CYGAM ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
SIX MONTHS ENDED JUNE 30, 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 period ended June 30, 2008, the annual consolidated financial statements as at December 31, 2007 and the annual MD&A. This MD&A is dated as of August 28, 2008.

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 quarter ended:

June 30, 2008:

Expenditures on PP&E	Canada	Italy	Tunisia	Total
Development	105,579	-	-	105,579
Seismic and technical	-	448,276	1,265,000	1,713,276
Drilling and equipment purchase	-	-	791,550	791,550
Other	-	-	1,251	1,251
Total	105,579	448,276	792,801	2,611,656

June 30, 2007:

Expenditures on PP&E	Canada	Italy	Tunisia	Total
Development	49,821	-	-	49,821
Seismic and technical	-	52,526	885,944	938,470
Drilling and equipment purchase	-	2,938,656	217,425	3,156,081
Other	2,650	7,776	558	10,984
Total	52,471	2,998,958	1,103,927	4,155,356

CANADA

Activities in the first half 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.

Production from Canadian wells during the second quarter increased to 40.51 boe per day from 36.17 boed in 2007 due to the commencement of production at the 6-30 Edson well which offset minor declines in other units.

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 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. On July 30, 2008, Cygam's wholly-owned Italian subsidiary, Vega Oil S.p.A., received the preliminary ministerial approval for a new exploration permit named Masseria Montarozzo, located in the Puglia region of southern Italy, adjacent to the Posta Nuova permit. Vega has a 100% working interest in this permit which encompasses an area of 38,266 acres.

B.R268.RG
Reprocessing and final interpretation of 380 kilometres of 2-D marine seismic data was completed by the end of June. All the seismic data has been loaded on a geophysical work-station in our office in Rome and several maps have been generated on the offshore Elsa structure. The new seismic interpretation has significantly improved the quality of the prospect and was used to run a 3D reservoir simulation study which will be very useful in presentations should Cygam decide to look for potential new partners. 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. Cygam is currently looking for a suitable jack-up rig capable of drilling a 4,500 metre well on the Elsa structure.

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 conducted a quality inspection on several seismic lines and has selected approximately 500 km of seismic data which we intend to purchase in the near future.

Civitaquana
Cygam received final ministerial approval for this permit on July 24, 2007. Cygam 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. 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 early 2009, depending on drilling rig availability. Cygam has a 30% working interest in the permit.

Masseria Montarozzo
The company recently received the preliminary ministerial approval for this new exploration permit onshore Southern Italy. The company will need to present a formal environmental report before the formal approval process is completed.

TUNISIA
The Corporation has finalized and is finalizing joint venture agreements with industry partners which expressed an interest in participating in seismic and drilling operations at Bazma, Jorf and Sud Tozeur on a promoted basis. Acquisition of two seismic programs at Bazma and Jorf, totalling 250 km of new 2D data, was completed ahead of schedule before the end of June. Both programs were operated by CGG, the French geophysical company with the most experience in Tunisia. Before the end of September, Cygam also expects to sign a drilling contract to move one modern drilling rig into Tunisia. Because Tunisia currently has a drilling rig shortage, this should allow the Corporation to have better control on the timing of execution of its drilling plans.

Sud Remada
During the second quarter, Storm Ventures International Inc., the permit operator, completed 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 open-hole test was run approximately 50 meters below the top of the Bir Ben Tartar and log analysis indicates that the potential hydrocarbon column could be over 50 meters thick. Production casing was run in the hole and the drilling rig was released on April 25.

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.

In early July, perforating and testing equipment was moved to the well site. Three intervals were tested in the Bir Ben Tartar formation. The lowest interval tested small amounts of formation water and was abandoned. The two upper intervals attained combined flow rates of 300 bbl/d of 45 degree API oil and 200 Mcf/d of associated gas without stimulation.

Core data and pressure buildup analysis indicated the reservoir has relatively low matrix permeability and the well was hydraulically fractured. Initial results indicated a significant inflow post stimulation with varying water cuts very likely due to the load fluid still to be recovered (approximately 700 barrels). On subsequent short production tests the water cuts decreased substantially. The well is currently shut-in in order to obtain pressure measurements.

Following the evaluation of the Bir Ben Tartar formation, the partners intend to evaluate an uphole secondary objective that provided strong hydrocarbon shows while drilling.

Upon completion of testing operations, the well will be temporarily suspended pending further appraisal of the discovery and submission of a development plan to ETAP, the Tunisian National Oil Company.

The discovery of light oil in a large structure at relatively shallow depths on the eastern side of the 1.2 million acre block confirms the presence of a mature source rock and effective hydrocarbon migration route increasing the chance of success for several other prospects identified on the block. The TT2 well was drilled on a large Ordovician structure which has an areal extent of approximately 70 square kilometers. Initial drilling results and testing information acquired to date indicate that the reservoir may be an ideal candidate for the application of horizontal drilling technology in the future development plans for the block.

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 first half of 2008, 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, initially called "W" and now renamed "Frida", was selected as the first drilling location less than 5 km from the Tarfa field. In June, a new 2D seismic survey totalling 50 km was acquired in order to confirm the best location on the "Frida" structure and to further define additional structures. Cygam is currently evaluating several opportunities to contract a drilling rig in order to commence drilling operation within the 4th quarter of 2008, or as soon as possible afterwards. Long delivery items such as wellhead and casing have already been purchased ahead of drilling. The Triassic Tagi, expected at a depth of approximately 2,200 metres, is the main target on the "Frida" structure. Cygam has signed a farm-out agreement with Timgad Energy, an Egyptian company which will earn a 10 % working interest by paying 15 % of seismic and drilling costs. A second farm-out agreement, which will become effective on September 30th, has also been signed with another company. Additional companies have expressed an interest in participating in our exploration program on a promoted basis, and we are considering these proposals.

Jorf
In early 2008, 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 was completed in June and is currently being processed and interpreted. Based on the results of new seismic data, the Corporation and its partners will decide whether they will continue the permit for an additional period of two years by committing to drill a new well or whether they 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 already signed a farmout and participation agreement with one company to participate in the exploration on a promoted basis. Expressions of interest from other companies have also been received and are under consideration. A well may be drilled at Sud Tozeur in 2009 pending final seismic evaluation and availability of a rig capable to drill a deep Ordovician test to approximately 4,500 metres.

FINANCIAL PERFORMANCE
Selected Financial Information

	Three months ended June 30	
	2008	2007
	$	$
Oil and gas revenue	230,961	150,943
Royalties, net of ARTC	(18,093)	(17,675)
Other revenue	122,849	144,906
Total net revenue	335,717	278,174
Operating costs	63,436	50,237
Depletion, amortization and accretion	60,871	58,236
General & administration	463,216	601,506
Interest	641	2,523
Stock-based compensation expense	85,839	53,993
	674,003	766,495
	(338,286)	(488,321)
Unrealized gain (loss) on marketable securities	133,728	179,634
Net earnings (loss)	(204,558)	(308,687)
Current and future income tax expense	-	8,500
Net earnings (loss) after tax	(204,580)	(300,187)

Oil and Gas Revenue
Oil and gas revenues (net of royalties) of $212,868 (2007 - $133,268) represents revenue from the Canadian operations. Average production for the quarter was 40.51 boe/d (2007 – 36.17), comprising approximately 78% natural gas and 22% oil and NGLs, at an average price of $62.65 per boe (2007 - $45.85). The increase in revenue resulted from an increase in the average price of oil and natural gas combined with an increase in production from the new well at South Edson.

Crown and production royalties (net of ARTC) was $18,093 (2007 - $17,675), or $4.91 (2007 -$5.37) per boe, whilst operating expenses were to $63,436 or $17.21 (2007 – $15.26) per boe, a slight increase per boe.

Other Revenue
Other revenue for the quarter includes distributions of $87,821 (2007 - $83,843) received from investments in marketable securities, and interest income of $28,953 (2007 - $61,010) 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 June 30, 2008 the units are stated in the financial statements at fair value of $4,021,818 following an unrealized gain of $133,728 during the quarter.

Net Income (loss)

The net loss before tax for the period was $204,558 (2007 – net loss $308,687). 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 item that management believes is useful in evaluating performance) of $191,576 which represents a substantial reduction from the corresponding period in 2007 ($376,092) due to a decrease in G&A expenses.

General and Administrative Expenses
G&A expenses for the quarter decreased to $463,216 as a result of reduced compensation costs in 2008. G&A includes $87,209 (2007 - $172,200) in consulting fees paid to directors and officers of Cygam, or to companies whose shareholders are directors and officers of Cygam, and $8,024 (2007 - $9,867) in legal fees paid to a legal firm in which a director of the Company is a partner. The 2007 compensation costs include management bonuses paid in that period.

During the quarter, the Company capitalized $91,990 (2007 - $106,006) 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 - $53,993). 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 $60,871 (2007- $58,236) including depletion and accretion amount of $49,506 ($13.43 /boe) for the period related to oil and gas production from Canadian properties. The cost of unproved properties of $18,967,975 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.

	2008 Q2	2008 Q1	2007 Q4	2007 Q3
P&G sales (net of royalties)	$ 212,868	167,053	122,556	157,485
Other revenue	122,849	137,053	154,601	195,823
	335,717	304,106	277,157	353,308
Expenses	674,003	615,722	803,715	528,082
Earnings (loss) before items below	(338,286)	(311,616)	(526,558)	(174,774)
Unrealized gain (loss) on marketable securities	133,728	514,952	(169,653)	(89,818)
Foreign exchange gain (loss)	-	-	(17,155)	(2,543)
Net earnings (loss) before income taxes	(204,558)	203,336	(713,366)	(267,135)
Current and future income tax recovery	-	-	98,265	48,601
Net earnings after tax	(204,558)	203,336	(615,101)	(218,534)
Net income (loss) per share	(0.00)	0.00	(0.00)	(0.00)
Production (boe/d)	40.51	34.10	33.93	37.62

	2007 Q2	2007 Q1	2006 Q4	2006 Q3
P&G sales (net of royalties)	$ 133,268	134,728	126,633	122,459
Other revenue	144,906	131,770	240,789	153,872
	278,174	266,498	367,422	276,331
Expenses	766,427	502,711	728,105	445,017
Earnings (loss) before items below	(488,253)	(236,213)	(360,683)	(168,686)
Unrealized gain (loss) on marketable securities	179,634	(79,838)	(445,095)	(748,478)
Foreign exchange gain (loss)	(68)	-	2,045	(3,484)
Net earnings (loss) before income taxes	(308,687)	(316,051)	(803,733)	(920,648)
Current and future income tax recovery	8,500	(11,500)	62,461	(15,990)
Net earnings after tax	(300,187)	(327,551)	(741,272)	(936,638)
Net income (loss) per share	(0.00)	(0.00)	(0.01)	(0.01)
Production (boe/d)	36.17	38.94	37.64	38.28

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 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 $5,255,152, including a cash balance of $2,721,635 as at June 30, 2008. Cash balances in excess of planned requirements were invested in short-term fixed income securities generating $28,953 in interest income for the quarter, and the Company continues to receive a monthly distribution of $29,939 from its investment in marketable securities.

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. 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" or better terms. The Company will examine each interest on a permit by permit basis to determine the level and amount of participation offered to third parties.

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 August 28, 2008 is outlined below:

	Shares	Amount ($)
Outstanding shares at December 31, 2007	85,614,204	$ 26,231,495
Outstanding shares at June 30 and August 28, 2008	85,614,204	$26,231,495

As noted earlier, the Company granted 2,650,000 stock options in January 2008. The total number of stock options granted as at June 30, 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 endeavours to adhere 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 $87,209 (2007 - $172,200) as consulting fees to related parties. The Company also paid $8,024 (2007 - $9,876) 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 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 2008 and early 2009 in Italy and Tunisia include:

a) **B.R268.RG (Miglianico East) Permit.** The Company will finalize a farmout brochure inclusive of the 380 kilometers of recently reprocessed and interpreted marine seismic plus the 3D reservoir simulation study. Drilling of a well to a total vertical depth of approximately 4,500 metres on the Elsa structure, where oil was tested in 1992, is tentatively planned for early 2010, depending on rig availability. An assessment of jack-up rig availability for shallow offshore operations is currently underway.

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 Piana well will 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.** Perforation and testing of the Silurian Tannezuft formation will be carried out in early September. Interpretation of testing data from the Ordovician formation will continue in the next few months. Plans for development drilling on the 70 square kilometers TT structure will be finalized and presented to ETAP. 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 been outlined and the Company has commenced the preparation of the surface lease. Cygam is planning to drill a well at Bazma in Q4, 2008, depending on rig availability.

(g) **Jorf Permit.** Interpretation of approximately 200 kilometres of new 2D seismic data in the northern portion of the permit, where deep Permian prospects have been identified, will continue in September. 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 2009.

As noted earlier, the Company's working capital 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 complete the first phase and proceed to 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.