

Pyramid Petroleum, Inc.

Management Discussion and Analysis (“MD&A”)

The following MD&A, dated August 29, 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 six months ended June 30, 2006 and the audited financial statements for the period ended December 31, 2005.

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 Company 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 Company to be materially different from any future results.

Basis of Presentation

The financial data presented below has been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”). The reporting and the measurement currency is the Canadian dollar. For the purpose of calculating unit costs, oil has been converted into cubic feet of equivalent gas (“Mcf”) using one barrel of oil equal to six thousand cubic feet of natural gas.

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 constituted 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 were not reported in the interim financials statement for the three months ended March 31, 2006 as the transaction had not closed as of the end of the first quarter and are being reported for only two months of operations in the interim financial statements for the six months ended June 30, 2006.

Current Operations

The second quarter numbers are based on 2 months of operations since the completion of the Qualifying Transaction. Production volume for the second quarter of 2006 was 708 Mcfed. Crude oil sales volume was 11 barrel per day and natural gas production was 642 Mcf/day.

Oil and gas revenues, net of royalties, for the second quarter were \$247,370 and the operating costs were \$142,591. The G&A expenses totaled to \$41,987. In addition the company issued 900,000 stock options to directors and officers of the Company, which were vested immediately and an expense of \$152,847 was booked in the period. Depreciation, depletion, and accretion expense was \$79,754.

The net loss for the second quarter of 2006 was \$189,767. The cash flow from operations was \$84,375.

As of June 30, 2006 the Company had current assets of \$935,139 and current liabilities of \$986,628. Included in the current liabilities are current portion of loan payable. This loan is a non-recourse loan and the Company is required to make payments from the net proceeds from the Assets acquired as part of the Qualifying Transaction.

Acquisitions

The Company has entered into an agreement to purchase a 5% working interest in certain oil and gas properties located in the Gulf of Mexico for a total purchase price of US\$4,150,000. 75% of the purchase price is estimated to be financed with debt and production credits, with the balance to be paid in cash. As of June 30, 2006 The Company has paid US\$415,000 as a deposit for this transaction. The closing is expected on August 31, 2006.

The proved and probable reserves to Pyramid's interest, calculated in accordance with the SEC guidelines are US\$8.5 million and the current production, net to Pyramid's interest, is approximately 1.3MMcf/d and 40 bbl/d. The purchase consists of interests in 17 producing and 2 non-producing wells, all located in the Gulf of Mexico.

Outlook

The Assets 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. Similarly, the new acquisition will add reserves to the Company's asset base. The properties being acquired are expected to provide positive cash flow to the Company, to be utilized for further development and exploration projects. The Company is focusing on acquiring high quality domestic and international exploration and development projects, utilizing the experience and network of the management team.

The Company 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 properties 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 Company 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 Company 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 in May 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 six months ended June 30, 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"

President and CFO

**Pyramid Petroleum Inc.
Interim Financial Statements**

Six months ended
June 30, 2006

(Unaudited - Prepared by Management)

Contents

Interim Financial Statements	
Interim Balance Sheet	3
Interim Statement of Operations and Retained Earnings (Deficit)	4
Interim Statement of Cash Flows	5
Notes to Interim Financial Statements	6-10

NOTICE TO THE READER:

The accompanying unaudited interim financial statements of Pyramid Petroleum, Inc. for the six months ended June 30, 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)

	June 30, 2006	December 31, 2005
	(unaudited)	(audited)
Assets		
Current		
Cash and cash equivalent	\$ 811,089	\$1,742,187
Prepaid expenses	882	-
Accounts receivable	120,569	-
Interest receivable	2,600	-
	\$ 935,139	\$1,742,187
Oil and gas properties, net of depletion	10,699,012	-
Deposit for Acquisition	465,879	-
Deferred financing charges	-	97,728
	\$12,100,030	\$1,839,915
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 83,595	\$70,809
Due to related party	106,137	-
Current portion of loan payable	796,896	-
	986,628	70,809
Loans payable	1,857,533	-
Asset retirement obligation	313,921	-
	3,158,082	70,809
Shareholders' Equity		
Share capital (Note 4)	8,922,676	1,714,460
Contributed surplus	208,191	55,344
Retained earning (deficit)	(188,919)	(698)
	8,941,948	1,769,106
	\$12,100,030	\$1,839,915

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 six month period ended June 30, 2006 (unaudited)	For the 111 days ended June 30, 2005	For the three month period ended June 30, 2006 (unaudited)	For the three month period ended June 30, 2005
Revenues, net of Royalty	\$ 247,370	\$ -	\$ 247,370	\$ -
Expenses				
Operating Expenses	142,591	-	142,591	-
General and Administrative	51,066	-	41,987	-
Interest	9,333	-	19,958	-
Depreciation, depletion and accretion	79,754	-	79,754	-
Stock based compensation	152,847	-	152,847	-
	<u>435,591</u>	<u>-</u>	<u>437,137</u>	<u>-</u>
Income (Loss) Before Income Taxes	(188,221)	-	(189,767)	-
Future income tax	-	-	-	-
Net Income (loss) for the period	(188,221)	-	(189,767)	-
Retained earning (deficit), beginning of period	(698)	-	848	-
Retained earning (deficit), ending of period	(188,919)	-	(188,919)	-
Loss per share:				
Basic	\$ (0.0093)	\$ -	\$ (0.0068)	\$ -
Diluted	\$ (0.0089)	\$ -	\$ (0.0065)	\$ -
Weighted average shares:				
Basic	20,221,280	5,000,000	27,857,712	5,000,000
Diluted	21,259,678	5,000,000	29,181,338	5,000,000

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 six month period ended June 30, 2006 (unaudited)	For the 111 days period ended June 30, 2005	For the three month period ended June 30, 2006 (unaudited)	For the three month period ended June 30, 2005
Cash flows from operating activities				
Net Income	\$ (188,221)	\$ -	\$ (189,767)	\$ -
Add: Non-cash items				
Stock based compensation	152,847		152,847	
Depreciation, depletion and accretion	79,754		79,754	
Change in Accounts Receivable	(124,051)		(112,544)	
Change in Accounts Payable	118,923		154,085	
Net cash flow from operating activities	<u>39,253</u>	<u>-</u>	<u>84,375</u>	<u>-</u>
Cash flow from Investing activities				
Oil & Gas Properties	(10,464,845)		(10,464,845)	
Deposit for Acquisition	(465,879)		(465,879)	
	<u>(10,930,724)</u>	<u>-</u>	<u>(10,930,724)</u>	<u>-</u>
Cash flows from financing activities				
Issue of share capital	7,514,256	500,000	7,514,256	-
Payment of share issue costs	(306,040)		(306,040)	
Increase in Loans Payable	2,654,429		2,654,429	
Payment of deferred charges	97,728	(31,015)	156,967	-
Change in non cash working capital - accounts payable related to deferred charges	-	-	-	-
Net cashflow from financing activities	<u>9,960,374</u>	<u>468,985</u>	<u>10,019,612</u>	<u>-</u>
Increase in cash and cash equivalents	(931,098)	468,985	(826,738)	-
Cash and cash equivalents, beginning of period	1,742,187	-	1,637,827	468,985
Cash and cash equivalents, end of period	\$ 811,089	\$ 468,985	\$ 811,089	\$ 468,985

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

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

June 30, 2006

1. Basis of Presentation

These unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”), and follow the same accounting policies as for the financial statements for the period ended December 31, 2005. These notes are incremental to and are to be read in conjunction with the audited financial statements for the year ended December 31, 2005.

2. Significant Accounting Policies

The financial statements have, in management’s opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the accounting policies summarized below and those provided with the audited financial statements for the year end December 31, 2005:

(a) Oil and Gas Properties

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas reserves are initially capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling and overhead charges directly related to acquisition and exploration activities.

Costs capitalized, together with the costs of production equipment, are depleted and amortized on the unit-of-production method based on the estimated gross proved reserves as determined by independent petroleum engineers. Petroleum products and reserves are converted to a common unit of measure, using 6 MCF of natural gas to 1 barrel of oil.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

Proceeds from a sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion by more than 20%.

The Company applies an impairment test (“ceiling test”) to determine if capitalized costs are not recoverable and exceed their fair value. Capitalized costs are not recoverable if they are greater than estimated undiscounted cash flows from future production of proven reserves plus the cost (net of impairment) of unproved properties. Commodity prices used in calculating estimated cash inflows are based on quoted benchmark prices in the futures market. Costs used in estimating cash outflows are based on expected future production and other costs and include abandonment and site restoration costs. An impairment loss is recognized if capitalized costs are greater than their recoverable amount. The impairment loss is measured as the amount by which capitalized costs exceed the fair value of proved and probable reserves plus the cost (net of impairment) of unproved properties. Fair value is determined based on the present value of future cash flows,

June 30, 2006

2. Significant Accounting Policies (continued)

after deducting abandonment and site restoration costs (asset retirement obligations), discounted at a risk-free interest rate. Any impairment loss is charged to earnings

(c) Asset Retirement Obligation

The Company recognizes the estimated fair value of an Asset Retirement Obligation (ARO) in the period in which it is incurred when a reasonable estimate of fair value can be made. The fair value of the estimated ARO is recorded as a long-term liability with a corresponding increase in the carrying amount of the related asset. ARO obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes to the underlying cash flows. The capitalized amount is depleted on a unit-of-production basis over the life of the proven reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost would also result in an increase or decrease to the ARO. Actual costs incurred are charged against the ARO to the extent of the recorded liability. Any difference between the actual costs incurred and the recorded liability is recognized as a gain or loss in the period in which the costs are incurred.

(d) Revenue

Revenue associated with the sale of petroleum and natural gas production is recognized when the title passes from the property owner to its customers. The revenues are reported net of royalties. In addition, the revenue reported the Statements include fees charged to other operators in the area for processing at gathering system and a pipeline tariff and also rental income.

(e) Operating Expenses

Operating expenses include all costs related to lifting, processing of oil and natural gas and related products, transportation cost, overhead charged by the operator, and expenses related to gathering and processing fee earned from other operators in the area.

(f) Foreign Currency Translation

Foreign currency accounts are translated to Canadian dollars as follows:
At the transaction date, each asset, liability, revenue, or expense is translated into Canadian dollar by the use of the exchange rate in effect at that date. At the period end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in income from the current year.

3. Qualifying Transaction

- (a) The Company acquired certain oil and gas assets ("Assets") from a founding shareholder and director of the Company, for a net purchase price of \$7,228,716. The Company also assumed a debt of \$3,395,427 as part of the transaction. The Assets are located in Alberta, Canada and

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

June 30, 2006

Montana, United States. The Company issued 24,095,720 common shares at a price of \$0.30 per share in exchange for the Assets. The effective date of the purchase was January 1, 2006.

Under the terms of a trust agreement, the debt holder holds title to the oil and gas properties as security for the obligations assumed on acquisition. Legal title to the properties will transfer to the Company on repayment of the debt in its entirety.

The loans payable bear an interest rate equal to LIBOR and are repayable from the net operating revenue from the properties. The current portion of the obligation is estimated to be \$796,896 based on historical operating results.

The acquisition costs for this transaction were \$198,080.

- (b) The Company has estimated the asset retirement obligation related to the acquired assets to be \$313,921. The estimated undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation are \$2.5 million. The obligation for the Assets was calculated using a credit-adjusted risk free discount rate of 8% and inflation rate of 2%. It is expected that this obligation will be funded from general company resources at the time the costs are incurred with the majority of costs expected to occur in 2042.

4. Share Capital

(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

	Number	Amount
Common shares		
Balance as at December 31, 2006	12,500,000	\$2,000,000
Issued for acquisition of assets	24,095,720	7,228,716
Share issue costs		(306,040)
Total share capital, end of period	<u>36,595,720</u>	<u>\$8,922,676</u>

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

June 30, 2006

4. Share Capital (continued)

(c) Shares held in escrow

The initial 5,000,000 common shares issued to the Company's founders and the 24,095,720 common shares issued with regard to the Qualifying Transaction are subject to certain escrow requirements restricting release of the shares over a 36 month period subsequent to the completion of the Qualifying Transaction.

(d) Stock options

Currently there are 900,000 share options granted to the officers and directors under the incentive stock option plan. These options were vested at issuance at an exercise price of \$0.3 per share and expire on May 4, 2011.

The corporation has 750,000 broker warrants outstanding at \$0.20 per share until October 18, 2007 related to its IPO transaction.

5. Related Party Transactions

(a) The Company closed the Qualifying Transaction on May 4, 2006. 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 4(c)).

(a) Of the initial shares issued, all of the 5,000,000 shares were issued to directors and members of the management team or parties related to them for \$500,000, i.e. a subscription price of \$0.10 per share. These transactions have been recorded at their agreed to exchange amounts, which equal carrying values.

6. Future Income Taxes

As at June 30, 2006, the Company has \$306,040 of unamortized share issue costs which can be used to offset future taxable income. The potential future benefit relating to these costs has not been recorded in the financial statements as the ultimate realization of their benefit is unknown.

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

June 30, 2006

7. Financial Instruments

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

8. Deposit for Acquisition

The Company has entered into an agreement to purchase a 5% working interest in certain oil and gas properties located in the Gulf of Mexico for a total purchase price of US\$4,150,000. 75% of the purchase price will be financed with debt and production credits, with the balance to be paid by cash in hand. As of June 30, 2006 The Company has paid US\$415,000 as a deposit for this transaction. The closing is expected on August 31, 2006.
