunis office.

G&A includes \$92,756 (2006 - \$84,359) in consulting fees paid to directors and officers of Cygam, or to companies whose shareholders are directors and officers of Cygam, and \$814 (2006 - \$2,020) in legal fees paid to a legal firm in which a director of the Company is a partner.

During the quarter, the Company capitalized \$53,399 (2006 - \$62,647) 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 that period.

Stock-based compensation for the quarter was \$36,417 (2006 - \$92,062). In February 2007, 725,000 vested options previously issued to a director who passed away in February 2006 expired unexercised.

Depletion, Amortization and Accretion

Depletion, Amortization and Accretion (“DA&A”) amounted to \$58,938 including depletion and accretion amount of \$46,531 (\$13.27 /boe) for the period related to oil and gas production from Canadian properties. The cost of unproved properties of \$8,878,987 was excluded from the DA&A calculation and is assessed periodically to ascertain whether impairment has occurred.

SUMMARY OF QUARTERLY INFORMATION

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

	2007			2006
	Q1	Q4	Q3	Q2
P&G sales (net of royalties)	\$ 134,729	126,633	122,459	93,664
Other revenue	131,770	240,789	153,872	158,887
	266,498	367,422	276,331	252,551
Expenses	502,711	728,105	445,017	483,688
Earnings (loss) before items below	(236,213)	(360,683)	(168,686)	(231,137)
Gain on sale of marketable securities	-	-	-	-
Unrealized gain (loss) on marketable securities	(79,838)	(445,095)	(748,478)	(496,988)
Foreign exchange gain (loss)	-	2,045	(3,484)	(2,484)
Net earnings (loss) before income taxes	(316,051)	(803,733)	(920,648)	(730,609)
Current and future income tax recovery	(11,500)	62,461	(15,990)	5,000
Net earnings after tax	(327,551)	(741,272)	(936,638)	(725,609)
Net income (loss) per share	(0.00)	(0.01)	(0.01)	(0.01)
Production (boe/d)	38.94	37.64	38.28	32.32
	2006			2005
	Q1	Q4	Q3	Q2
P&G sales (net of royalties)	\$ 135,527	205,025	-	-
Other revenue	144,583	128,299	-	53,920
	280,107	333,324	-	53,920
Expenses	421,280	1,179,285	-	-
Earnings (loss) before items below	(141,173)	(840,961)	-	53,920
Gain on sale of marketable securities	-	-	-	4,827,555
Unrealized gain (loss) on marketable securities	155,683	(932,308)	-	-
Foreign exchange gain (loss)	-	(58,486)	-	376,860
Net earnings (loss) before income taxes	14,510	(1,831,755)	376,860	4,888,464
Current and future income tax recovery	-	10,978	-	-
Net earnings after tax	14,510	(1,820,777)	376,860	4,888,464
Net income (loss) per share	0.00	(0.037)	0.009	0.117
Production	37.12	38.04	n/a	n/a

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 third 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 2007. Expenses in the fourth quarter of 2005 include significant costs relating to the reverse take-over transaction.

LIQUIDITY AND CAPITAL RESOURCES

The Company had a net working capital balance of \$6,874,417, including a cash balance of \$4,337,997 as at March 31, 2007. Cash balances in excess of planned requirements were invested in short-term fixed income securities generating \$40,789 in interest income for the quarter, and the Company continues to receive a monthly distribution of \$27,943 from its investment in marketable securities. On May 23, 2007, the Company completed a brokered private placement to raise \$10,000,000 at a price of \$1.00 per common share.

The Company's cash balance and additional funds from the liquidation of the marketable securities are expected to be sufficient to fund the planned first phase of the exploration program over the next year assuming the Company is able to negotiate and fund a 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 \$12,000,000 will be primarily funded from the Company's cash, working capital and proceeds from equity financings and the exercise of outstanding warrants and agent's 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 May 25, 2007 is outlined below:

	Shares	Amount (\$)
Outstanding shares at December 31, 2006	72,349,640	\$ 14,303,681
Issued upon acquisition of Vittorito interest	<u>484,614</u>	<u>294,498</u>
Outstanding shares at March 31, 2007	72,834,254	\$14,598,179
Issued upon exercise of Series "B" warrants	77,000	64,996
Issued upon exercise of Agent's option	80,000	57,953
Private Placement	<u>10,000,000</u>	<u>10,000,000</u>
Outstanding shares at May 25, 2007	<u>82,991,254</u>	<u>\$24,721,128</u>

The Company paid a cash commission of 6% of gross proceeds to the agent on the private placement and incurred other financing costs of approximately \$150,000.

As noted earlier 725,000 stock options expired unexercised during the quarter. No stock options were granted or exercised during the quarter ended March 31, 2007. The total number of stock options granted as at March 31, 2007 and as at the date of this MD&A was 4,300,000, and the total number of warrants and agent options issued was 15,084,554.

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 period, as disclosed in the notes to the interim consolidated financial statements. During the quarter, the Company paid \$92,756 (2006 - \$84,359) as consulting fees to related parties. The Company also paid \$814 (2006 - \$2,020) in legal fees to a legal firm in which a director of the Company is a partner.

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.

Rigo Oil Company Tunisia Ltd. (ROCT) is the operator of the Jorf exploration permit, and the operator of the Sud Tozeur prospecting licence. Under the terms of the exploration permit, the operator and its partners are obligated to drill one well to the depth of 2,500 meters within the term of the permit which has now been extended to August 6, 2007. The Company plans to drill a well on this permit in July 2007. Under the terms of the Sud Tozeur prospecting licence, which expires on February 24, 2007, ROCT is obligated to re-interpret existing seismic data and acquire 50 kilometers of new seismic lines and has an option to convert the licence to a four year exploration permit. In January 2007, the Company completed an additional 60 kilometers of seismic, and made an application to convert the prospecting license to an exploration permit.

The Company rents premises in Rome, Italy, and in Tunis, Tunisia, under operating leases that require payments of \$88,000 per annum in Rome and \$55,000 per annum 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, 2006. 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 Impairments

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. It should be noted that while the Company's management believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do 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.

NEW ACCOUNTING STANDARDS

On January 1, 2007, the Company adopted the following new Handbook Sections: Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and

Measurement; and Section 3865, Hedges. These new accounting standards for Canadian GAAP emphasize the use of fair value rather than historical cost as the basis for accounting for financial instruments.

The Accounting Standards Board (AcSB) has proposed that Canadian GAAP for publicly accountable enterprises will migrate to International Financial Reporting Standards (IFRS) over a transition period in the next five years. The Company will assess the impact this proposal will have on the financial statements.

OUTLOOK

Cygam plans to focus largely on international oil and natural gas exploration. The Company intends to conduct a two-phase, success based, initial exploration program for its Italian and Tunisian Permits as well as look for additional exploration and drilling opportunities in Italy, Tunisia and other circum-Mediterranean oil prone areas. The first phase will involve seismic acquisition and interpretation plus the drilling, testing and potential completion of one well on each of the permits acquired. The second phase will involve the drilling, testing and potential completion of additional wells if Cygam determines it is warranted.

Cygam's exploration plans for the remainder of 2007 and early 2008 in Italy and Tunisia include:

- (a) **Posta Nuova Permit.** Production casing was set in the Posta Piana-1 well on May 23, 2007, and the well will be production tested in late May – early June. If production testing proves to be successful, additional development locations on the drilled structure or in other portions of the Posta Nuova permit will be considered.
- (b) **B.R268.RG (Miglianico East) Permit.** The Company will continue the interpretation of approximately 300 kilometers of existing marine seismic which was recently acquired from the previous permit operator. Selected seismic lines will be re-processed in order to see if a substantial improvement in data quality can be achieved. Re-processing of all seismic data will follow if deemed necessary. The additional purchase of another 120 kilometers of shallow marine seismic is currently being negotiated with a previous operator. A potential 3-D seismic program may be recommended after the assessment of all the acquired seismic data is completed. Cygam has identified three offshore structures, including the potential extension of the onshore Miglianico discovery, which will be further assessed and graded for drilling. Drilling of a well to a total vertical depth of approximately 4,500 metres is tentatively planned for late 2008 or early 2009, depending on rig availability. An assessment of jack-up rig availability for shallow offshore operations is currently underway. Discussions with operators of nearby offshore block are continuing with the intent of possibly sharing a drilling rig in the future.
- (c) **Montalbano Permit.** The Company had technical meetings with its partners in the permit and purchased 80 kilometers of existing seismic lines which are currently being interpreted. The acquisition of approximately 40 kilometers of new lines is planned for late 2007 or early 2008. Potential drilling of a 1,600 meters well may be considered in 2008.
- (d) **Civitaquana Permit.** Cygam submitted an updated environmental assessment for this permit and expects to receive final ministerial approval in mid 2007. Upon receipt of final approval, Cygam will purchase and reprocess 100 kilometers of existing seismic data and will acquire an additional 60 kilometers of 2D seismic lines.
- (e) **C. R148.VG (Aretusa) Permit .** In December, 2006, Cygam received final ministerial approval for this new exploration permit in the Mediterranean Sea, offshore south-eastern

Sicily. The Company is currently discussing the acquisition terms for approximately 2,500 kilometres of existing 2-D seismic from ENI, the Italian State company which had conducted extensive marine seismic operations offshore Sicily. The potential acquisition of a new 80 to 100 square kilometres 3-D seismic program is tentatively scheduled for 2008.

- (f) **Jorf Permit.** Cygam completed the preliminary interpreting of all the available seismic data on the permit in 2006, and outlined two large carbonate reef structures on the Jorf block. In February and March, 2007, the Company conducted an additional 166 km 2-D seismic acquisition program in order to finalize the precise location for a planned exploratory well. A drilling contract was signed on April 25, 2007, and the Company plans to commence drilling operations by early July, 2007, after the contracted drilling rig completes its work obligations with another operator. Cygam has already acquired long-delivery items, such as wellhead, casing and related equipment.
- (g) **Bazma Permit.** Reinterpretation of a large amount of acquired seismic data and potential reprocessing of additional selected lines will continue during 2007. A potential drilling location has already been outlined. The Company may drill a well at Bazma in early 2008, depending on rig availability.
- (h) **Sud Tozeur Permit.** Processing and interpretation of a new 61 km 2-D seismic survey is continuing. The survey was designed to further define with state-of-the-art seismic a large structure which was outlined based on older seismic data. This structure holds hydrocarbon potential in Triassic, Ordovician and Cambrian reservoirs. Pending complete evaluation of all seismic data and rig availability, a well may be proposed at Sud Tozeur in late 2007 or early 2008.
- (i) **Sud Remada Permit.** The permit operator, Storm Ventures International Inc., has commenced the acquisition of an additional 200 kilometers of 2-D seismic data in May, 2007, on the northern half of the permit in order to further define two large Ordovician structures. An Ordovician well may be proposed in late 2007. In the southern half of the permit, a Silurian Acacus structure, located near the Libyan border, may also be further investigated.

As noted earlier, the Company's cash balances are expected to fund only part of the estimated costs of the first phase of the proposed program and to help cover anticipated general and administrative expenses and working capital provided that Cygam can farm out portions of its prospective interests in the Italian and Tunisian Permits. Additional funds will have to be raised to proceed with the second phase and to complete the initial phase if farm-outs cannot be arranged. There is no assurance that farm-outs will be arranged or that such additional funds can be raised on reasonable terms, or at all.