



MANAGEMENT DISCUSSION AND ANALYSIS (“MD&A”)

The following MD&A of Pyramid Petroleum Inc (“Pyramid” or the “Company”), dated May 30, 2007, should be read in conjunction with the Company’s interim financial statements for the period ended March 31, 2007.

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 subsidiaries. The reporting and the measurement currency is the Canadian dollar. This MD&A and the accompanying interim financial statements for the three months ended March 31, 2007, have been approved by the Board of Directors of the Company.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported with the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to management.

The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of Corporation’s disclosure controls and procedures as of March 31, 2007 and have concluded that they are adequate and effective to provide reasonable assurance that material information related to the Company is made known to them by others within the Company. It should be noted that while the Company’s Chief Executive Officer and Chief Financial Officer believe that the Company’s disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

INTERNAL CONTROLS AND FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for designing internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. We have assessed the design of our internal control over financial reporting and during this process we identified certain weaknesses in internal controls over financial reporting. Due to the limited number of staff at the Company, it is not feasible to achieve complete segregation of incompatible duties. The CEO and CFO have been with the Company since its inception and have extensive industry experience. They are very aware of and are actively involved in the Company’s on-going activities. As such, the capabilities and involvement of the CEO and CFO serve to mitigate the structural weakness of internal controls. Their efforts, together with the active involvement of the board of directors, are directed to minimize the risk of a material misstatement in financial reporting. However, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement.

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 earnings (loss) 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.

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.

DESCRIPTION OF BUSINESS

Pyramid was incorporated pursuant to the provisions of the Business Corporations Act (Alberta) on March 11, 2005 as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange. The Company closed its Initial Public Offering (IPO) on October 19, 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. The Assets are located in Alberta, Canada and Montana, United States. On October 3, 2006, the Company purchased the remaining working interest owned by its Officer and Director in certain oil and gas properties where the Company had earlier purchased working interest as part of the Qualifying Transaction.

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.

Subsequently, on April 1 2007 the Company closed its purchase of a 20% membership shares interest in a Limited Liability Company (“LLC”). One May 17, 2007, the Company increased its share ownership in the LLC to 50%, subject to regulatory approval. The LLC had purchased varying non-operated working interests, ranging from 25% to 100%, in 12 producing and 40 non producing oil and gas wells in the Gulf of Mexico.

On May 18, 2007 the Company started the drilling of Pyramid Hays well, which was drilled and cased to 961m and rig was released on May 21, 2007. From well log analysis and samples a completion program is being prepared to complete a lithic sandstone in the lower Mannville at 914m that is expected to be oil and a gas bearing chert zone in the Bow Island at 667m. In addition the well has a Second White Specks gas sandstone at 593m that will be completed in the future.

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 ended March 31, 2007 and 2006.

<i>(\$)</i>	For the year three months ended March 31, 2007	For the year three months ended March 31, 2006
Oil and gas revenues, net of royalties	802,042	-
Other revenues	(49,372)	-
Net income (loss)	195,005	1,546
Capital expenditures	172,252	-
Working capital ⁽¹⁾	99,113	1,671,378
Total assets	13,516,862	1,839,915
Long-term liabilities	6,177,121	-
Cash flow from operations	85,652	(8,516)
<hr/> <i>(\$ per share)</i>		
Net income (loss)		
Basic	0.005	-
Diluted	0.005	-
Cash flow from operations		
Basic	0.002	(0.001)
Diluted	0.002	(0.001)
Common shares outstanding	36,605,095	12,500,000
Weighted average number of shares outstanding for the period		
Basic	36,605,095	12,500,000
Diluted	38,245,720	13,250,000

⁽¹⁾ Excluding current portion of long term loans, which loans are payable from operating cash flow. The total in long-term liabilities includes the current portion also.

RESULTS OF OPERATIONS

Oil and gas revenues, net of royalties, for the three months ended March 31, 2007 and 2006 were \$752,671 and \$Nil respectively. The operating costs for the same periods were \$226,399 and \$Nil respectively. The general and administrative expenses for the three months ended March 31, 2007 and 2006 were \$127,402 and \$9,079 respectively. The depreciation, depletion, and accretion expense for these periods were \$238,174 and \$Nil respectively.

The net income for the three months ended March 31, 2007 and 2006 was \$195,005 and \$1,546 respectively. For the same periods the funds from operations was an inflow of \$294,407 and \$1,546 respectively.

A summary of the results of operations for the last few quarters is as follows:

(\$)	Q1-07	Q4-06	Q3-06	Q2-06	Q1-06
Oil and gas revenues, net of royalties	752,671	1,068,757	662,040	247,370	-
Operating expenses	(226,399)	(319,623)	(170,742)	(142,591)	-
Field netbacks	526,272	749,134	491,298	104,779	-
General and administrative ⁽¹⁾	(127,402)	(281,497)	(45,027)	(41,987)	(9,079)
Net interest income (expense)	(104,462)	(110,207)	(61,643)	(19,958)	10,625
Funds from operations	294,407	357,430	384,628	42,834	1,546
Depletion, depreciation, and accretion	(238,174)	(2,228,321)	(343,654)	(79,754)	-
Stock-based compensation	(13,311)	-	-	(152,847)	-
Foreign exchange gain (loss)	152,082	(286,142)	-	-	-
Net income (loss)	195,005	(2,157,032)	40,974	(189,767)	1,546
Per share, basic	.01	(0.08)	0.00	(0.01)	0.00
Per share, diluted	.01	(0.08)	0.00	(0.01)	0.00

⁽²⁾ Q4-06 general and administrative expense includes year end accruals for audit and engineering fee and also expenses related to International business development during the year which were expensed at the year end.

PRODUCTION VOLUMES

The Company's production volumes, net of royalties, for each of the last four quarters are as follows. The Company didn't have any production prior to these periods. The decline in first quarter of 2007 average production was due to some of the wells being shut down in Gulf of Mexico.

	Q-07			Q4-06			Q3-06			Q2-06		
	Gas mcf/d	Oil&NGLs bbls/d	Total boe/ d	Gas mcf/d	Oil&NGLs bbls/d	Total boe/ d	Gas mcf/d	Oil&NGLs bbls/d	Total boe/ d	Gas mcf/d	Oil&NGLs bbls/d	Total boe/ d
Montana	655	11	120	691	10	125	565	9	103	559	10	103
Alberta	39	0	7	41	0	7	40	0.1	7	34	0.3	6
Gulf of Mexico	357	5	65	594	9	108	750	17	142	-	-	-
Total	1,051	16	191	1,326	20	241	1,355	26	252	593	10	109

NET INTEREST INCOME (EXPENSE)

Interest expenses primarily represent interest on borrowing under the loan payable to the operators of the Montana and Alberta Assets and the GOM Assets, which loans are paid from the operating cash flow from the Company's properties.

(\$)	For the year three months ended March 31, 2007	For the year three months ended March 31, 2006
Interest revenue	-	10,964
Interest expense	104,462	-

CAPITAL EXPENDITURES

Capital expenditures totaled \$172,252 in the three months ended March 31, 2007 and \$Nil for the three months ended March 31, 2006. The breakdown of these expenses is as follows:

(\$)	For the year three months ended March 31, 2007	For the year three months ended March 31, 2006
Geological and geophysical	21,563	-
Drilling and completions	90,502	-
Tie-ins and facilities	38,290	-
Project evaluation ⁽¹⁾	21,897	-
Total	172,252	-

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

DEBT AND WORKING CAPITAL

As of March 31, 2007 the Company had current assets of \$402,774 and current liabilities of \$2,356,729. Included in the current liabilities are current portions of loans payable to the operators of the properties. These loans are repaid 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 \$99,113.

The following table summarizes the cash flow from operating, investing and financing activities for the three months ended March 31, 2007 and 2006.

(\$)	For the year three months ended March 31, 2007	For the year three months ended March 31, 2006
Cash from (used in)		
operating activities	85,652	(8,516)
Cash from (used in)		
investing activities	(635,689)	-
Cash from (used in)		
financing activities	428,020	(95,844)

On April 18, 2007, The Company closed a revolving demand loan facility from a Canadian bank to a maximum of \$4,000,000 collateralized by a charge over the Company's Montana and Alberta assets. The Company used the facility to repay the loan due to the operator of the Montana and Alberta properties and to repay the note due to the Officer and Director of the Company for the purchase in October 2006 of a working interest in the Montanan and Alberta properties. The Company is obligated to make payments of interest only, subject to availability, review and bank's right of demand. The interest on the loan is calculated at bank's prime plus 0.5%. The current prime rate is set at 6%.

On April 27, 2007, the Company closed a private placement of convertible debentures for a total amount of \$952,000. The net proceeds to the Company, after paying of agent's commission and legal costs, amounted to \$899,556. The proceeds of the private placement were utilized to fund the purchase of membership shares in LLC, as discussed in "Business Description" above.

The debentures have a two year term and bear an interest rate of 12% per annum, which interest is to be paid quarterly. The holders of these debentures have an option to convert them to common shares of the company at an exercise price of \$0.45/share at any time during the term of the debenture. The Company has an option to call the debentures at any time after first anniversary from closing date if the common shares of the Company trade at over \$0.675/share for a period of 30 days.

The Company has committed to drill an exploratory well in Provost Area of South-eastern Alberta in the second quarter of 2007. The total well cost is estimated to be \$300,000 on a drilled and cased basis. The Company will use operating cash flow and the bank's line of credit for funding needs related to this well.

OUTSTANDING SHARE DATA

As of March 31, 2007, the Company had a total of 36,605,095 common shares outstanding. Of these, a total of 21,821,790 common shares remained in escrow. The following table outlines the future releases of those shares from escrow.

Release Date	May 11, 2007	November 11, 2007	May 11, 2008	November 11, 2008	May 11, 2009
Number of shares	4,364,358	4,364,358	4,364,358	4,364,358	4,364,358

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.

Subsequent to the year end 2006, the Company had acquired further assets in the Gulf of Mexico area, as detailed in 'Description of Business' and 'Subsequent Events'. With this acquisition the Company had established Gulf of Mexico as a core area for growth and intends to pursue further acquisitions in that area. The net production to the Company after giving effect to the new Gulf of Mexico acquisition is approximately 1,150 boed. 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 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 April 1, 2007, the Company closed its purchase of a 20% membership share interest in a Limited Liability Corporation, organized to acquire an interest in certain oil and gas properties, from a company controlled by an Officer and Director of the Company. On May 17, 2007, the Company increased its membership ownership in the LLC to 50% by acquiring, subject to regulatory approval, additional 30% membership shares from a company controlled by an Officer and Director of the Company, subject to regulatory approval.

The purchase price of these 50% membership shares of the LLC equated to the purchase price of the assets acquired by LLC from an arms length party for certain oil and gas properties in the Gulf of Mexico. The total purchase price, which includes a plugging and abandonment bond and closing costs, net to the Company for the 50% of the acquired assets, was US\$16,409,898 and was funded with a combination of debt, deferred payments, and cash.

On April 18, 2007, the Company closed a revolving demand loan facility from a Canadian bank to a maximum of \$4,000,000 collateralized by a charge over the Company's Montana and Alberta assets. The Company used the facility to repay the loan due to the operator of the Montana and Alberta properties and to repay the note due to an Officer and Director of the Company for the purchase in October 2006 of a working interest in the Montanan and Alberta properties. The interest on the loan is calculated at bank's prime plus 0.5%. The current prime rate is set at 6%.

On April 27, 2007, the Company closed a private placement of convertible debentures for a total amount of \$952,000. The net proceeds to the Company, after paying of agent's commission and legal costs, amounted to \$899,556. The proceeds of the private placement were utilized to fund the purchase of membership shares in LLC, as discussed in "Business Description" above. The debentures have a two year term and bear an interest rate of 12% per annum, which interest is to be paid quarterly. The holders of these debentures have an option to convert them to common shares of the company at an exercise price of \$0.45/share at any time during the term of the debenture. The Company has an option to call the debentures at any time after first anniversary from closing date if the common shares of the Company trade at over \$0.675/share for a period of 30 days.

On May 18, 2007 the Company started the drilling of Pyramid Hays well, which was drilled and cased to 961m and rig was released on May 21, 2007. From well log analysis and samples a completion program is being prepared to complete a lithic sandstone in the lower Mannville at 914m that is expected to be oil and a gas bearing chert zone in the Bow Island at 667m. In addition the well has a Second White Specks gas sandstone at 593m that will be completed in the future.

RELATED PARTY TRANSACTIONS

During the period ended March 31, 2007 the Company paid a total of \$29,105 in interest to a related company for the loan due to the related company. Also, during the period ended March 31, 2007 the Company paid a total of \$25,617 in interest to an Officer and Director of the Company for the two promissory notes. The discussion of relevant notes is provided in note 6 of the financial statements.

OFF BALANCE SHEET TRANSACTIONS

The Company has participated, through the operator, in financial swaps for the gas production from the Gulf of Mexico properties. The contracts have various settlement dates up to December 31, 2007. As of March 31, 2007 the mark-to-market balances for the Company's share of these swap contracts resulted in an unrealized loss of \$72,065. During the three months ended March 31, 2007, the Company recognized \$112,304 in realized gain on these instruments.

At March 31, 2007 the Company have entered into the following financial forward arrangements:

	<u>Quantity</u> <u>(MMBTU)</u>	<u>Price</u> <u>(US\$/MMBTU)</u>	<u>Termination Date</u>
Sales contracts:			
1	80,735	7.075	December 31, 2007
2	60,635	8.100	December 31, 2007
Purchase contracts:			
1	17,420	7.240	May 31, 2007
2	21,440	6.975	April 30, 2007

The Company accounts for these contracts on a fair value basis on the balance sheet. The estimated fair value of these financial instruments is based on their quoted prices, or in their absence, third party market indicators and forecasts. The changes in the fair value associated with the above financial instruments are recorded as unrealized gain or loss on financial instruments on the statement of operations. Gain or loss arising from monthly settlements with counterparties is recognized as realized gain or loss in the statement of operations.

CRITICAL ACCOUNTING ESTIMATES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Specifically, the amounts recorded for depletion, depreciation and accretion and amounts used for the ceiling test calculation are based on estimates of crude oil and natural gas reserves and the future costs required to develop those assets. The consolidated financial statements include accruals based on the terms of existing joint venture agreements. Due to varying interpretations of the definition of the terms in these agreements the accruals made by management may be significantly different from those determined by the Company's joint venture partners. The determination of stock compensation involves estimates of the volatility of the Company's shares, forfeiture rates and expected life. The operations of the Company are complex, and related tax interpretations regulations and legislation affecting the Company are continually changing and are subject to alternate interpretations. Actual results could differ from those estimates and the changes may be significant.

The notes to the consolidated financial statements outline our significant accounting policies. The policies described below are considered particularly important as they require management to make informed judgments, some of which may relate to matters that are inherently uncertain.

Depletion, Depreciation, and Amortization

The amount recorded for depletion and amortization of petroleum and natural gas properties and equipment and the provision for accretion of asset retirement obligations are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes and estimates in future periods could be significant.

Asset Retirement Obligations

The new CICA standard dealing with accounting for asset retirement obligations changes the method of accruing for certain site-restoration costs. Under the new standard, the fair values of asset retirement obligations are recorded as liabilities on a discounted basis when they are incurred, which is typically when the related assets are acquired, installed, drilled or completed. Amounts recorded for the related assets are increased by the amount of these obligations. Over time the liabilities will be accreted for the change in their present value and the initial capitalized costs will be depleted and amortized over the useful lives of the related assets. The impact of adopting the new accounting standard for asset retirement obligations on the consolidated balance sheet and statement of earnings is based on expected cash flows discounted at 8 percent.

Future Income Tax Rate

Due to the difference between accounting and tax regulations, a timing of deductions results in arriving at the tax expense of a company. This timing and tax rate estimation gives rise to a future tax provision recorded to the statement of operations and deficit, offset by a future tax liability or receivable on the balance sheet. In order to determine this provision, the tax rates of future taxation period must be estimated. Typically, the rate used corresponds to the current taxation year being examined. From time to time, these rates change as prescribed by the tax regulators. Accordingly, during the remaining life of a company, the liability shown on the balance sheet may materially differ from the reported in the financial statements of the Company.

Stock-Based Compensation

We adopted the recommendations of the CICA with respect to accounting for stock-based compensation. Under this directive, the fair value of options granted is charged to operations in the period. To determine the amount of the adjustment, the fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model. This model required the estimation of the hold period prior to the exercise of Argo stock as well as the volatility in the price of the Company's shares. A significant adjustment in either assumption may materially affect general and administration expense, earning before tax, net earnings and retained earnings by the same amount.

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

Three months ended
March 31, 2007

(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 three months ended March 31, 2007 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.

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)

	March 31, 2007 (unaudited)	December 31, 2006 (audited)
Assets		
Current		
Cash and cash equivalent	\$ 8,527	\$ 130,544
Prepaid expenses	46,265	92,530
Accounts receivable and accrued revenue	347,982	104,192
	402,774	327,266
Oil and gas properties, (note 4 and 5)	12,495,044	12,550,287
Deposit for acquisition (note 3)	463,280	-
Deferred financing charges	155,763	25,000
	\$ 13,516,862	\$ 12,902,553
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 303,661	\$ 207,437
Due to related parties (note 6)	1,170,896	1,368,353
Current portion of loan payable (note 6)	771,408	778,624
Current portion of asset retirement obligation (note 6)	110,764	110,764
	2,356,729	2,465,178
Loan payable (note 6)	1,802,903	1,880,904
Due to related parties (note 6)	1,248,733	1,310,812
Convertible debentures (note 7)	644,000	-
Asset retirement obligation (note 5)	428,417	417,894
	6,480,781	6,074,788
Shareholders' Equity		
Equity instruments (note 9)	8,925,243	8,925,243
Contributed surplus (note 9)	220,809	207,499
Retained earning (deficit)	(2,109,972)	(2,304,977)
	7,036,080	6,827,765
	\$ 13,516,862	\$ 12,902,553

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 months ended March 31, 2007	For the three months ended March 31, 2006
Revenue		
Oil and gas, net of royalties	802,042	\$ -
Interest revenue	-	10,625
Financial contracts gain (note 11)	(49,372)	-
	752,671	10,625
Expenses		
Operating expenses	226,399	-
General and administrative	127,402	9,079
Interest (note 6)	104,462	-
Depreciation, depletion and accretion	238,217	-
Stock based compensation (Note 7 and 9)	13,311	-
Foreign exchange (gain) loss	(152,082)	-
	557,666	9,079
Income (loss) before income taxes	195,005	1,546
Income taxes	-	-
Net income (loss) for the period	195,005	\$ 1,546
Retained earning (deficit), beginning of period	(2,304,977)	\$ (698)
Retained earning (deficit), ending of period	(2,109,972)	\$ 848
Income (loss) per share:		
Basic and diluted	\$ 0.01	\$ 0.00
Weighted average shares: (Note8)		
Basic	36,605,095	12,500,000
Diluted	38,245,720	13,250,000

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 months ended March 31, 2007	For the three months ended March 31, 2006
Cash provided by (used in)		
Operating Activities		
Net Income / (Loss)	\$ 195,005	\$ 1,546
Add: Non-cash items		
Stock based compensation	13,311	-
Depreciation, depletion and accretion	238,217	-
	\$ 446,489	\$ 1,546
Accounts receivable and prepaid expenses	(197,525)	-
Accounts payable and accrued liabilities, including related parties	(163,312)	(10,062)
	85,652	(8,516)
Investing Activities		
Oil and gas property - expenditures	(172,409)	-
Deposit for Acquisition	(463,280)	-
	(629,934)	-
Financing activities		
Issue of Convertible Debentures	644,000	
Loans payable	(85,217)	
Deferred charges	(130,763)	(95,844)
	428,020	(95,844)
Increase (decrease) in cash and cash equivalents	(122,017)	(104,360)
Cash and cash equivalents, beginning of period	130,544	1,742,187
Cash and cash equivalents, end of period	\$ 8,527	\$ 1,637,827

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)

March 31, 2007

1. Basis of Presentation

Pyramid Petroleum Inc. ("Pyramid" or the "Company") is involved in exploration, development and production of petroleum and natural gas in Canada and the United States. These interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All inter-company balances and transactions have been eliminated upon consolidation. The financial statements are stated in Canadian dollars. As the determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions which have been made using careful judgment. Actual results may differ from those estimates. In the opinion of management, these financial statements have been properly prepared within reasonable limit of materiality and within the framework of the significant accounting policies.

2. Significant Accounting Policies

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), and follow the same accounting policies and methods of computation as the audited annual consolidated financial statements for the period ended December 31, 2006. These interim financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto in the audited financial statements of December 31, 2006.

3. Acquisition

The Company paid \$463,280 (US\$400,000) as deposit for acquisition of varying working interest in certain oil and gas properties in the Gulf of Mexico, through a company controlled by an Officer and Director of the Company, which properties were originally held by an arms length party. The acquisition was subsequently consummated on April 1, 2007, as discussed in note 12(a) through purchase of 20% membership shares in a Limited Liability Company ("LLC") that was formed for the purpose of this acquisition. The Company increased its ownership in the LLC to 50% by acquiring additional 30% membership shares on May 17, 2007.

4. Property, Plant and Equipment

March 31, 2007	Cost	Accumulated Depreciation, Depletion and Impairment	Net Book Value
Oil and gas properties			
Producing	\$ 15,192,532	\$ 2,865,049	\$ 12,327,483
Undeveloped	167,561	-	167,561
	\$ 15,360,093	\$ 2,865,049	\$ 12,495,044

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4. Property, Plant and Equipment (continued)

December 31, 2006	Cost	Accumulated Depreciation, Depletion and Impairment	Net Book Value
Oil and gas properties			
Producing	\$ 15,087,146	\$ 2,635,416	\$ 12,451,730
Undeveloped	98,557	-	98,557
	<u>\$ 15,185,703</u>	<u>\$ 2,635,416</u>	<u>\$ 12,550,287</u>

General and administrative costs in the amount of \$23,417 were capitalized to the Company's oil and gas properties. The calculation of 2007 depletion and depreciation included an estimated \$2,695,036 for future development capital costs associated with proved undeveloped reserves and excluded the cost of unproved properties of \$167,561. Depletion and depreciation expense for the three months ended March 31, 2007 was \$227,650. There were no dispositions during the period.

5. Asset Retirement Obligation

A reconciliation of the asset retirement obligation is provided below:

	<u>March 31, 2007</u>	<u>December 31, 2006</u>
Beginning balance	\$ 528,658	\$ -
Adjustments	-	512,345
Accretion expense	<u>10,523</u>	<u>16,313</u>
	<u>539,181</u>	528,658
Current portion	<u>(110,764)</u>	<u>(110,764)</u>
Ending balance	<u>\$ 428,417</u>	<u>\$ 417,894</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 \$1,342,447 which will be incurred over the next 41 years, with the majority of the costs incurred between 2010 and 2048. A credit-adjusted risk-free rate of 8% percent and an inflation rate of 2% was used to calculate the fair value of the asset retirement obligation.

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6. Indebtedness

(a) Loan payable

At March 31, 2007, the Company owed \$2,574,311 to a lender, who is also the operator related to 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 held title to the oil and gas properties as collateral for the obligations assumed on acquisition. The current portion of the obligation is estimated to be \$771,408 based on historical operating results and the contractual repayment terms.

As of the date of this report the loan amount has been paid in full (note 12(b)) and the legal title to the properties has been transferred to the Company.

(b) Due to related parties

Due to a related company

At March 31, 2006, the Company owed \$1,170,896 to the operator of the Gulf of Mexico Assets, who is a related party controlled by an Officer and Director of the Company. The loan was incurred as a result of the 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 Gulf of Mexico Assets as collateral for the obligations assumed. This entire obligation is estimated to be current, as full payment is expected within one year from March 31, 2007, based on the current estimates of production and net operating revenue.

Due to an Officer and Director of the Company

The Company owed a note payable to an Officer and Director of the Company for the payment made by the Officer and Director in relation to the GOM acquisition. The amount of the note payable is \$579,613. The amount is due in full on March 31, 2008 and bears a fixed interest rate of 8% per annum. The Company has not provided any collateral related to this note.

Further, the Company owed a second note payable to an Officer and Director of the Company with regards to acquisition of certain oil and gas properties in Montana and Alberta. The amount of the note payable is \$669,120. The note was paid in full subsequently, as discussed in note 12(b).

7. Convertible Debentures

The Company completed the first closing of a private placement of convertible debentures for a total amount of \$644,000. The subscription proceeds to the Company, after paying of agent's commission and legal costs, amounted to \$602,135. Additional corporate finance and legal costs of \$49,539 were incurred that were not directly related to the first closing amount, but were paid as part of the total private placement which was subsequently completed on April 27, 2007, as described in note 12(c). All of these costs have been accounted as deferred charges and will be amortized over the term of the convertible debenture.

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7. Convertible Debentures (continued)

The debentures have a two year term and bear an interest rate of 12% per annum, which interest is to be paid quarterly. The holders of these debentures have an option to convert them to common shares of the company at an exercise price of \$0.45/share at any time during the term of the debenture. The Company has an option to call the debentures at any time after first anniversary from closing date if the Company's share trade at over \$0.675/share for a period of 30 days.

The Company issued 62,844 broker warrants in relation to this transaction. The warrants have a two year term and exercise price of \$0.45/share.

8. Related Party Transactions

During the period ended March 31, 2007, the Company engaged in the following related party transactions:

- (a) During the period ended March 31, 2007 the Company paid a total of \$29,105 in interest to a related company for the loan due to the related company as in note 6b.
 - (b) During the period ended March 31, 2007 the Company paid a total of \$25,617 in interest to an Officer and Director of the Company for the two promissory notes discussed in note 6b.
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9. 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.

(c) Shares issued

As of March 31, 2007, the Company had 36,605,095 common shares issued and outstanding. There were no changes to the Company's outstanding share capital during the three months ended March 31, 2007.

(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 escrow and on November 11 another 15% of these shares were released from escrow. At March 31, 2007 a total of 21,821,790 common shares remained in escrow. The following table outlines the future releases.

Release Date	May 11, 2007	November 11, 2007	May 11, 2008	November 11, 2008	May 11, 2009
Number of shares	4,364,358	4,364,358	4,364,358	4,364,358	4,364,358

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9. Share Capital (continued)

(d) Broker Warrants

The Company issued 62,844 broker warrants in relation to the convertible debenture. The warrants have an exercise price of \$0.45 per share and expire on February 27, 2009.

The Company recognized stock based compensation expense of \$13,311 related to these stock warrants. The fair value was estimated using the Black-Scholes option pricing model with the following assumptions:

Expected life	24 months
Risk-free interest rate	4.5%
Volatility	108%
Dividend yield	0%
Fair value per warrant	\$0.21

As at March 31, 2007, the following warrants were outstanding:

Outstanding Warrants		
Number	Expiry Date	Exercise Price
740,625	19-Oct-07	\$ 0.20
62,844	27-Feb-09	\$ 0.45
<u>803,469</u>		

(e) Stock Options

As of March 31, 2007 the Company had 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. There were no changes in the options grant during the three months ended March 31, 2007 and no options were exercised during this period.

(f) Contributed Surplus

	Three months ended	Year ended
	March 31, 2007	December 31, 2006
Balance, beginning of period	\$ 207,499	\$ 55,344
Additions (deductions) from stock based compensation	12,310	152,847
Exercise of broker warrants	-	(692)
Balance, end of period	\$ 220,809	\$ 207,499

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9. Share Capital (continued)

(g) Per share amounts

The following table reconciles the denominators used for the basic and diluted earnings (loss) per common shares calculations. The weighted average shares outstanding include all stock option and warrants in the money from the date of grant or the beginning of the period.

Weighted Average Common Shares	For the three months ended March 31, 2007	For the three months ended March 31, 2006
Basic	36,605,095	12,500,000
Effect of broker warrants	740,625	750,000
Effect of stock options	900,000	-
Diluted	38,245,720	13,250,000

10. Commitments and Contingencies

The Company has committed to drill an exploratory well in Provost Area of South-eastern Alberta in the second quarter of 2007. The total well cost is estimated to be \$300,000 on a drilled and cased basis. This well was drilled subsequent to the period ended March 31, 2007 and is waiting final tests and completion.

11. Financial Instruments

- (a) All of the Company's cash assets are held in the form of cash.
- (b) The Company has participated, through the operator, in financial swaps for the gas production from the Gulf of Mexico. The contracts had various settlement dates up to December 31, 2007. As of March 31, 2007 the mark-to-market balances for the Company's share of these swap contracts resulted in an unrealized loss of \$72,065. During the three months ended March 31, 2007, the Company recognized \$112,304 in realized gain on these instruments.

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11. Financial Instruments (continued)

At March 31, 2006 the Company has entered into the following financial forward arrangements:

<u>Quantity</u> <u>(MMBTU)</u>	<u>Price</u> <u>(US\$/MMBTU)</u>	<u>Mark-to-Market</u> <u>Value (US\$)</u>	<u>Termination Date</u>
Sales contracts:			
80,735	7.075	(82,853)	December 31, 2007
60,635	8.100	779	December 31, 2007
Purchase contracts:			
17,420	7.240	6,469	May 31, 2007
21,440	6.975	12,496	April 30, 2007

The Company has accounted for these contracts on a fair value basis on the balance sheet. The estimated fair value of these financial instruments is based on their quoted prices, or in their absence, third party market indicators and forecasts. The fair value of forward financial contracts recognized at the balance sheet date is as follows:

	<u>2007</u>	<u>2006</u>
Included in accounts receivable	\$ -	\$88,530
Included in accounts payable	\$72,065	\$ -

The changes in the fair value associated with the above financial instruments are recorded as unrealized gain or loss on financial instruments on the statement of operations. Gains or losses arising from monthly settlements with counterparties are recognized as a realized gain or loss in the statement of operations.

- (c) Substantially all of the Company's operations are undertaken in the United States. As such the Company's operations are subject to fluctuations in the United States dollar.

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12. Subsequent Events

- (a) On April 1, 2007, the Company closed its purchase of a 20% membership share interest in a Limited Liability Corporation, organized to acquire an interest in certain oil and gas properties, from a company controlled by an Officer and Director of the Company. On May 17, 2007, the Company increased its membership ownership in the LLC to 50% by acquiring, subject to regulatory approval, additional 30% membership shares from a company controlled by an Officer and Director of the Company, subject to regulatory approval.

The purchase price of these 50% membership shares of the LLC equated to the purchase price of the assets acquired by LLC from an arms length party for certain oil and gas properties in the Gulf of Mexico. The total purchase price, which includes a plugging and abandonment bond and closing costs, net to the Company for the 50% of the acquired assets, was US\$16,409,898 and was funded with a combination of debt, deferred payments, and cash.

- (b) On April 18, 2007, the Company obtained a revolving one year demand loan facility from a Canadian bank to a maximum of \$4,000,000. The Company used the facility to repay the loan due to the operator of the Montana and Alberta properties, as described in note 6(a), and to repay the amount due to an Officer and Director of the Company for the purchase on October 2006 of a working interest in the Montana and Alberta properties, as described in note 6(b). The interest on the loan is calculated at the bank's prime rate plus 0.5%. The current prime rate is set at 6%. The loan is collateralized by a charge over the Company's Montana and Alberta assets.

- (c) On April 27, 2007, the Company completed the final closing of a private placement of convertible debentures for a total amount of \$952,000, of which \$644,000 were part of the first closing on February 27, 2007, as discussed in note 7. The subscription proceeds to the Company, after paying of agent's commission and legal costs, amounted to \$899,556. Additional costs of \$49,539 for corporate finance fees and legal expenses were incurred in relation to this private placement.

The debentures have a two year term and bear an interest rate of 12% per annum, which interest is to be paid quarterly. The holders of these debentures have an option to convert them to common shares of the company at an exercise price of \$0.45/share at any time during the term of the debenture. The Company has an option to call the debentures at any time after first anniversary from closing date if the Company's share trade at over \$0.675/share for a period of 30 days.

The Company issued 65,644 broker warrants in relation to this transaction. The warrants have a two year term and exercise price of \$0.45/share.

- (d) On May 18, 2007 the Company started the drilling of Pyramid Hays well, which was drilled and cased to 961m and rig was released on May 21, 2007. The total cost was \$309,000. From well log analysis and samples a completion program is being prepared to complete the well.
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