

# **CYGAM ENERGY INC.**

## **Interim Consolidated Financial Statements**

**For the Three and Nine months ended September 30, 2011**

**(Unaudited)**

**CYGAM ENERGY INC.**  
**CONSOLIDATED BALANCE SHEETS (unaudited)**  
**(in Canadian dollars)**

	September 30 2011	December 31 2010
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 735,494	\$ 4,682,945
Marketable securities (note 7)	-	1,591,893
Accounts receivable	758,103	99,266
Tax receivable	200,035	70,314
Oil inventory	89,140	4,758
Prepaid expenses and deposits	179,208	76,264
<b>Total Current Assets</b>	<b>1,961,980</b>	<b>6,525,440</b>
Exploration and evaluation assets (note 9)	6,823,865	5,053,040
Property, plant and equipment (note 8)	6,849,542	5,199,513
<b>Total Assets</b>	<b>\$ 15,635,387</b>	<b>\$16,777,993</b>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 955,902	\$ 939,076
Asset retirement obligation (note 10)	361,921	366,293
Long-term severance accrual	35,332	29,255
<b>Total Liabilities</b>	<b>1,353,155</b>	<b>1,334,624</b>
Shareholders' Equity		
Share capital (note 11(a))	32,424,762	32,424,762
Warrants (note 11(c))	-	359,701
Contributed surplus (note 12)	3,724,705	2,556,863
Accumulated other comprehensive loss	(1,128,706)	(1,446,752)
Deficit	(20,738,529)	(18,451,205)
<b>Total Shareholders' Equity</b>	<b>14,282,232</b>	<b>15,443,369</b>
Going Concern (note 3) and Commitments (note 15)		
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 15,635,387</b>	<b>\$16,777,993</b>

*See accompanying notes to interim financial statements*

**CYGAM ENERGY INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS (unaudited)**  
**(in Canadian dollars)**

	Three Months ended		Nine Months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
<b>Revenue</b>				
Oil sales - Tunisia	\$ 1,591,396	\$ -	\$ 1,823,722	\$ 143,535
Other income	6,218	27,526	24,482	75,499
	1,597,614	27,526	1,848,204	219,034
<b>Expenses</b>				
Operating	412,433	-	545,466	70,546
General and administrative (note 16)	665,806	222,768	2,337,694	849,285
Stock-based compensation	161,501	160,262	778,780	163,972
Financing costs	2,506	923	5,646	3,808
Depletion and depreciation	217,464	8,503	249,954	58,865
	1,459,711	392,456	3,917,540	1,146,476
Income (loss) before the following:	137,903	(364,930)	(2,069,336)	(927,442)
Realized gain (loss) on sale of marketable securities	-	-	84,927	(569,387)
Income (loss) before income taxes	137,903	(364,930)	(1,984,409)	(1,496,829)
Taxes	-	-	-	-
Net income (loss) from continuing operations	137,903	(364,930)	(1,984,409)	(1,496,829)
Net income (loss) from discontinued operations (note 19)	29,908	(9,428)	(302,915)	(64,448)
Net income (loss)	167,811	(374,358)	(2,287,324)	(1,561,277)
Unrealized gain on marketable securities	-	57,806	-	648,235
Unrealized exchange gain (loss) on translation of foreign operations	240,535	544,605	318,046	(1,147,217)
Other comprehensive income (loss)	240,535	602,411	318,046	(498,982)
<b>Comprehensive income (loss) for the period</b>	<b>\$ 408,346</b>	<b>\$ 228,053</b>	<b>\$ (1,969,278)</b>	<b>\$ (2,060,259)</b>
<b>Loss per share</b>				
Basic and diluted	\$ 0.00	\$ 0.00	\$ (0.02)	\$ (0.02)

See accompanying notes to interim financial statements

**CY GAM ENERGY INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**  
**(in Canadian dollars)**

	Nine Months ended	
	September 30, 2011	September 30, 2010
Cash provided by (used in):		
<b>Operations</b>		
Net loss from continuing operations	\$ (1,984,409)	\$ (1,496,829)
Adjustment of items not involving cash		
Stock based compensation	778,780	163,972
Depletion, amortization and financing	255,600	62,673
Loss (gain) on sale of marketable securities	(84,927)	569,387
	(1,034,956)	(700,797)
Changes in non-cash working capital	(185,005)	(947,179)
Net cash used in continuing operating activities	(1,219,962)	(1,647,976)
Net cash (used) in/from discontinued operating activities	26,949	(6,347)
Net cash used in total operating activities	(1,193,013)	(1,654,323)
<b>Investing</b>		
Expenditures on property, plant and equipment	(4,639,196)	(604,899)
Net proceeds from disposal of oil and gas properties	971,166	-
Changes in non-cash working capital	(277,362)	(88,714)
Proceeds from sale of marketable securities	1,186,820	482,749
Net cash used in continuing investing activities	(2,758,572)	(210,864)
Net cash used in discontinued investing activities	(19,668)	(44,338)
Net cash used in total investing activities	(2,778,240)	(255,202)
<b>Financing</b>		
Issue of capital stock for cash	-	7,252,040
Share issue costs	-	(699,071)
	-	6,552,969
Effect of foreign exchange rate changes on cash and cash equivalents	23,802	122,675
<b>(Decrease) increase in cash</b>	<b>(3,947,451)</b>	<b>4,766,119</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>4,682,945</b>	<b>275,778</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 735,494</b>	<b>\$ 5,041,897</b>

The Company paid interest of \$ nil (2010 - \$745) and paid income taxes of \$ nil (2010 - \$nil).

*See accompanying notes to interim financial statements*

**CYGAM ENERGY INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)**  
**(in Canadian dollars)**

	Common Shares	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	(Deficit)	Total Equity
Balance, January 1, 2010	\$ 26,231,495	\$ -	\$ 2,080,388	\$ (581,292)	\$ (9,968,620)	\$ 17,761,971
Common shares issued from prospectus offering	6,892,339	359,701	-	-	-	7,252,040
Share issuance costs	(687,336)	-	-	-	-	(687,336)
Stock-based compensation	-	-	163,972	-	-	163,972
Other comprehensive income for the period	-	-	-	(498,982)	-	(498,982)
Net loss for the period	-	-	-	-	(1,561,277)	(1,561,277)
Balance, September 30, 2010	32,436,498	359,701	2,244,360	(1,080,274)	(11,529,897)	22,430,388
Balance, January 1, 2011	\$ 32,424,762	\$ 359,701	\$ 2,556,863	\$ (1,446,752)	\$ (18,451,205)	\$ 15,443,369
Expiry of unexercised common share warrants	-	(359,701)	359,701	-	-	-
Stock-based compensation	-	-	778,780	-	-	778,780
Capitalized Stock-based compensation	-	-	29,361	-	-	29,361
Other comprehensive income for the period	-	-	-	318,046	-	318,046
Net loss for the period	-	-	-	-	(2,287,324)	(2,287,324)
Balance, September 30, 2011	\$ 32,424,762	\$ -	\$ 3,724,705	\$ (1,128,706)	\$ (20,738,529)	\$ 14,282,232

# **CYGAM ENERGY INC.**

## **Notes to the Consolidated Financial Statements**

Nine Months ended September 30, 2011 (unaudited)

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### **1. GENERAL INFORMATION**

CYGAM Energy Inc. (“CYGAM” or the “Company”) is a public company engaged in the exploration, development and production of crude oil and natural gas in Tunisia and Italy. CYGAM was formed through the reverse takeover of Sheer Energy Inc. by Rigo Oil Company Limited (“ROCL”) in 2005, and the acquisition of all the outstanding shares of Vega Oil S.p.A. (“Vega”). ROCL and Vega were private companies (related by common control) engaged in the business of oil and gas exploration in Tunisia and Italy respectively. CYGAM’s common shares trade on the TSX Venture Exchange under the symbol CYG. CYGAM’s principal office is located at Suite 760, 607- 8th Avenue, SW, Calgary, Alberta T2P 1G7.

These interim Financial Statements were approved and authorized for issuance by the Board of Directors on November 29, 2011.

### **2. BASIS OF PREPARATION AND ADOPTION OF IFRS**

These condensed consolidated interim financial statements for the three and nine month periods ended September 30, 2011 were prepared in accordance with IAS 34, Interim Financial Reporting and IFRS 1. The same accounting policies and methods of computation were followed in the preparation of these condensed consolidated interim financial statements as were followed in the preparation of the condensed consolidated interim financial statements for the three month period ended March 31, 2011. In addition, the condensed consolidated interim financial statements for the three month period ended March 31, 2011 contain certain incremental annual IFRS disclosures not included in the annual financial statements for the year ended December 31, 2010 prepared in accordance with previous Canadian GAAP. Accordingly, these condensed consolidated interim financial statements for the three and nine month periods ended September 30, 2011 should be read together with the annual consolidated financial statements for the year ended December 31, 2010 prepared in accordance with previous Canadian GAAP as well as the condensed consolidated interim financial statements for the three month period ended March 31, 2011.

These condensed interim consolidated financial statements have been prepared on a historical cost basis. Share-based payment transactions and marketable securities are measured at fair value and the asset retirement obligations are discounted using a risk free rate.

The condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Rigo Oil Company Limited, Rigo Oil Company Tunisia Ltd. and Vega Oil S.p.A.

The condensed interim consolidated financial statements are presented in Canadian dollars which is the Company’s functional currency.

### **3. GOING CONCERN**

While these condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business, there are conditions and events that create uncertainty regarding the validity of this assumption.

The Company is an early stage oil and gas exploration, development and production company that engages principally in the acquisition, exploration and development of oil and gas properties. As an exploration stage company, it is currently unable to self-finance its operations. The recovery of the

## **CYGAM ENERGY INC.**

### **Notes to the Consolidated Financial Statements**

Nine Months ended September 30, 2011 (unaudited)

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Company's investment in its resource properties and attainment of profitable operations, and its ability to continue as a going concern is dependent upon the discovery, development and sale of oil and gas reserves, the ability to attract joint venture partners and the ability to raise sufficient capital to finance its operations.

During the period ended September 30, 2011, the Company had a net loss of \$2.3 million and a deficit of \$20.7 million. As at September 30, 2011, the Company's cash on hand totaled \$735,494 and working capital was \$1.0 million, and the Company has joint venture partners on several properties.

The Company's management will continue to consider various means of obtaining additional capital, within the context of existing market conditions (equity financings, debt, sale of assets, joint venture agreements or other) to further the exploration and development of the Company's properties and to provide sufficient working capital. However, as there can be no certainty that the plans will be successful, there is significant doubt regarding the Company's ability to continue as a going concern. If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenue and expenses and the balance sheet classifications used. The adjustments could be material.

#### **4. SIGNIFICANT ACCOUNTING ESTIMATES AND NEW PRONOUNCEMENTS**

(a) Significant accounting estimates and judgments

The timely preparation of the condensed interim consolidated financial statements requires that Management make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the condensed interim Financial Statements and the reported amounts of revenue and expenses during the period. Such estimates primarily relate to unsettled transactions and events as at the date of the condensed interim consolidated financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Significant estimates and judgements made by Management in the preparation of these condensed interim consolidated financial statements are outlined below.

Estimation of recoverable quantities of proven and probable reserves includes estimates and assumptions regarding future commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows as well as the interpretation of complex geological and geophysical models and data. Changes in reported reserves can affect the impairment of assets, the asset retirement obligations, and the amounts reported for depletion and depreciation of oil and gas properties.

In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates and other relevant assumptions.

Upstream assets are aggregated into cash-generating units based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company's cash-generating units is subject to Management's judgment.

Amounts recorded for asset retirement obligations and the related accretion expense requires the use of estimates with respect to the amount and timing of asset retirements, site remediation and related cash flows, as well as the selection of a risk free discount rate. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

## **CYGAM ENERGY INC.**

### **Notes to the Consolidated Financial Statements**

Nine Months ended September 30, 2011 (unaudited)

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Compensation costs accrued for long-term stock-based compensation plans are subject to the estimation of what the ultimate payout will be using pricing models such as the Black-Scholes model which is based on significant assumptions such as volatility, dividend yield and expected term.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by Management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

(b) New standards and interpretations not yet adopted

The following pronouncements from the IASB will become effective for future financial reporting periods and have not yet been adopted by the Company:

IFRS 9, “Financial Instruments”, is the first phase of the IASB’s project to replace IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 replaces the current multiple classification and measurement models for financial assets with a single model that has only two classification categories: amortized cost and fair value, and provides additional guidance for financial liabilities. The standard may be delayed until 2015. It is currently an exposure draft from the IASB. Portions of the standard remain in development and the full impact of the standard will not be known until the project is complete. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

#### IFRS 10 – Consolidation

IFRS 10, issued in May 2011, effective for periods commencing on or after January 1, 2013, requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements. The Company has not evaluated the impact of the new requirements and whether to early adopt this standard.

#### IFRS 11 - Joint Arrangements

IFRS 11, issued in May 2011, effective for periods commencing on or after January 1, 2013, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions. The Company has not evaluated the impact of the new requirements and whether to early adopt this standard.

#### IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12, issued in May 2011, effective for periods commencing on or after January 1, 2013, establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks

## **CYGAM ENERGY INC.**

### **Notes to the Consolidated Financial Statements**

Nine Months ended September 30, 2011 (unaudited)

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associated with, an entity's interests in other entities. The Company has not evaluated the impact of the new requirements and whether to early adopt this standard.

#### **IFRS 13 - Fair Value Measurement**

IFRS 13, issued in May 2011, effective for periods commencing on or after January 1, 2013, is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The Company has not evaluated the impact of the new requirements and whether to early adopt this standard.

## **5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS**

The Company's financial instruments recognized in the balance sheet consist of cash, accounts receivable, accounts payable and accrued liabilities. The carrying value of these balance sheet items, except for accounts payable and accrued liabilities which are greater than fair value because of the credit risk of the Company, approximates their fair market value.

Disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement are as follows:

#### Level 1 Fair Value Measurements

Level 1 fair value measurements are based on unadjusted quoted market prices.

Marketable securities – The fair value of marketable securities are determined based on unadjusted quoted market prices.

#### Level 2 Fair Value Measurements

Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices.

#### Level 3 Fair Value Measurements

Level 3 fair value measurements are based on unobservable information.

As at each reporting period, the Company will assess whether a financial asset, other than those classified as held-for-trading is impaired. Any impairment loss will be included in profit or loss for the period.

The Company is exposed to a number of different financial risks arising from normal course business exposure, as well as the Company's use of financial instruments. These risk factors include market risk related to the fair value of marketable securities and to commodity prices, foreign currency risk and interest rate risk as well as liquidity risk and credit risk.

#### **(a) Market Risk**

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the

## **CYGAM ENERGY INC.**

### **Notes to the Consolidated Financial Statements**

Nine Months ended September 30, 2011 (unaudited)

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value of the Company's financial assets, liabilities and expected future cash flows include change in the market price of marketable securities, foreign currency exchange risk and interest rate risk.

(i) **Commodity Price Risk**

Commodity price risk is the risk that cash flows will fluctuate as a result of changes in commodity prices. The Company's financial performance is linked to crude oil and natural gas prices. The Company does not hedge its exposure to commodity prices.

(ii) **Foreign Currency Exchange Risk**

A significant portion of the Company's activities are conducted in Euro in Italy and in US dollars and Tunisian Dinars in Tunisia, where the Company is exposed to changes in foreign exchange rates as operating expenses, capital expenditures, and accounts receivable and payable fluctuate due to changes in exchange rates. The Company does not use derivative instruments to hedge its exposure to foreign exchange risks.

(iii) **Interest rate risk**

The Company is exposed to interest rate risk as changes in interest rates may affect future cash flows and the fair values of its financial instruments.

(b) **Liquidity Risk**

Liquidity risk is the risk that the entity will encounter difficulty in meeting its financial liability obligations. The Company has access to capital through internally generated cashflows and potentially from external sources including capital markets, asset sales and joint venture partner funding of projects. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. The Company will not take on additional financial commitments unless it has reasonable expectation of raising funds to meet these commitments. The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. See also Note 3 "Going Concern".

Surplus cash is invested into short-term investments with Schedule A Canadian banks to ensure security and liquidity of those investments.

(c) **Credit Risk**

Credit risk is the risk that a customer, joint venture partner or counterparty will fail to perform an obligation or default resulting in the Company incurring a financial loss. The Company monitors the exposure to any single customer or joint venture partner. A substantial portion of the Company's accounts receivables are with customers in the oil and gas industry and are subject to normal industry credit risks. There are no significant receivables past due or provided for as doubtful receivables.

## **6. CAPITAL DISCLOSURES**

The Company's capital structure consists of shareholders' equity excluding accumulated other comprehensive income. The Company's primary objective for managing its capital structure is to safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders, by ensuring financial capacity, liquidity and flexibility to fund exploration projects while maintaining a strong capital base to sustain ongoing development. The Company relies on operating cashflows, equity or debt financings and joint venture partner participation

## CYGAM ENERGY INC.

### Notes to the Consolidated Financial Statements

Nine Months ended September 30, 2011 (unaudited)

to fund exploration activities. The Company has the ability to adjust its capital structure by issuing new equity or debt and adjusting its capital expenditure program to the extent the capital expenditures are not committed and to conduct capital projects through joint ventures. As at September 30, 2011, the Company had \$1.0 million in working capital. This working capital is anticipated to be used for the Company's exploration projects in Tunisia and for general corporate purposes.

#### 7. MARKETABLE SECURITIES

Marketable securities represented an investment in trust units of a public company and in common shares of a joint venture partner. These investments are designated as available for sale and are stated at fair value, without any deduction for transaction costs that may be incurred on sale or disposal. Any unrealized gain or loss is recognized in Other Comprehensive Income during the period in which it arises. Realized gains or losses are recorded in income.

The following table sets out the changes in marketable securities:

	Nine Months ended September 30, 2011	Year ended December 31, 2010
Balance, beginning of period	\$ 1,591,893	\$ 1,819,992
Disposed of during the period	(1,591,893)	(1,052,136)
Unrealized gain (loss) during the period	-	824,037
Balance, end of period	\$ -	\$ 1,591,893

#### 8. PROPERTY, PLANT AND EQUIPMENT

	Oil and Gas Interests		Corporate Assets	Total
<b>At January 1, 2010:</b>				
Cost	\$	11,071,021	\$ 359,056	\$ 11,430,077
Accumulated depletion and depreciation		(7,222,228)	(162,746)	(7,384,974)
Net book value	\$	3,848,793	\$ 196,310	\$ 4,045,103
<b>Year ended December 31, 2010:</b>				
Additions		1,156,040	-	1,156,040
Disposals		-	(5,214)	(5,214)
Depletion and depreciation		(207,907)	(21,453)	(229,360)
Impairment loss		(73,783)	-	(73,783)
Exchange differences		306,727	-	306,727
Net book value		5,029,870	169,643	5,199,513
<b>Period ended September 30, 2011:</b>				
Additions		3,259,222	-	3,259,222
Dispositions		(1,325,606)	-	(1,325,606)
Depletion and depreciation		(244,024)	(5,930)	(249,954)
Exchange differences		(33,633)	-	(33,633)
Net book value	\$	6,685,828	\$ 163,713	\$ 6,849,542

The Company capitalized \$126,008 (2010 - \$21,781) of general and administrative expenses directly related to drilling activities in Tunisia. The Company did not capitalize any general and administrative expenditures in Canada. Future development costs of \$18,648,000 (2010 - \$144,000) are included in the calculation of depletion expense.

**CYGAM ENERGY INC.****Notes to the Consolidated Financial Statements**

Nine Months ended September 30, 2011 (unaudited)

**9. EXPLORATION AND EVALUATION ASSETS**

Exploration and evaluation assets comprise expenditures relating to certain assets and permits in Italy and Tunisia.

**At January 1, 2010:**

Cost	\$	13,040,877
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**Year ended December 31, 2010:**

Additions	364,539
Impairment writedown	(6,315,804)
Exchange differences	(2,036,572)
Net book value	5,053,040

**Period ended September 30, 2011:**

Additions	1,512,911
Exchange differences	257,914
Net book value	\$ 6,823,865

The Company capitalized \$88,698 (2010 - \$35,837) of general and administrative expenses directly related to exploration activities in Italy.

**10. ASSET RETIREMENT OBLIGATION (“ARO”)**

At September 30, 2011, the estimated total undiscounted amount of cash flows required to settle the ARO was approximately \$387,000 (2010 - \$355,553) which are expected to be incurred between 2012 and 2024. The Company’s asset retirement obligation results from its responsibility to abandon and reclaim its net share of all working interest properties. The amount has been discounted using a risk free interest rate of 2.0% (2010 – 3.5%) and an inflation rate of 2.0% (2010 – 2.0%). A reconciliation of the ARO is provided below:

	Nine months ended September 30, 2011	Year ended December 31, 2010
Balance, beginning of period	\$366,293	\$382,030
Increase (decrease) in obligations during period	96,996	(6,299)
Liabilities relating to disposed of properties	(96,623)	-
Changes in estimate of timing of cash flows/foreign exchange	(6,188)	(14,469)
Accretion expense	1,443	5,031
Balance, end of period	\$361,921	\$366,293

**CYGAM ENERGY INC.****Notes to the Consolidated Financial Statements**

Nine Months ended September 30, 2011 (unaudited)

**11. SHARE CAPITAL****a) Issued and Outstanding**

<b>Common Shares</b>	<b>Shares Number</b>	<b>Amount (\$)</b>
Balance as at December 31, 2009	85,614,204	\$26,231,495
Shares issued pursuant to short form prospectus offering	12,086,733	6,892,339
Share issue costs		(699,072)
Balance as at December 31, 2010 and September 30, 2011	97,700,937	\$32,424,762

**b) Stock Options**

As at September 30, 2011, there were 9,150,000 stock options outstanding with a weighted average exercise price of \$0.51, of which 6,716,668 were exercisable at a weighted average exercise price of \$0.53.

The following tables summarize the information regarding the Stock Options Plan activity to September 30, 2011:

	<b>Options Outstanding Number</b>	<b>Weighted Average Exercise Price (\$)</b>
Balance, December 31, 2010	6,250,000	\$0.55
Granted	600,000	\$0.58
Granted	3,650,000	\$0.48
Expired	(1,350,000)	\$0.59
Balance, September 30, 2011	9,150,000	\$0.51

<b>Exercise Price</b>	<b>Options Outstanding</b>	<b>Weighted Average Remaining Contractual Life (years)</b>
\$0.40	2,400,000	3.09
\$0.48	3,650,000	4.58
\$0.50	300,000	1.25
\$0.60	2,150,000	0.95
\$0.65	300,000	1.25
\$1.00	350,000	0.75
	9,150,000	2.94

**CYGAM ENERGY INC.****Notes to the Consolidated Financial Statements**

Nine Months ended September 30, 2011 (unaudited)

The stock option value for options granted in 2011 and 2010 has been calculated using the Black Scholes pricing methodology based on expected volatility of 70% (2010 - 70% ), a risk free interest rate of 1.7% (2010 – 4.5%) and an expected life of from 24 to 60 months.

**c) Warrants and Agents' Options**

The following table summarizes the warrants and agents' options outstanding as at September 30, 2011 and December 31, 2010:

	Number	Amount
Balance, December 31, 2009	-	-
Warrants and agents' options issued pursuant to short form prospectus offering	6,949,872	\$ 359,701
Balance, December 31, 2010	6,949,872	359,701
Expired warrants and agents' options	(6,949,872)	(359,701)
Balance, September 30, 2011	-	\$ -

**12. CONTRIBUTED SURPLUS**

The following table sets out the changes in Contributed Surplus related to stock based compensation expense and expired warrants and agent's options:

	Nine months ended September 30, 2011	Year ended December 31, 2010
Balance, beginning of period	\$2,556,863	\$2,080,388
Stock based compensation expense	778,780	270,260
Stock based compensation capitalized	29,361	206,215
Expired warrants and agents' options	359,701	-
Balance, end of period	\$3,724,705	\$2,556,863

**13. PER SHARE AMOUNTS**

Basic earnings per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated to reflect the dilutive effect of stock options and warrants outstanding.

# CYGAM ENERGY INC.

## Notes to the Consolidated Financial Statements

Nine Months ended September 30, 2011 (unaudited)

Earnings per share is calculated as follows:

	Three months ended September 30, 2011			Nine months ended September 30, 2011		
	Net Income	Shares	Loss per share	Net Loss	Shares	Loss per share
Basic	\$ 167,811	97,700,937	\$ 0.00	\$ (2,287,324)	97,700,937	\$ (0.02)

  

	Three months ended September 30, 2010			Nine months ended September 30, 2010		
	Net Loss	Shares	Loss per share	Net Loss	Shares	Loss per share
Basic	\$ (374,358)	97,700,937	\$ 0.00	\$ (1,561,277)	97,700,937	\$ (0.02)

As a result of the net loss in both nine month periods, the basic and diluted number of shares is the same because the effect of the exercise of options and warrants is anti-dilutive.

### 14. SEGMENTED INFORMATION

The Company operates in the oil and gas industry. Its reportable segments are identified on a geographic basis.

Geographic Segments:

Nine months ended September 30, 2011	Canada	Italy	Tunisia	Corporate	Total
	\$	\$	\$	\$	\$
Oil and Gas Revenue, net of royalties	-	-	1,823,722	-	1,823,722
Net income (loss) from continuing operations	-	(578,143)	981,654	(2,387,920)	(1,984,409)
Net income (loss) from discontinued operations	(302,915)	-	-	-	(302,915)
Total assets	-	2,370,609	11,970,772	1,294,006	15,635,387
Exploration and evaluation assets	-	1,790,385	5,033,480	-	6,823,865
Property, plant and equipment	-	19,795	6,678,445	151,301	6,849,542
Capital Expenditures	-	245,905	4,512,059	14,168	4,772,132

  

Nine months ended September 30, 2010	Canada	Italy	Tunisia	Corporate	Total
	\$	\$	\$	\$	\$
Oil and Gas Revenue, net of royalties	-	-	143,535	-	143,535
Net income (loss) from continuing operations	-	(149,735)	20,049	(1,367,143)	(1,496,829)
Net income (loss) from discontinued operations	(64,448)	-	-	-	(64,448)
Total assets	1,455,095	1,541,634	12,810,479	7,636,740	23,443,948
Exploration and evaluation assets	-	1,643,505	10,219,103	-	11,862,608
Property and equipment	1,773,001	23,035	2,278,143	-	4,074,179
Capital Expenditures	63,092	195,361	346,446	-	604,899

## CYGAM ENERGY INC.

### Notes to the Consolidated Financial Statements

Nine Months ended September 30, 2011 (unaudited)

Three months ended September 30, 2011	Canada	Italy	Tunisia	Corporate	Total
	\$	\$	\$	\$	\$
Oil and Gas Revenue, net of royalties	-	-	1,591,396	-	1,591,396
Net income (loss) from continuing operations	-	(310,923)	969,985	(521,159)	137,903
Net income (loss) from discontinued operations	29,908	-	-	-	29,908
Capital Expenditures	-	169,362	3,937,365	14,167	4,120,895

Three months ended September 30, 2010	Canada	Italy	Tunisia	Corporate	Total
	\$	\$	\$	\$	\$
Oil and Gas Revenue, net of royalties	-	-	-	-	-
Net loss from continuing operations	-	(149,738)	20,049	(235,241)	(364,930)
Net loss from discontinued operations	(9,428)	-	-	-	(9,428)
Capital Expenditures	-	90,592	172,884	-	251,089

Corporate represents assets and activities relating to the corporate head office in Calgary, Canada. Total assets are shown net of inter-company balances.

#### 15. COMMITMENTS

The Company rents premises in Rome, Italy, under operating leases that require payments of \$40,340 in 2011 and \$40,340 in 2012, and the leases are subsequently renewable annually. The Company rents premises in Tunis, Tunisia, under operating leases that require payment of \$30,364 in 2011, and the lease is renewable annually.

#### 16. GENERAL AND ADMINISTRATIVE EXPENSES

Included in general and administrative expense is \$794,157 relating to payments with respect to terminated employment contracts relating to two former officers of the Company.

#### 17. RELATED PARTY TRANSACTIONS

- Included in the general and administrative expenses are consulting fees of \$975,795 (2010 - \$91,387) paid to companies whose shareholders are directors or former officers of Cygam. \$794,157 of this amount related to payments with respect to terminated employment contracts. The Company also capitalized \$88,698 (2010 - \$28,572) of consulting fees paid to a company controlled by a director and officer of the Company.
- During the period ended September 30, 2011, \$57,262 (2010 - \$nil) in legal fees was paid to a legal firm in which a director of the Company is a partner, \$20,810 of which was outstanding at September 30, 2011.
- During the period ended September 30, 2011, \$16,331 (2010 - \$97,233) in legal fees was incurred to a legal firm in which a former director of the Company is a partner. During 2010 \$88,551 was recorded as share issue costs incurred in connection with the equity financing completed in March 2010.

## CYGAM ENERGY INC.

### Notes to the Consolidated Financial Statements

Nine Months ended September 30, 2011 (unaudited)

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- (d) In August 2011, the Company entered into an agreement (“the Agreement”) with an existing partner (“Partner”) to terminate a current Farm Out Agreement and Memorandum of Understanding with respect to the Sud Tozeur and Bazma Permits in Tunisia. Under the Agreement, the Company agreed to reimburse the Partner for prior costs contributed by the Partner in exchange for the transfer to the Company of all rights or interests held by the Partner in the permits. This effectively returned the Company to a 100% interest in the Sud Tozeur and Bazma Permits and increases flexibility with respect to farmout options relating to these permits. The total amount payable by the Company under the Agreement is \$621,278, payable by way of an initial \$50,000 cash payment and the balance by March 31, 2012. The Agreement included the cancellation of a deposit paid by the Partner and the sale of marketable securities of the Partner owned by the Company. The Company’s former President and a director is a director of the joint venture partner.

#### 18. EXPLANATION OF TRANSITION TO IFRS

As disclosed in Note 2, these condensed interim consolidated financial statements represent the Company’s presentation of the financial results of operations and financial position under IFRS for the period ended September 30, 2011 in conjunction with the Company’s annual audited Financial Statements to be issued under IFRS as at and for the year ending December 31, 2011. As a result, these condensed interim consolidated financial statements have been prepared in accordance with IFRS 1, “First-time Adoption of International Financial Reporting Standards” and with IAS 34, “Interim Financial Reporting”, as issued by the IASB. Previously the Company prepared its interim and annual Financial Statements in accordance with previous GAAP. These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements. IFRS 1 requires the presentation of comparative information as at the January 1, 2010 transition date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all IFRSs.

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The Company’s first-time adoption of IFRS did not have an impact on the total operating, investing or financing cash flows. The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted for equity, earnings and comprehensive income:

#### Reconciliation of the Company’s accumulated deficit:

	Notes	September, 2010
<b>Deficit as reported under Canadian GAAP</b>		\$ 10,443,406
Asset retirement obligations	( b )	39,518
Depletion and amortization	( d )	(67,700)
Accretion	( b )	(5,915)
Exploration and evaluation expenditures	( a )	20,784
Share based payment transactions	( c )	47,010
Currency translation adjustment	( f )	1,065,351
Other comprehensive income	( g )	66,943
<b>Deficit as reported under IFRS</b>		\$ 11,609,397

# CYGAM ENERGY INC.

## Notes to the Consolidated Financial Statements

Nine Months ended September 30, 2011 (unaudited)

### Reconciliation of Net Loss and Comprehensive Loss for the three and nine month periods ended September 30, 2010

	Notes	Three months ended September 30, 2010			Nine months ended September 30, 2010		
		Cdn GAAP	adjustments	IFRS	Cdn GAAP	adjustments	IFRS
<b>Revenue</b>							
Oil and natural gas sales, net of royalties	(c)	\$ -	\$ -	\$ -	\$ 143,535	\$ 85,754	\$ 229,289
Royalties	(c)	-	-	-	-	(85,754)	(85,754)
Other revenue		27,526	-	27,526	75,499	-	75,499
		27,526	-	27,526	219,034	-	219,034
<b>Expenses</b>							
Operating		-	-	-	70,546	-	70,546
General and administrative		222,768	-	222,768	849,285	-	849,285
Stock-based compensation expense	(e)	200,819	(40,557)	160,262	215,681	(51,709)	163,972
Depletion and depreciation	(d)	8,503	-	8,503	69,934	(11,069)	58,865
Financing	(h)	-	923	923	-	3,808	3,808
Interest		745	(745)	-	3,274	(3,274)	-
Foreign exchange gain / loss		-	-	-	-	-	-
		432,835	(40,379)	392,456	1,208,720	(62,244)	1,146,476
<b>Loss before following items</b>		(405,309)	40,379	(364,930)	(989,686)	62,244	(927,442)
Unrealized gain (loss) on marketable securities	(g)	57,806	(57,806)	-	648,235	(648,235)	-
Realized loss on marketable securities	(g)	-	-	-	(569,387)	-	(569,387)
<b>Net loss from continuing operations</b>		(347,503)	(17,427)	(364,930)	(910,838)	(585,991)	(1,496,829)
<b>Net loss from discontinued operations</b>		(30,489)	21,061	(9,428)	(125,915)	61,467	(64,448)
<b>Net loss before following items</b>		(377,992)	3,634	(374,358)	(1,036,753)	(524,524)	(1,561,277)
Unrealized gain on marketable securities	(g)	-	57,806	57,806	-	648,235	648,235
Unrealized exchange loss on translation of foreign operations	(g)	544,605	-	544,605	(1,147,217)	-	(1,147,217)
<b>Total Other Comprehensive Loss</b>		544,605	57,806	602,411	(1,147,217)	648,235	(498,982)
<b>Comprehensive Loss</b>		\$ 166,613	\$ 61,440	\$ 228,053	\$ (2,183,970)	\$ 123,711	\$ (2,060,259)

### Notes to IFRS adjustments

#### (a) Exploration and Evaluation (“E&E”) assets

Under the previous GAAP, exploration and evaluation costs were capitalized as property, plant and equipment in accordance with CICA’s full cost accounting guidelines. Under IFRS, the Company capitalizes these costs initially as exploration and evaluation assets. Once technical feasibility and commercial viability of the area has been determined, the capitalized costs are transferred from exploration and evaluation assets to property, plant and equipment. Under IFRS, unrecoverable exploration and evaluation costs associated with an area and costs incurred prior to obtaining the legal rights are expensed.

#### (b) Provisions

Under previous GAAP asset retirement obligations were discounted at a credit adjusted risk free rate of 8%. Under IFRS the estimated cash flow to abandon and remediate the wells and facilities has been risk adjusted and therefore the provision is discounted at a risk free rate of 3.5%. Under previous GAAP, the accretion expense was included in the depletion and depreciation expense whereas under IFRS it is included in finance costs. As a result of its IFRS 1 exemption taken, upon transition to IFRS, the Company revalued its asset retirement obligations applying the IFRS requirement and charged the revaluation amount to retained earnings. The application of this exemption resulted in a \$39,518 increase to the asset retirement obligations on the balance sheet of the Company as at January 1, 2010 and September 30, 2010.

(c) Under IFRS, the Company is required to disclose royalties on the income statement. This amount relates to amounts payable in Tunisia with respect to a production sharing agreement.

## **CYGAM ENERGY INC.**

### **Notes to the Consolidated Financial Statements**

Nine Months ended September 30, 2011 (unaudited)

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#### (d) Depreciation, depletion and amortization (“DD&A”)

The depletion policy under previous GAAP was based on units of production over proved reserves and was calculated on the Canadian geographic cost centre and the Sud Remada permit. IFRS requires depletion and depreciation to be calculated based on individual components or groupings of components. Upon transition to IFRS, the Company adopted a policy of depleting its oil and natural gas interests, grouped into units of account, on a unit of production basis over proved plus probable reserves. Depleting at a unit of account level using proved plus probable reserves under IFRS resulted in a decrease to Company’s depletion and depreciation of \$11,069 for the nine months ended September 30, 2010.

#### (e) Share-based payments

Under previous GAAP, the Company recognized an expense related to their share-based payments on a straight-line basis through the date of full vesting and did not incorporate a forfeiture multiple. Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting awards and estimate a forfeiture rate. As provided in IFRS 1, the Company elected not to apply IFRS 2 - Share-based payments for share-based payments which vested before January 1, 2010. The result of this change was a decrease to Company’s stock based compensation expense by \$40,557 and \$51,709 for the three and nine months ended September 30, 2010, respectively.

#### (f) Foreign Currency Translation Adjustment

As permitted under IFRS 1, the Company elected to apply the exemption to set the cumulative foreign currency translation adjustment to zero upon transition to IFRS. Accordingly, \$1,065,351 was recognized as an adjustment to the accumulated deficit on January 1, 2010. The reclassification had no impact on the total shareholders’ equity as at January 1, 2010. As a result of the election, the accounts of the Company have not been retrospectively restated using IFRS foreign currency principles.

#### (g) Marketable securities

The Company’s investments in marketable securities were reclassified under IFRS from “held for trading” to “available for sale” and as a result any unrealized gain or loss arising on these investments is recorded in Other Comprehensive Income (“OCI”) instead of earnings. As a result the cumulative gains were transferred from accumulated deficit to OCI at January 1, 2010. Unrealized gains and losses in subsequent periods have been reclassified on a similar basis.

#### (h) Reclassification

##### Interest income and finance costs

Under previous GAAP, the accretion of the asset retirement obligations was included with depletion and depreciation on the Statements of net income and comprehensive income. Under IFRS this amount had been reclassified to finance costs.

#### (i) Other exemptions

In accordance with significant IFRS exemptions available to the Company at January 1, 2010, the Company elected an IFRS 1 exemption whereby the Canadian geographic cost centre was measured upon transition to IFRS by allocating the Canadian geographic cost centre to the producing and development assets and components (units of account) pro rata using proved and probable reserve values. In addition the business combinations and joint ventures entered prior to January 1, 2010 were not retrospectively restated under IFRS.

The remaining IFRS exemptions were not applicable or material to the preparation of the Company’s consolidated balance sheet at the date of transition to IFRS on January 1, 2010.

# CYGAM ENERGY INC.

## Notes to the Consolidated Financial Statements

Nine Months ended September 30, 2011 (unaudited)

### 19. DISCONTINUED OPERATIONS

In March 2011 the board of directors decided that the Company's Canadian oil and gas properties were no longer strategic assets of the Company and made the decision to actively commence a sale process of the properties. An active marketing program commenced in late April 2011 and in August 2011 the Company closed the sale of the properties for gross proceeds of \$1,000,000. A remeasurement loss of \$280,000 was recorded as at June 30, 2011 to reflect the expected net proceeds from the sale of the assets.

The results of these discontinued operations for the three month and nine month periods ended September 30 are presented below:

	Nine months ended September 30, 2011	Nine months ended September 30, 2010	Three months ended September 30, 2011	Three months ended September 30, 2010
Oil and gas revenue	\$ 207,540	\$ 318,783	\$ 8,302	\$ 110,594
Royalties	(35,404)	(33,649)	(5,644)	(8,579)
Net revenue	172,136	285,134	2,658	102,015
Operating costs	77,711	116,019	2,636	45,784
General and administration	103,117	115,078	-	29,060
Depreciation and depletion	43,171	116,226	-	35,846
Remeasurement of carrying value loss	280,000	-	-	-
Gain on sale of properties	(29,886)	-	(29,886)	-
Accretion	938	2,259	-	753
	475,051	349,582	(27,250)	111,443
<b>Income (loss) from discontinued operations</b>	<b>\$ (302,915)</b>	<b>\$ (64,448)</b>	<b>\$ 29,908</b>	<b>\$ (9,428)</b>

The net cash used in discontinued operations is as follows for the periods ended September 30:

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Cash provided by (used for):		
<b>Operating activities</b>		
Net income (loss)	\$ (302,915)	\$ (64,448)
Add (deduct) non-cash items:		
Depreciation, depletion and accretion	43,171	116,226
Remeasurement of carrying value loss	280,000	-
Changes in non-cash working capital	6,693	(58,125)
Cash flows used for operating activities	26,949	(6,347)
<b>Investing activities</b>		
Capital asset additions	(19,668)	(44,338)
<b>Total Cash from (used in) discontinued operations</b>	<b>\$ 7,281</b>	<b>\$ (50,685)</b>