

MANAGEMENT DISCUSSION AND ANALYSIS (“MD&A”)

The following MD&A of Pyramid Petroleum Inc (“Pyramid” or the “Company”), dated November 29, 2006, should be read in conjunction with the Company’s unaudited interim financial statements for the nine months ended September 30, 2006 and the audited financial statements for the period ended December 31, 2005.

BASIS OF PRESENTATION

The consolidated financial data presented below has been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) for the Company and its wholly owned subsidiary, Pyramid Petroleum Company, a Delaware corporation. The reporting and the measurement currency is the Canadian dollar. This MD&A and the accompanying unaudited interim financial statements for the three and nine months ended September 30, 2006, have been prepared by management and approved by the Board of Directors of the Company. They have not been reviewed by the Company's external auditors.

FORWARD-LOOKING INFORMATION

Certain statements herein may constitute forward-looking information, which can generally be identified as such because of the context of the statements including words such as believes, anticipates, expects, plans, estimates, or words of a 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.

All such forward-looking information is based on certain assumptions and analyses made by Pyramid in light of the Company’s experience and perception of historical trends, current conditions and expected future developments, as well as other factors Pyramid believes are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, including, without limitation: the risks of foreign operations; foreign exchange fluctuations; commodity prices; equipment and labor shortages; 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; uncertainties associated with estimating reserves; incorrect assessments of the value of acquisitions; geological, technical, drilling and processing problems; 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 Pyramid; and other factors, many of which are beyond the Company’s control. The foregoing factors are not exhaustive.

NON-GAAP MEASURES

Within this MD&A references are made to terms commonly used in the oil and gas industry. Cash flow, cash flow per share and field netback are terms not defined by GAAP in Canada and are referred to as non-GAAP measures. Cash flow represents funds from operations as detailed on the Consolidated Statements of Cash Flows. Cash flow per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of net income per share. Field netbacks represent revenue less royalties and operating expenses. Management believes that field netback is a

useful supplemental measure as it provides an indication of the Company's operating performance, leverage and liquidity.

In conformity with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities, natural gas volumes have been converted to barrels of oil equivalent ("boe") using a conversion ratio of six thousand cubic feet ("mcf") of natural gas to one barrel of oil ("bbl"). This ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers are cautioned that boe's may be misleading, particularly if used in isolation.

DESCRIPTION OF BUSINESS

Pyramid was incorporated pursuant to the provisions of the Business Corporations Act (Alberta) on March 11, 2005. The Company completed its Qualifying Transaction (the "Qualifying Transaction") on May 4, 2006 and started trading as a non Capital Pool Company on May 12, 2006. The Qualifying Transaction constituted acquisition of certain oil and gas assets (the "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.

On August 31, 2006, the Company completed the acquisition of a varying working interest, ranging from 1.25% to 5%, in certain oil and gas properties in the Gulf of Mexico (the "GOM Assets") from an arms-length party, for a net purchase price of \$3,519,826. The Company paid \$1,042,663 cash and the balance was funded by a loan payable to the operator of the properties, a related party owned by the CEO of the Company, together with a note payable to the CEO of the Company.

The Company is a reporting issuer in British Columbia, Alberta and Ontario and trades on the TSX Venture Exchange ("TSXV") under the symbol PYR.

CONSOLIDATED RESULTS HIGHLIGHTS

The following is the summary of financial results for the Company for the three months and nine months ended September 30, 2006 and 2005.

(\$)	For the three month period ended September 30, 2006	For the three month period ended September 30, 2005	For the nine month period ended September 30, 2006	For the 203 days ended September 30, 2005
Oil and gas revenues, net of royalties ⁽¹⁾	662,040	-	909,410	-
Other revenues	4,520	-	26,788	-
Net income (loss)	40,974	-	(147,247)	-
Capital expenditures	215,963	-	272,469	-
Working capital ⁽²⁾	170,635	430,847	170,635	430,847
Total assets	14,592,123	538,138	14,592,123	538,138
Long-term liabilities ^(2 and 3)	5,391,566	-	5,579,590	-
Cash flow from operations	372,997	-	410,200	-
<i>(\$ per share)</i>				
Net income (loss)				
Basic	0.001	-	(0.006)	-
Diluted	0.001	-	(0.006)	-
Cash flow from operations				
Basic	0.010	-	0.016	-
Diluted	0.009	-	0.015	-
Common shares outstanding	36,595,720	5,000,000	36,595,720	5,000,000
Weighted average number of shares outstanding for the period				
Basic	36,595,720	5,000,000	25,739,407	5,000,000
Diluted	38,245,720	5,000,000	26,983,912	5,000,000

⁽¹⁾ Includes one month of production from Gulf of Mexico properties and five months from Montana and Alberta properties.

⁽²⁾ The current portion of loans payable to operators of properties is excluded from calculation of working capital and included in long term liabilities.

⁽³⁾ After adjusting for Unrealized Foreign Exchange Gain/Loss.

RESULTS OF OPERATIONS

Oil and gas revenues, net of royalties, for the three months and nine months ended September 30, 2006 were \$662,040 and \$909,410 respectively. The operating costs for the same periods were \$170,742 and \$313,332 respectively. The general and administrative expenses for the three months and nine months ended September 30, 2006 were \$45,027 and \$96,092 respectively. The depreciation, depletion, and accretion expense for these periods were \$343,654 and \$423,408 respectively.

The net income for the three months ended September 30, 2006 was \$40,974. For the nine months ended September 30, 2006 the Company had a net loss of \$147,247. The cash flow from operations for the three months and nine months ended September 30, 2006 was \$372,997 and \$410,200 respectively.

A summary of the results of operations for the last three quarters follows. There was no income or expenses reported for the Company prior to these periods:

(\$)	Q3-06	Q2-06	Q1-06
Oil and gas revenues, net of royalties ⁽¹⁾	662,040	247,370	-
Operating expenses	(170,742)	(142,591)	-
Field netbacks	491,298	104,779	-
General and administrative	(45,027)	(41,987)	(9,079)
Net interest income (expense)	(61,643)	(19,958)	10,625
Funds from operations	384,628	42,834	1,546
Depletion, depreciation, and accretion	(343,654)	(79,754)	-
Stock-based compensation	-	(152,847)	-
Net income (loss)	40,974	(189,767)	1,546
Per share, basic	0.001	(0.007)	0.0001
Per share, diluted	0.001	(0.007)	0.0001

⁽¹⁾ Includes one month of production from Gulf of Mexico properties and five months from Montana and Alberta properties.

PRODUCTION VOLUMES

Net production volumes, after adjusting for royalties, averaged 253 boe per day (“boe/d”), with average gross production exceeding 300 boe/d, in the third quarter of 2006, up from the second quarter average net production volumes of 109 boe/d. The increase is due to the addition of production from the GOM Assets.

	Q3-06			Q2-06			Q1-06		
	<u>Gas</u> mcf/d	<u>Oil&NGLs</u> bbls/d	<u>Total</u> boe/d	<u>Gas</u> mcf/d	<u>Oil&NGLs</u> bbls/d	<u>Total</u> boe/d	<u>Gas</u> mcf/d	<u>Oil&NGLs</u> bbls/d	<u>Total</u> boe/d
Montana	574	9	104	559	10	103	-	-	-
Alberta	39	-	7	34	-	6	-	-	-
Gulf of Mexico	750	17	142	-	-	-	-	-	-
Total	1,364	26	253	593	10	109	-	-	-

NET INTEREST INCOME (EXPENSE)

Interest expenses primarily represent interest on borrowing under the loan payable to the operators of the GOM Assets, which loans are paid from the operating cash flow from the Company's properties. The balance of total loans and note payable as of September 30, 2006 is \$4,771,436 at an effective interest rate of 7.47%.

	For the three month period ended September 30, 2006	For the three month period ended September 30, 2005	For the nine month period ended September 30, 2006	For the 203 days ended September 30, 2005
(\$)				
Interest revenue	4,520	-	26,788	-
Interest expense	66,164	-	97,765	-

CAPITAL EXPENDITURES

Capital expenditures totaled \$215,963 in the three months and \$272,469 for the nine months ended September 30, 2006. The Company anticipates that the capital expenditures for the fourth quarter 2006 will be approximately \$60,000, resulting in 2006 total of approximately \$332,469.

	For the three month period ended September 30, 2006	For the three month period ended September 30, 2005	For the nine month period ended September 30, 2006	For the 203 days ended September 30, 2005
(\$)				
Geological and geophysical	9,640	-	9,640	-
Drilling and completions	138,621	-	156,975	-
Tie-ins and facilities	28,755	-	29,338	-
Project evaluations ⁽¹⁾	38,947	-	76,516	-
Total	215,963	-	272,469	-

⁽¹⁾ These include technical review and consulting expenses related to ongoing international projects' evaluations.

DEBT AND WORKING CAPITAL

As of September 30, 2006 the Company had current assets of \$200,247 and current liabilities of \$2,668,919. Included in the current liabilities are current portions of loans payable to the operators of the properties. These loans are paid from the net proceeds from the assets acquired. After adjusting for these loans and the unrealized gain/loss on foreign exchange, a non-cash liability, the Company had a working capital surplus of \$170,635.

At September 30, 2006 the total debt, including the current portion of loans payable was \$4,771,436.

The following table summarizes the cash flow from operating, investing and financing activities for the three months and nine months ended September 30, 2006 and 2005.

(\$)	For the three month period ended September 30, 2006	For the three month period ended September 30, 2005	For the nine month period ended September 30, 2006	For the 203 days ended September 30, 2005
Cash from (used in):				
Operating activities	372,997	-	410,200	-
Investing activities	(3,264,431)	-	(14,195,155)	-
Financing activities	2,117,007	-	12,079,430	468,985
Change in cash	(774,427)	-	(1,705,525)	468,985

CORPORATE OUTLOOK

The Assets acquired as part of the Qualifying Transaction have long-term oil and gas reserves and are expected to provide a strong foundation for the Company. Also, the undeveloped lands included in the Assets provide upside for future development. The GOM Assets have added reserves to the Company's asset base and have increased the overall operating cash flow. The cash flow, net of debt payment, will be utilized for further development and exploration projects. As announced on November 27, 2006, the Company has recently added prospective land holdings in Alberta, where evaluation is in progress for mapping prospects and drilling is planned in the first quarter of 2007. Additionally, the Company is focusing on acquiring high quality international exploration and development projects, utilizing the experience and business contacts of the management team.

The Company will strive to create sustainable growth in reserves, production, and cash flow through focusing on the creation of a diversified portfolio of domestic and international producing, development and exploration properties. This process requires careful selection of good quality projects and the current management team has the required experience to do this. The Company understands that it is at an early stage of operations and that it would be prudent to apply risk management techniques, adopting a 'portfolio' approach toward capital expenditures.

SUBSEQUENT EVENTS

On October 2, 2006, the Company entered into an agreement to purchase the remaining 0.75% working interest owned by its CEO in certain oil and gas properties where the Company had earlier purchased a 5.09% working interest as part of the Qualifying Transaction. As consideration for the acquisition, the Company issued a promissory note in the amount of US\$600,000, payable on March 31, 2008 and carrying an 8% annual interest rate. All the terms and conditions of the asset purchase and sale agreement executed by the Company on March 24, 2006 for the acquisition of 5.09% working interest shall apply to

this agreement, except for those related to purchase price and working interest. The transaction is subject to approval from TSXV, the stock exchange.

BUSINESS RISKS

The Company was recently incorporated and began operations in May 2006 after the completion of the Qualifying Transaction. It has a short history of earnings and has never paid any dividends. The Company expects to have increased earnings from assets acquired and additional acquisitions that the Company is pursuing, although there is no plan to pay any dividends now or in future; instead these earnings will be employed by the Company 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, all of which are more completely described under “Forward Looking Statements” above.

RELATED PARTY TRANSACTIONS

Related party transactions are disclosed in note 7 of the Company’s financial statements.

OFF BALANCE SHEET TRANSACTIONS

The Company does not have any off balance sheet transactions.

CORPORATE INFORMATION

Head Office:	Suite 780, 910 – 7 Avenue SW Calgary, Alberta, Canada Tel: (403) 234-9000 Fax: (403) 770-8370
Officers:	Chairman and CEO – Ilyas M. Chaudhary President and CFO – Mansoor A. Anjum
Directors:	Ilyas M. Chaudhary William E. Richards John F. Frey Mansoor A. Anjum
Independent Engineers:	Haas Petroleum Engineering Services, Inc.
Auditors:	BDO Dunwoody LLP
Solicitor:	Macleod Dixon LLP
Investor Relations:	Iradesso Communications
Listing:	The TSX Venture Exchange Trading symbol: PYR
Transfer Agent and Registrar:	Valiant Trust Company
Website:	www.pyramidpetroleum.com

Pyramid Petroleum Inc.
Interim Consolidated Financial Statements

Nine months ended
September 30, 2006

(Unaudited - Prepared by Management)

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NOTICE TO THE READER:

The accompanying unaudited interim consolidated financial statements of Pyramid Petroleum, Inc. and its subsidiaries for the nine months ended September 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 Consolidated Balance Sheet
(Prepared by Management)

	September 30, 2006 (unaudited)	December 31, 2005 (audited)
Assets		
Current		
Cash and cash equivalent	\$ 36,662	\$1,742,187
Prepaid expenses	140,454	-
Accounts receivable, related party	23,132	-
	\$ 200,247	\$1,742,187
Oil and gas properties, net of depletion (note 3 and 4)	14,391,877	-
Deferred financing charges	-	97,728
	\$ 14,592,123	\$1,839,915
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 29,612	\$70,809
Loan payable, related party (note 5 and 7)	1,646,539	-
Current portion of loan payable (note 5)	804,744	-
Unrealized Foreign Exchange Gain/Loss	188,024	-
	2,668,919	70,809
Loan payable (note 5)	1,733,614	-
Note payable, related party (note 5 and 7)	586,540	-
Asset retirement obligation (note 6)	620,129	-
	5,609,202	70,809
Shareholders' Equity		
Share capital (note 8)	9,228,716	1,714,460
Contributed surplus (note 8)	208,191	55,344
Share Issue Cost	(306,040)	-
Retained earning (deficit)	(147,945)	(698)
	8,982,921	1,769,106
	\$14,592,123	\$1,839,915

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

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

	For the three month period ended September 30, 2006 (unaudited)	For the three month period ended September 30, 2005	For the nine month period ended September 30, 2006 (unaudited)	For the 203 days ended September 30, 2005
Revenue				
Oil and gas, net of royalties	\$ 662,040	\$ -	\$ 909,410	\$ -
Other	4,520	-	26,788	-
	<u>666,560</u>	<u>-</u>	<u>936,198</u>	<u>-</u>
Expenses				
Operating Expenses	170,742	-	313,332	-
General and Administrative	45,027	-	96,092	-
Interest	66,164	-	97,766	-
Depreciation, depletion and accretion	343,654	-	423,408	-
Stock based compensation	-	-	152,847	-
	<u>625,586</u>	<u>-</u>	<u>1,083,445</u>	<u>-</u>
Income (Loss) Before Income Taxes	<u>40,974</u>	<u>-</u>	<u>(147,247)</u>	<u>-</u>
Future income tax	-	-	-	-
Net Income (loss) for the period	<u>40,974</u>	<u>-</u>	<u>(147,247)</u>	<u>-</u>
Retained earning (deficit), beginning of period	<u>(188,919)</u>	<u>-</u>	<u>(698)</u>	<u>-</u>
Retained earning (deficit), ending of period	<u>(147,945)</u>	<u>-</u>	<u>(147,945)</u>	<u>-</u>
Loss per share:				
Basic	\$ 0.001	\$ -	\$ (0.006)	\$ -
Diluted	\$ 0.001	\$ -	\$ (0.006)	\$ -
Weighted average shares:				
Basic	36,595,720	5,000,000	25,739,407	5,000,000
Diluted	38,245,720	5,000,000	26,983,912	5,000,000

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

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

	For the three month period ended September 30, 2006 (unaudited)	For the three month period ended September 30, 2005	For the nine month period ended September 30, 2006 (unaudited)	For the 203 days ended September 30, 2005
Cash flows from operating activities				
Net Income	\$40,974	\$ -	(\$147,248)	\$ -
Add: Non-cash items				
Stock based compensation	-	-	152,847	-
Depreciation, depletion and accretion	343,654	-	423,408	-
Change in Accounts Receivable	100,037	-	(23,132)	-
Change in Prepayments	(139,572)	-	(140,454)	-
Change in Unrealized Foreign Exchange Gain/Loss	188,024	-	188,024	-
Change in Accounts Payable	(160,120)	-	(43,245)	-
Net cash flow from operating activities	<u>372,997</u>	<u>-</u>	<u>410,200</u>	<u>-</u>
Cash flow from Investing activities				
Oil & Gas Properties	(4,036,518)	-	(14,815,284)	-
Asset Retirement Obligation	306,208	-	620,129	-
Deposit for Acquisition (note 3)	465,879	-	-	-
	<u>(3,264,431)</u>	<u>-</u>	<u>(14,195,155)</u>	<u>-</u>
Cash flows from financing activities				
Issue of share capital	-	-	7,228,716	500,000
Payment of share issue costs	-	-	(20,500)	-
Increase in Loans Payable	2,117,007	-	4,771,436	-
Payment of deferred charges	-	-	99,777	(31,015)
Net cash flow from financing activities	<u>2,117,007</u>	<u>-</u>	<u>12,079,430</u>	<u>468,985</u>
Increase in cash and cash equivalents	(774,427)	-	(1,705,525)	468,985
Cash and cash equivalents, beginning of period	<u>811,089</u>	<u>468,985</u>	<u>1,742,187</u>	<u>-</u>
Cash and cash equivalents, end of period	\$36,662	\$468,985	\$36,662	\$468,985

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

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

September 30, 2006

1. Basis of Presentation

These unaudited interim consolidated 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 consolidated 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) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Pyramid Petroleum Company, a Delaware corporation. All inter-company balances and transactions have been eliminated upon consolidation.

(b) 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

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

September 30, 2006

2. Significant Accounting Policies (continued)

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, 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 in the Statements includes 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.

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

September 30, 2006

3. Acquisition

(a) On August 31, 2006, the Company closed acquisition of varying working interest, ranging from 1.25% to 5%, for certain oil and gas properties in the Gulf of Mexico (“GOM Assets”) through a company controlled by the CEO of the company, originally held by an arms length party, for a net purchase price of \$3,519,826.

The net purchase price for the purpose of the pro forma balance sheet has been calculated as follows:

Oil and gas properties	\$ 3,819,580
Less: Asset Retirement Obligation (note 3(b))	<u>299,754</u>
Net Purchase Price	<u>\$3,519,826</u>

The Company paid \$1,042,663 cash, for which the deposit payment of \$465,879 was paid in second quarter 2006, and the balance was funded by a loan payable to the operator of the properties, a related party owned by the CEO of the Company, together with a note payable to the CEO of the Company (see note 5). The loan payable to the operator is the prorated allocation of the debt owed to the operator’s bank. Under the terms of the agreement the operator holds title to the oil and gas properties as security for the obligations assumed. Legal title to the properties will be transferred to the Company on repayment of the loan in its entirety.

The acquisition costs for this transaction were \$42,565.

(b) The Company has estimated the asset retirement obligation related to the acquired assets to be \$299,754. The estimated undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, is \$378,285. It is expected that this obligation will be funded from general company resources at the time the costs are incurred at various times between 2007 and 2015.

4. Property, Plant and Equipment

	<u>2006</u>			<u>2005</u>
	<u>Cost</u>	<u>Accumulated Depreciation and Depletion</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Petroleum and natural gas interests				
Producing	\$14,729,128	\$423,408	\$14,305,720	\$ -
Undeveloped	86,157	0	86,157	\$ -
	<u>\$14,815,285</u>	<u>\$423,408</u>	<u>\$14,391,877</u>	<u>\$ -</u>

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

September 30, 2006

4. Property, Plant and Equipment (continued)

Included in the Company's oil and gas properties are general and administrative costs related to exploration and development activities. During the nine month period ended September 30, 2006 the Company has capitalized \$186,313 for drilling and other capital expenses on the properties. At September 30, 2006, the cost of unproved properties of \$86,157 has been excluded from the depletion calculation.

Included in the Company's property balance is \$613,675, net of accumulated depletion, relating to the asset retirement obligation (note 6).

5. Indebtedness

(a) Loan Payable

At September 30, 2006, the Company owed \$2,538,358 to the operator of the Company's assets in Montana and Alberta that were acquired as part of the Qualifying Transaction. Under the terms of a trust agreement, the operator holds title to the oil and gas properties as security for the obligations assumed on acquisition. Legal title to the properties will be transferred to the Company on repayment of the debt in its entirety.

The loan payable bear an interest rate equal to LIBOR plus 0.75% and is repayable from the net operating revenue from the properties. The current portion of the obligation is estimated to be \$804,744 based on historical operating results.

(b) Loan Payable, related party

At September 30, 2006, the Company owed \$1,646,539 to the operator of the GOM properties, a related party controlled by the CEO of the Company. The loan was incurred as a result of prorated allocation of the debt from the operator's bank. The Company is not a party to the credit agreement between the operator and the bank. Under the terms of the agreement with the operator, the operator holds title to the GOM properties as security for the obligations assumed. Legal title to the properties will be transferred to the Company on repayment of the loan in its entirety.

The loans payable bear an interest rate equal to LIBOR plus 2.5%, which is the rate charged by the operator's bank, and are repayable from 70% of the net operating revenue from the properties. This entire obligation is estimated to be current, as full payment is expected by September 30, 2007, based on the current estimates of production and net operating revenue.

(b) Note Payable, related party

The Company issued a note payable to its CEO for the payment made by the CEO in relation to the GOM acquisition. The amount of the note payable is \$586,540. The note is due in full on March 31, 2008 and bears a fixed interest rate of 8% per annum.

Pyramid Petroleum Inc.
Notes to Consolidated Financial Statements
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September 30, 2006

6. Asset Retirement Obligation

A reconciliation of the asset retirement obligation is provided below:

At December 31, 2005	\$ -
Additions	613,675
Accretion	<u>6,454</u>
At September 30, 2006	<u>\$ 620,129</u>

The Company's asset retirement obligation results from net ownership interests in petroleum and natural gas assets including well sites and gathering systems. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligation is approximately \$2,878,285 which will be incurred between 2007 and 2042. The majority of the costs will be incurred in 2042. A credit-adjusted risk-free rate of 8% percent was used to calculate the fair value of the asset retirement obligation.

Costs attributable to these commitments and contingencies are expected to be incurred over an extended period of time and are to be funded mainly from the Company's cash provided by operating activities. Although the ultimate impact of these matters on net operations cannot be determined at this time, it could be material for any one quarter or year.

7. Related Party Transactions

During the three month period ended September 30, 2006, the Company engaged in following related party transactions:

- (a) The Company borrowed \$586,540 from its CEO for part of the payment of GOM acquisition. The Company issued a promissory note for this amount, due on March 31, 2008 and carrying 8% annual interest rate.
 - (b) The GOM acquisition was made through the operator of the properties, a company controlled by the CEO of the Company, and the working interest is held in trust by the operator. The total acquisition was funded in part by a bank debt and the operator gave credit to the Company for the bank debt on a prorated basis, to be applied towards the purchase price, resulting in a loan payable to the operator. The Company is not a party to the credit agreement with the bank. The payment terms require that the operator will apply 70% from net operating revenue toward the loan payable and the interest rate charged on the loan will be the same as charged by the bank, which is currently at LIBOR plus 2.5%. The working interest will be transferred to the Company upon full payment of the loan balance. At September 30, 2006, the loan balance was \$1,646,539.
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Pyramid Petroleum Inc.
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8. 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, 2005	12,500,000	\$2,000,000
Issued for acquisition of assets (Qualifying Transaction)	24,095,720	7,228,716
Share issue costs		(306,040)
Total share capital, end of period	36,595,720	\$8,922,676

(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. On May 11, 2006, 10% of these shares were released from the escrow. At September 30, 2006 a total of 26,186,148 common shares remained in escrow.

(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

(d) Contributed Surplus

	Nine months ended September 30, 2006	Year ended December 31, 2005
Balance, beginning of period	\$55,344	\$0
Additions (deductions) from stock based compensation	152,847	55,344
Balance, end of period	\$208,191	\$55,344

Pyramid Petroleum Inc.
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9. Future Income Taxes

As at September 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.

10. 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.

11. Subsequent Event

- (a) On October 2, 2006, the Company entered into an agreement to purchase the remaining 0.75% working interest owned by its CEO in certain oil and gas properties where the Company had earlier purchased 5.09% working interest as part of the Qualifying Transaction. As consideration for acquisition, the Company issued a promissory note in the amount of US\$600,000, payable on March 31, 2008 and carrying 8% annual interest rate. All the terms and conditions of the PSA signed on March 24, 2006 for the acquisition of 5.09% working interest shall apply to this agreement, except for those related to purchase price and working interest. The transaction is subject to approval from TSXV, the stock exchange.
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