

## **Pyramid Petroleum, Inc.**

### **Management Discussion and Analysis (“MD&A”)**

The following MD&A, dated May 30, 2006, of the financial statements of Pyramid Petroleum Inc (“the Company”) should be read in conjunction with the Company’s unaudited interim financial statements for the three months ended March 31, 2006.

### **Forward-looking information**

Certain statement herein may constitute forward-looking statements, which can generally be identified as such because of the context of the statements including words such as the Corporation believe, anticipate, expects, plans, estimated, or words of similar nature. The forward-looking statements are based on current expectations and are subject to known and unknown risks, uncertainties, and other factors that may cause the actual results, performance or achievements of the Corporation to be materially different from any future results.

### **Overview**

Pyramid Petroleum, Inc. (the "Company") was incorporated pursuant to the provisions of the Business Company Act (Alberta) on March 11, 2005. The Company completed its Qualifying Transaction on May 4, 2006 and the TSX Venture Exchange issued a bulletin on May 10, 2006 to announce the completion of the Qualifying Transaction and since then the Company started trading as a non Capital Pool Company. The Qualifying Transaction constitutes acquisition of certain oil and gas assets (“Assets”) from a founding shareholder of the Company, for a net purchase price of \$7,228,716. The Assets are located in Alberta, Canada and Montana, United States. The Company issued 24,095,720 common shares at a deemed price of \$0.30 per share in exchange for the Assets. Although the effective date of purchase is January 1, 2006, the results of the operations for the Assets is not reported in the interim financial statement for the three months ended March 31, 2006 as the transaction had not closed as of the end of this period.

### **Liquidity and Capital Resources**

The Company has incurred general and administrative costs of \$9,079 in the three months ended March 31, 2006. The only other costs incurred to date are those related to the inception of the Company, the issuance of shares and listing on the TSX Venture Exchange, and evaluation and consummation of Major Transaction.

As of December 31, 2005 the Company had liquid assets in the form of cash or guaranteed investment certificates issued by a Canadian chartered bank in the amount of \$1,637,827 and accounts payable and accrued expenses of \$35,647.

## **Outlook**

The Assets being acquired as part of Qualifying Transaction have long term oil and gas reserves and are expected to provide strong foundation for the company. Also, the undeveloped lands provide upside for future development, which is currently being planned by the operator. In addition, the Corporation is focusing on acquiring high quality international exploration and development projects, utilizing the experience and network of the management team.

The Corporation will strive to create sustainable growth in reserves, production, and cash flow through applying the strategy stated above. This process requires careful selection of good quality projects and the current management team has the necessary experience to do this. On the operations side, the management plans to work closely with the operators of the Assets for future development plans in order to increase production and reduce costs. While there is no need for additional technical staff to manage the Assets, the Corporation will hire additional technical staff once an international acquisition is consummated, in order to implement the development and exploration plans and apply modern and cost effective techniques to develop the reserves that would be acquired.

The Assets acquired are estimated to provide net operating income of over \$100,000 per month. After making allocation for loan payments, the Corporation would get approximately \$20,000 per month for working capital. Currently management estimates that the total monthly G&A would be less than \$20,000 per month. As such, the net cash flow from the Assets, after adjusting for debt payments, would be sufficient to cover the on-going working capital requirements.

The Corporation understands that it is at an early stage of operations and would be prudent in applying risk management techniques, whereby adopting a 'portfolio' approach toward capital expenditure

## **Business Risks**

The Company was only recently incorporated and has only begun its operations on May 4, 2006 after the completion of Qualifying Transaction. It does not have a history of earnings, nor has it paid any dividends. The Company expects to have earnings from the Assets acquired as part of the Qualifying Transaction, although there is no plan to pay any dividends now or in future and instead these earning will be employed for future growth plans.

In addition, the Company is exposed to the risks associated with the oil and gas industry, including, but not limited to, competition, price fluctuations, technical and environmental risks, and exchange rate fluctuations.

## **Related Party Transactions**

Related party transactions are disclosed in note 4 of the Company's financial statements.

## **Management's Comments on Unaudited Financial Statements**

The accompanying unaudited interim financial statements and related "Management Discussion and Analysis" of Pyramid Petroleum, Inc. for the three months ended March, 2006, have been prepared by management and approved by the Board of Directors of the Company. These statements have not been reviewed by the Company's external auditors.

/Signed/ "Mansoor Anjum"

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President, CEO and CFO

**Pyramid Petroleum Inc.  
Interim Financial Statements**

**For the three month period ended  
March 31, 2006**

**(Unaudited - Prepared by Management)**

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**NOTICE TO THE READER:**

The accompanying unaudited interim financial statements of Pyramid Petroleum, Inc. for the three months ended March 31, 2006 have been prepared by management and approved by the Board of Directors of the Company. These statements have not been reviewed by the Corporation's external auditors.

On behalf of the Board:

*Signed* \_\_\_\_\_ Director  
Mansoor A. Anjum

*Signed* \_\_\_\_\_ Director  
William E. Richards

**Pyramid Petroleum Inc.  
Interim Balance Sheet  
(Prepared by Management)**

	<b>March 31, 2006 (unaudited)</b>	December 31, 2005 (audited)
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalent	\$ 1,637,827	\$1,742,187
Prepaid expenses	882	-
Interest receivable	10,625	-
	<b>\$1,649,334</b>	<b>\$1,742,187</b>
<b>Deferred financing charges</b>	<b>156,966</b>	<b>97,728</b>
	<b>\$1,806,300</b>	<b>\$1,839,915</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 35,647	\$70,809
<b>Shareholders' Equity</b>		
Share capital (Note 3)	1,714,460	1,714,460
Contributed surplus	55,344	55,344
Retained earning (deficit)	848	(698)
	<b>1,770,652</b>	<b>1,769,106</b>
	<b>\$1,806,300</b>	<b>\$1,839,915</b>

The accompanying notes are an integral part of these interim financial statements.

**Pyramid Petroleum Inc.**  
**Interim Statement of Operations and Retained Earnings (Deficit)**  
**(Prepared by Management)**

	For the three month period ended March 31, 2006 (unaudited)	For the 20 days ended March 31, 2005
Interest income	\$ 10,625	\$ -
General and administrative expenses	<u>9,079</u>	<u>-</u>
Net income	\$ 1,546	\$ -
Deficit, beginning of period	<u>(698)</u>	<u>-</u>
Retained earnings, ending of period	848	-
Income per share:		
Basic	\$ 0.0001	\$ -
Diluted	\$ 0.0001	\$ -
Weighted average shares:		
Basic	12,500,000	500,000
Diluted	13,250,000	500,000

The accompanying notes are an integral part of these interim financial statements.

**Pyramid Petroleum Inc.**  
**Interim Statement of Cash Flows**  
**(Prepared by Management)**

	For the three month period ended March 31, 2006 (unaudited)	For the initial 20 day period ended March 31, 2005 (audited)
<b>Cash flows from operating activities</b>		
Net Income	\$ 1,546	\$ -
Change in non cash working capital	(10,060)	-
Net cash flow from (used by) operating activities	<u>(8,516)</u>	<u>-</u>
<b>Cash flows from financing activities</b>		
Issue of share capital	-	500,000
Payment of deferred charges	(28,575)	-
Change in non cash working capital - accounts payable related to deferred charges	(67,269)	-
Net cashflow from (used for) financing activities	<u>(95,844)</u>	<u>500,000</u>
<b>Increase in cash and cash equivalents</b>	<b>\$ (104,360)</b>	<b>\$ 500,000</b>
<b>Cash and cash equivalents, beginning of period</b>	<b><u>1,742,187</u></b>	<b><u>-</u></b>
<b>Cash and cash equivalents, end of period</b>	<b>1,637,827</b>	<b>\$ 500,000</b>

The accompanying notes are an integral part of these interim financial statements.

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**Pyramid Petroleum Inc.**  
**Notes to Interim Financial Statements**  
**(Unaudited – prepared by Management)**

**March 31, 2006**

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**1. Nature of Business**

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The Company was incorporated under the Alberta Business Corporations Act on March 11, 2005. The Company is a Capital Pool Company and has identified a potential acquisition of interest, which once approved by the Stock Exchange and the shareholders of the Company would constitute as its Qualifying Transaction.

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**2. Significant Accounting Policies**

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The interim financial statements of Pyramid Petroleum Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”). The interim financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for Pyramid Petroleum Inc. for the transition year ended December 31, 2005. As these interim financial statements may not include all disclosure required under GAAP, they should be read in conjunction with the audited financial statements of Pyramid Petroleum Inc. and the notes thereto for the transition year ended December 31, 2005.

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**3. Share Capital**

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(a) Authorized

Unlimited number of Common shares, without nominal or par value

Unlimited First Preferred shares, without nominal or par value, issuable in series, at terms to be determined by the directors.

(b) Issued

There were no new shares issued during the quarter ended March 31, 2006 and the total number of shares issued remains 12,500,000.

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**4. Related Party Transactions**

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(a) The Company entered into a Purchase and Sale Agreement on March 24, 2006 for the Qualifying Transaction and subsequently closed the transaction on May 4, 2006 upon receiving the regulatory and shareholder approval. As part of this transaction, the Company acquired certain oil and gas assets (“Assets”) from a founding shareholder of the Company, for a net purchase price of \$7,228,716. The Assets are located in Alberta, Canada and Montana, United States. The Company issued 24,095,720 common shares as consideration for the acquisitions. These shares are subject to escrow conditions (note 6(a)).

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**Pyramid Petroleum Inc.**  
**Notes to Financial Statements**  
**(Unaudited – prepared by Management)**

**December 31, 2005**

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**5. Financial Instruments**

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All of the Company's cash assets are held in the form of cash or guaranteed investment certificates issued by a Canadian chartered bank.

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**6. Subsequent Events**

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- (a) On May 4, 2006 the Company closed its acquisition of certain oil and gas acquired certain oil and gas assets ("Assets") from a founding shareholder of the Company, for a net purchase price of \$7,228,716. The Assets are located in Alberta, Canada and Montana, United States. The transaction constituted as the Qualifying Transaction. The Company issued 24,095,720 common shares as consideration for the Assets. These shares are subject to Tier 2 Value Security Escrow Agreement to be released in phases over the next 36 months. 10% of these shares were subsequently released from escrow when the transaction was approved by the Exchange and the Company started trading as a non Capital Pool Company. In connection with the closing of this transaction, the Company issued 900,000 stock options to officers and directors. These options have an exercise price of \$0.30 and are exercisable over the next 5 years. The Company has not yet determined the financial impact of issuing these options.
  - (b) On May 10, 2006 the TSX Venture Exchange issued a bulletin with respect to the completion of the Qualifying Transaction and the Company started trading as a non Capital Pool Company under a new symbol PYR instead of the old symbol PYR.P
  - (c) On May 15, 2006, the Company changed its year end to December 31 from June 30.
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