

CYGAM ENERGY INC. (Formerly known as SHEER ENERGY INC.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) is a review of operations, current financial position and outlook for Cygam Energy Inc. (Cygam or the Company) and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2005 and 2004. The audited consolidated financial statements have been prepared by management and approved by Cygam's Audit Committee on behalf of the Board of Directors. 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.

REVERSE TAKE-OVER

On October 11, 2005, Cygam completed the previously announced acquisition (“the Transaction”) of all the issued and outstanding shares of Rigo Oil Company Limited (“ROCL” or “Rigo”), Vega Oil S.p.A. (“Vega”) and \$6,000,000 in units of Peyto Energy Trust (“Peyto units”) pursuant to a Share Purchase Agreement among the Corporation, Mrs. Neli da Silva, Dr. Fabrizio Rigo (“Dr. Rigo”), Rigo Oil, Inc. (“Rigo Delaware”), Vega, Rigo and Rigo Tunisia. The shares of Rigo and the Peyto units were acquired from Mrs. Neli da Silva and the shares of Vega were acquired from Dr. Fabrizio Rigo. Upon completion of this transaction, Sheer Energy Inc. changed its name to Cygam Energy Inc. and shortly thereafter commenced trading on the TSX Venture Exchange under the new stock symbol “CYG”.

The Corporation also completed a non-brokered private placement to raise \$2,000,000 and a brokered private placement to raise gross proceeds of \$3,600,000. With the completion of the Transaction and private placements, the Corporation had approximately \$10 million in cash and an additional \$6 million in Peyto units available as working capital for exploration expenditures on its newly acquired interests.

Concurrent with the closing of the Transaction, Messrs. Terry Lawrence and Kevin Maguire resigned from the Board of Directors and Dr. Fabrizio Rigo and Mr. Derrick Armstrong were appointed to the Board. Dr. Rigo was appointed the President and Chief Executive Officer, Mr. Dario Sodero was appointed Executive Vice President and Mr. Ali Rawji was appointed as the Chief Financial Officer.

As disclosed in Notes 1 and 3 in the notes to the financial statements, in accordance with accounting for reverse take-over, the financial statements of the Company treat ROCL as the acquiring company and therefore all results prior to the acquisition date of October 11, 2005 reflect the operations of ROCL only. Consequently the Consolidated Statement of Operations and Retained Earnings includes the results of Canadian operations for the period from October 11 to December 31, 2005 only.

EXPLORATION ACTIVITIES

In October, 2005, Cygam signed an agreement with Storm Ventures International Inc. to participate in an exploratory well on the Sud Remada permit in Tunisia. The Oum Zoughar 2 well was drilled to a depth of 3,054 meters, and production casing was set to total depth. Light oil was recovered on swab tests in the Silurian Acacus formation. Although very encouraged by finding oil in the structure, Storm and Cygam felt that the potential daily production rates without

artificial stimulation would not justify the installation of a single well battery at this time. Also, due to the impossibility of finding a service rig to conduct cost effective additional completion operations, the well was temporarily suspended. The company earned a 20% interest in approximately half of the permit by participating in the drilling of the OMZ 2 well.

In Canada, Cygam participated in the drilling of a development well in the South Edson Unit, where the Company has an 8.9668 % working interest. A well commenced drilling in November, 2005, at the 9-19-50-16 W5M location and production casing was set in December. Unfortunately, due to the severe shortage in service rigs in Alberta during winter and the onset of early spring break, completion operations have been delayed.

FINANCIAL PERFORMANCE

Selected Financial Information

In accordance with the accounting for reverse takeovers, the results for the year ended December 31, 2004 are for ROCL only, and the results for the year ended December 31, 2005 include the Canadian operations and Vega from October 11, 2005, the date of the completion of the reverse takeover.

Twelve months ended December 31	2005		2004	
	\$	\$/boe	\$	\$/boe
Oil and gas revenue	286,300	\$81.79	-	-
Royalties, net of ARTC	(76,275)	21.79	-	-
Other revenue	232,500		137,344	-
Total net revenue	442,525		137,344	-
Operating costs	52,942		-	
Depletion, amortization and accretion	42,178		-	
General & administration	527,815		-	
Interest	2,541		409	
<u>Stock-based compensation expense</u>	<u>553,809</u>		<u>-</u>	
	1,179,285		409	
Earnings (Loss) before following items	(736,760)		136,935	
Gain on sale of marketable securities	4,827,555		-	
Unrealized loss on marketable securities	(932,308)		-	
Foreign Exchange gain	325,363		-	
Future Income taxes recovery	10,978		-	
Net earnings	3,494,828		136,935	

During 2004, ROCL earned income from its investment in marketable securities. These marketable securities were sold by ROCL in June 2005, prior to the completion of the reverse take-over, resulting in a gain on sale of marketable securities, net of taxes and selling costs, of \$4,827,555 in the year ended December 31, 2005.

Oil and Gas Revenue

Oil and gas revenues (net of royalties) for the year ended December 31, 2005 of \$210,025 represents revenue from the Canadian operations from October 11 to December 31, 2005.

Production for the quarter was 38.04 barrels of oil equivalent per day (boe/d), comprising approximately 70% natural gas and 30% oil and NGLs, at an average price of \$81.79 per boe. Crown and production royalties (net of ARTC) was \$76,275 or \$21.79 per boe, whilst operating expenses was \$52,942 or \$15.13 per boe.

Gain on Marketable Securities and Foreign Exchange Gain

In June 2005, prior to the completion of the reverse takeover, ROCL sold marketable securities for a gain of \$4,827,555 net of disposal costs and taxes. The funds were deposited in Canadian dollars resulting in a subsequent foreign exchange gain, included in the total foreign exchange gain of \$325,363, as the Canadian dollar appreciated versus the Tunisian Dinar, the functional currency of ROCL.

Unrealized Loss on Marketable Securities

As noted earlier, Cygam's reverse takeover included the acquisition of units of a public company. At the time of the acquisition, management had designated these units as held for trading with the intent to dispose of these units when funds were required for exploration activities. At year end the units are stated in the financial statements at fair market value of \$5,067,692 resulting in an unrealized loss of \$932,308.

Other Revenue

Other revenue in 2005 and 2004 includes distributions received from investments in marketable securities owned by ROCL which were sold in June 2005 as noted above and distributions from marketable securities acquired as part of the reverse takeover transaction. Other revenue in 2005 also includes interest income of \$56,345 on cash balances held in short-term fixed income securities following the completion of the reverse takeover and distributions from trust units acquired by the Company at the time of the reverse takeover.

Net Income

The loss before income taxes from continuing operations before other income and expenses was \$736,760 for the year, mainly due to non-recurring items in general and administrative expenses and non-cash stock based compensation costs.

General and Administrative Expenses

The general and administration expenses for the period ended December 31, 2005, included non-recurring expenses incurred in connection with the reverse takeover including the payment of \$238,000 paid to two senior officers in connection with the termination of their contracts with Sheer Energy Inc. upon completion of the reverse takeover. Other increases in overheads, which are expected to continue to be incurred in the future, resulted from the addition of an office in Rome and expenses in connection with travel to Tunisia.

In prior year, ROCL capitalized all expenses as they were directly related to the acquisition and exploration of oil & gas properties in Tunisia. In 2005, the Company capitalized \$98,935 of general and administrative expenses incurred in Tunisia.

Stock-based Compensation

Stock-based compensation for the period was \$553,809. 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 2005 is based on the value of the vested portion of the stock options awarded in 2005.

Depletion, Amortization and Accretion

Depletion, Amortization and Accretion (“DA&A”) amounted to \$ 42,178 (\$ 12.05 /boe) for the period, largely related to the production from Canadian properties. The cost of unproved properties is 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 four quarters. Quarterly financial information for the four quarters in the prior year are not available as ROCL was a private company and did not prepare quarterly financial statements during that period.

	Q4 2005	Q3 2005	Q2 2005	Q1 2005
P&G sales (net of royalties)	\$ 210,025	-	-	-
Other revenue	128,299	-	53,920	50,281
Expenses	<u>1,179,285</u>	-	-	-
Earnings (loss) before items below	(840,961)	-	53,920	50,281
Gain on sale of marketable securities	-	-	4,827,555	-
Unrealized loss on marketable securities	(932,308)	-	-	-
Foreign exchange gain (loss)	<u>(58,486)</u>	<u>376,860</u>	<u>6,989</u>	-
Net earnings (loss) before income taxes	\$ (1,831,755)	376,860	4,888,464	50,281
Future income tax recovery	<u>10,978</u>	-	-	-
Net earnings after tax	<u>\$ (1,820,777)</u>	<u>376,860</u>	<u>4,888,464</u>	<u>50,281</u>
Net income (loss) per share	<u>(0.037)</u>	<u>0.009</u>	<u>0.117</u>	<u>0.001</u>

LIQUIDITY AND CAPITAL RESOURCES

As a result of the completion of the reverse takeover and the brokered and non-brokered private placements, the Company had cash balances of \$8,425,818 at December 31, 2005, a significant increase from December 31, 2004. Cash balances in excess of planned requirements were invested in short-term fixed income securities generating \$56,345 in interest income since October 11, 2005. In addition, the Company holds 199,594 units of Peyto Energy Trust which had a market value of \$5,067,692 as at December 31, 2005 and which paid a monthly distribution

of \$ 23,951 since the completion of the reverse takeover, and increased distribution of \$ 27,943 per month beginning in February 2006.

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 two years, and to meet Cygam's obligations on a timely basis for the foreseeable future. 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 2006, net to Cygam, of approximately \$ 5,000,000 will be primarily funded from the Company's cash and working capital.

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. Pursuant to reverse takeover accounting, the authorized and issued share capital is that of Cygam while the stated value is that of ROCL. The Company's share capital as at December 31 is outlined below:

	Shares	Amount (\$)
Outstanding shares at December 31, 2004	20	\$ 24
Outstanding shares at December 31, 2005	72,335,640	\$14,291,305

Significant changes occurred in the number of outstanding shares, warrants and stock options as a result of the reverse takeover:

- (a) the acquisition of all the issued and outstanding shares of ROCL and Vega for a total of 42,000,000 common shares and 11,066,666 Series "A" Warrants and the acquisition of \$6,000,000 of units of Peyto Energy Trust for 13,333,333 common shares.
- (b) the non-brokered private placement to raise gross proceeds of \$2,000,000 and issuance of 4,444,444 common shares and 888,888 Series "A" Warrants.
- (c) the brokered private placement to raise gross proceeds of \$3,600,000 and issuance of 6,000,000 common shares and 2,400,000 Series "B" Warrants.

Upon completion of the above-noted transactions, Dr. Rigo and Mrs. Neli da Silva owned approximately 76.5% of the issued and outstanding shares of Cygam Energy Inc. As at December 31, 2005, the Corporation had 72,335,640 common shares issued and outstanding, 11,955,554 Series "A" Warrants and 2,400,000 Series "B" Warrants, 900,000 broker options exercisable at \$0.60 per common share expiring on October 11, 2007 issued to the Agent on the brokered private placement, and 5,150,000 options exercisable at \$0.60 per common share and 250,000 options exercisable at \$1.31 per common share issued to directors, officers, employees and consultants of the Corporation.

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

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

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

RELATED PARTY TRANSACTIONS

Transactions between the Company and related parties occurred during the year, as disclosed in the notes to the consolidated financial statements. During 2005, the Company paid \$78,812 as consulting fees and \$238,000 in contract termination payments to related parties. The Company also paid \$42,976 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 a partner in 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 expires on August 6, 2006. The permit is currently in good standing and an application to extend the exploration permit for an additional year will be made. Under the terms of the 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 the event that the obligations are not met or the prospecting licence is not converted to an exploration permit, ROCT may be required to pay a penalty.

The Company rents premises in Rome, Italy, under operating leases that require payments of \$39,380 in each of 2006 and 2007, and the lease is subsequently renewable for a further four years.

CRITICAL ACCOUNTING ESTIMATES

Cygam's significant accounting policies are disclosed in Note 2 to the consolidated financial statements. 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. At December 31, 2005 the impairment test was met for the Italian, Tunisian and Canadian capitalized costs and no ceiling test write-down was required.

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 Corporation 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 Corporation'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

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 Corporation's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have concluded, based on their evaluation as of the end of the period covered by this MD&A, that the Corporation's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to them by others within those entities. It should be noted that while the Company's CEO and CFO believe that the Corporation'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.

OUTLOOK

Cygam intends to focus largely on international oil and natural gas exploration. The company plans to conduct a two-phase, success based, initial exploration program for the Italian Permits and Tunisian Permits held by Vega and ROCL as well as look for additional exploration and drilling opportunities in both Italy and Tunisia. The first phase would involve seismic acquisition and interpretation plus the drilling, testing and potential completion of one well on each of the permits acquired pursuant to the Transaction. The second phase would involve the drilling, testing and potential completion of additional wells if Cygam determines it is warranted.

Specifically, the Company exploration plans for 2006 in Italy and Tunisia include:

- (a) **B.R. 268 RG (Miglianico East) Permit.** The company is currently negotiating the acquisition of approximately 300 kilometers of existing marine seismic from the previous permit operator. The seismic data will be re-interpreted and re-processed in Calgary in the next few months. An additional shallow water seismic survey may be recommended for the latter part of 2006.
- (b) **Posta Nuova Permit.** Upon final ministerial approval for the permit, Cygam will acquire existing seismic coverage on the permit and verify the size of the structure on which a gas well had been drilled. Preliminary contacts have been made with drilling contractors to obtain a rig for the latter part of the year.
- (c) **Montalbano Permit.** This permit was officially awarded to our wholly owned Italian subsidiary on September 8, 2005. The Company is committed to the purchase and reprocess 80 kilometers of existing seismic lines and the acquisition of approximately 40 kilometers of new lines within 24 months from award of the permit.

- (d) **Civitaquana Permit.** The company has submitted an updated environmental assessment for this permit and expects to receive final ministerial approval in 2006. Upon receipt of final approval, Cygam will need to purchase and reprocess 100 kilometers of existing seismic data and acquire an additional 60 kilometers of 2D seismic lines.
- (e) **d348 C.R.-VG (Aretusa) Permit .** This offshore permit was recently applied for. The company will need to present a formal environmental report before the formal approval process is completed.
- (f) **Jorf Permit.** The company is currently re-interpreting and reprocessing all the existing seismic data on the permit. Upon final geological and geophysical assessment of large carbonate reef structures believed to exist on the Jorf block, the Company will commit to drill a well. Drilling rig availability is currently being investigated. A well may be drilled on this permit prior to year end.
- (g) **Bazma Permit.** This concession was officially awarded to ROCL on February 24, 2006. Acquisition of all existing seismic coverage on the permit is currently being finalized and reinterpretation and reprocessing of data will commence shortly. A well may be drilled on this permit, in lieu of the commitment well on the Jorf permit, in the latter part of 2006.
- (h) **Sud Remada Permit.** The permit operator, Storm Ventures International Inc., is currently reviewing all geological and geophysical data on the OMZ2 well and is also conducting a geochemical sampling on known producing structures and undrilled seismic anomalies on the block.
- (i) **Sud Tozeur Permit.** The permit was officially awarded as a prospecting licence on February 24, 2005. Before February 24, 2007, the Company is committed to reinterpret all existing seismic data and to acquire 50 kilometers of new seismic lines. Review of data is in progress and, in February 2007, the Company will have the option to apply for a four year exploration permit or withdraw from further commitments. It is expected that the Company will convert the prospecting licence into an exploration permit.

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.

On the Canadian properties, modest production increases are anticipated in the near term due to the resumption of full production at Harmattan combined with production increases at Snipe Lake resulting from infill drilling activities. Additionally, the successful completion of a development well which commenced drilling in the South Edson unit in mid November and the planned drilling of a second development well in the same unit in 2006 could significantly increase Cygam's Canadian production. Production revenue is also expected to continue to benefit from the higher oil and natural gas prices which are currently being experienced.