

CYGAM ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS THREE MONTHS ENDED MARCH 31, 2008

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, 2008, the annual consolidated financial statements as at December 31, 2007 and the annual MD&A. This MD&A is dated as of May 28, 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, 2008:

Expenditures on PP&E	Canada	Italy	Tunisia	Total
Development	83,807	-	-	83,807
Seismic and technical	-	146,514	32,525	179,039
Drilling and equipment purchase	-	-	302,994	302,994
Other	-	699	45,234	45,933
Total	83,807	147,213	380,753	611,773

March 31, 2007:

Expenditures on PP&E	Canada	Italy	Tunisia	Total
Development	36,575	-	-	36,575
Seismic and technical	-	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

Activities in the first quarter of 2008 included completion, testing and tie-in operations at the 6-30-50-16 W5M well in the South Edson gas unit. Cygam has approximately a 9% working interest in the South Edson gas unit. Routine maintenance operations were conducted in the Snipe Lake South Unit where the Company has a 0.0763814% working interest.

Average production from Canadian wells during the quarter decreased slightly to approximately 34 boe per day.

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

In Italy, Cygam recently concluded 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) or drilling of an exploratory well to satisfy the work commitment.

B.R268.RG

Reprocessing of 380 kilometres of 2-D marine seismic data was completed during the quarter. All the seismic data has now been loaded on a geophysical work-station in our office in Rome and is currently being interpreted. Final interpretation is scheduled for completion by the end of June. Cygam is currently looking for a suitable jack-up rig capable of drilling a 4,500 metre well on the Elsa structure. Participation by an additional partner in the drilling of the prospect is being evaluated at the present time. The Corporation already has an existing joint venture partner that has agreed to pay 60% of drilling costs of the first well to earn a 40% working interest in the permit.

C.R148.VG (Aretusa)

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 which is expected to have significant hydrocarbon potential. Cygam has recently conducted a quality inspection on several seismic lines and has selected approximately 500 km of seismic data which we intend to purchase.

Civitaquana

Cygam received final ministerial approval for this permit on July 24, 2007. Cygam has recently conducted a quality inspection on several seismic lines and has selected approximately 158 km of seismic data which we intend to purchase. The Corporation has a 60 % working interest in this permit plus an additional 5 % free carried interest.

Posta Nuova

The Posta Piana-1, drilled in May, 2007, tested limited amounts of gas from a middle Pliocene zone which had tested 1.3 MMcf/d of gas from the Cervaro # 1 well, located approximately 200 metres away. Acidizing of a sandstone interval which had indicated gas pay on logs also failed to recover gas in commercial quantities. The Corporation is now awaiting approval from the Department of Energy to abandon the well.

Montalbano

Cygam and its partners have fulfilled the initial work obligation on the permit through the purchase of existing seismic data which has now been reprocessed and 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 additional joint venture meetings with its two partners, Mediterranean Oil and Gas (a company which acquired the interest of J.K.X. Italia) and Gas Natural, a Spanish company. A drillable structure with Pliocene hydrocarbon potential was outlined and it is expected that a well will be drilled there by the new designated operator (Mediterranean Oil and Gas) by late 2008 or early 2009, depending on drilling rig availability. Cygam has a 30% working interest in the permit.

TUNISIA

The Corporation is currently finalizing joint venture agreements with several industry partners that have expressed an interest in participating in seismic and drilling operations at Bazma, Jorf and Sud Tozeur on a promoted basis. Acquisition parameters have been prepared for two seismic programs which will be conducted in June-August at Bazma and Jorf. 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 move one modern drilling rig into Tunisia. This should alleviate the serious drilling rig shortage in the country and allow the Corporation to have better control on the timing of execution of its drilling plans.

Sud Remada

At the end of the quarter, Storm Ventures International Inc., the permit operator, commenced drilling operations at the TT-2 well location. The main target, the Ordovician Bir Ben Tartar formation, consisting of a massive sequence of sandstones with minor shale streaks, had significant gas and oil shows while coring. Good yellow fluorescence was observed in the cores.

Upon reaching total depth at 1,500 metres and after log evaluation, several zones of interest were identified in both the primary and secondary objectives and selected for testing. Presence of hydrocarbons was confirmed by one drill stem test which recovered light oil, gas and no water. The test was run approximately 50 meters below the top of the Bir Ben Tartar and log analysis indicates that the potential hydrocarbon column could extend up to approximately another 25 metres below the tested interval.

Petrophysical analysis indicates that a secondary objective (Ordovician Jaffara formation) may also be hydrocarbon-bearing. Significant gas shows were also encountered while drilling through the Silurian Tanezzuft shale and sandstone sequence above the Bir Ben Tartar main objective. Several open-hole drill stem tests were planned but, due to unpredictable mechanical failures, only one test was successfully completed which recovered oil and gas in the down-hole sampler, with no water. During testing operations, well-bore conditions deteriorated and the operator and its partners agreed to suspend testing and set casing to total depth.

The operator is currently waiting for the arrival of stimulation equipment from outside Tunisia in order to artificially fracture and production test several zones of interest. It is expected that Schlumberger stimulation equipment should arrive on location by early July. In the meantime, the two cores (approximately 60 meters in total) cut in the Bir Ben Tartar formation have been shipped to Aberdeen, Scotland, for routine and special analyses. A detailed testing and stimulation program is also being prepared.

The Sud Remada permit is located in the Ghadames Basin and is approximately 1.2 million acres in size. Cygam's working interest in the well and in the entire permit is 14%.

Bazma

During the quarter, our Tunis office completed a comprehensive geophysical interpretation of extensive seismic data on the Bazma permit. Several structures with similar characters as the nearby Tarfa and Baguel producing fields were mapped. One structure, provisionally called "W" and located less than 5 km from the Tarfa field, was selected as the first drilling location. Prior to drilling, the Corporation will however acquire approximately 50 km of new 2D seismic data to confirm the best location on the "W" structure and to further define additional structures. A contract has been signed with CGG, an international seismic acquisition company, which is expected to commence field work at Bazma in June. Cygam is currently negotiating a drilling

contract with a Canadian company which is planning to move a drilling rig from Alberta to Tunisia during the summer.

It is expected that drilling operations will commence shortly after the rig arrives in Tunisia, probably during the 4th quarter of 2008. Long delivery items such as wellhead and casing have already been purchased ahead of drilling. The Triassic Tagi will be the main target on the "W" structure at approximately 2,500 metres depth. Cygam has already signed a farm-out agreement with Timgad Energy, an Egyptian company, which will earn a 10 % working interest by paying 15 %. Additional companies have also expressed an interest in participating in our exploration program on a promoted basis.

Jorf

During the quarter, Cygam obtained the approval by the Tunisian Department of Energy to extend 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 deep Permian prospects have been identified. Seismic acquisition is expected to commence in June-July, as soon as the seismic program in the adjoining Bazma permit is completed. After this new seismic data is processed and interpreted, the Corporation will decide whether it will continue the permit for an additional period of two years by committing to drill a new well or whether it will abandon the Jorf permit.

Drilling of the shallow Bhayra Rigo 1 well in August 2007, confirmed the presence of good seal rocks and of an excellent dolomitized and porous reef, as interpreted through seismic. Burial of potential pinnacle reefs at greater depth (over 3,500 metres) in the northern portion of the Jorf permit should improve the probability that such reefs may have trapped hydrocarbons generated by overlaying and underlaying shale sources rocks.

Sud Tozeur

Cygam completed a preliminary geophysical interpretation of the majority of seismic data on the Sud Tozeur permit in early 2008, inclusive of the 61 km 2-D delineation seismic acquired on the permit in 2007. Several structures have now been outlined, inclusive of two separate anomalies close to a well with Triassic and Ordovician reservoir potential which had been drilled in late 1997, by a previous operator. Several, additional, un-drilled structures have also been identified on the permit, on trend with Algerian fields, but they will require further evaluation.

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 currently holds a 100% working interest in the permit and has received expressions of interest from other companies to participate in the exploration on a promoted basis. A well may be drilled at Sud Tozeur in early 2009 pending final seismic evaluation and availability of a rig capable to drill a deep Ordovician test to approximately 4,300 metres.

FINANCIAL PERFORMANCE
Selected Financial Information

	Three months ended March 31	
	2008	2007
	\$	\$
Oil and gas revenue	174,246	159,882
Royalties, net of ARTC	(7,192)	(25,154)
Other revenue	<u>137,053</u>	<u>131,770</u>
Total net revenue	304,106	266,498
Operating costs	42,120	41,388
Depletion, amortization and accretion	60,581	58,938
General & administration	426,631	364,844
Interest	551	1,124
Stock-based compensation expense	<u>85,839</u>	<u>36,417</u>
	<u>615,722</u>	<u>502,711</u>
	(311,616)	(236,213)
Unrealized gain (loss) on marketable securities	<u>514,952</u>	<u>(79,838)</u>
Net earnings (loss)	203,336	(316,051)
Current and future income tax expense	<u>-</u>	<u>11,500</u>
Net earnings (loss) after tax	<u>203,336</u>	<u>(327,551)</u>

Oil and Gas Revenue

Oil and gas revenues (net of royalties) of \$ 167,054 (2007 - \$134,728) represents revenue from the Canadian operations. Production for the quarter was 34.1 boed (2007 – 37.66), comprising approximately 75% natural gas and 25% oil and NGLs, at an average price of \$53.83 per boe (2007 - \$45.62). The increase in revenue resulted from an increase in the average price of oil and natural gas offset by a small decrease in production.

Crown and production royalties (net of ARTC) was \$7,192 (2007 - \$25,154) after a 2006 refund of ARTC of \$10,714 which was recorded in the first quarter of 2008. Excluding the ARTC refund, the royalties amounted to \$5.77 (2007 -7.17) per boe, whilst operating expenses were \$42,120 or \$13.74 (2007 – 11.81) per boe.

Other Revenue

Other revenue for the quarter includes distributions of \$84,528 (2007 - \$83,829) received from investments in marketable securities, and interest income of \$43,401 (2007 - \$40,789) on cash balances invested in short-term fixed income securities.

Unrealized Gain or 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, 2008 the units are stated in the financial statements at fair value of \$3,888,091 following an unrealized gain of \$514,952 during the quarter.

Net Income (loss)

The net income before tax for the period was \$203,336 (2007 – net loss \$316,051). 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 “adjusted net loss after tax” (a non-GAAP that management believes is useful in evaluating performance) of \$165,196 (2007- \$140,858) which increased due to an increase in G&A expenses.

General and Administrative Expenses

The increase in G&A expenses resulted from an increase in staff in the Rome office and the Tunis office, increase in compensation costs in 2008.

G&A includes \$100,978 (2007 - \$92,756) in consulting fees paid to directors and officers of Cygam, or to companies whose shareholders are directors and officers of Cygam, and \$20,568 (2007 - \$814) in legal fees paid to a legal firm in which a director of the Company is a partner.

During the quarter, the Company capitalized \$112,371 (2007 - \$53,399) 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 \$85,839 (2007 - \$36,417). In January 2008, the Company granted 2,650,000 stock options to directors, officers, consultants and employees of the Company.

Depletion, Amortization and Accretion

Depletion, Amortization and Accretion (“DA&A”) amounted to \$60,581 (2007- \$58,938) including depletion and accretion amount of \$47,851 (\$15.42 /boe) for the period related to oil and gas production from Canadian properties. The cost of unproved properties of \$18,188,662 was excluded from the DA&A calculation and is assessed periodically to ascertain whether impairment has occurred.

Comprehensive Income (loss)

This statement includes the net earnings (loss) for the period and the foreign currency translation adjustment arising from the gain or loss on translation of the Company’s wholly owned Italian subsidiary and Tunisian subsidiary. The Canadian dollar depreciated against both the Euro and the Tunisian Dinar during the quarter ended March 31, 2008 resulting in a significant foreign currency translation adjustment.

SUMMARY OF QUARTERLY INFORMATION

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

	2008			2007
	Q1	Q4	Q3	Q2
P&G sales (net of royalties)	\$ 167,053	122,556	157,485	133,268
Other revenue	137,053	154,601	195,823	144,906
	304,106	277,157	353,308	278,174
Expenses	615,722	803,715	528,082	551,093
Earnings (loss) before items below	(311,616)	(526,558)	(174,774)	(272,919)
Unrealized gain (loss) on marketable securities	514,952	(169,653)	(89,818)	179,634
Foreign exchange gain (loss)	-	(17,155)	(2,543)	(68)
Net earnings (loss) before income taxes	203,336	(713,366)	(267,135)	(93,353)
Current and future income tax recovery	-	98,265	48,601	-
Net earnings after tax	203,336	(615,101)	(218,534)	(93,353)
Net income (loss) per share	0.00	(0.00)	(0.00)	(0.00)
Production (boe/d)	34.10	33.93	37.62	36.17
	2007			2006
	Q1	Q4	Q3	Q2
P&G sales (net of royalties)	\$ 134,728	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)
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)	37.66	37.64	38.28	32.32

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 second quarter of 2006 and fourth quarter of 2007 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.

LIQUIDITY AND CAPITAL RESOURCES

The Company had a net working capital balance of \$7,937,372, including a cash balance of \$4,233,221 as at March 31, 2008. Cash balances in excess of planned requirements were invested in short-term fixed income securities generating \$43,701 in interest income for the quarter, 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 fund the planned exploration program for 2008 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 \$8,200,000 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 28, 2008 is outlined below:

	Shares	Amount (\$)
Outstanding shares at December 31, 2007	85,614,204	\$ 26,231,495
Outstanding shares at March 31, 2008 and May 28, 2008	85,614,204	\$26,231,495

As noted earlier, the Company granted 2,650,000 stock options during the quarter ended March 31, 2008. The total number of stock options granted as at March 31, 2008 and as at the date of this MD&A was 7,300,000, and the total number of warrants outstanding was 200,000.

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 \$100,978 (2007 - \$92,756) as consulting fees to related parties. The Company also paid \$20,568 (2007 - \$814) 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.

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

NEW ACCOUNTING STANDARDS

On January 1, 2008, the company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections on "Financial Instruments", "Capital Disclosures" and "Inventories".

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

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

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

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 four 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 2008 and early 2009 in Italy and Tunisia include:

- a) **B.R268.RG (Miglianico East) Permit.** The Company will finalize the interpretation of 380 kilometers of recently reprocessed marine seismic with the intent of mapping the structure where the Elsa oil discovery have been drilled. Drilling of a well to a total vertical depth of approximately 4,500 metres is tentatively planned for early 2010, depending on rig availability. An assessment of jack-up rig availability for shallow offshore operations is currently underway. A search has commenced to find a jack-up for the first quarter of 2010.
- b) **C. R148.VG (Aretusa) Permit.** Reprocessing and interpretation of approximately 500 km of seismic data will commence as soon as selected seismic lines are received. A potential acquisition of a new 80 to 100 square kilometres 3-D seismic program is tentatively scheduled for 2009.
- (b) **Civitaquana Permit.** Reprocessing and interpretation of approximately 158 km of seismic data is expected to commence as soon as selected seismic lines are received. Acquisition of an additional 60 kilometers of 2D seismic lines is also planned. A well may be drilled at Civitaquana on a known undrilled structure in 2009.
- (c) **Posta Nuova Permit.** Abandonment of the Posta Nuova well is expected to commence as soon as approval from the Department of Energy is received. Evaluation of drillable targets in the eastern portion of the permit is continuing.
- (d) **Montalbano Permit.** A drillable structure with Pliocene hydrocarbon potential was outlined and it is expected that a well will be drilled there by the new designated operator (Mediterranean Oil and Gas) by early 2009, depending on drilling rig availability. Cygam has a 30% working interest in the permit.
- (e) **Sud Remada Permit.** Artificial stimulation and testing of several intervals in the recently drilled TT2 well is expected to commence in late June or early July as soon as the necessary equipment arrives in Tunisia. Plans for development drilling on the 65 square kilometer TT structure will follow depending on the results on testing. In the southern half of the permit, a Silurian Acacus structure, located near the Libyan border, may also be further investigated.

- (f) **Bazma Permit.** A prospective structure has already been outlined and the actual drilling location is expected to be confirmed by additional 50 km of detailed seismic to be acquired in June-July. The Company is planning to drill a well at Bazma in Q4, 2008, depending on rig availability.
- (g) **Jorf Permit.** Acquisition of approximately 200 kilometres of new 2D seismic data in the northern portion of the permit where deep Permian prospects have been identified is scheduled to commence by early summer after the seismic program in the adjoining Bazma permit is completed. A commitment to drill a new well may be made if interpretation of new seismic data warrants an extension of the permit past February, 2009.
- (h) **Sud Tozeur Permit.** Cygam will continue the geophysical interpretation of all the majority of seismic data on the Sud Tozeur permit. Two separate anomalies have already been identified as potential targets in close proximity to a well with Triassic and Ordovician reservoir potential which had been drilled in late 1997. Additional un-drilled structures identified on the permit, on trend with Algerian fields, will require further evaluation. Pending complete evaluation of all seismic data and rig availability, a well may be proposed at Sud Tozeur in early 2009.

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. The Company expects that 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.